



AN EMERGING COAL BASED ENERGY COMPANY FOCUSED ON THE SURAT BASIN REGION

MetroCoal Limited ABN 45 117 763 443

2009 PROSPECTUS

Prospectus for an issue of between 33,600,000 ordinary shares and 40,000,000 ordinary shares to be offered for subscription at 25 cents each to raise between \$8,400,000 and \$10,000,000.

Underwriter and Lead Manager to the Issue Patersons Securities Limited

This document is important and it should be read in its entirety. If you are in any doubt as to the contents of this document, you should consult your sharebroker, solicitor, professional adviser, banker or accountant.
The securities offered by this Prospectus are considered to be speculative.

CORPORATE DIRECTORY



ASX Allocated Code: MTE

BOARD OF DIRECTORS

David K Barwick **Chairman**
Andrew L Gillies
John K Haley
Michael K Hansel

MANAGEMENT TEAM

Mike O'Brien **Chief Executive Officer**
Theo J Psaros **Chief Operating Officer & Company Secretary**
Neil Forbes **Exploration Manager**

Registered Office

Level 1, 1 Potts Street, East Brisbane, QLD 4169
Telephone (07) 3891 9611
Facsimile (07) 3891 9199
Email admin@metrocoal.com.au
Website www.metrocoal.com.au

Underwriter & Lead Manager to the Issue

Patersons Securities Limited
Level 48, Australia Square, 264 George Street, Sydney NSW 1225
Telephone (02) 8238 6200
Facsimile (02) 8238 6286
Website www.psl.com.au

Independent Accountant

BDO Kendalls Audit & Assurance (QLD) Pty Ltd
Level 18, 300 Queen Street, Brisbane, QLD 4000
Telephone (07) 3237 5999
Facsimile (07) 3221 9227
Website www.bdo.com.au

Solicitors to the Issue

HopgoodGanim Lawyers
Level 8 Waterfront Place, 1 Eagle Street Brisbane QLD 4000
Telephone (07) 3024 0000
Facsimile (07) 3024 0300
Website www.hopgoodganim.com.au

Independent Geological Consultant

Behre Dolbear
Level 9, 80 Mount Street, North Sydney NSW 2060
Telephone (02) 9954 4988
Facsimile (02) 9929 2549
Website www.dolbear.com

Share Registry

Link Market Services Limited
Level 19, 324 Queen Street, Brisbane QLD 4000
Telephone 1300 554 474 or (02) 8280 7454
Facsimile (02) 9287 0303
Website www.linkmarketservices.com.au

Tenement Consultant

Environmental & Licensing Professionals
Level 27, 288 Edward Street, Brisbane QLD 4000
Telephone (07) 3239 9700
Facsimile (07) 3220 2135
Website www.elp.com.au

Independent Technical Consultant

Uhde Shedden
Level 2, 355 Spencer Street, West Melbourne, VIC 3003
Telephone (03) 9207 5777
Facsimile (03) 9207 5888
Website www.uhdeshedden.com

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INVESTMENT HIGHLIGHTS

- MetroCoal holds 100% of extensive coal tenements covering approximately 4,000km² in the Surat Basin region.

- MetroCoal has identified thermal coal Exploration Targets totalling between 2.5 and 3.5 billion tonnes and expects to confirm these targets within the next two years.*

- MetroCoal's projects include the 100% owned Juandah thermal coal project area which has an 172Mt (149Mt Inferred and 22.5Mt Indicated) resource and this area represents only 1.5% of MetroCoal's prospective coal tenements.

- The Macalister Coal seam package is continuous and correlateable over most of MetroCoal's tenements. The Macalister Upper seam generally has a thickness and continuity that is highly prospective for longwall mining.

- MetroCoal's suite of tenements provides investors with excellent exposure to the increased global and domestic demand for energy.

- MetroCoal anticipates certain tenements will hold extensive thermal coal seams suited to Underground Coal Gasification (UCG). MetroCoal's Juandah Project area is one of the few areas in Queensland that has no overlapping gas tenure.

- UCG is an attractive new source of cleaner coal energy, producing syngas for electricity generation and clean liquid fuels. UCG unlocks vast quantities of previously stranded coal deposits.

- Experienced Board of Directors and Management within the mining industry.

* With regard to Exploration Targets - the potential quantity and quality is conceptual in nature, and that there has been insufficient exploration to define a Mineral Resource or Ore Reserve and that it is uncertain if further exploration will result in the determination of a Mineral Resource or Ore Reserve.

QUESTIONS AND ANSWERS

QUESTION	ANSWER	RELEVANT SECTION
What is MetroCoal Limited and what does MetroCoal do?	MetroCoal is an emerging coal based fuel and energy company focused on conventional mining operations as well as Underground Coal Gasification (UCG).	Section 3
What is being offered?	The Offer is an initial public offering between 33,600,000 and 40,000,000 Shares in MetroCoal.	Section 1.1
What is the Offer price?	The Offer price is \$0.25 per Share.	Section 1.1
How will the proceeds of the Offer be used?	Proceeds are intended to be used to explore the Company's coal projects and for working capital.	Sections 1.8 & 4.2
What is the minimum/maximum application under the Offer?	The minimum application amount is for 8,000 Shares at \$0.25. Additional Shares can be applied for in multiples of 2,000 Shares. There is no maximum amount that may be applied for in respect of the Offer. The Company reserves the right to accept or reject Applications in full or in part.	Section 1.5
Is the Offer underwritten?	Yes to the extent of \$8.4 million being the Minimum Subscription amount.	Section 10
What will the market capitalisation of the Company be upon listing on the ASX?	The market capitalisation of the Company on listing based on the issue price is expected to be approximately between \$33.8 million (Minimum Subscription) and \$35.4 million (Maximum Subscription).	Section 1.2
What are the key dates of the Offer?	Applications Open - 6 November 2009 Applications Close - 19 November 2009 Allotment of Shares - 26 November 2009 Dispatch Holding Statements - 30 November 2009 Listing of Shares on ASX - 4 December 2009 <i>These dates are indicative only. The Company reserves the right to vary the dates and times of the Offer, including the Closing Date.</i>	Section 1.3



QUESTION	ANSWER	RELEVANT SECTION
What are the benefits of investing in the Company?	• MetroCoal holds 100% of extensive coal tenements covering 4,000km² in the Surat Basin region. • MetroCoal has identified thermal coal Exploration Targets totalling between 2.5 and 3.5 billion tonnes and expects to confirm these targets within the next two years.* • MetroCoal has a 100% owned Juandah thermal coal project area which has an 172Mt (149Mt Inferred and 22.5Mt Indicated) resource and this area represents only 1.5% of MetroCoal's prospective coal tenements. • The Macalister Coal seam package is continuous and correlateable over most of MetroCoal's tenements. The Macalister Upper seam generally has a thickness and continuity that is highly prospective for longwall mining. • MetroCoal's suite of tenements provides investors with excellent exposure to the increased global and domestic demand for energy. • MetroCoal anticipates certain tenements will hold extensive thermal coal seams suited to Underground Coal Gasification (UCG). MetroCoal's Juandah Project area is one of the few areas in Queensland that has no overlapping gas tenure. • UCG is an attractive new source of cleaner coal energy, producing syngas for electricity generation and clean liquid fuels. UCG unlocks vast quantities of previously stranded coal deposits. • Experienced Board of Directors and Management within the mining industry.	Investment Highlights & Section 3

* With regard to Exploration Targets - the potential quantity and quality is conceptual in nature, and that there has been insufficient exploration to define a Mineral Resource or Ore Reserve and that it is uncertain if further exploration will result in the determination of a Mineral Resource or Ore Reserve.



QUESTIONS AND ANSWERS

QUESTION	ANSWER	RELEVANT SECTION
What are the key risks of investing in the Company?	As with any investment in the stock market, an investment in MetroCoal has a number of risks including: • General share market conditions and volatility • Changes in the world economic climate • Political and legislative risks, particularly those relating to the Queensland Government's UCG policy • Unforeseen expenses • Supply and demand changes in thermal coal • Changes in commodity prices • Operational risk • Exploration, evaluation and project development risk • Resource and reserves risk • Lack of operating history • Financing risk • Reliance on key personnel • Foreign exchange risk • Contractual, management and industrial risk • Land access tenement, water and native title risk • Environmental risk • Insurance risk • UCG technology • Management actions • Carbon Pollution Reduction Scheme • Transport and port capacity • Application risk • Competition • Maps and diagrams	Section 9
What are the costs of the Offer and who is paying them?	The total estimated costs of the Offer, which will be borne by the Company, are estimated at \$1,013,250 (assuming Maximum Subscription) and include ASIC and ASX fees, prospectus printing costs, underwriting brokering fees, legal costs, other consultants, success fee and miscellaneous expenses.	Section 8



QUESTION	ANSWER	RELEVANT SECTION
When will I receive dividends?	It is the present intention of the Directors to apply surplus cash flow to fund the exploration of the Company's project portfolio rather than distributing these monies and evaluations in the form of dividends.	Section 1.11
What are the tax implications of investing in the Company?	The taxation implications of investing in Shares will depend on an investor's individual circumstances. Applicants should obtain their own tax advice or financial planning advice prior to investing.	
How do I apply for Shares?	Applications for Shares can be made as set out in Section 1.5 of this Prospectus and by completing the Application Form at the end of this Prospectus.	Section 1.5
When will I receive confirmation that my Application has been successful?	Holding statements, confirming applicants' allocations under the Offer, are expected to be dispatched to Shareholders on 30 November 2009.	Section 1.3
How can I obtain further information?	By speaking to your sharebroker, solicitor, professional adviser, banker or accountant.	
How can I contact the Company?	For further contact details, see the corporate directory at the front of this Prospectus.	



LETTER FROM THE CHAIRMAN

Dear Investors

On behalf of the Board of Directors of MetroCoal Limited, I take pleasure in presenting this Prospectus for the Company's Initial Public Offering and invite you to become a Shareholder.

I believe that our Board and executives are the right team to succeed in establishing a successful coal based energy company focused on conventional coal mining and underground coal gasification (UCG). MetroCoal's coal tenements in the Surat Basin region in southern Queensland are in a region already hosting a number of world class coal deposits.

Under this Prospectus, the Company is seeking to raise between \$8,400,000 and \$10,000,000. The Offer is underwritten to the extent of \$8,400,000 being the Minimum Subscription.

The emergence of MetroCoal is well timed in light of the current global demand for energy.

MetroCoal's tenements are prospective for large scale, efficient underground mining and there may also be pockets of shallow opencast mineable coal. This coal would be exported through the port of Gladstone, helping to fill this growing energy demand.

UCG is also relevant in a time of high oil prices and looming supply constraints. UCG creates an opportunity to fill this gap with a clean coal alternative increasing Australia's future energy security and reducing our foreign exchange burden.

The UCG sector is poised to grow significantly, bringing vast tonnages of otherwise stranded coal to account. MetroCoal can be part of that growth.

Starting with a 100% owned and ideally located coal exploration and development portfolio, and an experienced team, the Company is well placed to add considerable value to its coal assets and corresponding growth for its shareholders. The coal industry has been one of the most sought after investment sectors in the commodities and resource sector on the back of unprecedented world demand for minerals, particularly fuels and energy.

The Directors are confident of the long term outlook for thermal coal provided by the continued growth in the coal market, generally driven by increasing world energy demand together with the expanding use of technologies such as UCG, and the planned establishment of new infrastructure.

The MetroCoal team looks forward to making your company a successful participant in the coal and energy industries.

Details of MetroCoal's coal assets are set out in the Prospectus and I encourage you to review the Prospectus in detail before making a decision to invest in this emerging coal company.

On behalf of the Directors, I recommend this investment to you.

Yours faithfully



David Barwick
Chairman





IMPORTANT INFORMATION

This Prospectus seeks to raise between \$8.4 million and \$10 million by offering for subscription between 33,600,000 to 40,000,000 Shares at an issue price of 25 cents each, payable in full on application.

This Prospectus is dated 28 October 2009 and was lodged with the ASIC on that date. Neither the ASIC nor ASX takes any responsibility for the contents of this Prospectus. No Shares will be allotted or issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

No person has been authorised to provide information or to make any representation in connection with the Offer. Any such information or representation that is not contained in this Prospectus may not be relied upon as having been authorised by the Company.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. Applications can only be made by completing the Application Form in full, in accordance with instructions contained on the reverse of the form.

GLOSSARY

Certain words and terms used in this Prospectus have defined meanings which appear in Section 12 or otherwise within the independent experts' reports which form part of this Prospectus.

EXPOSURE PERIOD

In accordance with Chapter 6D of the Corporations Act (Cth) 2001, this Prospectus is subject to an Exposure Period of 7 days from the date of lodgement of the Prospectus with the ASIC. The 7 day Exposure Period may be extended by the ASIC by a further period of up to 7 days.

The purpose of providing an Exposure Period is to enable examination of this Prospectus by market participants prior to the raising of funds. Applications received during the Exposure Period will receive no priority and will not be processed until after the Exposure Period, when they will be treated as having been received simultaneously on the Opening Date.

A paper copy of this Prospectus will be made available upon request during the Exposure Period. The Prospectus (without the Application Form) may also be viewed online at www.metrocoal.com.au during the Exposure Period. After the Exposure Period, the Prospectus with an accompanying Application Form may be viewed online. Investors who wish to apply for shares using the electronic version of the Application Form must download and read the entire Prospectus. The Offer is only available to persons receiving an electronic version of this Prospectus in Australia. Persons who receive a copy of this Prospectus in electronic form at www.metrocoal.com.au are entitled to obtain a paper copy of the Prospectus which will be provided free of charge upon request by contacting the Company on (07) 3891 9611 or by email at admin@metrocoal.com.au.

HOW TO USE THIS PROSPECTUS

This Prospectus provides information for investors who wish to invest in MetroCoal Limited. It should be read in its entirety in order to make an informed assessment of the assets and liabilities, financial position and performance, profits and losses and prospects of MetroCoal and the rights and liabilities attaching to the Shares. The Company is at an early stage of its development, accordingly there are significant risks associated with investing in the Company. Potential investors should take these factors into account and consider whether this is an appropriate investment in view of their personal circumstances. If in doubt investors should seek advice from their professional advisor before deciding whether to invest. There is no guarantee that the Shares offered under this Prospectus will make a return on capital investment, that dividends will be paid on the Shares, or that there will be any increase in the value of the Shares in the future. Investors who wish to subscribe for Shares should complete the Application Form included in this Prospectus. The Shares offered under this Prospectus should be considered speculative.

FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus constitute forward looking statements. Investors should note that these statements are inherently subject to uncertainties in that they may be affected by a variety of known and unknown risks, variables and other factors which could cause actual values or results, performance or achievements to differ materially from anticipated results, implied values, performance or achievements expressed, projected or implied in the statements. These risks, variables and factors include, but are not limited to, the matters



described in Section 9 of this Prospectus. MetroCoal gives no assurance that the anticipated results, performance or achievements expressed or implied in those forward-looking statements will be achieved.

SHORT FORM PROSPECTUS

This Prospectus is a Short Form Prospectus issued in accordance with section 712 of the Corporations Act. This Prospectus does not itself contain all of the information that is generally required to be set out in a standard document of this type but refers to other documents, the parts of which are deemed to be incorporated in this Prospectus. The parts of these documents deemed to be incorporated in this Prospectus are clearly indicated and provide guidance for investors as to the contents of the incorporated documents and where full texts of the incorporated material may be obtained.

DISCLAIMER

The Offer does not take into account the investment objectives, financial situation and particular needs of investors. It is important that investors read this Prospectus in its entirety before deciding to invest in the Company and, in particular, in considering the prospects for the Company, that they consider the risk factors that could affect the performance of the Company. Investors should carefully consider these factors in the light of their personal circumstances (including financial and taxation issues) and seek professional guidance from their sharebroker, solicitor, professional advisor or accountant before deciding whether to invest. Some risk factors that investors should consider are outlined in Section 9.

No person is authorised to give any information or to make any representation in connection with the Offer and issue of the Shares described in this Prospectus, which is not contained in this Prospectus. Any information or representation not so contained may not be relied upon as having been authorised by the Company in connection with the Offer.

Neither the Company nor any of its Directors or any other party associated with the preparation of this Prospectus guarantee that any specific objective of the Company will be achieved or that any particular performance of the Company or of its Shares, including those offered by this Prospectus, will be achieved.

PRIVACY

The privacy obligations and policy relating to this Prospectus are contained in the privacy disclosure statement in Section 11.

PHOTOGRAPHS

Photographs used in this Prospectus which do not have descriptions are for illustration only and should not be interpreted to mean that any person shown endorses the Prospectus or its contents or that the assets shown in them are owned by the Company.

COMPETENT PERSONS STATEMENT

Juandah Resource

The information in this Prospectus that relates to the Indicated and Inferred Resource within the Company's Juandah tenement is based on information compiled by Mr Warwick Smyth who is a Member of the Australian Institute of Mining and Metallurgy. Mr Smyth is the Principal Consultant for GeoConsult Pty Ltd.

Mr Smyth has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Smyth has consented in writing to the inclusion in this Prospectus of the matters based on the information in the form and context it appears.

Exploration Targets

The information in this Prospectus that relates to the Exploration Targets is based on information compiled by Mr Neil Mackenzie-Forbes who is a Member of the Australian Institute of Geoscientists (Membership No 2035). Mr Mackenzie-Forbes is currently the Exploration Manager of MetroCoal.

Mr Mackenzie-Forbes has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Mackenzie-Forbes has consented in writing to the inclusion in this Prospectus of the matters based on the information in the form and context it appears.



IMPORTANT INFORMATION

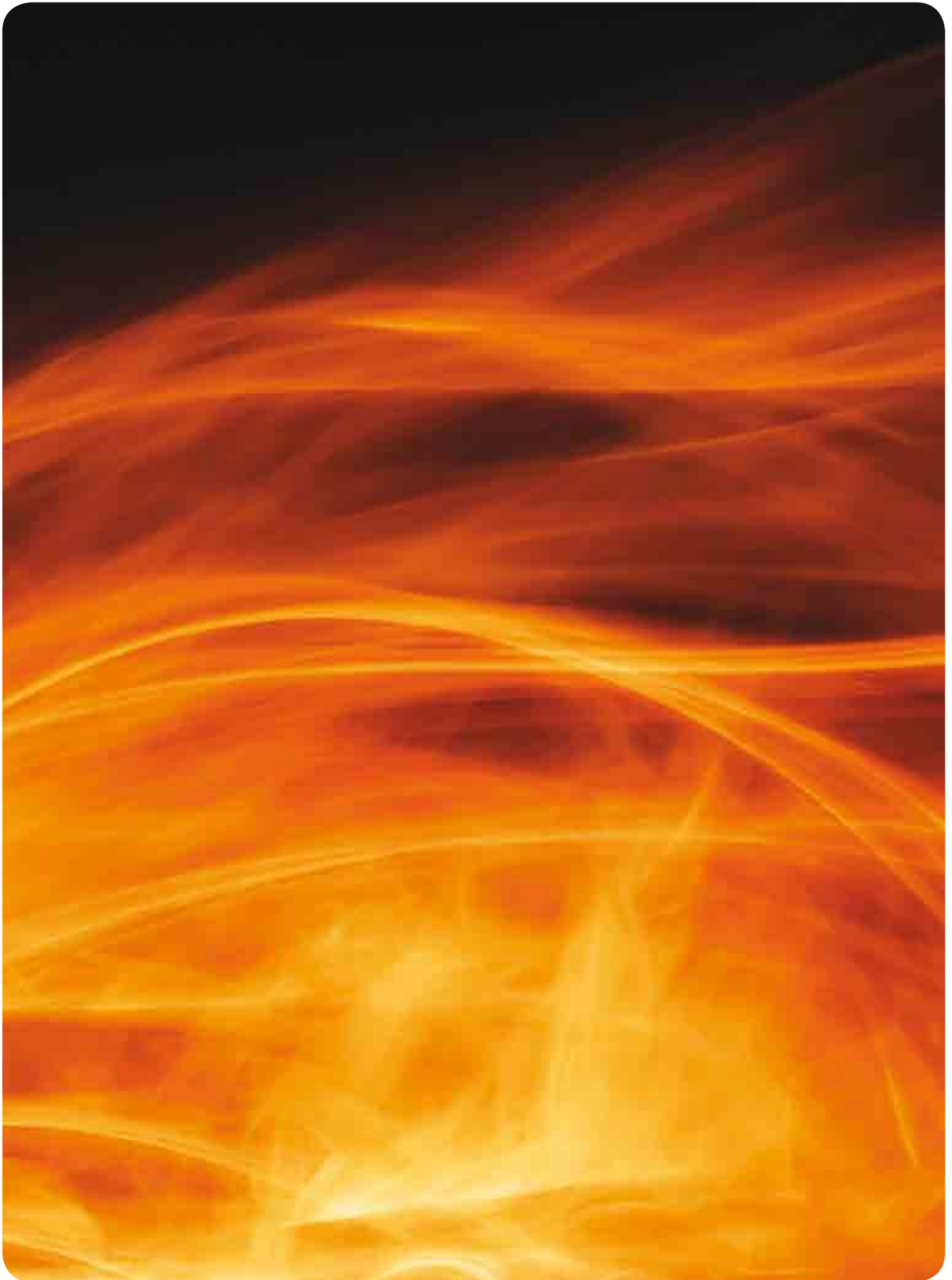
QUALIFICATIONS & DECLARATIONS

The information in this statement that relates to in-situ coal resources estimates is based on information compiled by GeoConsult Pty Ltd and compiled and reviewed by Warwick Smyth, who is a member of the Australasian Institute of Mining and Metallurgy (CP) Geology and the Australian Institute of Geoscientists.

Warwick Smyth is a qualified geologist (BSc Geol, Grad Dip AF&I, MAusIMM (CP), MGSA, MAIG), and a Principal Consultant for GeoConsult Pty. Ltd. and has over 17 years experience which is relevant to the style of mineralisation, the type of deposit under consideration and to the activity which has been undertaken to qualify as a Competent Person as defined by the 2004 edition of the Australian Code for Reporting of Coal Resources.

Neither Warwick Smyth nor GeoConsult Pty Ltd has any material interest or entitlement, direct or indirect, in the securities of MetroCoal or the Projects. GeoConsult has been commissioned to provide geological services to MetroCoal since early 2008. Fees for the preparation of this report are on a time and materials basis.

Warwick Smyth and GeoConsult Pty Ltd consent to the use of this statement and references to it and extracts from it, in the form and context in which they are included. Apart from the above, neither the whole nor any part of the statement document, nor references thereto, may be included in, or with, or attached to any document, circular, resolution, letter or statement without the prior written consent of Warwick Smyth or GeoConsult Pty Ltd.



01

DETAILS OF THE OFFER

This section is intended as an introduction and not as a summary of this Prospectus. It should be read in conjunction with the remainder of this Prospectus.

1.1. THE OFFER

This Prospectus constitutes an offer by MetroCoal of a minimum of 33,600,000 Shares and a maximum of 40,000,000 Shares for subscription at an issue price of 25 cents per Share payable in full on application to raise up between \$8,400,000 and \$10,000,000. The shares offered by this Prospectus will be issued as fully paid shares and, when issued, will rank equally in all respects with the existing shares.

1.2. KEY TERMS

Offer Price.....25 cents

Number of shares to be offered under this Prospectus:

Maximum Subscription.....40,000,000

Minimum Subscription.....33,600,000

Shares on issue prior to this Offer.....101,683,663

Total Issued shares to be listed on ASX*:

Maximum Subscription.....141,683,663

Minimum Subscription.....135,283,663

Market Capitalisation of shares at Offer Price:

Maximum Subscription\$35,420,000

Minimum Subscription.....\$33,820,000

* Some of the existing shares may be classified as restricted securities.....See 1.16

1.3. KEY DATES

Applications open6 November 2009

Applications close19 November 2009

Allotment of shares under this Prospectus.....26 November 2009

Dispatch of Statements of Shareholder Entitlements.....30 November 2009

Anticipated date of trading of Shares listed for quotation on ASX.....4 December 2009

These dates are indicative only. The Company reserves the right to vary the Closing Date of the Issue, which may have a consequential effect on other dates. As such, the date the Shares are expected to commence trading on ASX may vary with any change in the Closing Date.

1.4. MINIMUM SUBSCRIPTION

The Minimum Subscription to the Issue is \$8,400,000. If the Minimum Subscription is not reached within 4 months after the date of this Prospectus, the Directors will not allot any Shares and the Company will thereafter repay all application monies received, without interest. The issue of Shares will proceed as soon as possible after the Closing Date and after ASX permission for Official Quotation of the Shares is received.





1.5. APPLICATION AND PAYMENT FOR SHARES

An application constitutes an offer by you to subscribe for Shares on the terms and conditions as contained in the Offer. An application to subscribe for Shares can only be made on the Application Form contained in this Prospectus. Applications must be for a minimum of 8,000 Shares representing a minimum investment of \$2,000 and thereafter in multiples of 2,000 Shares.

IF YOU DECIDE TO APPLY FOR SHARES, YOU MUST:

- Complete the enclosed Application Form; and
- Pay the application monies by cheque drawn on and payable at any Australian bank in Australian dollars

AN APPLICATION FOR SHARES CAN ONLY BE MADE BY:

- Completing and lodging the Application Form for Shares, contained at the end of this Prospectus; or
- Completing a paper copy of the relevant Application Form which accompanies the electronic version of this Prospectus, both of which can be downloaded from www.metrocoal.com.au.

The Application Form contains detailed instructions on how it is to be completed. An Application Form must be accompanied by a cheque in Australian dollars, crossed “not negotiable” and made payable to “MetroCoal Limited”. Payment for the Shares must be made in full at the issue price of 25 cents for each share subscribed. Applications for Shares must be for a minimum of 8,000 Shares and then in multiples of 2,000 Shares. Applications received by the Company that do not meet these requirements may be refused at the discretion of the Directors in conjunction with the Underwriter. Subject to the Minimum Subscription of the Issue being achieved for the Shares as well as permission of the ASX for the Shares to be listed for Official Quotation, the Directors will allot the Shares as soon as possible after the Closing Date of the Issue.

An application for Shares may be accepted in full, for any lesser number or rejected by the Company. If any application is rejected, in whole or in part, the relevant application monies will be repaid without interest.

Completed Application Forms and accompanying cheques should be lodged with the Share Registry, at the following address:

By hand delivery:

**Link Market Services Limited
MetroCoal Limited Share Offer
Level 12, 680 George Street, Sydney NSW 2000**

or

By post:

**Link Market Services Limited
MetroCoal Limited Share Offer
Locked Bag A14
Sydney South NSW 1235**

Completed Application Forms and cheque(s) must be received at the above address before 5.00pm (Brisbane time) on the Closing Date of the Issue.

Completed Application Forms and cheque(s) should be sent to the required address as soon as possible after the Issue opens as the Directors may elect to close the Issue early.

1.6. ALLOCATION

The Company in conjunction with the Underwriter, has the right to allocate the Shares under the Offer.

The Company reserves the right to authorise the issue of a lesser number of Shares than those for which an Application has been made or to reject any Application. Where no issue or allocation of Shares is made or the number of Shares issued is less than the number applied for, surplus Application monies will be refunded without interest.

If an Application Form is not completed correctly, or if the accompanying payment is for the wrong amount, it may still be treated as valid. The Company's decision as to whether to treat an Application as valid, and how to construe, amend or complete it, will be final. The Company's decision on the number of Shares to be allocated to an Applicant will also be final.



01 DETAILS OF THE OFFER

1.7. CAPITAL STRUCTURE POST ISSUE

Upon completion of the Issue and allotment of Shares pursuant to this Prospectus, the Company's capital will be as follows:

	Share Capital			Metallica Convertible Note			Options		
	Number of Shares	%	Notes	Number of Shares	%	Notes	Number of Options	%	Notes
MINIMUM SUBSCRIPTION									
Metallica	80,000,000	59	1	80,000,000	57	1			
Other Existing Shareholders	21,683,663	16	1	21,683,663	16	1			
Shares Issued to Metallica on Conversion of the Metallica Convertible Note	-	-	-	4,000,000	3		-		
Existing Option Holders	-	-					6,250,000	100	1, 2
Public	33,600,000	25		33,600,000	24		Nil		
Total	135,283,663	100	3	139,283,663	100	4	6,250,000	100	

	Share Capital			Metallica Convertible Note			Options		
	Number of Shares	%	Notes	Number of Shares	%	Notes	Number of Options	%	Notes
MAXIMUM SUBSCRIPTION									
Metallica	80,000,000	57	1	80,000,000	55	1			
Other Existing Shareholders	21,683,663	15	1	21,683,663	15	1	-		
Shares Issued to Metallica on Conversion of the Metallica Convertible Note				4,000,000	3		-		
Existing Option Holders	-	-					6,250,000	100	1, 2
Public	40,000,000	28		40,000,000	27				
Total	141,683,663	100	3	145,683,663	100	4	6,250,000	100	

Notes

1. These securities may be subject to ASX escrow conditions governing their resale. See section 1.16.
2. Options are exercisable at 25 cents. For full terms and conditions of the Options see Section 11. Also see the following table for Directors' interests.
3. Assuming no conversion of the MLM Convertible Notes into Shares.
4. Assuming conversion of the MLM Convertible Notes into Shares. A summary of the MLM Convertible Note Deed is in Section 10.2.

Directors' Interests in MetroCoal

The interests of Directors and any associates of them in the securities of the Company are as follows:

Name	Number of Shares	Options at 25c on or before 3 years from ASX listing
David K Barwick	200,000	500,000
Andrew L Gillies	200,000	2,000,000
John K Haley	200,000	500,000
Michael K Hansel	nil	500,000

1.8 PURPOSE OF THE OFFER AND PLANNED USE OF FUNDS

The purpose of the Offer is to raise funds to provide MetroCoal with:

- the capital required to conduct an extensive exploration program of the coal tenements as described in this Prospectus;
- adequate working capital for the next two years; and
- funds to support the administration of MetroCoal.

Assuming the Minimum Subscription is achieved, the Directors are satisfied that upon completion of the Offer, MetroCoal will have sufficient funds to meet its stated objectives.

In the two years following admission to the Official List of the ASX, the Directors intend to apply the funds raised as follows:

	MINIMUM SUBSCRIPTION (\$8,400,000)	MAXIMUM SUBSCRIPTION (\$10,000,000)
Thermal coal exploration	4,818,000	6,077,800
Geological modelling & tenement management	1,048,000	1,279,000
Corporate administration & working capital	1,629,950	1,629,950
Offer costs	904,050	1,013,250
Total	8,400,000	10,000,000

1.9 ALLOTMENT

Allotment of the Shares under this Prospectus will take place as soon as practicable after the Closing Date of the Issue.

Application monies will be held in a subscription account until allotment.

This account will be established and kept by the Company in trust for each applicant. Any interest earned on the application monies will be for the benefit of the Company and will be retained by the Company irrespective of whether allotment takes place.

Where the number of Shares allotted is less than the number applied for, the surplus monies will be returned by cheque within 30 days of the Closing Date. Where no allotment is made, the amount tendered on application will be returned in full by cheque within 30 days of the Closing Date. Interest will not be paid on monies refunded.



01 DETAILS OF THE OFFER

1.10. ASX LISTING OF SHARES

Application will be made within 7 days of the date of this Prospectus to the ASX for the Shares issued pursuant to this Prospectus, as well as all other Shares in the Company, to be granted Official Quotation by the ASX.

The fact that the ASX may admit the Company to its Official List is not to be taken in any way as an indication of the merits of the Company or of the Shares now offered for subscription. Quotation, if granted, of the Shares offered by this Prospectus will commence as soon as practicable after the issue of holding statements to allottees. The ASX takes no responsibility for the contents of this Prospectus including the experts' reports which it contains.

If ASX does not grant permission for the Official Quotation of the Shares within 3 months after the date of issue of this Prospectus, none of the Shares offered by this Prospectus will be allotted or issued unless the ASIC grants the Company an exemption permitting the allotment or issue.

1.11. DIVIDEND POLICY

It is the present intention of the Directors to apply surplus cash flow to fund the exploration and evaluation of the Company's project portfolio rather than distributing these monies in the form of dividends.

1.12. CLEARING HOUSE ELECTRONIC SUB-REGISTER SYSTEM ("CHESS")

The Company will apply to the ASX in accordance with the Listing Rules and the ASTC Settlement Rules, to participate in the Clearing House Electronic Sub-Register System (**CHESS**). On admission to CHESS the Company will operate an issuer-sponsored register. Because the sub-register is electronic, ownership of securities can be transferred without having to rely on paper documentation. The Company will sponsor registration of shareholdings through the share register (**Issuer Sponsored**).

Under CHESS, the Company will not be issuing certificates to investors in respect of its shares. Instead, investors will be provided with a holding statement (similar to a bank account statement) that sets out the number of shares allotted to them under this Prospectus and their total holding of Shares in the Company. The notice will also advise holders of their Holder Identification Number (**HIN**) and explain, for reference, the sale and purchase procedures under CHESS. Further monthly holding statements will be provided to holders, which reflect any changes in their holdings in the Company during that month.

1.13. UNDERWRITING FEES AND OTHER COMMISSIONS

The Company has agreed to pay the Underwriter a cash fee equal to 5.5% of the Underwritten Amount. The Underwriter may pay, out of this fee, fees to sub-underwriters, brokers or managers in its discretion.

The Company may seek the assistance of licensed investment advisers to complete the Issue of shares under this Prospectus for any amount exceeding the Underwritten Amount. In the event that a licensed investment adviser may be contracted to obtain investors, then a fee may be payable to the adviser.

1.14. RESTRICTIONS ON THE DISTRIBUTION OF THIS PROSPECTUS

The distribution of this Prospectus outside the Commonwealth of Australia may be restricted by law.

This Prospectus is not intended to, and does not, constitute an offer of securities in any place which, or to any person to whom, the making of such offer would not be lawful under the laws of any jurisdiction outside Australia.

Applicants resident in countries outside Australia should consult their professional advisers as to whether any governmental or other consents are required, or other formalities need to be observed to enable them to apply for shares. The failure to comply with any applicable restrictions may constitute a violation of securities law in those jurisdictions.

1.15. ELECTRONIC PROSPECTUS

The Offer constituted by this Prospectus in electronic form is available only to persons receiving this Prospectus within Australia. Persons who receive a copy of this Prospectus in electronic form at www.metrocoal.com.au are entitled to obtain a paper copy of the Prospectus (including any relevant accompanying Application Form) free of charge, during the Offer period, by contacting the Company on **07 3891 9611** or by email at **admin@metrocoal.com.au**.

1.16. RESTRICTED SECURITIES

The ASX may, as a condition of granting the Company's application for Official Quotation of its Shares, classify certain securities of the Company as restricted securities. If so, prior to Official Quotation of the Company's Shares, the holders of the securities that are to be classified as restricted securities will be required to enter into appropriate restriction agreements with the Company. None of the Shares offered under this Prospectus will be classified as restricted securities by ASX.

1.17. SUMMARY OF INVESTMENT RISKS

Prior to making an investment decision with regard to the resource and exploration industry, investors should carefully consider the risk factors, all of which may affect the Company and the industry in which it operates.

The business and exploration activities of the Company are subject to normal business risks and uncertainties and there may be many factors that could affect the future performance of the Company.

Some of these risks and uncertainties may be mitigated by the use of safeguards, appropriate systems and contingencies. However, some risks may be outside the control of the Company and not able to be mitigated. Additionally, there are also a number of risk factors that are specific to the Company. Details of the risk factors of which investors should be aware are described in more detail in Section 9 of this Prospectus.

This section is intended as an introduction and not as a summary of this Prospectus. It should be read in conjunction with the remainder of this Prospectus.



02

BOARD OF DIRECTORS AND MANAGEMENT

2.1 BOARD OF DIRECTORS

David K Barwick Chairman



In his capacity as Chairman, Managing Director and or President, Mr David Barwick has played a significant role in successfully funding

and bringing into production, four mining projects throughout his career in both Australia and Canada. He has considerable expertise in the restructure and financing of entities.

An accountant by profession, David has more than 37 years experience in the management and administration of publicly listed companies in both Australia and North America. As a Director, he has managed over twenty-seven public companies, using his strong skills in strategic planning to successfully restructure these and give them a solid financial base from which to operate. He has experience in preparing prospectuses and ensuring companies meet the necessary compliance standards for listing on both the Australian and Canadian Stock Exchanges.

David is also Chairman of Metallica Minerals Limited (ASX-MLM), Manacorn Corporation Limited (ASX-MNL), Orion Metals Limited (ASX-ORM) and Planet Metals Limited (ASX-PMQ).

Andrew L Gillies Non-Executive Director



Mr Andrew Gillies has been Executive Director and Managing Director of ASX-listed Metallica Minerals Limited and its subsidiaries since

1997. He has been instrumental in the selection and acquisition of all the mineral assets now held by the Metallica group, Cape Alumina Limited (ASX-CBX) and MetroCoal Limited. Andrew is a founding Director of MetroCoal. As the founder of Metallica, Andrew, through his geological consultancy company, Golden Breed Pty Ltd, is a major shareholder of Metallica.

Andrew's key strength is mineral resource management and strategic planning specialising in project generation, selection and acquisition. He has acquired a considerable database and significant knowledge of mineral deposits in Queensland. Since 1985 he has worked continuously as a geologist in the mining and exploration industry, accruing over 23 years experience across a range of commodities. He has been a company geologist with BHP Gold Mines Ltd, Perseverance Corporation Ltd and Cracow Mining Venture and as a consulting geologist for various exploration companies until his full time role with Metallica in 1997. Over the last 23 years he has gained valuable experience in the exploration, feasibility, development, open pit and underground mining of mineral deposits.

Andrew is also a Director of Cape Alumina Limited, Orion Metals Limited, and Planet Metals Limited and is also a Director of the Queensland Resources Council.

Andrew graduated from the University of Queensland in 1985 with a BSc (Geology) and is a Member of the Aus.I.M.M.

John K Haley Non-Executive Director



Mr John Haley brings more than 25 years of senior corporate experience from positions in Canada and Australia to the board of MetroCoal.

He is currently Company Secretary, Chief Financial Officer and Executive Director of Metallica Minerals Limited and has been employed by Metallica since late 2003. John is also Company Secretary and Chief Financial Officer of Cape Alumina Limited.

He has a diverse career in a range of industries including mineral exploration and has participated as a seed capitalist in a number of mineral exploration companies.

With extensive experience in the preparation of prospectuses, he has had significant involvement in the listing of companies in Australia and Canada. He is a Chartered Accountant (Fellow of the Institute of Chartered Accountants), an Associate of the Institute of Chartered Secretaries and Administrators and a Fellow of the Financial Services Institute of Australasia and the Taxation Institute of Australia.

He has previously worked with Coopers & Lybrand and Arthur Andersen & Co and in Australia in general management, financial reporting and company secretarial positions.

John has formal academic qualifications which include a Master of Business Administration and Bachelor of Commerce from the University of Queensland.

Michael Hansel Non-Executive Director



Mr Michael Hansel is a partner of the large Queensland law firm, HopgoodGanim Lawyers.

Michael joined HopgoodGanim in

1998 and practices almost exclusively in the corporate area, with an emphasis on capital raising, mergers and acquisitions, joint ventures, due diligence, takeovers and corporate restructuring.

Michael acts for many publicly listed

resource and industrial companies in Australia and regularly advises Boards of Directors on corporate governance and related issues. He has acted on numerous mergers and acquisitions and capital raisings in both the industrial and resources sectors.

Michael holds qualifications in Business, Commerce (Honours) and Law (Honours). He is a member of the Australian Institute of Company Directors and is admitted to practice as a solicitor of the Supreme Court of Queensland.

2.2 MANAGEMENT

Mike O'Brien Chief Executive Officer



Mr Mike O'Brien has 35 years working in the mining and minerals industry including over 25 years extensive management

experience with multinational companies Shell Coal and Anglo Coal (subsidiary of Anglo American). His experience includes operational roles as General Manager of a large underground longwall mine and as General Manager of a very large opencast mine that included a coal seam gas (CSG) operation. He has also held senior corporate positions including General Manager of Shell Coal's technical group that included responsibility for the mining, geological and engineering development. This has given him a wealth of knowledge in the coal industry and his expertise in strategic planning is underpinned by very strong skills in operations management and technical evaluation.

Mike has also held the role of CEO of a small listed company operating in the coal and gas industries in Australia and New Zealand. This wide experience

base has proved invaluable in building MetroCoal's reputation and developing its potential as a significant player in the coal industry.

He holds a B. Sc (Min)(Eng) from the University of Witwatersrand.

Theo Psaros Chief Operating Officer & Company Secretary



Mr Theo Psaros is a Chartered Accountant with considerable experience in financial management and administration.

He holds a Bachelor of Financial Administration from the University of New England. His career in management includes working with some of Australia's biggest financial and sporting names.

In his role as a Chartered Accountant, he worked for Coopers & Lybrand and for PricewaterhouseCoopers. He developed his specialist skills and expertise to provide business advisory services, valuations and corporate finance transactions and worked in London for three years in a variety of roles gaining international experience in the financial sector. He was CEO of Queensland Rugby Union and more recently was CEO of the Porsche Carrera Cup Australia.

His extensive experience in finance, project management, strategic planning and government relations will prove invaluable in positioning MetroCoal as a key player in the coal and energy industries. He is also the Company Secretary and CFO of Orion Metals Limited following Metallica Minerals Limited's investment in Orion Metals.

Neil Mackenzie-Forbes Exploration Manager



Mr Neil Mackenzie-Forbes is a geologist with 15 years of varied experience in coal, oil shale, gold and base metals. He has

worked for Metallica Minerals Limited, Suncor Energy Inc, Southern Pacific Petroleum, Australian Resources, Gympie Eldorado Mining and Queensland Metals Corporation. Neil has wide and varied exploration and mining experience including resource and mine development. Neil worked on the Stuart Oil Shale Project in Central Queensland from 1997 through to 2004 in the capacity of Senior Mine Geologist and Environmental Coordinator. He has been associated with MetroCoal for the last 3 years, identifying and generating projects, initiating and managing exploration of MetroCoal's tenements. Neil graduated from the Queensland University of Technology with a Bachelor of Applied Science in 1993.



03

METROCOAL PROJECT SUMMARY

1. INTRODUCTION

MetroCoal controls an extensive portfolio of wholly-owned coal tenements in the Surat Basin. MetroCoal's initial exploration and analysis of historical exploration conducted over the tenements indicates the existence of prospective thermal coal seams located at various depths to the surface. The broad range of thermal coal seam depth has allowed MetroCoal to formulate and implement a unique business plan to further explore and assess the commercial feasibility of the tenements and if appropriate, exploit the tenements through:

1. Conventional underground and opencast mining techniques; and
2. Underground Coal Gasification (UCG).

On completion of the Issue, MetroCoal will undertake an extensive exploration and evaluation program of its tenements to advance this dual strategy with a view to increasing its thermal coal resource base and supplementing its UCG knowledge and resource potential.

Based on the geological information from the historic drilling programs and its own drilling results, MetroCoal has an Exploration Target* for thermal coal of between 2.5 and 3.5 billion tonnes within the next two years.

Under the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (Paragraph 18) the Company is required to make the following statement with regard to Exploration Targets - the potential quantity and quality is conceptual in nature, and that there has been insufficient exploration to define a Mineral Resource or Ore Reserve and that it is uncertain if further exploration will result in the determination of a Mineral Resource or Ore Reserve.

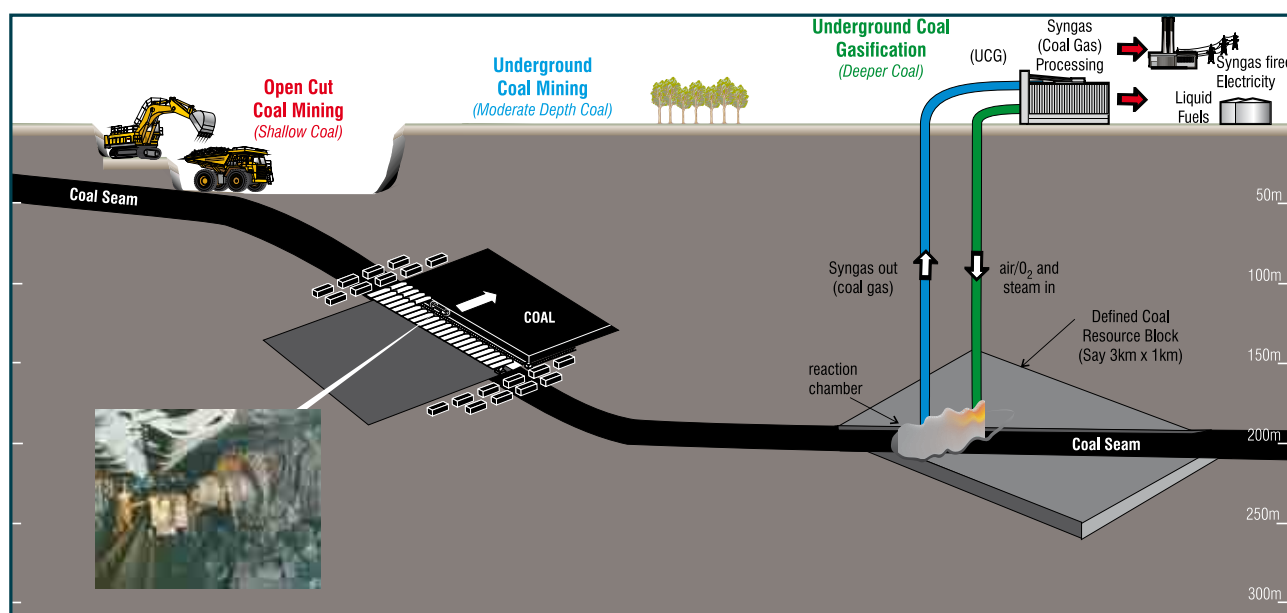


Figure 1: MetroCoal's Strategy – Conventional Mining and UCG Exploitation

MetroCoal's 100% held tenements cover approximately 4,000km². The tenements are close to or adjacent to areas where the coal seams occur close to surface. These shallow deposits host potential coal mines including Elimatta, Wandooan, Worri, Cameby Downs and the Wilkie Creek operating coal mine. The coal seams extend from these shallow, opencast deposits into MetroCoal's tenements dipping gently and continuing to depths around 400m at the tenement boundaries. MetroCoal anticipates, subject to further exploration and analysis that these thermal coal seams will be shown to be well suited for both conventional underground mining and UCG (see Figure 1).

This broad scale of coal seam depth affords MetroCoal the opportunity to optimise its exploitation through conventional

03 METROCOAL PROJECT SUMMARY

MetroCoal has pursued its corporate strategy by:

- (a) undertaking a strategic review and analysis of all publicly available exploration data and reports on the MetroCoal tenements; and
- (b) completing two extensive drilling programs.

The drilling programs and exploration data review and analysis have lead to a number of prospective target areas being identified around known coal intersections. An exploration program is planned within these target areas to establish the coal seam continuity and the potential resources base for both conventional coal mining and UCG.

The Company has identified thermal coal Exploration Targets* totalling between 2.5 and 3.5 billion tonnes to be evaluated within the next two years. This Exploration Target is expected to include between 225 and 275 million tonnes within the Juandah Project area that will be available for UCG and syngas fired power generation or subsequent coal-to-liquids.

The principle tenements have been given the project names, Wandoan West, Roma North, Columboola, Dalby West, Injune Creek and Lockyer Valley. These projects have been further subdivided to define discrete areas with more defined coal Exploration Targets. The table below summarises the principal projects and overall Exploration Targets. The detailed target areas are discussed in the subsequent subsections.

Project Name	Description	Exploration Target Range*
Wandoan West - 720km² EPC 1164 EPC 1251 MDL(A) 406	Highly prospective for underground mining and UCG. In vicinity of down dip extensions of the Wandoan and Elimatta coal deposits. Has good historic data and includes the Juandah Project with a JORC categorised resource.	880Mt to 1,190Mt
Roma North - 890km² EPC 1167	Prospective for underground mining and UCG. Western half is relatively unexplored with little historic data	605Mt to 850Mt
Columboola - 902km² EPC 1165	Highly prospective for underground mining with some opportunities for UCG. Extensive historic data available. Down dip of soon to be opened Cameby Downs coal mine.	830Mt to 1,165Mt
Dalby West- 296km² EPC 1166	Substantial coal tonnages expected in thick seam intersections. Extensive historic data in areas adjacent to EPC1166. Depths may be too shallow for UCG	160Mt to 220Mt
Injune Creek - 732km² EPC 1159	Considered attractive for exploration as it covers the sub-crop of the highly prospective Juandah and Taroom Coal Measures of the Walloon sub-group of the Surat Basin. Is a relatively untested area along strike from the Bymount Deposit.	30Mt to 40Mt
Lockyer Valley - 456km² EPC 1152	Encircles the known coal deposits of the West Moreton Coal District which contain the operating Ebenezer, New Oakleigh and Jeebropilly collieries. There is scope to delineate a UCG resource at the southern end of tenement.	25Mt to 35Mt
Total Exploration Target Range		2,530Mt to 3,500Mt

* Under the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (Paragraph 18) the Company is required to make the following statement with regard to Exploration Targets - the potential quantity and quality is conceptual in nature, and that there has been insufficient exploration to define a Mineral Resource or Ore Reserve and that it is uncertain if further exploration will result in the determination of a Mineral Resource or Ore Reserve.

2. METROCOAL DEVELOPMENT STRATEGY

MetroCoal's strategy is to develop coal mines producing thermal coal for export through the Port of Gladstone together with a clean energy business based on UCG with associated power generation and clean fuel and chemical production. Implementation of this strategy has commenced with the resource assessment and exploration programs carried out over the past 18 months.

The strategy will be implemented in three phases:

Stage 1 – Exploration and Resource Assessment.

The majority of funds raised under the Issue will be spent in the field on exploration and resource assessment aimed at confirming MetroCoal's Exploration Target. It will include some expenditure on technical review and scoping studies in preparation for the Company's progression to the next stage. During Stage 1 the Company will also seek suitable joint venture partners to develop its conventional mining opportunities, and consider technology partners for its UCG development.

Investors should note that funds raised under this Prospectus will be applied to completing Stage 1. At the completion of Stage 1, the MetroCoal Board will review and assess the exploration results generated from its exploration program to determine whether the quantity and quality of those results warrant embarking on Stage 2 and Stage 3 of the MetroCoal development strategy. Investors should refer to Section 9 (Risk Factors) of this Prospectus and in particular the exploration and evaluation risks.

Stage 2 – Scoping and Prefeasibility studies.

Following confirmation of the resource and identification of the most prospective areas for mine development and UCG operations, the Company expects to continue resource delineation and to carry out feasibility studies with the objective of leading to bankable, commercial proposals.

Stage 3 – Project Design, Funding and Statutory Approvals.

At this stage the Company expects to progress separate proposals for mine development and UCG implementation.

Conventional Coal Mining Development Process				
STAGE 1		STAGE 2		STAGE 3
Extensive drilling Rank resource areas	Confirm mining resource Scoping studies	Ongoing resource upgrade Prefeasibility	Feasibility studies and EIS	Mine design Mining lease

UCG Development Process				
STAGE 1		STAGE 2		STAGE 3
Confirm resource & Scoping study	Identify start up area Lock in technology	Commence trial burn Small scale electricity generation	Feasibility and process design	Approvals and commercial plant design

Investors should note that funds raised under this Prospectus will be applied to completing Stage 1. At the completion of Stage 1, the MetroCoal Board will review and assess the exploration results generated from its exploration program to determine whether the quantity and quality of those results warrant embarking on Stage 2 and Stage 3 of the MetroCoal development strategy. Investors should refer to Section 9 (Risk Factors) of this Prospectus and in particular the exploration and evaluation risks.

The development schedule shown above recognises that extensive work will be required to explore for and identify areas that meet the criteria including reserves of adequate quantity, quality and seam continuity for underground mining and in the case of UCG, a geological environment that enables the controlled combustion of the coal and provides absolute protection for the environment.

03 METROCOAL PROJECT SUMMARY

3. UNDERGROUND MINING POTENTIAL

Behre Dolbear Australia, following its review of the MetroCoal tenements has concluded in its independent report (refer Section 6) that *“there is the potential for the definition of highly prospective areas to be delineated for further exploration programmes to measure coal resources and possible reserves in accordance with the JORC Code. From early work by the Department and isolated and randomly-located drillholes, there is information (insufficient at this stage to define resources) that indicates the presence of marketable coal products. The extent and quantum will need to be delineated through drilling.”*

MetroCoal's tenements host attractive coal deposits suited to conventional mining operations producing export quality thermal coal. There are a number of well known deposits in operation, with granted mining leases or subject to mining lease applications immediately adjacent or close to MetroCoal's tenements. The coal seams in these areas are known to continue into MetroCoal's tenements dipping gently to the West and South-West.

The principal target seam, the Macalister Upper, has a distinct signature in the wire line logs and can be identified in the holes drilled by the Company and also in most of the holes drilled and logged in earlier exploration programs by other companies. The Macalister Upper seam thickness is typically between 2m and 4.5m.

The Macalister Middle and Lower seams are also present over much of the area and where these seams coalesce with the Macalister Upper they present a composite target in the order of 12m thick.

A report commissioned by the Australian Coal Industry Research Laboratory evaluating the geotechnical attributes of the Macalister Upper seam and its immediate roof and floor strata indicate that underground mining conditions will be quite manageable and suited to longwall mining.

The Company's tenements, extending from at or near the boundaries of known opencastable areas, are expected to contain areas where the coal seams are suited to underground mining techniques including “bord and pillar” and longwall mining.

Advances in the development of underground coal mining technologies, such as continuous haulage in bord and pillar operations and enhancements to modern longwall mining equipment has improved mining economics such that previously stranded coal resources can become economic.

Currently MetroCoal expects to focus underground mining in the shallower areas of the tenements to take advantage of lower access costs and more amenable geotechnical mining conditions. Longwall mining heights are also expected to remain within the height range dictated by the typical Macalister seam thickness. Preliminary discussions with potential joint venture partners indicate that other high extraction mining methods may be viable in the thicker, deeper seams, for example, the top coal caving technique. These opportunities will be considered in the future.

It is MetroCoal's intention, subject to feasibility, financing and regulatory approvals, to ultimately develop a mining operation with an export coal capacity.

Implementation of conventional underground mining operations will not conflict with the Company's UCG plans. UCG is planned in the deeper areas, typically with thicker coal seams, and current target areas for conventional mining and UCG are generally remote from each other. In the future the Company will ensure that all UCG and conventional mining operations are separated by distances adequate to prevent any possibility of operational interaction.

4. UNDERGROUND COAL GASIFICATION POTENTIAL

UCG is a method of exploiting underground coal deposits, without mining, typically 150-350 metres below surface. Coal is heated insitu using hot air or steam, converting coal to synthesis gas (syngas). Syngas is composed predominantly of carbon monoxide (CO), hydrogen (H₂), carbon dioxide (CO₂) and methane (CH₄) and can be used directly in power generation or can be converted into high value clean liquid fuels and chemicals.

UCG offers high recovery levels of energy from coal seams together with the opportunity to access otherwise untapped coal seams in an environmentally sustainable process. Subsequent processing of the syngas, offers Australia another source of liquid fuels potentially

providing improved energy security and substantial savings in foreign exchange. Most UCG processes are “carbon capture ready” and ideally suited to benefit from Carbon Capture and Storage technology (CCS).

UCG does not involve mining, has a limited impact on the surface and environmental controls ensure any local sub surface aquifers are not adversely affected. With the growing demand for more low impact use of coal deposits, increased energy consumption and increasing oil prices, UCG will have significant advantages into the future.

Coal seams with a minimum thickness of 3m at depths greater than 150 metres below surface are considered amenable to gasification. The Macalister seam package presents an ideal opportunity for UCG within MetroCoal’s tenements with attractive seam thickness of up to 12m, where the Upper, Middle and Lower seams coalesce, at depths of up to 400m. These coal seams have previously been considered uneconomic as they are too deep to surface mine and Surat Basin coal seams historically were not seriously considered for underground mining.

MetroCoal has been focused on the exploration and development of resources suitable for UCG within the Juandah Project Area (MDL(A) 406. In April 2009, MetroCoal completed an extensive exploration program in Juandah that resulted in the following resource:

JORC Resource	Tonnage (Mt)
Inferred	149
Indicated	22.5
Total	172

The coal seam working thickness in Juandah is typically between 3m and 5m with some areas up to 12m thick occurring at depths between 180m and 330m, which are ideally suited to UCG operations.

Currently there are two UCG demonstration plants operating in Australia, both in the Surat Basin. They are operated by Linc Energy Limited (ASX – LNC) and Carbon Energy Limited (ASX – CNX). Cougar Energy Limited (ASX – CXY) has announced that they plan to commence syngas production at their site located near Kingaroy and the Tarong Power Station in early 2010.

The Company’s strategy for UCG is the production of syngas. Initial syngas production is planned for small scale power generation. This allows initial gas production to be used to create revenue while developing economically more attractive processes, including conversion to high quality clean liquid fuels including methanol, diesel or high value chemicals such as ammonium nitrate.

A number of potential UCG technology providers, both for the UCG process and subsequent syngas conversion are emerging as the technology gains national and international momentum. MetroCoal plans to continue work on exploration and resource definition while considering opportunities for joint ventures and technology alliances. It is also possible that MetroCoal will elect to develop an internal UCG capability.

This strategy recognises the early stage of the Company’s development by keeping options open into the future and allowing it to take advantage of new developments in technology as they emerge.

Other target areas that potentially contain coal resources suitable for UCG within the Company’s tenements have been identified. These areas are overlapped by tenure held by other companies under the Petroleum and Gas (Production and Safety) Act 2004. Issues raised by this overlapping tenure are dealt with fully in Section 9 Risks.

5. METROCOAL TENEMENTS AND TARGET AREAS

The major economic coal deposits in the Surat Basin occur in the Juandah and Taroom coal measures. MetroCoal is targeting the Macalister seam package, made up of the Macalister Upper, Middle and Lower seams. This seam package, contained within the Juandah Coal measures, has been targeted by MetroCoal because it presents the most attractive mining target. The Macalister seams are shallower than the Taroom seams and, importantly, the Macalister Upper seam is continuous and correlateable over most of MetroCoal tenements. Seam thickness is generally between 2m and 4.5m, ideal for underground long wall mining.



03 METROCOAL PROJECT SUMMARY

Extensive areas where the Macalister Upper, Middle and Lower seams coalesce are also expected. In these areas the composite seam thickness may be as much as 12m thick presenting very attractive mining and UCG targets.

MetroCoal's immediate priority is to focus on the exploration and development of its conventional thermal coal projects.

Wandoan West (EPCs 1164/1251 & MDL(A) 406)

Wandoan West EPCs 1164/1251 and MDL(A) 406 are located at the northern end of the Surat Basin across the Mimosa Syncline and comprise a combined 234 sub blocks (721km²) located west of Wandoan. The tenements cover the Walloon sub-group immediately down dip from large open cut thermal coal deposits such as Xstrata's Wandoan and Northern Energy's Elimatta deposits. MetroCoal has confirmed the Walloon sub-group is continuous along and down dip from these known deposits into the Wandoan West tenements by completing two drilling programs and a review of historical exploration data.

Historic exploration data was derived from 'open file' company progress and relinquishment reports from ten previous Exploration Permits for Coal which wholly or partially covered sub-blocks of EPC 1164 Wandoan West. A number of oil & gas well reports are available which were also drilled within the project area.

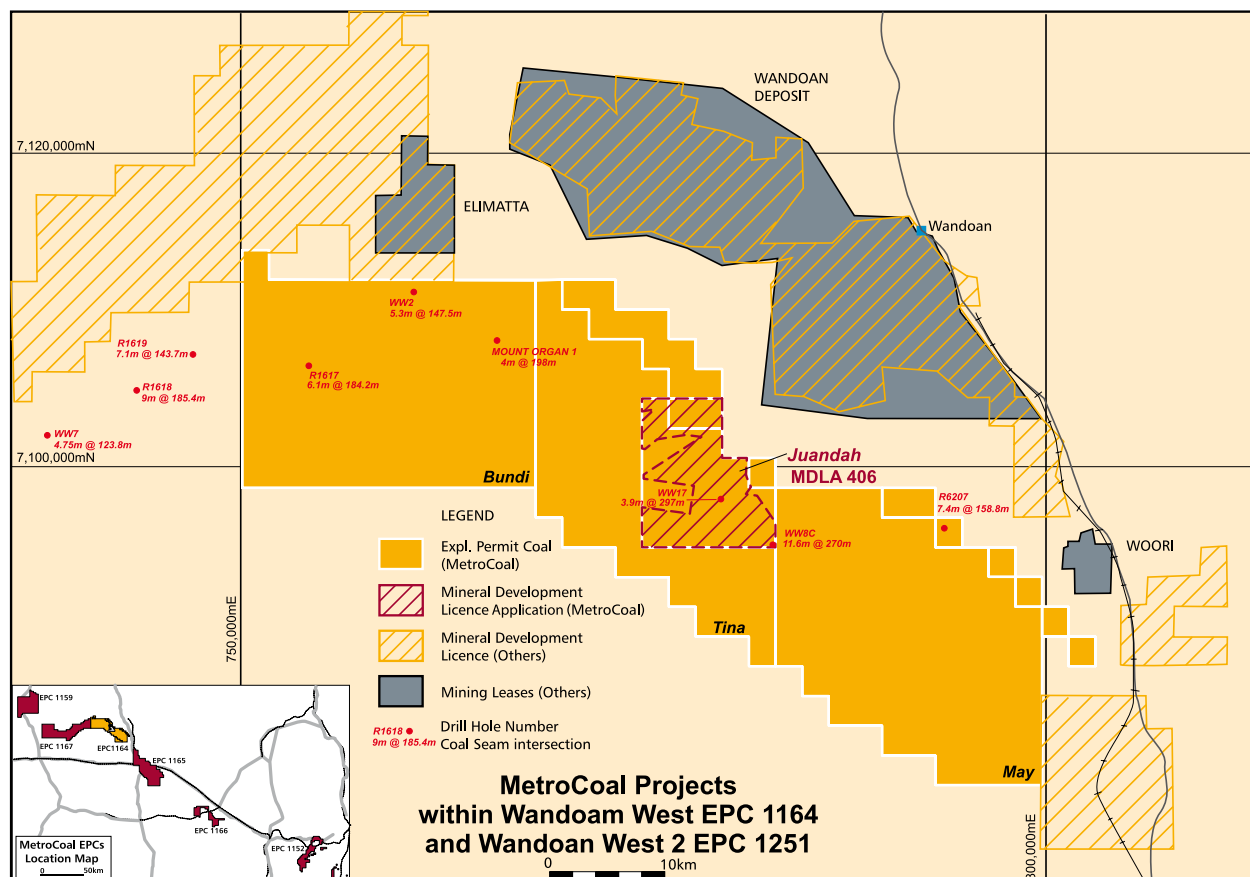
The 2008 MetroCoal drilling program was a wide spaced reconnaissance program consisting of seven (7) holes for 1,684m drilled. Drilling focused on the Macalister seams at or about 150m depth. The Macalister Upper seam was identified in all holes and appears to be laterally extensive and consistent with typical seam thicknesses of between 2m and 4.5m.

The 2009 MetroCoal drilling program consisted of sixteen (16) holes totalling of 4,893m. Drilling focused on the Macalister seams within the Juandah Project to define a resource suitable for UCG. A UCG resource of 172Mt was delineated over the Macalister Upper seam, of which, 149Mt was categorised Inferred and the balance of 22.5Mt as Indicated within the JORC categories.

Project Area	Comment	Exploration Target Range*
MDL(A) 406 Juandah 6,483 Ha	• Non overlapping Petroleum & Gas tenure window. • There is resource of 172Mt, (149Mt Inferred and 22.5Mt Indicated) and scope for an increase in resource • Up to 12m working sections as seen in hole WW8C.	225Mt to 275Mt
Bundi 24,000 Ha	• The down dip extensions of Northern Energy's 'Elimatta' deposit. • The 2008 MetroCoal drill hole WW2 intersected 5.3m of Macalister Upper and WW5C intersected 7.2m of coalesced Macalister seam. • A geological model has been generated using new and historic drilling data.	240Mt to 335Mt
Tina 16,610 Ha	• Available geological data is restricted to CSG wells which all show significant intersections of Macalister seam.	165Mt to 230Mt
May 24,950 Ha	• Covered by granted PLs and is considered an underground mining target. • CSG wells have identified significant coal intersections such as Woleebee East 1 which intersected 11.5m of coalesced Macalister seam.	250Mt to 350Mt
Total Exploration Target Range		880Mt to 1,190Mt

* Under the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (Paragraph 18) the Company is required to make the following statement with regard to Exploration Targets - the potential quantity and quality is conceptual in nature, and that there has been insufficient exploration to define a Mineral Resource or Ore Reserve and that it is uncertain if further exploration will result in the determination of a Mineral Resource or Ore Reserve.

Figure 3: MetroCoal's Wandoan West Projects



Columboola (EPC 1165 & MDL(A)s 417, 418 & 419)

EPC 1165 Columboola is centrally located in the Surat Basin in South East Queensland. MetroCoal is targeting the Juandah and Taroom coal measures within the Jurassic Walloon Sub-group.

Columboola EPC 1165 consists of 294 sub blocks (902 km²) located west of Chinchilla and surrounds the town of Miles. The tenement strategically covers the Juandah Coal Measures from 100m to 400m depth. Columboola was considered attractive for exploration as it covers the down dip extensions of the identified Juandah Coal Measures currently forming the coal resource seams of the Cameby Down, Rywung and Sefton Park deposits.

The project area is directly over the existing railway proximal to the future proposed expansion of the Queensland Rail service (in this case the Surat to Gladstone Link) and associated infrastructure which would enhance the economic viability of coal resources within the permit area.

Historic exploration data was derived from 'open file' company progress and relinquishment reports from 14 previous Exploration Permits for coal which wholly or partially covered sub-blocks of EPC 1165 Columboola. A number of oil & gas well reports are available which were also drilled within the project area.

MetroCoal has identified that the Macalister Seam of the Walloon sub-group is continuous along and down dip to within EPC 1165 area using historical data. Exploration Targets have been generated from the review of historical data and three (3) MDL Applications Elle, Kay and Jay have been submitted over petroleum tenure windows within the EPC.

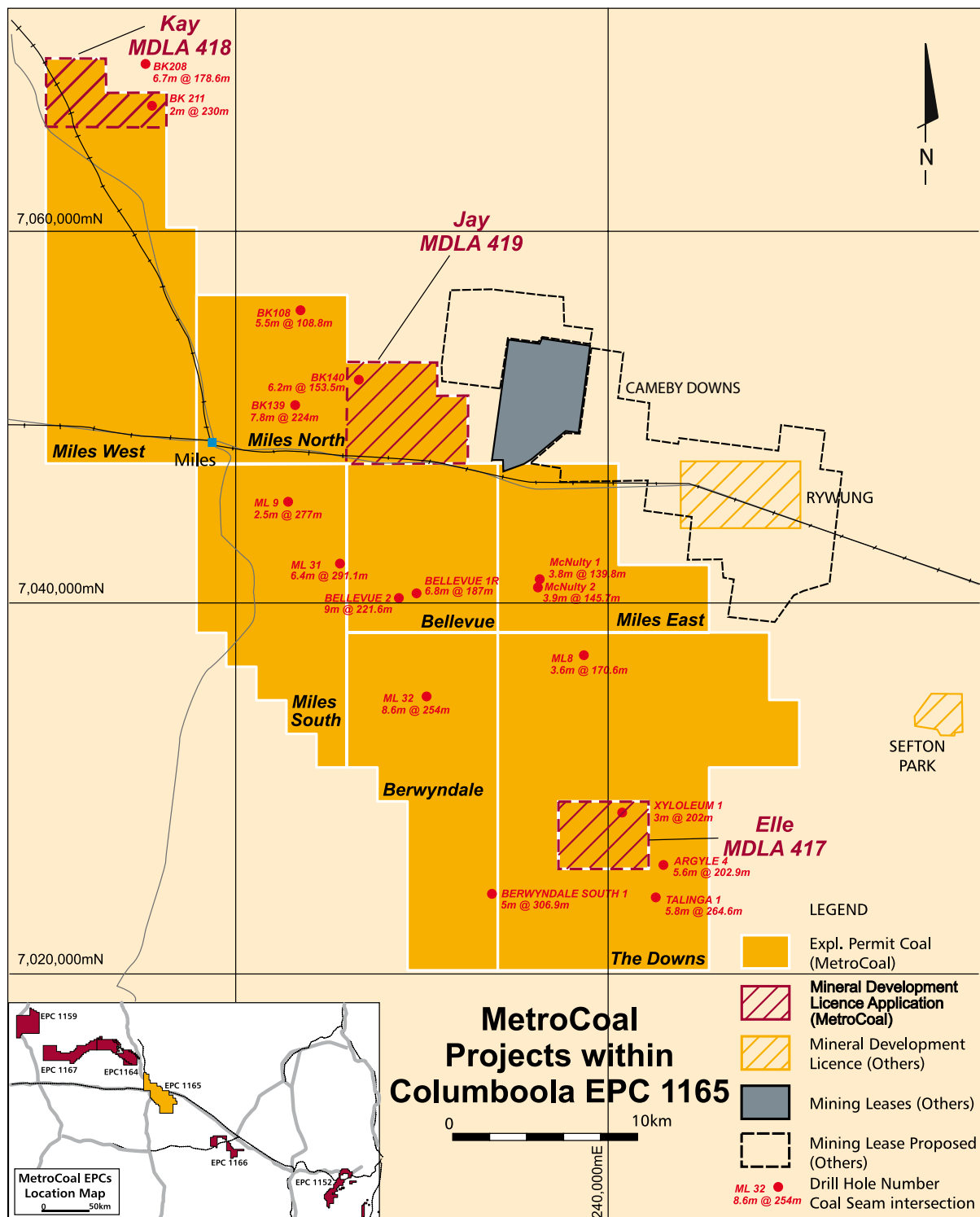
03 METROCOAL PROJECT SUMMARY

Columboola Project Areas

Project Area	Comment	Exploration Target Range*
Elle MDL(A) 417 1839 Ha	- Elle is located near the south east corner of the tenement and is adjacent the Talinga and Argyle CSG fields. - One oil & gas well, 'Xyloleum 1' (CR 12878) has been drilled, with an interpreted Macalister Upper seam pick of ~3m is discernable at 202m depth.	30Mt to 45Mt
Kay MDL(A) 418 1837 Ha	- Kay is located north of Miles and forms the northern component of EPC 1165. - The Macalister Seam is poorly tested in places and hole BK 211 (CR 10079) intersected a package of Macalister Upper 3.9m thick at 230m depth.	30Mt to 45Mt
Jay MDL(A) 419 4254.8 Ha	- Jay is located immediately west of the Cameby Downs deposit on the northern side of the Warrego Highway. - The Macalister seam thickens in places and hole BK 140 (CR 8695) intersected a package of Macalister Upper 6.2m thick at 153.5m depth.	50Mt to 70Mt
Miles North 11,050 Ha	- Miles North is the western down dip extension of the Cameby Downs Deposit - Interpreted Macalister Upper has been intersected by 2 drill holes, holes BK139 and BK 140 (CR 8695). - Scope for an extension of this area is to the immediate north as historical drilling did not penetrate the Macalister seams and it is poorly tested within this area.	60Mt to 85Mt
Miles East 7,977 Ha	- This area is the southern extension of Cameby Downs and the south west extension of the Rywung deposits. - CSG wells McNulty 1 (CR 33634) and McNulty 2 (CR 33575) intersected 4m of Macalister Upper at 140 and 146m. - Further west, CSG wells of the Bellevue area intersected up to 8m of Macalister Upper from 186m. - This area falls into the underground mining window with some scope for UCG.	65Mt to 90Mt
Miles West 16,280 Ha	- Poorly explored area. - Some CSG wells have been drilled and geological data is yet unavailable.	70Mt to 100Mt
Miles South 10,670 Ha	This project area lacks available geological data and is immediately adjacent and down dip of the Bellevue and Berwyndale CSG fields	55Mt to 75Mt
Bellevue 7,688 Ha	- Bellevue is south east of Miles and currently being developed as an operational CSG field. - Thick and correlateable coal seams have been identified from CSG well reports of with ~9m seams (Bellevue 2 - CR 33572) identified. - Suitable for underground mining exploitation following degassing of the coal seams. - Significant gas wells have been completed and the field is operational and upon completion of CSG production, a defined coal resource and degassed coal seams will be available for underground mining.	110Mt to 155Mt
Berwyndale 11,950 Ha	- Berwyndale occupies the south west portion of the tenement and covers the Berwyndale and Berwyndale South CSG fields currently in production. - Significant gas wells have been completed and the field is operational and upon completion of CSG production, a defined coal resource and degassed coal seams will be available for underground mining.	180Mt to 250Mt
The Downs 22,680 Ha	- Predominantly covered by granted PLs and contains portions of the Talinga and Argyle CSG fields. - Potential underground mining area.	180Mt to 250Mt
Total Exploration Target Range		830Mt to 1,165Mt

* Under the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (Paragraph 18) the Company is required to make the following statement with regard to Exploration Targets - the potential quantity and quality is conceptual in nature, and that there has been insufficient exploration to define a Mineral Resource or Ore Reserve and that it is uncertain if further exploration will result in the determination of a Mineral Resource or Ore Reserve.

Figure 4: MetroCoal's Columboola Projects



03 METROCOAL PROJECT SUMMARY

Dalby West (EPC 1166)

EPC 1166 Dalby West is located at the south eastern end of the Surat Basin adjacent to the Kumbarella Ridge which forms the boundary with the Moreton Basin. It consists of 97 sub-blocks (296km²) located west of Dalby. The tenements cover the Walloon sub-group immediately down dip of Peabody's large open cut thermal coal deposit Wilkie Creek. MetroCoal has confirmed the Walloon sub-group is continuous along and down dip from this deposit into EPC 1166 following a review of historical exploration data.

Historic exploration data was derived from 'open file' company progress and relinquishment reports from eleven previous Exploration Permits for Coal which wholly or partially covered sub-blocks of EPC 1166 Dalby West. A number of oil & gas well reports are available which were also drilled within the project area.

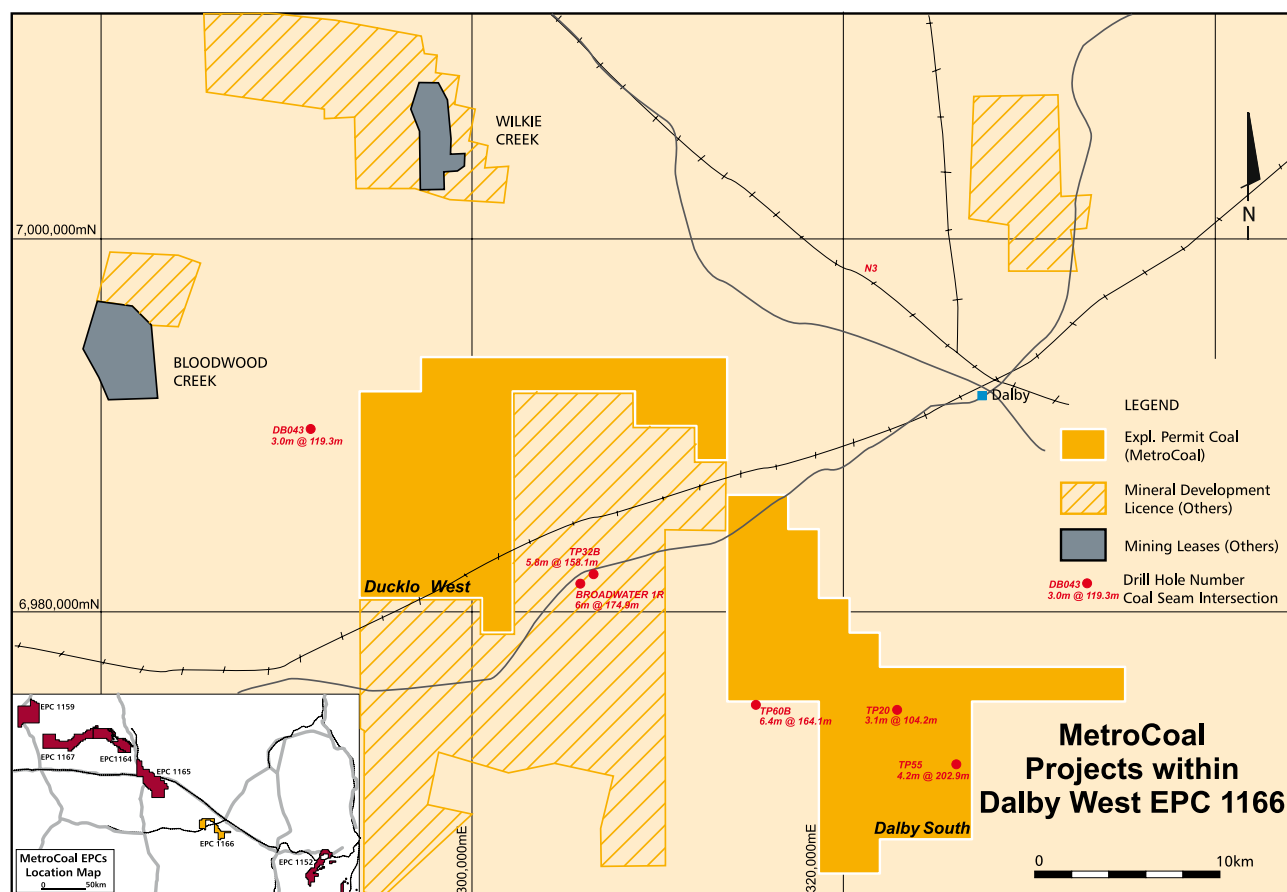
Dalby West is strategically located adjacent to Carbon Energy's UCG Bloodwood Creek Deposit, Linc Energy's UCG Dalby Deposit and south of Peabody's Wilkie Creek Deposit.

Also, adjacent to EPC 1166 Dalby West is the established CSG resources of Tipton and Daanine, which produce methane from the targeted Walloon sub-group and have established a considerable extent of continuous Juandah Coal Measures.

Project Area	Comment	Exploration Target Range*
Ducklo 13,740 Ha	• Ducklo forms the western portion of the tenement and is relatively untested by coal exploration. • Historic drilling has identified significant coal intersections immediately adjacent to the project area on all sides. • There is high potential for significant coal resources within this target area and therefore has a high priority. • No historical drilling has been identified within this area and with known coal occurrences along strike	80Mt to 110Mt
Dalby South 15,870 Ha	• Dalby South forms the eastern portion of the tenement and has significant historical exploration. • The Macalister Seam is too shallow for UCG and this area would be considered as a potential underground resource. • The Tipton CSG field encroaches onto the western edge of this area.	80Mt to 110Mt
Total Exploration Target Range		160Mt to 220Mt

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Figure 5: MetroCoal's Dalby West Projects



Roma North (EPC 1167)

EPC 1167 Roma North covers the western limb of Mimosa Syncline of the prospective Walloon sub group where the Macalister Seam is between 100m and 400m in depth. It consists of 289 sub-blocks (890km²) located west of Wandoan and north of Roma. The tenements cover the Walloon sub-group immediately down dip of Xstrata's open cut thermal coal deposits of Glen Arden and Pony Plains. MetroCoal has confirmed the Walloon sub-group is continuous along strike and down dip from this deposit into EPC 1167 following a review of historical exploration data.

Historic exploration data was derived from 'open file' company progress and relinquishment reports from nineteen previous Exploration Permits for coal which wholly or partially covered sub-blocks of EPC 1166 Dalby West. A number of oil & gas well reports are available which were also drilled within the project area.

Within EPC 1167 Roma North is the established Queensland Gas Company coal seam gas project of Lacerta, which produce methane from the targeted Walloon sub-group and have established a considerable extent of continuous Juandah Coal Measures.

The MetroCoal 2008 exploration program completed one hole (WW7) within EPC 1167 and intersected a 10.3m thickened and coalesced Macalister Seam within the 'Norwood' Project area.

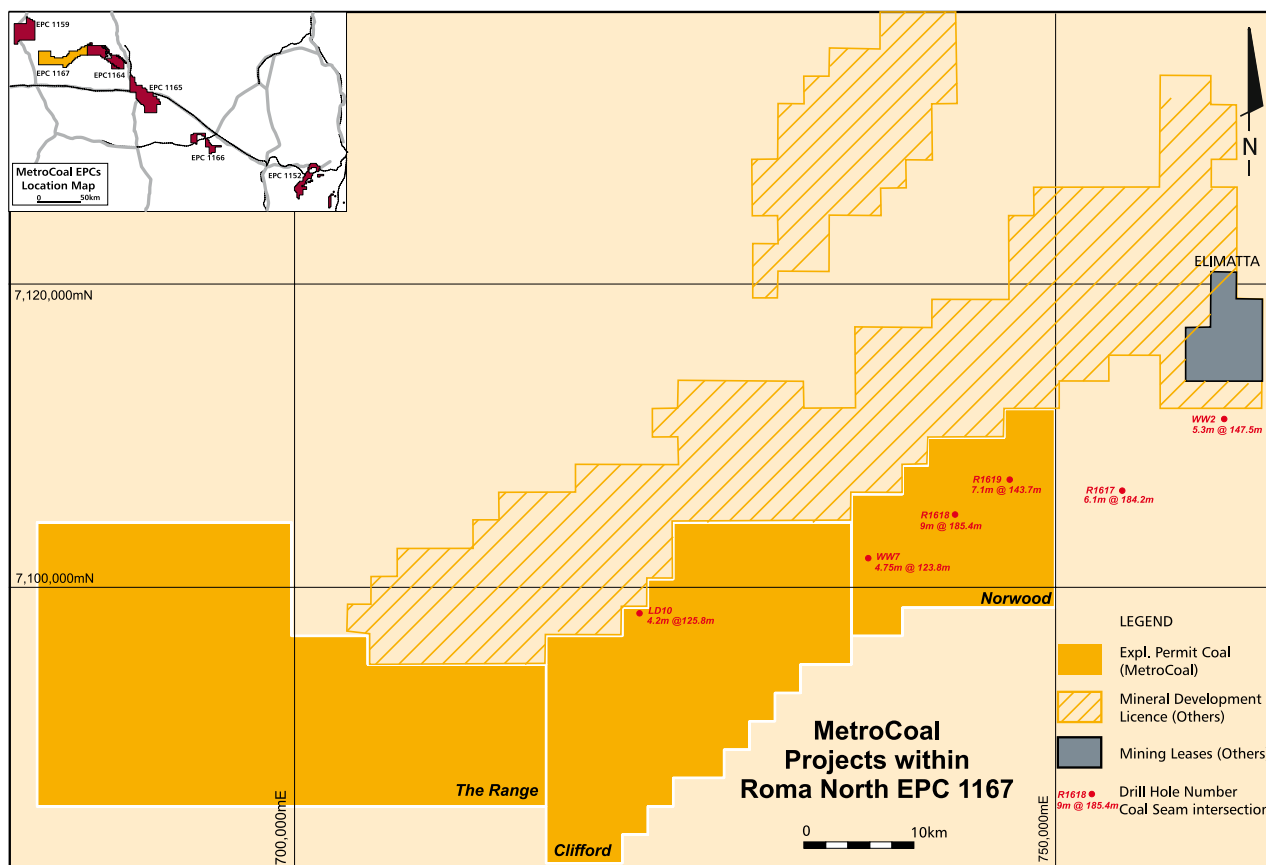
03 METROCOAL PROJECT SUMMARY

Roma North Projects

Project Area	Comment	Exploration Target Range*
Norwood 14,490 Ha	- Currently within the MetroCoal geologically modelled area. - It is contiguous with Bundi Project within the adjacent EPC 1164 Wandoan West tenement. - Usable historic drilling is available with good intersections of Macalister Seams such as hole R1618 (CR 11258) which intersected 9m of the Macalister Upper seam. - Infill drilling should bring this project area to resource status.	150Mt to 210Mt
Clifford 27,410 Ha	Clifford is considered the second highest priority area after Norwood based on available drill spacing.	220Mt to 310Mt
The Range 47,140 Ha	- The Range is the western half of the Roma North tenement and contains the 'Lacerta' coal seam gas field. - Available geological drilling log data is limited within this area.	235Mt to 330Mt
Total Exploration Target Range		605Mt to 850Mt

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Figure 6: MetroCoal's Roma North Projects



Injune Creek (EPC 1159)

EPC 1159 Injune Creek comprises 237 sub-blocks (732km²) and is situated at the north western end of the Surat Basin in South East Queensland and is approximately 70km north of the regional centre of Roma.

Injune Creek was considered attractive for exploration as it covers the sub-crop of the highly prospective Juandah and Taroom Coal Measures of the Walloon sub-group of the Surat Basin.

Coal deposits have been located nearby at Munya, Ninderra and Bymount. The historic Injune Colliery, located within the tenement was developed in 1933 to supply locomotive coal for the Western Rail Line from Roma to Cunnamulla. The project area is located proximal to existing railway infrastructure, with an established link to the Port of Brisbane.

Historic exploration data was derived from 'open file' company progress and relinquishment reports from nine previous Exploration Permits for Coal which wholly or partially covered sub-blocks of EPC 1159 Injune Creek. A number of oil & gas well reports are available which were also drilled within the project area. Taringa Well 1 (QDEX - CR 42969) intersected 5.75m net coal within the Taroom Coal Measures from 21.5m. More recent CSG exploration has become available which has deeper intercepts of coal, hence more suitable for UCG exploration.

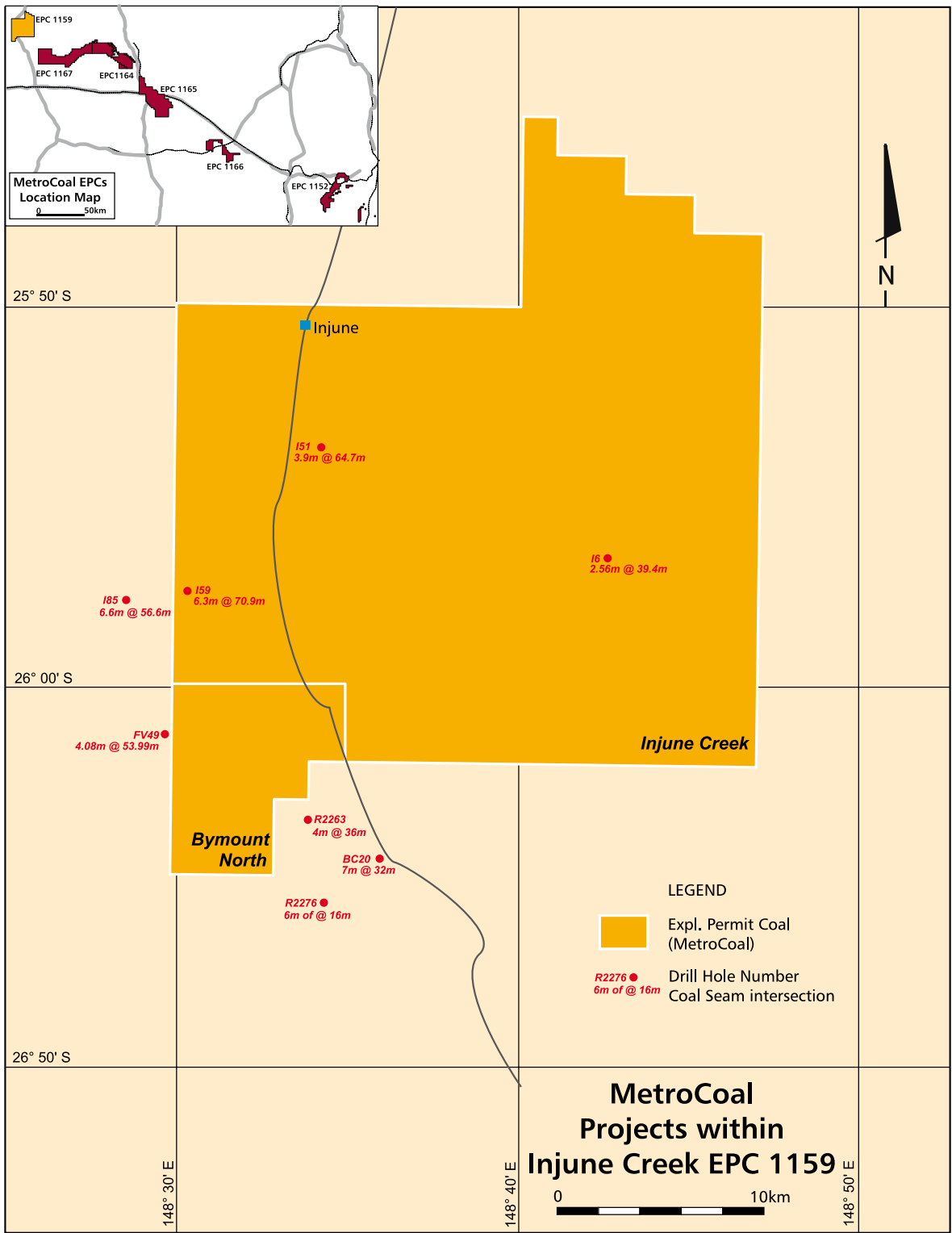
Project Area	Comment	Exploration Target Range*
Bymount North 6,710 Ha	• Infill drilling will bring this project area to resource status. • Relatively untested area of sub cropping Juandah Coal Measures. • Along strike from the Bymount Coal Deposit	30Mt to 40Mt
Total Exploration Target Range		30Mt to 40Mt

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03 METROCOAL PROJECT SUMMARY

Figure 7: MetroCoal’s Injune Creek Projects



Lockyer Valley (EPC 1152)

The Ipswich Project consists of 150 sub-blocks (456km²) located at the eastern end of the Moreton Basin in South East Queensland south west of the city of Ipswich. MetroCoal is targeting the Walloon Sub Group, historically and locally known as the Walloon Coal Measures within this area.

EPC 1152 encircles the known coal deposits referred to as the West Moreton Coal District which contains the Ebenezer, New Oakleigh and Jeebropilly Collieries. The project area is located proximal to existing railway infrastructure with established links to the Port of Brisbane.

Historic exploration data was derived from 'open file' company progress and relinquishment reports from seventeen previous Exploration Permits for Coal which wholly or partially covered sub-blocks of EPC 1152 Lockyer Valley.

There is scope to delineate an UCG resource at the southern end of tenement as the Walloon coal measures plunge to UCG depths along the Warrill Creek Syncline.

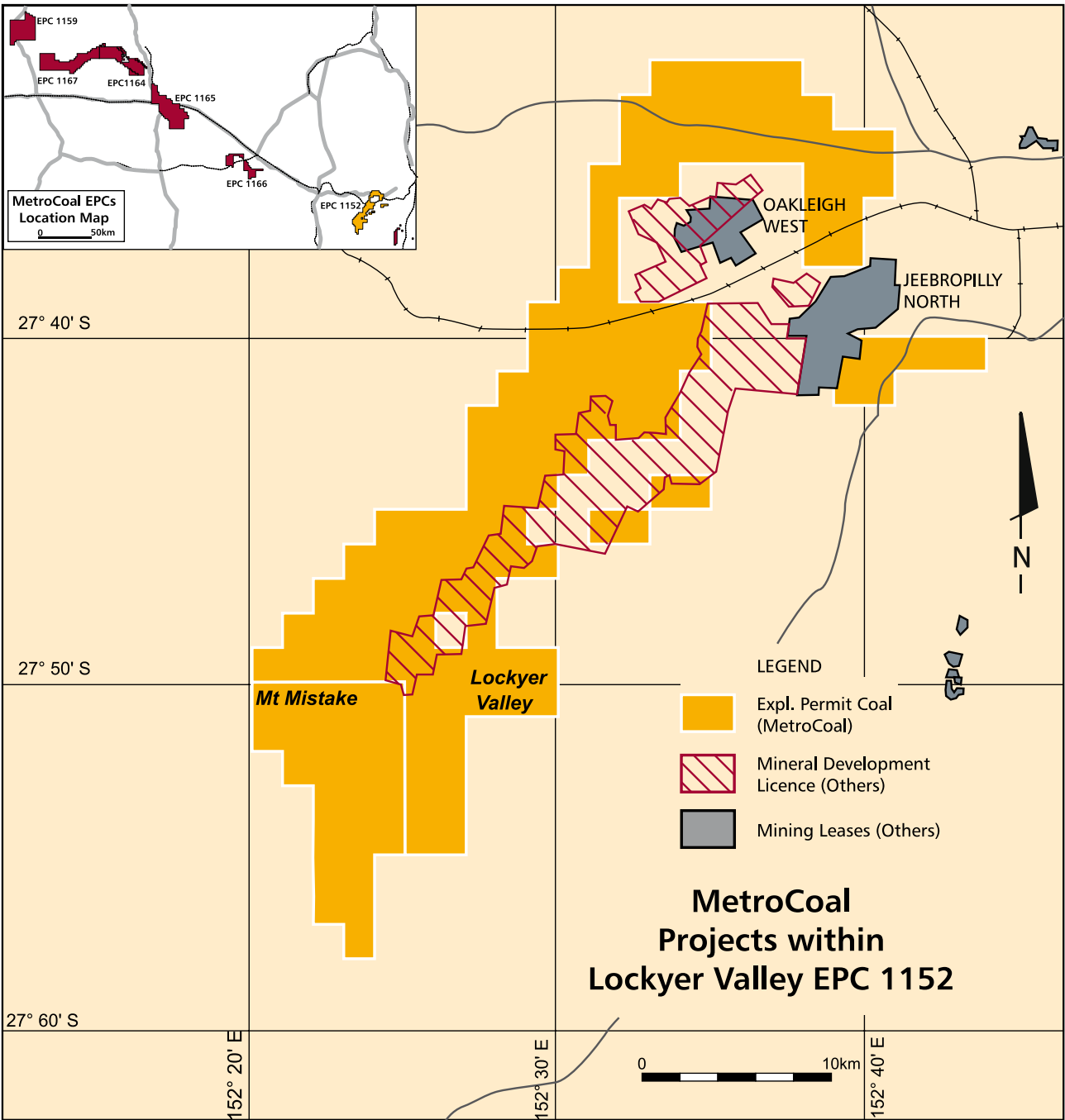
Project Area	Comment	Exploration Target Range*
Mount Mistake 7,584 Ha	• Mount Mistake is at the southern end of tenement as the Walloon Coal Measures plunge to UCG depths along the Warrill Creek Syncline. • This area is also free of overlapping petroleum tenure and untested	25Mt to 35Mt
Total Exploration Target Range		25Mt to 35Mt

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03 METROCOAL PROJECT SUMMARY

Figure 8: MetroCoal’s Lockyer Valley Projects





04

EXPLORATION OBJECTIVES AND BUDGETS

4.1 OBJECTIVES

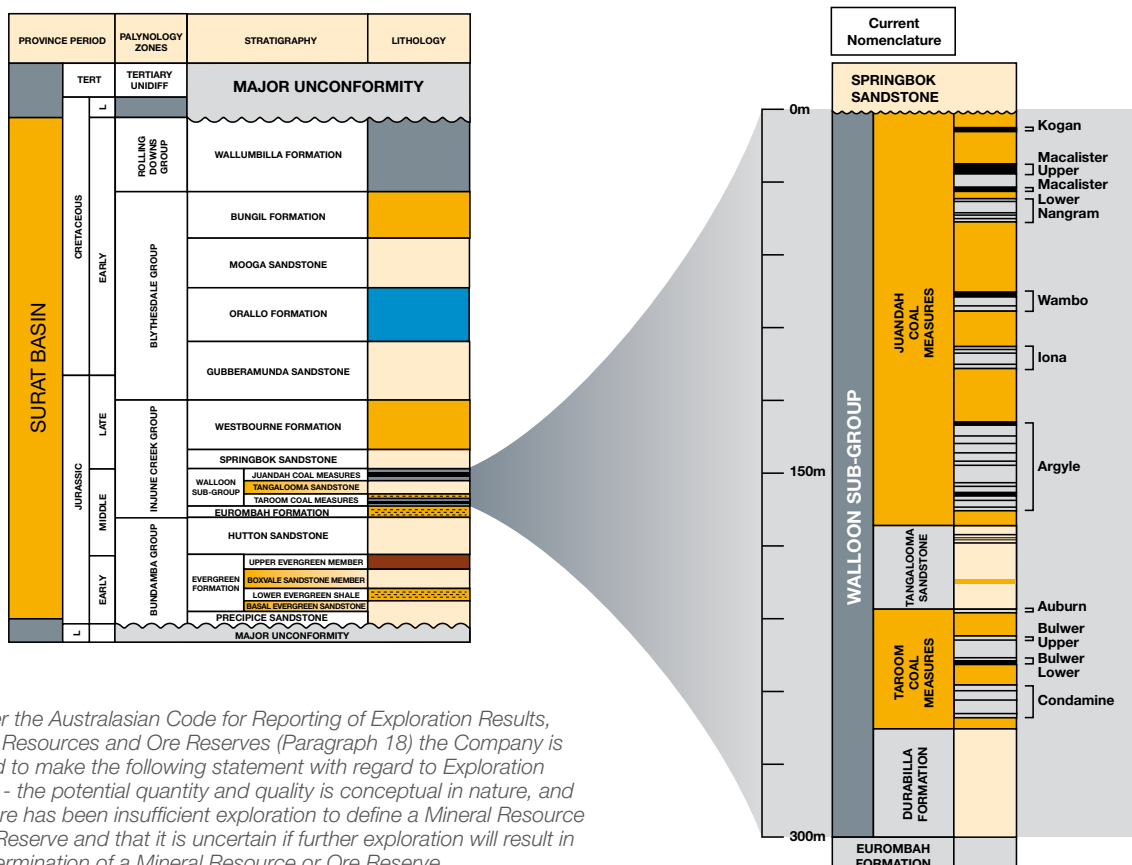
The Company has Exploration Targets* for thermal coal ranging from between 2.5 and 3.5 billion tonnes. An exploration program that includes drilling both “open” and “cored” holes with coal quality analysis and 2D seismic surveys is planned to be carried out during 2010 and 2011.

Part of the exploration program will be focused within the Juandah Project area MDL(A) 406 where coal seams occur at depths and thicknesses ideally suited to UCG and where there is no overlapping tenure issued under the Petroleum and Gas (Production and Safety) Act of 2004. This exploration is expected to increase the current Juandah resource substantially, from the current 172Mt resource (149Mt Inferred and 22.5Mt Indicated) to between 225Mt and 275Mt.*

The major economic coal deposits in the Surat Basin occur in the Juandah and Taroom coal measures within the Walloon sub-group. Figure 9 below shows the stratigraphy of the Surat Basin in general, the Walloon Sub group in particular, the Macalister coal seams.

MetroCoal is targeting the Macalister seam package, made up of the Macalister Upper, Middle and Lower seams. This seam package, contained within the Juandah coal measures, has been selected because it presents the most attractive mining target. It is shallower than the Taroom seams and, importantly, available geological data confirms that the Macalister Upper Seam is continuous and correlateable over most of MetroCoal tenements with variable coal seam thickness generally of predominantly between 2m and 4.5m, ideal for underground longwall mining.

Figure 9: Surat Basin Stratigraphy



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The Macalister Seam package is readily identifiable in nearly all current and historical drill holes with its unique geophysical signature. MetroCoal has already completed two exploration drilling programs since establishing granted exploration tenements in late 2007. The first exploration program in 2008 within the Wandoan West and Roma North tenements comprised seven widely-spaced holes over some 50 kilometres of strike confirming the continuity and correlation of the Macalister Seam package across the tenements. The second exploration program in 2009 focused on the Juandah Project area and established a resource suitable for UCG of 172Mt (149Mt Inferred and 22.5Mt Indicated). Geological information gathered in these programs together with historic public domain data has given MetroCoal a sound understanding of the geological environment and relevant seam structure within the MetroCoal tenements.

Extensive areas where the Macalister Upper, Middle and Lower seams coalesce are also expected. In these areas the composite seam thickness may be as much as 12 metres thick presenting very attractive mining and UCG targets. The bulk of the resource will be suited to either conventional underground mining or UCG. Some areas of opencast mineable coal are expected along the northern and eastern boundaries of the EPCs where the coal seams are generally at their shallowest.

ACHIEVING THESE OBJECTIVES

The Company believes it can achieve its Exploration Target objective by the end of the planned two year exploration program as follows:

Exploration Target Identification

MetroCoal has reviewed existing geological data, including borehole logs and seismic surveys and has used this information to gain an understanding of the target seam depth and thickness within the tenements. The tenements have been subdivided into discrete project areas and each project area has been ascribed an Exploration Target tonnage. These project areas and corresponding Exploration Target are described in the previous section.

The exploration program will be prioritised to deliver the best outcome.

Seismic Data Review and Acquisition

Seismic data is expected to provide valuable information on seam depth, continuity and structure to enable improved seam correlation and geological modelling. Historic seismic data is available and will be augmented by new seismic surveys in key areas. Where practical, historical seismic surveys will be 'reprocessed' to better define the target Macalister Seams.

A relatively inexpensive seismic survey technique known as "MiniSosie" will be trailed in conjunction with the exploration drilling to assess its practicality and cost effectiveness as a regional exploration tool. If successful, seismic survey programs will be expanded to better define future drilling targets.

Data Review and Geological Modelling

Several phases of data review and target prioritisation have been completed based on historical drilling data where coal thickness and proximity to other nearby holes was used to generate discrete target areas.

Target prioritisation will be enhanced following the reinterpretation of historical data augmented with recently acquired exploration data to provide the basis for better defined seam picks for uploading into a larger geological model.

Geological modelling has commenced within the Wandoan West and Roma North tenures, and this will be significantly expanded to include all MetroCoal's tenures. A geological model will be gridded to allow an accurate layout for targeting increased drilling density to improve resource estimation.



04 EXPLORATION OBJECTIVES AND BUDGETS

Exploration Drilling

A drilling program totalling between 25,000m and 30,000m is planned to be conducted over the first two years. This drilling will be designed to increase drill density of prioritised target areas as determined during the data review and geological modelling. This drilling will be based on available usable historic drilling, coal seam gas (CSG) wells and MetroCoal's 2008 and 2009 drilling programs.

Drilling will be predominantly rotary percussion which enables relatively fast and efficient testing. Contingent on drilling results, some holes will be "twinning" to collect core samples for coal quality analysis and to allow an increase in geological confidence for future resource estimation to be categorised as Inferred or better.

The Macalister Seam within the Juandah coal measures is the primary target seam although the other Juandah seams and stratigraphically lower Taroom seams will be periodically tested.

Drilling procedures will be based upon industry standard procedures and practises to ensure all appropriate drilling information is captured and all data is reliable for resource estimation for both conventional coal and UCG.

Wireline Logging

All drill holes will be wireline logged to ensure the maximum geological information is recovered and to ensure all holes can be used for future resource estimation.

All holes will be logged for density, gamma, calliper and neutron. Dependent upon availability, an Acoustic Scanner may be utilised to capture structural information and sonic to aid in seismic interpretations.

Safety and Environmental Management

Safety and environmental management are of utmost importance to MetroCoal. All operations are carried out under MetroCoal's Safety Management System and Environmental Management Plan. All contractors are required to have their own Safety Management Plans that meet MetroCoal requirements. An Environmental Management Plan has been established and is an evolving document capturing the current EPC conditions, current learning and industry best practice.

Groundwater monitoring will commence with the installation of standpipe piezometers in selected holes. This will enable relevant background to be compiled which will contribute to the future groundwater studies required for any future Environmental Impact Statement programs.

Native Title and Cultural Heritage

All MetroCoal tenements have been granted exclusive of any Native Title claims. As a consequence, there is no requirement for MetroCoal to enter into formal agreement with the Traditional Owners in order to carry out the proposed exploration program.

MetroCoal considers the preservation of items and areas of cultural significant important and will work with the Traditional Owners to ensure that the Aboriginal Cultural Heritage Act 2003 will be complied with. All drilling and other exploration activity is carried out to minimise impacts on Cultural Heritage.

4.2 PURPOSE OF THE OFFER AND PLANNED EXPENDITURE

The purpose of the Offer is to raise funds to:

- (a) Continue to explore and evaluate the Company's coal and energy interests as described in this Prospectus; and
- (b) Provide working capital to meet the ongoing administration costs of the Company.

Pursuant to the offer, MetroCoal will raise between \$8,400,000 and \$10,000,000. It is proposed that these funds will be utilised as set out below.

Exploration planning and execution will evolve and change as targets are tested and projects are delineated based on drilling results, economic potential and ongoing prioritisation.

MetroCoal Exploitation Program and Budget

	Minimum Subscription \$8,400,000			Maximum Subscription \$10,000,000		
	Year 1	Year 2	Total	Year 1	Year 2	Total
INFLOWS						
Funds Raised IPO	8,400,000		8,400,000	10,000,000		10,000,000
Interest	250,000	80,000	330,000	300,000	100,000	400,000
TOTAL INFLOW	8,650,000	80,000	8,730,000	10,300,000	100,000	10,400,000
EXPENDITURE						
Exploration Activities	Year 1	Year 2	Total	Year 1	Year 2	Total
Drilling & Exploration	1,911,000	1,734,000	3,645,000	2,531,000	2,152,800	4,683,800
Seismic Surveys	225,000	235,000	460,000	225,000	235,000	460,000
Environmental, Stakeholder & Cultural Heritage Management	427,000	286,000	713,000	514,000	420,000	934,000
Total Exploration Expenditure	2,563,000	2,255,000	4,818,000	3,270,000	2,807,800	6,077,800
Geological modelling, scoping & feasibility studies	277,000	231,000	508,000	320,000	419,000	739,000
Tenement Management & Field Administration	340,000	200,000	540,000	340,000	200,000	540,000
Working Capital & Administration	890,000	739,950	1,629,950	890,000	739,950	1,629,950
Offer costs	904,050	nil	904,050	1,013,250	nil	1,013,250
TOTAL EXPENDITURE	4,974,050	3,425,950	8,400,000	5,833,250	4,166,750	10,000,000

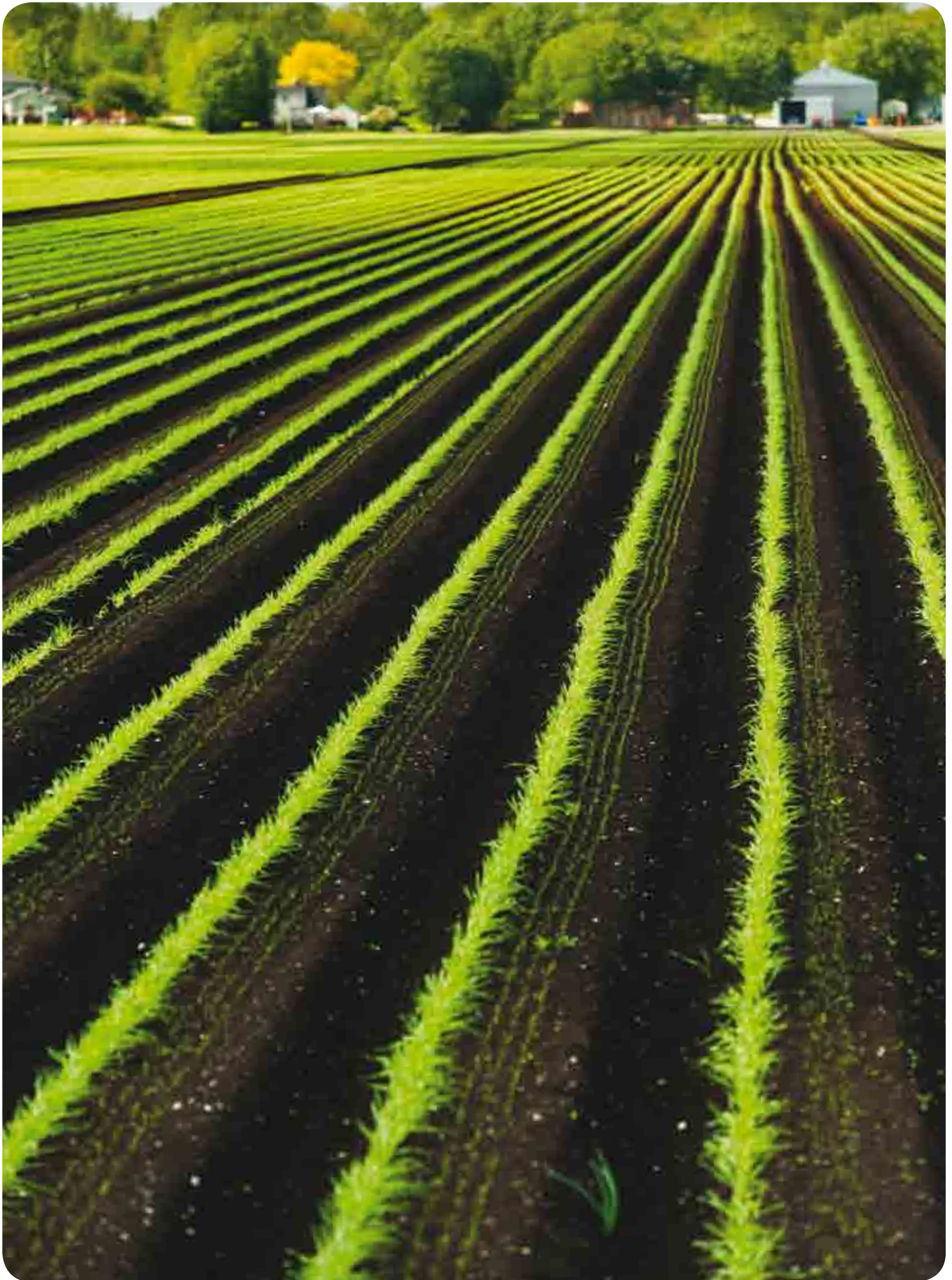


04 EXPLORATION OBJECTIVES AND BUDGETS

The table below shows exploration expenditure delineated into MetroCoal's project areas split by tenement - expenditure as shown excludes tenement management and geological modelling.

Tenement	Project	Minimum Subscription \$8,400,000			Maximum Subscription \$10,000,000		
		Year 1	Year 2	Total	Year 1	Year 2	Total
EPC 1164, 1251 & MDL(A) 406	Wandoan West	950,000	826,000	1,776,000	1,050,000	878,900	1,928,900
EPC 1165 & MDL(A)s 417, 418 & 419	Columboola	760,000	672,000	1,432,000	790,000	658,900	1,448,900
EPC 1166	Dalby West	220,000	240,000	460,000	470,000	390,000	860,000
EPC 1167	Roma North	513,000	397,000	910,000	740,000	560,000	1,300,000
EPC 1152	Lockyer Valley	60,000	60,000	120,000	110,000	160,000	270,000
EPC 1159	Injune Creek	60,000	60,000	120,000	110,000	160,000	270,000
Total Exploration Expenditure		2,563,000	2,255,000	4,818,000	3,270, 000	2,807,800	6,077,800

The planned exploration expenditure program may vary as new results are recieved and new information is generated. Funds allocated as presented could be redirected if deemed appropriate by the Board.



05

UNDERGROUND COAL GASIFICATION

The respected economic forecasting body ABARE has forecast that Australia's consumption of liquid fuels will continue to increase and the gap between domestic production and imports will therefore continue to grow.

Minister Ferguson said "High oil prices and high price volatility will continue to affect Australia's economic outlook, however developments in coal-to-liquids and gas-to-liquids could play a greater role in meeting domestic demand for transport fuels and providing clean diesel and jet fuel to Asia-Pacific markets." (Media release 5 June 2008)

It is in Australia's interests, both strategic and economic, to seek new domestic sources of fuel and energy and UCG is well placed to provide an important base for this new supply.

There is substantial technical and general information available on UCG through various scientific bodies and UCG company web sites. This section provides a brief commentary on some of the salient points of UCG.

1. Overview

Underground coal gasification is the process of exploiting underground coal deposits, without mining, by converting the coal in-situ to synthesis gas (syngas) using various combinations of hot air, oxygen and steam. Syngas is composed mainly of carbon monoxide (CO), hydrogen (H₂), carbon dioxide (CO₂), methane (CH₄) and nitrogen (N₂) depending on a number of factors including the ratio of air, oxygen and steam. The syngas when brought to surface can be used for a number of purposes including directly for power generation or it can be converted into high value clean liquid fuels and chemicals such as fertilisers.

UCG has a number of significant advantages including:-

- The exploitation of otherwise stranded coal seams, freeing up a huge energy resource.
- The production of energy from coal without many of the environmental impacts of conventional coal mining, there are no abandoned pits, no mine spoil disposal or large water management structures required.
- Surface land disturbance and dust generation is negligible.
- The UCG process is inherently safer with no people deployed underground or in surface mining operations and there are no significant waste disposal issues.

- UCG falls within the 'Clean Coal' category as technology is 'carbon capture ready' facilitating the removal of CO₂ from syngas for future geosequestration.
- Production wells can be completed using directional drilling and flexibility exists in the design of production well location. This allows culturally and environmentally sensitive areas to be planned around and minimises or negates any disturbance.
- Power generation using syngas as a fuel can be a relatively dry process and does not require large water resources like conventional coal fired power stations.
- Dewatering of aquifers isn't required and the associated storage and disposal of saline water is not required.
- UCG efficiently exploits the energy from coal seams without mining and leaves the water, salt and coal seam residue behind.

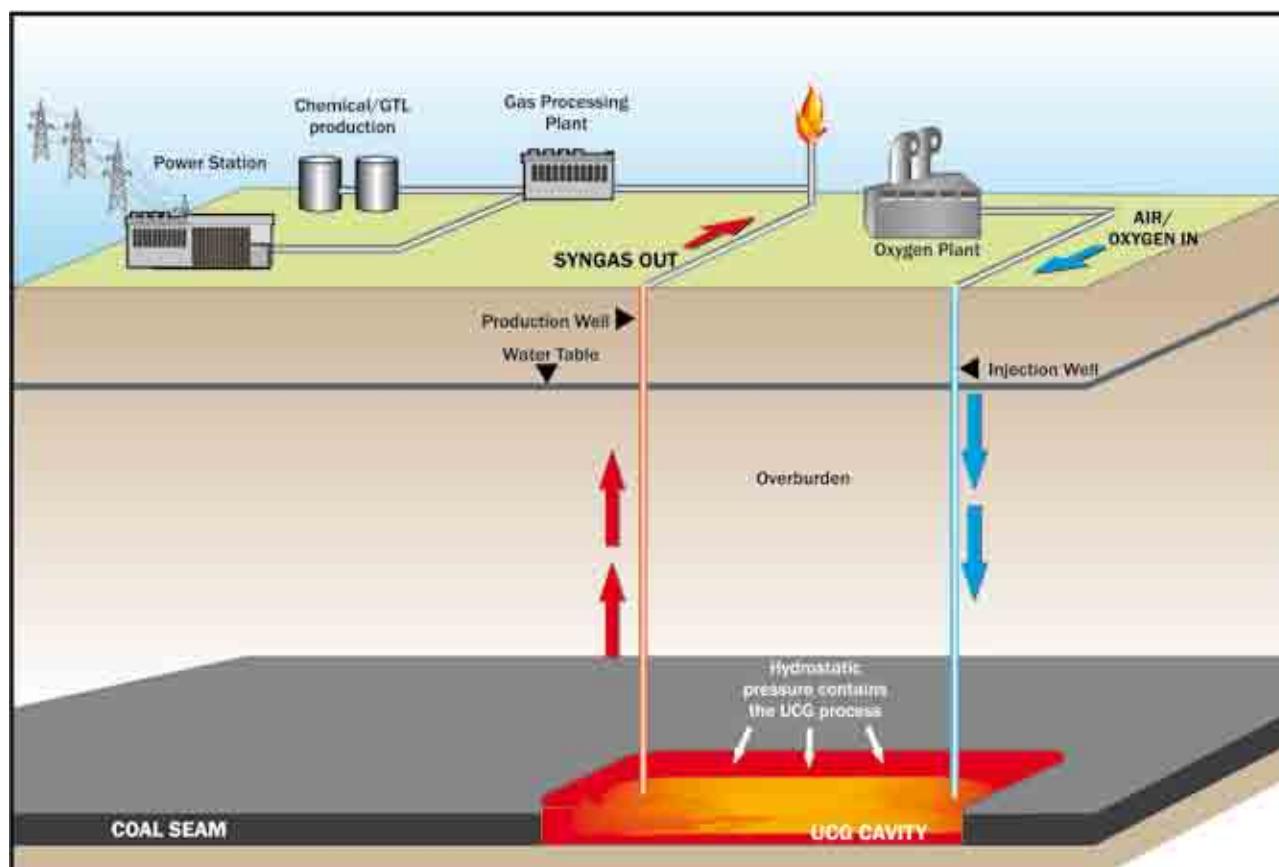
There are however several environmental issues that require careful management both in the assessment phase and the implementation phase of UCG projects. These include surface subsidence and impacts on ground water. The science of surface subsidence prediction and methods of controlling and managing subsidence associated with underground workings are well understood with many decades of experience gained from high extraction conventional underground mining methods. This science is equally applicable to management and control of the subsidence impacts from voids created by UCG operations. In many cases subsidence can be almost eliminated through careful management of extraction geometry.

Ground water impacts take two forms, damage to subsurface aquifers and contamination. Both these aspects can be controlled through comprehensive site characterisation and careful site selection.

Coal seams at depths between 150m to 400m below surface are considered suitable for gasification as they have the required groundwater pressures to contain the reaction. The Surat Basin is regarded as a prime region for UCG due to its abundance of coal at these depths. The Surat coal type is also highly amenable to gasification and has a high hydrogen content.

Refer to Figure 10 which is a schematic image of UCG, CCS and the conversion of syngas to electricity.

Figure 10: UCG Process



Syngas as Feedstock

Syngas can be used as the feedstock or fuel for a number of processes and with “Carbon Capture and Storage” (CCS) it presents a real clean energy alternative. Most of the processes using syngas are “carbon capture ready” as CO₂ is separated from the fuel gases as part of the overall process. It can then be easily captured and sequestered. The global initiative on CCS is gaining momentum with significant funding from major governments, including Australia. The UCG industry is ideally placed to take advantage of these clean coal initiatives.

Different uses of syngas include power generation and conversion to liquid fuels and chemicals.

Power Generation

UCG syngas can be used to fuel various power generation processes. It can be used to fire boilers

generating steam for steam turbines, similar to conventional coal fired power stations or it can be fed directly into internal combustion engines driving alternators. These processes are relatively low cost but do not take advantage UCG’s “clean” credentials.

Higher efficiency and lower CO₂ emissions are achieved by cleaning the syngas to use in gas turbines. Cleaning the syngas also separates the CO₂ allowing it to be easily captured and subsequently sequestered. Gas turbine power generation also requires much less water than conventional coal fired power stations presenting an economic option for low carbon power generation in areas of scarce water resources.

Gas to Liquids (GTL) and Chemicals

There are a number of different process through which syngas produced by UCG can be converted into clean liquid fuels including diesel, methanol, and dimethyl ether (DME). Other fuel technologies include the

05 UNDERGROUND COAL GASIFICATION

Exxon Mobil Methanol-to-Gasoline (MTG) Process allowing the methanol to be converted to gasoline.

Syngas may also be used in a range of chemical industries such as petrochemical, plastics, fertiliser and explosives.

2. Queensland State Government Overlapping Tenure Policy

Queensland legislation currently allows for the grant of coal seam gas (**CSG**) tenements under the Petroleum and Gas (Production and Safety) Act 2004 (**P&G Act**) and coal tenements under the Mineral Resources Act 1989 (**MRA**) with respect to the same land. To commercially produce:

- (a) CSG, a petroleum lease (**PL**) is required under the P&G Act; and
- (b) coal, a mining lease (**ML**) is required under the MRA

UCG is administered under the MRA.

An exploration permit for coal (**EPC**) authorises exploration for coal that may have UCG potential. When a coal resource is delineated, the EPC holder may apply for an MDL. On grant of the MDL (which is granted for coal only), the MDL holder may apply for the addition to the MDL of the “mineral (f)”, defined in the MRA as follows:

“(f) a product that may be extracted or produced by an underground gasification process for coal or oil shale (mineral (f)) and another product that may result from the carrying out of the process (also mineral (f));

Example of underground gasification processes— combustion, consumption, heating, leaching and reaction

Example of another product— gas desorbed as a result of an underground gasification process”

The “mineral (f)” is essentially the substance that the UCG producer would seek to produce.

The Minister may only approve the application to add the Mineral (f) to a MDL if the Minister is satisfied the public interest will not be adversely affected by the addition.

If testing of a potential UCG resource under a MDL to which the mineral (f) has been added is successful, the MDL holder can apply for a mining lease to produce the mineral (f).

In Queensland, there has been an issue with unresolved land conflict issues between CSG and UCG because their administration falls under these different Acts of Parliament.

To address these issues of overlapping tenure, the State Government released a policy on 18 February 2009 (**Policy**). There remain risks associated with the implementation of the Policy and the future grant of EPCs and MDLs.

Under the Policy:

- Except for those areas covered by the three pilot projects by Linc Energy, Carbon Energy and Cougar Energy, where UCG and CSG tenements are currently overlapping, the Policy states that preference will be given to the holder of the CSG tenure;
- Whilst the three pilot projects are still in their pilot phase, no further pilot projects will be allowed (subject to the discretion of the Minister to approve any additional UCG pilot projects which have a strong ability to further demonstrate the efficacy of UCG technology);
- For UCG tenements without overlapping petroleum tenure; or areas that become free of existing petroleum tenure in the future; or where the UCG tenure holder has the consent of the CSG tenure holder (if any), the UCG tenure holder will have the right to apply for the grant of a “specified mineral exploration permit”(**EPS**);
- An industry committee is to consider a regime for the grant of future UCG and CSG tenures. The future regime may provide for no CSG tenure to be granted where there is an existing UCG tenure and no UCG tenure to be granted where there is an existing CSG tenure. It may also provide for the grant of future EPSs through a competitive process, potentially similar to the present process for the grant of CSG tenure; and
- The Policy requires a report on the outcomes of the pilot projects to be prepared by the Environmental Protection Agency and a State Government appointed scientific expert panel-between December 2010 and December 2011, with the findings of the report to be presented to Cabinet in 2011/2012. From that report, the State Government will evaluate the viability of the UCG industry in Queensland. UCG activities may be constrained or prohibited if adverse findings on the UCG technology are reported by the State Government.

At present, the announcement by the State Government of the Policy is a matter of Government policy only. Whilst the general intent of the Policy is capable of implementation immediately by way of the exercise of Ministerial discretion under the current legislation, the full implementation of the Policy will be subject to the usual governmental processes for changes to legislation. The Policy itself may also be subject to change prior to the implementation of the legislative changes and the amending legislation itself may differ from the policy that the Queensland Government announced in February 2009. The Policy may change if, for example, State Government policy changes before legislation to implement the Policy, where required, comes into law.

Investors are referred to the risk factors associated with the Policy and the Company's operation included in Section 9 of this Prospectus.

The Juandah Project, with its 172Mt resource (149Mt Inferred and 22.5Mt Indicated), has no overlapping tenure. In terms of the Policy, MetroCoal may be granted exclusive tenure over this area for exploitation by UCG. MetroCoal has also identified several other areas within its tenements with no overlapping P&G tenure. These areas will be explored and their UCG potential evaluated over the next two years.

3. Independent Report on UCG

MetroCoal commissioned Uhde Shedden to prepare a report providing an engineering assessment of UCG technology for the purposes of this Prospectus (**Full UCG Report**). The Full UCG Report has been incorporated by reference within this Prospectus pursuant to the Corporations Act 2001. Instead of setting out the Full UCG Report, this section of the Prospectus provides a summary of the Full UCG Report to enable investors to determine, in making an informed assessment about the Offer, whether they should obtain a full copy of the Full UCG Report.

The Full UCG Report can be obtained, at no cost, from the Company's registered office or on the Company's website www.metrocoal.com.au.

This section provides a brief summary of some of the salient points of the Full UCG Report.

Executive Summary

The concept of Underground Coal Gasification UCG is technically feasible, producing raw syngas comparable

to that produced in Surface Coal Gasification (**SCG**). UCG operations have been extensively conducted in the Former Soviet Union for almost 50 years and research and development has been recently conducted globally including in Australia.

MetroCoal's tenements in the Surat Basin contain higher proportions of hydrogen than most other thermal coals with low sulphur and trace elements. This makes them suitable for gasification.

Commercially proven processes for the downstream production of transport fuels have been identified using either the Fischer Tropsch family of processes or the ExxonMobil Methanol to Gasoline process. The production of a range of chemicals from syngas is also feasible. In addition the generation of electrical power from syngas is also feasible.

For use in the above applications, raw syngas must first be cleaned. The associated downstream processes for the treatment of raw syngas are equally established, having been developed in surface gasification applications and in the natural gas industry.

There are however, environmental and technical issues that require consideration for the successful operation of a UCG facility and downstream processes including:

- The commercial and technical viability of capture and sequestration of CO₂ which is produced in gasification and downstream processes. Several CO₂ capture technologies and potential storage options have been identified, which are relevant given the Australian Government's intention to introduce the Carbon Pollution Reduction Scheme in 2010.
- Although the component technologies and unit operations required for Coal to Liquids processes are well established, production of transport fuels has not been commercially achieved using UCG syngas (either air blown or oxygen blown).
- The potential for groundwater contamination and surface subsidence. However, the mechanisms for these events are quite well understood and measures can be taken to avoid or mitigate consequent impacts on the environment. Methods include a detailed site selection process, engineering controls and ongoing monitoring during operation.
- The ramifications of air versus oxygen blown



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gasification must be considered in the early planning phase, since the use of air introduces large volumes of nitrogen into the process which requires larger equipment and higher compression costs.

UCG may incur lower capital costs in comparison to SCG and has the advantage of exploiting coal that may not otherwise be economically accessible.

1. Introduction

UCG is the partial combustion of subsurface coal with air/oxygen and steam via an injection well to produce a mixture of gases known as syngas which is extracted from a linked production well.

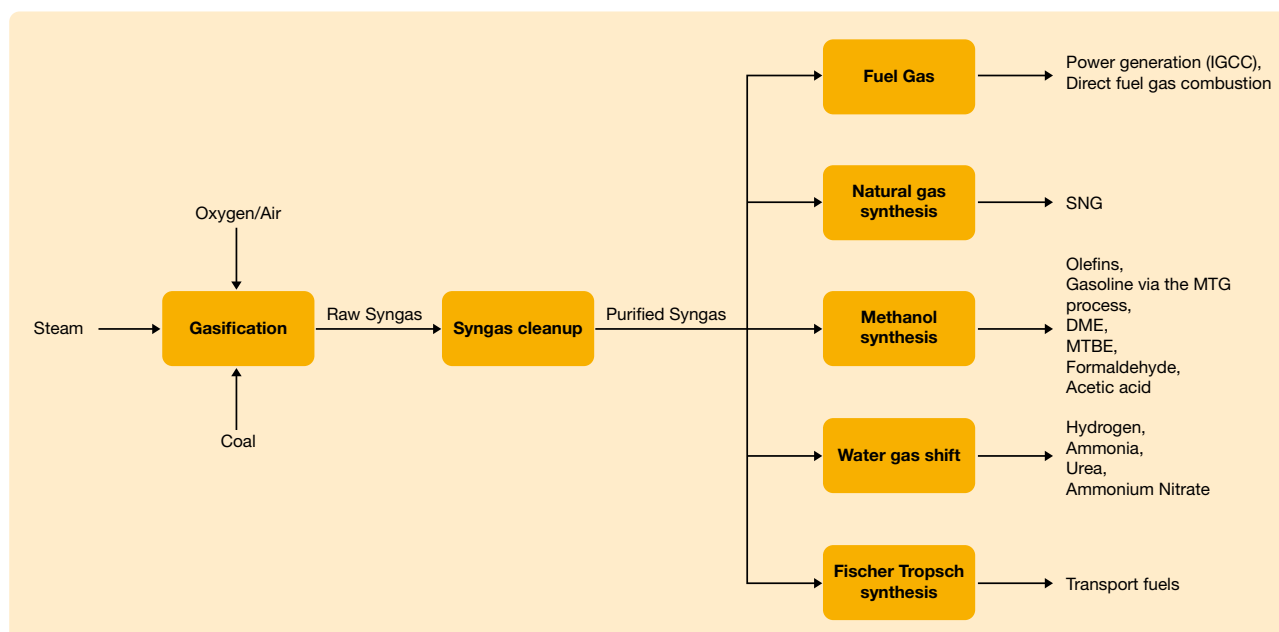
The concept of UCG has been in existence for over 100 years. The bulk of UCG operational experience has been gained by the former Soviet Union, with facilities in operation for almost 50 years. In addition, significant research has also been conducted in Western Europe, the USA, China, Spain, Australia and New Zealand.

Syngas is a very versatile precursor for a range of products and can be;

- Used as a fuel gas for direct combustion or combusted in a gas turbine for power generation.
- Converted into synthetic natural gas (SNG).
- Converted into methanol and its derivatives such as:
 - Olefins,
 - Gasoline via the Methanol to Gasoline (MTG) process,
 - Dimethyl ether (DME),
 - MTBE (Methyl tert-butyl ether), and
 - Acetic acid.
- Converted into a pure hydrogen product via the water gas shift reaction for use in
 - Oil refineries and
 - For ammonia production.
 - Fuel as part of a Hydrogen Economy
 - Treated and used as a feedstock for transport fuel synthesis via Fischer Tropsch synthesis.

A block diagram of the aforementioned coal gasification and syngas pathways is given in Figure 11.

Figure 11: Coal gasification and syngas pathways.



The Full Report assesses the technical feasibility of synthesis gas production from UCG and the subsequent synthesis of high value products such as transport fuels, chemicals and for power generation.

To adequately assess the feasibility of UCG and the utilisation of the derived syngas the analysis section of the report takes the following form;

- An overview of the UCG process and technology advancements.
- A review of required raw syngas treatment technologies for downstream syngas processing.
- A technical review of the following possible UCG syngas uses;
- The production of transport fuels via Fischer Tropsch synthesis,
- The synthesis of gasoline via the Methanol to Gasoline (MTG) process,
- Power generation using a Gas Turbine Generator (GTG) and
- The synthesis of a range of chemicals.
- The environmental considerations of UCG operation and discussion of the feasibility of CO₂ capture and sequestration.
- A discussion of risks and benefits of UCG based facilities.

Each section discusses the processes in an historical context and detail current technologies. In this way, the feasibility of each process can be gleaned via a technology assessment.

The environmental section assembles the environmental issues of each technology and assesses them as a whole.

2. Environmental Considerations

2.1 CO₂ capture

As one of the by-products of coal gasification, CO₂ poses a long term environmental concern as a greenhouse gas. Consequently, the capture of CO₂ is a possible option for reducing the environmental impact of UCG. There are two approaches to CO₂ capture for UGC applications:

- For fuels and liquids production, CO₂ available for extraction is either generated during UGC or produced during the shift reaction of syngas prior to production.
- For power production, maximising the syngas shift reaction can convert most of the CO₂ in the raw syngas to CO₂ suitable for extraction. This results in a hydrogen rich fuel for power generation minimising CO₂ emissions produced in the gasturbine.

Relative to SCG, UCG syngas has higher CO₂ proportion in relation to hydrogen and carbon monoxide. Thus greater quantities of CO₂ will be produced by UGC from a given coal resource.

UCG lends itself to the capture of CO₂ via well developed commercial processes including physical absorption, chemical absorption and separation membranes.

Processes that remove acid gas from the raw syngas are also able to perform CO₂ capture and are detailed in the gas cleanup section of this report. They feature a high selectivity of hydrogen sulphide (H₂S) removal over CO₂. This selectivity can be utilised in a two stage H₂S and CO₂ removal process.

2.2 CO₂ Sequestration

Captured CO₂ from upstream removal process units can be compressed and stored in suitable geological formations.

The majority of literature pertaining to CO₂ storage focuses on CO₂ produced from power generation. It suggests that the ideal storage locations for captured CO₂ are depleted oil and gas fields and saline aquifers.

2.3 UCG Operation

There are a number of environmental concerns associated with the operation of the underground gasifier. They are summarised below;

2.3.1 Groundwater Contamination

During UCG operation, there is a potential for groundwater contamination from gasification and pyrolysis products. This problem was encountered during the Hoe Creek trial in the USA in the late 1970s. The gasifier cavity was over-pressurised in an effort to prevent excessive groundwater influx which caused groundwater contamination. A review of environmental UCG issues concluded:



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“As well as suitable site selection, there are a number of mitigation measures that can be adopted to help ensure that the risk of pollution is negligible. The main three are: using operational monitoring systems that can detect gas losses and ensure that reactor pressures are maintained below hydrostatic; ensuring that wells and boreholes used in the process are adequately sealed; And maintaining a ‘cone of depression’ in the groundwater around the reactor to ensure that aqueous phase contaminants flow towards the reactor where they can be pumped to surface and treated.”

Review of Environmental Issues of Underground Coal Gasification, Sury et al, 2004

Subsequent trials in Rocky Mountain, USA, Chinchilla, Australia and El Tremedal, Spain used this experience (Sury, 2004). In general, deeper UCG is preferred as it allows for gasification below the level of potable aquifers.

A number of steps can be taken to prevent groundwater contamination including;

- Suitable site characterisation with groundwater hydrogeology surveys.
- Injection and production well linking methods that do not exceed the pressure of surrounding groundwater.
- Operation of the underground gasification process at a lower pressure than that of the surrounding hydrostatic pressure. This creates a pressure gradient from the coal seam towards the gasification site allowing for the influx of groundwater.
- Site selection criteria requiring the assessment of potential sites for the location of aquifers and the water table to ensure adequate gasification water supply.
- A groundwater testing and monitoring regime to ensure the effectiveness of groundwater contamination prevention measures.

2.3.2 Subsidence

Subsidence is the gradual caving in or sinking of an area of land, either at or below the surface. As underground gasification progresses, the gasification cavity enlarges through consumption of the coal seam, and hence, the possibility exists that the earth above the cavity (the

overburden) may collapse. The occurrence of subsidence is a risk in underground gasification operation with surface and subsurface effects including the groundwater contamination.

To mitigate the risk of subsidence, the integration of a detailed geotechnical survey into the site selection process is recommended. The occurrence of subsidence is mainly attributed to inadequate site selection, and is more likely to occur in shallow coal seams closer to the surface (Burton, Friedmann & Upadhye n.d., p.53). In addition, engineering controls and a subsidence monitoring programme during the lifetime of the gasifier should also be implemented. Greater control over the growth of the gasification cavity and simultaneous use of multiple gasification cavities may minimise any adverse effects of subsidence. Also greater separation distance between gasification cavities will result in wider pillars, both minimising subsidence but also reducing coal utilisation.

2.3.3 Loss of Containment

Underground gasification also presents a risk of loss of containment of reactant gases and product gases. A loss of reactant gases will reduce the efficiency of the gasification process.

However, a loss of product gases to the surrounding formation is a contamination issue.

During the site selection process the geological features of the coal seam must be surveyed to determine its characteristics and ultimate suitability for underground gasification (Creedy et al., 2001, p. 15). The gasifier operating pressure and the method of linking of injection and production wells

2.4 Gas Cleanup

The gas treatment process units remove raw syngas contaminants for the downstream synthesis of final products. As a consequence, liquid, solid and gaseous effluents are produced.

2.4.1 Liquid Effluent

Liquid effluent streams are produced, comprising of water with suspended particulates, dissolved gases and liquid hydrocarbons. This water can either be partially recycled, sent to a water treatment plant or evaporation pond. If an evaporation pond is utilised, soil remediation must be undertaken at the end of the pond lifetime including possible hydrocarbon recovery.

2.4.2 Solid Effluent

A waste water treatment plant is required to produce solid waste suitable for either a toxic waste facility or for landfill disposal. In addition, spent catalyst and filter media (activated carbon, etc) must be disposed of appropriately. In some circumstances they can be returned to the manufacturer.

2.4.3 Gaseous Effluent

If sufficient H_2S is extracted by the acid gas removal unit, it can be sent to a sulphur recovery unit to produce elemental sulphur. Otherwise this gas will require combustion. If combusted, the produced SO_2 will then need to be vented or scrubbed, producing sulphuric acid, H_2SO_4 .

If CO_2 is captured and sequestration is not an option, it can be vented to atmosphere. Other gaseous effluents can be flared as required.

2.5 Syngas to Power

The combustion of syngas in a Gas Turbine Generator (GTG) results in emission of environmentally deleterious oxides of nitrogen and sulphur known as NO_x and SO_x which are subject to emission limits.

NO_x emissions limits can be met by using Selective Catalytic Reduction (SCR) upstream of the turbine. Diffusion flame combustors, dry low NO_x (DLN) systems and flame temperature reduction methods can be used within the turbine combustor as further NO_x reduction options.

The reduction of SO_x emissions can be achieved in the acid gas removal unit which removes H_2S and CO_2 .

3. UCG Benefits

Interest in UCG has been examined in the report in the context of increasing energy costs, concerns with security of energy supplies, mine safety, CO_2 emissions, and environmental impact. The potential benefits of UCG can be summarised as follows:

3.1 Ability to Access Low Cost Coal

Available coal resources can be significantly increased by underground gasification of coals that are considered economically unmineable because they are located too deep, are of low quality, or are present in thin seams. This provides an economic advantage for UCG in its ability to exploit zero-value feedstock.

3.2 Lower Capital and Operating Costs

Capital cost is significantly reduced in comparison to SCG processes as a result of the elimination of the surface gasification system. (Burton, Friedmann & Upadhye n.d., p.14)

Further capital cost reductions include the elimination of coal preparation, storage, conveying as well as ash and slag handling.

The need for conventional mining is eliminated reducing operating and rehabilitation costs.

The coal does not need to be transported to the surface and moved to the point of use, reducing energy consumption and operating costs. Mine water recovery costs are also avoided. Costs associated with ash and slag handling are reduced or eliminated.

This means that UCG syngas may be produced at significantly lower cost than is possible with conventional gasification.

3.3 Safer Operation

Gasification operation is inherently safer by placing high pressure and temperature operations underground. The elimination of conventional mining avoids hazards associated with mine collapses and asphyxiation.

3.4 Reduced Environmental Impact

Surface damage, including site aesthetics and rehabilitation issues, caused by conventional mining is eliminated. Furthermore, methane emissions (a greenhouse gas) and water handling issues associated with mining operations are reduced or avoided. Mine water recovery costs are avoided and significant hazard liabilities associated with mine abandonment eliminated (i.e. less resettlement and rehabilitation issues).

The elimination of coal mine dewatering and coal transport reduces energy consumption and emissions. Dirt handling and disposal, as well as coal washing and fines disposal activities associated with mines are eliminated. Overall, UCG has lower fugitive dust (coal mines create coal dust pollution), noise and visual impact on the surface/landscape, has lower potable water consumption and lower risk of surface water pollution (Creedy et al. 2001, p.3).

Costs associated with ash and slag handling are reduced or eliminated. Environmental issues associated with fly



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ash waste being stored /handled at the surface (at power stations) and subsequent disposal are avoided, since most of the coal ash is trapped underground.

Emissions of certain pollutants including SO_x, NO_x, mercury and particulates are significantly reduced relative to surface mining and conventional combustion.

3.5 Energy Security

With increasing global interest in hydrogen production, coal gasification (in particular UCG) provides an opportunity to produce hydrogen from coal at a relatively low cost in comparison to natural gas until the longer term issues associated with renewable energy sources and nuclear energy are overcome (Burton, Friedmann & Upadhye n.d., p.14).

For a given coal resource UCG has the potential to utilise a significantly greater proportion of the energy available in comparison to CSM, compared with CSM extraction followed by conventional mining. (PWC 2008, p33)

4. UCG Risks

4.1 Technical Risks

4.1.1 Implementation

UCG technologies has seen significant development since the first production commenced in the Former Soviet Union in 1937, however the technology has not as yet been commercially demonstrated at an industrial scale anywhere to our knowledge in the western world.

4.1.2 UCG Operation

UCG syngas is produced in an unsteady state where the flowrate and quality fluctuates over time (Burton, Friedmann & Upadhye n.d., p.17). The appropriate design of downstream equipment needs to ensure that processes are not unduly impacted by variations in syngas quality. However, it is considered that the use of multiple production wells can reduce the impact of these variations in conjunction with CRIP style technology through its capability of influencing the size and shape of the UCG gasification zone.

Compared with surface gasifiers, control of UCG operations is more difficult due to the ingress of water and coal variation. Monitoring of important process variables relies on inferential models and analysis of the quality and quantity of produced syngas, rather than direct measurements (Burton, Friedmann & Upadhye n.d., p.17). As a result the ability to optimise or fine-tune the process

or to detect and respond to process upsets is limited.

Variation in levels of trace impurities between different seams or different wells, will place great reliance on the design and robustness of acid gas treatment systems in order to protect downstream equipment processes.

4.2 Commercial Risks

4.2.1 Operational Approval

UCG cannot proceed from a conventional coal exploration exercise using a mining lease. A trial burn must be conducted to prove that the process can be controlled and that certain environmental standards have been met (Blake Dawson – Environmental & Development Directions (Qld) (10/06/2008) 2008).

UCG operation in Queensland is subject to state government approval under the Queensland Government's Clean Energy Act, 2008. To establish a coal resource, an exploration permit must first be obtained. Then in order to conduct test burns, a mineral development licence (MDL) that includes the mineral 'f' must be acquired (Blake Dawson – Environmental & Development Directions (Qld) (10/06/2008) 2008). In addition, the Environmental Protection Agency has the power to enforce conditions and restrictions on a UCG operation (Mining – EPA-QPWS 2008). Issues associated with conflicting tenements may also require resolution.

Obtaining approvals may be a lengthy and costly process, and early application is recommended to identify any particular conditions which may be imposed, to avoid potential schedule delays.

4.2.2 Technology Licensing

Technology licences will be required to implement both UCG and above ground operations.

Certain licensors may present unfavourable conditions or commercial terms, and this could impact the project development. These issues should be investigated and identified as early in schedule as possible.

4.2.3 Marketing and Sales

Products derived from syngas are in competition within existing markets. Hence, UCG product margins will be determined by regional and global oil and gas market prices. If oil and gas prices suffer a prolonged downturn, then returns from UCG will be significantly affected.

Production of large quantities of speciality products may

cause oversupply and hence impact global prices. A product where the production from a single facility is only a small fraction of the total market is more likely to absorb the addition without significantly impacting on product prices.

4.3 Project Risks

4.3.1 Resource Characterisation

MetroCoal has been granted coal exploration tenements in the Surat Basin. These resources whilst JORC Compliant have not been fully surveyed for their geological and hydrological features. These features are critical to the implementation of a UCG project.

Geological and hydrological surveys will be required to select the most appropriate resources to minimise environment risks. The size and number of these suitable coal resources will determine the facilities maximum capacity and project life. The depth of the selected coal resources will impact drilling costs and will affect the available syngas pressure for surface facilities. Thus the confirmation and characterisation of the coal resource is a vital step in establishment of a UCG operation.

4.3.2 Technology Obsolescence

The future work program will likely be based on the best available current technologies.

However, future improvements in competitive technologies may render the existing best practice obsolete.

Currently surface gasification technologies are capable of producing a wide range of products and are well suited to CCS offering the potential for clean energy projects. The cost of building and running these facilities is a major impediment to their deployment, and consequently considerable research is focused on improving capital costs, operating costs, and efficiency. Two potentially promising fields of interest are plasma gasification and processes based on rocket engine technology. If costs associated with surface gasification are substantially reduced then some of the UCG advantages may be eroded.

Such risks can be minimised through the development of internal expertise and technologies which offer the potential to be licensed to other interested parties.

5. Final Note

The individual steps of producing liquids from coal have been commercially proven although as this report

was written the combination of air blown UCG syngas production as a feedstock for the subsequent production of liquids (such as transport fuels) in the single facility has not been commercially practised. It should be noted, however, that Linc Energy has conducted a pilot UCG operation with the view to pursuing syngas to liquids processing in the future.

6. Glossary

Fischer Tropsch	A catalysed reaction process producing useful hydrocarbon gases and liquids from syngas.
Gasoline	A transport fuel used in internal combustion engines. Also known as petrol.
Olefin	A range of hydrocarbons with the general carbon to hydrogen formula C_nH_{2n} . They contain at least one carbon to carbon double bond and are also known as alkenes.

7. Disclaimer

This report has been prepared at the request of the Directors of MetroCoal Ltd.

Uhde Shedden (Australia) Pty Ltd conducted this analysis and prepared this report utilising reasonable care and skill in applying methods of analysis consistent with generally accepted industry practices and standards applicable at the time it was prepared. To the maximum extent permitted by law, and subject to the requirements of the Corporations Act 2001, no warranty, expressed or implied, is made as to any professional advice included in this report.

This report was prepared in accordance with the agreed scope of work and for the purpose outlined in the body of this report. The methodology adopted and the sources of information used by Uhde Shedden (Australia) Pty Ltd are detailed in the body of this report. In particular, in preparing its report, Uhde Shedden (Australia) Pty Ltd has relied on information and advice given by representatives of MetroCoal Ltd including its Directors, officers, employees, its agents, consultants and other advisers. Uhde Shedden (Australia) Pty Ltd has made no independent verification of the information/advice given beyond the agreed scope of work and, to the maximum extent permitted by law, and subject to the requirements of the Corporations Act 2001, Uhde Shedden (Australia) Pty Ltd assumes no responsibility for any inaccuracies or omissions arising from such information/advice.



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All results disclosed in this report are based on information available at the time of review. Changes in factors and assumptions upon which the review is based could affect the results. Forecasts are inherently uncertain because of events or combinations of events that cannot be foreseen including, but not limited to, the actions of government, individuals, third parties and competitors. It is often the case that some events and circumstances do not occur as expected, or are not anticipated. Uhde Shedden (Australia) Pty Ltd does not express an opinion as to whether the actual results will approximate those forecasted because assumptions regarding future events, by their nature, are not capable of independent substantiation.

This report does not constitute financial advice or a recommendation or an offer to buy or sell the securities to be offered under the Prospectus in any jurisdiction nor should it be interpreted as giving an opinion or advice on any financial product offered within the meaning of section 766B of the Corporations Act 2001 or section 12BAB of the Australian Securities and Investments Commission Act 2001. Uhde Shedden (Australia) Pty Ltd is not operating under an Australian Financial Services Licence in providing this report. In accordance with regulation 7.6.01(u) of the Corporations Regulations 2001, Uhde Shedden (Australia) Pty Ltd makes the following disclosures:

Uhde Shedden (Australia) Pty Ltd was retained by the Directors of MetroCoal Ltd to provide this report. Under the terms of that retainer, Uhde Shedden (Australia) Pty Ltd received fees not exceeding \$70,000 and the benefit of other contractual terms (including indemnities in favour of Uhde Shedden (Australia) Pty Ltd and an agreed limitation of Uhde Shedden (Australia) Pty Ltd liability to MetroCoal Ltd.

Uhde Shedden (Australia) Pty Ltd does not have any pecuniary interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in this matter and it has no interests in the outcome of the Prospectus other than its entitlement to receive a professional fee for the preparation of this report.

MetroCoal Ltd has agreed to indemnify and hold harmless Uhde Shedden (Australia) Pty Ltd and its employees from any claim arising out of misstatement or omission in any material or information supplied by the Directors of MetroCoal Ltd. Consent to the inclusion of this report in the Prospectus, in the form and context in which it appears, has been given and at the date of this report and this consent has not been withdrawn.





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20 October 2009

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Dear Sirs

**METROCOAL EXPLORATION PROJECTS, SURAT BASIN, QUEENSLAND
INDEPENDENT SUMMARY TECHNICAL REVIEW**

1.0 SUMMARY

The Directors of MetroCoal Limited ("MetroCoal" or "the Company") have commissioned Behre Dolbear Australia Pty Limited ("BDA") to prepare an Independent Geologist's Report for inclusion in a 2009 Prospectus in respect of an offer of shares in the Company. This letter contains the BDA independent technical review report on the current geological status of various coal exploration tenements held by MetroCoal Ltd in the Surat Basin in Queensland, Australia and was prepared for the purpose of providing independent technical advice to potential shareholders considering investment in the Company.

From the findings and investigations to date, BDA concludes as follows:

- MetroCoal has completed exploration of EPC1164 and MDLA406
- Encouraging results have been produced in MDLA406 for continuity of seam
- A JORC Statement of Indicated/Inferred Resource has been completed for a section of MDLA406 by Mr Warwick Smyth the Principal Consultant of GeoConsult Pty Ltd and a Member of the Australian Institute of Mining and Metallurgy.

[Mr Smyth has advised that he has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves']

- MetroCoal has planned an exploration program to confirm its Exploration Target* of 2.5-3.5 billion tonnes of thermal coal within two years to a JORC compliant status

*Under the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (Paragraph 18), the Company is required to state, with regard to Exploration Targets, that the potential quantity and grade is conceptual in nature, that there has been insufficient exploration to define a Mineral Resource or Ore Reserve and that it is uncertain if further exploration will result in the determination of a Mineral Resource or Ore Reserve.

1.1 Exploration

MetroCoal has coal exploration rights over seven EPCs, two EPC applications and an MDL application in the Surat Basin, Queensland. This report deals with:

EPC1164, 1251 and EPCA1609 – Wandoan West including MDLA406

EPC1165 – Columboola

EPC1166 - Dalby West

EPC1167 – Roma North



BDA has examined the EPC grant documentation from the Queensland Department of Mines and Energy and is satisfied that MetroCoal has the licenses to conduct coal exploration programmes within these EPCs.

Sub-block maps of the EPCs are also available. BDA has examined these and is satisfied that MetroCoal can comply with its obligations on annual relinquishment of chosen sub-blocks within the relevant Act.

1.2 Geological Database

MetroCoal has prepared and made available to BDA a comprehensive and well-organised geological database. It contains all known exploration drillholes and coal intersections within the EPCs, together with available geophysical logs, oil and gas well logs, oil exploration HD seismic results and historical geological reports. BDA is satisfied that this database is of industry standard.

Compilation of geological mapping and modelling are competently carried out under sub-contract. BDA has examined the produced maps and models and is satisfied that they are of industry standard.

1.3 Ongoing Exploration

The continuing exploration programme comprises open-hole drilling to a recognisable sandstone horizon below the Juandah Coal Measures. Data from the underlying Taroom Coal Measures may also be collected. MetroCoal's budget for this programme has been examined and BDA regards the funding provisions as both practical and sufficient.

Drillholes have been fully geophysically logged, with sonic, with neutron and acoustic scan logging deployed where the Supervising Geologist deemed necessary. Environmental safeguards for drillhole sites to the requirements of both the Department and Local Council officials were budgeted and completed.

The stated aim of the programme was to more sharply define prospective areas within the EPCs, with the areas initially chosen from the most prospective based on earlier exploration results from within the geological database. The promising intersections for the Macalister Upper seam (Juandah Project) have been better defined and initial modelling carried out.

BDA had compared these target areas with the database records and concurs with MetroCoal that the areas chosen offered high prospectivity. However, MetroCoal will require a sharper definition of prospects for a later, more intensive programme to achieve Indicated Resource status compliant with the JORC Code definition.

1.4 Resource Utilisation

Potential utilisation of resources that are indicated with the programme results to date is considered to be both the possibility of conventional mining (both open cut and underground) and the emerging technologies of underground coal gasification ("UCG"). To this end, MetroCoal had designed and carried out drillhole parameters and geophysical logging suites to supply data relevant to these various utilisations. BDA is of the view that such exploration parameters were adequate for the stated aims of the programme and that the potential for such utilisation is reasonable in view of the demonstrated prospectivity of the target areas.

1.5 JORC Resources

A draft JORC-compliant Resource status to Indicated/Inferred within a section of MLDA406 was achieved and reported by GeoConsult Pty Ltd as a result of this programme as four drillholes were part-cored for laboratory analyses and estimated qualities derived for other drillholes. A later infill programme to achieve a fully Indicated Resource status for these selected areas is planned, together with a targeted mini-SOSIE® surface seismic programme for demonstration of seam continuity. BDA considers that the target areas chosen for the next exploration stage have a high potential for achieving this aim.

1.6 Latest Drill Results

As of August, 2009 a total of sixteen (16) boreholes, including four (4) part-core holes, were drilled. BDA has examined the selected locations and is of the view that these drillholes were practically located to ensure high prospectivity target areas were adequately dealt with in the available budgetary constraints.



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1.7 Index of Figures

Figure 4.1 Location of MetroCoal EPC tenements

Figure 4.2 Snapshot of MDLA406 Drilling 2008 - 2009

2.0 INTRODUCTION

2.1 Purpose of Report

This Independent Summary Technical Review has been prepared by Behre Dolbear Australia Pty Limited (“BDA”) for inclusion in the Prospectus to be issued by MetroCoal Limited (“MetroCoal” or “the Company”) in connection with an initial public offering (“IPO”) of ordinary shares in the Company and the proposed admission of the Company to the Official List of the Australian Securities Exchange (“ASX”) through the quotation of such shares. BDA was commissioned by the MetroCoal Directors to prepare an independent technical review of the MetroCoal exploration tenements in the Surat Basin in Queensland.

BDA has conducted its review in recognition of the requirements of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, prepared by the Joint Ore Reserve Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC) – Effective December 2004 (“the JORC Code”) and the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports – “the VALMIN Code” – 2005 Edition.

2.2 Capability and Independence

This report was prepared on behalf of BDA by the signatories to this letter, details of whose qualifications and experience are set out in Annexure A to this report. Information in this report that relates to Mineral Resources or Ore Reserves is based on JORC Code-compliant Resource and reserve Statements prepared by Competent Persons as defined by the JORC Code. The Specialists who contributed to the findings within this report each consent to the matters based on their contribution in the form and context in which it appears.

BDA is the Australian subsidiary of Behre Dolbear and Company Inc. (“Behre Dolbear”), an international minerals industry consulting group which has operated continuously in North America and worldwide since 1911, with offices in Denver, Beijing, Guadalajara, Hong Kong, London, New York, Sydney, Toronto and Vancouver. Behre Dolbear specialises in due diligence studies, independent expert reports, independent engineer certification and strategic planning as well as technical geological, mining and process consulting. Directors and Associates from the Sydney office of BDA have undertaken all the technical review work for this report.

Neither the Directors nor Associates of BDA have any material interest in or entitlement to the securities or assets of MetroCoal Limited, their advisors or any associated companies. BDA will be paid a fee for this report comprising its normal professional rates and reimbursable expenses. The fee is not contingent on the conclusions of this report.

2.3 Scope of Work/Materiality/Limitations and Exclusions

BDA has reviewed the relevant MetroCoal and consultants’ reports relating to the tenements in accordance with the Scope of Work and Exclusions set out in Annexure B to this Report. All opinions, findings and conclusions expressed in this Report are those of BDA and its Specialist advisors.

This Report has been based on data, reports and other information made available to BDA by MetroCoal and their consultants and advisors. We have been advised that the information is complete as to material details and is not misleading. A copy of this report has been provided to MetroCoal for review as to any material errors of fact, omissions or incorrect or unreasonable assumptions. The opinions stated herein are given in good faith. We believe that the basic assumptions are factual and correct and the interpretations reasonable.

The opinions expressed in this report have been based on information supplied to BDA by MetroCoal and its consultants. BDA has exercised all due care in reviewing the supplied information and believes that the basic assumptions are factual and correct and the interpretations are reasonable. BDA has independently analyzed MetroCoal’s data, but the accuracy of the conclusions of the review largely relies on the accuracy of the supplied data. BDA does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from investment or other financial decisions or actions. BDA reserves the right to change its opinions on the MetroCoal coal tenements expressed in this report should any of the fundamental information provided by MetroCoal be significantly or materially revised.

This report is provided to MetroCoal in connection with the proposed IPO and should not be used or relied upon for any other purpose. This report does not constitute an audit. Neither the whole nor any part of this report nor any reference thereto may be included in or with or attached to any document or used for any purpose without our written consent to the form and context in which it appears.

2.4 Inherent Mining Industry Risks

When compared with many industrial and commercial operations, coal exploration and mining is a relatively high risk business, conducted in an environment where not all events are predictable. Each coal deposit is unique. The nature of the coal deposit, the occurrence and quality of the coal, and its behaviour during mining and processing can never be wholly predicted. Estimations of the tonnes, quality and characteristics of a coal deposit are not precise calculations but are based on interpretation and on samples from drilling which, even at close drill hole spacing, remain a very small sample of the whole coal deposit. Reconciliations of past production and reserves can confirm the reasonableness of past estimates, but cannot categorically confirm the accuracy of future predictions.

The purpose of the exploration programmes, as applied to the tenements described in this report, is in the first instance, to establish whether coal is present, and in sufficient quantities and of appropriate quality to consider committing additional expenditures to determining more accurately its quality and quantity. Subject to that assessment being positive, the procedure is then to design exploration programmes, comprising drilling, assaying, logging, mapping, surveying and applying geophysical methods, to provide a reasonable estimate of the potential for the tenements to contain economically viable coal resources and, as drilling, assay and other exploration data become available, to prepare estimates of the technical properties of the deposit and the quantum of commercially attractive resources.

BDA has assessed the proposed MetroCoal exploration tenements by reviewing the available and relevant data, including Department of Mines surveys and other reports and documents in the public domain.

While an experienced exploration team can identify the existing resources and prepare estimates to approximate the resources, there remains the possibility that undetected or unpredicted conditions may be present that would detract from the quantum of the estimates. It is not possible therefore to totally remove all risks or to state with certainty that an existing condition, structure or formation that may have a material impact on the estimates of the coal resources is not present within the tenements.

2.5 Currency

Unless otherwise stated, all currency is in Australian dollars.

2.6 Glossary of Terms

Defined and technical terms used in this report are set out in the Glossary of the Prospectus.



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3.0 OVERVIEW

The MetroCoal Board of Directors has commissioned BDA to prepare an independent technical assessment of the MetroCoal Surat basin coal tenements and associated or supporting documentation, suitable for inclusion in an IPO. BDA visited the sites with MetroCoal staff in August 2008 and reviewed all data and reports made available by MetroCoal. Discussions were held with technical and managerial staff concerning the development and exploration of the tenements.

Drilling results from the 2008 and 2009 exploration programmes have been made available for inspection by BDA, together with modelling and Resource Estimation by GeoConsult Pty Ltd, July 2009

At this stage, there are Indicated/Inferred Resources under the JORC Code for a prospective section of MDLA406, and BDA notes that there is documentary evidence to support the view that, through the proposed exploration programme, commercially viable resources will continue to be identified and quantified. BDA has not conducted a review of the legal status of the various tenements and development consents; MetroCoal has advised that all material tenements are in good standing.

Areas covered in this review are:

- available database
- prospectivity and prioritisation of targeted areas
- comment on JORC resource compliance
- potential resource areas and potential exploration target size
- adequacy of exploration budget
- potential for targeting UCG resources
- potential for targeting conventional mining resources

This BDA report contains assessments based on information provided by MetroCoal. BDA's assessments of the exploration programmes are based on technical reviews of available data and site visits. However, these preliminary assessments cannot be assured and factors both within and beyond the control of MetroCoal could cause the actual results to be materially different from the assessments and projections contained in this report.

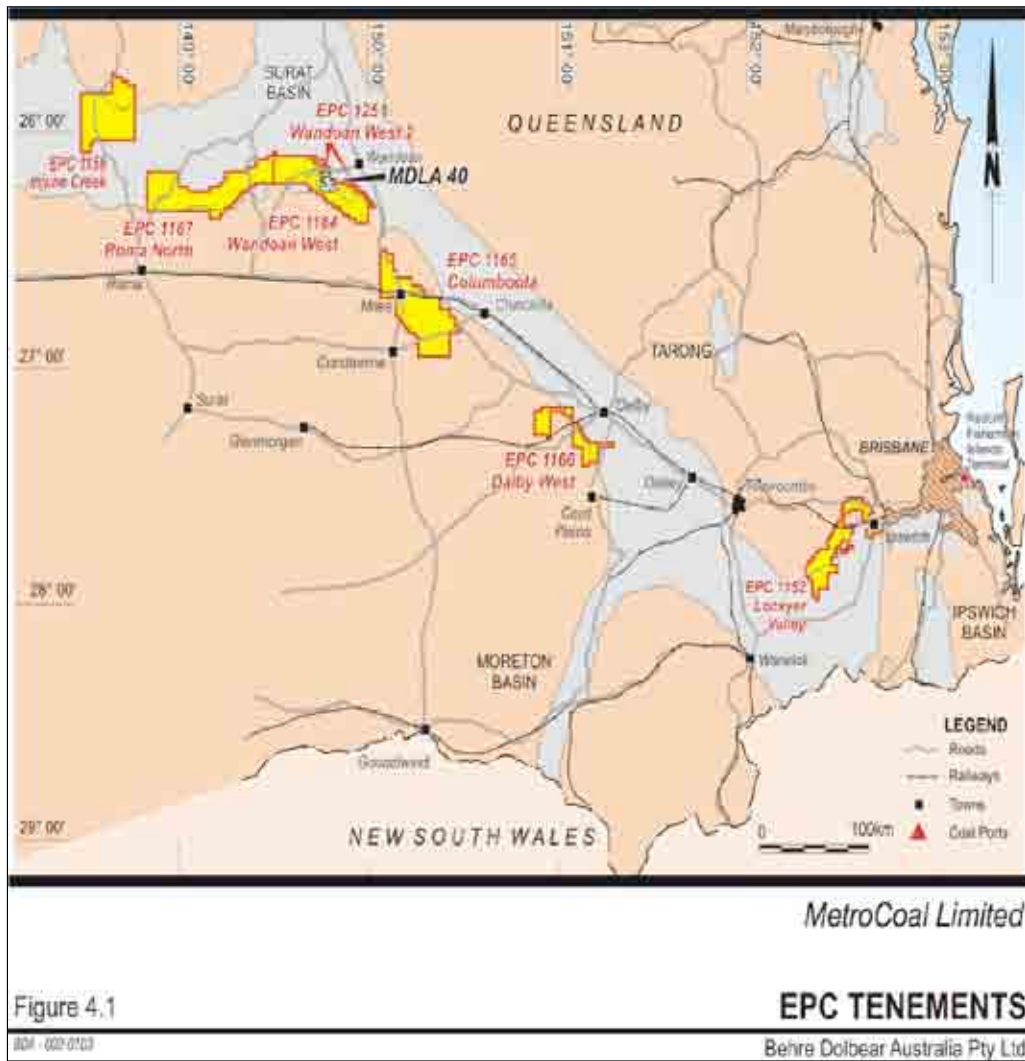
MetroCoal proposes to implement the next stage of exploration, comprising mainly drilling and mini-SOSIE® surface seismic surveys within the next six months. MetroCoal states that the purpose of this is to better define the most prospective areas within MDLA406 for a follow-up more concentrated exploration programme to delineate and quantify resources to full JORC Indicated status. This programme is designed to demonstrate both seam qualities and continuity in the Macalister Upper seam as part of MetroCoal's Juandah Project.

4.0 RECENT EXPLORATION RESULTS

4.1 Tenement Locations

The EPC tenements listed for the IPO include EPC1164 and MLDA406, EPC1165, EPC1166 and EPC1167, shown in Figure 4.1. All of these are located within the recognised geological boundaries of the Surat Basin and all have been previously explored to some extent, although it is recognised that any data generated by those activities is of variable quality, dependent on the historical timing and purposes of the work and the capabilities of the personnel involved in its collection.

BDA has not conducted legal due diligence on the tenements but has been advised by MetroCoal that the rights to the EPC tenements listed above are owned by MetroCoal and are in good standing. MetroCoal has advised that the tenements are current from December 12, 2007 to December 11, 2010, subject to standard annual relinquishment of sub-blocks as required by the Queensland Department of Mines and Energy ("DME"). BDA has sighted the EPC grant documents and is of the view that they appear to be current and granted to MetroCoal within the Mineral and Resources Act pertaining to EPCs, but does not warrant their legal status.



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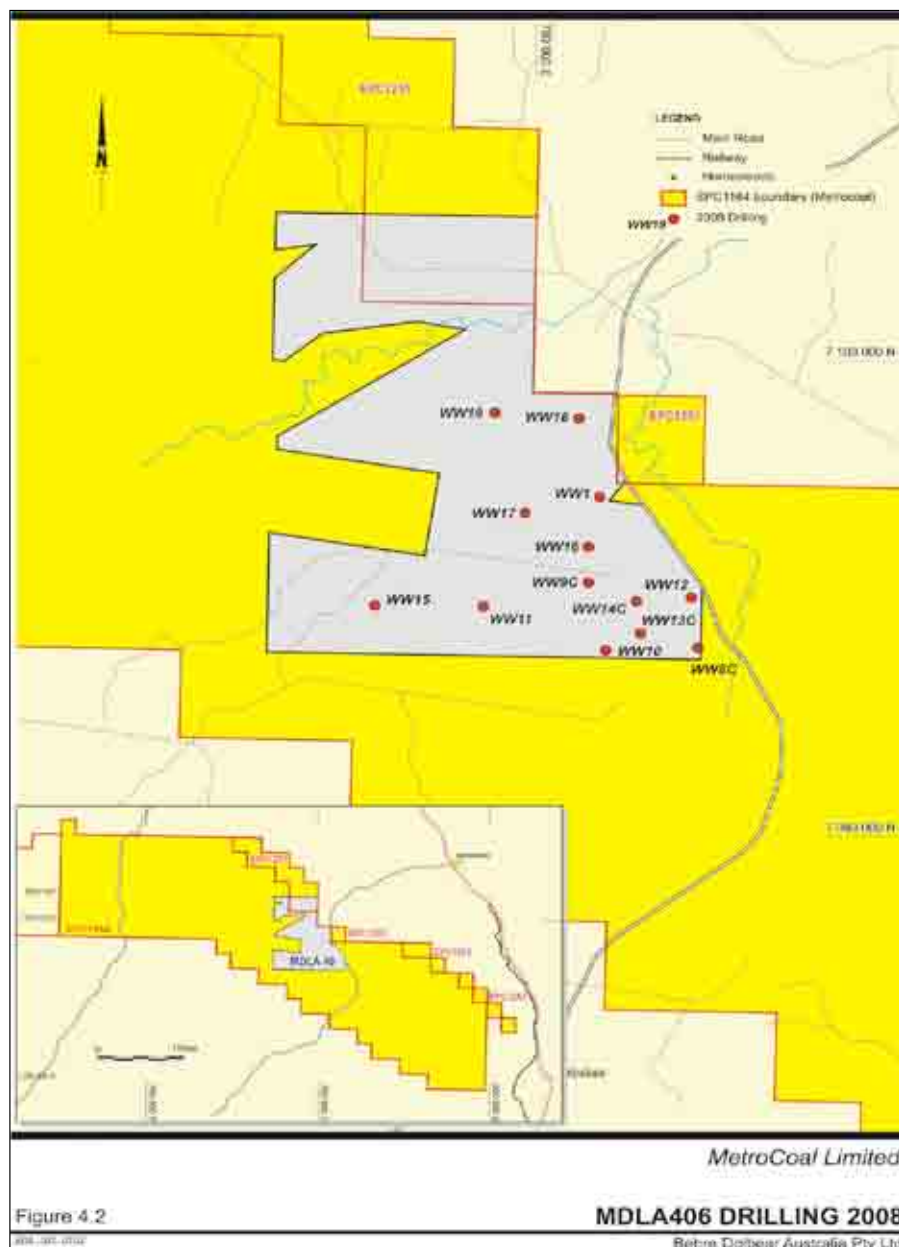
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4.2 EPC1164 - Wandoan West and MDLA406 Current Results

From the accessible geological data bases, there were some limited data available from previous indicative drillhole logs, geophysical logs from shallow holes, some sparse quality analyses, oil and gas well logs, geophysical logs from deeper holes and oil high-resolution seismic results. This pattern appears to be reasonably consistent across all the MetroCoal EPCs.

MetroCoal has successfully drilled sixteen (16) holes in the MDLA406 area, including four (4) part-cored holes. The following figure shows the location of these within MDLA406.



The key to this exploration stage was the recognition that the section of the Macalister Upper seam (approximately 1m thick) has a unique geophysical signature, traceable across the logs from oil and gas wells and coal exploration dating from the 1960s. This signature allowed correlation across the drillhole sequence WW8-19 as located above.

Results are summarised as follows in Table 1, which includes the intersections from the Macalister Lower seam (source GeoConsult Report 2009):

Hole Name	Easting*	Northing*	Total Depth	Meters Cored	Macalister Upper			Macalister Lower			Total Net Coal
					Seam Roof	Seam Floor	Net Coal	Seam Roof	Seam Floor	Net Coal	
WW8	0783143	7094007	300.00		269.9	277.0	6.05	277.55	281.82	2.35	8.40
WW8C	0783144	7094004	285.30	19.23	269.84	276.96	6.07	277.51	281.86	2.30	8.37
WW9	0780991	7095311	300.00		247.23	252.51	3.73	268.9	276.09	2.78	6.51
WW9C	0780989	7095324	254.80	10.96	247.33	251.9	3.89	252.57	252.75	0.18	4.07
WW10	0781305	7093912	335.00		302.86	307.69	3.09	308.02	309.41	0.66	3.75
WW11	0778999	7094854	348.00		319.03	324.16	2.50	325.62	331.78	3.07	5.57
WW12	0783027	7094955	312.00		246.03	249.6	2.56	264.43	269.2	2.16	4.72
WW13	0782003	7094270	342.00		300.58	304.54	2.55	305.54	306.13	0.50	3.05
WW13C	0781999	7094267	311.20	16.33	300.4	304.21	2.43	305.45	306.04	0.51	2.94
WW14	0781910	7094955	324.00		274.15	277.33	1.96	279.96	286.05	1.24	3.20
WW14C	0781911	7094950	285.04	17.90	274.26	277.26	2.52	279.58	283.40	0.77	3.29
WW15	0779975	7094889	388.00		329.35	331.9	2.30	334.85	339.37	1.93	4.23
WW16	0781249	7096131	300.00		227.85	230.71	2.03	254.3	256.76	1.25	3.28
WW17	0779633	7095844	325.00		296.95	300.68	2.98	302.04	314.65	1.72	4.70
WW18	0780952	7098677	205.00		186.02	189.65	2.00	199.56	202.59	1.52	4.12
WW19	0779036	7099232	274.00		248.01	250.34	2.33	251.8	256.47	3.10	5.43
Total			4893.34	64.42							

Report GeoConsult 2009

MetroCoal Limited

Table 1.0 MDLA406 DRILLHOLE SUMMARY

804 - 09-0703 Behre Dolbear Australia Pty Ltd

In a report of July 2009, GeoConsult Pty Ltd modelled a resource from the WW-series drillholes in MDLA406 exploration results. The following Table 2 summarises the results:

Table 2 MDLA406 Resource Summary (GeoConsult 2009)

Resource Status	Tonnage Mt	In Situ Density	Thickness m	Depth to Roof m	Raw Ash % ad	Total S %	Inherent Moisture %	Spec Energy Mj/kg
Indicated	22.53	1.54	3.52	257.6	25.6	0.2	8.8	19.9
Inferred	149.28	1.51	3.28	255.6	24.3	0.2	8.8	20.7

The averages of RD, raw ash, sulphur and SE were calculated from the laboratory analyses of drillholes WW8C, WW9C, WW13C and WW14C. When considered together with back calculations from geophysical logs, these were used to achieve a JORC-compliant Resource Statement, with estimated tonnages as above.

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For the JORC-compliant estimate, drillholes were considered valid if:

- the entire Macalister Upper seam was intersected
- slime-line density geophysical logs were obtained
- part-core recovery was greater than 95%
- laboratory analyses of seam cores contained ash and RD as a minimum

BDA considers the methods used in the draft report to be adequate for the Statement and MetroCoal is planning a mini-SOSIE® seismic survey across the area involved to demonstrate seam continuity. Given the depths of seam cover, stratigraphy and lithological sharpness of the Macalister Upper seam roof, this exploration technique is likely to succeed in better defining any coal measures. It is known that several mini-SOSIE® surveys within the area have been conducted successfully.

4.3 Further Exploration in Other Tenements

BDA has examined both the earlier reported exploration results and proposed target areas for the exploration planned from December 2009 and is of the view that the chosen areas are of reasonable prospectivity. This exploration programme is detailed in the Company's exploration proposal described in the prospectus.

MetroCoal is proposing to expend AUD\$4m-6m on continuing exploration of its Surat tenements over 2010 and 2011. The aim of this ongoing exploration programme, planned in three tranches from December 2009, is to confirm the thermal coal Exploration Target of between 2.5 and 3.5 billion in-situ tonnes of Macalister Upper Seam.

[Under the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (Paragraph 18), the Company is required to state, with regard to exploration targets, that the potential quantity and grade is conceptual in nature, that there has been insufficient exploration to define a Mineral Resource or Ore Reserve and that it is uncertain if further exploration will result in the determination of a Mineral Resource or Ore Reserve].

BDA has examined details of the proposed budget compared to the exploration completed in early 2009 and is of the view that proposed expenditure is adequate for the planning involved. The various aspects of exploration have been accounted for, including environmental and cultural heritage issues, together with the key elements to drilling programmes (including geophysical logging).

Included is a mini-SOSIE® seismic survey designed to demonstrate seam continuity to enhance drillhole log interpretations. BDA endorses this addition to the drilling program and notes that a short trial of the techniques will be undertaken to ensure velocity parameters are well understood prior to the full-scale survey. There are a number of sonic logs from nearby drillholes available for calibration and several successful surveys have been previously conducted in the area.

One hundred and twenty (120) drillholes, mostly open-hole but with carefully placed part-core holes, are planned in a major project. Comparing the planned budget with that completed earlier in 2009 suggests that this aim is achievable with prudent management. A 20% contingency for poor weather and unexpected ground conditions would appear to be adequate, based on earlier experience.

The MetroCoal Exploration Target in-situ tonnage of 2.5-3.5 billion tonnes is prospective, given the expected continuity of the Macalister Upper seam, with such continuity being demonstrated from the results to date. It is expected that a successful mini-SOSIE® seismic survey carried out over the most prospective areas prior to drilling will materially aid in drillhole placement.

5.0 CONCLUSIONS

BDA has reviewed the MetroCoal tenements and has concluded that there is the potential for the definition of prospective areas to be delineated for further exploration programmes to measure coal resources and possible reserves in accordance with the JORC Code. From early work by the DME and isolated and randomly-located drillholes, there is information (insufficient at this stage to define resources) that indicates the presence of marketable coal products. The extent and quantum will need to be delineated through drilling, geophysics and normal exploration methods.

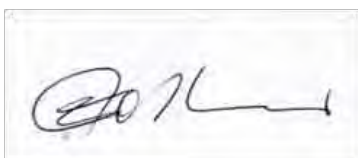
MDLA406 clearly contains a Resource of some size that will benefit from further min-SOSIE® seismic surveys and well-placed part-core drillholes for laboratory analyses of coal quality parameters, together with geotechnical details for assessment of Reserve potential.

MetroCoal has carried out an exploration programme with adequate resources for the stated aims. BDA considers that further exploration work is warranted. Seam thicknesses and correlations will be more sharply defined in areas with known prospective coal thicknesses, such as MDLA406. Both the possibility of CSG/UCG and conventional mining has been catered for in choice of target areas and drillhole parameters, together with backup geological mapping and modelling.

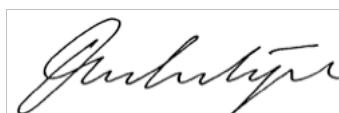
The proposed exploration programme over 2009-2011 has been allocated an adequate budget, with all key aspects planned, with the addition of seismic survey. BDA is of the view that the targets being aimed for are prospective for the discovery and definition of additional coal resources.

Yours faithfully

BEHRE DOLBEAR AUSTRALIA PTY LIMITED



Ian Poppitt
Senior Associate – BDA
(Dip. Tech. (Geology), M.App Sc. (Geology))
Member AusIMM, Member GSA



John McIntyre
Managing Director – BDA
B. Eng. (Mining, Honours)
Fellow AusIMM (Chartered Professional)



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ANNEXURE A - QUALIFICATIONS AND EXPERIENCE

This report has been prepared by Mr Ian Poppitt, a Senior Associate of BDA. Mr McIntyre has reviewed the data and report.

Behre Dolbear has offices in Denver, Hong Kong, Guadalajara, London, New York, Santiago, Sydney, Toronto and Vancouver. The parent company, Behre Dolbear & Company Inc. was founded in 1911 and is the oldest continuously operating mineral industry consulting firm in North America. The firm specialises in mineral evaluations, due diligence assessments, independent expert reports and strategic planning as well as technical geological, mining and process consulting.

Mr Ian Poppitt (DipTech. (Geology), M App Sc. (Geology), M.AusIMM, MGSA) is a Senior Associate of BDA. He is a qualified coal geologist, with over 30 years experience in coal mine geology and exploration in Australia and overseas. His principal fields of expertise include technical audit, resource and reserve estimation and assessment, operating experience in the open cut and underground mining of coal and resource evaluation. He has held senior management positions, including Group General Manager of Cyprus Australia Coal. He is familiar with the latest ore reserve terminology under the JORC Code, effective as at December 2004. He is qualified as a Competent Person under JORC Code protocols.

John McIntyre (BE (Min) Hon., FAusIMM, MMICA, CP(Min)), First Class Certificate of Competency, is a Principal and Managing Director of BDA. He is a mining engineer who has been involved in the mining industry for more than 35 years, with operational and management experience in coal, lead, zinc, nickel, gold, uranium and coal in open pit and underground operations. He has been involved in numerous mining projects and operations, feasibility studies and technical and operational reviews in Australia, West Africa, New Zealand, North America, PNG and South East Asia. He has been a consultant for more than 15 years and has been primarily involved in the management of BDA since 1994, including the development of the independent engineering and technical audit role. Mr McIntyre has been responsible for review of certain aspects of the review and final report editing.

ANNEXURE B - SCOPE OF WORK/LIMITATIONS AND EXCLUSIONS/MATERIALITY

Scope of Work

Review the overall geological environment with specific reference to prospective seams in the Juanda and Taroom coal measures in EPCs 1164, 1165, 1166, and 1167.

- a) Review available data compilation and comment on the exploration potential.
- b) Confirm the Company's data review and comment on the resultant Exploration Targets and their respective prospectivity and prioritisation.
- c) Identify current JORC Code compliant resources, if any (currently none).
- d) Assess potential resource areas and potential Exploration Target size.
- e) Comment on adequacy of exploration budget.
- f) Comment on potential to identify resources to support the possible development of underground coal gasification ("UCG") operations.
- g) Comment on potential to identify resources to support conventional open cut or underground mining.

As a basis for this review, the information provided for the Prospectus will be provided to BDA, and site access arranged as required for the convenience of BDA's schedule.

The cost of BDA's review will be paid for by the Company and payment is not contingent on the outcome of the report.

Limitations and Exclusions

This BDA is based on information provided by MetroCoal and their consultants. The work undertaken represents an overview of that information for potential investors to the IPO.

This BDA Report specifically excludes all aspects of any legal issues, commercial or financing matters, valuation, marketing, coal prices, land titles, agreements and contracts, apart from those aspects that may directly influence technical, operational or cost estimation matters.

In BDA's opinion, the information provided by MetroCoal and their consultants appears reasonable and nothing was discovered during the preparation of the BDA Report that suggested there was any significant error, misrepresentation or omission in respect of that information.



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ANNEXURE C - SOURCES OF INFORMATION

The principal reports and documents reviewed are listed below:

MetroCoal - Technical Reports

- Resource Report for Proposed EPS Area “Juandah Project”, July 2009, prepared by Buck, A & Smyth, W, GeoConsult Pty Ltd
- EPC1164/65/66/67 Project Areas and Drilling, Geological Reports, prepared MetroCoal 2007, 2008, 2009
- Macalister Upper geological map models thickness, cover EPC1165, prepared MetroCoal, 2009

General Data

- JORC Code - Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves - Report of the Joint Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia, 2004 Edition.
- The VALMIN Code - Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports – The VALMIN Code – 2005 Edition – (prepared by the VALMIN Committee, a joint committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Industry Consultants Association with the participation of the Australian Securities and Investment Commission, the Australian Stock Exchange Limited, the Minerals Council of Australia, the Petroleum Exploration Society of Australia, the Australia Securities Association of Australia and representatives from the Australian financial sector).



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METROCOAL LIMITED

TENEMENT DUE DILIGENCE REPORT 2009

Prepared by
ENVIRONMENTAL & LICENSING PROFESSIONALS PTY LTD

OCTOBER 2009





TENEMENT DUE DILIGENCE REPORT 2009

Prepared for:

Metrocoal Limited

Prepared by:

Environmental and Licensing Professionals Pty Ltd

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1.0 INTRODUCTION

MetroCoal Limited ("MetroCoal") has requested that Environmental & Licensing Professionals Pty Ltd ("ELP") conduct an independent review of the tenement status and provide a Tenement Report for the following 2 Exploration Permits for Coal ("EPC") Applications, 8 granted EPCs and 4 Mineral Development Licence ("MDL") Applications:

- EPC 1152 Lockyer Valley
- EPC 1159 Injune Creek
- EPC 1164 Wandoan West
- EPC 1165 Columboola
- EPC 1166 Dalby West
- EPC 1167 Roma North
- EPC 1251 Wandoan West 2
- EPC 1501 Dugandan
- EPCA 1609 Wandoan West 3
- EPCA 1640 Pentland South
- MDLA 406 Juandah
- MDLA 417 Elle
- MDLA 418 Kay
- MDLA 419 Jay

All these tenements are held by MetroCoal and are located in Queensland, Australia.

This short form report relates to a Prospectus issued in accordance with the Corporations Act. Rather than contain all the information that may be required to be set out in a standard document of this type in relation to the Tenements of the Company, it incorporates by reference the full Tenement Report.

The information incorporated by reference in this summary will primarily be of interest to professional analysts or advisers. However the summary and information contained below is provided to investors generally to determine whether, in making an informed assessment of the Offer and the matters required to be contained in a Prospectus under the Corporations Act, they should obtain a copy of the Full Tenement Report

This report is intended for inclusion in a Prospectus to be issued by MetroCoal. This version, Version 2 Prospectus, contains a summary of the body of the full report in table format due to size constraints. Please contact MetroCoal should you wish to view the full report.

The above documents can be obtained, at no cost, from the Company's registered office and are also available on the Company's website www.metrocoal.com.au.

This report provides a review of tenement status and environmental conditions of the aforementioned tenements, and summarises findings from the Queensland Department of Environment and Resource Management ("DERM"), Department of Employment, Economic Development and Innovation, Mines and Energy ("M&E"), National Native Title Tribunal ("NNTT") and the Australian Government Department of the Environment, Water, Heritage and the Arts ("DEWHA") public registers. Existing information from tenement files held by ELP was also used where required. No Departmental tenement files were accessed nor were site visits conducted by ELP.



07 INDEPENDENT REPORT ON TENEMENTS

This report details:

- the status of all tenements in relation to their compliance with the conditions of the *Mineral Resources Act 1989* (Qld) ("MR Act");
- the status of the Environmental Authorities ("EAs") for all tenements in accordance with the *Environmental Protection Act 1994* (Qld) ("EP Act");
- the status of financial assurance for each of the tenements;
- potential impacts on environmentally sensitive areas such as endangered regional ecosystems ("EREs"), non-indigenous cultural heritage sites, National Parks etc and likely constraints (if any) on the tenements;
- any matters of national environmental significance identified within the tenement areas in accordance with the *Environment Protection and Biodiversity Conservation Act 1999* (Cth) ("EPBC Act") such as : World Heritage Properties, Ramsar Sites (Wetlands of International Significance), Threatened Ecological Communities, Threatened Species, Migratory Species, Places on the RNE, Listed Marine Species, Commonwealth Land, State and Territory Reserves and Regional Forest;
- Native Title issues; and
- Indigenous and Non-Indigenous Cultural Heritage issues.

For the purposes of this report, we have reviewed available environmental documentation for the tenements and conducted searches of the registers maintained by the DERM and M&E in accordance with the MR Act, by the DERM – Environment in accordance with the EP Act, DERM – Resource Management in accordance with the *Aboriginal Cultural Heritage Act 2003* (Qld) and by the DEWHA in accordance with the EPBC Act. ELP has also consulted with the M&E and NNTT to clarify issues where relevant. Results of the findings are dependent on the accuracy of available documentation to ELP and the registers maintained by regulating government agencies.

Whilst the searches upon which this report is based are current as at 3 July 2009, there have been updates made to the report between 3 July and 13 October 2009, in order to present the most current status of the tenements. These updates reflect the fact that a number of tenements were applied for and a number of tenements were granted during this period. A few tenement actions that fell due during this period were also verified with M&E for compliance. During this period a number of requests to vary specific tenement conditions were made by Metrocoal to the Department, and subsequently approved.

All searches relied upon have been provided to Metrocoal.



2.0 SCOPE OF REVIEW

ELP compiles all tenement reports in accordance with the requirements of the VALMIN Code. This tenement report would normally be considered an "Independent Expert Report" under the code. 'Independent' is defined as "able to satisfy any relevant legal tests of independence and must be perceived to be willing and able to undertake an impartial assessment of valuation and to prepare an Independent Expert Report that is free of bias".

The amount of approximately \$9,000 plus any out of pocket expenses is all the remuneration (including commission) or any other benefits that any "nominated person" is to receive that might reasonably be expected to be or have been capable of influencing ELP in providing this report. In this context, a "nominated person" is any of (i) ELP, (ii) a related body corporate of ELP, (iii) a director or employee of ELP or a related body corporate of ELP, (iv) an associate of any of the above. Otherwise there are no other interests, whether pecuniary or not and whether direct or indirect, of ELP or any associate of ELP, or other associates or relationships between ELP or any associate of ELP and MetroCoal that might reasonably be expected to be or have been capable of influencing ELP in providing this report. Neither ELP nor any of its directors or employees has any beneficial interest in MetroCoal, nor in any of the tenements which are the subject of this report nor in any adjacent tenements.

2.1 Background Information

Environmentally Sensitive Areas

Environmentally Sensitive Areas ("ESAs") refers to locations, however large or small, that have environmental values that contribute to maintaining biological diversity and integrity, have intrinsic attributed scientific, historical or cultural heritage value, or are important in providing amenity, harmony or sense of community. Categories A, B and C ESAs are designated under the *Environmental Protection Regulation 1998*.

Endangered Ecosystems

Endangered Ecosystems are defined in Sattler and Williams (1999) "The Conservation Status of Queensland Bioregional Ecosystems" as well as additional information and surveys conducted by the Queensland Herbarium. Such definitions were required following the proclamation of the *Vegetation Management Act 1999*.

Endangered ecosystems are "Category B Environmentally Sensitive Areas" in the *Code of Environmental Compliance for Exploration and Mineral Development Projects for code compliant (standard) activities* (The Code of Environmental Compliance). For Exploration Projects, exploration using machinery must not be undertaken in, or within, 500 metres of these areas.

Non-Indigenous Cultural Heritage

Established under the *Queensland Heritage Act 1992*, the Queensland Heritage Register is a list of places, trees, natural formations, and buildings of cultural heritage significance in Queensland. Each entry of a cultural heritage site in the Register includes information about the place's history, its physical fabric, statements



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of its significance, and location details. Cultural heritage sites are categorised as Category B ESAs and are searchable via the Queensland Environmental Protection Agency's EcoAccess database.

Restricted Areas, Constrained and Sterile Land.

These are classifications of land applied by NRW, with certain requirements associated with each classification. A **Restricted Area** ("RA") classification means that access may be limited or may not be allowed in a certain area depending on:

- the type of tenure sought,
- the number of tenures permitted for that area,
- the amount of area required and
- the term permitted.

Additional conditions may be placed on tenures which occur in RAs. Consultation with the referral entity is also required prior to undertaking exploration or mining. A **Constrained Land** classification means that access to land may be possible, but only under specific conditions. A **Sterile Land** classification means that no access for mining or exploration is permitted.

Other Restricted Land

General Restricted Land requirements of the MR Act apply to all the tenement areas. Restricted Land includes:

- land within 100m of a permanent building used mainly for accommodation, business, community, sporting or recreational purposes or as a place of worship; and
- land within 50m from a stockyard, bore, dam, artificial water storage or cemetery or burial place.

Restrictions that could constrain mining and exploration activities include the existence of Restricted Land/Reserves and infrastructure such as:

- Transport infrastructure;
- Pipelines;
- Dams;
- Utilities and services (e.g. electricity and water);
- Homesteads;
- Stockyards; and
- Bores.

Native Title

In order to determine the relevance of native title to a particular tenement, analysis of numerous criteria such as the date of grant of the mining tenement, the conditions of grant, the status of the underlying land tenure etc, must be undertaken.

The effect of the *Native Title Act 1993 (Commonwealth)* ("NT Act") is that existing and new tenements which a company may hold or acquire may be affected by native title claims and procedures. Native title must be addressed in the grant of any mining tenement unless native title has been extinguished.



Exclusive Land

An exclusive tenure is an area over which native title has been extinguished or does not apply. In these instances, the M&E may elect to grant a tenement where >90% of the background land tenures are exclusive tenures without commencing a native title process.

Land tenures which are non-exclusive (that is, land over which native title has not been extinguished) ,still appearing within the boundaries of the tenements, are deemed to be not included within the grant of the tenement unless the holder specifically applies under Section 176A of the MR Act to include the land within into the tenement. that the application will normally lead to M&E triggering the Expedited Procedures of the NT Act.

The Expedited Procedure

Many of the exploration permits referred to in this report have been notified under the expedited procedure. A brief explanation of the procedure is set out here.

Under the NT Act, native title parties have a Right to Negotiate about the terms under which mining and exploration tenements are granted.

The Queensland state government has established an *expedited procedure*, a more streamlined process to the full Right to Negotiate, for the grant of those exploration permits where the exploration activities are only of a level that are:

- not likely to involve major disturbance to the land
- not likely to interfere with areas or sites of particular significance to native title holders
- not likely to interfere with the community or social activities of native title holders

The state government commences the expedited procedure by publishing a notice stating that it intends to grant the exploration permit subject to standard Native Title Protection Conditions.

There is an objection period of four months. Objections can be lodged within that period by 'Native Title Parties'; that is, either:

- a native title holder: where there has been a determination of native title by the Federal Court, the party who has been determined to hold native title rights; or
- a registered native title claimant: a party who has lodged a claim for native title rights with the Federal Court and that claim has passed the National Native Title Tribunal's registration test.

If no objection has been lodged within the four month period, or the objection is resolved, then the state government is able to grant the exploration permit, but makes the grant subject to a set of standard Native Title Protection Conditions (below).

If an objection is made, the Explorer and the registered native title party have an opportunity to negotiate an agreement about access arrangements. If agreement



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cannot be reached and the objection cannot be resolved, the explorer can still request the government to trigger the normal Right to Negotiate process for the grant of the exploration permit.

Native Title Protection Conditions ("NTPC")

These conditions are in a standard form and are designed to provide a means of minimising the impact of exploration activities on lands where native title rights may exist. The conditions set out a process for the explorer and the native title parties to:

- exchange information about the proposed exploration activities;
- meet and discuss those activities;
- conduct a field inspection together;
- reach agreement about ways of minimising the impacts of exploration activities, such as site protection measures, cultural heritage awareness, protecting cultural heritage finds and monitoring.

Indigenous Cultural Heritage

Indigenous cultural heritage is protected under the *Aboriginal Cultural Heritage Act 2003* (Qld), ("ACH Act"). The object of the legislation is to provide recognition, protection and conservation of Aboriginal cultural heritage. It does not have a permit or licensing system but instead imposes a duty of care on those conducting activities on land to take all reasonable and practicable measures to ensure the activity does not harm Aboriginal cultural heritage. Penalties apply for causing unauthorised harm.

Cultural heritage is not the same as native title; cultural heritage can exist on an area regardless of the nature of land tenure and whether or not native title has been extinguished. Likewise, the duty of care to ensure that Aboriginal cultural heritage is not harmed applies to activities on all land tenures, including land where native title has been extinguished.

Records of significant sites are kept in the Aboriginal and Torres Strait Islander Cultural Heritage Database and the Aboriginal and Torres Strait Islander Cultural Heritage Register, which are administered by the Cultural Heritage Coordination Unit of DERM – Resource Management. Both records are searchable, but DERM does not conclusively guarantee the accuracy of the search results, and it will always be the obligation of the explorer to satisfy themselves as to meeting their duty of care.

The search results of the Database will identify recorded Aboriginal *sites* and will provide the location (by coordinates) and a description of its nature (e.g., Artefact, Scar Tree, Stone Scatter, etc).

The search results of the Register will identify the relevant Aboriginal Party for the tenement and whether there have been any Cultural Heritage Management Plans undertaken within the area of the tenement.

The search results of the Register will also identify significant Aboriginal *areas* that have been recorded in the Aboriginal Cultural Heritage Register under section 46 of the ACH Act as a *cultural heritage registered area*. At the time of writing, there are only a small number of areas in Queensland that have been identified in this way. A cultural heritage registered area is given additional protection as a Category B



Environmentally Sensitive Area under Schedule 1A of the *Environmental Protection Regulation 1998*.

Part 7AA of the *Mineral Resources Act 1989* (Qld): Petroleum interests

All tenements reported on currently overlap with petroleum tenures. Petroleum tenure types include Exploration Permits for Petroleum or Authorities to Prospect ("EPPs/AtPs"), and Petroleum Leases ("PLs").

If the holder/s decide to apply in the future for a coal mining lease ("ML") within any of the EPCs, then Part 7AA of the MR Act will need to be observed. Part 7AA requires the ML applicant to consider the overlapping petroleum interests and negotiate with petroleum tenure holders.

The fact that there are overlapping petroleum interests would also have a bearing on the holder's ability to pursue Underground Coal Gasification interests under the State Government's *Underground Coal Gasification Policy* announced on Wednesday 18 February 2009.

3.0 SUMMARY OF TENEMENT STATUS

3.1 Tenement Status

Table One provides a summary of the status, conditions, compliance and constraints for each tenement the subject of this report, in accordance with the MR Act.

3.2 Environmental Status

Table Two provides a summary of the environmental status, conditions and constraints for each tenement the subject of this report, in accordance with Queensland and Commonwealth environmental legislation, regulations and Codes.

3.3 Native Title and Cultural Heritage Status

Table Three provides a summary of the native title and indigenous and non-indigenous status and constraints for each tenement the subject of this report, in accordance with the NT Act, the ACH Act, the NTPCs and the *Queensland Heritage Act 1992*.



Table 1: Tenement Status

Tenement	Permit/ Licence Document Held	Project Name	Project Location	Mining District	Registered Holder	Status	Date Granted / Lodged	Date Expires	Number of Sub-Blocks or Area (Ha)	Minimum Expenditure Commitments	Annual Rental	Rent Status	Permitted Minerals	Tenement Constraints	Compensation Agreement	Notices of Entry	Reporting Status & Due Date until 30 June 2010
EPC 1152 Lockyer Valley	Yes	Ipswich	Lockyer Valley west of Ipswich in the Clarence Moreton Basin of South East Queensland	Brisbane	MetroCoal Limited	Granted	12/12/2007	11/12/2012	150 (Request to retain current area until Nov 2010 approved 12/10/2009)	Yr 1 \$50,000 Yr 2 \$60,000 Yr 3 \$60,000 Yr 4 \$60,000 Yr 5 \$60,000	\$19,860.00 due 12/12/2009	Unpaid	Coal	Pre-existing MDLs, MDLAs and ML occur within EPC1152. No access to land under the pre-existing tenements	N/A	Dalby Regional Council & MR Brisbane advised 19/9/08 of proposed drilling on Road Reserves	Annual Report & Expenditure Statement due 12/1/2010
EPC 1159 Injune Creek	Yes	Injune	Injune, north of Roma in the Surat Basin of South East Queensland	Brisbane	MetroCoal Limited	Granted	12/12/2007	11/12/2010	237 (Request to retain current area until Nov 2010 approved 12/10/2009)	Yr 1 \$0,000 Yr 2 \$110,000 Yr 3 \$60,000	\$31,378.80 due 12/12/2009	Unpaid	Coal	N/A	N/A	N/A	Annual Report & Expenditure Statement due 12/1/2010
EPC 1164 Wandoan West	Yes	Surat	West of Wandoan in Queensland	Brisbane	MetroCoal Limited	Granted	12/12/2007	11/12/2010	215 (Request to retain current area until Nov 2010 approved 12/10/2009)	Yr 1 \$0,000 Yr 2 \$110,000 Yr 3 \$60,000	\$28,466.00 due 12/12/2009	Unpaid	Coal	Metrocoal's MDLA 406 occurs within this EPC. If the MDL is granted, the area of the EPC will be reduced accordingly	N/A	Various landowners advised 20/2/09 of proposed drilling	Annual Report & Expenditure Statement due 12/1/2010
EPC 1165 Columboola	Yes	Surat	Surrounding Miles in Queensland	Brisbane	MetroCoal Limited	Granted	10/12/2007	09/12/2010	294 (Request to retain current area until Nov 2010 approved 22/7/2009) & 20% reduction if renewal sought)	Yr 1 \$0,000 Yr 2 \$110,000 Yr 3 \$60,000	\$38,925.60 due 10/12/2009	Unpaid	Coal	ML 50233, held by Syntech Resources Pty Ltd, is located within the EPC. No access to land covered by this ML.	N/A	ELP advised landowners of Syntech Resources Pty Ltd of proposed work on behalf of Metrocoal	Annual Report & Expenditure Statement due 10/1/2010
EPC 1166 Dalby West	Yes	Surat	South west of Dalby in Queensland	Brisbane	MetroCoal Limited	Granted	12/12/2007	11/12/2012	97 (Request to retain current area until Nov 2010 approved 12/10/2009)	Yr 1 \$50,000 Yr 2 \$60,000 Yr 3 \$60,000 Yr 4 \$60,000 Yr 5 \$60,000	\$12,842.80 due 12/12/2009	Unpaid	Coal	N/A	N/A	N/A	Annual Report & Expenditure Statement due 12/1/2010

Tenement	Permit/ Licence Document Held	Project Name	Project Location	Mining District	Registered Holder	Status	Date Granted / Lodged	Date Expires	Number of Sub-Blocks or Area (Ha)	Minimum Expenditure Commitments	Annual Rental	Rent Status	Permitted Minerals	Tenement Constraints	Compensation Agreement	Notices of Entry	Reporting Status & Due Date until 30 June 2010
EPC 1167 Roma North	Yes	Surat	North, north-east of Roma in Queensland	Brisbane	MetroCoal Limited	Granted	12/12/2007	11/12/2010	289 (Request to retain current area until Nov 2010 approved 12/10/2009)	Yr 1 \$0,000 Yr 2 \$110,000 Yr 3 \$60,000	\$38,263.60 due 12/12/2009	Unpaid	Coal	N/A	N/A	N/A	Annual Report & Expenditure Statement due 12/1/2010
EPC 1251 Wandoan West 2	Yes	Surat	West of Wandoan in Queensland	Brisbane	MetroCoal Limited	Granted	17/09/08	16/09/13	19	Yr 1 \$20,000 Yr 2 \$30,000 Yr 3 \$30,000 Yr 4 \$30,000 Yr 5 \$30,000	\$2,515.60 due 17/09/2009	Paid 5 Oct 2009	Coal	Metrocoal's MDLA 406 occurs within this EPC. If the MDL is granted, the area of the EPC will be reduced accordingly	N/A	N/A	Annual Report & Expenditure Statement due 17/10/09
EPC 1501 Dugandan	N/A	Ipswich	West of Beaudesert in Queensland	Brisbane	MetroCoal Limited	Granted	29/09/2009	28/09/14	20	Yr 1 \$10,000 Yr 2 \$15,000 Yr 3 \$15,000 Yr 4 \$15,000 Yr 5 \$15,000	\$2,648	Paid 19 June 2009	Coal	N/A	N/A	N/A	N/A
EPCA 1609 Wandoan West 3	N/A	Surat	West of Wandoan in Queensland	Brisbane	MetroCoal Limited	Competing Application	Lodged 1/10/08	N/A	18	Yr 1 \$40,000 Yr 2 \$60,000 Yr 3 \$60,000 Yr 4 \$60,000 Yr 5 \$60,000	\$2,383.20 due prior to grant	N/A	Coal	N/A	N/A	N/A	N/A
EPCA 1640 Pentland South	N/A	Surat	South of Pentland in Queensland	Brisbane	MetroCoal Limited	Competing Application	Lodged 3/11/08	N/A	114	Yr 1 \$120,000 Yr 2 \$130,000 Yr 3 \$130,000 Yr 4 \$150,000 Yr 5 \$150,000	\$15,093.60 due prior to grant	N/A	Coal	Pre-existing MLs and ML access routes occur within EPCA1640. No access available to land under the pre-existing tenements	N/A	N/A	N/A



Table 1: Tenement Status (continued from page 86)

Tenement	Permit/ Licence Document Held	Project Name	Project Location	Mining District	Registered Holder	Status	Date Granted/ Lodged	Date Expires	Number of Sub-Blocks or Area (Ha)	Minimum Expenditure Commitments	Annual Rental	Rent Status	Permitted Minerals	Tenement Constraints	Compensation Agreement	Notices of Entry	Reporting Status & Due Date until 30 June 2010
MDLA 406 Juandah	N/A	Surat	West of Wandoan in Queensland	Brisbane	MetroCoal Limited	Application	Lodged 5/12/2008	N/A	4986 ha	Yr 1 \$330,000 Yr 2 \$330,000 Yr 3 \$50,000 Yr 4 \$50,000 Yr 5 \$50,000	\$19,196.10 due prior to grant	N/A	Coal	N/A	N/A	N/A	N/A
MDLA 417 Elle	N/A	Surat	South east of Miles in Queensland	Brisbane	MetroCoal Limited	Application	Lodged 7/08/2009	N/A	2434.86 ha	Yr 1 \$100,000 Yr 2 \$100,000 Yr 3 \$50,000 Yr 4 \$50,000 Yr 5 \$50,000	\$7,080.15 due prior to grant	N/A	Coal	N/A	N/A	N/A	N/A
MDLA 419 Jay	N/A	Surat	East of Miles in Queensland	Brisbane	MetroCoal Limited	Application	Lodged 7/08/2009	N/A	4254.8541 ha	Yr 1 \$100,000 Yr 2 \$100,000 Yr 3 \$50,000 Yr 4 \$50,000 Yr 5 \$50,000	\$13,005.30 due prior to grant	N/A	Coal	N/A	N/A	N/A	N/A
MDLA 418 Kay	N/A	Surat	North of Miles in Queensland	Brisbane	MetroCoal Limited	Application	Lodged 14/08/2009	N/A	1837.509 ha	Yr 1 \$100,000 Yr 2 \$100,000 Yr 3 \$50,000 Yr 4 \$50,000 Yr 5 \$50,000	\$7,103.25 due prior to grant	N/A	Coal	N/A	N/A	N/A	N/A

Table 2: Environmental Status

Tenement	Registered Holder	Status	EA Number & Type	Financial Assurance	Environmental Constraints
EPC 1152 Lockyer Valley	MetroCoal Limited	Granted	MIC200550007	\$2,500 paid to M&E 4/12/2007	Sterile Land CWA118 C'with acquisition or purchase & EP881 Env Pk excluded; EREs - machinery exploration excluded; Nature Refuges - Administering body and DERM - Environment consultation required; Matters of National Environmental Significance
EPC 1159 Injune Creek	MetroCoal Limited	Granted	MIC200554907	\$2,500 paid to M&E 4/12/2007	EREs - machinery exploration excluded; Matters of National Environmental Significance
EPC 1164 Wandoan West	MetroCoal Limited	Granted	MIC200554807	\$2,500 paid to M&E 4/12/2007	EREs - machinery exploration excluded; State Forests and Nature Refuges - Administering body and DERM-Environment consultation required; Matters of National Environmental Significance
EPC 1165 Columboola	MetroCoal Limited	Granted	MIC200557207	\$2,500 paid to M&E 29/11/2007	EREs - machinery exploration excluded; State Forests - Administering body and DERM-Environment consultation required; Matters of National Environmental Significance
EPC 1166 Dalby West	MetroCoal Limited	Granted	MIC200556807	\$2,500 paid to M&E 4/12/2007	Sterile Land (Lake Broadway Conservation Park) excluded; EREs - machinery exploration excluded; State Forests - Administering body and DERM-Environment consultation required; Matters of National Environmental Significance
EPC 1167 Roma North	MetroCoal Limited	Granted	MIC200564407	\$2,500 paid to M&E 4/12/2007	EREs - machinery exploration excluded; State Forests - Administering body and DERM-Environment consultation required; Matters of National Environmental Significance
EPC 1251 Wandoan West 2	MetroCoal Limited	Granted	MIC200720508	\$2,500 paid to M&E 8/7/2008	EREs - machinery exploration excluded; Matters of National Environmental Significance
EPC 1501 Dugandan	MetroCoal Limited	Granted	MIC200795208	\$2,500 paid to M&E 19/6/2009	Buffer of 1km from Logan River Dam Site, all mining activities prohibited; EREs - machinery exploration excluded; Matters of National Environmental Significance
EPCA 1609 Wandoan West 3	MetroCoal Limited	Competing Application	N/A	\$2,500 to be paid upon grant	State Forests, Nature Refuge and Resources Reserve - Administering body and DERM-Environment consultation required; EREs - machinery exploration excluded; Matters of National Environmental Significance
EPCA 1640 Pentland South	MetroCoal Limited	Competing Application	N/A	\$2,500 to be paid upon grant	National Park - Machinery exploration activities prohibited; Resources Reserve - Administering body and DERM-Environment consultation required; Matters of National Environmental Significance
MDL(A) 406 Juandah	MetroCoal Limited	Application	N/A	N/A	Surrounded by State Forests - Administering body and DERM-Environment consultation advised; EREs - machinery exploration excluded; Matters of National Environmental Significance
MDL(A) 417 Elle	MetroCoal Limited	Application	N/A	N/A	EREs - machinery exploration excluded; Matters of National Environmental Significance
MDL(A) 419 Jay	MetroCoal Limited	Application	N/A	N/A	State Forest to the west - Administering body and DERM-Environment consultation advised; EREs - machinery exploration excluded; Matters of National Environmental Significance
MDL(A) 418 Kay	MetroCoal Limited	Application	N/A	N/A	EREs - machinery exploration excluded; Matters of National Environmental Significance



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Table 3: Native and Cultural Heritage Status

Tenement	Registered Holder	Status	Native Title (Claim Number & Name)	Indigenous Land Use Agreement (ILUA)	Indigenous Cultural Heritage	Non-Indigenous Cultural Heritage	Land Tenure Constraints
EPC 1152 Lockyer Valley	MetroCoal Limited	Granted	Jagera People 2, (QC03/15; QUD6014/03) - registered native title claimant	Jagera Yuggera and Ugarapul and Ipswich City Council (Tribunal No. QI2007/037)	Aboriginal Cultural Heritage Sites recorded	6 Queensland Heritage Registered Places	Freehold land only
EPC 1159 Injune Creek	MetroCoal Limited	Granted	Bidjara People (QC08/5; QUD216/08) and Mandandanji People (QC08/10; QUD366/08) - registered native title claimants	N/A	Aboriginal Cultural Heritage Sites recorded	N/A	Freehold land only
EPC 1164 Wandoan West	MetroCoal Limited	Granted	Iman People 2 (QC97/55; QUD6162/98) and Mandandanji People (QC08/10; QUD336/08) - registered native title claimants	N/A	Aboriginal Cultural Heritage Sites recorded	N/A	Freehold land only
EPC 1165 Columboola	MetroCoal Limited	Granted	N/A	The Darling Downs to Wallumbilla Pipeline(s) ILUA (covering approx. 9 sq kms of EPC 1165)	Aboriginal Cultural Heritage Sites recorded	N/A	Freehold land only
EPC 1166 Dalby West	MetroCoal Limited	Granted	N/A	N/A	Aboriginal Cultural Heritage Sites recorded	N/A	Freehold land only
EPC 1167 Roma North	MetroCoal Limited	Granted	Iman People 2 (QC97/55; QUD6162/98) and Mandandanji People (QC08/10; QUD336/08) - registered native title claimants	N/A	Aboriginal Cultural Heritage Sites recorded	N/A	Freehold land only
EPC 1251 Wandoan West 2	MetroCoal Limited	Granted	Iman People 2 (QC97/55; QUD6162/98) - registered native title claimant	N/A	N/A	N/A	Freehold land only
EPC 1501 Dugandan	MetroCoal Limited	Granted	Jagera People 2 (QC03/15; QUD6014/03) - registered native title claimant	The Wyaralong Dam Project – Munanjali ILUA (Tribunal No. QI2007/024) overlaps approximately 1.5 sq km of EPCA 1501; Jagera Wyaralong Dam (QI2007/025) overlaps approximately 6 sq kms of EPCA 1501.	Aboriginal Cultural Heritage Sites recorded	N/A	Freehold land only
EPCA 1609 Wandoan West 3	MetroCoal Limited	Competing Application	Iman People 2 (QC97/55; QUD6162/98) - registered native title claimant	N/A	N/A	N/A	Freehold land only
EPCA 1640 Pentland South	MetroCoal Limited	Competing Application	Yirendali People Core Country Claim (QC06/20; QUD495/06) - registered native title claimant	N/A	N/A	N/A	Freehold land only
MDL(A) 406 Juandah	MetroCoal Limited	Application	Iman People 2 (QC97/55; QUD6162/98) - registered native title claimant	N/A	N/A	N/A	Freehold land only
MDL(A) 417 Elle	MetroCoal Limited	Application	N/A	N/A	3 Aboriginal Cultural Heritage sites recorded	N/A	Freehold land only
MDL(A) 419 Jay	MetroCoal Limited	Application	N/A	N/A	N/A	N/A	Freehold land only
MDL(A) 418 Kay	MetroCoal Limited	Application	N/A	N/A	N/A	N/A	Freehold land only

4.0 CONCLUSION

In summary, based on the results of the searches and enquiries undertaken within the scope of this report, all of the eight granted tenements subject to this due diligence assessment are held in good standing.

For the purposes of this report, no tenement actions are currently overdue. No upcoming actions other than those identified throughout this report are required on the tenements described.

All granted tenements have financial assurances lodged with M&E which are in accordance with M&E and DERM-Environment requirements. All EPCs under application currently have a proposed amount of financial assurance. The holder may be required, as a condition of the EA, to provide financial assurance to be lodged with the M&E when an offer of grant has been made to the holder.

There are numerous areas of constraint to exploration and mining within all the project areas reviewed. These areas of constraint are not uncommon in Queensland tenements, and include Environmentally Sensitive Areas ("ESAs") such as Endangered Regional Ecosystems ("EREs"), Restricted Areas and Constrained and Sterile Land.

5.0 REFERENCES

Reference should be had to The VALMIN Code, Tenements p13.

Cultural Heritage Register searches. Queensland Department of Environment and Resource Management.

M&E Public Register Searches. Mines and Energy, Department of Employment, Economic Development and Innovation.

EcoAccess Searches. Queensland Department of Environment and Resource Management - Environment.

EPBC Act Protected Matters Report. Australian Government Department of the Environment, Water, Heritage and the Arts

NNTT Native Title register searches. National Native Title Tribunal.

Queensland Government *Underground Coal Gasification Policy*.
http://www.dme.qld.gov.au/mines/underground_coal_gasification_policy.cfm



08

FINANCIAL INFORMATION



BDO Kendalls

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ABN 33 134 022 870

28 October 2009

The Directors
MetroCoal Limited
Unit 3, 1 Potts Street
EAST BRISBANE QLD 4169

Dear Directors

INDEPENDENT ACCOUNTANTS REPORT

1. Introduction

We have prepared this independent accountants report on historical and pro-forma financial information of MetroCoal Limited (MetroCoal or the Company) for inclusion in a prospectus dated on or about 28 October 2009, for the proposed issue by the Company of a minimum subscription of 33,600,000 Ordinary Shares or maximum subscription of 40,000,000 Ordinary Shares at a price of \$0.25 (25 cents) to raise a minimum of \$8,400,000 or a maximum of \$10,000,000 and to list on the Australian Securities Exchange (ASX).

The purpose of this report is to illustrate the financial position of MetroCoal as at 30 June 2009 and to provide investors with a pro-forma Balance Sheet as at 30 June 2009 adjusted to include pre-issue transactions and the capital raising.

This report does not address the rights attaching to the shares to be issued in accordance with the prospectus, the risks associated with the investment, nor forms the basis of an independent expert's opinion with respect to a valuation of MetroCoal or a valuation of the share issue price pre listing.

References to the Company and other terminology used in this report have the same meaning as defined in the Glossary of the prospectus in which this report appears.

BDO Kendalls is a national association of separate partnerships and entities.
Liability limited by a scheme approved under Professional Standards Legislation other than for the acts or omissions of financial services licensees.

2. Historical & Pro-Forma Financial Information

We have been requested to prepare a report covering the historical and pro-forma financial information described below and disclosed in the MetroCoal Prospectus at sections 8.2 and 8.3:

- the Historical Balance Sheet for MetroCoal as at 30 June 2009;
- the Pro-forma Balance Sheets for MetroCoal as at 30 June 2009;
- the Pro-forma transactions described in note 2 of Section 8.3; and
- the other notes to the Historical and Pro-forma balance sheets.

Together, the “MetroCoal Historical and Pro-forma Financial Information”.

The MetroCoal Historical and Pro-forma Financial Information presented in the MetroCoal Prospectus has been derived from the audited Historical Financial Information of MetroCoal for the year ended 30 June 2009 after reflecting the Pro-forma transactions detailed in note 2, section 8.3 of the MetroCoal Prospectus.

The Directors of MetroCoal are responsible for the preparation and presentation of the MetroCoal Historical and Pro-forma Financial Information, including the determination of the Pro-forma transactions.

The MetroCoal Historical and Pro-forma Financial Information is presented in an abbreviated form insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to financial reports prepared in accordance with the Corporations Act 2001.

3. Scope

We have reviewed the MetroCoal Historical and Pro-forma Financial Information in order to report whether anything has come to our attention which causes us to believe that the MetroCoal Historical and Pro-forma Financial Information set out in the MetroCoal Prospectus, does not present fairly in accordance with the recognition and measurement requirements of Australian Accounting Standards and other mandatory professional reporting requirements in Australia.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. We made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- Review of procedures applied to the financial data;
- Review of work papers, accounting records and other documents;
- Review of the Pro-forma transactions described in note 2, section 8.3 of the MetroCoal Prospectus; and
- Inquiry of Directors, management and others.

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These review procedures were substantially less in scope than an audit examination conducted in accordance with Australian Auditing Standards, the purpose of which is the expression of an opinion on the financial statements. Accordingly, we do not express such an opinion on the MetroCoal Historical and Pro-forma Financial Information.

The review statement expressed in this report has been formed on the above basis.

4. Review Statement

a) Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that the MetroCoal Historical and Pro-forma Financial Information set out in Sections 8.2 and 8.3 of the MetroCoal Prospectus does not present fairly in accordance with the recognition and measurement requirements of Australian Accounting Standards and other mandatory professional reporting requirements in Australia.

b) Without qualification to the opinion expressed above, we draw attention to the matters set out in Note 1(a) of Section 8.3. The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business. This includes the realisation of capitalised exploration expenditure in the Pro-forma Balance Sheet of \$2,232,917 (30 June 2009: \$2,032,917). The ability of the Company to maintain continuity of normal business activities, to pay its debts as and when they fall due and to recover the carrying value of their areas of interest, is dependent on the continued financial support of its parent entity (Metallica Minerals Ltd), the ability of the Company to successfully raise additional capital and/or the successful exploration and subsequent exploitation of their areas of interest through sale or development. Hence the financial report has been prepared assuming the going concern basis of accounting.

5. Subsequent Events

Apart from the matters dealt with in the report, and having regard to the scope of our report, to the best of our knowledge and belief no material items, transactions or events outside of the ordinary business of MetroCoal have come to our attention which would require comment on, or adjustment to, the information referred to in our report or that would cause the information to be misleading or deceptive.

6. Independence Disclosure

BDO Kendalls Audit & Assurance (QLD) Pty Ltd does not have any pecuniary interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to this matter. BDO Kendalls Audit & Assurance (QLD) Pty Ltd has provided advisory services and will receive a professional fee for the preparation of this Report. The Directors of BDO Kendalls Audit & Assurance (QLD) Pty Ltd do not hold nor have any interest in any Ordinary Shares of the Company or its subsidiaries.

BDO Kendalls (QLD) are the appointed Auditors for MetroCoal.

Consent to the inclusion of the Independent Accountants Report in this Prospectus in the form and context in which it appears has been given. At the date of this report consent has not been withdrawn.



7. General Advice Limitation

This report has been prepared and included in the Prospectus to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor.

This report is not intended to take the place of any professional advice and investors should not make specific investment decisions in reliance on the information contained in the report. Before acting or relying on any information, an investor should consider whether it is appropriate for their circumstances having regard to their objectives, financial situation or needs.

Yours faithfully

BDO Kendalls Audit & Assurance (QLD) Pty Ltd

A handwritten signature in black ink, appearing to read 'Craig Jenkins', is written over a faint, light blue circular stamp. The stamp contains the text 'BDO Kendalls' at the top and 'Audit & Assurance (QLD) Pty Ltd' at the bottom.

Craig Jenkins

Director



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SECTION 8.2 BALANCE SHEET AT 30 JUNE 2009

	Note	Historical	Pro-Forma Minimum Subscription	Pro-Forma Maximum Subscription
		\$	\$	\$
ASSETS				
Current assets				
Cash and cash equivalents	3	32,914	8,560,464	10,051,264
Other assets		20,966	20,966	20,966
Total current assets		53,880	8,581,430	10,072,230
Non-current assets				
Property, plant & equipment		36,113	36,113	36,113
Exploration expenditure		2,032,917	2,232,917	2,232,917
Total non-current assets		2,069,030	2,269,030	2,269,030
Total assets		2,122,910	10,850,460	12,341,260
LIABILITIES				
Current liabilities				
Trade and other payables		186,228	186,228	186,228
Borrowings		750,000	-	-
Total current liabilities		936,228	186,228	186,228
Non-current liabilities				
Borrowings		-	1,000,000	1,000,000
Total non-current liabilities		-	1,000,000	1,000,000
Total liabilities		936,228	1,186,228	1,186,228
Net assets		1,186,682	9,664,232	11,155,032
EQUITY				
Issued capital	4	2,079,144	11,236,208	12,774,684
Option reserve		7,641	7,641	7,641
Retained earnings/(Accumulated losses)		(900,103)	(1,579,617)	(1,627,293)
Total equity		1,186,682	9,664,232	11,155,032

The above balance sheet should be read in conjunction with the accompanying notes.

SECTION 8.3 NOTES TO THE FINANCIAL INFORMATION

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial information complies with the recognition and measurement principles prescribed in Australian Accounting Standards. The financial information is presented in an abbreviated form in so far as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act 2001.

Basis of Preparation

The financial information has been prepared on an historical cost basis.

The financial information is prepared in Australian Dollars.

The following significant accounting policies have been adopted in the preparation and presentation of the financial information.

(a) Going Concern & Recoverability of Exploration Expenditure

The financial information has been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business. This includes the realisation of capitalised exploration expenditure of \$2,232,917 (30 June 2009: \$2,032,917). The ability of the company to maintain continuity of normal business activities, to pay its debts as and when they fall due and to recover the carrying value of areas of interest, is dependent on the continued financial support of its parent entity (Metallica Minerals Ltd), the ability of the company to successfully raise additional capital and/or successful exploration and subsequent exploitation of areas of interest through sale or development. Hence the financial information has been prepared assuming the going concern basis of accounting.

(b) Income Tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the notional income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial

statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for all temporary differences, between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. Exceptions are made for certain temporary differences arising on initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit.

Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

(c) Impairment of Assets

At each reporting date the Company assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in the income statement where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

(d) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at bank, deposits held at call with financial institutions and short-term highly liquid investments with maturities of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts.

(e) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Company prior to the year end and which are unpaid and unsecured.



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(f) Exploration and evaluation expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. Such expenditures comprise net direct costs and an appropriate portion of related overhead expenditure but do not include overheads or administration expenditure not having a specific nexus with a particular area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active or significant operations in relation to the area are continuing.

A provision is raised against exploration and evaluation expenditure where the Directors are of the opinion that the carried forward net cost may not be recoverable or the right of tenure in the area lapses. The increase in the provision is charged against the results for the year. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review has been undertaken on each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structure, waste removal, and rehabilitation of the site in accordance with clauses of mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that restoration will be completed within one year of abandoning the site.

(g) Plant and Equipment

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flow that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the company or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all plant and equipment is depreciated on a straight line basis over their useful lives to the company commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable asset are:

Class of Fixed Asset	Depreciation Rate
Plant and Equipment	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

(h) Issued Capital

Ordinary shares are classified as equity.

Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration.

(i) GST

Revenues, expenses are recognised net of GST except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

(j) Financial Liabilities

Borrowings are initially recognised at fair value, net of transaction costs incurred. Convertible note borrowings are measured at the fair value of the liability portion of the convertible note as determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the note. The remainder of the proceeds are allocated to the conversion option. This is recognised and included in equity, net of tax.

(k) Borrowing Costs

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are included in the costs of a qualifying asset or relate to establishment costs which are amortised over the term of the borrowing. Borrowing costs include interest, amortisation of borrowing costs and unwinding of the discount on convertible notes.

2. ASSUMPTIONS USED IN COMPILING THE PROFORMA BALANCE SHEET

The pro-forma balance sheet has been prepared consistently with the accounting policies described in note 1.

The purpose of the proforma balance sheet is to incorporate the effect of the following proposed events subsequent to 30 June 2009 as if they had occurred on that date.

- (a) For the minimum subscription, receipt of \$8,400,000 from the issue of 33,600,000 shares at an issue price of 25 cents per share pursuant to this prospectus;
- b) For the maximum subscription, receipt of \$10,000,000 from the issue of 40,000,000 shares at an issue price of 25 cents per share pursuant to this prospectus;
- (c) Payment and accrual of costs associated with the issue of shares estimated to be \$904,050 for minimum subscription and \$1,013,250 for maximum subscription. The costs attributable to the issue of the minimum and maximum number of shares have been charged to issued share capital;
- (d) Receipt of \$1,000,000 from the issue of 6,683,663 shares at an issue price of 15

cents per share from raising of capital from seed shareholders;

- (f) Payment of \$200,000 in expenses for exploration expenditure incurred between 1 July 2009 to the date of the prospectus;

- (j) Included in the capital raising costs are fees payable to the broker of the issue. This includes a capital raising fee of 5.5% of funds raised directly by the broker of the issue. For the purposes of the proforma transactions, the broker of the issue has been projected to raise \$8,400,000 for the minimum subscription and \$10,000,000 for the maximum subscription. Fees of \$75,000 for management of the capital raising is also payable to the broker. The brokers were also paid a total of \$18,400 for fees relating to capital raising undertaken in August 2009 for seed capital raising.

- (k) On 19 October 2009, MetroCoal Ltd entered into a Convertible Note Deed with its parent entity, Metallica Minerals Ltd for \$1M. This Convertible Note Deed replaces the previous funding arrangements that were in place between these parties for the same amount.

For the purposes of the proforma balance sheet, the convertible notes are classified as a compound financial instrument, whereby the fair value of the convertible note is recognised as a liability and the difference between this fair value and the face value of the convertible note is recognised as the fair value of the option. The fair value of the option has been determined to be immaterial and has not been recognised, however the debt has been appropriately reclassified as non-current in the Pro-Forma Balance Sheet.



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3. CASH AND CASH EQUIVALENTS

	Historical	Pro-Forma Minimum Subscription	Pro- Forma Maximum Subscription
	2009	2009	2009
	\$	\$	\$
Cash at bank	32,914	8,560,464	10,051,264
Reconciliation of proforma movement:			
Cash per historical balance sheet	32,914	32,914	32,914
Proceeds from Share issue post historical balance sheet prior to this prospectus	-	1,000,000	1,000,000
Proceeds of share issue pursuant to this prospectus	-	8,400,000	10,000,000
Proceeds from further loan funds received from parent company	-	250,000	250,000
Payments for exploration expenditure between 1 July 2009 to the date of this prospectus	-	(200,000)	(200,000)
August 2009 seed capital raising costs	-	(18,400)	(18,400)
Payments for capital raising costs between 1 July 2009 to the date of this prospectus and capital raising costs payable at the time of capital raising	-	(904,050)	(1,013,250)
Cash per Pro-Forma balance sheet	32,914	8,560,464	10,051,264

4. ISSUED CAPITAL

	Note	Historical		Proforma Minimum Subscription		Proforma Maximum Subscription	
		2009	2009	2009	2009	2009	2009
		Shares	\$	Shares	\$	Shares	\$
Shares on issue at 30 June 2009		95,000,000	2,079,144	95,000,000	2,079,144	95,000,000	2,079,144
Shares issued from August 2009 seed capital raising		-	-	6,683,663	1,000,000	6,683,663	1,000,000
Shares issued on IPO		-	-	33,600,000	8,400,000	40,000,000	10,000,000
Capital raising costs for August 2009 seed capital raising					(18,400)		(18,400)
Prospectus issue costs	(a)	-	-	-	(224,536)	-	(286,060)
		95,000,000	2,079,144	135,283,663	11,236,208	141,683,663	12,774,684

Note (a)

	Pro-Forma Minimum Subscription	Pro-Forma Maximum Subscription
	2009	2009
	\$	\$
Professional costs	185,000	185,000
Regulatory costs	40,000	40,000
Other costs	58,050	63,250
Management success fee	84,000	100,000
Underwriting & Broker fees	537,000	625,000
	904,050	1,013,250

Allocation of total capital raising costs to existing shareholders and new shares issued

	Pro-Forma Minimum Subscription	Pro-Forma Maximum Subscription
	2009	2009
	\$	\$
Expensed to retained earnings	679,514	727,190
Allocated to equity – (a) above	224,536	286,060
	904,050	1,013,250

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RISK FACTORS

9.1 Introduction

An investment in the Shares being offered under this Prospectus is not risk free. Exploration and evaluation for minerals is generally considered a high-risk activity, and the worst case scenario is that most or all of the investment could be lost.

The future performance of MetroCoal and the future investment performance of the Shares may be influenced by a range of factors. Many are outside the control of the Board. Prior to making any decision to accept the Offer, investors should carefully consider the following risk factors applicable to the Company.

Careful consideration should be given to the following risk factors, as well as the other information contained in this Prospectus and the Applicant's own knowledge and enquiries, before an investment decision is made. Some of the risks may be mitigated by the Company using safeguards and appropriate systems and taking certain actions. Some of the risk may be outside the control of MetroCoal and not capable of mitigation. There are also general risks associated with any investment in Shares.

The risks described below are not to be taken as exhaustive. The specific risks considered and others not specifically referred to may in the future materially affect the financial performance of the Company and the value of the Shares offered under this Prospectus.

9.2 General risks

A summary of the major general risks are described below.

(a) Share Market risk

Prior to the Offer, there has been no public market for the Shares. The Shares may trade on the ASX at higher or lower prices than the Offer Price following listing.

Investors who decide to sell their Shares after listing may not receive the entire amount of their original investment. There can be no guarantee that an active market in the Shares will develop or that the price of the Shares will increase.

The market price of Shares can be expected to rise and fall in accordance with general market conditions and factors specifically affecting the Australian resources sector and exploration companies in particular.

There are a number of factors (both national and international) that may affect the Share market price and

neither the Company nor its Directors have control of those factors. These factors include:

- economic conditions and general economic outlook;
- changes in Australian and international stock markets;
- interest rates and inflation rates;
- currency fluctuations;
- perception of investors towards particular market sectors;
- taxation, government and monetary policies; and
- the demand for and supply of capital.

(b) General economic conditions

Changes in the general economic climate in which MetroCoal operates may adversely affect the financial performance of the Company. Factors that may contribute to that economic climate include the general level of economic activity, interest rates, inflation and other economic factors. The price of commodities and level of activity within the mining industry will also be of particular relevance to MetroCoal.

(c) Legislative change

Changes in government regulations and policies may adversely affect the financial performance or the current and proposed operations generally of the Company. Otherwise than as set out in this Prospectus, MetroCoal is not aware of any current or proposed material changes in relevant regulations or policy.

(d) Government policy regarding coal

Investors should be aware that policies being developed by various international governments, including the Australian government, may become increasingly negative towards the development and production of fossil fuels, in particular coal. The view of the Company is that coal should and will, have a growing role in the fuel mix if global prosperity is to be sustained. However, there is a risk that State and Federal Governments will take actions which will damage the economic feasibility of coal production and thus affect the value of the Company's assets and its financial performance generally.

(e) Unforeseen expenses

While the Company is not aware of any expenses that may need to be incurred that have not been taken into account, if such expenses were subsequently incurred, the expenditure proposals of the Company may be adversely affected.



9.3 Risks specific to an investment in the Company

In addition to the general market and economic risks noted above, investors should be aware of the risks specific to an investment in the Company. The major risks are described below.

(a) Changes in commodity price

MetroCoal's possible future revenues will probably be derived mainly from coal, by-products of coal (such as syngas) and/or from royalties gained from potential joint ventures or from coal projects sold. Consequently, MetroCoal's potential future earnings could be closely related to the price of these commodities.

Coal prices fluctuate and are affected by numerous industry factors including demand for coal, forward selling by producers, production cost levels in major producing regions and macroeconomic factors, eg inflation, interest rates, currency exchange rates and global and regional demand for, and supply of, coal. If the market price of coal (or any by-product) sold by MetroCoal were to fall below the costs of production and remain at such a level for any sustained period, the Company would experience losses and could have to curtail or suspend some or all of its proposed mining activities. Moreover, products derived from coal (such as syngas) will logically compete with conventional energy sources such as oil. There is a risk that any reduction in the conventional energy prices will necessarily have an effect on MetroCoal's potential future earnings derived from UCG. In such circumstances, MetroCoal would also have to assess the economic impact of any sustained lower commodity prices on recoverability.

(b) Exploration and evaluation risk

Potential investors should understand that mineral exploration and development are high risk undertakings. While the Company has attempted to reduce this risk by selecting projects that have identified prospective mineral targets, there is still no guarantee of success. Even if an apparently viable deposit is identified, there is no guarantee that it can be economically exploited.

The Company's exploration and appraisal activities are dependent upon the grant and maintenance of appropriate licences, permits, resource consents, access arrangements and regulatory authorities (authorisations) which may not be granted or may be withdrawn or made subject to limitations.

Although the authorisations may be renewed following expiry or granting (as the case may be), there can be no assurance that such authorisations will be renewed or

granted on the same terms. There are also risks that there could be delays in obtaining such authorisations. If the Company does not meet its work and/or expenditure obligations under its authorisations, this may lead to dilution of its interest in, or the loss of such authorisations.

The business of commodity development and production involves a degree of risk. Amongst other factors, success is dependent on successful design, construction and operation of efficient gathering, processing and transportation facilities. Even if the Company discovers or recovers potentially commercial quantities of coal from its exploration activities, there is no guarantee that the Company will be able to successfully transport these resources to commercially viable markets or sell the resources to customers to achieve a commercial return.

(c) Operational risk

If the Company decides to develop and commission a mine, the operations of the Company including mining and processing may be affected by a range of factors. These include failure to achieve predicted grade in exploration, mining and processing, technical difficulties encountered in commissioning and operating plant and equipment, mechanical failure, metallurgical problems which affect extraction rates and costs, adverse weather conditions, industrial and environmental accidents, industrial disputes, unexpected shortages or increase in the costs of consumables, spare parts, plant and equipment.

(d) Resource and reserves risk

The future success of the Company will depend on its ability to find or acquire coal reserves that are economically recoverable. There can be no assurance that the Company's planned exploration activities will result in significant resources or reserves or that it will have success mining coal. Even if the Company is successful in finding or acquiring coal reserves or resources, reserve and resource estimates are estimates only and no assurance can be given that any particular level of recovery from coal resources or reserves will in fact be realised or that an identified coal resource will ever qualify as commercially viable which can be legally and economically exploited. Market price fluctuations in the price of coal, as well as increased production costs or reduced recovery rates may render coal reserves and resources containing relatively lower grades of mineralisation uneconomic and may ultimately result in a restatement of reserves and/



09 RISK FACTORS

or resources. Short-term operating factors relating to the coal reserves and resources, such as the need for orderly development of the ore bodies and the processing of new or different mineral grades may cause a mining operation to be unprofitable in any particular accounting period and may adversely affect the Company's profitability.

The mining of coal involves a high degree of risk, including that the coal mined may be of a different quality, tonnage or strip ratio from that estimated.

(e) Sustainability of growth and margins

The sustainability of growth and the level of profit margins from operations are dependent on a number of factors outside of the Company's control. Industry margins in all sectors of the Company's activities and in competing sectors (such as oil and other conventional energy sources) are likely to be subject to continuing but varying pressures, including competition from other current or potential suppliers.

(f) Financing

MetroCoal's ability to effectively implement its business strategy over time may depend in part on its ability to raise additional funds. There can be no assurance that any such equity or debt funding will be available to the Company on favourable terms or at all. If adequate funds are not available on acceptable terms, the Company may not be able to take advantage of opportunities or otherwise respond to competitive pressures.

(g) Reliance on key personnel

Whilst MetroCoal has just a few executives and senior personnel, its progress in pursuing its exploration and evaluation programmes within the time frames and within the costs structure as currently envisaged could be dramatically influenced by the loss of existing key personnel and a failure to secure and retain additional key personnel as the Company's exploration programme develops. The resulting impact from such loss would be dependent upon the quality and timing of the employee's replacement.

Although the key personnel of MetroCoal have a considerable amount of experience and have previously been successful in their pursuits of acquiring, exploring and evaluating mineral projects, there is no guarantee or assurance that they will be successful in their objectives pursuant to this Prospectus.

(h) Exchange rate risk

The revenues, earnings, assets and liabilities of MetroCoal may be exposed adversely to exchange rate fluctuation.

(i) Industrial risk

Industrial disruptions, work stoppages and accidents in the course of MetroCoal's operations could result in losses and

delays, which may adversely affect profitability.

(j) Environmental risk

The Company's operations and projects are subject to State and Federal laws and regulation regarding environmental hazards. These laws and regulations set various standards regulating certain aspects of health and environmental quality and provide for penalties and other liabilities for the violation of such standards and establish, in certain circumstances, obligations to remediate current and former facilities and locations where operations are or were conducted. Significant liability could be imposed on the Company for damages, clean up costs, or penalties in the event of certain discharges into the environment, environmental damage caused by previous owners of property acquired by the Company or its subsidiaries, or non compliance with environmental laws or regulations. The Company proposes to minimise these risks by conducting its activities in an environmentally responsible manner, in accordance with applicable laws and regulations and where possible, by carrying appropriate insurance coverage.

(k) Insurance arrangements

The Company intends to ensure that insurance is maintained within ranges of coverage that the Company believes to be consistent with industry practice and having regard to the nature of activities being conducted. No assurance however, can be given that the Company will be able to obtain such insurance coverage at reasonable rates or that any coverage it arranges will be adequate and available to cover any such claims.

(l) UCG technology

There are a number of risks associated with the implementation and commercial exploitation of UCG. These risks are identified in Section 5 of this Prospectus and include:

- (1) risk of commercial implementation
- (2) operational risks
- (3) operational approval
- (4) technology licensing requirements; and
- (5) marketing and sales risks.

UCG technology is not a recent development as it has been extensively conducted in the Former Soviet Union for almost 50 years. However, it is yet to be commercially exploited on any economic scale in the Western world and consequently is yet to be proven that it is able to be successfully commercially exploited at this level. As a consequence, no guarantee can be given that the Company will successfully implement and commercially exploit UCG technology in the

areas designated for UCG as described in this Prospectus or otherwise.

(m) Contractual risks

MetroCoal is a party to various contracts and, during the course of its exploration and development, is likely to enter into additional contractual arrangements. Whilst MetroCoal will have various contractual rights in the event of non-compliance by a contracting party, no assurance can be given that all contracts to which MetroCoal is or will be a party will be fully performed by all contracting parties. Additional, no assurance can be given that if a contracting party does not comply with any contractual provision, that MetroCoal will be successful in security compliance.

(n) Management actions

Directors of the Company will, to the best of their knowledge, experience and ability (in conjunction with their management) endeavour to anticipate, identify and manage the risks inherent in the activities of the Company, but without assuming any personal liability for the same, with the aim of eliminating, avoiding and mitigating the impact of risks on the performance of the Company and its security.

(o) Land access risk

Land access is critical for exploration and evaluation to succeed. In all cases the acquisition of prospective tenements is a competitive business, in which propriety knowledge or information is critical and the ability to negotiate satisfactory commercial arrangements with other parties is often essential.

Access to land for exploration purposes can be affected by land ownership, including private (freehold) land, pastoral lease and native title land or claims under the Native Title Act 1993 (Commonwealth). Rights to mineral tenements carry with them various obligations in regard to minimum expenditure levels and responsibilities in respect of the environment and safety. Failure to observe these requirements could prejudice the right to maintain title to a given area.

(p) Government policy

The availability and rights to explore and mine, as well as industry profitability generally, can be affected by changes in government policy that are beyond the control of the Company.

The Queensland Minister for the Petroleum and Gas (Production and Safety) Act 2004 (Qld) and the Mineral Resources Act 1989 (Qld) does conduct reviews from time to time of policies in connection with the granting and administration of mining tenements. At present the Company is not aware of any proposed changes to policy that would affect its tenements other than the following:

- (1) from 1 January 2009, the Environmental Protection Regulation 2008 has replaced the Environmental Protection Regulation 1998, resulting in a number of significant changes, including re-defining Environmentally Relevant Activities that impact permits to be issued and renewed;
- (2) the Mines and Energy Legislation Amendment Bill 2008 (Bill) (introduced into the Queensland Parliament on 7 October 2008) proposes to amend the Mineral Resources Act 1989 (Qld) (**MRA**) to introduce a public interest test for the approval processes for the grant, renewal and variation of, and determination of conditions for, mining tenements in Queensland. While there has always been some discretion on the part of the Minister and other relevant decision-makers, this amendment introduces a new element, the potential scope of which is not yet clear. There is a risk that if the Bill becomes law the Government will potentially have broader powers to refuse mining tenures and impose conditions going forward;
- (3) the Queensland Government policy in relation to overlapping tenure described in paragraph (r) of this Section below.

In Queensland, the Aboriginal Cultural Heritage Act 2003 and the Torres Strait Islander Cultural Heritage Act 2003 (which commenced on 16 April 2004) impose duties of care which require persons, including the Company, to take all reasonable and practical measures to avoid damaging or destroying Aboriginal cultural heritage. This obligation applies across the State and requires the Company to develop suitable internal procedures to discharge its duty of care in order to avoid exposure to substantial financial penalties if its activities damage items of cultural significance. Under this legislation, indigenous people can exercise control over land with respect to cultural heritage without necessarily having established the connection element (as required under native title law). This creates a potential risk that the tenement holder may have to deal with several indigenous individuals or corporations, where no native title has been established, to identify and manage cultural heritage issues. This could result in tenement holders requiring lengthy lead times to manage cultural heritage for their projects.

Changing attitudes to environmental, land care, cultural heritage and indigenous land rights' issues, together with the nature of the political process, provide the possibility for future policy changes. There is a risk that such changes may affect the Company's exploration plans or, indeed, its rights and/or obligations with respect to the tenements.



09 RISK FACTORS

(q) Native Title risk

The effect of the Native Title Act 1993 (Cth) (**NTA**) is that existing and new tenements held by the Company may be affected by native title claims and procedures.

The Company has not undertaken the historical, legal or anthropological research and investigations at the date of this Prospectus that would be required to form an opinion as to whether any existing or future claim for native title could be upheld over a particular parcel of land covered by a tenement.

There is a potential risk that a determination could be made that native title exists in relation to land the subject of a tenement held or to be held by the Company which may affect the operation of the Company's business and development activities. In the event that it is determined that native title does exist or a native title claim is registered, the Company may need to comply with procedures under the NTA in order to carry out its operations or to be granted any additional rights such as a Mining Lease. Such procedures may take considerable time, involve the negotiation of significant agreements, may involve a requirement to negotiate for access rights, and require the payment of compensation to those persons holding or claiming native title in the land which is the subject of a tenement. The administration and determination of native title issues may have a material adverse impact on the position of the Company in terms of cash flows, financial performance, business development, ability to pay dividends and the Share price.

(r) Tenements and Overlapping Tenure

Queensland legislation currently allows for the grant of coal tenements, including UCG and for the grant of CSG tenements under different legislative regimes. Details of the legislative regimes is set out in Section 5 of this Prospectus.

In Queensland, the administration of CSG and UCG under the different Acts of Parliament has created an issue involving overlapping tenure.

To address these issues, the State Government released the Underground Coal Gasification Policy (**Policy**) on 18 February 2009. The salient parts of the Policy and corresponding risks to MetroCoal in implementing its UCG strategy include the following:

- except for those areas covered by the three pilot projects by Linc Energy, Carbon Energy and Cougar

Energy, where UCG and CSG tenements are currently overlapping, the Policy states that preference will be given to the holder of the CSG tenure;

- no further UCG pilot projects will be allowed (subject to the discretion of the Minister to approve any additional UCG pilot projects which have a strong ability to further demonstrate the efficacy of UCG technology);
- for UCG tenements without overlapping petroleum tenure; or areas that become free of existing petroleum tenure in the future; or where the UCG tenure holder has the consent of the CSG tenure holder (if any), the UCG tenure holder will have the right to apply for the grant of a "specified mineral exploration permit" (**EPS**);
- an industry committee is to consider a regime for the grant of future UCG and CSG tenures. The future regime may provide for no CSG tenure to be granted where there is an existing UCG tenure and no UCG tenure to be granted where there is an existing CSG tenure. It may also provide for the grant of future EPSs through a competitive process, potentially similar to the present process for the grant of CSG tenure; and
- the Policy requires a report on the outcomes of the pilot projects to be prepared by the Environmental Protection Agency and a State Government appointed scientific expert panel between December 2010 and December 2011, with the findings of the report to be presented to Cabinet in 2011/2012. From that report, the State Government will evaluate the viability of the UCG industry in Queensland. UCG activities may be constrained or prohibited if adverse findings on the UCG technology are reported by the State Government.

Accordingly, there is no guarantee that further development of UCG will be permitted where there is presently over-lapping CSG tenure. There also exists a risk under the Policy that future UCG activities will be constrained or prohibited which may have a corresponding effect on the future financial position and performance of the Company. Further details of the Policy are contained in Section 5 of this Prospectus.

(s) Carbon pollution reduction scheme

On 10 March 2009, the Federal Government released its exposure drafts in respect of the proposed introduction of a Carbon Pollution Reduction Scheme (**CPRS**). The CPRS Bill 2009 provides that from 1 July 2010 the mandatory requirements of the CPRS Cap and Trade system of

Australian Emission Units will commence. On 4 May 2009 the Government announced that it will delay the start of the CPRS by one year.

At this time, it is difficult for the Company to accurately determine how the CPRS, assuming it becomes law, may impact on the Company and its business activities. In accordance with the Bill it is likely that the Company and its subsidiaries as explorers and potential exporters of coal will be subject to requirements to obtain carbon pollution permits (and incur the associated costs of obtaining those carbon pollution permits) unless they are able to take steps under the CPRS to minimise any adverse impact.

(t) Application risk

The Company has a number of applications for tenements. Whilst the Company is not aware of any reason why the applications will not be granted, the grant involves the exercise of administrative functions (including discretion), which are beyond the control of the Company.

Any failure of these applications to be granted may have a material adverse effect on the ability of the Company to explore for or commercially exploit minerals on the areas comprised in those applications.

(u) Transport and port capacity

There is currently very high demand for rail and port services for coal export in Queensland, which is further constrained by limited capacity. If the Company were to rely upon existing infrastructure, in the event that the Company progresses to production, there is no guarantee that suitable capacity will be available to the Company if and when the Company requires such capacity on commercially acceptable terms. Any failure by the Company to secure appropriate capacity on available infrastructure should the Company progress to production could have a material adverse effect on the Company's business, financial condition and results of operations.

(v) Limited operating history

The Company is a relatively new exploration company with limited operating history. The Company has yet to generate a profit from its activities as it has predominantly expended its capital on exploration. The Company will be subject to all of the business risks and uncertainties associated with any new business enterprise, including the risk that it will not achieve its growth objective.

(w) Competition

There is competition within the mining industry for the discovery and acquisition of properties considered to have commercial potential. The Company competes with other

mining companies, many of which have greater financial resources than the Company, for the acquisition of coal claims, leases and other coal interests as well as for the recruitment and retention of qualified employees and other personnel.

(x) Maps and diagrams

The Company has commissioned and produced numerous diagrams and maps in this Prospectus to help identify and describe the Tenements and the targets sought by the Company (including potential sites for drilling) on those Tenements. Maps and diagrams should only be considered an indication of the current intention of the Directors in relation to targets and potential areas for exploration and drilling, which may change.

9.4 General

Any combination of the above factors may materially affect any individual coal project assets, operations or the financial performance of MetroCoal and the value of its securities. To that extent the Shares offered in this Prospectus are subject to significant risk and uncertainty with respect to return or preservation of capital, the price (if any) at which the Shares may trade and the payment of dividends in any future time.



10

SUMMARY OF MATERIAL CONTRACTS

A summary of the material agreements to which the Company is a party is set out below:

10.1 Underwriting Agreement

The Company has entered into an Underwriting Agreement dated 28 October 2009 (**Underwriting Agreement**) with Patersons Securities Limited ABN 69 008 896 311 (**Underwriter**).

Pursuant to the Underwriting Agreement the Underwriter has agreed to underwrite the Offer to the extent of \$8.4 million (**Underwritten Amount**). The Underwriter may appoint sub-underwriters to sub-underwrite up to the Underwritten Amount.

The Company has agreed to pay the Underwriter a cash fee of 5.5% of the Underwritten Amount (**the Underwriting Fee**). Additionally, the Company must also pay the Underwriter a fee of \$75,000 in consideration for the Underwriter managing the Issue.

The Underwriting Agreement provides that the Underwriter may terminate its obligation to underwrite the Offer upon the happening of the following:

- (a) **(Indices fall):** any of the All Ordinaries Index or the All Industrial Index as published by ASX is at any time after the date of the Underwriting Agreement 10% or more below its respective level as at the close of business on the business day prior to the date of the Underwriting Agreement; or
- (b) **(Prospectus):** the Company does not lodge the Prospectus on the date prescribed for lodgement (**Lodgement Date**) or the Prospectus or the Offer is withdrawn by the Company; or
- (c) **(Copies of Prospectus):** the Company fails to provide the Underwriter with a prescribed number of copies of the Prospectus and such failure is not remedied within 2 days; or
- (d) **(No Official Quotation):** Official Quotation has not been granted by the the date on which the Underwriter is required to take up any Offer shortfall (**Shortfall Notice Deadline Date**) or, having been granted, is subsequently withdrawn, withheld or qualified; or
- (e) **(Exposure period):** ASIC notifies the Company of any deficiency of any kind in the Prospectus as lodged on the Lodgement Date or ASIC gives any notice, whether written or oral, to the

Company extending (or further extending) the Exposure Period or giving notice of its intention to so extend; or

- (f) **(Supplementary prospectus):** the Underwriter forms the view on reasonable grounds that a supplementary or replacement prospectus should be lodged with ASIC for any of the reasons referred to in section 719 of the Corporations Act and the Company fails to lodge a supplementary or replacement prospectus in such form and content and within such time as the Underwriter may reasonably require; or
- (ii) the Company lodges a supplementary or replacement prospectus without the prior written agreement of the Underwriter; or
- (g) **(Non compliance with disclosure requirements):** it transpires that the Prospectus does not contain all the information that investors and their professional advisers would reasonably require to make an informed assessment of:
 - (i) the assets and liabilities, financial position and performance, profits and losses and prospects of the Company; and
 - (ii) the rights and liabilities attaching to the Offer Shares;
- (h) **(Misleading Prospectus):** it transpires that there is a statement in the Prospectus that is misleading or deceptive or likely to mislead or deceive, or that there is an omission from the Prospectus (having regard to the provisions of sections 710, 711 and 716 of the Corporations Act) or if any statement in the Prospectus becomes or misleading or deceptive or likely to mislead or deceive or if the issue of the Prospectus is or becomes misleading or deceptive or likely to mislead or deceive;
- (i) **(Restriction on allotment):** the Company is prevented from allotting the Offer Shares within the time required by the Underwriting Agreement, the Corporations Act, the Listing Rules, any statute, regulation or order of a court of competent jurisdiction by ASIC, ASX or any court of competent jurisdiction or any governmental or semi governmental agency or authority;



- (j) **(Withdrawal of consent to Prospectus):** any person (other than the Underwriter) who has previously consented to the inclusion of its, his or her name in the Prospectus or to be named in the Prospectus, withdraws that consent;
- (k) **(ASIC application):** an application is made by ASIC for an order under section 1324B or any other provision of the Corporations Act in relation to the Prospectus, the Shortfall Notice Deadline Date has arrived, and that application has not been dismissed or withdrawn;
- (l) **(ASIC hearing):** ASIC gives notice of its intention to hold a hearing under section 739 of the Corporations Act in relation to the Prospectus to determine if it should make a stop order in relation to the Prospectus or the ASIC makes an interim or final stop order in relation to the Prospectus under section 739 of the Corporations Act;
- (m) **(Takeovers Panel):** the Takeovers Panel makes a declaration that circumstances in relation to the affairs of the Company are unacceptable circumstances under Pt 6.10 of the Corporations Act, or an application for such a declaration is made to the Takeovers Panel;
- (n) **(Authorisation):** any authorisation which is material to anything referred to in the Prospectus is repealed, revoked or terminated or expires, or is modified or amended in a manner unacceptable to the Underwriter;
- (o) **(Indictable offence):** a director or senior manager of MetroCoal or any subsidiary (each a **Relevant Company**) is charged with an indictable offence;
- (p) **(Termination Events):** any of the following events occurs:
 - (i) **(Default):** default or breach by the Company under the Underwriting Agreement of any terms, condition, covenant or undertaking;
 - (ii) **(Incorrect or untrue representation):** any representation, warranty or undertaking given by the Company in the Underwriting Agreement is or becomes untrue or incorrect;
 - (iii) **(Contravention of constitution or Act):** a contravention by a Relevant Company of any provision of its constitution, the Corporations Act, the Listing Rules or any other applicable legislation or any policy or requirement of ASIC or ASX;
- (iv) **(Adverse change):** an event occurs which gives rise to a material adverse effect or any adverse change or any development including a prospective adverse change after the date of the Underwriting Agreement in the assets, liabilities, financial position, trading results, profits, forecasts, losses, prospects, business or operations of any Relevant Company including, without limitation, if any forecast in the Prospectus becomes incapable of being met or in the Underwriter's reasonable opinion, unlikely to be met in the projected time;
- (v) **(Error in Due Diligence Results):** it transpires that any of the results of due diligence enquiries undertaken by the Company or its advisors or any part of the Prospectus verification material was false, misleading or deceptive or that there was an omission from them;
- (vi) **(Significant change):** a "new circumstance" as referred to in section 719(1) of the Corporations Act arises that is materially adverse from the point of view of an investor;
- (vii) **(Public statements):** without the prior approval of the Underwriter a public statement is made by the Company in relation to the Offer, the Issue or the Prospectus;
- (viii) **(Misleading information):** any information supplied at any time by the Company or any person on its behalf to the Underwriter in respect of any aspect of the Offer or the Issue or the affairs of any Relevant Company is or becomes misleading or deceptive or likely to mislead or deceive;
- (ix) **(Official Quotation qualified):** the Official Quotation is qualified or conditional other than as set out in the definition of "Official Quotation" within the Underwriting Agreement;
- (x) **(Change in Act or policy):** there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia or any of its States or Territories any Act or prospective Act or budget or the Reserve Bank of Australia or any Commonwealth or State authority adopts or announces a proposal to adopt any new, or any major change in, existing, monetary, taxation, exchange or fiscal policy;
- (xi) **(Hostilities):** there is an outbreak of hostilities or a material escalation of hostilities (whether



10 SUMMARY OF MATERIAL CONTRACTS

or not war has been declared) after the date of the Underwriting Agreement involving one or more of Australia, New Zealand, Indonesia, Japan, Russia, the United Kingdom, the United States of America, India, Pakistan, or the Peoples Republic of China, Israel or any member of the European Union, or a terrorist act is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries anywhere in the world;

- (xii) **(Prescribed Occurrence):** a prescribed occurrence (being an event specified in section 652C(1) or section 652C(2) Corporations Act) occurs, other than as disclosed in the Prospectus;
- (xiii) **(Suspension of debt payments):** the Company suspends payment of its debts generally;
- (xiv) **(Event of Insolvency):** an insolvency related event occurs in respect of a Relevant Company;
- (xv) **(Judgment against a Relevant Company):** a judgment in an amount exceeding \$25,000 is obtained against a Relevant Company and is not set aside or satisfied within 7 days;
- (xvi) **(Litigation):** litigation, arbitration, administrative or industrial proceedings are after the date of the Underwriting Agreement commenced or threatened against any Relevant Company, other than any claims foreshadowed in the Prospectus;
- (xvii) **(Board and senior management composition):** there is a change in the composition of the Board or a change in the senior management of the Company before Completion without the prior written consent of the Underwriter;
- (xviii) **(Change in shareholdings):** there is a material change in the major or controlling shareholdings of a Relevant Company or a takeover offer or scheme of arrangement pursuant to Chapter 5 or 6 of the Corporations Act is publicly announced in relation to a Relevant Company;
- (xix) **(Timetable):** there is a delay in any specified date in the Offer timetable contained in the Underwriting Agreement which is greater than 3 business days;
- (xx) **(Force Majeure):** a force majeure event affecting the Company's business or any obligation under the Agreement lasting in excess of 7 days occurs;

- (xxi) **(Certain resolutions passed):** a Relevant Company passes or takes any steps to pass a resolution under section 254N, section 257A or section 260B of the Corporations Act or a resolution to amend its constitution without the prior written consent of the Underwriter;
- (xxii) **(Capital Structure):** any Relevant Company alters its capital structure in any manner not contemplated by the Prospectus;
- (xxiii) **(Breach of Material Contracts):** a material contract of the Company is terminated or substantially modified;
- (xxiv) **(Investigation):** any person is appointed under any legislation in respect of companies to investigate the affairs of a Related Company;
- (xxv) **(Market Conditions):** a suspension or material limitation in trading generally on ASX occurs or any material adverse change or disruption occurs in the existing financial markets, political or economic conditions of Australia, Japan, the United Kingdom, the United States of America or other international financial markets; or
- (xxvi) **(Sub-underwriters):** any of the sub-underwriters to the Underwriter that are introduced by the Company do not comply with their obligations under the sub-underwriting agreements or threaten to not comply with their respective obligations under the sub-underwriting agreements.

The occurrence of the events listed in paragraph (p) above will not entitle the Underwriter to terminate the Underwriting Agreement unless the Underwriter reasonably believes that the event has or is likely to have a material adverse effect on the outcome of the Offer or could give rise to liability for the Underwriter under any law or regulation and the Underwriter has afforded the Company a reasonable time (not exceeding five (5) business days) to remedy the event if the event is capable of remedy and the event has not been remedied.

As a term of the Underwriting Agreement, the Company agrees to indemnify the Underwriter, its officers, agents and employees **(Indemnified Parties)** against any claim, action, damage, loss, liability, expense or payment which the Indemnified Party pays, suffers, incurs or is liable for (and including, but not limited to, any reasonable legal costs and expenses and any reasonable professional consultant's fees on a full indemnity basis) in respect or arising out of:

- (a) the Issue;
- (b) the Prospectus;

- (c) any breach of the law or the Listing Rules in relation to the Prospectus or the Issue;
- (d) any breach of or failure to perform the Underwriting Agreement by the Company, or the Company failing to perform any of their obligations relating to the Offer, except to the extent caused by or contributed to by the Indemnified Party.

The Underwriting Agreement contains covenants, warranties and representations and other terms given by each party in favour of the other party that are typical for an agreement of this nature.

10.2 Convertible Note Deed - Metallica Minerals Limited

The Company has entered into a Convertible Note Deed dated 19 October 2009 (**CN Deed**) with Metallica to secure the repayment of funds loaned by Metallica to the Company to support the on-going exploration program and working capital of the Company (**Facility**) up to a maximum of one million dollars (\$1,000,000).

To secure repayment of the Facility under the CN Deed, the Company has issued Metallica a convertible note (Note). Upon conversion of the Note, if full or in part, a Share will be issued for every 25 cents (**Conversion Price**) owing under the Facility (including any capitalised interest).

The Note will mature 25 months from the date that the Company is listed on ASX (**Maturity Date**).

Interest is payable on the monies owing from time to time under the Facility at the rate of 5% per annum calculated daily and payable quarterly in arrears. Interest will be capitalised if unpaid and added to the monies owing secured by the Note.

If Metallica does not elect to convert the Notes into Shares, the Company is entitled to elect to repay all or part of the Facility by the issue of Shares, at the Conversion Price.

The issue of Shares upon either the conversion of the Note by either Metallica or the Company is subject to any shareholder approval of the Company that may be required under the Corporations Act or ASX Listing Rules (**Approval**). If the Approval is not obtained at a properly convened meeting of shareholders, then repayment of the monies owing under the Facility must occur within six (6) months from the notification of conversion or Maturity Date as applicable.

10.3 Executive Services Agreement – Mike O'Brien (Chief Executive Officer)

MetroCoal has entered into an executive services agreement dated 27 October 2009 with its chief executive officer, Mike O'Brien (**CEO**).

The key terms of this agreement are as follows:

- (a) The term is from the date of agreement until the agreement is otherwise terminated in accordance with its terms;
- (b) The base remuneration is \$216,000 per annum, excluding superannuation, and is subject to annual review by the Board;
- (c) The CEO is also entitled to:
 - (i) an annual bonus if certain criteria, as agreed to between the Company and the CEO, are satisfied;
 - (ii) superannuation of the greater of 10% of the base remuneration or the level required by statute from time to time; and
 - (iii) reimbursement for payment of medical insurance coverage, reasonable travel and accommodation expenses incurred in attending Board and other meetings of the Company, and for other reasonable expenses incurred in performance of the CEO's duties which have the prior approval of the Board; and
- (d) The agreement can be terminated:
 - (i) by the CEO giving three (3) months notice;
 - (ii) by the Company giving six (6) months notice or payment of six (6) months base remuneration in lieu of notice; or
 - (iii) by the Company immediately (and without notice or an entitlement to any redundancy or other payment) in the event of bankruptcy or prescribed misconduct by the CEO.

This agreement also recognises the previous agreement made by the Company and the CEO in July 2008 for the company to pay the CEO a cash bonus on completion of the IPO based on:

- (a) 1% of any amount raised up to \$10 million; and
- (b) 0.5% on any additional amounts.



10 SUMMARY OF MATERIAL CONTRACTS

10.4 Employment Agreement – Theo Psaros (Chief Operating Officer)

MetroCoal has entered into an employment agreement dated 25 August 2008 with its chief operating officer and company secretary, Theo Psaros (**COO**).

The key terms of this agreement are as follows:

- (a) The term is from the date of the agreement until the agreement is otherwise terminated in accordance with its terms;
- (b) The current base remuneration is \$180,000 per annum, excluding superannuation, and is subject to annual review by the Board;
- (c) The COO is also entitled to:
 - (i) superannuation at the level required by statute from time to time; and
 - (ii) 1 million Options the terms of which are summarised in Section 11;
 - (iii) use of a mobile phone for work purposes and for reasonable personal use;
- (d) The agreement can be terminated:
 - (i) by the COO giving six (6) months notice;
 - (ii) by the Company giving six (6) months notice or payment of six (6) months base remuneration in lieu of notice; or
 - (iii) by the Company immediately (and without notice or an entitlement to any redundancy or other payment) in the event of gross negligence or serious misconduct.

10.5 Access Deeds

Each of the Directors of the Company have entered into a Deed with the Company whereby the Company has provided certain contractual rights of access to books and records of the Company to those Directors and to effect and maintain insurance in respect of Directors and officers liability and provide certain indemnities to each of the Directors, to the extent permitted by law.



11

ADDITIONAL INFORMATION

11.1 Corporate governance

General

The Directors are responsible for protecting the rights and interests of the shareholders through the implementation of sound strategies and action plans and the development of an integrated framework of controls over the Company's resources, functions and assets. The Board will constantly review and monitor the performance of the Board and the Company and implement changes as required.

The Board of the Company has considered and established various Board policies with particular emphasis on the policies for the governance of the Company. This statement outlines the main corporate governance policies adopted by the Board.

Chairman

The Company has appointed Mr David Barwick as Chairman of the Company.

Committees

The Board presently has an Audit and Risk Management Committee comprising Michael Hansel (as Chairman of the Committee) David Barwick and John Haley. The Company has adopted an Audit and Risk Management Charter setting out the composition, purpose, powers and scope of the Committee as well as reporting requirements to the Board as a whole. Extracts of this Charter are available at the Company's website www.metrocoal.com.au.

The Company does not have any other formally constituted committees of the Board of Directors. The Directors consider that the Company is not of a size nor are its affairs of such complexity as to justify the formation of special or separate committees at this time. The Board as a whole is able to address the governance aspects of the Company's activities and ensure that it adheres to appropriate ethical standards. This statement outlines the main corporate governance policies which the Directors have adopted.

Composition of the Board

The Board comprises four (4) Directors. The names, qualifications and relevant experience of each Director are set out in Section 2 of this Prospectus. There is no requirement for any Director's shareholding qualification.

As the Company's activities increase in size, nature and scope, the size of the Board will be reviewed periodically and the Board may seek to appoint persons who, in the opinion of the Board will provide specialist expertise required for the Board to adequately perform its role.

Board membership

The Board acts as a nomination committee. Members of the Board have been brought together to provide a blend of qualifications, skills and national and international experience required for managing a company operating within the mining industry.

Appointment and retirement of Directors

The Company's Constitution provides that Directors are subject to retirement by rotation, by order of length of appointment. Retiring Directors are eligible for re election by shareholders at the annual general meeting of the Company.

Duties of Directors

Directors are expected to accept all duties and responsibilities associated with the running of a public company, to act in the best interests of the Company and to carry out their duties and responsibilities with due care and diligence.

Directors are required to take into consideration conflicts when accepting appointments to other Boards. Accordingly, Directors wishing to accept appointment to other Boards must first seek approval from the Board, approval of which will not be unreasonably withheld.

Independent professional advice

The Board has determined that individual Directors may, in appropriate circumstances engage outside advisers at the Company's expense. The engagement of an outside adviser is subject to the prior approval of the Board, which will not be unreasonably withheld.

Compensation arrangements

The maximum aggregate amount payable to non executive Directors as Directors' fees has been set at \$250,000 per annum. The Constitution provides that Director's fees can only change pursuant to a resolution at a general meeting. The Board is responsible for reviewing and negotiating the compensation arrangements of senior executives and consultants.

Internal management controls

The Company's main assets are located in Australia. Control over the operations is exercised by the exploration and operation managers.

The Board also monitors the performance of outside consultants engaged from time to time to complete specific projects and tasks.

Identifying significant business risks

The Board regularly monitors the operational and financial performance of the Company's activities. In conjunction with



the audit and risk management committee, it monitors and receives advice on areas of operation and financial risk and considers strategies for appropriate risk management. All operational and financial strategies adopted are aimed at improving the value of the Company's Shares, however, the Directors recognise that mineral exploration and evaluation is inherently risky.

ASX Corporate Governance

To further enhance listed entities' disclosure of corporate governance issues, the ASX Corporate Governance Council (**CGC**) was established on 1 August 2002. The CGC was established for the purpose of setting an agreed set of corporate governance standards of best practice for Australian listed entities. The CGC has released its second edition of Corporate Governance Principles and Recommendations (**ASX Guidelines**) which will apply to the Company's financial statements upon listing on the ASX. The ASX Guidelines articulate eight (8) core principles that CGC believes underlie good corporate governance. The ASX Guidelines provide that a listed entity's Annual Report is required to disclose its main corporate governance practices and also the extent to which the entity complies with the ASX Guidelines and where it does not, to explain why.

Trading Policies

The Directors of the Company are subject to a number of restrictions in relation to them dealing in shares of the Company. Directors can only deal in shares in the Company during certain periods or in certain circumstances (e.g. a bonus issue), and then only after giving 24 hours notice of the intended transaction to the Chairman of the Board.

Corporate Governance Statement

The Company has adopted a Corporate Governance Charter (**Corporate Governance Charter**) to implement and maintain a culture of good corporate governance both internally and in its external dealings. In adopting the Corporate Governance Charter the Board is mindful of the ASX Guidelines.

The following table briefly addresses the areas where the Company has departed from the ASX Guidelines. Where the Company's Corporate Governance practices do not correlate with the practices recommended by the CGC the Company is working towards compliance however it does not consider that all practices are appropriate for the Company due to the size and scale of Company operations.

The Board is of the view that with the exception of the departures from the ASX Guidelines as set out below, it otherwise complies with all of the ASX Guidelines.



11 ADDITIONAL INFORMATION

ASX Principles and Recommendations	Summary of the Company's Position
Principle 1 – Lay solid foundations for management and oversight	
Recommendation 1.2 – Companies should disclose the process for evaluating the performance of senior executives	The Board has not established a separate nomination committee. In the absence of a formally constituted nomination committee, the full Board is responsible for the proper oversight of the Board, the Directors and senior management. The Board considers that given its size, no efficiencies or other benefits would be gained by establishing a separate committee.
Principle 2 – Structure board to Add Value	
Recommendation 2.1 – A majority of the board should be independent Directors	Based on the ASX Guidelines relating to independence, no board member could be considered independent. David Barwick, Andrew Gillies and John Haley are Directors of Metallica, a substantial shareholder of the Company. Michael Hansel is a partner of HopgoodGanim Lawyers a professional advisor to the Company and Solicitor to the Issue. While the Company does not presently comply with this Recommendation 2.1, the Company may consider appointing further independent Directors in the future. The Company believes that given the size and scale of its operations, non-compliance by the Company with this Recommendation 2.1 will not be detrimental to the Company.
Recommendation 2.2 – The chair should be an independent director	David Barwick is the Chairman of the Company and Metallica, a substantial shareholder in the Company. The Company is of the view that the size and scale of its current operations do not warrant the appointment of an independent chairperson and that non-compliance with this Recommendation 2.2 will not be detrimental to the Company.
Recommendation 2.4 – The board should establish a nomination committee	The Board's view is that the Company is not currently of the size to justify the formation of a separate nomination committee. The Board currently performs the functions of a nomination committee and where necessary will seek the advice of external advisors in relation to this role. The Board shall, upon the Company reaching the requisite corporate and commercial maturity, approve the constitution of a nomination committee to assist the Board in relation to the appointment of Directors and senior management.
Principle 4 – Safeguard Integrity in Financial Reporting	
Recommendation 4.2 – The audit committee should be structured so that it: • Consists only of non-executive Directors • Consists of a majority of independent Directors • Is chaired by an independent chair, who is not chair of the board • Has at least three members	Given the size and composition of the current Board of the Company, the constitution of the Company's Audit & Risk Management Committee does not comply with the independence directives contained in Recommendation 4.2. While the Company does not presently comply with this Recommendation 4.2, the Company may consider appointing further independent Directors in the future at which time it may reconsider the composition of the audit committee. The Company believes that given the size and scale of its operations, non-compliance by the Company with this Recommendation 4.2 will not be detrimental to the Company

Principle 7 – Recognise and Manage Risk

Recommendation 7.2 – The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.

The Board is responsible for reviewing and ratifying systems of risk management and internal compliance.

The Company will disclose in its annual reports any reports from management as to the effectiveness of the Company's management of its material business risks.

Principle 8 – Remunerate Fairly and Responsibly

Recommendation 8.1 – The board should establish a remuneration committee

The Board has not established a remuneration committee. The Board considers that given its size, no efficiencies or other benefits would be gained by the establishing of such committee. The role of the remuneration committee is carried out by the full Board. The Company has adopted a Remuneration Committee Charter, which is set out in the Company's Corporate Governance Charter.

Recommendation 8.2 – Companies should clearly distinguish the structure of non-executive Director's remuneration from that of executive Directors and senior executives

The Corporate Governance Charter sets out the Remuneration Committee Charter. The Board, in the absence of a formally constituted remuneration committee, is responsible for reviewing the remuneration policies and practices of the Company in respect of executive remuneration and incentive plan, remuneration packages for Management and Directors and non-executive Director remuneration.

11.2 Rights attaching to Shares in the Company

A summary of the rights which relate to all Shares which may be issued pursuant to this Prospectus are set out below. This summary does not purport to be exhaustive or constitute a definitive statement of the rights and liabilities of the Company's Shareholders.

(a) Voting

At a general meeting of the Company on a show of hands, every member present in person, or by proxy, attorney or representative has one vote and upon a poll, every member present in person, or by proxy, attorney or representative has one vote for every Share held by them.

(b) Dividends

The Shares will rank equally with all other issued Shares in the capital of the Company and will participate in dividends out of profits earned by the Company from time to time. Subject

to the rights of holders of Shares of any special preferential or qualified rights attaching thereto, the profits of the Company are divisible amongst the holders of Shares in proportion to the Shares held by them irrespective of the amount paid up or credited as paid up thereon. The Directors may from time to time pay to Shareholders such interim dividends as in their judgement the position of the Company justifies.

(c) Winding up

Upon paying the application monies, shareholders will have no further liability to make payments to the company in the event of the company being wound up pursuant to the provisions of the Corporations Act.

(d) Transfer of securities

Generally, the Shares and Options in the Company will be freely transferable, subject to satisfying the usual requirements of security transfers on the ASX. The Directors may decline to register any transfer of Shares but only where permitted to do so under its Constitution or the ASX Listing Rules.

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- (e) Sale of non-marketable holdings
- (i) The Company may take steps in respect of non marketable holdings of Shares in the Company to effect an orderly sale of those Shares in the event that holders do not take steps to retain their holdings.
- (ii) The Company may only take steps to eliminate non marketable holdings in accordance with the Constitution and the ASX Listing Rules.
- (iii) For more particular details of the rights attaching to Shares in the Company, investors should refer to the Constitution of the Company.

11.3 Rights of Director Options

The options were issued to Directors for nil consideration. A summary of the other rights which relate to the Options on issue to Directors as at the date of this Prospectus are set out below:

- (a) The commencement date (**Commencement Date**) for the exercise of the Options shall be the date of the Company listing on the ASX.
- (b) The Options will, except to the extent earlier exercised, expire on the earlier of:
 - (i) 3 months from the resignation or removal of the option holder from the Board; or
 - (ii) the third Anniversary of the Commencement Date.**(Expiry Date).**
- (c) The exercise price for each Option shall be 25 cents (**Exercise Price**).
- (d) The Option Exercise Period shall be the period commencing on the Commencement Date of the relevant Options and expiring on the Expiry Date of the relevant Options.
- (e) The Options will be freely transferable.
- (f) The Options may be exercised at any time wholly or in part by delivering a duly completed form of notice of exercise together with a cheque for the exercise price to the Company at any time during the Option Exercise Period.
- (g) The number of Options that may be exercised at one time must be not less than 20,000.
- (h) Upon the valid exercise of the Options and payment of the Exercise Price, the Company will issue fully paid ordinary shares ranking pari passu with the then issued ordinary shares of the Company.

- (i) The Option holder will be permitted to participate in new issues of securities of the Company on the prior exercise of the Options, in which case the holder of the Options will be afforded the period of at least 14 days notice prior to and inclusive of the books closing date (to determine entitlements to the issue) to exercise the Options.
- (j) In the event of any reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company:

- (i) the number of Options, the Exercise Price of the Options, or both will be reconstructed (as appropriate) in a manner consistent with the ASX Listing Rules, but with the intention that such reconstruction will not result in any benefits being conferred on the holders of the Options which are not conferred on share-holders; and
- (ii) subject to the provisions with respect to rounding of entitlements as sanctioned by a meeting of shareholders approving a reconstruction of capital, in all other respects the terms for the exercise of the Options will remain unchanged.

- (k) If there is a pro rata issue (except a bonus issue), the Exercise Price of an Option may be reduced according to the following formula:

$$O_n = O - E \frac{[P - (S + D)]}{N + 1}$$

Where:

- O_n = the new exercise price of the Option;
- O = the old exercise price of the Option;
- E = the number of underlying securities into which one Option is exercisable;
- P = the average market price per security (weighted by reference to volume) of the underlying securities during the 5 trading days ending on the day before the ex right date or the ex entitlements date;

- S = the subscription price for a security under the pro rata issue;
- D = dividend due but not yet paid on the existing underlying securities (except those to be issued under the pro rata issue);
- N = the number of securities with rights or entitlements that must be held to receive a right to one new security.
- (l) The Company intends to apply for listing of the Options on the ASX.
- (m) The Company shall apply for listing of the resultant shares of the Company issued upon exercise of any Option.
- (n) If there is a bonus issue to the holders of shares in the Company, the number of shares over which the Option is exercisable may be increased by the number of shares which the Option holder would have received if the Option had been exercised before the record date for the bonus issue.
- (o) The terms of the Options shall only be changed if holders (whose votes are not to be disregarded) of ordinary shares in the Company approve of such a change. However, the terms of the Options shall not be changed to reduce the Exercise Price, increase the number of Options or change any period for exercise of the Options.

11.4 Rights of Employee Options on Issue

The rights attaching to those Employee Options on issue as at the date of this Prospectus are the same as those Options issued to Directors offered under this Prospectus (summarised in Section 11.3 above) save and except for:

- (a) the Options will expire immediately on the Option Holder ceasing to be employed by the Company due to fraud or dishonesty;
- and
- (b) 500,00 Options issued to Mr Theo Psaros, as COO, will expire 5 years from the date of the Company listing on ASX unless these Options expire or are exercised earlier.

11.5 Employee Share Option Plan

The Company has established the MetroCoal Employee Share Option Plan (**ESOP**) to enable the issue of Shares or Options in MetroCoal to employees of the Company to assist in the retention and motivation of employees.

Under the ESOP, the Company may offer Shares or Options over unissued Shares in the Company. This Prospectus does not comprise an offer or invitation to acquire Shares or Options under the ESOP.

The ESOP contains usual provisions dealing with matters such as the administration, variation, termination or suspension of the plan.

Other features of the ESOP are as follows:

- The persons who are eligible to participate in the ESOP are full-time or part-time continuing employees of the Company or an associated body corporate of the Company (**Eligible Employee**) or their nominee who have been selected by the Board to participate in the ESOP;
- The Company is entitled under the terms of the ESOP to determine a period that any Shares or Options offered under the ESOP will be unable to be transferred by the recipient (disposal restrictions);
- The Company is entitled to determine in its discretion any conditions which may apply to the offer of Shares or Options (including the issue price, exercise price, vesting conditions and disposal restrictions);
- Where Options subject to disposal restrictions are exercised, the resulting Shares will be subject to the balance of the disposal restriction;
- The Options may be exercised wholly or in part by notice in writing to the Company received at any time during the relevant exercise period together with a cheque for the exercise price for those Options for cancellation by the Company.
- The Company shall allot the number of Shares the subject of any exercise notice and apply for listing of the Shares issued as a result;
- Shares issued on the exercise of the Options will rank pari passu with all existing Shares of the Company from the date of issue;
- The number of Shares which may be acquired on the exercise of an option and the exercise price will be adjusted, as is appropriate, following any pro-rata bonus issue, rights issue, reconstruction or

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re-organisation of the issued ordinary capital of the Company.

The maximum number of Shares and Options that may be offered to participants under the ESOP is 5% of the issued capital at the time. If there is to be a reorganisation of the issued shares in the Company unexercised Options will be reorganised in accordance with the requirements of ASX Listing Rules.

Quotation of Options on the ASX will not be sought, however quotation of Shares (not subject to disposal restrictions) issued under the ESOP will be sought. The Company will apply for quotation of Shares arising upon the exercise of Options.

The above description is a summary only of the principal terms and conditions of the ESOP.

11.6 Details of Shares Issued Prior to the Prospectus

As at the date of this Prospectus the Company has 101,683,663 Shares on issue. These Share issues have occurred progressively since incorporation at the following different issue prices.

- (a) 1,000 Shares were issued to Metallica on incorporation of the Company at \$1.00 per Share (**Founder Shares**);
- (b) A further 599,000 Shares were issued to Metallica to convert a debt owing by the Company to Metallica at \$1.00 per Share (**Conversion Shares**);
- (c) Following issue, the 600,000 Shares constituted by the Founder Shares and conversion Shares were subdivided into 80 million Shares, representing a deemed issue price of 0.75 cents per Share (**Subdivided Shares**).
- (d) 15 million were issued to seed capital investors at 10 cents per Share (**First Round Seed Capital Shares**); and
- (e) 6,683,663 were issued to seed capital investors at 15 cents per Share (**Second Round Seed Capital Shares**).

The different issue prices reflect the different stages of development of the Company and its assets from time to time. In determining the issue price of these Shares the following factors were taken into account by the Directors:

- (a) the issue price of the Founder Shares and the Conversion Shares was arbitrary and represents administrative convenience at the time of forming the Company and in the early provision of debt funding to the company;

- (b) in the case of the Subdivided Shares, the deemed issue price represents the high level of initial risk involved at the time of establishment of the Company and the expenses incurred by Metallica in establishing the Company and providing debt funding to the Company to allow it to undertake preliminary activities prior raising further capital from third parties. The issue price of the Conversion Shares was commensurate with this high level of risk and corporate maturity of the Company and the time of issue;
- (c) in the case of the First Round Seed Capital Shares, the fact that whilst the Company's prospects may have been advanced justifying a higher issue price than attributed to the Conversion Shares, there was still risk attaching to investment in the Company, the issue prices necessarily being reflective of the level of that risk;
- (d) in the case of the Second Round Seed Capital Shares, whilst the Company had advanced its prospects following the issue of the First Round of Seed Capital Shares, (which in turn, justified the higher issue price for the Second Round Seed Capital Shares) there still existed a lack of certainty that the Company would be successful in any initial public offering.

11.7 Limitation on foreign ownership

The only limitations under Australian law on the rights of non-Australian residents to hold or vote the Shares of an Australian company are set forth in the Foreign Acquisitions and Takeovers Act (the **FATA**). The FATA regulates acquisitions giving rise to ownership of substantial amounts of a company's shares.

The FATA prohibits:

- (a) any natural person not ordinarily resident in Australia; or
- (b) any corporation in which either a natural person not ordinarily resident in Australia or a foreign corporation (as defined in the FATA); or
- (c) two or more such persons or corporations, from entering into an agreement to acquire Shares if after the acquisition such person or corporation would hold a substantial interest in a corporation, or where two or more persons or corporations would hold an aggregate substantial interest (defined below), without first applying in the prescribed form for

approval thereof by the Australian Treasurer and receiving such approval or receiving no response in the 40 days after such application was made.

A holder will be deemed to hold a substantial interest in a corporation if the holder alone or together with any associates (as defined in the FATA) is in a position to control not less than 15 percent of the voting power in the corporation or holds interests in not less than 15 percent of the issued Shares in that corporation. Two or more holders hold an aggregate substantial interest in a corporation if they, together with any associates (as so defined), are in a position to control not less than 40 percent of the voting power in that corporation or hold not less than 40 percent of the issued Shares in that corporation. The Constitution of the Company contains no limitations on a non resident's right to hold or vote the Company's Shares

11.8 Litigation

The Company is not engaged in any litigation which has or would be likely to have a material adverse effect on either the Company or its business.

11.9 Subsequent events

There has not arisen, at the date of this Prospectus any item, transaction or event of a material or unusual nature not already disclosed in this Prospectus which is likely, in the opinion of the Directors of the Company to affect substantially:

- (a) the operations of the Company;
- (b) the results of those operations; or
- (c) the state of affairs of the Company.

11.10 Liability of other persons named in this Prospectus

Notwithstanding that they may be referred to elsewhere in this Prospectus:

- (a) HopgoodGanim Lawyers (**HopgoodGanim**) are named in the Corporate Directory as Solicitors to the Issue. HopgoodGanim were involved in the process of reviewing this Prospectus for consistency with the material contracts. In doing so, they have placed reasonable reliance upon information provided to them by the Company and other third parties. They do not make any other statement in this Prospectus. HopgoodGanim will be paid for

work performed in accordance with usual time based charge out rates and estimate their professional costs at \$75,000 at the date of this Prospectus.

- (b) Behre Dolbear Australia Pty Limited (**BDA**) are named in the Corporate Directory as Independent Geological Consultants to the Company. BDA were involved in the preparation of the Independent Geologist's Reports, which is set out in Section 6 of this Prospectus. In doing so, they have placed reasonable reliance upon information provided to them by the Company and other third parties. They do not make any other statement in this Prospectus. They will be paid for work performed in accordance with usual time based charge out rates and estimate their professional costs at \$60,000 at the date of this Prospectus.
- (c) Uhde Shedden (Australia) Pty Ltd (**Uhde Shedden**) are named in the Corporate Directory as Independent Technical Consultants to the Company. Uhde Shedden were involved in the preparation of the Independent Technical Report, an outline of which is set out in Section 5 of this Prospectus. In doing so, they have placed reasonable reliance upon information provided to them by the Company and other third parties. They do not make any other statement in this Prospectus. They will be paid for work performed in accordance with usual time based charge out rates and estimate their professional costs at \$70,000 for technical consultants at the date of this Prospectus.
- (d) Environmental & Licensing Professionals Pty Ltd (**ELP**) are named in the Corporate Directory as Independent Tenement Consultant to the Company. They were involved in the preparation of the Independent Tenement Report, an outline of which is set out in Section 7 of this Prospectus. In doing so, they have placed reasonable reliance upon information provided to them by the Company and other third parties. They do not make any other statement in this Prospectus. They will be paid for work performed in accordance with usual time based charge out rates and estimate their professional costs at \$5,000 for tenement consultants at the date of this Prospectus.
- (e) BDO Kendalls Audit Assurance (Qld) Pty Ltd (**BDO**) are named in the Corporate Directory as Independent Accountants to the Company. BDO was involved in the preparation of the Investigating Accountants Report set out in Section 8 of this Prospectus. In doing so, they have placed reasonable reliance upon information provided to them by the Company and



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other third parties. They do not make any other statement in this Prospectus. BDO will be paid for work performed in accordance with usual time based charge out rates and estimate their professional costs at \$10,000, at the date of this Prospectus.

- (f) Patersons Securities Limited (**PSL**) has given, and at the time of lodgement of this Prospectus, has not withdrawn its consent to be named as Lead Manager and Underwriter to the offer of securities under this Prospectus, in the form and context in which it is named.

Patersons Securities Limited was not involved in the preparation of any part of this Prospectus and did not authorise or cause the issue of this Prospectus. Patersons Securities Limited makes no express or implied representation or warranty in relation to MetroCoal Ltd, this Prospectus or the offer and does not make any statement in this Prospectus, nor is any statement in it based on any statement made by Patersons Securities Limited. To the maximum extent permitted by law, Patersons Securities Limited expressly disclaims and takes no responsibility for any material in, or omission from, this Prospectus other than the reference to its name.

- (g) Link Market Services Limited (**Link**) has given its written consent to be named as the Share Registrar in the form and context in which it is named and has not withdrawn its consent prior to lodgement of this Prospectus within ASIC. Link has not authorised or caused the issue of this Prospectus and does not make or purport to make any statement in this Prospectus.

There are a number of persons referred to elsewhere in this Prospectus who are not experts and who have not made statements included in this Prospectus nor are there any statements made in this Prospectus on the basis of any statements made by those persons. These persons did not consent to being named in the Prospectus and did not authorise or cause the issue of the Prospectus.

11.11 Consent of experts

HopgoodGanim, BDA, Uhde Shedden, ELP and BDO have acted as experts and have given, and have not before the lodgement of this Prospectus, withdrawn their written consent to the issue of this Prospectus, with the statement purporting to be made by them or to be made on a statement by them,

included in the form and context in which it is included. To the extent permitted by law, they each disclaim any responsibility for any misleading statements or omissions in this Prospectus. BDA, Uhde Shedden and ELP are not operating under Australian Financial Services Licence.

11.12 Inspection of documents

Copies of following documents may be inspected free of charge at the registered office of the Company and at the offices of HopgoodGanim Lawyers, Level 8, 1 Eagle Street, Brisbane during normal business hours:

- (a) the Material Contracts in Section 9 of this Prospectus;
- (b) the Constitution of the Company; and
- (c) the consents referred to in Section 11 of this Prospectus

11.13 Costs of the Issue

If the Issue proceeds, the total estimated costs of the Issue including capital raising fees and commissions, advisory, ASIC and ASX fees, prospectus printing and miscellaneous expenses will be approximately \$904,050 at Minimum Subscription, and \$1,013,250 at Maximum Subscription.

11.14 Director's fees

- (a) The Constitution of the Company provides that the non executive Directors are entitled to remuneration as determined by the Company in a general meeting to be apportioned among them in such manner as the Directors agree and, in default of agreement, equally. The aggregate maximum remuneration currently determined by the Company is \$ 250,000 per annum. Additionally, non executive Directors will be entitled to be reimbursed for properly incurred expenses. The Non-Executive Chairman is currently being paid \$42,000 per annum. Each other non-executive Director is currently being paid \$24,000 per annum.
- (b) If a non executive Director performs extra services, which in the opinion of the Directors are outside the scope of the ordinary duties of the Director, the Company may remunerate that Director by payment of a fixed sum determined by the Directors in addition to or instead of the remuneration referred to above. However, no payment can be made if the effect

would be to exceed the maximum aggregate amount payable to non-executive Directors. A non executive Director is entitled to be paid travelling and other expenses properly incurred by them in attending Directors' or General Meetings of the Company or otherwise in connection with the business of the Company.

- (c) Michael Hansel is a partner of the HopgoodGanim Lawyers, a firm engaged by the Company to act as Solicitors to the Issue and to provide general legal advice as required by the Company. The Company has paid HopgoodGanim for the provision of legal services since its incorporation. The Company may agree to pay HopgoodGanim Lawyers for the provision of further legal services on a time costing basis or on any other basis as may be agreed.
- (d) The remuneration of any executive Director may from time to time be fixed by the Directors. The remuneration may be by way of salary or commission or participation in profits but may not be by commission on, or a percentage of, operating revenue. Except as disclosed in this Section 10, no remuneration will be payable to executive Directors.

11.15 Interests of experts and advisers

The nature and extent of the interests (if any) that:

- (a) a person named in the Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of the Prospectus;
 - (b) a promoter of the Company; or
 - (c) a stockbroker or underwriter (but not a sub-underwriter) to the Issue;
- holds, or held at any time during the last two years in:
- (d) the formation or promotion of the Company;
 - (e) property acquired or to be acquired by the Company in connection with:
 - (i) its formation or promotion; or
 - (ii) the Offer,
- is set out in this Section 11.

The amount that anyone has paid or agreed to pay, or the nature and value of any benefit anyone has given or agreed to give for services provided by:

- (a) a person named in the Prospectus as performing

a function in a professional, advisory or other capacity in connection with the preparation or distribution of the Prospectus;

- (b) a promoter of the Company; or
 - (c) a stockbroker or underwriter (but not a sub-underwriter) to the Issue,
- in connection with:
- (d) the formation or promotion of the Company; or
 - (e) the Offer,

is set out in Section 10 and this Section 11.

11.16 Director's interests

The nature and extent of the interest (if any) that the Directors of the Company hold, or held at any time during the last two years in:

- (a) the formation or promotion of the Company;
- (b) property acquired or to be acquired by the Company in connection with:
 - (i) its formation or promotion; or
 - (ii) the Offer,

is set out in this Section 11 and Section 1.7.

11.17 Privacy

By submitting an Application Form for Shares you are providing to the Company personal information about you. If you do not provide complete and accurate personal information, your application may not be able to be processed.

The Company maintains the register of members of the Company through Link Market Services Limited (**Link**), an external service provider. The Company requires Link to comply with the National Privacy Principles with performing these services. The Company's register is required by law to contain certain personal information about you such as your name and address and number of Shares and Options held. In addition the Company collects personal information from members including contact details, bank accounts, membership details and tax file numbers.

This information is used to carry out registry functions such as payment of dividends, sending annual and half yearly reports, notices of meetings, newsletters and notifications to the Australian Taxation Office. In addition, contact information will be used from time to time to inform



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members of new initiatives concerning the Company.

The Company understands how important it is to keep your personal information private. The Company will only disclose personal information we have about you:

- (a) when you agree to the disclosure;
- (b) when used for the purposes for which it was collected;
- (c) when disclosure is required or authorised by law;
- (d) to other members of the MetroCoal group of companies;
- (e) to your broker;
- (f) to external service suppliers who supply services in connection with the administration of the Company's register such as mailing houses and printers, Australia Post and financial institutions.

You have the right to access, update and correct your personal information held by the Company and Link except in limited circumstances. If you wish to access, update or correct your personal information held by Link or by the Company please contact our respective offices.

If you have any questions concerning how the Company handles your personal information please contact the Company.

11.18 Electronic Prospectus

An electronic version of this Prospectus is available from the Company at **www.metrocoal.com.au** on the Internet.

The Application Form may only be distributed attached to a complete and unaltered copy of the Prospectus.

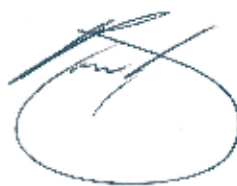
The Company will not accept a completed Application Form if it has reason to believe that the investor has not received a complete paper copy or electronic copy of the Prospectus or if it has reason to believe that the Application Form or electronic copy of the Prospectus has been altered or tampered with in any way.

While the Company believes that it is extremely unlikely that in the Issue period the electronic version of the Prospectus will be tampered with or altered in any way, the Company cannot give any absolute assurance that it will not be the case. Any investor in doubt concerning the validity or integrity of an electronic copy of the Prospectus ought immediately request a paper copy of the Prospectus directly from the Company or a financial adviser.

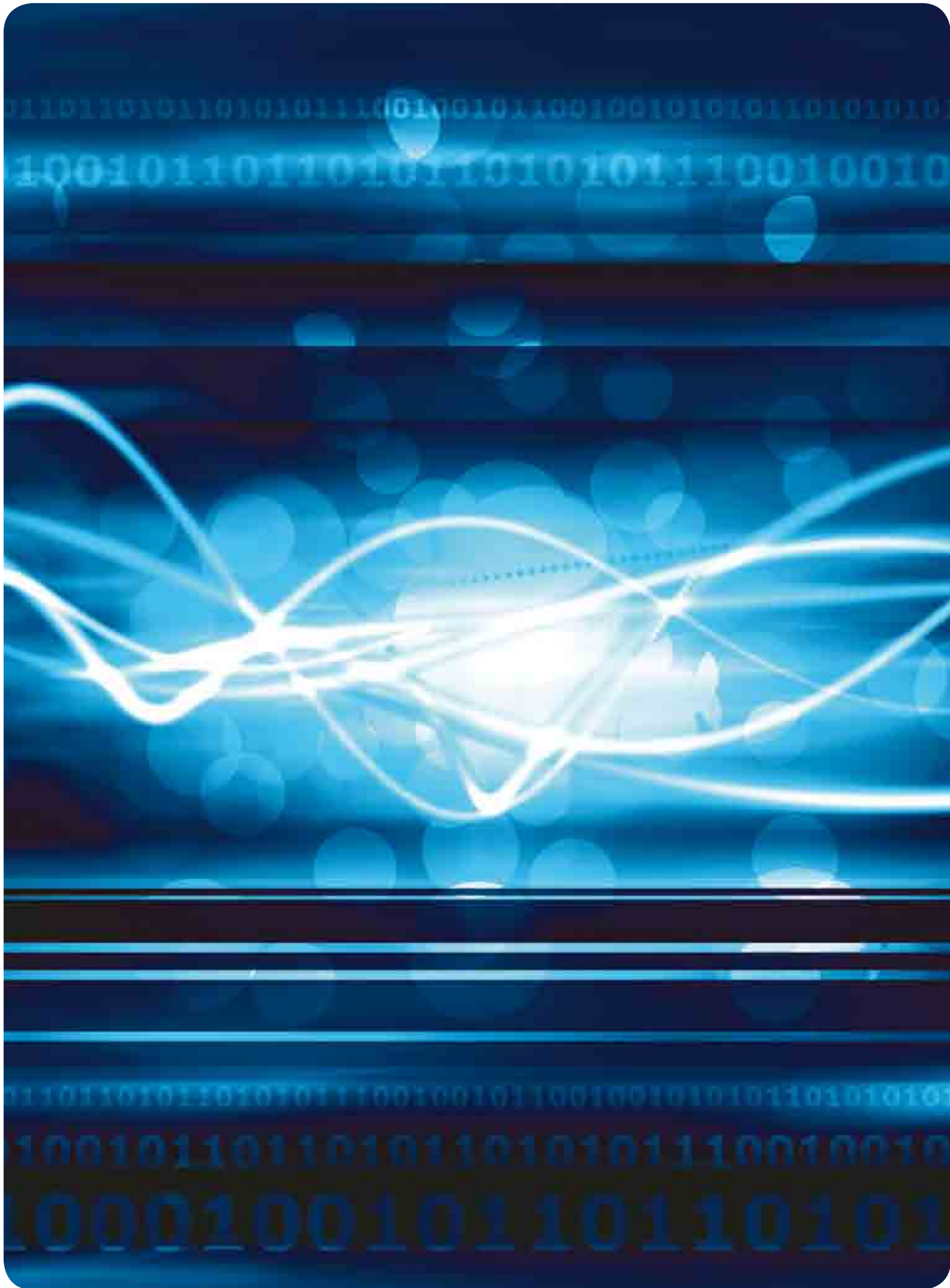
11.19 Consent to lodgement

Each of the Directors of the Company has consented to the lodgement of this Prospectus with the ASIC.

Signed on behalf of the Company by:



David Barwick
Chairman



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GLOSSARY OF DEFINED TERMS

ABN	Australian Business Number
ACN	Australian Company Number
Applicants	a person applying for Shares offered by this Prospectus.
Application Form	the application form enclosed with and forming part of this Prospectus for use by investors.
ASIC	Australian Securities and Investments Commission.
ASTC Settlement Rules	the operating rules of the ASX Settlement and Transfer Corporation Pty Limited which apply while the Company is an issuer of CHESS-approved securities, each as amended or replaced from time to time.
ASX	ASX Limited ABN 98 008 624 691 or Australian Securities Exchange.
Board	the Board of Directors of the Company from time to time.
business day	has the meaning ascribed to it in the ASX Listing Rules.
CCS	carbon capture and storage
CHESS	Clearing House Electronic Sub-registry System operated by ASX.
Closing Date	19 November 2009 (subject to the right of the Directors to close the Offer earlier or to extend this date without notice).
Company or MetroCoal	MetroCoal Limited ABN 45 117 763 443
Constitution	the Constitution of the Company.
Corporations Act	the Corporations Act 2001 (<i>Commonwealth</i>).
CR	Company exploration report hosted on QDEX
CRIP	Controlled Retracting Injection Point
CSG	coal seam gas
CSM	coal seam methane
Department	Department of Employment, Economic Development and Innovation
Director	the Directors of the Company.
EPC or Exploration Permit for Coal	an exploration permit for coal granted pursuant to the MRA
Existing Shareholders	all holders of Shares in the Company at the date of this Prospectus.
Exploration Targets	the Exploration Targets of the Company set forth in this Prospectus.
Exposure Period	the 7 day period from the date of lodgement of the Prospectus.
FATA	<i>Foreign Acquisitions and Takeovers Act 1975 (Cth)</i>
GTL	gas to liquids
HD	high definition
HIN	Holder Identification Number
Indicated Resource	an estimate of mineral resources made from geological evidence as defined by the JORC standard for reporting ore reserves and resources. Means a mineral resource that has been sampled by drillholes or other sampling procedures at locations too widely spaced to ensure continuity but close enough to give a reasonable indication of continuity.



Inferred Resource	an estimate of mineral resources made from geological evidence as defined by the JORC standard for reporting ore reserves and resources. Means a mineral resource inferred from geological evidence and sampling results where the lack of data is such that continuity cannot be predicted with confidence and the geological data may not be known with reasonable level of reliability.
Initial Public Offering or IPO	the Issue under this Prospectus and subsequent admission of the Company to the Official List
Issue and Offer	the issue and offer, respectively, of a minimum of 33,600,000 Shares and a maximum of 40,000,000 Shares at 25 cents each under this Prospectus.
JORC	Joint Ore Reserves Committee (JORC) of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
Macalister seam	The Macalister seam package is the thickest and most consistent of the 6 named coal seam packages within Juandah Coal Measures within the Jurassic Walloon Subgroup. The Macalister seam package is informally subdivided into Upper, Middle and Lower in different parts of the basin to reflect localised occurrence and seam splitting
Maximum Subscription	a maximum of 40,000,000 Shares to be issued under this Prospectus
MDL(A)	application for MDL applied for under the MRA
MDL	a mineral development licence granted pursuant to the MRA
Metallica or MLM	Metallica Minerals Limited ABN 45 076 696 092, an Existing Shareholder
Minimum Subscription	a minimum of 33,600,000 Shares to be issued under this Prospectus
MRA	Mineral Resources Act 1989 (Qld)
Official List	the Official List of ASX.
Official Quotation	quotation on the Official List of ASX.
Opening Date	6 November 2009
Options	options to subscribe for Shares.
P&G Act	Petroleum and Gas (Production and Safety) Act 2004 (Qld)
Prospectus	this Prospectus
QDEX	Queensland digital exploration reports system managed by the Geological Survey of Queensland
RD	relative density
SE	specific energy expressed as MJ/kg
SCG	surface coal gasification
Shareholders	holders of Shares in the Company.
Shares	fully paid ordinary shares in the capital of the Company.
UCG	underground coal gasification
Underwriter	Patersons Securities Limited
Underwritten Amount	\$8.4 million

References in this Prospectus to Sections and paragraphs are to Sections and paragraphs of this Prospectus.
References in this Prospectus to dollars (\$) are to the currency of Australia unless stated otherwise.



12 GLOSSARY OF DEFINED TERMS

Abbreviations

Bt	Billion tonnes
Ha	hectare
kg	Kilogram (2.205 pounds)
km	Kilometre
m	Metre
M	Million
Mt	Million tonnes
t	Tonne
\$	Australian Dollars unless otherwise indicated



APPLICATION FORMS



MetroCoal Limited
ABN 45 117 763 443

Broker Code

Adviser Code

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Shares applied for

Price per Share

Application Monies

A , , , , , at **A\$0.25** **B** A\$, , , , , **+**

(minimum 8,000, thereafter in multiples of 2,000)

PLEASE COMPLETE YOUR DETAILS BELOW (refer overleaf for correct forms of registrable names)

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C

Title

First Name

Middle Name

Joint Applicant #2 Surname

Title

First Name

Middle Name

Designated account e.g. <Super Fund> (or Joint Applicant #3)

TFN/ABN/Exemption Code

First Applicant

Joint Applicant #2

Joint Applicant #3

D

TFN/ABN type – if NOT an individual, please mark the appropriate box

☐ Company

☐ Partnership

☐ Trust

☐ Super Fund

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State

Postcode

Email address (only for purpose of electronic communication of shareholder information)

CHESS HIN (if you want to add this holding to a specific CHESS holder, write the number here)

F **X** **+**

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Cheque or Bank Draft Number

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Account Number

H

Total Amount **A\$**

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MTE IPO001



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First Applicant

Joint Applicant #2

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D

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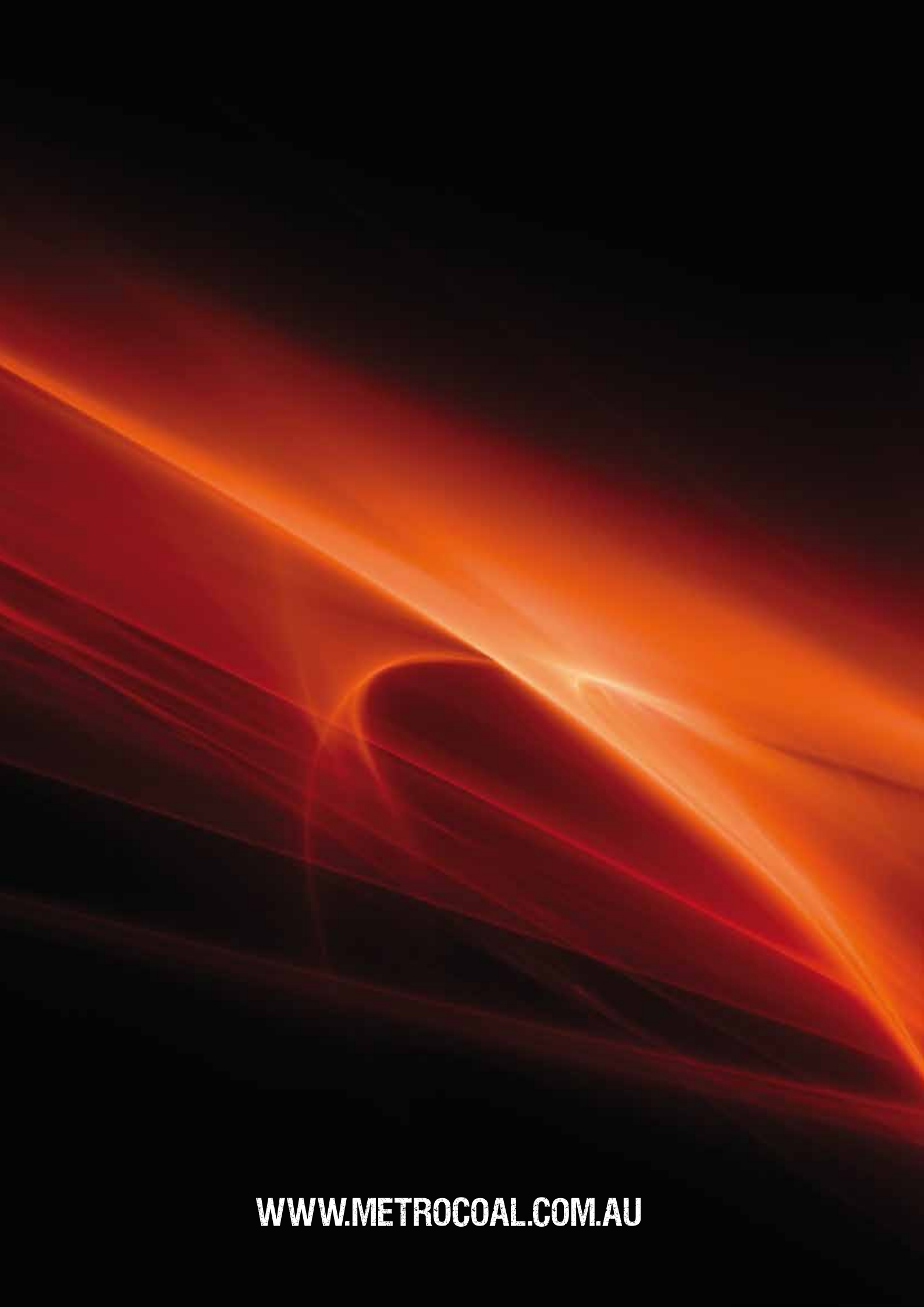
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