

METROCOAL LIMITED
ACN 117 763 443

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2008

Registered & Principal Place of Business:

Unit 4, Level 1, 1 Potts Street

East Brisbane Queensland 4169

METROCOAL LIMITED

DIRECTORS' REPORT

Your Directors submit their report for the financial year ended 30 June 2008.

DIRECTORS

The names of the directors in office during the financial year and up to the date of this report are:-

David Barwick-Age 64	—	Non-Executive Chairman
Qualifications	—	N/A
Experience	—	Appointed Chairman on 6 January 2006
Directorships held in listed entities	—	Current Chairman/Director of <ul style="list-style-type: none">• Metallica Minerals Limited (Chairman and Director)—appointed 11 March 2004 – Continuing• Macarthur Minerals Limited (Chairman and Director) - Appointed 24 October 2005-Continuing• Manaccomm Corporation Limited-appointed 28 August 2006-Continuing
Directorships formerly held in other listed entities (last three years)	—	Previous Director of <ul style="list-style-type: none">• International Gold Mining Limited-appointed 15/08/2006-Ceased 31 August 2007• Morningstar Holdings (Australia) Limited-appointed 12/10/2006-Ceased 30/08/2007• Global Approach Limited-Appointed 29/11/1996-Ceased 26/10/2007.
Andrew Gillies-Age 45	—	Non-Executive Director
Qualifications	—	Bachelor of Science (Geology), MAusIMM
Experience	—	Appointed Director 6 January 2006
Directorships held in listed entities	—	Managing Director, Metallica Minerals Limited, appointed 15 January 1997 – Continuing
John Haley-Age 46	—	Non-Executive Director
Qualifications	—	Bachelor of Commerce, MBA, GradCert (Marketing), Grad Dip CSP, FCA, FFINA, FTIA
Experience	—	Appointed Director on 6 January 2006 – Continuing
Directorships held in listed entities	—	Metallica Minerals Limited appointed 22 December 2003 – continuing
Michael Kevin Hansel - 34	—	Non-Executive Director
Qualifications	—	Bachelor of Business, Commerce (Honours) and Law (Honours)
Experience	—	Appointed Director on 10 June 2008
Directorships held in listed entities	—	N/A

METROCOAL LIMITED

DIRECTORS' REPORT (CONT'D)

Directors' Meetings

The number of directors' meeting held during the financial year and the number of meetings attended by each director whilst a Director.

Director	Meetings of Directors held	Meetings of Directors Attended
David Barwick	1	1
Andrew Gillies	1	1
John Haley	1	1
Michael Hansel	-	-

CORPORATE STRUCTURE

MetroCoal Limited is a company limited by shares that is incorporated and domiciled in Australia. Its registered office is at Unit 4, 1 Potts Street, East Brisbane and its parent entity is Metallica Minerals Limited.

PRINCIPAL ACTIVITIES

The principal activities of the company during the financial year involved holding and exploring coal tenements. There was no significant change in these activities during the financial year.

Metallica Minerals Limited converted a \$600,000 loan into share capital, and following a share split this equated to 80 million shares in MetroCoal Limited. The Company also raised \$1.5 million in seed capital by issuing 15 million shares in June 2008 to 30 investors. The Company is now owned 84% approximately by Metallica Minerals Limited and 16% approximately by the 30 other investors.

EMPLOYEES

The company employed no employees as at 30 June 2008.

DIVIDENDS

No dividend was declared or paid.

SHARE OPTIONS

As at the date of this report (and at the balance date) there were no unissued ordinary shares under options.

SIGNIFICANT EVENTS AFTER BALANCE DATE

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material or unusual nature likely, in the opinion of the directors, to substantially affect the operations of the company, the result of those operations or the state of affairs of the company in subsequent financial years, except that:

- The Board of Directors of the Company has resolved to proceed to an Initial Public Offering and listing of the Company's shares on the Australian Stock Exchange in calendar 2008 subject to satisfactory Stock Market conditions and broker support.
- The Company commenced an initial drilling program in September 2008

REVIEW AND RESULTS OF OPERATIONS

The net loss after income tax for the company for the year ended 30 June 2008 was \$24,133.

METROCOAL LIMITED

DIRECTORS' REPORT (CONT'D)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the directors there were no significant changes in the state of affairs of the company that occurred during the financial year under review not otherwise disclosed in this report or the financial statements of the company for the financial year.

LIKELY DEVELOPMENTS

In the opinion of the directors, there will be no change in the activities of the entity in the subsequent financial year, and the Company will continue to hold and explore its coal tenements including a maiden drilling program in September 2008. The Company is planning an Initial Public Offering and listing on the Australian Stock Exchange in late 2008 or early 2009.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company's parent, Metallica Minerals Limited, has insured all of the Directors of Metrocoal Limited. The contract of insurance prohibits the disclosure of the nature of the liabilities covered and amount of the premium paid. The Corporations Act 2001 does not require disclosure of the information in these circumstances.

The Company has not indemnified its auditor.

ENVIRONMENTAL REGULATIONS AND PERFORMANCE

The directors have put in place strategies and procedures to ensure that the company manages its compliance with environmental regulations. The directors are not aware of any breaches of any applicable environmental regulations.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied to the Court under section 237 of *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration forms part of the Directors' Report and can be found on page 4.

Signed in accordance with a resolution of the Board of Directors:



Director
Brisbane
10 September 2008



BDO Kendalls

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ABN 70 202 702 402

10 September 2008

The Directors
Metrocoal Ltd
GPO Box 122
BRISBANE QLD 4001

Dear Directors

AUDITOR'S INDEPENDENCE DECLARATION

In relation to our audit of the Financial Report of Metrocoal Ltd for the year ended 30 June 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Yours faithfully
BDO Kendalls (QLD)

Craig Jenkins
Partner

METROCOAL LIMITED

ACN 117 763 443

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008

	Notes	2008 \$
Revenues	3	1,182
Depreciation		(2,819)
Expenses	3	<u>(22,497)</u>
Profit/(Loss) before Income Tax Benefit/(Expense)		(24,133)
Income Tax Benefit/(Expense)	4	<u>-</u>
Profit/(Loss) after Income Tax Expense		<u>(24,133)</u>

The Income Statement should be read in conjunction with the notes to the financial statements.

METROCOAL LIMITED

ACN 117 763 443

BALANCE SHEET

AS AT 30 JUNE 2008

	Notes	2008 \$
CURRENT ASSETS		
Cash and cash equivalents	5	1,491,924
Trade and Other Receivables	6	12,584
TOTAL CURRENT ASSETS		<u>1,504,508</u>
NON-CURRENT ASSETS		
Mineral Properties	7	319,258
TOTAL NON-CURRENT ASSETS		<u>319,258</u>
TOTAL ASSETS		<u>1,823,766</u>
CURRENT LIABILITIES		
Trade and other Payables	8	34,882
TOTAL CURRENT LIABILITES		<u>34,882</u>
TOTAL LIABILITIES		<u>34,882</u>
NET ASSETS		<u>1,788,884</u>
EQUITY		
Issued Capital	9	2,081,144
Accumulated losses		(292,260)
TOTAL EQUITY		<u>1,788,884</u>

The Balance Sheet should be read in conjunction with the notes to the financial statements.

METROCOAL LIMITED

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STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2008

	Issued Capital	Accumulated Losses	Totals
	\$	\$	\$
Balance at 30.06.2007	1,000	(268,127)	(267,127)
Shares issued during the period	2,099,000	-	2,099,000
Share Issue Expenses	(18,856)		(18,856)
Loss after income tax	-	(24,133)	(24,133)
Balance at 30.06.2008	2,081,144	(292,260)	1,788,884

The Statement of Changes in Equity should be read in conjunction with the notes to the financial statements.

METROCOAL LIMITED

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**CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008**

	Notes	2008 \$
CASH FLOWS TO/FROM OPERATING ACTIVITIES		
Payments to suppliers and employees		(299,513)
Interest received		<u>1,182</u>
NET CASH FLOWS PROVIDED BY/(USED IN) OPERATING ACTIVITIES	11	<u>(298,331)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Security deposit		(15,000)
Payments for Exploration & Evaluation Expenditure		(298,939)
Payments for Plant and Equipment		<u>-</u>
NET CASH FLOWS TO/FROM INVESTING ACTIVITIES		<u>(313,939)</u>
CASHFLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares		<u>2,080,144</u>
NET CASH FLOWS PROVIDED BY/(USED IN) OPERATING ACTIVITIES		<u>2,080,144</u>
NET INCREASE/(DECREASE) IN CASH HELD		1,467,874
Cash Assets at the beginning of the financial period		<u>24,050</u>
CASH ASSETS AT THE END OF THE FINANCIAL PERIOD	5	<u>1,491,924</u>

The Statement of Cash Flows should be read in conjunction with the notes to the financial statements.

METROCOAL LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The company is not a reporting entity because in the opinion of the directors there unlikely to exist users of the financial report who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, this 'special purpose financial report' has been prepared to satisfy the directors' reporting obligations under the Corporations Act 2001.

The financial report has been prepared in accordance with the Corporations Act 2001, the recognition and measurement requirements specified by all Accounting Standards and Interpretations, and the disclosure requirements of the following accounting standards:

AASB 101 'Presentation of Financial Statements';

AASB 107 'Cash Flow Statements'; and

AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors'.

The accounting policies used in the preparation of this financial report, as described below, are consistent with previous years, and are, in the opinion of the directors, appropriate to meet the needs of members.

The financial report was authorised for issue by the board of directors on 10 September 2008.

The financial statements have been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

(a) Going Concern

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 disclosure of liabilities in the ordinary course of business. The ability of the Company to continue to adopt the going concern assumption will depend upon the number of matters including the successful exploration and subsequent development of the Company's tenements and when necessary, the successful raising of additional funds.

METROCOAL LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Income Tax

The change for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) 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	20-40%

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.

METROCOAL LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Exploration and Evaluation Expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable 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.

Accumulated costs in relation to an abandoned area are written off in full against profit in the period 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 is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

(e) Restoration, Rehabilitation and Environmental Expenditure

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.

Estimates of future costs are reassessed at least annually. Changes in estimates relating to areas of interest in the exploration and evaluation phase are dealt with retrospectively, with any amounts that would have been written off or provided against under the accounting policy for exploration and evaluation immediately written off.

(f) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Impairment of Assets

At each reporting date, the company reviews the carrying values of its tangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

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

(h) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

(i) Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

(j) Goods and Services Tax (GST)

Revenues, expenses, and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the Balance Sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(k) Comparative Figures

No comparatives have been included as this is the first financial report of the company.

METROCOAL LIMITED

ACN 117 763 443

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Critical Accounting Estimates & Judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and internally.

The directors are satisfied that no significant impairments exist.

(m) New Standards Issued

There are a number of Accounting Standards that have been issued but are not yet effective. The Company does not expect any material impact on the financial statements from impending changes. However various additional disclosures will be required in the financial statements in future periods.

(n) Management of Capital

The directors control the capital of the Company in order to meet minimum tenement commitments and to ensure the Company can fund its operations and continue as a going concern. The Company manages capital primarily through the issue of shares and there has been the approach for the current year.

METROCOAL LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	2008
	\$
3. REVENUES & EXPENSES	
Revenue	
Interest revenue – external parties	1,182
Other revenue	-
	<u>1,182</u>

4. INCOME TAX EXPENSE

Reconciliation of the effective tax rate

Tax at the Australian tax rate of 30%	7,240
Tax losses not recognised as an asset	<u>(7,240)</u>
	<u>-</u>

The tax losses generated above by MetroCoal Ltd are not recognised as an asset of MetroCoal Ltd as those tax losses are attributable to the Metallica Minerals Ltd tax consolidated group prior to MetroCoal Ltd's exit from that tax consolidated group on 23 June 2008. Metallica Minerals Ltd has not agreed to transfer any of these tax losses to MetroCoal Ltd.

METROCOAL LIMITED

ACN 117 763 443

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 30 JUNE 2008****2008****\$****5. CASH AND CASH
EQUIVALENTS**

Cash at bank and on hand	491,924
Term Deposit	1,000,000
	<u>1,491,924</u>

**6. TRADE AND OTHER
RECEIVABLES**

GST refundable	10,570
Amount due by parent	2,014
	<u>12,584</u>

7. MINERAL PROPERTIES

Capitalised expenditure	301,758
Security Deposits	17,500
	<u>319,258</u>

8. TRADE AND OTHER

Trade creditors	<u>34,882</u>
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9. ISSUED CAPITAL**(a) Issued and Paid-up
capital**

95,000,000 ordinary shares fully paid	2,100,000
Transaction costs relating to share issue	(18,856)
	<u>2,081,144</u>

**(b) Reconciliation of Issued
and Paid-up capital**

	Number
Opening balance	1,000
Issued to Metallica Minerals Limited	<u>599,000</u>
	600,000
Share split*	<u>79,400,000</u>
	80,000,000
Issued to Seed capital Investors	<u>15,000,000</u>
Closing balance	<u>95,000,000</u>

* The Shareholders resolved to convert the 600,000 shares on issue to a larger number namely 80,000,000

METROCOAL LIMITED

ACN 117 763 443

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

(c) Terms and Conditions of Issued Capital

Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the company, to participate in the proceeds from sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

10. CASH FLOW INFORMATION

(a) Reconciliation of Net Cash provided by operating activities to Profit/(Loss) after Income Tax

Profit/(loss) after income tax	(24,133)
Non-cash operating items:	
Depreciation	2,819
Change in operating assets and liabilities:	
(Increase)/decrease in trade and other receivables	556,858
(Increase)/decrease other assets	
(Increase)/decrease in trade and other payables	(833,875)
Cash flow from operations	<u>(298,331)</u>

11. AUDITORS' REMUNERATION

Amounts received or due and receivable by the auditors for:	
Audit of the financial statements	5,000
Other services	-
	<u>5,000</u>

METROCOAL LIMITED

ACN 117 763 443

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

**12. CONTINGENT ASSETS
AND CONTINGENT
LIABILITIES**

The company has no known contingent assets or contingent liabilities.

13. SUBSEQUENT EVENTS

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material or unusual nature likely, in the opinion of the directors, to substantially affect the operations of the company, the result of those operations or the state of affairs of the company in subsequent financial years, except that:

- The Board of Directors of the Company has resolved to proceed to an Initial Public Offering and listing of the Company's shares on the Australian Stock Exchange in calendar 2008 or early 2009 subject to satisfactory Stock Market conditions and broker support.
- The Company commenced an initial drilling program in September 2008

**14. TENEMENT
COMMITMENTS**

2008
\$

The Company is expected to have certain obligations to expend minimum amounts on exploration in tenement areas. These obligations may be varied from time to time and are expected to be fulfilled in the normal course of operations of the Company (inclusive of rentals). The expected commitments to be undertaken are as follows:

Less than 12 months	255,763
Between 12 months and 5 years	<u>715,763</u>
	<u>971,526</u>

15. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

The entity has no known contingent assets or contingent liabilities.

METROCOAL LIMITED
DIRECTORS' DECLARATION

As detailed in note 1 to the financial statements, the company is not a reporting entity because in the opinion of the directors there unlikely to exist users of the financial report who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, this 'special purpose financial report' has been prepared to satisfy the directors' reporting obligations under the Corporations Act 2001.

In the opinion of the directors:

- (a) the financial statements and notes of the company are in accordance with the Corporations Act 2001 including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2008 and of its performance for the period ended on that date; and
 - (ii) complying with Australian Accounting Standards to the extent described in Note 1 and Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors:



Director

Brisbane

Date: 10.09.08



BDO Kendalls

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF METROCOAL LTD

Report on the Financial Report

We have audited the financial report, being a special purpose financial report, of Metrocoal Ltd, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the company.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report and have determined that the accounting policies described in Note 1 to the financial statements, which form part of the financial report, are appropriate to meet the requirements of the *Corporations Act 2001* and are appropriate to meet the needs of the members. The directors' responsibility also includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. No opinion is expressed as to whether the accounting policies used, as described in Note 1, are appropriate to meet the needs of the members. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

The financial report has been prepared for distribution to the members for the purpose of fulfilling the directors' financial reporting under the *Corporations Act 2001*. We disclaim any assumption of responsibility for any reliance on this report or on the financial report to which it relates to any person other than the members, or for any purpose other than that for which it was prepared.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF METROCOAL LTD
CONTINUED****Independence**

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Metrocoal Ltd on 10 September 2008, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion

In our opinion the financial report of Metrocoal Ltd is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 2008 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 1; and
- (b) complying with Australian Accounting Standards to the extent described in Note 1 and complying with the *Corporations Regulations 2001*.

Emphasis of Matter Regarding Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As set out in Note 1, the financial statements have been prepared on a going concern basis. The ability of the company to maintain continuity of normal business activities and to pay its debts as and when they fall due is dependent upon the ability of the company to raise capital, and or successfully explore and subsequently exploit the company's tenements.

No adjustments have been made to the carrying value of assets or recorded amount of liabilities should this not eventuate.

BDO Kendalls (QLD)

C R Jenkins
Partner

Brisbane
10 September 2008