2012

QUARTERLY REPORT

June

METROCOAL

Corporate details

METROCOAL LIMITED | ABN 45 117 763 443

Quarterly Activities Report For the period ended 30 June 2012

ASX CODE: MTE

Issued Capital (30/06/2012)

208,883,663 shares issued

8,500,000 Unlisted Directors' Options
6,620,000 Unlisted management and employee options

1,445 Shareholders

Top 20 Shareholders

Hold 76.12% of listed shares

Directors & Management

Mr Stephen Everett– Chairman appointed 12 July 2012
Mr David Barwick – Chairman retired 30 June 2012
Mr Andrew Gillies – Non-executive Director
Mr Michael Hansel – Non-executive Director
Mr John Haley – Non-executive Director & Company Secretary
Mr Lindsay Ward – Non-executive Director
Mr Wang Dongping – Non-executive Director
Mr Robert Finch – Alternate Director to Mr Wang

Mr Mike O'Brien – Chief Executive Officer
Mr Theo Psaros – Chief Operating Officer
Mr Neil Mackenzie-Forbes – Joint Venture General Manager
Mr Nicholas Villa – Project Manager
Mr Edward Radley – Geology Manager

Largest Shareholders

Metallica Minerals Limited	30.78%
Dadi Engineering Development Group	19.63%
National Nominees Limited	10.10%
Merrill Lynch (Australia) Nominees Pty Ltd	5.84%

Cash Balance

As at 30 June 2012, MTE's cash balance was approximately $15.3 million

Highlights for the quarter

- **Stephen Everett appointed Chairman of MetroCoal** following the retirement of Mr David Barwick.
- **Significant increase in Indicated Resource for Bundi Project from 150.9Mt to 246.3Mt** which significantly improves the level of confidence in the potential thermal coal resource.
- **Bundi Project** is highly suitable for longwall mining following positive analysis of the seam continuity and mining thickness. These highlight coal areas with an average thickness over 3 metres suitable for longwall mining extending across a strike length of approximately 23 kilometres. The current mine design is based on a mining height of between 2.75 metres and 3.65 metres. Equally impressive is that the coal quality data indicates a low ash, high yield thermal coal product with an indicative washed product with a Specific Energy of approximately 6,500 Gross air dried (kCal/kg).
- **Tenement to Terminal (3TL)** of which MTE holds a 20% shareholding, received the final Terms of Reference for the Project Environmental Impact Statement (EIS) on 23 July 2012. Earlier 3TL had announced that its Gladstone Coal Terminal Project was declared a Project of State Significance by the Queensland Government. The declaration means that approvals for the project will be assessed using a more streamlined whole-of-government approach, managed by the Queensland Coordinator-General.
- **Surat Basin infrastructure** also received positive news with Capacity commitments confirmed for WICET Stage 2 with Cockatoo Coal, Stanmore and Xstrata Coal for their share of 32.2Mtpa of additional export capacity planned for completion in 2016.
- **Bundi Project Scoping Study is underway and the results are expected to be released in August 2012.**

Figure 1 Location Map of 3TL Gladstone port proposal

Resources

MetroCoal Underground Thermal Coal Resources

Resource	Bundi[1]	Juandah	Columboola[2]	Norwood	Dalby West[3]	Total Resources
Inferred	1,315.8Mt	224 Mt	1,297Mt (635 Mt) #	156 Mt	520Mt	3,513 Mt
Indicated	246.3Mt	24Mt	-	-		270.7 Mt
Total	**1,562.3 Mt**	**248 Mt**	**1,297 Mt**	**156 Mt**	**520Mt**	**3,783.7Mt**

1 See MTE ASX Announcement 19 July 2012 – BUNDI RESOURCE UPGRADE & PROJECT UPDATE
2 See MTE ASX Announcement 18 November 2011 – COLUMBOOLA JV INCREASES RESOURCE BY 757 MILLION TONNES TO 1.297 BILLION TONNES
3 See MTE ASX Announcement 9 December 2011 – DALBY WEST PROJECT – MAIDEN INFERRED RESOURCE OF 520 MILLION TONNES
MTE JV share = 49%

Corporate Activities

Mr Stephen Everett appointed Chairman of MetroCoal

On 12 July 2012, MetroCoal announced the appointment of experienced mining executive Stephen Everett to the position of Independent non-executive Company Chairman. Mr Everett brings to MetroCoal more than 40 years of Board and management experience in the resources and construction industries, holding senior positions with both publicly-listed and private companies, as well as Government Development Boards.

He is currently also Chairman of Global Resources Corporation Limited (ASX) and IronRidge Resources Limited, and has also served as Chairman of Australian Solomons Gold (TSX), JMS Engineering/JJ McDonald & Sons and BeMaX Resources limited (ASX) as well as a Director of Queensland Coal Mine Management (QCMM).

Mr Everett's appointment follows the retirement of MetroCoal's founding Chairman, Mr David Barwick who remains Chairman of Metallica Minerals Limited, MetroCoal's largest shareholder.

Exploration and Evaluation

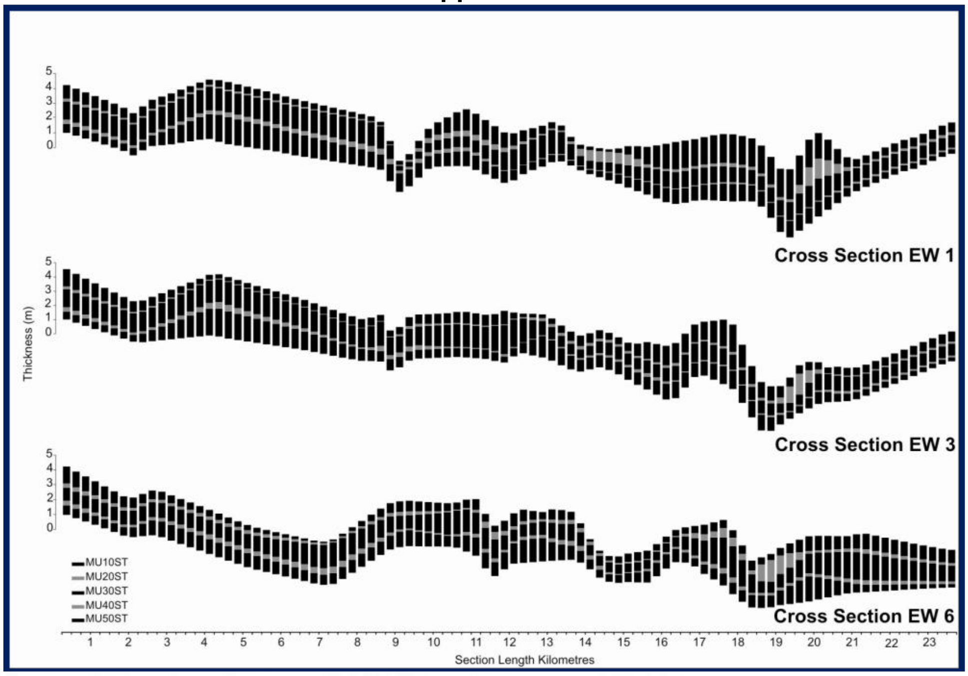
- **Bundi 2012 Drilling Program,** designed to increase resource confidence, has completed 50 holes. Additional large diameter holes are planned to provide additional coal quality information.
- **Bundi Project** advancing with work continuing on Environmental Impact Studies, washability tests and project concept study that is due for release in August 2012.
- **Columboola Joint Venture Drilling Program** continues with 70 holes drilled to date. Macalister and Condamine Seam Packages continue to demonstrate good continuity and correlation. Resource estimation for the Condamine Seam is underway.

Bundi Project

The June 2012 Quarter saw significant advancement in MetroCoal's understanding of the geology in the Bundi Project Area. A key focus of the exploration program and geological modelling has been on seam continuity and MetroCoal now has a defined working section for use in our mine design study.

The seam continuity, thickness and depth for the Bundi Project are highlighted in Figure 2 below. These highlight coal areas with an average thickness over 3 metres suitable for longwall mining extending across a strike length of approximately 23 kilometres. The current mine design is based on a mining height of between 2.75 metres and 3.65 metres. This height is ideally suited to modern high productivity longwall mining methods.

Figure 2 Cross Section of Bundi Macalister Upper Seam Grid Model



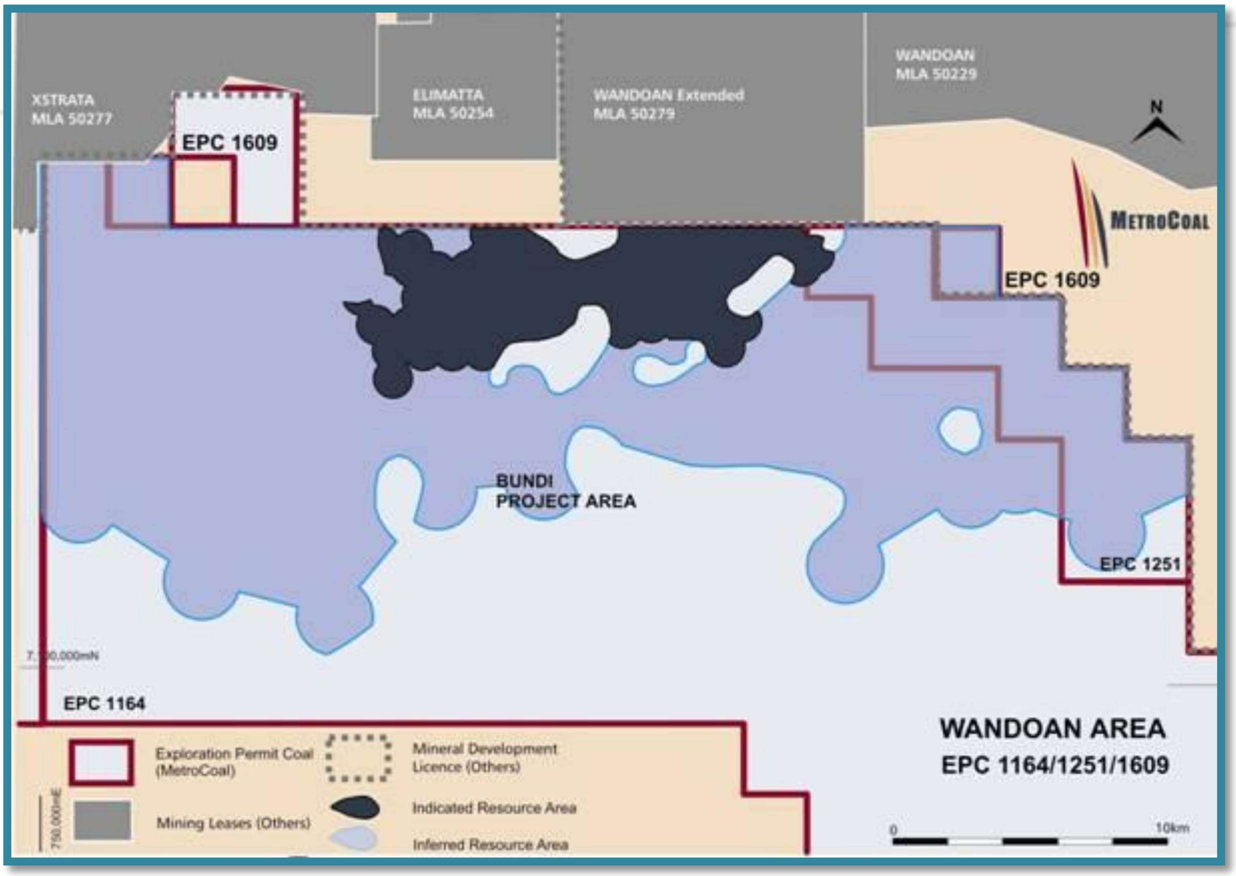
Impressive Coal Quality

Float sink analysis of HQ core of 15 holes in the Bundi Project Area show that a low ash product, below 10% ash, would be produced at a yield of approximately 80%.

Data obtained from this assessment of the coal quality, (see Table below) that an indicative washed product for the Bundi Project will have a Specific Energy of approximately 6,500 Gross air dried (kCal/kg) confirming the Bundi washed product as an attractive low ash high energy coal.

Washed Product – based on Bundi samples to date	
PROXIMATE ANALYSIS (%ad)	
Moisture	**7-8**
Ash	**7-10**
Volatile Matter	**38-44**
Fixed Carbon	**40-44**
TOTAL MOISTURE (% as received)	**14-16**
YIELD (%)	**75-85**
SPECIFIC ENERGY	
Gross air dried (MJ/kg)	**27.2**
Gross air dried (kCal/kg)	**6500**
Gross as received (kCal/kg)	**6070**
Sulphur (% air dried)	**0.35**
HGI	**37**

Figure 3 Bundi Project Area



Work continues on the preparation of a Concept Study for the Bundi Project and this is expected to be released in August 2012. MetroCoal will also shortly begin its seismic program over the Bundi Project.

Columboola JV Project (MTE- 49%)

Drilling continues in the Columboola JV Project Area with three coring drill rigs operating within EPC 1165.

The current program focus is Stage 3, drilling on a 900m offset grid to increase resource confidence towards Indicated status. The drilling is now targeting the Macalister Upper Seam Package as the initial mining horizon.

Progress has been affected by unseasonal rain in June and July causing saturated conditions making rig movement challenging.

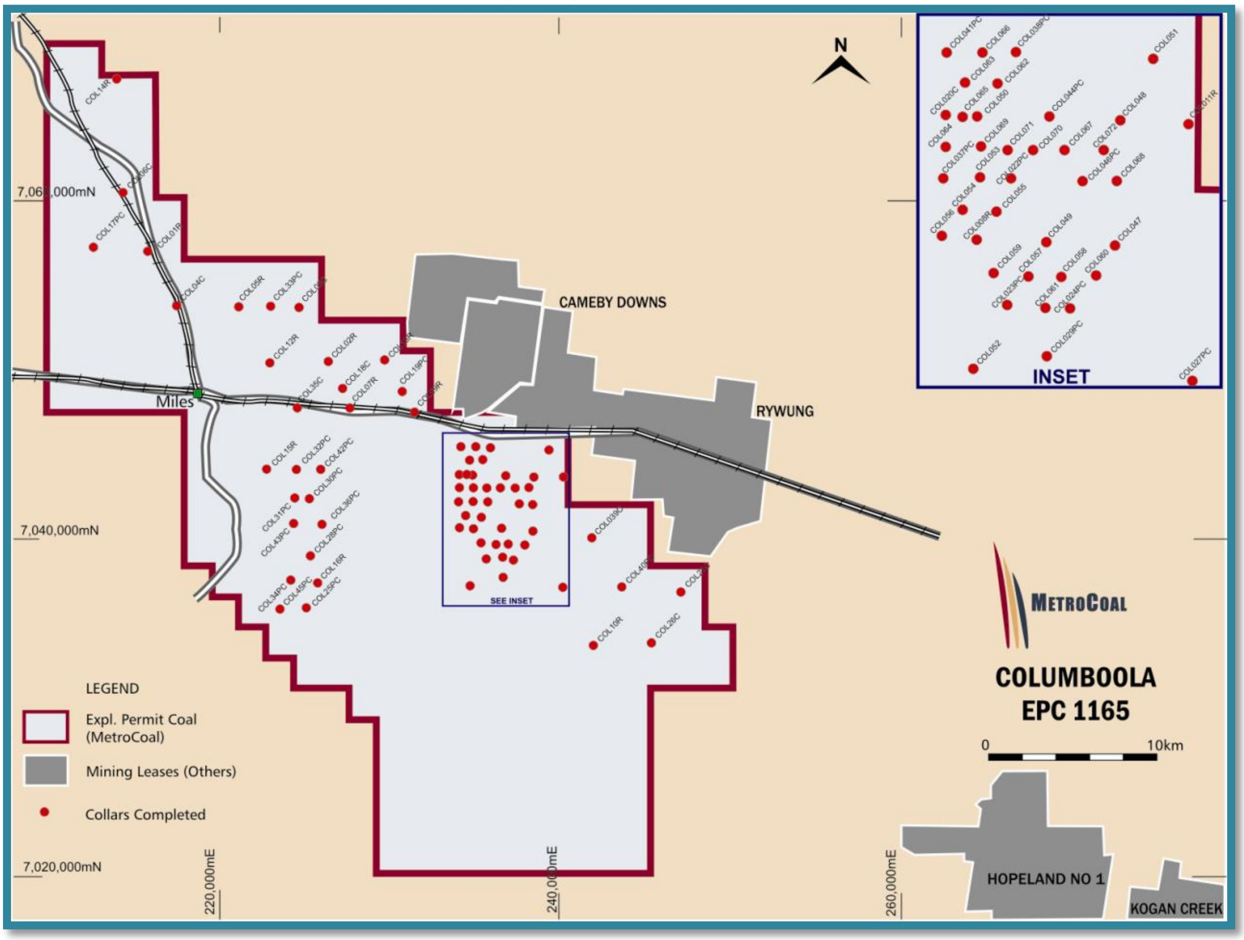
The JV was very pleased to host a visit from the Xi'an Branch of China Coal's Research Institute. The China Coal Research Institute, founded in 1956, is a large research institution on coal mine safety and geological exploration. The Xi'an Branch is engaged in research on coal geology, hydrogeology, engineering geology, geophysical instrument and exploration, drilling technology, geo-technical engineering, environmental engineering and development.

The Xi'an Branch visited Columboola in June to assess the project and they are currently working on the Stage 1 Concept Study in conjunction with Australian consultants.

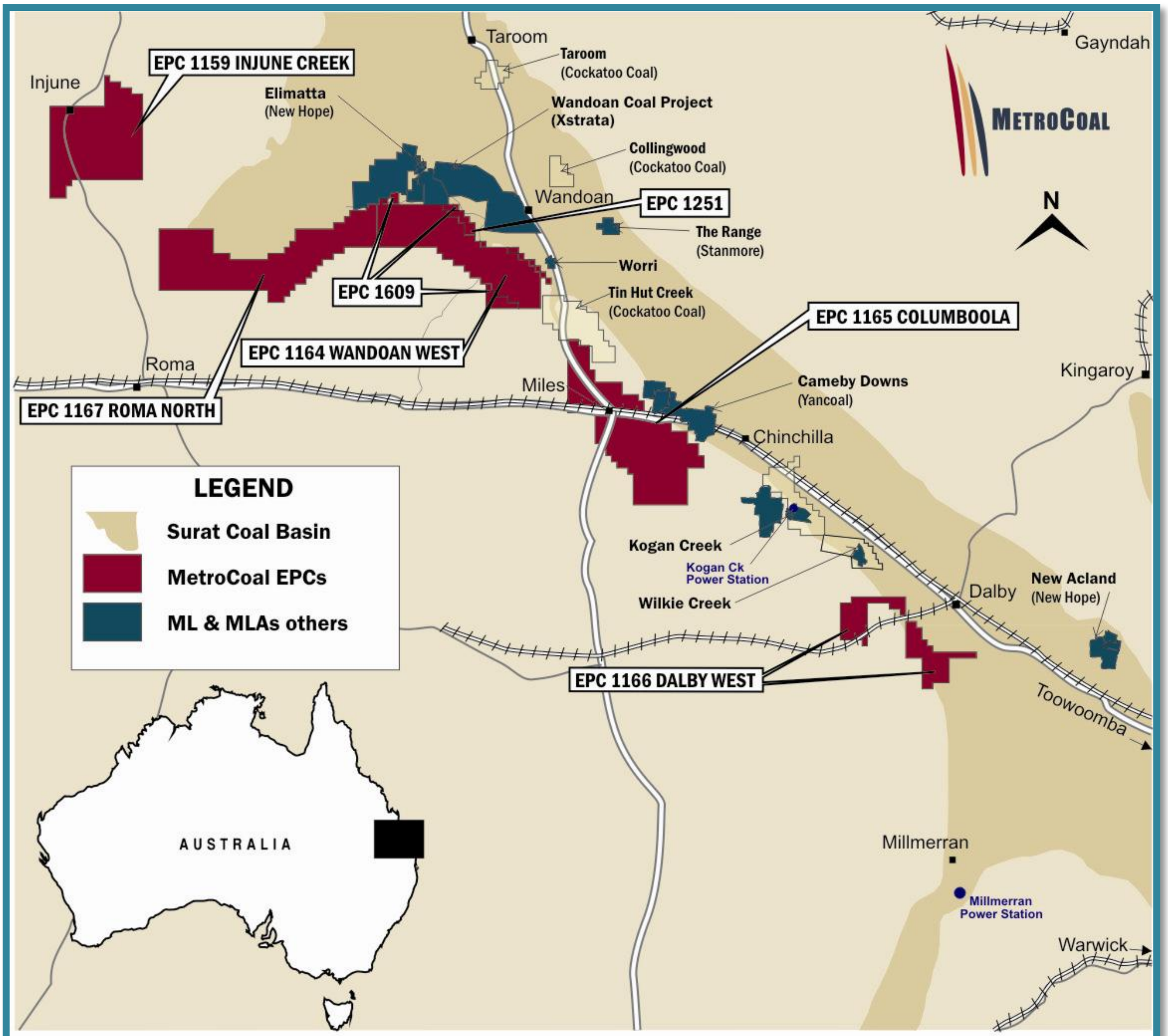
To date, seventy (70) holes have been completed and the current drilling plan is highlighted in Figure 4 below.

The JV's understanding of the deposit increases as geological interpretation and modelling, Coal quality and washability analysis continues.

Figure 4 – Columboola EPC 1165 drilling program



MetroCoal's Surat Basin Coal Tenements



MetroCoal's Surat Basin Coal Tenements

Tenement Schedule

Tenement	Project Name	Holder/ Applicant	Status (Expiry date)	No. Sub Block	Commodity Targeted
EPC 1152	Lockyer Valley	MetroCoal Limited	Granted (11/12/2012)	74	Thermal Coal
EPC 1159	Injune Creek	MetroCoal Limited	Renewed (11/12/2012)	237	Thermal Coal
EPC 1164	Wandoan West	MetroCoal Limited	Renewed (11/12/2012)	215	Thermal Coal
EPC 1165	Columboola	MetroCoal Limited – 49%	Renewed (9/12/2012))	294	Thermal Coal
EPC 1166	Dalby West	MetroCoal Limited	Granted (11/12/2012)	97	Thermal Coal
EPC 1167	Roma North	MetroCoal Limited	Renewed (11/12/2012)	289	Thermal Coal
EPC 1251	Wandoan West 2	MetroCoal Limited	Granted (16/9/2013)	19	Thermal Coal
EPC 1501	Dugandan	MetroCoal Limited	Granted (28/9/2014)	20	Thermal Coal
EPC 1609	Wandoan West 3	MetroCoal Limited	Granted (29/1/2017)	18	Thermal Coal
EPCA 1640	Pentland South	MetroCoal Limited	Application	114	Thermal Coal
EPCA 2187	MacMillan	MetroCoal Limited	Application	20	Coking Coal
EPCA 2234	Wandoan West 4	MetroCoal Limited	Application	3	Thermal Coal
EPCA 2786	Cooloomala	MetroCoal Limited – 49%	Application	101	Thermal Coal
MDLA 406	Juandah	MetroCoal Limited	Application	4986 ha	Thermal Coal & UCG

Competent Person Statements

<u>With reference to the Columboola Project (EPC1165)</u>

Competent Person Statement

The information in this Quarterly Report that relates to Exploration Results and Data 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 MetroCoal's Joint Venture General Manager. 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 announcement of the matters based on the information in the form and context it appears.

<u>With Reference to the Bundi Project and other MetroCoal Resources (EPC1164, EPC1166, EPC1167, EPC1251 and EPC1609)</u>

Competent Person Statement

The information in this Quarterly Report that relates to the Compilation of existing data and Exploration Results is based on information compiled by Mr Ed Radley who is a Member of the Australian Institute of Mining and Metallurgy (MAusIMM) (Membership No 300512). Mr Ed Radley is a fulltime employee of MetroCoal Ltd, in the role of Geological Manager, Mr Ed Radley 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 Ed Radley has consented in writing for inclusion in this announcement the matters based on the information in the form and context it appears.

REGISTERED OFFICE

Cnr. Lytton Road and Stafford St,
East Brisbane QLD 4169
GPO Box 122 Brisbane QLD 4001

T (07) 3249 3040
F (07) 3249 3041

WWW.METROCOAL.COM.AU

Rule 5.3

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

METROCOAL LIMITED

ABN	Quarter ended ("current quarter")
45 117 763 443	30/06/2012

Consolidated statement of cash flows

	Cash flows related to operating activities	Current quarter $A'000	Year to date (12 months) $A'000
1.1	Receipts from product sales and related debtors	0	0
1.2	Payments for (a) exploration & evaluation	(4,127)	(12,793)
	(b) development	0	0
	(c) production	0	0
	(d) administration	(503)	(2,106)
1.3	Dividends received	0	0
1.4	Interest and other items of a similar nature received	410	876
1.5	Interest and other costs of finance paid	0	0
1.6	Income taxes paid and GST refunded	279	800
1.7	Other (provide details if material)	0	0
	Net Operating Cash Flows	(3,941)	(13,223)
	Cash flows related to investing activities		
1.8	Payment for purchases of: (a) prospects		
	(b) equity investments	0	(4,437)
	(c) other fixed assets	0	(108)
1.9	Proceeds from sale of: (a) prospects	0	0
	(b) equity investments	0	0
	(c) other fixed assets	0	0
1.10	Loans to other entities	0	0
1.11	Loans repaid by other entities	0	0
1.12	Other (provide details if material)	0	0
	Net investing cash flows	0	(4,545)
1.13	Total operating and investing cash flows (carried forward)	(3,941)	(17,768)

1.13	Total operating and investing cash flows (brought forward)	(3,941)	(17,768)

+ See chapter 19 for defined terms.

	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	0	24,050
1.15	Proceeds from sale of forfeited shares	0	0
1.16	Proceeds from borrowings	0	0
1.17	Repayment of borrowings	0	(1,000)
1.18	Dividends paid	0	0
1.19	Other (provide details if material) - Issue costs	(25)	(1,589)
	Net financing cash flows	(25)	21,461
	Net increase (decrease) in cash held	(3,941)	3,693
1.20	Cash at beginning of quarter/year to date	19,215	11,581
1.21	Exchange rate adjustments to item 1.20	0	0
1.22	**Cash at end of quarter**	**15,274**	**15,274**

Payments to directors of the entity and associates of the directors Payments to related entities of the entity and associates of the related entities

		Current quarter $A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	75
1.24	Aggregate amount of loans to the parties included in item 1.10	Nil

1.25 Explanation necessary for an understanding of the transactions

Directors' Fees

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available $A'000	Amount used $A'000
3.1	Loan facilities	--	--
3.2	Credit standby arrangements	--	--

Estimated cash outflows for next quarter

		$A'000
4.1	Exploration and evaluation	3,000
4.2	Development	0
4.3	Production	0
4.4	Administration	450
	Total	**3,450**

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter $A'000	Previous quarter $A'000
5.1	Cash on hand and at bank	3,012	5,970
5.2	Deposits at call	12,262	13,245
5.3	Bank overdraft	0	0
5.4	Other (provide details)	0	0
	Total: cash at end of quarter (item 1.22)	**15,274**	**19,215**

Changes in interests in mining tenements

		Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed				

+ See chapter 19 for defined terms.

6.2	Interests in mining tenements acquired or increased				

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	**Preference +securities** *(description)*	--	--	--	--
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	--	--	--	--
7.3	**+Ordinary securities**	208,733,663	208,733,663		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	--	--	--	--
7.5	**+Convertible debt securities** *(description)*	--	--	--	--
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	--	--	--	--

+ See chapter 19 for defined terms.

7.7	**Options** *(description and conversion factor)*			*Exercise price*	*Expiry date*
		5,620,000 unlisted options		25 cents	4 December 2012
		500,000 unlisted options		25 cents	4 December 2014
		3,250,000 unlisted options		40 cents	19 November 2013
		750,000 unlisted options		50 cents	18 May 2014
		2,500,000 Unlisted options		75 cents	25 November 2013
		2,500,000 Unlisted options		78 cents	25 November 2013
7.8	Issued during quarter	--	--	--	--
7.9	Exercised during quarter				
7.10	Expired during quarter	--	--	--	--
7.11	**Debentures** *(totals only)*	--	--		
7.12	**Unsecured notes** *(totals only)*	--	--		

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).

2 This statement does give a true and fair view of the matters disclosed.

Sign here: .... Date: 27 July 2012
(Company Secretary)

Print name: JOHN HALEY

Notes

1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.