

**MetroCoal Limited
and controlled entities
ABN 45 117 763 443**

**Annual Report
30 June 2012**

MetroCoal Limited
Corporate directory
30 June 2012

Directors	David K Barwick – Chairman (resigned 30 June 2012) Stephen Everett – Independent Chairman (appointed 12 July 2012) Andrew L Gillies - Non-Executive Director John K Haley - Non-Executive Director Michael K Hansel - Non-Executive Director Lindsay Ward – Non-Executive Director (appointed 4 October 2011) Dongping Wang – Non-Executive Director (appointed 8 December 2011) Robert Finch – Alternate Director for Dongping Wang (appointed 8 December 2011)
Company secretary	John K Haley
Notice of annual general meeting	The annual general meeting of MetroCoal Limited: will be held at Offices of HopgoodGanim Lawyers Waterfront Place 1 Eagle Street Brisbane QLD 4000 time 4:00 PM date Tuesday 20 November 2012
Registered office	71 Lytton Road East Brisbane, Queensland 4169 T +61 7 3249 3040 F +61 7 3249 3041
Principal place of business	Corner Lytton Road and Stafford Street East Brisbane, Queensland 4169
Share register	Link Market Services Limited Level 15, 324 Queen Street Brisbane QLD 4000
Auditor	BDO Audit (QLD) Pty Ltd Level 18, 300 Queen St Brisbane QLD 4000
Stock exchange listing	MetroCoal Limited shares are listed on the Australian Securities Exchange (ASX code: MTE)
Website address	www.metrocoal.com.au

MetroCoal Limited
Corporate governance statement
30 June 2012

The ASX Listing Rules require listed companies to include in their Annual Report a statement disclosing the extent to which they have complied with the ASX Best Practice Recommendations in the reporting period. These recommendations are guidelines designed to produce an efficiency, quality or integrity outcome. The recommendations are not prescriptive so that if a company considers that a recommendation is inappropriate having regard to its own circumstances, the company has the flexibility not to follow it. Where a company has not followed all the recommendations, the annual report must identify which recommendations have not been followed and give reasons for not following them.

A table has been included at the end of this statement which sets out the ASX Best Practice Recommendations and states whether the Company has complied with each recommendation in the reporting period. Where the Company considered it was not appropriate to comply with a particular recommendation the reasons are set out in the notes referenced in the table. A full copy of the Company's Corporate Governance Charter is available on the Company's website at www.metrocoal.com.au

Role of the board

Generally, the powers and obligations of the board are governed by the *Corporations Act* and the general law. Without limiting those matters, the board expressly considers itself responsible for the following:

1. Ensuring compliance with the *Corporations Act*, ASX Listing Rules (where appropriate) and all relevant laws;
2. Developing, implementing and monitoring operational and financial targets for the Company;
3. Appointment of appropriate staff, consultants and experts to assist in the Company's operations specifically, including the selection and monitoring of a chief executive officer;
4. Ensuring appropriate financial and risk management controls are implemented;
5. Approving and monitoring financial and other reporting;
6. Setting, monitoring and ensuring appropriate accountability for directors' and executive officers' remuneration;
7. Establishing and maintaining communications and relations between the Company and third parties, including its shareholders and ASX by delegating such a role to the chief executive officer;
8. Implementing appropriate strategies to monitor performance of the board in implementing its functions and powers;
9. Oversight of the Company including its framework of control and accountability systems to enable risk to be assessed and managed;
10. Appointing and removing the chief executive officer;
11. Ratifying the appointment and, where appropriate, removal of the chief financial officer and the company secretary;
12. Input into and final approval of the management's development of corporate strategy and performance objectives;
13. Reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
14. Monitoring senior management's performance, implementation of strategy and ensuring appropriate resources are available;
15. Approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures;
16. Approval of the annual budget;
17. Monitoring the financial performance of the Company;
18. Liaising with the Company's external auditors;
19. Monitoring, and ensuring compliance with all of the Company's legal obligations;
20. Approving and monitoring financial and other reporting;
21. Appointing and overseeing committees where appropriate to assist in the above functions and powers.

Role of management

The board has delegated responsibilities and authorities to the chief executive officer to enable him to conduct the Company's day to day activities. Matters which are not covered by these delegations, such as approvals which exceed certain limits or do not form part of the approved budget, require board approval.

Board processes

The board of MetroCoal Limited meets on a regular basis. The agenda for these meetings is prepared by the chairman and company secretary in conjunction with the directors. Relevant information is circulated to board members in advance of the meetings.

Composition of the board

At the date of this report the board comprises six non-executive directors, one of whom is chairman.

Director	Appointed	Non-Executive	Independent	Retiring at 2012 AGM	Seeking re-election at 2012 AGM
D Barwick	6 January 2006, resigned 30 June 2012	Yes	No	N/A	N/A
S Everett	12 July 2012	Yes	Yes	Yes	Yes
A Gillies	6 January 2006	Yes	No	No	N/A
J Haley	6 January 2006	Yes	No	No	N/A
M Hansel	10 June 2008	Yes	No	Yes	Yes
L Ward	4 October 2011	Yes	Yes	No	N/A
D Wang	8 December 2011	Yes	No	Yes	Yes
R Finch (Alternate)	8 December 2011	Yes	No	No	N/A

The directors are subject to re-election by shareholders. All directors are subject to re-election by rotation within every three years. The Company's Constitution provides that one-third of the directors retire by rotation each AGM. Those directors who are retiring may submit themselves for re-election by shareholders, including any director appointed to fill a casual vacancy or recruited since the date of the last AGM.

The current directors have a broad range of qualifications, experience and expertise in managing mineral exploration companies as set out in the directors section of the Directors' Report.

Independence of non-executive directors

The board considers an independent director to be a non-executive director who meets the criteria for independence included in the ASX Best Practice Recommendations. Based on the ASX Guidelines relating to independence, only Stephen Everett and Lindsay Ward could be considered independent. David Barwick, Andrew Gillies and John Haley are directors of Metallica Minerals Limited, a substantial shareholder of the Company. Michael Hansel is a partner of HopgoodGanim Lawyers a professional advisor to the Company and Metallica Minerals Limited. Mr Wang Dongping represents the Company's second largest shareholder, Dadi Engineering Group.

Director access to independent professional advice

The Company acknowledges that directors require high quality information and advice on which to base their decisions and considerations. With the prior approval of the chairman, all directors have the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as directors. If the chairman is unable or unwilling to give approval, board approval will be sufficient.

Company materiality threshold

The board acknowledges that assessment on materiality and subsequent appropriate thresholds are subjective and open to change.

The board has considered quantitative, qualitative and cumulative factors when determining the materiality of a specific relationship of directors.

Ethical standards

As part of the board's commitment to the highest standard of conduct, the Company adopts a code of conduct to guide executives, management and employees in carrying out their duties and responsibilities. The code of conduct covers such matters as:

- responsibilities to shareholders;
- compliance with laws and regulations;
- relations with customers and suppliers;
- ethical responsibilities;
- employment practices; and
- responsibility to the environment and the community.

Board committees

As at the date of this report, the Company does have an audit and risk management committee and a nomination and remuneration committee of the board of directors.

Evaluation of board and executive performance

The Company has not complied with Recommendation 1.2 of the Corporate Governance Council and conducted formal performance evaluations of senior executives.

The Company has not complied with Recommendation 2.5 of the Corporate Governance Council and has not undertaken a formal review of the board and individual directors.

Continuous disclosure and shareholder communication

The board is committed to the promotion of investor confidence by ensuring that trading in the Company's securities takes place in an efficient, competitive and informed market. In accordance with continuous disclosure requirements under the ASX Listing Rules, the Company has procedures in place to ensure that all price sensitive information is identified, reviewed by management and disclosed to the ASX in a timely manner. All information disclosed to the ASX is posted on the Company's website www.metrocoal.com.au.

Shareholders are forwarded documents if requested relating to each Annual General Meeting, being the Annual Report, Notice of Meeting and Explanatory Memorandum and Proxy Form, and are invited to attend these meetings. The Company's External Auditor is also present at Annual General Meetings to answer any queries shareholders may have with regard to the audit and preparation and content of the Audit Report.

The Company actively encourages shareholders to provide their email contact details so that they can receive all ASX releases as they are released to the market.

Managing business risk

The board constantly monitors the operational and financial aspects of the Company's activities and is responsible for the implementation and on-going review of business risks that could affect the Company. Duties in relation to risk management that are conducted by the directors include but are not limited to:

- initiate action to prevent or reduce the adverse effects of risk;
- control further treatment of risks until the level of risk becomes acceptable;
- identify and record any problems relating to the management of risk;
- initiate recommend or provide solutions through designated channels;
- verify the implementation of solutions; and
- communicate and consult internally and externally as appropriate; and
- to inform investors of material changes to the Company's risk profile.

In accordance with section 259A of the Corporations Act 2001, the chief executive officer and chief financial officer have provided a declaration to the board that:

- In their view provided in the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the board; and
- The Company's risk management and internal compliance and control system is operating effectively in all material respects.

Managing business risk (continued)

It is noted that the assurance from the chief executive officer and chief financial officer can only be reasonable and not absolute due to the level of judgement required the limitations of sampling and the difficulty in designing systems to detect all weaknesses in internal control procedures.

Security trading policy

The Company's policy regarding directors and employees trading in its securities is set out in the Company's corporate governance manual. The policy restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the security's prices, and in addition requires any director, the chief executive officer or company secretary not to trade during prohibited periods unless the chairperson or a designated director is notified, and gives a clearance to deal. Prohibited periods are such periods as the directors determine. The chairperson must not deal in any securities of the Company during a prohibited period without first notifying the chief executive or the chairman of the audit committee and receiving clearance to deal from them or, if the chief executive or the chairman of the audit committee is not readily available, without first notifying a senior independent director, or a committee of the board or other officer of the Company nominated for that purpose by the chief executive, and receiving clearance to deal from that director, committee or officer.

A restricted person, who is not in possession of Inside Information in relation to the Company, may be given clearance to deal during a prohibited period if they are in severe financial difficulty or there are other exceptional circumstances. Clearance may be given for such a person to sell (but not purchase) securities of the Company when they would otherwise be prohibited by this policy from doing so. The determination of whether the person in question is in severe financial difficulty or whether there are other exceptional circumstances can only be made by the clearance officer designated by the board for this purpose pursuant to Section 4.

A person may be in severe financial difficulty if they have a pressing financial commitment that cannot be satisfied otherwise than by selling the relevant securities of the Company. A liability of such a person to pay tax would not normally constitute severe financial difficulty unless the person has no other means of satisfying the liability. A circumstance will be considered exceptional if the person in question is required by a court order to transfer or sell the securities of the Company or there is some other overriding legal requirement to do so.

A restricted person may enter into a margin loan or similar funding arrangement in respect of any Company shares (**funding arrangements**) but must disclose the existence of the funding arrangements to a clearance officer who shall notify the board.

The law prohibits insider trading and the Corporations Act and the ASX Listing Rules require disclosure of any trading undertaken by directors or their related entities in the Company's securities.

Diversity

The board is committed to having an appropriate blend of diversity on the board and in the Company's senior executive positions. The board has established a policy regarding gender, age, ethnic and cultural diversity.

Key elements of the diversity policy are as follows:

- Increased gender diversity on the board and senior executive positions and throughout the Company, aiming for equal gender representation on a full-time basis across the Company's operations by 30 June 2015; and
- Annual assessment of board gender diversity objectives and performance against objectives by the board and nomination committee.

The Company's performance against the diversity policy objectives are as follows:

	30 June 2012		30 June 2011	
	Male (%)	Female (%)	Male (%)	Female (%)
Gender representation				
Board	100%	-%	100%	-
Senior executives/Key management personnel	100%	-%	100%	-
Company, excluding board and executives	50%	50%	-%	100%

The Company has adopted the following initiatives to progress the objectives of its diversity policy:

- Appropriately qualified and experienced candidates interviewed for any board, key management personnel or Company positions will include both genders.

The board will report on progress in achieving its objectives on an annual basis.

ASX Best Practice Recommendations

The table below contains each of the ASX Best Practice Recommendations. Where the Company has complied with a recommendation during the reporting period, this is indicated with a “Yes” in the appropriate column and the policy is contained in the Company’s Corporate Governance Charter available on the Company’s website at www.metrocoal.com.au. Where the Company considered it was not appropriate to comply with a particular recommendation, this is indicated with a “No” and the Company’s reasons are set out in the corresponding note at the end of the table.

	Description	Complied	Note
1.1	Formalise and disclose the functions reserved to the board and those delegated to senior executives. These functions are set out under <i>Role of the board</i> and <i>Role of management</i> in this statement.	Yes	
1.2	Disclose the process for evaluating the performance of senior executives.	No	2
1.3	Provide the information indicated in the Guide to reporting on Principle 1.	Yes	
2.1	A majority of the board should be independent directors.	No	3
2.2	The chairperson should be an independent director.	Yes	4
2.3	The roles of chairperson and chief executive officer should not be exercised by the same individual.	Yes	
2.4	The board should establish a nomination committee.	Yes	5
2.5	Disclose the process for evaluating the performance of its board, committees and individual directors.	No	6
2.6	Provide the information indicated in the Guide to reporting on Principle 2.	Yes	
3.1	Establish a code of conduct to guide the directors, the chief executive officer (or equivalent) and any other key executives as to:		
3.1.1	the practices necessary to maintain confidence in the Company’s integrity;	Yes	
3.1.2	the practices necessary to take into account legal obligations and reasonable expectations of stakeholders;	Yes	
3.1.3	the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Yes	
3.2	Establish and disclose the diversity policy of the Company.	Yes	
3.3	Establish and disclose the measurable objectives for achieving gender diversity and progress towards achieving those goals.	Yes	
3.4	Disclose the proportion of women employees in the organisation, in senior executive positions and on the board.	Yes	
3.5	Provide the information indicated in the Guide to reporting on Principle 3.	Yes	
4.1	The board should establish an audit committee.	Yes	
4.2	Structure the audit committee so that it consists of: <ul style="list-style-type: none"> • only non-executive directors • a majority of independent directors • an independent chairperson, who is not chairperson of the board • at least three members. 	Yes No No Yes	2
4.3	The audit committee should have a formal charter.	Yes	
4.4	Provide the information indicated in the Guide to reporting on Principle 4.	Yes	
5.1	Establish and disclose written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements to ensure accountability at a senior executive level for that compliance.	Yes	
5.2	Provide the information indicated in the guide to reporting on Principal 5.	Yes	
6.1	Design and disclose a communication strategy to promote effective communication with the shareholders and encourage effective participation at general meetings - refer to <i>Continuous disclosure and shareholder communication</i> as set out above.	Yes	
6.2	Provide the information indicated in the Guide to reporting on Principal 6.	Yes	
7.1	Establish and disclose policies for oversight and management of material business risks.	Yes	

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	Description	Complied	Note
7.2	Design and implement risk management and internal control systems to manage and report on material business risks. Disclose reporting as to effectiveness of management of material business risks.	Yes	
7.3	Disclose whether the board has received assurance from the chief executive officer and chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	
7.4	Provide the information indicated in the Guide to reporting on Principle 7.	Yes	
8.1	Establish a remuneration committee.	Yes	5
8.2	Structure the remuneration committee so that it consists of: <ul style="list-style-type: none"> • a majority of independent directors • an independent chairperson • at least three members. 	Yes Yes Yes	
8.3	Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes	
8.4	Provide the information indicated in the Guide to reporting on principle 8.	Yes	

Notes

1. The Company has compiled relevant corporate governance documentation, such as charters, codes of conduct, and policies, which have been placed on the Company's website at www.metrocoal.com.au under the heading "Corporate Governance".
2. The evaluation of performance of senior executives is to be undertaken by the remuneration committee. During the period no evaluation of senior executives was conducted.
3. Based on the ASX Guidelines relating to independence, only Stephen Everett and Lindsay Ward could be considered independent. David Barwick, Andrew Gillies and John Haley are directors of Metallica Minerals Limited, a substantial shareholder of the Company. Michael Hansel is a partner of HopgoodGanim Lawyers a professional advisor to the Company. On 12 July 2012, Stephen Everett was appointed as Independent Chairman of the Company.

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.

4. During the reporting period David Barwick was the chairman of the Company and Metallica Minerals Limited, a substantial shareholder in the Company. Therefore for the period Mr Barwick was not an independent chairperson and the company was not in compliance with Recommendation 2.2. On 12 July 2012, Stephen Everett was appointed as Independent Chairman of the Company.
5. A nomination and remuneration committee was formed during the period. The Company has adopted a remuneration committee Charter, which is set out in the Company's Corporate Governance Charter.
6. The evaluation of individual board members performance is undertaken by the chairman. During the reporting period, board performance evaluations of the current board have not been conducted.

MetroCoal Limited
Directors' report
30 June 2012

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of MetroCoal Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled for the year ended 30 June 2012.

Directors

The following persons were directors of MetroCoal Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mr DK Barwick (resigned 30 June 2012)	Mr S Everett (appointed 12 July 2012)
Mr A Gillies	Mr L Ward (appointed 4 October 2011)
Mr J Haley	Mr D Wang (appointed 8 December 2011)
Mr M Hansel	Mr R Finch (appointed 8 December 2011)

Principal activities

During the financial year the principal activities of the consolidated entity consisted of holding and exploring coal tenements. There were no significant changes in the principal activities during the year.

Dividends

There were no dividends paid or declared during the current or previous financial year. There were no franking credits at 30 June 2012 (2011: nil).

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$10,854,933 (30 June 2011: \$2,432,614).

During the period the consolidated entity:

- Executed a Capacity Priority Agreement and an Investment Agreement with Tenement to Terminal Limited (3TL), an unlisted Australian public company. Under the Capacity Priority Agreement MetroCoal will have priority access for up to 11.43 million tonnes of capacity per annum at the proposed port facility in Gladstone. This priority right is subject to MetroCoal meeting various capacity commitment criteria including mining project development progress, future feasibility funding and eventual take-or-pay contract commitments as required by 3TL. An additional 3.57 million tonnes will be available for MetroCoal's Columboola Joint Venture partner, SinoCoal Resources Pty Ltd (SinoCoal), subject to securing Joint Venture approval, completion of further commercial arrangements and an additional cash injection by SinoCoal into 3TL. In consideration of the Capacity Priority Agreement, 3TL will receive options to subscribe for 25 million ordinary shares in MetroCoal Limited in 4 equal tranches of 6,250,000 shares subject to achievement of certain project milestones. The Company's investment in 3TL of \$7,354,877 comprising cash payments totalling \$3,500,000 and the issue of options that have been independently valued at \$3,854,877, was fully impaired during the year as this project is at an early stage in its development and does not have operating cashflows;
- Raised a total of \$24,000,000 from a placement of 32,000,000 ordinary shares at \$0.75 per share to DADI Engineering Development (Group) Co Ltd (DADI), with funds raised to be used to further develop the consolidated entity's coal projects and investments. DADI is one of the leading engineering groups in China specialising in coal mining including open cut and underground coal mine design, coal process plant design and engineering, procurement and construction. As a result of the transaction, DADI became a substantial shareholder in the Company with a 15% shareholding;
- Repaid in full the Convertible Note of \$1,000,000 to Metallica Minerals Limited;
- Incurred feasibility costs of \$852,000 in relation to the Wiggins Island Coal Export Terminal Pty Ltd Feasibility Funding deed to secure terminal capacity for the planned Wiggins Island port expansion;
- Issued 5,000,000 options to directors, with 2,500,000 exercisable as \$0.75 and 2,500,000 exercisable at \$0.78 on or before 30 November 2013. The total value of these options is \$1,043,735; and
- Invested \$12,044,329 continuing its extensive exploration and evaluation activities which resulted in significant increases in the consolidated entity's resources as outlined below:

Resource	Norwood	Bundi	Juandah	Columboola (49% JV)	Dalby West	Total Resources
Inferred	156.0 Mt	1,315.8 Mt	224.0 Mt	1,297.0 Mt	520.0 Mt	3,512.8 Mt
Indicated	-	246.3 Mt	24.4 Mt	-	-	270.7 Mt
Total	156.0 Mt	1,562.1 Mt	248.4 Mt	1,297.0 Mt	520.0 Mt	3,783.5 Mt

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

On 12 July 2012, Stephen Everett was appointed as Independent Non-Executive Director and Chairman of the Company.

On 6 September 2012, the company and its Joint Venture partner, SinoCoal Resources Pty Ltd, announced a Maiden Indicated Resource of 94.7Mt at their Columboola thermal coal project and an increase in the project's total resource from 1,297Mt to 1,732Mt.

On 6 September 2012, the company also announced the results of a scoping study for its Bundi project. The results of this study were:

- Mine life of 28 years producing over 5 million sales tonnes on average per year during steady-state production;
- Project NPV real, before tax, is between \$600 million and \$660 million at a 10% discount rate and the IRR, before tax of between 16% and 17%;
- Continuous coal seam amenable to underground longwall mining;
- Mining seam section 2.75 – 3.65m;
- Average yield from mining study 78% at 6300kcal/kg GAD;
- Average cost to FOB \$80.72 per tonne, excluding royalties; and
- Initial Capital expenditure \$994 million.

No other matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation

The consolidated entity is subject to environmental regulations under laws of Queensland where it holds mining tenements. The directors have put in place strategies and procedures to ensure that the consolidated entity manages its compliance with environmental regulations. The directors are not aware of any breaches of any applicable environmental regulations.

Information on directors

Name: *David K Barwick*
Title: Non-executive chairman, resigned 30 June 2012
Age: 68
Qualifications: N/A
Experience and expertise: In his capacity as chairman, managing director and or president, Mr 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, Mr Barwick has more than 38 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.

Other current directorships:

- Metallica Minerals Limited, appointed 11 March 2004;
- Jumbo Interactive Limited, appointed 28 August 2006;
- Orion Metals Limited, appointed 28 November 2008; and
- Planet Metals Limited, appointed 9 June 2009.

Former directorships (in the last 3 years):

- Macarthur Minerals Limited (TSX-V) appointed 24 October 2005, resigned 31 August 2009; and
- Cape Alumina Limited, appointed 2 February 2004, resigned 29 January 2009.

Special responsibilities: Member of the audit and risk committee and nomination and remuneration committee.
Interests in shares: 250,000 ordinary shares.
Interests in options: 1,500,000 options.

Name: *Andrew Gillies*
Title: Non-executive director
Age: 49
Qualifications: Bachelor of Science (Geology), MAusIMM.
Experience and expertise: Mr Gillies is a founding director of MetroCoal Limited. He has been instrumental in the selection and acquisition of all the mineral assets now held by the Metallica group, Cape Alumina Limited and MetroCoal Limited. Mr Gillies' 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 22 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 22 years he gained valuable experience in the exploration, feasibility, development, open pit and underground mining of mineral deposits.

Other current directorships:

- Metallica Minerals Limited, appointed 15 January 1997;
- Orion Metals Limited, appointed 27 November 2009 retired 8 August 2012
- Planet Metals Limited, appointed 9 June 2009 retired 31 July 2012
- Cape Alumina Limited, appointed 2 February 2004, retired 30 November 2011.

Former directorships (in the last 3 years):

Special responsibilities: None.
Interests in shares: 120,000 ordinary shares.
Interests in options: 3,000,000 options.

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Name: ***John Haley***
Title: Non-executive director/company secretary
Age: 50
Qualifications: Bachelor of Commerce, MBA, GradCert (Marketing), Grad Dip CSP, FCA, FFINA, FTIA.
Experience and expertise: Mr Haley brings almost thirty years of senior corporate experience from positions in Canada and Australia to the board of MetroCoal. 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 has previously worked with Coopers & Lybrand and Arthur Andersen & Co and in Australia in general management, financial reporting and company secretarial positions.

Other current directorships:

- Metallica Minerals Limited, appointed 22 December 2003.

Former directorships (in the last 3 years):

- Cape Alumina Limited, appointed 1 February 2012 as the alternate director for Andrew Gillies, retired 30 November 2011.

Special responsibilities: Member of the audit and risk committee.
Interests in shares: 120,000 ordinary shares
Interests in options: 1,500,000 options

Name: ***Michael Hansel***
Title: Non-executive director
Age: 38
Qualifications: Bachelor of Business, Commerce (Honours) and Law (Honours).
Experience and expertise: Mr Hansel is a partner of large Queensland law firm, HopgoodGanim Lawyers, is a member of the Australian Institute of Company Directors and is admitted to practice as a solicitor of the Supreme Court of Queensland.

Mr Hansel 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. He 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.

Other current directorships: N/A
Former directorships (in the last 3 years): N/A
Special responsibilities: Chairman of the audit and risk committee and member of the nomination and remuneration committee. Mr Hansel is also a Director of Tenement to Terminal Limited of which the Company is a twenty per cent shareholder.
Interests in shares: None
Interests in options: 1,500,000 options – held for the benefit of HopgoodGanim.

**MetroCoal Limited
Directors' report
30 June 2012**

Name: *Lindsay Ward*

Title: Non-executive director, appointed 4 October 2011

Age: 46

Qualifications: Bachelor of Applied Science (Geology), GAICD

Experience and expertise: Mr. Lindsay Ward is an experienced senior executive having worked in a broad range of industries including ports, mining, mineral processing, rail haulage, electricity generation, transport and logistics at both General Manager and CEO level.

Mr. Ward started his career in roles ranging from Mining Engineer through to mine Manager. He has experience in gold and base metals exploration as well as a detailed knowledge of the Victoria approvals process.

Other current directorships:

- Dart Mining NL, appointed May 2011.

Former directorships (in the last 3 years):

N/A

Special responsibilities:

Chairman of the nomination and remuneration committee.

Interests in shares:

None

Interests in options:

1,000,000 options

Name: **Dongping Wang**

Title: Non-executive director, appointed 8 December 2011

Age: 52

Qualifications: Bachelor of Coal Preparation

Experience and expertise: Mr Wang Dongping graduated from the China Mining University in 1981, with a Major in Coal Processing Technology. Mr Wang was Process Plant Manager, and later Director of Operations at Pingshuo Antaibao coal mine for many years; a World Bank funder USA – China joint venture project. Mr Wang then worked for a time in the China Coal Ministry. He later became General Manager of Long-Airdox (Tianjin), where from 1997 he was instrumental in introducing modern coal process technology from Australia to China. Mr Wang became General Manager of Schenck (Tianjin) and worked there until 2007.

He then helped establish the Dadi Engineering Group, now China's largest coal industry engineering group. Mr Wang is now Chairman of Dadi Engineering Development Group. Mr Wang Dongping has worked at the highest level within the Chinese coal industry for 30 years and is a highly renowned coal processing expert, and a prominent figure in the Chinese coal industry. Mr Wang brings extensive Management experience and an intimate knowledge of modern coal process technology to MetroCoal.

Other current directorships:

- Dadi Engineering Development Group, appointed 27 January 2010.

Former directorships (in the last 3 years):

N/A

Special responsibilities:

N/A

Interests in shares:

Mr Wang is a shareholder of Dadi Engineering Group that holds 41,000,000 shares in MetroCoal Ltd

Interests in options:

None

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Name: **Robert Finch**
Title: Alternate director for Dongping Wang, appointed 8 December 2011
Age: 58
Qualifications: N/A
Experience and expertise: Mr Robert Finch brings more than 23 years of Management experience to MetroCoal, including over 17 years in the Australian and Chinese coal industries. He has worked in Australia and throughout Asia for over 22 years. Robert has a strong association and sound knowledge of Chinese business culture, and both the Australian and Chinese Coal industries. Robert was instrumental in pioneering modern coal process technology into China and he worked in China for 4 years up to mid 2006 as Managing Director of Schenck Tianjin, a major process equipment manufacturing company.

In 2008 he established and is Managing Director of Aury Australia, a coal process equipment manufacturing company based in Queensland, which supplies process equipment to the Australian and overseas coal and minerals industries. Robert offers both Australian and Chinese coal industry experience and Management skills to MetroCoal.

Other current directorships: N/A
Former directorships (in the last 3 years): N/A
Special responsibilities: N/A
Interests in shares: 299,000
Interests in options: None

Name: **Stephen Everett**
Title: Independent non-executive chairman, appointed 12 July 2012
Age: 60
Qualifications: Bachelor of Engineering (Chem Eng. Honours)
Experience and expertise: Mr Everett has forty years management and board experience in the resources and construction industries and has held Chairman and non-executive director positions in Government Development Boards, Private, ASX listed and TSX listed companies.

Mr Everett has also held senior executive positions included Managing Director and Chief Executive Officer of private and publicly listed companies.

Other current directorships:

- Global Resources Corporation Limited, appointed April 2009;
- IronRidge Resources Limited, appointed May 2011.

Former directorships (in the last 3 years):

- Australian Solomons Gold Limited, appointed June 2004, resigned November 2009.

Special responsibilities: Member of the audit and risk committee and nomination and remuneration committee.
Interests in shares: None
Interests in options: None

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

'Former directorships (in the last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

Company secretary

Mr Haley, who is also a non-executive director of the Company, was appointed company secretary on 8 April 2011.

Meetings of directors

The number of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2012, and the number of meetings attended by each director were:

	Full Board		Audit and Risk Committee		Nomination and Remuneration Committee	
	Attended	Held	Attended	Held	Attended	Held
Mr D K Barwick	11	12	2	2	2	2
Mr A Gillies	12	12	N/A	N/A	N/A	N/A
Mr J Haley	11	12	2	2	N/A	N/A
Mr M Hansel	12	12	2	2	2	2
Mr L Ward	9	9	N/A	N/A	2	2
Mr D Wang	1	7	N/A	N/A	N/A	N/A
Mr R Finch	6	7	N/A	N/A	N/A	N/A

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Remuneration report (audited)

The remuneration report, which has been audited, outlines the director and executive remuneration arrangements for the consolidated entity and the Company, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation
- E Cash bonuses
- F Additional information

A Principles used to determine the nature and amount of remuneration

The Company's policy for determining the nature and amount of emoluments of key management personnel, including board members and other key management personnel of the Company is set out below.

The remuneration structure for key management personnel, excluding non-executive directors, is set by the board of Directors and is based on a number of factors including, market remuneration for comparable companies, particular experience of the individual concerned and overall performance of the Company. The contracts for service between the Company and key management personnel are on a continuing basis the terms of which are not expected to change in the immediate future. The consolidated entity retains the right to terminate contracts immediately by making payment of an amount based on the employees' years of service or as provided in their contract of employment. Upon retirement or termination key management personnel, excluding non-executives, are paid employee benefits accrued to date of retirement or termination. No other termination benefits are payable under service contracts. Any options issued which are not exercised on or before the date of termination lapse 3 months after termination. Unless otherwise stated, service agreements do not provide for pre-determined compensation values or the manner of payment. Compensation is determined in accordance with the general remuneration policy. The manner of payment is determined on a case by case basis and is generally a mix of cash and non-cash benefits as considered appropriate by the board of directors.

The objective of the consolidated entity's and Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms with the market best practice for delivery of reward. The board of directors ('the board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders; and
- transparency.

The board is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity and Company depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The board has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design;
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience;
- reflects competitive rates of remuneration in respect of skills and responsibility;
- provides a clear structure for earning rewards; and
- providing recognition for contribution.

In accordance with best practice corporate governance, the structure of non-executive directors and executive remunerations are separate.

Non-executive directors remuneration

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the board. The board has also agreed where necessary to the advice of independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market.

ASX listing rules requires that the aggregate non-executive directors' remuneration shall be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 18 November 2010, where the shareholders approved an aggregate remuneration of \$350,000.

Executive remuneration

The consolidated entity and Company aims to reward executives with a level and mix of remuneration based on their position and responsibility, which is both fixed and variable.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- share-based payments;
- cash bonuses; and
- other remuneration such as superannuation and long service leave.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the board, based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

Executives can receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and adds additional value to the executive. As the consolidated entity is in exploration and not production, there is no direct relationship between the Company's financial performance and the level of remuneration paid to key management personnel.

Short-term incentives ('STI') includes cash bonuses. Long-term incentives ('LTI') include long service leave and share-based payments. The Company has established the MetroCoal Employee Share Option Plan (ESOP) to enable the issue of shares or options in the Company 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. Shares are awarded to executives generally over a period of three years based on long-term incentive measures. These LTI's include specific goals that have been given a high level of importance in relation to the future growth of the group. Performance conditions generally include progressing the Company's projects toward production, and funding the Company by disposals of non-core assets either by sale or otherwise on satisfactory terms.

Consolidated entity performance and link to remuneration

Given that the remuneration is commercially reasonable, the link between remuneration, Company performance and shareholder wealth generation is tenuous, particularly in the exploration and development stage of a minerals company. Share prices are subject to the influence of international metal and coal prices and market sentiment towards the sector and increases or decreases may occur independently of executive performance or remuneration. The Company may issue options to provide an incentive for key management personnel which, it is believed, is in line with industry standards and practice and is also believed to align the interests of key management personnel with those of the Company's shareholders.

Unless otherwise stated, service agreements do not provide for pre-determined compensation values or the manner of payment. Compensation is determined in accordance with the general remuneration policy. The manner of payment is determined on a case by case basis and is generally a mix of cash and non-cash benefits as determined by the board of directors.

Except in so far as directors and key management personnel hold options over shares in the Company, there is no relationship between remuneration policy and the Company's performance. The majority of bonus and incentive payments are at the discretion of the board.

At the end of the year, the board of directors compare the actual performance of the executives and executive directors against the performance conditions set by the board of directors for that individual and assess whether or not the conditions have been met. This method of assessment was chosen as it provides the board of directors with an objective assessment of the individual's performance.

The board of directors will review the performance conditions to gauge their effectiveness against achievement of the set goals, and adjust future year's incentives as they see fit, to ensure use of the most cost effective and efficient methods.

The Company used a remuneration consultant during the year. The remuneration consultant reviewed the existing structure and quantum of management salaries and reported on this work to the remuneration committee.

B Details of remuneration

Amounts of remuneration

Details of the remuneration of directors, other key management personnel (defined as those who have the authority and responsibility for planning, directing and controlling the activities of the consolidated entity) of MetroCoal Limited are set out in the following tables.

The key management personnel of the consolidated entity consists of the directors of MetroCoal Limited and executives for the period of their tenure as outlined below:

- David K Barwick – Chairman (resigned 30 June 2012)
- Stephen Everett – Independent Chairman (appointed 12 July 2012) (no remuneration was paid for the year ended 30 June 2012 as Mr Everett was appointed subsequent to year end)
- Andrew L Gillies - Non-Executive Director
- John K Haley - Non-Executive Director
- Michael K Hansel - Non-Executive Director
- Lindsay Ward – Non-Executive Director (appointed 4 October 2011)
- Dongping Wang – Non-Executive Director (appointed 8 December 2011)
- Robert Finch – Alternate Director for Dongping Wang (appointed 8 December 2011)
- Mike O'Brien - Chief Executive Officer
- Theo Psaros - Chief Operating Officer
- Neil Mackenzie-Forbes - Exploration Manager (transferred as General Manager of the Columboola Joint Venture, 14 December 2010)
- Nicholas Villa - Exploration Manager (appointed 14 December 2010)
- Edward Radley – Geology Manager (appointed 22 August 2011)

2012 Name	Short-term benefits			Post employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Bonus	Non- monetary	Super- annuation	Long service leave	Equity- settled	
	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Mr D K Barwick	69,750	-	-	-	-	208,747	278,497
Mr A Gillies	39,220	-	-	3,530	-	208,747	251,497
Mr J Haley	39,220	-	-	3,530	-	208,747	251,497
Mr M Hansel	42,750	-	-	-	-	208,747	251,497
Mr L Ward	30,963	-	-	2,787	-	208,747	242,497
Mr D Wang	13,125	-	-	-	-	-	13,125
Mr R Finch	12,041	-	-	1,084	-	-	13,125
<i>Other Key Management Personnel:</i>							
Mr M O'Brien	275,001	20,000	-	25,700	-	-	320,701
Mr T Psaros	250,000	35,000	-	19,350	-	-	304,350
Mr N Mackenzie-Forbes (i)	133,165	-	-	11,985	-	-	145,150
Mr N Villa	144,589	-	-	13,013	-	-	157,602
Mr E Radley	133,975	-	-	12,057	-	-	146,032
	<u>1,183,799</u>	<u>55,000</u>	<u>-</u>	<u>93,036</u>	<u>-</u>	<u>1,043,735</u>	<u>2,375,570</u>

- (i) Mr Neil Mackenzie-Forbes was Exploration Manager and transferred to position of General Manager Columboola Joint Venture 14 December 2010. From that date of transfer his employment benefits have been on-charged to the joint venture. The amounts above include employee benefits for the full year.

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2011 Name	Short-term benefits			Post employment benefits	Long-term benefits	Share-based payments	Total \$
	Cash salary and fees \$	Bonus \$	Non- monetary \$	Super- annuation \$	Long service leave \$	Equity- settled \$	
<i>Non-Executive Directors:</i>							
Mr D K Barwick	49,000	-	-	-	-	-	49,000
Mr A Gillies	28,441	-	-	2,560	-	-	31,001
Mr J Haley	28,441	-	-	2,560	-	-	31,001
Mr M Hansel	31,000	-	-	-	-	-	31,000
<i>Other Key Management Personnel:</i>							
Mr M O'Brien	253,656	-	-	49,999	-	165,000	468,655
Mr T Psaros	189,320	-	-	16,725	-	132,000	338,045
Mr N Mackenzie- Forbes	123,556	-	-	5,919	-	99,000	228,475
Mr N Villa	65,772	-	-	10,966	-	150,750	227,488
	769,186	-	-	88,729	-	546,750	1,404,665

* Mr Neil Mackenzie-Forbes was Exploration Manager and transferred to position of General Manager Columboola Joint Venture 14 December 2010. From that date of transfer his employment benefits have been on-charged to the joint venture. The amounts above include employee benefits for the full year.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2012	2011	2012	2011	2012	2011
<i>Non-Executive Directors:</i>						
Mr D Barwick	25%	100%	- %	- %	75%	- %
Mr A Gilles	17%	100%	- %	- %	83%	- %
Mr J Haley	17%	100%	- %	- %	83%	- %
Mr M Hansel	17%	100%	- %	- %	83%	- %
Mr L Ward	14%	- %	- %	- %	86%	- %
Mr D Wang	100%	- %	- %	- %	- %	- %
Mr R Finch	100%	- %	- %	- %	- %	- %
<i>Other Key Management Personnel:</i>						
Mr M O'Brien	94%	65%	6%	- %	- %	35%
Mr T Psaros	89%	61%	11%	- %	- %	39%
Mr N Mackenzie- Forbes	100%	57%	- %	- %	- %	43%
Mr N Villa	100%	34%	- %	- %	- %	66%
Mr E Radley	100%	- %	- %	- %	- %	-

C Service agreements

Remuneration and other terms of employment for key management personnel, other than directors, are formalised in service agreements. Details of these agreements are as follows:

Name: Mr Mike O'Brien
Title: Chief executive officer (CEO)
Agreement commenced: 27 October 2009
Term of agreement: The agreement can be terminated:
(a) by the CEO giving three (3) months' notice; or
(b) by the Company giving six (6) months' notice or payment of six (6) months base remuneration in lieu of notice; or
(c) 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.

Details: 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 \$262,500 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) 1,200,000 options to subscribe for shares in the Company;
(iii) superannuation of the greater of 10% of the base remuneration or the level required by statute from time to time; and
(iv) 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.

Name: Mr Theo Psaros
Title: Chief operating officer (COO).
Agreement commenced: 25 August 2008
Term of agreement: The agreement can be terminated:
(a) by the COO giving six (3) months' notice; or
(b) by the Company giving six (6) months' notice or payment of six (6) months base remuneration in lieu of notice; or
(c) 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.

Details: 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 \$185,833 per annum, increased to \$240,000 per annum from 1 January 2012, 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;
(ii) 1,500,000 options to subscribe for shares in the Company; and
(iii) use of a mobile phone for work purposes and for reasonable personal use.

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Name: Mr Neil Mackenzie-Forbes
Title: Exploration Manager - transferred to position of General Manager Columboola Joint Venture 14 December 2011.
Agreement commenced: Exploration Manager 1 July 2008/ General Manager Joint Venture 14 December 2010
Term of agreement: The agreement can be terminated:
(a) by the Mr Mackenzie-Forbes giving three (3) months' notice; or
(b) by the Company giving three (3) months' notice or payment of three (3) months base remuneration in lieu of notice; or
(c) 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.
Details: 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 gross remuneration is \$145,150 per annum, increased to \$174,400 per annum from 1 January 2012, including superannuation, and is subject to annual review by the board;
(c) Mr Mackenzie-Forbes is also entitled to participate in MetroCoal Limited Employee Share Option Scheme, subject to the approval of the board of Directors of MetroCoal Limited.

Name: Mr Nicholas Villa
Title: Exploration Manager
Agreement commenced: 14 December 2010
Term of agreement: The agreement can be terminated:
(a) by the Mr Villa giving one (1) months' notice for not more than one year of continuous service; or
(b) by the Mr Villa giving two (2) months' notice for more than one year but not more than three years of continuous service; or
(c) by the Mr Villa giving three (3) months' notice for more than three years of continuous service; or
(d) by the Company giving the same terms of notice as above or payment for the relevant period of months in lieu of notice; or
(e) 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.
Details: 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 gross remuneration is \$141,700 per annum, increased to \$187,933 per annum from 1 January 2012, including superannuation, and is subject to annual review by the board;
(c) Mr Villa is also entitled to participate in MetroCoal Limited Employee Share Option Scheme, subject to the approval of the board of directors of MetroCoal Limited.

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Name: Mr Edward Radley
Title: Geology Manager
Agreement commenced: 22 August 2011

Term of agreement: The agreement can be terminated:
(a) by the Mr Radley giving one (1) months' notice for not more than one year of continuous service; or
(b) by the Mr Radley giving two (2) months' notice for more than one year but not more than three years of continuous service; or
(c) by the Mr Radley giving three (3) months' notice for more than three years of continuous service; or
(d) by the Company giving the same terms of notice as above or payment for the relevant period of months in lieu of notice; or
(e) 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.

Details: 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 gross remuneration is \$179,850 per annum, including superannuation, and is subject to annual review by the board;
(c) Mr Radley is also entitled to participate in MetroCoal Limited Employee Share Option Scheme, subject to the approval of the board of directors of MetroCoal Limited.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

D Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2012.

Options

The terms and conditions of each grant of options affecting remuneration in this financial year or future reporting years are as follows:

Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
24/11/2011	24/11/2011	30/11/13	\$0.75	\$0.213
24/11/2011	24/11/2011	30/11/13	\$0.78	\$0.197

Options granted carry no dividend or voting rights. No amounts were paid by the recipients on grant of options.

E Cash bonuses

Mr M O'Brien (Chief Executive Officer) and Mr T Psaros (Chief Operating Officer) each received a cash bonus as detailed in section B of the Remuneration Report. The cash bonuses were granted on 13 September 2011 and were not subject to vesting conditions, but at the discretion of the Board. No cash bonus was forfeited or unvested as at 30 June 2012.

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Details of options over ordinary shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2012 are set out below:

Name	Number of options granted during the year		Number of options vested during the year		% Vested	
	2012	2011	2012	2011	2012	2011
Mr D Barwick	1,000,000	-	1,000,000	-	100%	-
Mr A Gilles	1,000,000	-	1,000,000	-	100%	-
Mr J Haley	1,000,000	-	1,000,000	-	100%	-
Mr M Hansel	1,000,000	-	1,000,000	-	100%	-
Mr L Ward	1,000,000	-	1,000,000	-	100%	-
Mr M O'Brien	-	1,250,000	-	1,250,000	-	100%
Mr T Psaros	-	1,000,000	-	1,000,000	-	100%
Mr N Mackenzie-Forbes	-	750,000	-	750,000	-	100%
Mr N Villa	-	750,000	-	750,000	-	100%

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel during the year ended 30 June 2012 are set out below:

Name	Value of options granted during the year	Value of options exercised during the year	Value of options lapsed during the year	Remuneration consisting of options for the year
	\$	\$	\$	%
Mr D Barwick	208,747	-	-	75%
Mr A Gilles	208,747	-	-	83%
Mr J Haley	208,747	-	-	83%
Mr M Hansel	208,747	-	-	83%
Mr L Ward	208,747	-	-	86%

F Additional information

There were no dividends paid or returns of capital by the consolidated entity. The consolidated entity listed in December 2009, therefore share prices do not exist for prior years. The Company commenced operations in the 30 June 2008 financial year.

The earnings of the consolidated entity for the four years to 30 June 2012 are summarised below:

	2008	2009	2010	2011	2012
	\$	\$	\$	\$	\$
Revenue	1,182	86,642	119,456	899,913	1,468,566
Net profit/(loss) after tax	(24,133)	(607,843)	(1,615,192)	(2,432,614)	(10,854,933)

The factors that are considered to affect total shareholders return (TSR) are summarised below:

	2008	2009	2010	2011	2012
Share price at financial year end (\$A) *	-	-	0.25	0.59	0.23
Basic loss per share (cents per share)	-	(0.64)	(1.31)	(1.48)	(5.53)

* MetroCoal Limited was not an ASX listed company as at 30 June 2009. MetroCoal was listed in December 2009.

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of MetroCoal Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
28/11/2008	04/12/2012	\$0.25	3,500,000
29/06/2009	04/12/2012	\$0.25	2,050,000
01/07/2009	04/12/2014	\$0.25	500,000
24/11/2010	19/11/2013	\$0.40	3,250,000
18/05/2012	18/05/2014	\$0.50	750,000
16/08/2011	24/11/2012	\$0.58	6,250,000
16/08/2011	30/04/2013	\$0.25	6,250,000
16/08/2011	16/01/2015	\$0.62	6,250,000
16/08/2011	16/06/2015	\$0.64	6,250,000
24/11/2011	30/11/13	\$0.75	2,500,000
24/11/2011	30/11/13	\$0.78	2,500,000
			<u>40,050,000</u>

Shares issued on the exercise of options

200,000 shares of MetroCoal Limited were issued on the exercise of options during the year ended 30 June 2012.

Indemnity and insurance of officers

Each of the directors and the secretary 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 secretary. The Company has insured all of the directors and officers 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.

Indemnity and insurance of auditor

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the 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 part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 23 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

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The directors are of the opinion that the services as disclosed in note 23 to the financial statements do not compromise the external auditor's independence for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former audit partners of BDO Audit Pty Ltd

There are no officers of the Company who are former audit partners of BDO Audit Pty Ltd.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

Auditor

BDO Audit Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



M Hansel
Director

24 September 2012
Brisbane



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Brisbane QLD 4000,
GPO Box 457 Brisbane QLD 4001
Australia

DECLARATION OF INDEPENDENCE BY C R JENKINS TO THE DIRECTORS OF METROCOAL LIMITED

As lead auditor of MetroCoal Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect MetroCoal Limited and the entities it controlled during the year.

A handwritten signature in black ink, appearing to read 'C R Jenkins', with a long horizontal stroke extending to the right.

C R JENKINS

Director

BDO Audit Pty Ltd

Brisbane, 24 September 2012

MetroCoal Limited
Financial report
For the year ended 30 June 2012

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General information

The financial report covers MetroCoal Limited as a consolidated entity consisting of MetroCoal Limited and the entities it controlled. The financial report is presented in Australian dollars, which is MetroCoal Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

MetroCoal Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

71 Lytton Road
East Brisbane QLD 4169

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 24 September 2012. The directors have the power to amend and reissue the financial report.

MetroCoal Limited
Statement of comprehensive income
For the year ended 30 June 2012

	Note	Consolidated	
		2012	2011
		\$	\$
Revenue	4	205,233	72,500
Other income	4	410,302	-
Expenses			
Occupancy expenses		(107,580)	(87,005)
Employee benefits expense	5	(1,987,140)	(1,113,754)
Depreciation	12	(114,649)	(29,375)
WICET feasibility costs	5	(852,000)	(150,000)
Impairment of investments		(7,519,603)	(836,245)
Other expenses	5	(1,721,157)	(1,066,148)
Results from operating activities		<u>(11,686,594)</u>	<u>(3,210,027)</u>
Finance income		853,031	827,413
Finance costs		<u>(21,370)</u>	<u>(50,000)</u>
Loss before income tax		(10,854,933)	(2,432,614)
Income tax expense	6	<u>-</u>	<u>-</u>
Loss after income tax expense for the year attributable to the owners of MetroCoal Limited		(10,854,933)	(2,432,614)
Other comprehensive income for the year, net of tax		<u>-</u>	<u>-</u>
Total comprehensive income for the year attributable to the owners of MetroCoal Limited		<u><u>(10,854,933)</u></u>	<u><u>(2,432,614)</u></u>
		Cents	Cents
Basic earnings per share	21	(5.53)	(1.48)
Diluted earnings per share	21	(5.53)	(1.48)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

MetroCoal Limited
Statement of financial position
As at 30 June 2012

	Note	Consolidated	
		2012	2011
		\$	\$
Assets			
Current assets			
Cash and cash equivalents	7	5,015,040	1,587,495
Trade and other receivables	8	1,063,199	373,202
Financial assets	9	10,261,962	10,000,000
Other	10	56,098	49,435
Total current assets		<u>16,396,299</u>	<u>12,010,132</u>
Non-current assets			
Investments in associate	13	-	-
Property, plant and equipment	12	226,016	162,645
Exploration and evaluation	14	19,992,258	7,947,929
Total non-current assets		<u>20,218,274</u>	<u>8,110,574</u>
Total assets		<u>36,614,573</u>	<u>20,120,706</u>
Liabilities			
Current liabilities			
Trade and other payables	15	1,677,420	800,333
Borrowings	16	-	1,000,000
Employee benefits	17	92,893	46,669
Total current liabilities		<u>1,770,313</u>	<u>1,847,002</u>
Total liabilities		<u>1,770,313</u>	<u>1,847,002</u>
Net assets		<u>34,844,260</u>	<u>18,273,704</u>
Equity			
Contributed equity	18	45,149,187	22,622,308
Reserves	19	5,497,915	599,305
Accumulated losses		<u>(15,802,842)</u>	<u>(4,947,909)</u>
Total equity		<u>34,844,260</u>	<u>18,273,704</u>

The above statement of financial position should be read in conjunction with the accompanying notes.

MetroCoal Limited
Statement of changes in equity
For the year ended 30 June 2012

	Contributed equity	Reserves	Accumulated losses	Total equity
	\$	\$	\$	\$
Consolidated				
Balance at 1 July 2010	12,798,642	19,516	(2,515,295)	10,302,863
Loss after income tax expense for the year	-	-	(2,432,614)	(2,432,614)
Other comprehensive income for the year, net of tax	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	-	-	(2,432,614)	(2,432,614)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	9,823,666	-	-	9,823,666
Share-based payments	-	579,789	-	579,789
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 June 2012	<u>22,622,308</u>	<u>599,305</u>	<u>(4,947,909)</u>	<u>18,273,704</u>
Consolidated				
Balance at 1 July 2011	22,622,308	599,305	(4,947,909)	18,273,704
Loss after income tax expense for the year	-	-	(10,854,933)	(10,854,933)
Other comprehensive income for the year, net of tax	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	-	-	(10,854,933)	(10,854,933)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	22,526,879	-	-	22,526,879
Share-based payments	-	4,898,610	-	4,898,610
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 June 2012	<u>45,149,187</u>	<u>5,497,915</u>	<u>(15,802,842)</u>	<u>34,844,260</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes.

MetroCoal Limited
Statement of cash flows
For the year ended 30 June 2012

	Note	Consolidated	
		2012	2011
		\$	\$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		186,849	-
Payments to suppliers and employees (inclusive of GST)		(2,573,227)	(1,467,603)
Interest received		896,875	743,755
Interest and other finance costs paid		(21,370)	(50,000)
Net payments on behalf of joint venture		<u>(272,538)</u>	<u>(193,740)</u>
Net cash used in operating activities	22	<u>(1,783,411)</u>	<u>(967,588)</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(178,020)	(100,917)
Payments for exploration and evaluation		(13,375,940)	(4,334,104)
Payment for investments		(4,500,000)	(5,836,235)
Proceeds from investments		<u>1,738,038</u>	<u>-</u>
Net cash used in investing activities		<u>(16,315,922)</u>	<u>(10,271,266)</u>
Cash flows from financing activities			
Proceeds from issue of shares		24,050,000	10,500,000
Repayment of borrowings		(1,000,000)	-
Share issue transaction costs		<u>(1,523,122)</u>	<u>(676,334)</u>
Net cash from financing activities		<u>21,526,878</u>	<u>9,823,666</u>
Net increase/(decrease) in cash and cash equivalents		3,427,545	(1,415,188)
Cash and cash equivalents at the beginning of the financial year		<u>1,587,495</u>	<u>3,002,683</u>
Cash and cash equivalents at the end of the financial year	7	<u><u>5,015,040</u></u>	<u><u>1,587,495</u></u>

The above statement of cash flows should be read in conjunction with the accompanying notes.

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Significant uncertainty regarding 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 discharge of liabilities in the ordinary course of business. The ability of the consolidated entity to maintain continuity of normal business activities and to pay its debts as and when they fall due is dependent on the ability of the consolidated entity to successfully raise additional capital and/or successful exploration and subsequent exploitation of areas of interest through sale or development.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

The consolidated entity is a for-profit entity for the purposes of preparing these financial statements.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 32.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of MetroCoal Limited ('Company' or 'parent entity') as at 30 June 2012 and the results of all subsidiaries and special purpose entities for the year then ended. MetroCoal Limited, its subsidiaries and special purpose entities together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The effects of potential exercisable voting rights are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Special purpose entities ('SPEs') are those entities where the consolidated entity, in substance, controls the SPE so as to obtain the majority of benefits without having any ownership interest.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries and special purpose entities have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

Note 1. Significant accounting policies (continued)

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. Refer to the 'business combinations' accounting policy for further details. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the chief operating decision makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax

The income tax expense or benefit for the year is the tax payable on that period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses and under and over provision in prior years, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

Note 1. Significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original 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.

Trade and other receivables

Other receivables are recognised at amortised cost, less any provision for impairment.

Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Investments in joint ventures are accounted for in the parent entity financial statements using the cost method, less any impairment, and in the consolidated financial statements using the equity method. Under the equity method, the share of the profits or losses of the joint venture is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Income earned from joint venture entities is recognised as revenue in the parent entity's profit or loss, whilst in the consolidated financial statements they reduce the carrying amount of the investment.

Investments and other financial assets

Investments and other financial assets are measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted. The fair values of quoted investments are based on current bid prices. For unlisted investments, the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets, principally equity securities, that are either designated as available-for-sale or not classified as any other category. After initial recognition, fair value movements are recognised directly in the available-for-sale reserve in equity. Cumulative gain or loss previously reported in the available-for-sale reserve is recognised in profit or loss when the asset is derecognised or impaired.

Impairment of financial assets

The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for loans and receivables carried at amortised cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. If there is a reversal of impairment, the reversal cannot exceed the amortised cost that would have been had the impairment not been recognised and is reversed to profit or loss.

Available-for-sale financial assets are considered impaired when there has been a significant or prolonged decline in value below initial cost. Subsequent increments in value are recognised directly in the available-for-sale reserve.

Note 1. Significant accounting policies (continued)

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount 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 consolidated entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

- Plant and equipment 20% per annum

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Exploration and evaluation assets

Exploration and evaluation expenditure in relation to separate areas of interest for which rights of tenure are current is carried forward as an asset in the statement of financial position where it is expected that the expenditure will be recovered through the successful development and exploitation of an area of interest, or by its sale; or exploration activities are continuing in an area and activities have not reached a stage which permits a reasonable estimate of the existence or otherwise of economically recoverable reserves. Where a project or an area of interest has been abandoned, the expenditure incurred thereon is written off in the year in which the decision is made.

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.

Restoration from exploration drilling is carried out at the time of drilling and accordingly no provision is required.

Impairment of non-financial assets

Where applicable, goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Note 1. Significant accounting policies (continued)

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time, is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders' equity as a convertible note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including interest on short-term and long-term borrowings.

Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Share-based payments

Equity-settled share-based compensation benefits are provided to directors and employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

Note 1. Significant accounting policies (continued)

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

Note 1. Significant accounting policies (continued)

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Investments in associates and jointly controlled entities (equity-accounted investees)

Associates are those entities in which the consolidated entity has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the consolidated entity holds between 20 and 50 per cent of the voting power of another entity. Jointly controlled entities are those entities over whose activities the consolidated entity has joint control, established by contractual agreement and requiring unanimous consent for strategic and operating decisions.

Investments in associates and jointly controlled entities are accounted for using the equity method (equity-accounted investees) and are initially recognised at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the consolidated entity's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the consolidated entity, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the consolidated entity's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the consolidated entity has an obligation or has made payments on behalf of the investee.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of MetroCoal Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Note 1. Significant accounting policies (continued)

Goods and Services Tax ('GST') and other similar taxes

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

New Accounting Standards and Interpretations not yet adopted

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 July 2011, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements, except for the following:

(i) *AASB 9 Financial Instruments* (effective from 1 January 2015)

AASB 9 Financial Instruments addresses the classification, measurement and de-recognition of financial assets and financial liabilities. It simplifies the approach for classification and measurement of financial assets compared with the requirements of AASB 139. Financial assets are to be classified based on (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139. The consolidated entity does not plan to adopt this standard early and the extent of the impact has not been determined.

(ii) *AASB 10 Consolidated Financial Statements* (effective from 1 January 2013)

Fundamental aspects of AASB 10 include:

- The concept of 'de facto' control, but there are no 'bright lines' to definitively know whether you have de facto control or not'
- A single 'control model' for all entities, including special purpose entities (SPEs);
- The requirement that three elements of control must be present in order to conclude that an investor controls an investee;
 - Power over investee (regardless of whether that power is used in practice);
 - Exposure, or rights, to variable returns from the investee;
 - Ability to use power over investee to affect the investor's returns from the investee;
- Guidance about when an entity is acting as agent or principal, with principals being required to consolidate, and agents, not.

The consolidated entity will need to assess whether it has control according to the new definition on the date of initial application, which is the beginning of the annual period in which the standard first applies.

(iii) *AASB 11 Joint Arrangements* (effective from 1 January 2013)

It is likely that a number of joint venture entities currently being equity accounted will be determined to be joint venture operations and will require consolidation of individual assets and liabilities, rather than applying equity accounting.

- Joint venture entities will no longer be automatically presumed to be eligible for equity accounting.
- Joint arrangements will be classified as 'joint operations' (where parties with joint control have rights to assets and obligations for liabilities) and 'joint ventures' (where parties with joint control of an incorporated entity have rights to the net assets of the joint arrangement).
- Equity accounting is required for joint ventures (proportionate consolidation will no longer be permitted).

Joint arrangements structured as separate vehicles will generally be accounted for using the equity method, but judgement must be applied to determine whether the terms of the contract, or other facts and circumstances, change the rights of parties to the joint arrangement from having rights to the net assets, to having rights to assets and obligations for liabilities of the arrangement. In such cases, the arrangement is treated as a joint operation, rather than as a joint venture, and the joint operator will recognise their share of assets and liabilities, revenues and expenses in accordance with applicable Accounting Standards, rather than applying the equity method.

Note 1. Significant accounting policies (continued)

In addition to the above, new and amended standards dealing with Separate Financial Statements, Disclosure of Interests in Other Entities and Fair Value Measurement have recently been released. These standards are effective from 1 January 2013. The consolidated entity does not plan to adopt these standards early nor has the extent of their impact been determined.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Black-Scholes model or Monte Carlo simulation taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Exploration and evaluation expenditure

The consolidated entity performs regular reviews on each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. These reviews are based on detailed surveys and analysis of drilling results performed to the end of the reporting period.

Note 3. Operating segments

Identification of reportable operating segments

The consolidated entity has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The consolidated entity is managed primarily on a geographic basis, that is the location of the respective areas of interest (tenements) in Australia. Operating segments are determined on the basis of financial information reported to the board which is at the consolidated entity level. The consolidated entity does not have any products/services it derives revenue from.

Accordingly, management currently identifies the consolidated entity as having only one reportable segment, being exploration for coal. There have been no changes in the operating segments during the year. Accordingly, all significant operating decisions are based upon analysis of the consolidated entity as one segment. The financial results from this segment are equivalent to the financial statements of the consolidated entity as a whole.

MetroCoal Limited
Notes to the financial statements
30 June 2012

	Consolidated	
	2012	2011
	\$	\$
Note 4. Revenue		
Revenue		
Administration fees	205,233	72,500
Other income		
Research and development tax refund	410,302	-
Note 5. Expenses		
Loss before income tax includes the following specific expenses:		
<i>Employee benefits expense</i>		
Salaries, wages, fees and provisions	903,683	505,842
Share based payments	1,043,735	579,789
Defined contribution superannuation expense	39,722	28,123
	<u>1,987,140</u>	<u>1,113,754</u>
<i>Total employee benefits expense</i>		
<i>Other expenses</i>		
ASX and share registry costs	115,825	78,990
Bank fees	60,176	56,643
Professional fees	233,111	425,579
Public relations and advertising	101,214	62,483
Travel and accommodation	140,721	160,226
Other miscellaneous costs#	1,070,110	209,727
	<u>1,721,157</u>	<u>993,648</u>
<i>Total other expenses</i>		

During the year the consolidated entity incurred feasibility costs of \$852,000 (30 June 2011: \$150,000) in relation to the Wiggins Island Coal Export Terminal Pty Ltd Feasibility Funding deed to secure terminal capacity for the planned Wiggins Island port expansion.

MetroCoal Limited
Notes to the financial statements
30 June 2012

	Consolidated	
	2012	2011
	\$	\$
Note 6. Income tax		
<i>The components of tax expense comprise:</i>		
Current tax	(3,062,585)	(554,275)
Deferred tax	3,593,659	(675,725)
Under provision from prior year	(556,477)	-
Assessable balancing adjustment	-	1,230,000
Prior year temporary differences not recognised	25,403	-
	<u>-</u>	<u>-</u>
 <i>Numerical reconciliation of income tax benefit to prima facie tax payable</i>		
Loss before income tax expense	<u>(10,854,933)</u>	<u>(2,432,614)</u>
Tax at the Australian tax rate of 30% (2011: 30%)	(3,256,480)	(729,784)
 Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable revenue	(123,090)	-
Non-deductible expenses	3,865	1,572
Assessable balancing adjustment	-	1,230,000
Deferred tax asset not recognised on current year loss	4,551,369	(1,531,235)
Under provision from prior year	(556,477)	-
Deferred tax amount not recognised in prior year	556,477	-
Share based payments	313,120	173,937
Prior year temporary difference not recognised	25,403	-
Other temporary differences not recognised	<u>(1,514,187)</u>	<u>855,510</u>
Income tax expense	<u>-</u>	<u>-</u>
 <i>Net unrecognised deferred tax assets</i>		
Unused tax losses	5,825,155	1,830,263
Exploration and evaluation expenditure	(5,907,150)	(2,288,601)
Impairment of investments	2,506,276	-
Other deductible temporary differences	<u>286,844</u>	<u>688,758</u>
	<u>2,711,125</u>	<u>230,420</u>
 Gross amounts of items in net unrecognised deferred tax assets		
Unused tax losses	19,417,183	6,100,878
Exploration and evaluation expenditure	(19,690,500)	(7,628,671)
Impairment of investments	8,354,255	-
Other deductible temporary differences	<u>956,148</u>	<u>2,295,859</u>
	<u>9,037,086</u>	<u>768,066</u>

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed. The above potential tax benefit, which excludes tax losses, for deductible temporary differences has not been recognised in the statement of financial position as the recovery of this benefit is uncertain.

The consolidated entity has no franking credits.

Note 6. Income tax (continued)

Mineral Resources Rent Tax

On 19 March, 2012, the Australian Government passed through the Senate, the Minerals Resource Rent Tax Act 2012), with application to certain profits arising from iron ore and coal extracted in Australia. In broad terms, the tax is imposed on a project-by-project basis. This tax applies to upstream mining operations only, and the effective rate of Minerals Resource Rent Tax is 22.5%.

This tax is considered to be an "income tax" for the purposes of AASB 112. Certain transition measures are contained in the legislation which can give rise to deductions in future years by adopting fair value, for Minerals resource Rent Tax purposes. Affected entities have until 31 December 2013, to exercise an election to adopt fair value as opposed to cost, in determining their future deductions.

The consolidated entity is not in the production phase yet and is currently below the taxable threshold. Accordingly, the consolidated entity has not yet exercised its election, nor have fair value modelling and valuations been performed. Thus, the consolidated entity is not yet able to determine any potential increase in the balance of deferred tax assets that may otherwise arise should the consolidated entity elect by 31 December 2013 to adopt the fair value basis in determining future tax deductions.

	Consolidated	
	2012	2011
	\$	\$
Note 7. Current assets - cash and cash equivalents		
Cash on hand	-	736
Cash at bank	3,015,040	586,759
Cash on deposit	2,000,000	1,000,000
	<u>5,015,040</u>	<u>1,587,495</u>

Note 8. Current assets - trade and other receivables

GST refund owing	128,421	95,804
Other receivables	484,662	193,740
Research and development tax refund receivable	410,302	-
Interest receivable	39,814	83,658
	<u>1,063,199</u>	<u>373,202</u>

Impairment of receivables

The consolidated entity does not have any impaired receivables.

Note 9. Current assets - financial assets

Term deposit	<u>10,261,962</u>	<u>10,000,000</u>
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Contained in the term deposit is an amount of \$1,261,962 (30 June 2011: \$2,000,000) with St George who hold security over this cash pursuant to the bank guarantee detailed in note 25.

Note 10. Current assets - other

Prepayments	<u>56,098</u>	<u>49,435</u>
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MetroCoal Limited
Notes to the financial statements
30 June 2012

	Consolidated	
	2012	2011
	\$	\$

Note 11. Non-current assets - available-for-sale financial assets

Investment in unlisted entity	-	-
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Reconciliation

Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:

Opening fair value	-	-
Additions	-	836,245
Impairment of assets	-	(836,245)
Closing fair value	-	-

Refer to note 26 for detailed information on financial instruments.

During the prior year the consolidated entity invested in an early exploration stage company called UniCoal based in Indonesia. The directors' assessment of this investment as at 30 June 2012 resulted in the full impairment of this investment (30 June 2011: full impairment).

Note 12. Non-current assets - property, plant and equipment

Plant and equipment - at cost	422,546	213,388
Less: Accumulated depreciation	(196,530)	(50,743)
	<u>226,016</u>	<u>162,645</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Plant and Equipment	Total
	\$	\$
Consolidated		
Balance at 1 July 2010	91,103	91,103
Additions	100,917	100,917
Depreciation expense	(29,375)	(29,375)
Balance at 30 June 2011	162,645	162,645
Additions	178,020	178,020
Disposals	-	-
Depreciation expense	(114,649)	(114,649)
Balance at 30 June 2012	<u>226,016</u>	<u>226,016</u>

MetroCoal Limited
Notes to the financial statements
30 June 2012

	Consolidated	
	2012	2011
	\$	\$

Note 13. Non-current assets – investments in associate

a. Investments in associate – equitable interest	-	-
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Reconciliation

Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:

Opening fair value	-	-
Additions	3,500,000	-
Impairment of assets	(3,500,000)	-
Closing fair value	-	-

b. Investments in associate – intangible asset	-	-
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Reconciliation

Reconciliation of the intangible asset at the beginning and end of the current and previous financial year are set out below:

Opening fair value	-	-
Additions	3,854,877	-
Impairment of assets	(3,854,877)	-
Closing fair value	-	-

The investment in associate is represented by an equitable interest in the investee and an intangible asset (being rights for a Capacity Priority Agreement) in 3TL. Both components of the investment in associate are not exclusive and would not have been acquired with the other component.

During the year the consolidated entity executed a Capacity Priority Agreement and an Investment Agreement with Tenement to Terminal Limited (3TL), an unlisted Australian public company. Under the Capacity Priority Agreement MetroCoal will have priority access for up to 11.43 million tonnes of capacity per annum at the proposed port facility in Gladstone. This priority right is subject to MetroCoal meeting various capacity commitment criteria including mining project development progress, future feasibility funding and eventual take-or-pay contract commitments as required by 3TL. An additional 3.57 million tonnes will be available for MetroCoal's Columboola Joint Venture partner, SinoCoal Resources Pty Ltd (SinoCoal), subject to securing Joint Venture approval, completion of further commercial arrangements and an additional cash injection by SinoCoal into 3TL. In consideration of the Capacity Priority Agreement, 3TL will receive options to subscribe for 25 million ordinary shares in MetroCoal Limited in 4 equal tranches of 6,250,000 shares subject to achievement of certain project milestones. The consolidated entity's investment in 3TL of \$7,354,877 comprising cash payments totalling \$3,500,000 and the issue of options that have been independently valued at \$3,854,877, was fully impaired during the year as this project is at an early stage in its development and does not have operating cashflows.

Note 13. Non-current assets – investments in associate (continued)

Valuation of options

The options issued to 3TL were used to acquire a financial interest and are not a share based payment. The options are considered to be granted on 16 August 2011, being the date the acquisition occurred. The options were issued in four tranches as follows:-

Tranche	Vesting condition	Number issued	Fair value
1	Options approved by MetroCoal Ltd	6,250,000	\$1,758,165
2	Proposed terminal declared a “Significant Project” by the Queensland Government	6,250,000	\$825,290
3	Completed Environmental Impact Statement providing conditional approval for the facility	6,250,000	\$753,599
4	Final investment decision made	6,250,000	\$517,823
		<u>25,000,000</u>	<u>\$3,854,877</u>

The options have been valued using a Monte Carlo simulation. The inputs to value these options include:

Tranche	Share price at issue date	Target vesting date	Exercise price	Risk free rate	Volatility
1	\$0.71	30 November 2011	85% of VWAP at vesting date	3.75%	67.78%
2	\$0.71	20 April 2012	Lesser of \$0.675 or 80% of VWAP at vesting date	4.01%	67.78%
3	\$0.71	16 January 2014	Lesser of \$0.875 or 80% of VWAP at vesting date	4.01%	67.78%
4	\$0.71	16 June 2014	Lesser of \$1.10 or 80% of VWAP at vesting date	4.01%	67.78%

Within each tranche, there are a number of potential outcomes. A probability of each outcome has been incorporated when determining the value of each tranche. All tranches except tranche 1 remain unvested and un-exercisable as at 30 June 2012.

	Consolidated	
	2012	2011
	\$	\$
Note 14. Non-current assets - exploration and evaluation		
Exploration and evaluation - at cost	<u>19,992,258</u>	<u>7,947,929</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Exploration & evaluation	Total
	\$	\$
Consolidated		
Balance at 1 July 2010	3,613,825	3,613,825
Expenditure during the year	<u>4,334,104</u>	<u>4,334,104</u>
Balance at 30 June 2011	7,947,929	7,947,929
Expenditure during the year	<u>12,044,329</u>	<u>12,044,329</u>
Balance at 30 June 2012	<u>19,992,258</u>	<u>19,992,258</u>

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent upon successful development and commercial exploitation or sale of the respective areas of interest.

MetroCoal Limited
Notes to the financial statements
30 June 2012

	Consolidated	
	2012	2011
	\$	\$
Note 15. Current liabilities - trade and other payables		
Trade payables	1,205,765	584,183
Other payables	471,655	216,150
	<u>1,677,420</u>	<u>800,333</u>

Refer to note 26 for detailed information on financial instruments.

Note 16. Current liabilities – borrowings

Convertible notes payable	<u>-</u>	<u>1,000,000</u>
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The Company entered into a Convertible Note Deed dated 19 October 2009 (CN Deed) with Metallica Minerals Limited (MLM) to secure the repayment of funds loaned by MLM to the Company to support the on-going exploration program and working capital of the Company (Facility) up to a maximum of \$1,000,000.

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

The convertible note was repaid in December 2011.

Note 17. Current liabilities – employee benefits

Annual leave	<u>92,893</u>	<u>46,669</u>
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Note 18. Equity - contributed

	Consolidated		Consolidated	
	2012	2011	2012	2011
	Shares	Shares	\$	\$
Ordinary shares - fully paid	<u>208,883,663</u>	<u>176,683,663</u>	<u>45,149,187</u>	<u>22,622,308</u>

Movements in ordinary share capital

Details	Date	No of shares	Issue price	\$
Balance	1 July 2010	141,683,663		12,798,642
Share placement	22 October 2010	21,252,549	\$0.30	6,375,765
Share placement	24 November 2010	13,747,451	\$0.30	4,124,235
Transaction costs		<u>-</u>		<u>(676,334)</u>
Balance	30 June 2011	176,683,663		22,622,308
Share placement	16 September 2011	3,200,000	\$0.75	2,400,000
Share placement	30 November 2011	28,800,000	\$0.75	21,600,000
Exercise of options		200,000	\$0.25	50,000
Transaction costs		<u>-</u>		<u>(1,523,121)</u>
Balance	30 June 2012	<u>208,883,663</u>		<u>45,149,187</u>

Note 18. Equity – contributed (continued)

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In common with many other exploration companies, the parent raises finance for the consolidated entity's exploration and appraisal activities in discrete tranches. The consolidated entity's overall strategy remains unchanged from 2011.

The consolidated entity monitors capital on the basis of working capital to ensure that the consolidated entity does not have a net debt position. The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'trade and other payables' and 'borrowings' as shown in the statement of financial position) less 'cash and cash equivalents' and term deposits as shown in the statement of financial position. Total capital is calculated as 'total equity' as shown in the statement of financial position (including non-controlling interest) plus net debt.

The gearing ratio at the reporting date was as follows:

	Consolidated	
	2012	2011
	\$	\$
Current liabilities - trade and other payables (note 15)	1,677,421	800,333
Current liabilities - borrowings (note 16)	-	1,000,000
Total borrowings	1,677,421	1,800,333
Current assets - cash and cash equivalents (note 7)	(5,015,040)	(1,587,495)
Current assets – financial assets – term deposits (note 9)	<u>(10,261,962)</u>	<u>(10,000,000)</u>
Net (assets)/debt	(13,599,581)	(9,787,162)
Total equity	<u>34,844,259</u>	<u>18,273,704</u>
Total capital	<u>21,244,678</u>	<u>8,486,542</u>
Debt to equity ratio	5.0%	9.9%

MetroCoal Limited
Notes to the financial statements
30 June 2012

	Consolidated	
	2012	2011
	\$	\$
Note 19. Equity - reserves		
Options reserve	<u>5,497,915</u>	<u>599,305</u>
	Options	Total
	\$	\$
Consolidated		
Balance at 1 July 2010	19,516	19,516
Options granted during the year	579,789	579,789
Balance at 30 June 2011	599,305	599,305
Options granted during the year	<u>4,898,610</u>	<u>4,898,610</u>
Balance at 30 June 2012	<u>5,497,915</u>	<u>5,497,915</u>

Options reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration.

Note 20. Equity - dividends

Dividends

There were no dividends paid or declared during the current or previous financial year. There were no franking credits at 30 June 2012 (2011: nil).

	Consolidated	
	2012	2011
	\$	\$
Note 21. Earnings per share		
Loss after income tax attributable to the owners of MetroCoal Limited	<u>(10,854,933)</u>	<u>(2,432,614)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>196,208,117</u>	<u>164,605,126</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>196,208,117</u>	<u>164,605,126</u>
	Cents	Cents
Basic earnings per share	(5.53)	(1.48)
Diluted earnings per share	(5.53)	(1.48)

Options and convertible notes could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are antidilutive.

MetroCoal Limited
Notes to the financial statements
30 June 2012

Note 22. Reconciliation of loss after income tax to net cash used in operating activities	Consolidated	2012	2011
	\$	\$	\$
Loss after income tax expense for the year	(10,854,933)	(2,432,614)	
Adjustments for:			
Depreciation and amortisation	114,649	29,375	
Impairment	7,519,603	836,245	
Options expense	1,043,735	579,789	
Change in operating assets and liabilities:			
(Increase)/decrease in trade and other receivables	(523,112)	(323,977)	
(Increase)/decrease in prepayments	(6,663)	(4,424)	
Increase/(decrease) in trade and other payables	877,086	326,123	
Increase/(decrease) in employee benefits	46,224	21,895	
Net cash used in operating activities	<u>(1,783,411)</u>	<u>(967,588)</u>	
Non-cash investing activities (refer note 13)	3,854,877	-	

Note 23. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by BDO Audit Pty Ltd, the auditor of the Company, and its related practices:

<i>Audit services - BDO Audit Pty Ltd</i>			
Audit or review of the financial report	<u>46,000</u>	<u>35,000</u>	
<i>Other services - BDO Audit Pty Ltd</i>			
Taxation	<u>15,280</u>	<u>14,490</u>	
	<u>61,280</u>	<u>49,490</u>	

Note 24. Commitments for expenditure

Lease commitments - operating

Committed at the reporting date but not recognised as liabilities, payable:

Within one year	44,723	71,556
One to five years	-	44,723
	<u>114,723</u>	<u>116,279</u>

Commitments for maintaining exploration tenements:

Committed at the reporting date but not recognised as liabilities, payable:

Within one year	790,000	750,000
One to five years	270,000	780,000
	<u>1,060,000</u>	<u>1,530,000</u>

Note 25. Contingent liabilities

The consolidated entity does not believe it has any contingent liability arising from any possible Native Title or other claims.

MetroCoal Limited has entered into a Feasibility Funding Deed with Wiggins Island Coal Export Terminal Pty Ltd (WICET) to fund a proportion of feasibility costs in return for securing terminal capacity for the planned port expansion at Wiggins Island, Gladstone. Under the requirements of this deed, on 3 December 2010 MetroCoal Limited provided WICET a bank guarantee for \$1,261,962 (30 June 2011: \$2,000,000) to cover their costs. Whilst the bank guarantee has not been called upon by WICET to balance date, WICET does have the capacity to call upon this bank guarantee issued in their favour.

In order to provide the bank guarantee, MetroCoal Limited has entered into an agreement with St George Bank to allow the bank to take security over a \$1,261,962 (30 June 2011: \$2,000,000) term deposit as detailed in Note 9. MetroCoal Limited has not provided any financial guarantees to St George Bank in lieu of obtaining the bank guarantee necessary to meet the requirements of the WICET deed.

Note 26. Financial instruments

Financial risk management objectives

Risk management is carried out under policies set by the board of directors.

The board provides principles for overall risk management, as well as policies covering specific areas.

The board monitors and manages the financial risk relating to the operations of the consolidated entity. The consolidated entity's activities include exposure to market risk, fair value interest rate risk and price risk, credit risk, liquidity risk, interest rate risk and operational risk. The consolidated entity does not hedge these risk exposures. The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The overall risk management program focuses on the unpredictability of the finance markets and seeks to minimise the potential adverse effects on the financial performance. Risk management is carried out under the direction of the board of directors.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

Note 26. Financial instruments (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the consolidated entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return.

The consolidated entity's activities expose it primarily to the financial risks of changes in interest rates on its cash and cash equivalents and term deposit. It is the policy of the consolidated entity to manage their risks by continuously monitoring interest rates. There has been no change to the consolidated entity's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

Foreign currency risk

The consolidated entity does not yet undertake any transactions denominated in foreign currencies.

Price risk

The consolidated entity is not exposed to any price risk.

Interest rate risk

Interest rate risks are caused by fluctuations in interest rates which, in turn, are due to market factors.

Interest rate sensitivity

The consolidated entity's main interest rate risk arises from cash and cash equivalents. The sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the consolidated entity profit/loss before taxes through a decrease or an increase of 0.25% (2011: 0.25%) in interest rates at 30 June 2012 is an increase/decrease in cash and cash equivalents of \$38,193 (2011: \$28,967).

Credit risk

Credit risk is managed on a consolidated entity basis. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral. The consolidated entity is not exposed to any material credit risks and only trades with credit worthy third parties.

Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate reserves and by continually monitoring forecast and actual cash flows and cash balances. The parent entity raises equity for the consolidated entity's exploration and appraisal activities in discrete tranches.

At 30 June 2012 and 30 June 2011 the only financial liabilities of the consolidated entity and the parent entity were trade payables, accruals and a convertible note payable. All trade payables and accruals have a contractual maturity of 6 months or less. The convertible note was repaid during the year.

Note 26. Financial instruments (continued)

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
2012	%	\$	\$	\$	\$	\$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	1,205,765	-	-	-	1,205,765
Other payables	-	471,656	-	-	-	471,656
Total non-derivatives		1,677,421	-	-	-	1,677,421
2011	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
	%	\$	\$	\$	\$	\$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	584,183	-	-	-	584,183
Other payables	-	216,150	-	-	-	216,150
<i>Interest-bearing - fixed rate</i>						
Convertible note	5.00	1,026,389	-	-	-	1,026,389
Total non-derivatives		1,826,722	-	-	-	1,826,722

The cash flows in the maturity analysis above are not expected to occur significantly earlier than disclosed.

Note 26. Financial instruments (continued)

Fair value of financial instruments

The fair values of financial assets and liabilities, together with their carrying amounts in the statement of financial position, for the consolidated entity are as follows:

Consolidated	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
<i>Assets</i>				
Cash and cash equivalents	5,015,040	5,015,040	1,587,495	1,587,495
Trade and other receivables	1,063,199	1,063,199	373,202	373,202
Financial assets	10,261,962	10,261,962	10,000,000	10,000,000
	<u>16,340,201</u>	<u>16,340,201</u>	<u>11,960,697</u>	<u>11,960,697</u>
<i>Liabilities</i>				
Trade payables	1,205,765	1,205,765	584,183	584,183
Other payables	471,655	471,656	216,150	216,150
Convertible note	-	-	1,000,000	1,000,000
	<u>1,677,420</u>	<u>1,677,421</u>	<u>1,800,333</u>	<u>1,800,333</u>

Note 27. Key management personnel disclosures

Directors

The following persons were directors of MetroCoal Limited during the financial year:

Mr D K Barwick	L Ward
Mr A Gillies	D Wang
Mr J Haley	R Finch
Mr M Hansel	

Other key management personnel

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, during the financial year:

Mr M O'Brien	Mr N Villa
Mr T Psaros	Mr E Radley
Mr N Mackenzie-Forbes	

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	2012	2011
	\$	\$
Short-term employee benefits	1,238,799	769,186
Post-employment benefits	93,036	88,729
Share-based payments	1,043,735	546,750
	<u>2,375,570</u>	<u>1,404,665</u>

Note 27. Key management personnel disclosures (continued)

Shareholding

The number of shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
2012					
<i>Ordinary shares</i>					
Mr D K Barwick	250,000	-	-	-	250,000
Mr A Gillies	200,000	-	-	(80,000)	120,000
Mr R Finch	-	-	110,000	189,000 (i)	299,000
Mr J Haley	212,500	-	-	(92,500)	120,000
Mr M O'Brien	200,000	-	-	-	200,000
Mr T Psaros	66,667	-	-	(12,000)	54,667
Mr N Mackenzie-Forbes	500,000	-	-	-	500,000
	<u>1,429,167</u>	<u>-</u>	<u>110,000</u>	<u>4,500</u>	<u>1,543,667</u>

(i) Held prior to being appointed as a Director

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
2011					
<i>Ordinary shares</i>					
Mr D K Barwick	250,000	-	-	-	250,000
Mr A Gillies	200,000	-	-	-	200,000
Mr J Haley	212,500	-	-	-	212,500
Mr M O'Brien	200,000	-	-	-	200,000
Mr T Psaros	66,667	-	-	-	66,667
Mr N Mackenzie-Forbes	500,000	-	-	-	500,000
	<u>1,429,167</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,429,167</u>

No shares were received during the year on exercise of options (2011: nil).

Note 27. Key management personnel disclosures (continued)

Option holding

The number of options over ordinary shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

2012	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Mr D K Barwick	500,000	1,000,000	-	-	1,500,000
Mr A Gillies	2,000,000	1,000,000	-	-	3,000,000
Mr J Haley	500,000	1,000,000	-	-	1,500,000
Mr M Hansel	500,000	1,000,000	-	-	1,500,000
Mr L Ward	-	1,000,000	-	-	1,000,000
Mr M O'Brien	2,250,000	-	-	-	2,250,000
Mr T Psaros	2,000,000	-	-	-	2,000,000
Mr N Mackenzie-Forbes	1,250,000	-	-	-	1,250,000
Mr N Villa	750,000	-	-	-	750,000
	9,750,000	5,000,000	-	-	14,750,000

2012	Vested and exercisable	Vested and unexercisable	Vested at the end of the year
<i>Options over ordinary shares</i>			
Mr D K Barwick	1,500,000	-	1,500,000
Mr A Gillies	3,000,000	-	3,000,000
Mr J Haley	1,500,000	-	1,500,000
Mr M Hansel	1,500,000	-	1,500,000
Mr L Ward	1,000,000	-	1,000,000
Mr M O'Brien	2,250,000	-	2,250,000
Mr T Psaros	2,000,000	-	2,000,000
Mr N Mackenzie-Forbes	1,250,000	-	1,250,000
Mr N Villa	750,000	-	750,000
	14,750,000	-	14,750,000

2011	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Mr D K Barwick	500,000	-	-	-	500,000
Mr A Gillies	2,000,000	-	-	-	2,000,000
Mr J Haley	500,000	-	-	-	500,000
Mr M Hansel	500,000	-	-	-	500,000
Mr M O'Brien	1,000,000	1,250,000	-	-	2,250,000
Mr T Psaros	1,000,000	1,000,000	-	-	2,000,000
Mr N Mackenzie-Forbes	500,000	750,000	-	-	1,250,000
Mr N Villa	-	750,000	-	-	750,000
	6,000,000	3,750,000	-	-	9,750,000

Note 27. Key management personnel disclosures (continued)

2011	Vested and exercisable	Vested and unexercisable	Vested at the end of the year
<i>Options over ordinary shares</i>			
Mr D K Barwick	500,000	-	500,000
Mr A Gillies	2,000,000	-	2,000,000
Mr J Haley	500,000	-	500,000
Mr M Hansel	500,000	-	500,000
Mr M O'Brien	2,250,000	-	2,250,000
Mr T Psaros	2,000,000	-	2,000,000
Mr N Mackenzie-Forbes	1,250,000	-	1,250,000
	750,000	-	750,000
	<u>9,750,000</u>	<u>-</u>	<u>9,750,000</u>

Related party transactions

Related party transactions are set out in note 29.

Note 28. Share-based payments

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.

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

There are no vesting conditions for options issued in the current or prior years.

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.

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.

Note 28. Share-based payments (continued)

Set out below are summaries of options granted under the plan:

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
2012							
28/11/08	04/12/12	\$0.25	3,500,000	-	-	-	3,500,000
29/06/09	04/12/12	\$0.25	2,250,000	-	(200,000)	-	2,050,000
01/07/09	04/12/14	\$0.25	500,000	-	-	-	500,000
24/11/10	19/11/13	\$0.40	3,250,000	-	-	-	3,250,000
18/05/11	08/05/14	\$0.50	750,000	-	-	-	750,000
24/11/11	30/11/13	\$0.75	-	2,500,000	-	-	2,500,000
24/11/11	30/11/13	\$0.78	-	2,500,000	-	-	2,500,000
			10,250,000	5,000,000	(200,000)	-	15,050,000
2011							
28/11/08	04/12/12	\$0.25	3,500,000	-	-	-	3,500,000
29/06/09	04/12/12	\$0.25	2,250,000	-	-	-	2,250,000
01/07/09	04/12/14	\$0.25	500,000	-	-	-	500,000
24/11/10	19/11/13	\$0.40	-	3,250,000	-	-	3,250,000
18/05/11	08/05/14	\$0.50	-	750,000	-	-	750,000
			6,250,000	4,000,000	-	-	10,250,000

The weighted average remaining contractual life of options outstanding at the end of the financial year was 2 years (2011: 3 years). All options are exercisable at the end of the year.

In the current year nil options were issued to non-key management personnel.

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk free interest rate	Fair value at grant date
24/11/2011	30/11/2013	\$0.58	\$0.75	69.16%	0.00%	3.60%	\$0.212
24/11/2011	30/11/2013	\$0.58	\$0.78	69.16%	0.00%	3.60%	\$0.197

The volatility has been determined based on the share price volatility over 12 months prior to the relevant grant date.

The following share-based payment arrangements were in existence during the current and previous financial year:

Options series	Number	Grant date	Expiry date	Exercise price \$	Fair value at grant date \$
1 Granted 28 November 2008	3,500,000	28/11/08	04/12/12	0.25	0.004
2 Granted 29 June 2009	2,250,000	29/06/09	04/12/12	0.25	0.002
3 Granted 1 July 2009	500,000	01/07/10	04/12/12	0.25	0.004
4 Granted 24 November 2010	3,250,000	24/11/10	19/11/13	0.40	0.132
5 Granted 18 May 2012	750,000	18/05/11	18/05/14	0.50	0.201
6 Granted 24 November 2011	2,500,000	24/11/11	30/11/13	0.75	0.212
7 Granted 24 November 2011	2,500,000	24/11/11	30/11/13	0.78	0.197

Note 28. Share-based payments (continued)

	Option series						
	Series 1	Series 2	Series 3	Series 4	Series 5	Series 6	Series 7
Grant date share price	0.02	0.01	0.01	0.31	0.38	0.58	0.58
Exercise price	0.25	0.25	0.25	0.40	0.50	0.75	0.78
Expected volatility	95.26%	95.26%	95.26%	73.58%	69.26%	69.16%	69.16%
Option life	3 years	3 years	3 years	3 years	3 years	2 years	2 years
Risk-free interest rate	3.97%	5.19%	5.17%	5.17%	4.81%	3.60%	3.60%
Number of options issued	3,500,000	2,250,000	500,000	3,250,000	750,000	2,500,000	2,500,000
Total value of options issued	\$14,000	\$4,500	\$2,000	\$429,000	\$150,750	\$530,000	\$492,500

Included under employee benefits expense in the statement of comprehensive income of \$1,043,735 (2011: \$579,789), which relates to equity-settled share based payment transactions.

Note 29. Related party transactions

Parent entity

MetroCoal Limited is the ultimate parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 30.

Joint ventures

Interests in joint ventures are set out in note 31.

Key management personnel

Disclosures relating to key management personnel are set out in note 27 and the remuneration report in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2012	2011
	\$	\$
Payment for other expenses:		
Interest paid to former ultimate parent	21,370	60,000
Consulting fees paid to a related party (i)	43,810	32,011
Legal fees paid to related party (ii)	391,738	182,272
Rental and other expenses paid to former ultimate parent (iii)	150,883	139,182
Other transactions:		
Payments on behalf of joint venture partner	1,372,864	403,879

- (i) During the year the consolidated entity used the services of a public relations/media company named Competitive Advantages (Qld) Pty Ltd (trading as Crook Publicity). Mr Theo Psaros is a director of Competitive Advantages (Qld) Pty Ltd. The consolidated entity paid Crook Publicity fees of \$43,810 (2011: \$32,011) during the year and the directors have agreed that these fees are at arm's length and that Mr Psaros has not participated in the decision to use this firm for public relations services.
- (ii) During the year the consolidated entity paid legal fees of \$391,738 (2011: \$182,272) to HopgoodGanim Lawyers. Mr Michael Hansel is a partner of HopgoodGanim Lawyers. The directors have agreed that these fees are at arm's length and that Mr Hansel has not participated in the decision to use this firm for legal services.

Note 29. Related party transactions (continued)

- (iii) On 14 February 2010, the consolidated entity signed an Agreement for Management and Administration Services with its former parent company, Metallica Minerals Limited. This Agreement requires the consolidated entity to pay a monthly premises fee and a monthly asset rental fee.

Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated	
	2012	2011
	\$	\$
Current receivables:		
Other receivables from joint venture partner	464,662	193,740
Current payables:		
Trade payables to other related party - HopgoodGanim Lawyers	40,411	92,603
Trade payables to other related party - Crook Publicity	3,354	5,546
	<u>3,354</u>	<u>5,546</u>

Loans to/from related parties

The following balances are outstanding at the reporting date in relation to loans with related parties:

Non-current borrowings:		
Convertible note (i)	-	<u>1,000,000</u>

- (i) Refer to note 16 for details on the convertible note.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 30. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1.

Name of entity	Country of incorporation	Equity holding	
		2012	2011
		%	%
Huge Energy Pty Ltd	Australia	100	100
Bundi Coal Project Pty Ltd (i)	Australia	100	100

- (i) Bundi Coal Project Pty Ltd was incorporated in the prior year. EPC 1164 and EPC 1251 are in the process of being transferred to this company.

Note 31. Interests in joint ventures

In April 2010, the Company entered into a Joint Venture Agreement (JVA) with China Coal Import & Export Company (CCIEC), a wholly owned subsidiary of China National Coal Group Corp (China Coal). Under the terms of the Agreement, CCIEC acquired a 51% interest in MetroCoal's EPC 1165 Columboola in the Surat Basin, Queensland for an agreed expenditure commitment of AUD\$30 million on EPC 1165. The funds will be used for exploring and evaluating the potential for future commercialisation options within the Columboola tenement and also opens up the opportunity for participation in MetroCoal Limited's other tenements. Exploration was commenced in 2011. The Columboola JVA requires a minimum expenditure of AUD\$4 million within the first two years of the agreement and this amount has been expended.

MetroCoal Limited
Notes to the financial statements
30 June 2012

Note 32. Parent entity information

Set out below is the supplementary information about the parent entity.

	Parent	
	2012	2011
	\$	\$
<i>Statement of comprehensive income</i>		
Loss after income tax	<u>(10,854,933)</u>	<u>(2,432,614)</u>
Total comprehensive income	<u>(10,854,933)</u>	<u>(2,432,614)</u>
<i>Statement of financial position</i>		
Total current assets	16,396,299	12,010,132
Total non-current assets	<u>20,218,274</u>	<u>8,110,574</u>
Total assets	<u>36,614,573</u>	<u>20,120,706</u>
Total current liabilities	1,770,313	1,847,002
Total non-current liabilities	<u>-</u>	<u>-</u>
Total liabilities	<u>1,770,313</u>	<u>1,847,002</u>
Net assets	<u>34,844,260</u>	<u>18,273,704</u>
<i>Equity</i>		
Contributed equity	45,149,187	22,622,308
Reserves	5,497,915	599,305
Accumulated losses	<u>(15,802,842)</u>	<u>(4,947,909)</u>
Total equity	<u>34,844,260</u>	<u>18,273,704</u>

Contingent liabilities

Refer to note 25 for details of contingent liabilities.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment at 30 June 2012 and 30 June 2011.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1.

Note 33. Events occurring after the reporting date

On 12 July 2012, Stephen Everett was appointed as Independent Non-Executive Director and Chairman of the Company.

On 6 September 2012, the company and its Joint Venture partner, SinoCoal Resources Pty Ltd, announced a Maiden Indicated Resource of 94.7Mt at their Columboola thermal coal project and an increase in the project's total resource from 1,297Mt to 1,732Mt.

On 6 September 2012, the company also announced the results of a scoping study for its Bundi project. The results of this study were:

- Mine life of 28 years producing over 5 million sales tonnes on average per year during steady-state production;
- Project NPV real, before tax, is between \$600 million and \$660 million at a 10% discount rate and the IRR, before tax of between 16% and 17%;
- Continuous coal seam amenable to underground longwall mining;
- Mining seam section 2.75 – 3.65m;
- Average yield from mining study 78% at 6300kcal/kg GAD;
- Average cost to FOB \$80.72 per tonne, excluding royalties; and
- Initial Capital expenditure \$994 million.

No other matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

MetroCoal Limited
Directors' declaration

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'M Hansel', written in a cursive style.

M Hansel
Director

24 September 2012
Brisbane



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INDEPENDENT AUDITOR'S REPORT

To the members of MetroCoal Limited

Report on the Financial Report

We have audited the accompanying financial report of MetroCoal Limited, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 company's preparation of the financial report that gives a true and fair view 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 company'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.

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

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*, which has been given to the directors of MetroCoal Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

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Opinion

In our opinion:

- (a) the financial report of MetroCoal Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Material Uncertainty Regarding Going Concern

Without modifying of our opinion, we draw attention to note 1 of the financials statements describing the uncertainty regarding 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 discharge of liabilities in the ordinary course of business. The ability of the consolidated entity to maintain continuity of normal business activities and to pay their debts as and when they fall due is dependent upon the ability of the consolidated entity to successfully raise additional capital and/or the successful exploration and subsequent exploitation of their areas of interest through sale or development. No adjustments have been made to the carrying value of assets or recorded amount of liabilities should the consolidated entity's plans not eventuate.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 22 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of MetroCoal Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

BDO Audit Pty Ltd

A stylized signature of the BDO firm, consisting of the letters 'BDO' in a cursive, handwritten style.

A handwritten signature in black ink, appearing to read 'C R Jenkins', written over a horizontal line.

C R JENKINS
Director

Brisbane, 24 September 2012

MetroCoal Limited
Shareholder information
30 June 2012

The shareholder information set out below was applicable as at 18 September 2012.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares
1 to 1,000	101
1,001 to 5,000	282
5,001 to 10,000	317
10,001 to 100,000	739
100,001 and over	110
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	1,549
	<hr/> <hr/>
Holding less than a marketable parcel	210
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Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares issued
Metallica Minerals Limited	64,293,962	30.78
Dadi Engineering Development (Group) Co. Ltd.	28,800,000	13.79
Merrill Lynch (Australia) Nominees Pty Limited	20,805,287	9.96
National Nominees Limited	12,508,723	5.99
Dadi Engineering Development (Group) Hong Kong co. Ltd	12,200,000	5.84
Focus Asset Management Pty Ltd (Key Grand Super Fund A/C)	4,095,956	1.96
JP Morgan Nominees Australia Limited	2,284,831	1.09
NLK Holdings Pty Ltd	1,850,000	0.89
Ms Qing Xia	1,811,664	0.87
HSBC Custody Nominees (Australia) Limited	1,489,027	0.71
ABN AMRO Clearing Sydney Nominees Pty Ltd	1,415,414	0.68
Mr David Michael Honner	1,100,000	0.53
Mr. Agustin Benito Argote	1,000,000	0.48
Oodachi Pty Ltd (P & M Kerr Family A/c)	1,000,000	0.48
Slade Technologies Pty Ltd (Embrey Family Superfund A/C)	1,000,000	0.48
NLK Holdings Pty Ltd (NLK Superannuation Fund A/C)	990,000	0.47
Mr. Stewart Graham Teague + Mrs Mary Lynne Teague (The Teague Super Fund A/c)	875,000	0.42
Mr William Joseph Hosemans (WJ Hosemans & Assoc S/F A/C)	860,000	0.41
UBS Wealth Management Australia Nominees Pty Ltd	711,994	0.34
Dr Gary Robert Lillicrap & Mr Damian Gary Lillicrap & Mrs Imelda Anne Lillicrap	580,000	0.28
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	159,671,858	76.44
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MetroCoal Limited
Shareholder information
30 June 2012

Unquoted equity securities

	Number on issue	Number of holders
Options issued under the MetroCoal Employee Share Option Plan	6,550,000	7

Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Metallica Minerals Limited	64,293,962	30.78
Dadi Engineering Development (Group) Co. Ltd.	28,800,000	13.79
Merrill Lynch (Australia) Nominees Pty Limited	20,805,287	9.96
National Nominees Limited	12,508,723	5.99
Dadi Engineering Development (Group) Hong Kong co. Ltd	12,200,000	5.84

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.