



2012

**QUARTERLY
REPORT**

September



METROCOAL

Corporate details

METROCOAL LIMITED | ABN 45 117 763 443

Quarterly Activities Report For the period ended 30 September 2012

ASX CODE: MTE

Issued Capital (30/09/2012)

208,883,663 shares issued

8,500,000 Unlisted Directors' Options

6,550,000 Unlisted management and employee options

1,574 Shareholders

Top 20 Shareholders

Hold 76.40% of listed shares

Directors & Management

Mr Stephen Everett - Chairman

Mr Andrew Gillies – Non-executive Director

Mr Michael Hansel – Non-executive Director

Mr John Haley – Non-executive Director & Company Secretary

Mr Lindsay Ward – Non-executive Director

Mr Wang Dongping – Non-executive Director

Mr Robert Finch – Alternate Director to Mr. Wang

Mr Mike O'Brien – Chief Executive Officer

Mr Theo Psaros – Chief Operating Officer

Mr Neil Mackenzie-Forbes – Joint Venture General Manager

Mr Nicholas Villa – Project Manager

Mr. Edward Radley – Geology Manager

Largest Shareholders

Metallica Minerals Limited 30.78%

Dadi Engineering Development Group 19.63%

Merrill Lynch (Australia) Nominees Pty Limited 9.98%

Cash Balance

As at 30 September 2012, MTE's cash balance was approximately \$12.4 million

Highlights for the quarter

- **Positive results for MetroCoal's 100% owned Bundi Project Scoping Study** which confirm that the project is technically and financially viable. Based on a mine life of 28 years producing 5 million tonnes per annum, the study resulted in an NPV real, before tax, of between \$600 million and \$660 million at a 10% discount rate and the IRR, before tax, is between 16% and 17%.
- **Total thermal coal resource for all MetroCoal projects now in excess of 4 billion tonnes** (see table below).
- **Significant increase in Indicated Resource for Bundi Project from 150.9Mt to 246.3Mt** which significantly improves the level of confidence in the thermal coal resource.
- **Columboola – Increased Resource** including a maiden Indicated Resource of 94.7Mt and a 26% increase in the total resource to 1.7 Billion tonnes
- **New shipping channel in Gladstone Harbour declared a “significant project” by the Queensland Government.** Up to \$400 million will be invested by the Gladstone Port Corporation in this project. This will be a major development for not only all planned projects at Gladstone but potentially for 3TL's planned coal terminal in which MetroCoal has a twenty per cent (20%) shareholding.

Resources

MetroCoal Underground Thermal Coal Resources

| Resource | Columboola ³ | Norwood | Bundi ¹ | Juandah | Dalby West ² | Total Resources |
|--------------|-------------------------|---------------|--------------------|-----------------|-------------------------|-----------------|
| Inferred | 1,637Mt (802 Mt) # | 156 Mt | 1,315.8 Mt | 224 Mt | 520Mt | 3,852.8 Mt |
| Indicated | 94.7Mt (46.4 Mt) # | - | 246.3 Mt | 24.4 Mt | | 365.4 Mt |
| Total | 1,732 Mt | 156 Mt | 1,562.1 Mt | 248.4 Mt | 520Mt | 4,218 Mt |

1 See MTE ASX Announcement 19 July 2012 – Bundi Resource Upgrade and Project Update

2 See MTE ASX Announcement 9 December 2011 – Dalby West Project – Maiden Inferred Resource of 520Mt

3 See MTE ASX Announcement 6 September 2012 – Maiden Indicated Resource for Columboola JV plus 26% increase in Inferred Resource

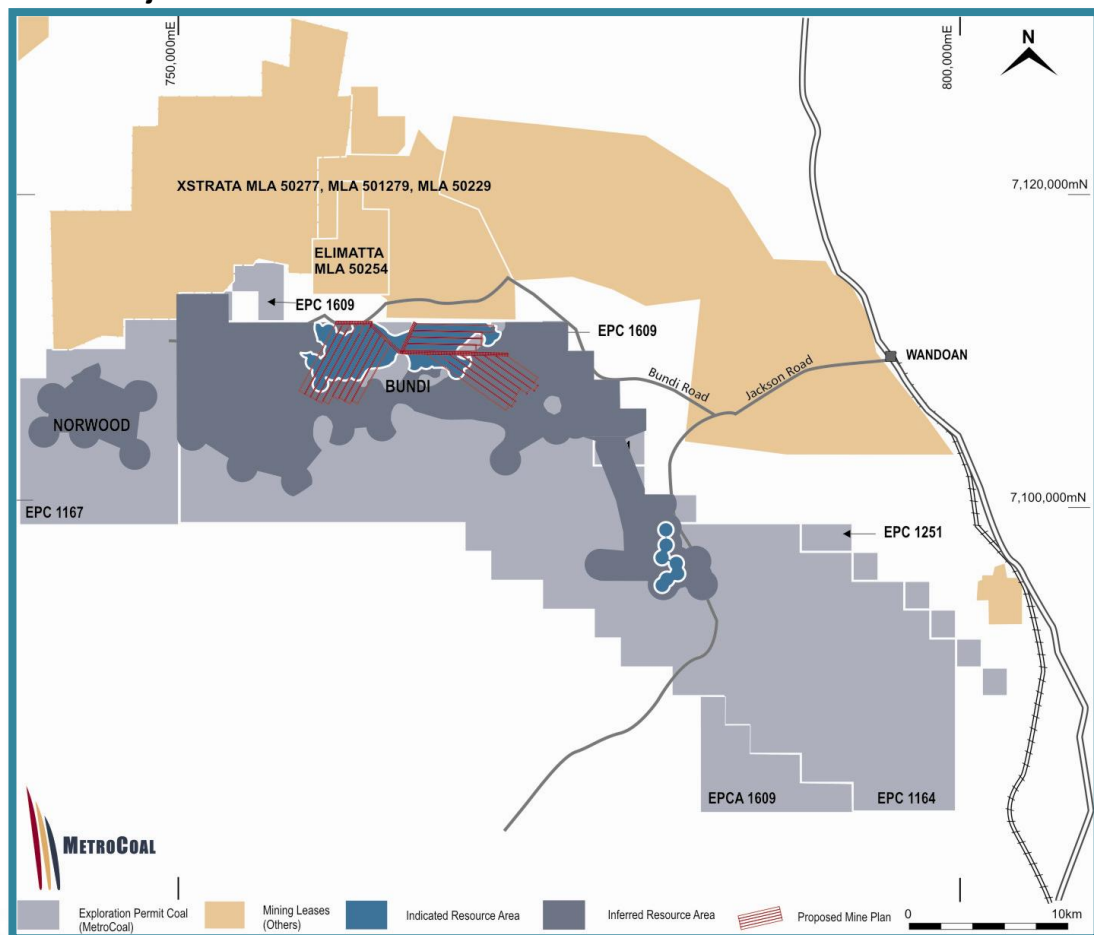
MTE JV share = 49%

Bundi Project – Scoping Study

MetroCoal was very pleased to finalise its scoping study for the Bundi Project in the September quarter. Importantly, the scoping study concluded that the Bundi project will be technically and financially viable as coal demand increases in the future. The key outcomes were as follows:

- 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 is 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
- Initial Capital expenditure \$994 million

Figure 1 Bundi Project Area



The mining scoping study and cost inputs for the underground component of the project was carried out by Mining Consultancy Services (Australia) Pty Ltd (MCS) and the coal handling and preparation (CHPP) scoping study by Sedgman Limited (Sedgman), with reviews of infrastructure and transport costing carried out by Balance Resources and Parson Brinkerhoff. Geological modelling and resource estimation was carried out by GeoConsult Pty Limited (GeoConsult).

In the economic modelling the price forecasts from two commercial institutions, Credit Suisse and Wood Mackenzie, were used. These price forecasts, in MetroCoal's view, reflect the logical linkage of coal price to the growing international coal market.

Credit Suisse forecast a long term coal price of US\$120 per tonne at an exchange rate of 0.85. Based on the Credit Suisse forecasts, the project NPV, real before tax discounted at 10% is \$600 million, the IRR is 17% and the payback period is 7 years.

Wood Mackenzie forecast a coal price of US\$101.93 per tonne in 2016 increasing in real terms to 2030 with a long term exchange rate at 0.89. Based on the Wood Mackenzie forecasts, the project NPV, real before tax discounted at 10% is \$660 million, the IRR is 16% and the payback period is 8 years.


The difference in the financial results between the two price scenarios is due to the higher coal price in the earlier years in the Credit Suisse forecast compared to the higher prices in the later years in the Wood Mackenzie price forecast.

The coal price forecasts have been adjusted to reflect the Bundi coal quality at 5885kcal/kg GAR.

Key data used in the economic model are:

| Operating Cost (AUD mid 2012) | Per tonne |
|---|------------------|
| Underground mining (per ROM tonne) | \$23.45 |
| Coal handling and preparation (per ROM tonne) | \$5.35 |
| Other Costs (per ROM tonne) | \$2.00 |
| Total (per ROM tonne) | \$30.80 |

| Operating Cost (AUD mid 2012) | Per tonne |
|--|------------------|
| FOR cost @78% yield (per sales tonne) | \$39.42 |
| Rail and Port Costs (per sales tonne) | \$37.80 |
| Marketing and Overheads (per sales tonne) | \$3.50 |
| Total Cost per sales tonne FOB Gladstone (ex royalty) | \$80.72 |



Capital costs are estimated at \$994 million comprised of \$662million for the underground mine establishment, \$298million for CHPP and site earthworks and \$34million of other costs. MCS capital cost estimates for the underground mine establishment have an accuracy of -5% +40% and Sedgman's CHPP capital cost estimates are within -5% +25%. Financing of the capital cost of the rail and port is provided for in the rail and port tariff.

A Queensland State Government royalty of 7% up to a coal price of \$100 per tonne, and 10% of the coal price per tonne thereafter have been allowed for in the financial model. MetroCoal will need to adjust the impact of the recent royalty increase to 12.5% for coal prices of \$100 or more.

All activities in the field at Bundi have ceased with only rehabilitation checks of seismic and drilling locations scheduled for the coming months. MetroCoal has completed its seismic program and we are now waiting on the results which will be released before year end. MetroCoal's Bundi Project team have now been transferred to the Columboola JV Project during the last quarter of 2012.

Columboola JV Project

MetroCoal and its joint venture partner, SinoCoal Resources have now completed 89 drill holes at EPC 1165 Columboola for a total of 31,995m drilled, of which 12,042m was HQ cored.

A Maiden Indicated Resource of 94.7Mt was announced on 5 September 2012 and the total resource for Columboola increased 26% to 1.7 billion tonnes. A concept study for this project is now underway.

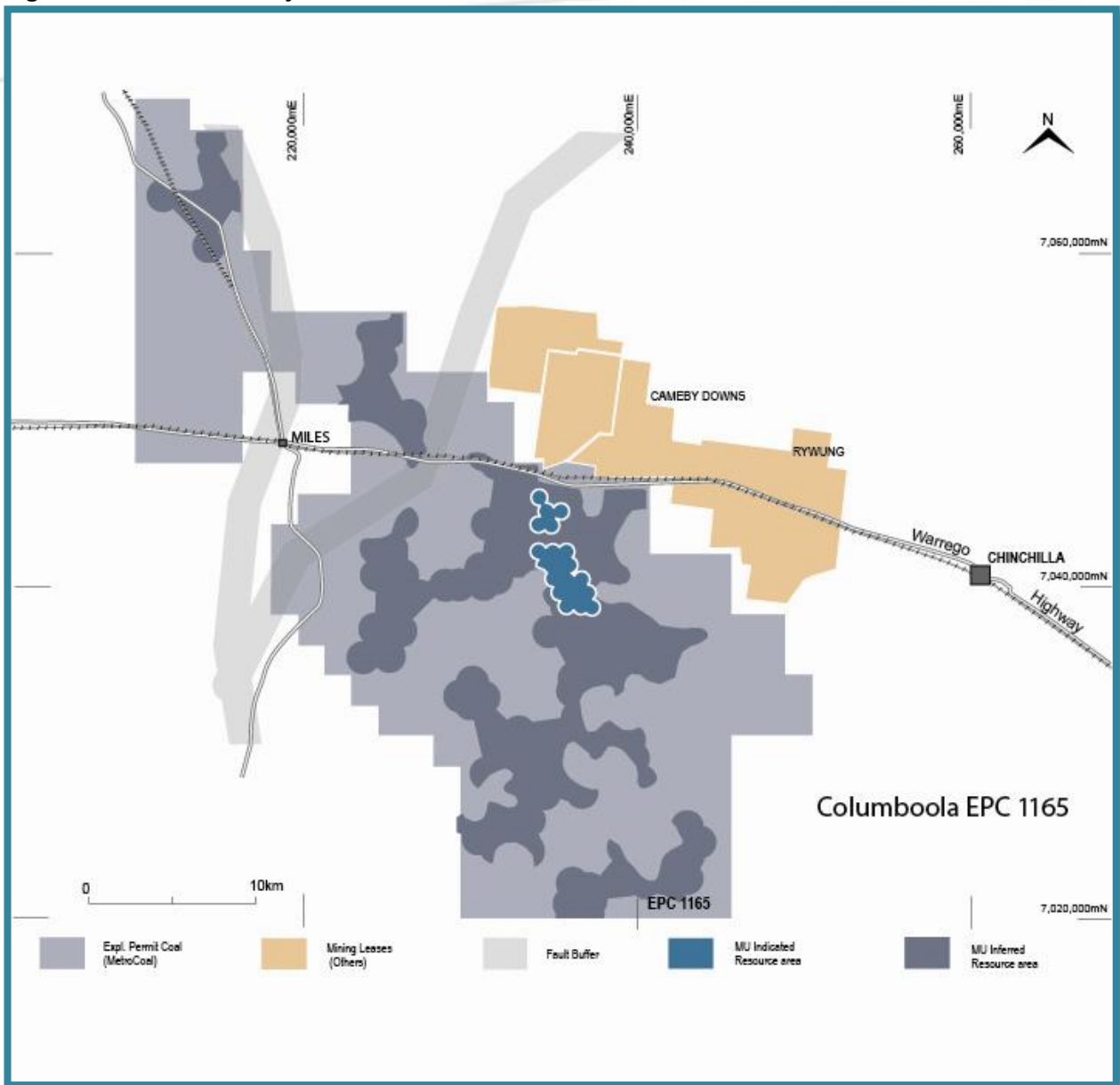
Stages 1 & 2 drilling identified a prospective area south of the Cameby Downs open cast mine where the target Macalister Upper Seam (previously call MA1 Seam) was interpreted to be continuous and correlatable at depths between 100m and 200m below surface. This focus area contained a Macalister Upper Seam with an average seam thickness in excess of 4m with a 1° dip and was considered ideal for long wall extraction.

The Stage 3 drilling program consisted of part core holes on a 900m offset grid pattern focussed on an area south of the Warrego Highway in the vicinity of Columboola Creek. The program is largely complete and an Indicated resource of 94.7Mt has been established. This resource is anticipated to increase when coal quality data is available.

While drilling the north east end of the Stage 3 Focus area resource, a well-developed Kogan Seam and Macalister Upper was identified at depths <80m below surface and the cumulative coal thicknesses indicated potential for open cast mining methods. A program of four additional holes was completed in September confirming the presence of the coal seams at shallow depths and further drilling is now being planned.

The Columboola JV is also planning to start EIS activities as soon as a preferred consultancy firm is appointed.

Figure 2 Columboola Project Area



The key drill hole data from recently completed holes is listed as follows:

| Hole ID | Stage | Easting (MGA 94) | Northing (MGA 94) | RL | Cored (m) | Total Depth (m) | Coal Roof (mbgl) | Seam Thickness (m) | Interpreted Seam |
|---------|-------|------------------|-------------------|--------|-----------|-----------------|------------------|--------------------|------------------|
| COL043 | 2 | 224925 | 7040940 | 300 | 341.79 | 455.7 | 302.62 | 6.05 | MUWS |
| COL044 | 2 | 237525 | 7044240 | 323 | 455.7 | 690.62 | 122.87 | 1.26 | MUWS |
| COL045 | 2 | 224207 | 7035876 | 305 | 690.62 | 466.07 | 397.47 | 5.86 | MUWS |
| COL046 | 2 | 238425 | 7042590 | 326 | 466.07 | 474.18 | 128.16 | 1.98 | MUWS |
| COL047 | 2 | 239325 | 7040940 | 328 | 474.18 | 442 | 120.68 | 3.80 | MUWS |
| COL048 | 2 | 239325 | 7044240 | 329 | 443.04 | 486.19 | 102.44 | 1.28 | KO10 |
| | | | | | | | 111.60 | 3.55 | MUWS |
| COL049 | 2 | 237525 | 7040940 | 328 | 486.23 | 156.26 | 138.45 | 2.68 | MUWS |
| COL050 | 2 | 235593 | 7044200 | 318 | 156.44 | 412.5 | 118.70 | 4.89 | MUWS |
| COL051 | 2 | 240167.2 | 7045928 | 319.13 | 414.29 | 528.1 | 48.50 | 2.87 | KO10 |
| | | | | | | | 67.43 | 3.67 | MUWS |
| COL052 | 2 | 235583.7 | 7037699 | 314.12 | 528.96 | 210.98 | 198.27 | 4.83 | MUWS |
| COL053 | 3 | 235727 | 7042572 | 315.84 | 210.51 | 240 | 135.64 | 4.97 | MUWS |
| COL054 | 3 | 235224.1 | 7041751 | 314.6 | 239.9 | 497 | 154.77 | 3.71 | MUWS |
| COL055 | 3 | 236183.5 | 7041733 | 319.41 | 497.81 | 474 | 142.52 | 4.01 | MUWS |
| COL056 | 3 | 234921.3 | 7041085 | 312.84 | 474 | 240.4 | 167.70 | 1.59 | MUWS |
| COL057 | 3 | 237064.1 | 7040079 | 323.7 | 240.4 | 489.3 | 177.22 | 5.57 | MUWS |
| COL058 | 3 | 237911.5 | 7040129 | 326.41 | 489.3 | 214.54 | 142.69 | 3.80 | MUWS |
| COL059 | 3 | 236155.8 | 7040135 | 317.26 | 214.54 | 231.5 | 163.49 | 5.31 | MUWS |
| COL060 | 3 | 238787.6 | 7040137 | 327.78 | 231.5 | 234 | 135.08 | 3.91 | MUWS |
| COL061 | 3 | 237521 | 7039283 | 321.09 | 234 | 192 | 163.07 | 4.60 | MUWS |
| COL062 | 3 | 236198.6 | 7045060 | 313.71 | 192 | 216.2 | 108.79 | 4.06 | MUWS |
| COL063 | 3 | 235307 | 7045067 | 317.82 | 216.2 | 203.7 | 114.48 | 2.88 | MUWS |
| COL064 | 3 | 234817.2 | 7043403 | 312.11 | 203.7 | 219.5 | 128.26 | 5.82 | MUWS |
| COL065 | 3 | 235259.3 | 7044198 | 315.03 | 219.5 | 204.7 | 118.63 | 4.39 | MUWS |
| COL066 | 3 | 235684.6 | 7045877 | 318.27 | 204.7 | 216.4 | 102.30 | 4.55 | MUWS |
| COL067 | 3 | 237887.1 | 7043406 | 331.5 | 216.4 | 222 | 138.07 | 2.12 | MUWS |
| COL068 | 3 | 239183.4 | 7042615 | 328.38 | 222 | 185.7 | 113.68 | 1.10 | MUWS |
| COL069 | 3 | 235716.2 | 7043405 | 315.93 | 185.7 | 210.1 | 124.39 | 5.92 | MUWS |
| COL070 | 3 | 237095.3 | 7043420 | 324.93 | 210.1 | 191.98 | 127.80 | 2.63 | MUWS |
| COL071 | 3 | 236242.9 | 7043425 | 319.84 | 191.98 | 185.7 | 143.20 | 2.97 | MUWS |
| COL072 | 3 | 238909 | 7043426 | 329.55 | 185.7 | 180.03 | 121.60 | 3.41 | MUWS |
| COL073 | 3 | 238873.8 | 7044269 | 327.3 | 180.03 | 179.7 | 113.41 | 4.29 | MUWS |
| COL074 | 3 | 238410.5 | 7044238 | 326.33 | 179.7 | 156.18 | 117.28 | 4.22 | MUWS |
| COL075 | 3 | 237065.7 | 7045077 | 318.28 | 156.18 | 157.7 | 110.69 | 3.25 | MUWS |
| COL076 | 3 | 237970.3 | 7045068 | 320.98 | 157.7 | 160.92 | 106.70 | 1.47 | MUWS |
| COL077 | 3 | 236722.7 | 7044156 | 319.31 | 160.92 | 161.7 | 133.02 | 5.19 | MUWS |
| COL078 | 3 | 240238.2 | 7040938 | 332.54 | 161.7 | 150 | 131.15 | 3.28 | MUWS |
| COL079 | 3 | 237591.9 | 7042760 | 321.99 | 150 | 149.7 | 127.61 | 1.05 | MUWS |
| COL080 | 3 | 239687.5 | 7041745 | 329.09 | 149.7 | 95.7 | 123.26 | 2.33 | MUWS |
| COL081 | 3 | 240669.5 | 7045074 | 321.54 | 95.7 | 131.7 | 59.74 | 3.02 | KO10 |
| | | | | | | | 77.12 | 4.82 | MUWS |
| COL082 | 3 | 241162 | 7045858 | 319.23 | 100.5 | 131.7 | 34.59 | 3.46 | KO10 |
| | | | | | | | 57.57 | 3.80 | MUWS |
| COL083 | 3 | 239478 | 7045905 | 317.58 | 100.5 | 148.9 | 34.87 | 2.65 | KO10 |
| | | | | | | | 60.84 | 2.29 | MUWS |
| COL084 | 3 | 239775.4 | 7045065 | 323.81 | 117.8 | 161.7 | 59.56 | 1.97 | KO10 |
| | | | | | | | 82.03 | 2.92 | MUWS |
| COL085 | 3 | 238939.9 | 7045066 | 322.3 | 130.6 | 161.7 | 84.94 | 2.14 | KO10 |
| | | | | | | | 102.67 | 4.11 | MUWS |
| COL086* | 4G | 240445 | 7046340 | 320 | 26.5 | 94.25 | 42.14 | 3.09 | KO10 |
| | | | | | | | 59.30 | 2.36 | MUWS |
| COL087* | 4G | 240666 | 7045914 | 319 | 35 | 74.1 | 41.44 | 3.13 | KO10 |
| | | | | | | | 63.42 | 3.85 | MUWS |
| COL088* | 4G | 240896 | 7046312 | 319 | 12 | 59 | 27.38 | 3.14 | KO10 |
| | | | | | | | 50.17 | 2.47 | MUWS |
| COL089* | 4G | 240902 | 7045423 | 320 | 25 | 89 | 50.55 | 3.11 | KO10 |

* Preliminary Survey

MUWS - Macalister Upper Working Section

KO10 - Kogan Seam



Corporate Activities

MetroCoal finished the final quarter of 2012 in a strong financial position with \$12.4 million cash on hand and having completed very successful drilling programs at Bundi and Columboola, released the results of the Bundi Scoping Study and the completed the Bundi seismic program.

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

The timing of infrastructure projects indicates that the Surat Basin Rail and port construction remain on schedule to meet MetroCoal's requirements to be completed in time for Bundi start up in 2018.

MetroCoal also continues to progress discussions with key coal seam gas companies, QGC and Origin to seek finalisation of Co-development agreements on overlapped tenements. The Origin discussions primarily involve EPC 1167, which includes the Norwood Project. The key areas discussed with QGC include both Bundi and Columboola.

The Queensland Government's announcement on 26 September 2012 that a proposal to build a new shipping channel in Gladstone was declared a significant project by the Queensland Co-ordinator General was a major step forward. This will be a major development for not only all planned projects at Gladstone but potentially for Tenement to Terminal (3TL) planned coal terminal in which MetroCoal has a twenty per cent (20%) shareholding. Gladstone Port Corporation also welcomed the announcement of the duplication of this channel as it had been a key component of its 50 year strategic plan.

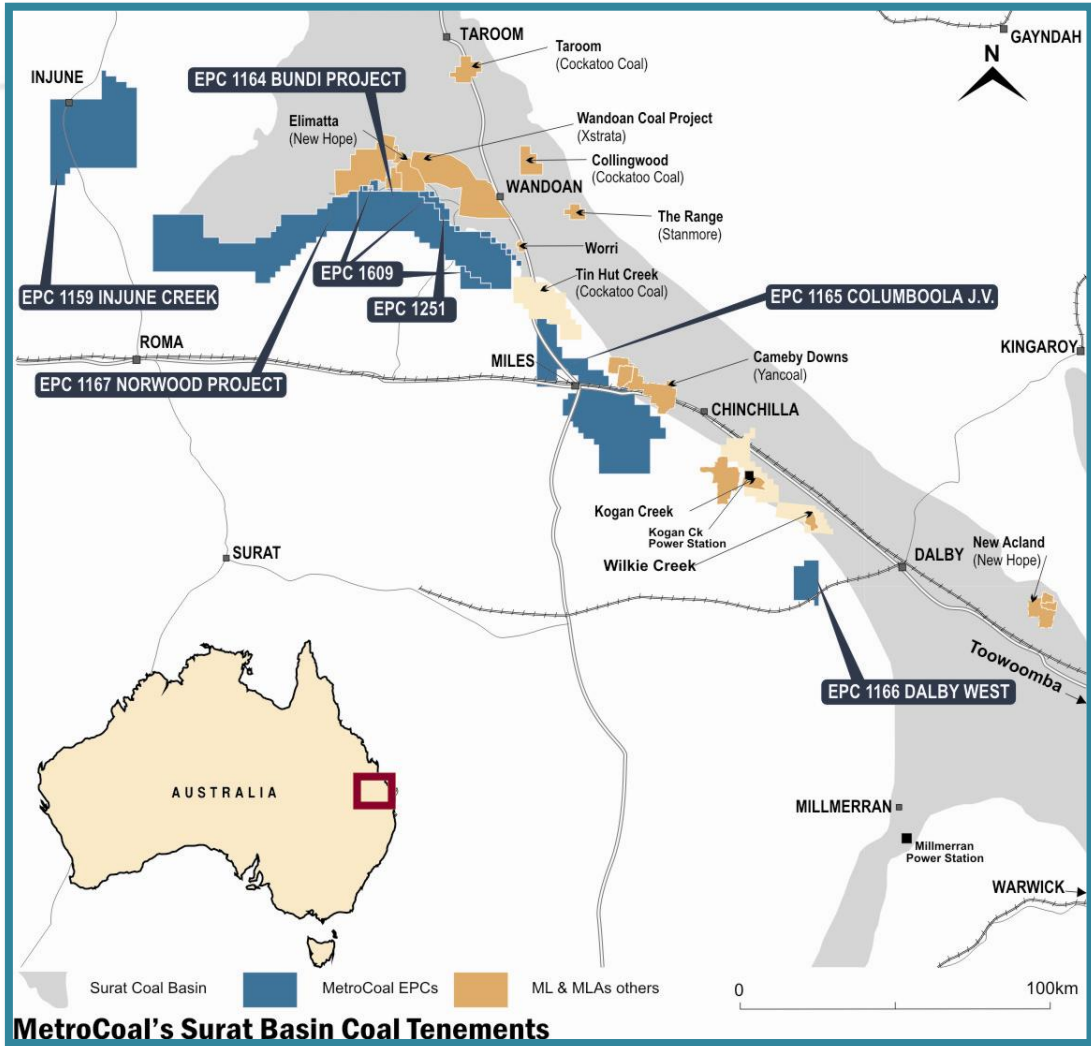
The new shipping channel will provide the Gladstone Port with a sound basis upon which to plan the proposed expansions and will be of significant benefit to 3TL and Wiggins Island Coal Export Terminal (WICET).

The position of the possible channel widening is shown in the map below:

Figure 3 – Gladstone Port



Figure 4 – MetroCoal’s Surat Basin Coal Tenements



Competent Person Statement

The information in this Announcement that relates to the Compilation of existing data and Exploration Results is based on information compiled by Mr Ed Radley who is a Member of the Australian Institute of Mining and Metallurgy (MAusIMM) (Membership No 300512). Mr Ed Radley is a fulltime employee of MetroCoal Ltd, in the role of Geological Manager, Mr Ed Radley has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2003 Edition of the ‘Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves’. Mr Ed Radley has consented in writing for inclusion in this announcement the matters based on the information in the form and context it appears.

The information in this Quarterly Report that relates to Exploration Results and Data is based on information compiled by Mr Neil Mackenzie-Forbes who is a Member of the Australian Institute of Geoscientists (Membership No 2035). Mr Mackenzie-Forbes is currently MetroCoal’s Joint Venture General Manager. Mr Mackenzie-Forbes has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the ‘Australasian code for Reporting of Exploration Results, Mineral Resources and Ore Reserves’. Mr Mackenzie-Forbes has consented in writing to the inclusion in this announcement of the matters based on the information in the form and context it appears.



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