



**QUARTERLY
REPORT**

2011

SEPTEMBER



METROCOAL

Corporate details

METROCOAL LIMITED | ABN 45 117 763 443

Quarterly Activities Report For the period ended 30 September 2011

ASX CODE: MTE

Issued Capital (30/09/2011)

179,933,663 shares issued

101,973,663 shares listed (additional 77,960,000 shares escrowed)

3,500,000 Unlisted Directors' Options (Director Shares escrowed if options exercised)

6,700,000 Unlisted management options

1,440 Shareholders

Top 20 Shareholders

Hold 75.33% of listed shares

Directors & Management

Mr David Barwick – 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 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	44.5%
Merrill Lynch (Australia) Nominees Pty Ltd	19.2%
Dadi Engineering Development Group	
Hong Kong Co Ltd	1.78%
JP Morgan Nominees Australia Limited	1.44%

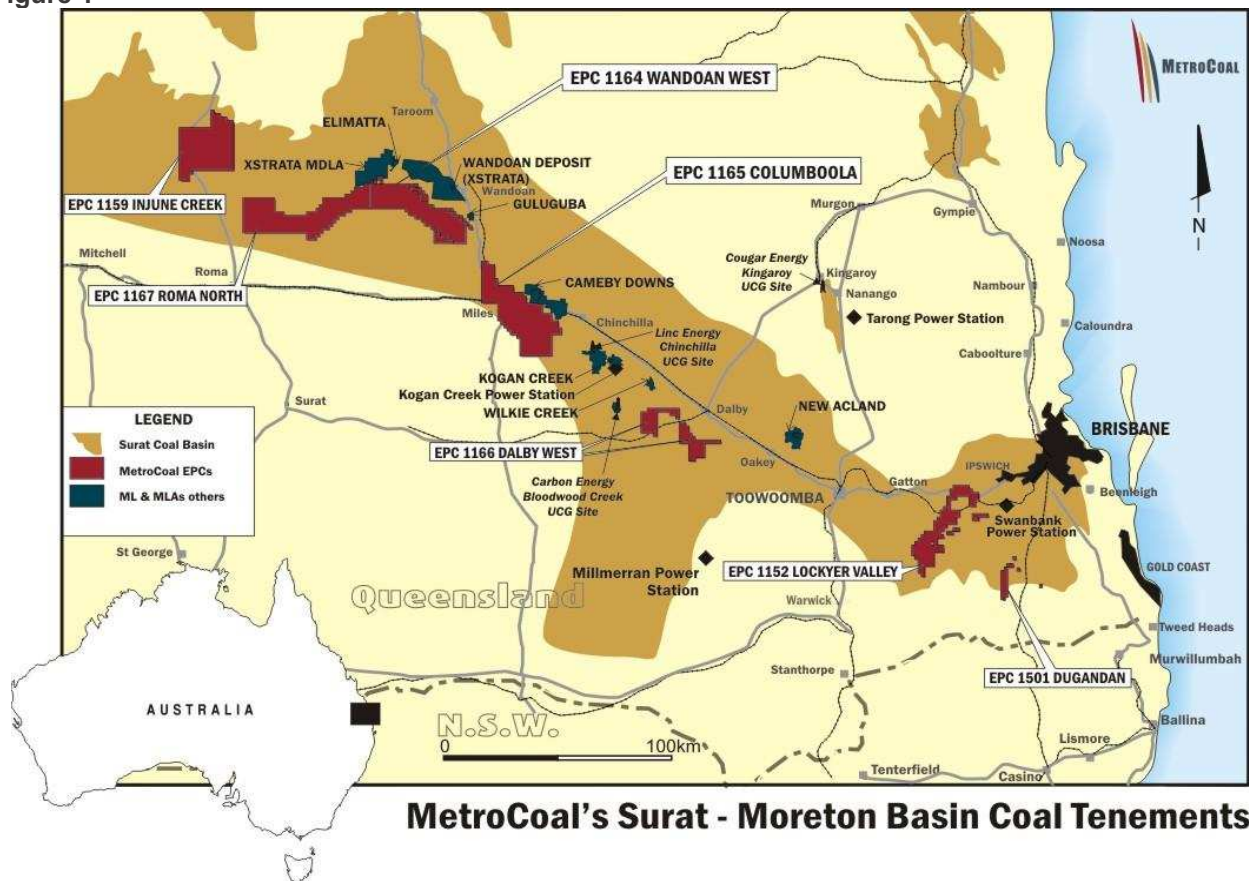
Cash Balance

As at 30 September 2011, MTE's cash balance was approximately \$8.1 million

Highlights for the quarter

- Maiden Inferred Resource of 540 Mt thermal coal established in Columboola.
- MetroCoal's High Priority Tenements are declared outside the proposed Strategic Cropping Land Protection Zones
- MetroCoal's combined Total Thermal Coal Resource increases to 1.46 Billion tonnes inclusive of JV partner 51% share (see Total Resource Table on following page).
- RBS Morgans reports MTER has multi-billion tonne thermal coal resource potential
- Columboola Joint Venture – Drilling continues with further confirmation of continuous and correlateable seams within the Macalister Seam Package. Three (3) potential working sections within the Macalister Seam package identified and potential for working sections in the Walloon Sub Group.
- Bundi Project Area – in-fill drilling now completed for 2011 program with 60 partially cored holes drilled. Independent lab coal quality testing and geological modelling underway. Conceptual mining study now underway.
- MTE remains on target to achieve a JORC Resource of Inferred category of at least 2.5Bt* for all tenements including the Columboola JV project.

Figure 1



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

RESOURCES

MetroCoal's Total Resources are now as follows:

Resource	Norwood ¹ (Underground Coal)	Bundi ¹ (Underground Coal)	Juandah ¹ (UCG)	Columboola ² (Underground Coal)	MetroCoal ³ Resources (UG & UCG)	Total Resources (UG & UCG)
Inferred	156 Mt	595Mt	149 Mt	540 Mt (265 Mt ²)	1,165 Mt	1,440 Mt
Indicated	-	-	23Mt	-	23Mt	23Mt
Total	156 Mt	595Mt	172 Mt	540 Mt	1,188 Mt	1,463 Mt

¹ See MTE ASX Announcement 12 May 2011 - BUNDI COAL RESOURCE INCREASES 56% TO 595Mt

² MTE JV share = 49%

³ See MTE ASX Announcement 7 July 2011 – COLUMBOOLA JV ANNOUNCES MAIDER RESOURCE OF 540Mt

OTHER CORPORATE ACTIVITIES

MetroCoal announces the appointment of Independent Non-Executive Director, Lindsay Ward.

Lindsay Ward, currently Managing Director of Dart Mining NL, has 25 years broad experience holding executive positions in resources, ports, rail and logistics. See MTE ASX Release 5 October 2011.

MetroCoal marketing a JV interest in EPCs 1164/1251, Wandoan West

The process of seeking a JV partner in EPC1164 and EPC 1251 is continuing with positive interest from several parties. The process has been delayed by various company and state approval process including delays in travel and visa approvals. A number of foreign groups are now expected to visit the Bundi Project in November 2011.

MTE remains committed to securing a JV partner on beneficial terms to MTE shareholders.

Investment in Tenement to Terminal Limited (3TL)

On 16 August 2011 MTE announced it had 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 11.47 million tonnes of capacity per annum at the proposed port facility. 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 3.53 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 MTE in 4 equal tranches of 6,250,000 shares subject to achievement of certain project milestones (**3TL Options**).

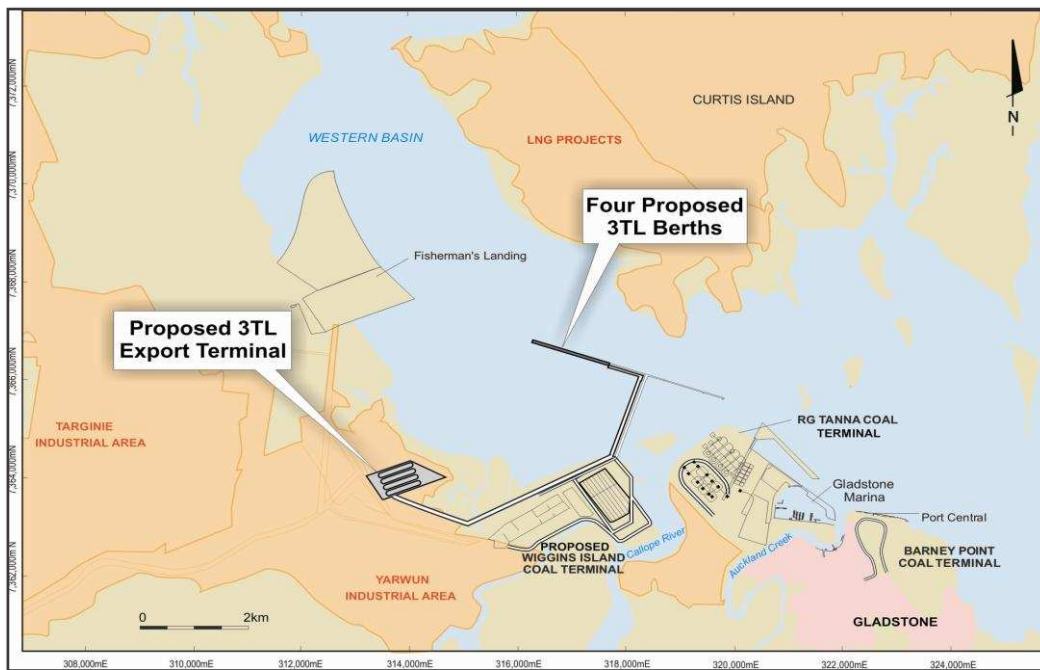
MetroCoal has also taken a 20% interest in 3TL for an investment of \$3.5M and has the right to appoint a nominee to the 3TL Board. Michael Hansel has been appointed as MTE's nominee. The first two investment instalments totalling \$2.5m have now been paid to 3TL.

3TL has engaged leading consultancy firm, GHD to complete all engineering and environmental advice required to complete the Project Definition Phase works. This phase is currently expected to be completed at the end of the first quarter in 2012. The scope includes:

1. Master Planning for the terminal to eventually reach its ultimate capacity; Approvals pathway;
2. Options for berth and rail in loading locations to ensure the coal can enter the port site and be out loaded onto vessels for export;
3. Preparation of an Initial Advice Statement to commence the approvals process.

It is expected that early results from the GHD studies will be shared with MTE and other potential coal mining customers during November 2011.

Figure 2



Successful placement to Dadi Engineering

MetroCoal has secured a placement of 32.0 m shares to DADI at \$0.75 per share to raise a further \$24.0m.

The placement to DADI is to be undertaken in two tranches:

- An initial placement of 3.2m shares (\$2.4m) was placed to DADI (Hong Kong) on an unconditional basis (Unconditional Placement). Funds were received for this initial placement on 16 September 2011.
- The balance of the placement being 28.8m shares (\$21.6m) is conditional on MetroCoal shareholder and Chinese Government regulatory approvals (Conditional Placement).

It is expected that requisite Chinese Government regulatory approvals will be received by mid to late November 2011 and MetroCoal shareholder approval will be sought at the Company's Annual General Meeting to be held 24 November 2011. It is expected the Conditional Placement will formally complete by no later than 30 November 2011. If the Conditional Placement is not completed by 30 November 2011, the agreement will terminate.

DADI is a major Chinese coal group that offers the full range of coal services including open cut mine design, underground mine design, coal process plant design, coal processing research and development and engineering, procurement and construction projects. DADI has over 2,000 employees and has been involved in many significant coal projects including the completion of more than 30 open cut and underground mining projects, the design and supply of over 70 coal processing plants and 3 water slurry treatment plants. Following the completion of the Conditional Placement, DADI representative Mr Wang Dongping will be invited to join the MetroCoal Board of Directors. Mr Wang has an excellent skills, experience and reputation in the coal sector and will be a valuable contributor to the MetroCoal Board.

The funds raised will be used to:

- Fund the company's recently announced port investment of \$3.5m in Tenement to Terminal Limited,
- Continued infill drilling at Bundi to increase the size of the resource and delineate- \$7m;
- Repay the outstanding Convertible Note of \$1.0m to Metallica Minerals Ltd that is due to be repaid before early January 2012
- Fund a scoping study to demonstrate the indicative project economics and fund the submission of an Environmental Impact Statement for the Bundi Project - \$1.5m; and
- Establish funds to allow MetroCoal to be able to participate in planned port expansion projects, namely funds for the next stage of participation in the recently announced Tenement to Terminal Ltd (3TL) project and potentially, Surat Basin Rail; and
- Pay costs of the offer and working capital for early 2012.

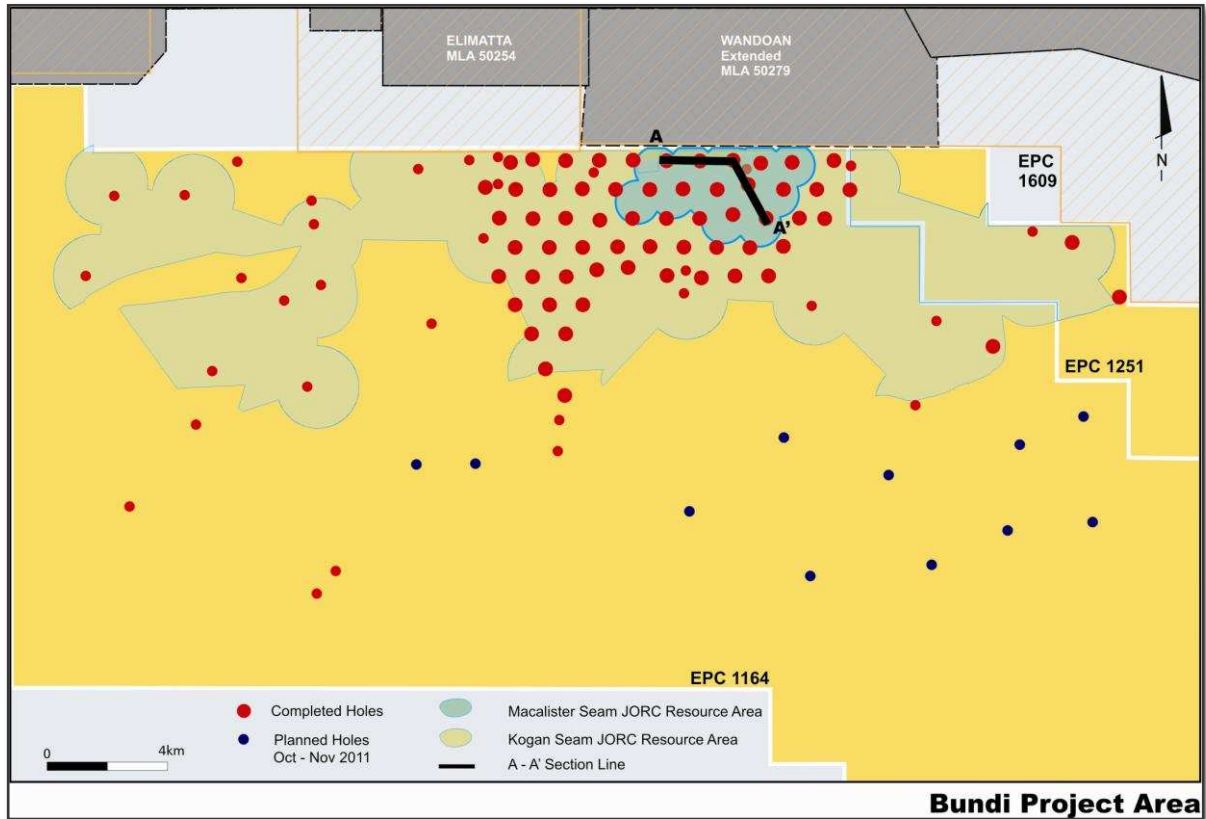
EXPLORATION & EVALUATION

Bundi Project

During the September quarter, MTE completed its 2011 infill drilling program at EPC 1164 & EPC 1251 (Bundi Project) with 60 holes drilled (refer to Figure 3). The holes were cored from the base of the Springbok Sandstone through the Macalister coal measures providing both structural and quality information. Inclusion of these holes in the geological model together with the coal quality analysis results from these boreholes is expected to reclassify the Resource in the area drilled from inferred to **Indicated Resource category**.

Coal quality data collection is progressing with all core samples now with the coal laboratories awaiting analysis. Laboratory results received to date confirm the expected raw coal qualities with further work to be undertaken to assess yield and washability.

Figure 3

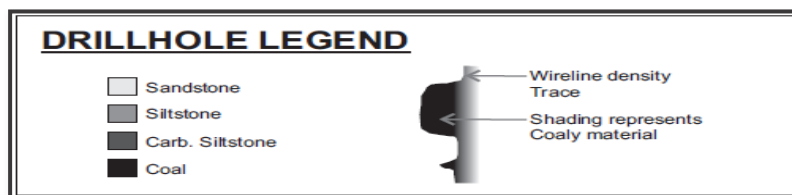
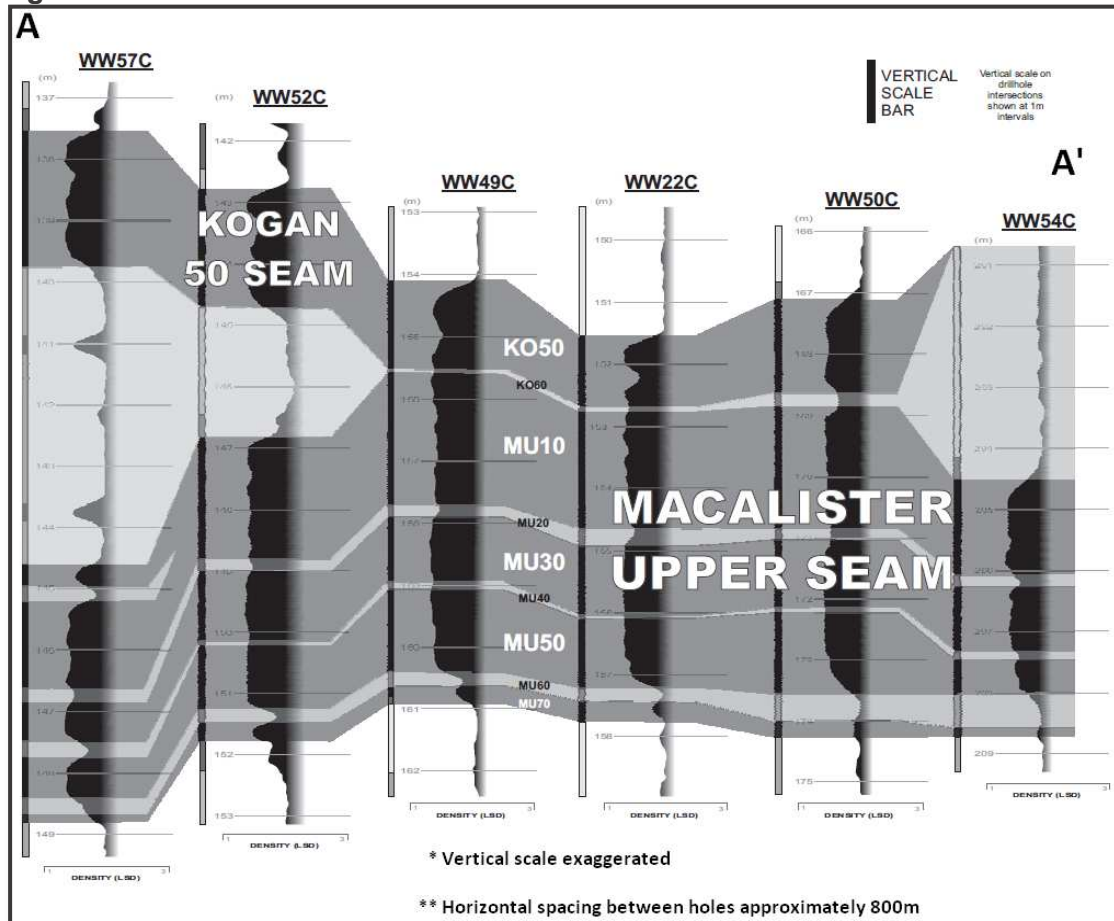


Having completed the infill drilling program drilling is continuing to increase our understanding in the areas outside the immediate Bundi project area. The boreholes are being drilled on a wide spaced 3.2km offset grid. A further 11 holes are planned for completion by late October 2011, bringing the total holes drilled to over 70. The result of this wide spaced drilling is expected to significantly expand the Bundi Inferred Resource area.

A conceptual level mining study has commenced and is focusing on the potential mining area identified by the infill drilling. The conceptual study process will identify the optimal mining method, generate initial mine plans and will be followed by the mining prefeasibility study. This planning process is the first step towards mine development and moves the project towards a definitive feasibility study.

The diagram (Figure 4) below shows a promising area adjacent to the proposed (Xstrata) Wandoan open pit mine where the Kogan (KO) seam coalesces with the Macalister Upper (MU), creating a combined potential working section of up to 7.0m. The distance covered by the schematic section in Figure 4 is some 4km long. The Vertical scale showing seam thickness is exaggerated. The conceptual mining studies will investigate opportunities to best exploit this attractive area.

Figure 4



E3 Consulting Australia Pty Ltd has been appointed to carry out Stage 1 (Preliminary Assessment) of the Environmental Impact Statement

Columboola JV Project

Following the announcement of the maiden Inferred Resource for the Columboola JV Project in the Surat Basin of 540Mt, the focus returned to the continuation of the 2011 drilling program. The JV is targeting the down dip extensions of the coal seams that make up the large Cameby Downs thermal coal deposit currently being mined by Syntech Pty Ltd and targeting thermal coal suitable for the export market at depths amenable to underground mining

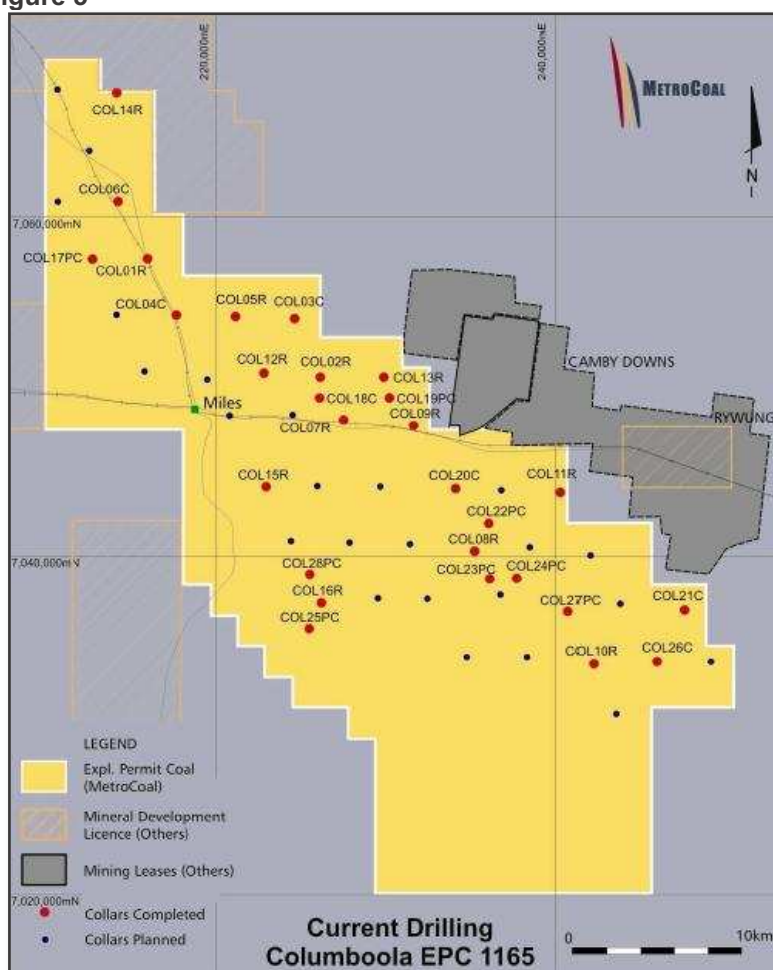
Drilling to date has identified four (4) coal packages that have sufficient thickness, continuity and correlation to pursue further for possible underground mining. They are the known as the Kogan, Macalister, Bulwer and Condamine Seam Packages. Significant coal has been intersected with hole COL20C (see diagram below) preliminary seam picks indicating a Macalister Seam package of 5.1m from 122.2m and Condamine Seam package 5.6m thick from 400.2m depth. All samples from the holes completed are now with external laboratories for coal quality testing. When this testing is completed the geological model will be updated in preparation for a future resource estimate.

Figure 5

The drilling program is completing holes of 500m depth in order to maximise our knowledge of the deeper coal seams and optimise mine planning. Significant work and time is required to complete these holes. Land access was delayed due to the large number of land owners and the complexity of the new legislation. Landowner relationships are sound and access requirements have been resolved.

We now have four drilling companies on site – DEPCO, Lennard Drilling, United Drilling Services and Burton’s Drilling.

Drilling is now concentrating in the southern half of the EPC (see Figure 5). The drilling program’s efficiency will also be improved with the addition of a fourth rig to carry out the preparatory work and allow larger rigs to complete the deeper drilling.



Dalby West Project

The objective of the drilling program at Dalby West is to complete three boreholes that correlate a number of coal seam gas wells in the area. By linking previous borehole data, there is the potential for significant coal tonnes to be established on an inferred basis.

Drilling started in early August with the completion of the first borehole by mid-month. This was followed by a short break due to weather and re-commencement of drilling mid-September to complete the second borehole by that month’s end.

Geophysical logging results for the second borehole show two significant intersections of coal approximately 2.5m each at 255m and 288m, respectively. The third borehole is to be completed as soon as weather permits.

Highlights

- 1st hole, DWP09, showed excellent results with 3.5m of coal at 175m and 5.5m of coal at 202m.
- 2nd hole, DWP012R completed with two 2.5m intersections at 255m and 288m.
- 3rd hole to be completed in approximately 2 weeks dependant on weather.
- Modelling has commenced with data collected with objective of producing a resource.

CORPORATE STRATEGY

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

Based on the geological information from the historic drilling programs and its own drilling results, MetroCoal has an Exploration Target defining between 2 and 3.5 billion tonnes by December 2011*.



**The potential quantity and grade is conceptual in nature, and that there has been insufficient exploration to define a Mineral Resource or ore Reserve and that it is uncertain if further exploration will result in the determination of a Mineral Resource or ore Reserve.*

TENEMENT SCHEDULE

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

Competent Person Statement

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



REGISTERED OFFICE

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Appendix 5B

Mining exploration entity quarterly report

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

Name of entity

METROCOAL LIMITED

ABN

45 117 763 443

Quarter ended ("current quarter")

30/09/2011

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from product sales and related debtors	0	0
1.2 Payments for (a) exploration & evaluation	(3,511)	(3,511)
(b) development	0	0
(c) production	0	0
(d) administration	(539)	(539)
1.3 Dividends received	0	0
1.4 Interest and other items of a similar nature received	97	97
1.5 Interest and other costs of finance paid	0	0
1.6 Income taxes paid and GST refunded	138	138
1.7 Other (provide details if material)	0	0
Net Operating Cash Flows	(3,815)	(3,815)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects		
(b) equity investments	(1,779)	(1,779)
(c) other fixed assets	(51)	(51)
1.9 Proceeds from sale of: (a) prospects	0	0
(b) equity investments	0	0
(c) other fixed assets	0	0
1.10 Loans to other entities	0	0
1.11 Loans repaid by other entities	0	0
1.12 Other (provide details if material)	0	0
Net investing cash flows	(1,830)	(1,830)
1.13 Total operating and investing cash flows (carried forward)	(5,645)	(5,645)
1.13 Total operating and investing cash flows (brought forward)	(5,645)	(5,645)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	2,412	2,412
1.15	Proceeds from sale of forfeited shares	0	0
1.16	Proceeds from borrowings	0	0
1.17	Repayment of borrowings	0	0
1.18	Dividends paid	0	0
1.19	Other (provide details if material) - Issue costs	(207)	(207)
Net financing cash flows		2,205	2,205
Net increase (decrease) in cash held		(3,440)	(3,440)
1.20	Cash at beginning of quarter/year to date	11,581	11,581
1.21	Exchange rate adjustments to item 1.20	0	0
1.22	Cash at end of quarter	8,141	8,141

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

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	41
1.24	Aggregate amount of loans to the parties included in item 1.10	Nil

1.25 Explanation necessary for an understanding of the transactions

Directors' Fees

Non-cash financing and investing activities

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

Nil

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

Nil

Financing facilities available

Add notes as necessary for an understanding of the position.

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

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	2,700,000
4.2 Development	0
4.3 Production	0
4.4 Administration	300,000
Total	3,000,000

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	2,141	2,141
5.2 Deposits at call	6,000	6,000
5.3 Bank overdraft	0	0
5.4 Other (provide details)	0	0
Total: cash at end of quarter (item 1.22)	8,141	8,141

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	EPCA 2539	Application Abandoned	100%	0%

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

6.2	Interests in mining tenements acquired or increased	EPCA 2786	Application Lodged	0%	100%
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Issued and quoted securities at end of current quarter

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

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference securities <i>(description)</i>	--	--	--
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	--	--	--
7.3	*Ordinary securities	179,933,663	179,933,663	
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	50,000 3,200,000	50,000 3,200,000	0.25 0.75
7.5	*Convertible debt securities <i>(description)</i>	--	--	--
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	--	--	--
7.7	Options <i>(description and conversion factor)</i>		<i>Exercise price</i>	<i>Expiry date</i>
	5,700,000 unlisted options		25 cents	4 December 2012
	500,000 unlisted options		25 cents	4 December 2014
	3,250,000 unlisted options		40 cents	19 November 2013
	750,000 unlisted options		50 cents	18 May 2014
7.8	Issued during quarter			

+ See chapter 19 for defined terms.

7.9	Exercised during quarter	50,000 unlisted options	--	25 cents	4 December 2012
7.10	Expired during quarter	--	--	--	--
7.11	Debentures <i>(totals only)</i>	--	--		
7.12	Unsecured notes <i>(totals only)</i>	--	--		

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here:
(Company secretary)

Date: 26 October 2011

Print name: JOHN HALEY

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

+ See chapter 19 for defined terms.