ASX ANNOUNCEMENT

6 September 2012

Positive Results for Bundi Project Scoping Study

Highlights

- **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**

All amounts are A$ unless otherwise specified

Summary

MetroCoal Ltd (ASX: MTE) is pleased to announce the completion of its scoping study for the Surat Basin Bundi Thermal Coal Project. 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 has been carried out by GeoConsult Pty Limited (GeoConsult).

The primary objective of the scoping study was to investigate the viability of longwall mining and the washability of the mining section and assess the fundamental economics of the project. The project will also require the construction of the Surat Basin Railway and access to export capacity at a coal terminal in the Port of Gladstone.

"Completion of the scoping study for the Bundi Project is the culmination of many months of technical evaluation. We are very pleased that the results confirm the project is financially viable. Work will now continue on environmental approvals and preparation of a pre-feasibility study," MetroCoal CEO Mike O'Brien said.

International coal prices are currently depressed and this coupled with the strong Australian dollar has resulted in a drop in the Australian dollar price of coal. Long term demand for coal is however forecast to continue to grow driven by increasing energy requirements in India, China and other Asian countries. Australia is widely expected to play a significant role in meeting this demand and coal prices are expected to increase in response to increased demand. The economic modelling is also based on 100% equity financing.

In the economic modelling the price forecasts from two commercial institutions, Credit Suisse and Wood Mackenzie, have been 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 pay back 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 pay back 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.

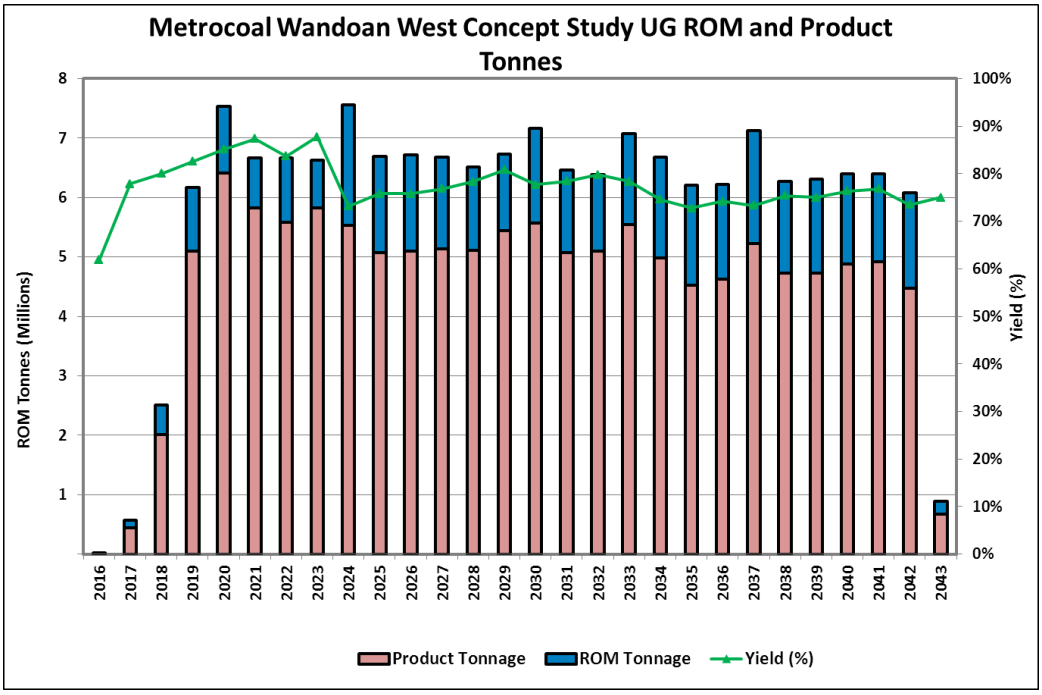
The project has not been confirmed to be economic because there are no defined ore reserves.

All capital and operating costs are quoted in mid 2012 Australian dollars.

Project Schedule

The scoping study assumes construction commences mid-2015, with first development coal at the end of 2016. Longwall installation is scheduled for 2018 reaching full production in 2019. Bar charts showing the production schedule over the mine life are shown below.

Table 1

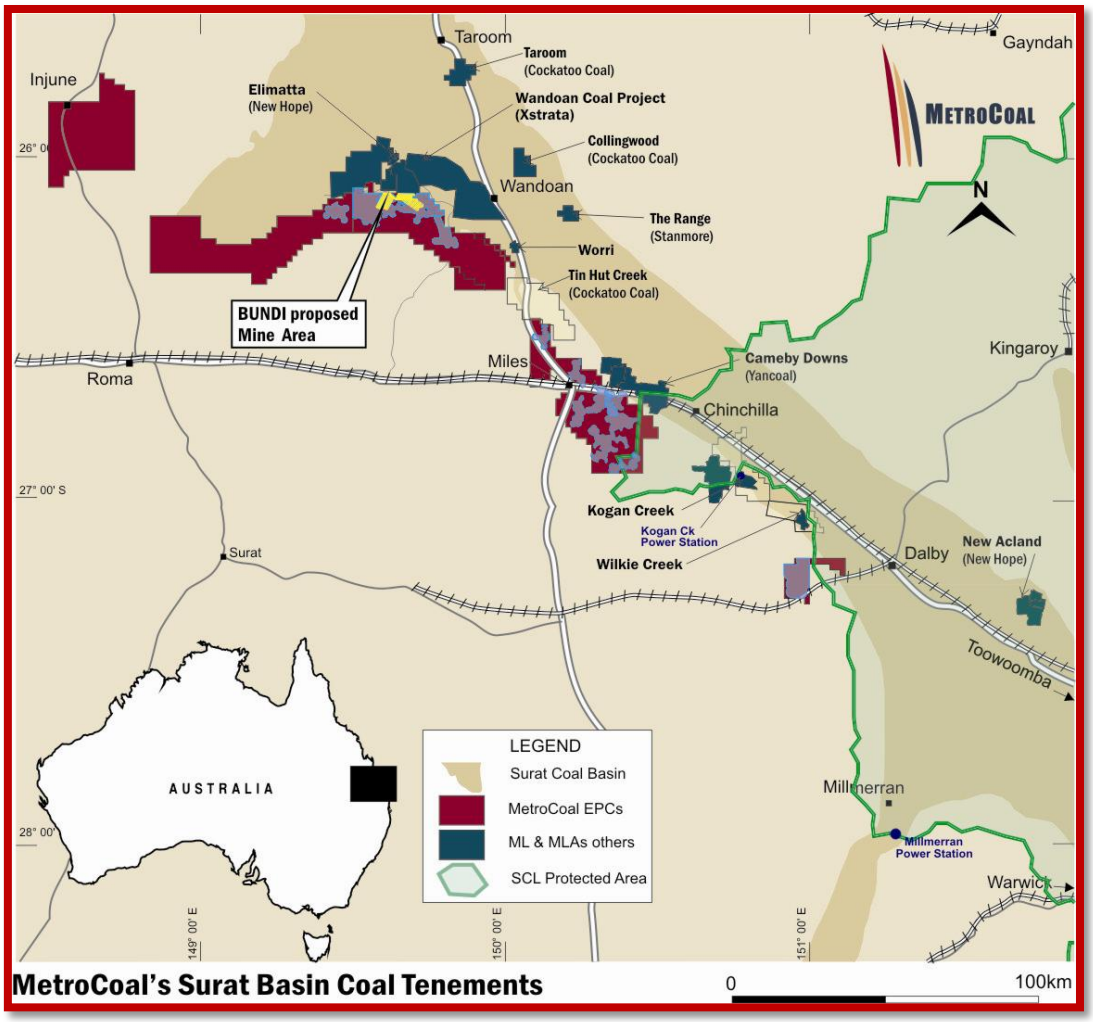


The Bundi mining area is down dip of proposed major opencast mines and the project schedule is predicated on the completion of rail and other infrastructure required in the region by early 2017. The project will also require port capacity in 2018.

Location and Geology

The Bundi Project is situated in the vicinity of the town of Wandoan in Central Queensland, Australia, in the Surat Basin coalfield. The proposed mining area is located in the northern part of EPC1164, including several sub-blocks from the adjoining EPC1251 and EPC1609. It is focused on the down-dip extensions of the Kogan and Macalister Seams immediately south of Xstrata Coal's proposed Wandoan Open Cut Mine development and New Hope Coal's proposed Elimatta Mine.

Figure 1



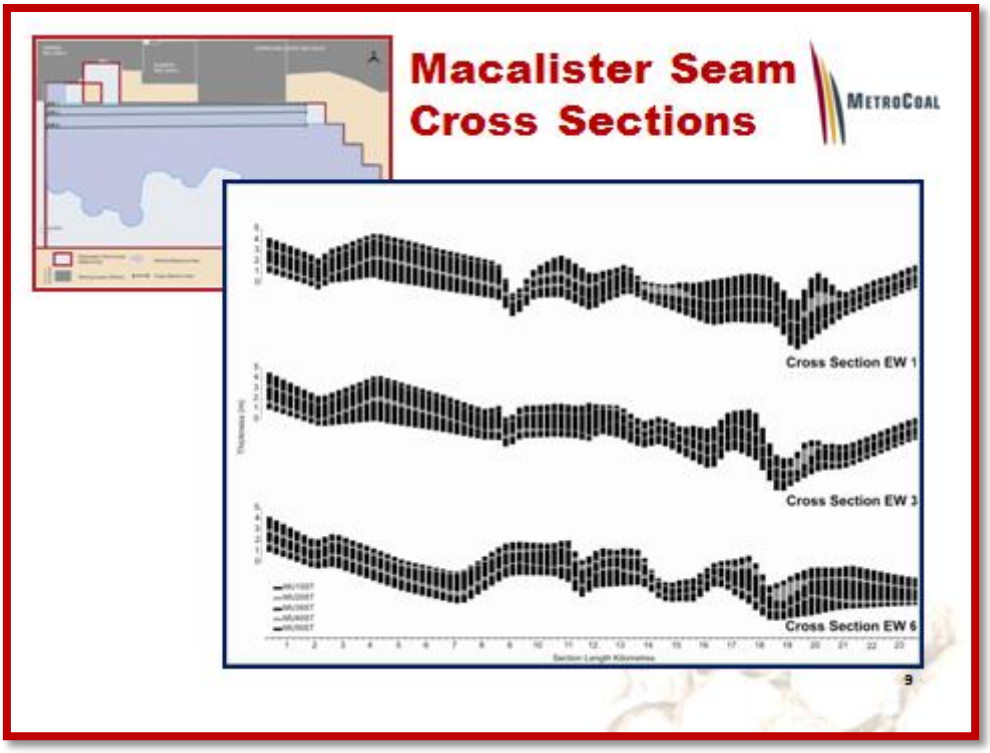
Surface topography is generally flat, with slight undulations across the project area. Geological modelling indicated that with the depth of cover (DOC) of the seams generally increasing with seam dip towards the south-east. The majority of the coal is at less than 300m below surface with seam thicknesses ranging from 1.8 metres (m) to 5.7m. General seam dip for the area is considered flat with the seams generally dipping at approximately 1 degree towards the south-east and localised variation in seam dip noticed with values up to 4.5 degrees. A separate report indicated that the coal seams within the Wandoan project area are not known to contain high volumes of seam gas, with the Macalister Seam gas data indicating an average content of approximately 0.8 cubic metres per tonne (m^3/t).

Mining

The nature of the coal in the Bundi Project area supports underground mining techniques due to the depth of cover and with current information available indicating favourable, benign geological conditions. Interpretation of current exploration and tests indicate the target seam (the Macalister Upper (MU) Seam), to be low in gas, with indications of no major faults, dykes or intrusions in the area within the mineralisation. As reported by MCS during the desktop studies, a conventional retreat longwall technique will provide the most cost-effective method of extracting coal. Analysis of the geological data supplied by GeoConsult also indicated the MU Seam to be the target mining seam, largely based on seam thickness and coal quality. The MU seam consists of three coal layers, the MU10, MU30 and MU50 separated by coal interburdens, the MU20 and MU40. Cut-offs were applied to the grid to selectively include or exclude areas based on a minimum seam thickness of 2.5m and maximum ash of 35%. MCS combined the seam thickness and ash cut-off criteria to determine the areas of best quality and practical mining height within the project boundary.

The figure below illustrates the Macalister seam cross section over the northern portion of the Bundi Project area.

Figure 2



MCS developed a conceptual mine layout within these target areas based on the longwall method of mining. The relatively shallow depth of cover at the northern part of the mining area allows mine access by box cut and dual drifts for coal clearance and men and materials.

A longwall face width was assumed for the purpose of this study to be 350m which is typical of new longwall systems currently introduced in Australia but less than the maximum achievable values of up to 450m.

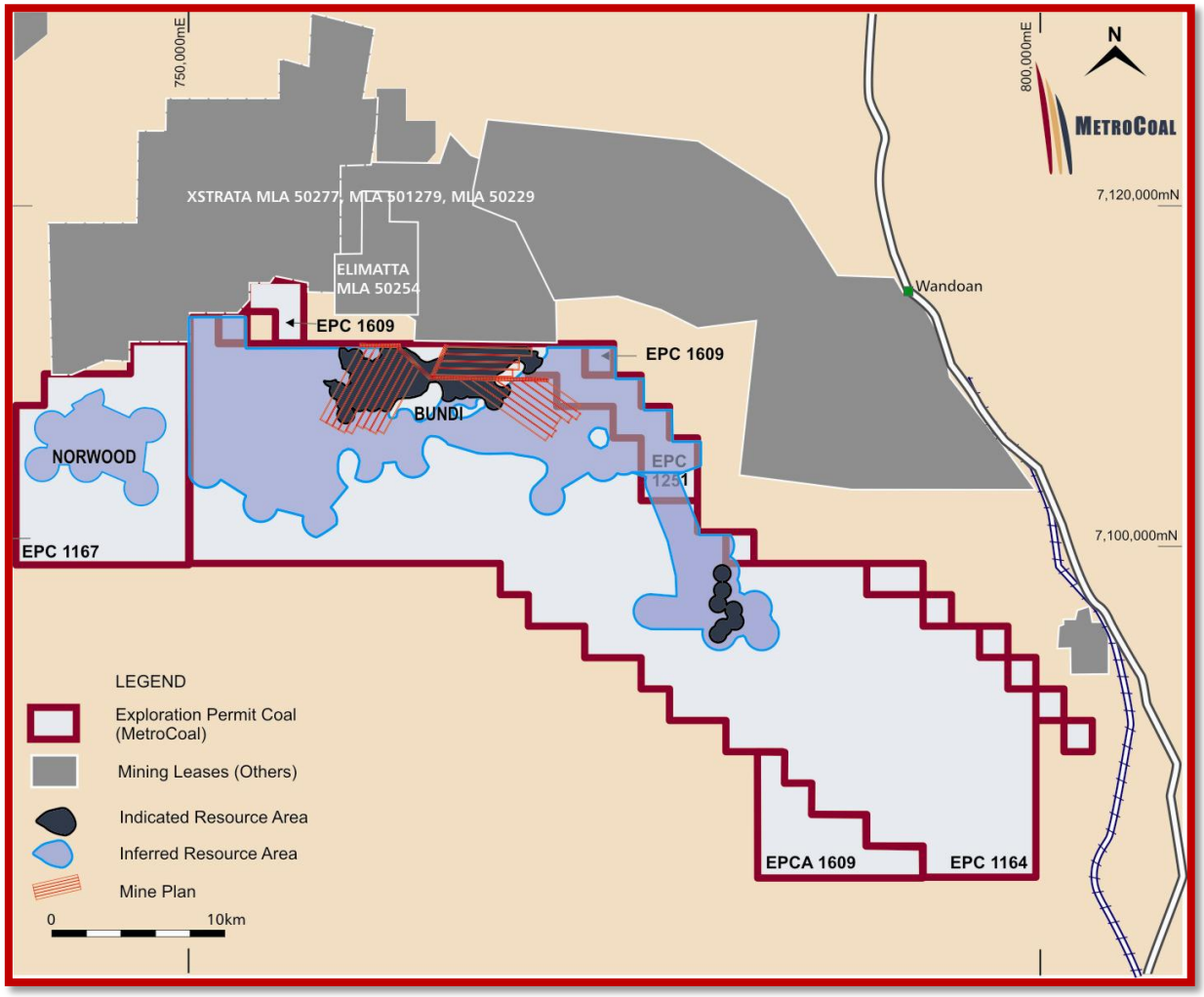
A number of longwall cutting height ranges were analysed to determine the best recovery and CV values per tonne of coal cut. Consideration of selective mining of the three coal plies (MU10, MU30 and MU50) was also incorporated to ensure consistency of product resulting in the mining horizons indicated in the table below.

Table 2

Mining Horizon	Height (m)		
	Min	Max	Ave
Development	2.80	3.50	3.17
Longwall	2.75	3.65	3.30

The conceptual mine design is outlined in the figure below and is expected to be refined in the prefeasibility study based on further technical analysis and additional geological information.

Figure 3



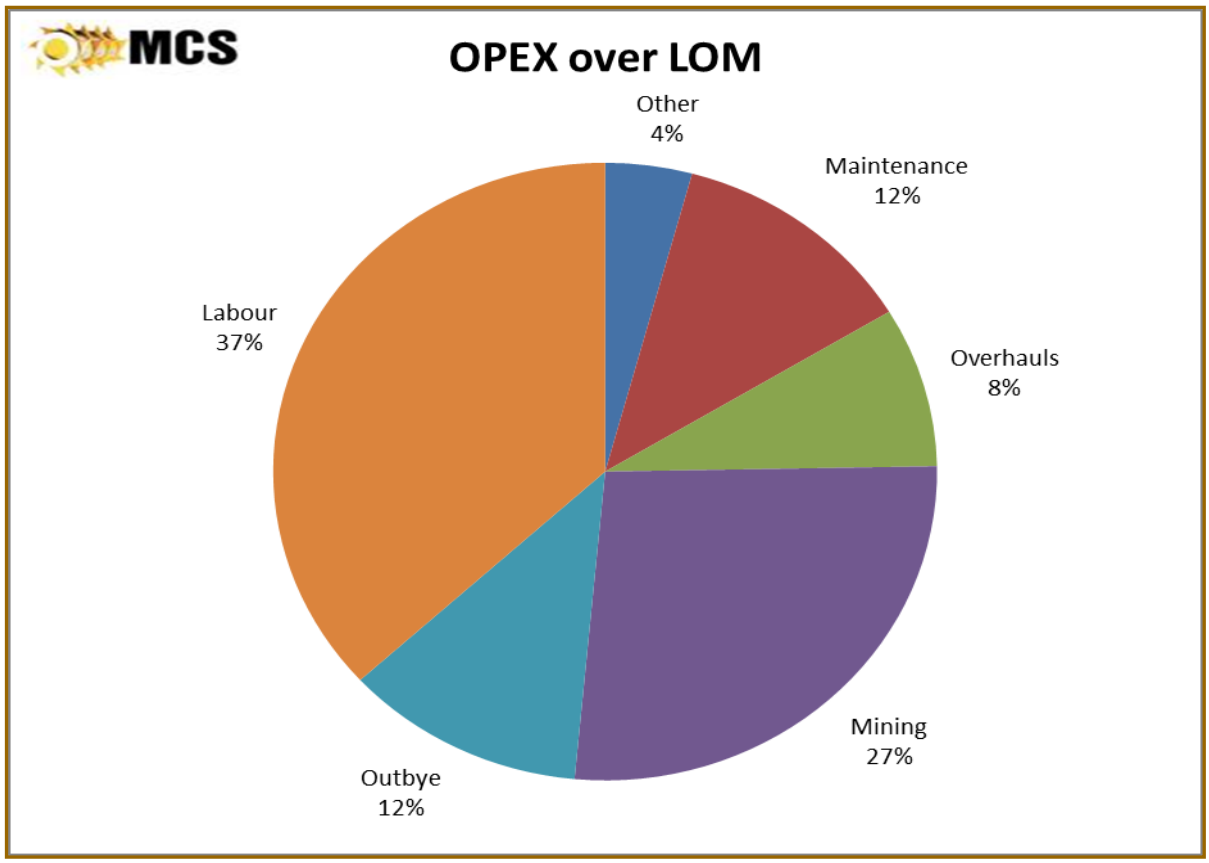
Productivity in line with accepted industry performance was used in the modelling. These assumptions and other high-level inputs used in the Bundi XPAC model to determine the life-of-mine schedule, e.g. drift driveage rate, longwall face move time etc., were based on MCS's experience and database from previous projects and operational experience of typical underground longwall mines in Australia.

Total mine production averages 6.6 Million ROM tonnes per annum once steady-state operations are reached. A total of 163.3 million ROM tonnes are extracted over the mine life.

Project capital to construct and establish the underground mine and selected associated infrastructure on surface directly related to the underground operations was estimated at approximately $662million excluding geographic expansion expenditure. Expansion Capital over the life of the mine (largely made up of geographical expansion at approximately $10 Million per annum) has been included in the economic model.

The total average operating cost over the life of the project, i.e. working cost and labour cost, was modelled at $23.45 per ROM tonne. This was calculated by incorporating fixed and variable cost drivers providing expenditures based on mine and services activities and production unit initiation as per the mining schedule. An analysis of the cost categories indicated that labour costs account for the majority of overall operating cost, while mining costs account for significantly more than other non-labour working costs – this is illustrated in the pie-chart below.

Table 3



Coal Preparation and Quality

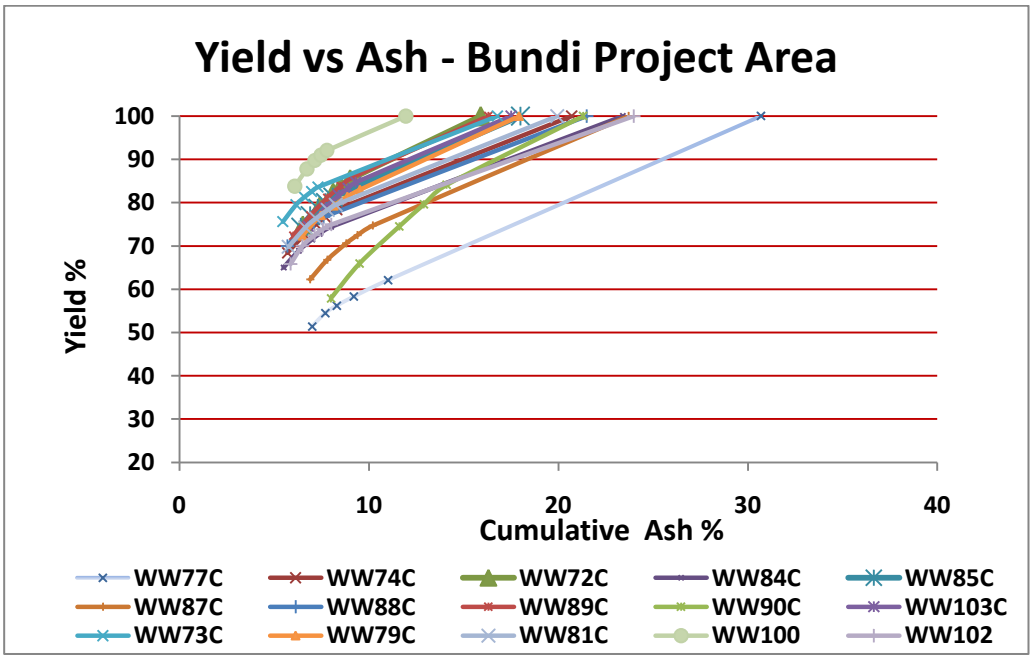
The CHPP proposed by Sedgman provides a reliable robust design consistent with a concept level of engineering to account for the outlined design criteria. The design will achieve high process efficiency and control stability, which will ensure the yield is optimized and operating costs are minimized. The Sedgman CHPP design will provide a safe and user-friendly working environment and will facilitate ease of access for all construction, operating and maintenance personnel.

The capital estimate for the Bundi CHPP was determined to be approximately $298 million (including contingency) with an order of magnitude level accuracy of -5/+20%.

The available washability information indicated that a target ash of approximately 10% was possible when washing at a cut point of 1.60sg. The average product ash from all the washability data was 10.1% with a corresponding yield of 81% (as). It must be noted that due to the small amount of data and the unknown weighting of each ply to this average, it is not possible to determine an average.

The average yield derived from the mine plan is 78%. The plot below showing the yield versus ash curve for 12 boreholes illustrates the washing characteristics of the proposed mining section. Further studies including large diameter core analysis is underway and results from this additional work will be incorporated in the prefeasibility study

Table 4



The suggested coal quality is shown in the table below

Table 5

Bundi Suggested Quality	
ASH % AD	**10%**
Moisture % AD	**9%**
Total Moisture %	**15%**
CV GAD	**6300 kcal/kg**
CV GAR	**5885 kcal/kg**

Manpower

Personnel requirements over the project life indicating a peak labour requirement of 358 during the period when three continuous miner units and the longwall are operating in the mining schedule. This excludes labour required for construction.

Table 6

Category	Year						
	0	1	2	3 to 5	6 to 15	16 to 27	28
Mine	65	218	262	310	266	222	161
CHPP	12	28	28	28	28	28	28
Other	5	10	15	20	20	20	20
Total	77	256	305	358	314	270	209

Infrastructure and Transportation.

The location of mine surface infrastructure, including the coal wash plant, is expected to be at or near the underground access drift. From there the washed coal will be transported to a rail load out and railed to the Port of Gladstone. Options for the rail load out include construction of the rail load out on site with a rail connection to the Surat Basin Railway rail link or a shared rail load out with the Elimatta project. Contractual arrangements for the allocation of capacity on both rail and port are being progressed with the relevant infrastructure organisations.
The Surat Basin Railway (SBR) will be required to connect the Surat Basin coal mines to the QR National rail at Banana. The Surat Basin Rail Joint Venture has the sole mandate to construct the railway and, according to information in the SBR website construction is scheduled to start in 2012. MetroCoal expects that the Bundi project will be an expansion customer of the SBR.

In 2011 MetroCoal acquired a 20% share in Tenement to Terminal Limited (3TL) and secured a priority allocation for capacity up to 11.4 million tonnes per year. Subject to 3TL obtaining the necessary approvals this provides the Bundi project with a clear path to terminal capacity.
Total rail and port costs are estimated at $37.80 per tonne.

Conclusion

The key focus for MetroCoal over the previous three years has been to have a greater understanding of the geology and mineability of its Surat Basin Projects. The Bundi Project Scoping Study has delivered significant independent information that confirms the technical viability of longwall mining in the Surat Basin. This, together with the positive project costings, provides MetroCoal with the confidence to proceed to a prefeasibility study.

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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 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Ed Radley has consented in writing for inclusion in this announcement the matters based on the information in the form and context it appears.