

WARATAH COAL INC.
(formerly Eaglestar Ventures Inc.)
(an Exploration Stage Company)
CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)

YEAR ENDED DECEMBER 31, 2007
SIX-MONTH PERIOD ENDED DECEMBER 31, 2006

AUDITORS' REPORT

To the Shareholders of
Waratah Coal Inc.

We have audited the consolidated balance sheets of Waratah Coal Inc. as at December 31, 2007 and 2006 and the consolidated statements of operations, shareholders' equity and cash flows for the year ended December 31, 2007 and six-month period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the year ended December 31, 2007 and six-month period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

The financial statements as at June 30, 2006 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated July 28, 2006.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, British Columbia
February 18, 2008 except as to Note 12(a)
which is as of March 6, 2008.

WARATAH COAL INC.
(formerly Eaglestar Ventures Inc.)
(an Exploration Stage Company)
Consolidated Balance Sheets
(Expressed in Canadian dollars)

	December 31, 2007	December 31, 2006 (Note 14)	June 30, 2006
ASSETS			
Current			
Cash and cash equivalents	\$5,772,970	\$2,772,144	\$146,897
Receivables	224,709	-	7,085
Other current assets	568	-	-
Total current assets	5,998,247	2,772,144	153,982
Deposits	27,851	195,919	-
Equipment (Note 7)	51,336	3,394	3,638
Investment in and expenditures on mineral properties (Note 6)	4,116,083	260,947	116,692
Total assets	\$10,193,517	\$3,232,404	\$274,312

LIABILITIES AND SHAREHOLDERS' EQUITY

Current			
Accounts payable and accrued liabilities	\$327,896	\$38,292	\$34,495
Due to related parties (Note 9)	13,229	2,451	50,014
Total current liabilities	341,125	40,743	84,509
Shareholders' equity			
Capital stock (Note 8)	13,201,690	5,063,107	230,579
Contributed surplus	2,075,568	929,244	-
Currency translation adjustment	-	39,561	(13,594)
Accumulated other comprehensive loss	(464,553)	-	-
Deficit	(4,960,313)	(2,840,251)	(27,182)
Total shareholders' equity	9,852,392	3,191,661	189,803
Total liabilities and shareholders' equity	\$10,193,517	\$3,232,404	\$274,312

Nature and continuance of operations (Note 1)

Subsequent events (Note 12)

Contingent liability (Note 13)

On behalf of the Board:

signed "Peter Lynch"
Peter Lynch, Director

signed "Nick Mather"
Nick Mather, Director

The accompanying notes are an integral part of these consolidated financial statements.

WARATAH COAL INC.
(formerly Eaglestar Ventures Inc.)
(an Exploration Stage Company)
Consolidated Statements of Operations
(Expressed in Canadian dollars)

	Year ended December 31, 2007	Six months ended December 31, 2006 (Note 14)	Year ended June 30, 2006
EXPENSES			
Stock-based compensation (note 8(f))	\$1,045,289	\$850,210	\$-
Wages and benefits	437,252	61,314	-
Administration	291,337	51,897	26,599
Legal	161,233	71,595	-
Travel and conventions	159,035	26,602	-
Investor relations	125,708	-	-
Duties	58,701	-	-
Office	53,805	4,662	-
Rent	51,281	4,088	-
Marketing	37,282	1,017	-
Subscriptions	21,025	-	-
Amortization	5,751	661	-
Loss before other items	2,447,699	1,072,046	26,599
OTHER ITEMS			
Interest income	(256,174)	(7,775)	(1,537)
Foreign exchange (gain) loss	(71,463)	711	-
	(327,637)	(7,064)	(1,537)
Net loss for period	\$2,120,062	\$1,064,982	\$25,062
Loss per share	\$0.06	\$0.05	\$0.002
Weighted average number of common shares outstanding	35,270,377	20,362,940	13,009,550

The accompanying notes are an integral part of these consolidated financial statements.

WARATAH COAL INC.
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Consolidated Statements of Shareholders' Equity
(Expressed in Canadian dollars)

	Number of Shares	Capital Stock	Contributed Surplus	Currency Translations Adjustment	Deficit	Accumulated Other Comprehensive Loss	Total Shareholders Equity
Balance, June 30, 2005	11,493,982	\$43,767	\$-	\$-	\$(2,120)	\$-	\$41,647
Net loss for year					(25,062)		(25,062)
Unrealized foreign currency loss on translation of Common shares issued for cash				(13,594)			(13,594)
Private placement, net of share issue costs	5,699,884	186,812	-				186,812
Balance, June 30, 2006	17,193,866	230,579	-	(13,594)	(27,182)	-	189,803
Net loss for period					(1,064,982)		(1,064,982)
Unrealized foreign currency gain on translation of Common shares issued for cash				53,155			53,155
Private placement, net of share issue costs	1,648,727	150,290	-				150,290
Exercise of options	1,507,407	1,000	-				1,000
Shares of Eaglestar acquired on reverse takeover	5,150,000	286,914	-				286,914
Adjustment to increase capital of accounting parent on reverse takeover (note 4)	-	2,035,000	-				2,035,000
Adjustment to estimate capital of Eaglestar on reverse takeover (note 4)	-	(286,914)	-				(286,914)
Deficiency of net assets acquired (note 4)					(1,748,087)		(1,748,087)
Common shares issued for cash							
Exercise of options	500,000	50,000	-				50,000
Private placement, net of share issue costs	6,000,000	2,596,238	79,034				2,675,272
Stock-based compensation	-	-	850,210				850,210
Balance, December 31, 2006	32,000,000	5,063,107	929,244	39,561	(2,840,251)	-	3,191,661
Effect of accounting change (note 5(a))				(39,561)		39,561	-
	32,000,000	5,063,107	929,244	-	(2,840,251)	39,561	3,191,661
Net loss for year					(2,120,062)	-	(2,120,062)
Unrealized foreign currency loss on translation of Other comprehensive loss						(504,114)	(504,114)
					(2,120,062)	(464,553)	(2,624,176)
Common shares issued for cash	32,000,000	5,063,107	929,244	-	(4,960,313)	(464,553)	567,485
Exercise of placement warrants	940,500	705,375	-				705,375
Exercise of special payments warrants	1,250,000	-	-				-
Exercise of options	325,000	188,015	(68,015)				120,000
Private placement, net of share issue costs	5,000,000	7,245,193	169,050				7,414,243
Stock-based compensation	-	-	1,045,289				1,045,289
Balance, December 31, 2007	39,515,500	\$ 13,201,690	\$ 2,075,568	\$ -	\$(4,960,313)	\$(464,553)	\$ 9,852,392

The accompanying notes are an integral part of these consolidated financial statements.

WARATAH COAL INC.
(formerly Eaglestar Ventures Inc.)
(an Exploration Stage Company)
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Year ended December 31, 2007	Six months ended December 31, 2006 (Note 14)	Year ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for period	\$(2,120,062)	\$(1,064,982)	\$(25,062)
Items not affecting cash:			
Amortization	5,751	661	30
Stock-based compensation	1,045,289	850,210	-
Changes in non-cash working capital items			
Receivables	(237,029)	(95,203)	1,479
Other current assets	(594)	-	(6,327)
Advances and prepaid expenses	-	-	(2,052)
Accounts payable and accrued liabilities	74,808	2,797	18,832
Net cash used in operating activities	(1,231,837)	(306,517)	(13,100)
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures on mineral properties	(3,818,010)	(144,255)	(22,580)
Acquisition of equipment	(56,192)	(417)	(3,668)
Refund of deposit	162,412	-	-
Net cash used in investing activities	(3,711,790)	(144,672)	(26,248)
CASH FLOWS FROM FINANCING ACTIVITIES			
Advances from (repayments to) related parties	13,831	(47,563)	-
Issuance of shares, for cash	8,282,721	2,876,562	186,245
Net cash provided by financing activities	8,296,552	2,828,999	186,245
Effect of foreign currency on cash held by foreign subsidiary	(352,099)	53,155	-
Change in cash and cash equivalents during period	3,000,826	2,430,965	146,897
Cash in accounting subsidiary acquired (Note 4)	-	194,282	-
Cash and cash equivalents, beginning of period	2,772,144	146,897	-
Cash and cash equivalents, end of period	\$5,772,970	\$2,772,144	\$146,897
Supplemental disclosures with respect to cash flows			
Cash paid during the period for interest	\$-	\$-	\$-
Cash paid during the period for income taxes	\$-	\$-	\$-
Mineral property expenditures included in accounts payable and accrued liabilities	\$230,272	\$-	\$-
Issue of Agents warrants related to private placement	\$185,708	\$18,671	\$-
Issue of Finders warrants related to private placement	\$-	\$60,363	\$-

The accompanying notes are an integral part of these consolidated financial statements.

WARATAH COAL INC.
(formerly Eaglestar Ventures Inc.)
(an Exploration Stage Company)
Notes to the Consolidated Financial Statements
Year Ended December 31, 2007, Six Months Ended December 31, 2006 and
Year Ended June 30, 2006
(Expressed in Canadian dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Waratah Coal Inc. (formerly Eaglestar Ventures Inc.) (the "Company") was incorporated under the *Business Corporations Act* (British Columbia) on January 19, 2006. The Company was set up as a Capital Pool Corporation under Exchange Policy 2.4 of the TSX Venture Exchange (the "Exchange"), and was listed for trading on the Exchange on May 29, 2006. Following the closing of the transaction constituting its Qualifying Transaction under the Policies of the Exchange on December 7, 2006, and the change of the Company's name to Waratah Coal Inc. on December 5, 2006, the principal business activity of the Company became the exploration and development of mineral properties (note 4). To date, the Company has not earned revenues and is considered to be in the exploration stage.

2. GOING-CONCERN

These consolidated financial statements have been prepared on a going-concern basis in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company's continuing operations as intended are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going-concern.

There can be no assurance that the Company will be able to continue to raise funds, in which case the Company may be unable to meet its obligations. Should the Company be unable to discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheet.

	December 31, 2007	December 31, 2006	June 30, 2006
		(Note 14)	
Deficit	\$ (4,960,313)	\$ (2,840,251)	\$(27,182)
Working capital	\$ 5,657,122	\$ 2,731,401	\$69,473

3. SIGNIFICANT ACCOUNTING POLICIES

The Company's financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies adopted by the Company are as follows:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned integrated subsidiaries, Waratah Coal Pty Ltd., Fairway Coal Pty Ltd., Group Coal Pty Ltd., and Galilee Infrastructure Pty Ltd., all Australian corporations. All significant intercompany balances and transactions have been eliminated upon consolidation.

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Year Ended December 31, 2007, Six Months Ended December 31, 2006 and
Year Ended June 30, 2006
(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Cash and cash equivalents

The Company considers deposits that are highly liquid, convertible to known amounts of cash, redeemable on demand, and have original maturities of less than three months from the date purchased to be cash equivalents.

(c) Equipment

Equipment is carried at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives at the following annual rates:

Computer equipment	33.3%
Office furniture & equipment	10 - 25%

(d) Mineral properties

Costs related to the acquisition, exploration and development of mineral properties are capitalized by property until the commencement of commercial production. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse. If commercially profitable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized over the useful life using the unit-of-production method. All deferred mineral property expenditures are reviewed, at least annually, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. If, after management review, it is determined that capitalized acquisition, exploration and development costs are not recoverable over the estimated economic life of the property, the property is abandoned, or management deems there to be an impairment in value, the property is written down to its net realizable value.

The amounts shown for mineral properties are costs accumulated to date and do not necessarily represent present or future values.

(e) Asset retirement obligations

The Company recognizes an estimate of the liability associated with an asset retirement obligation ("ARO") in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a straight-line basis over the estimated life of the asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to operations in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. As at December 31, 2007 and 2006 and June 30, 2006, there were no material AROs.

WARATAH COAL INC.

(formerly Eaglestar Ventures Inc.)

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Notes to the Consolidated Financial Statements

Year Ended December 31, 2007, Six Months Ended December 31, 2006 and

Year Ended June 30, 2006

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Significant estimates include the rates of amortization of equipment, the recoverable amount of investments in and expenditures on mineral properties, the variables used to calculate the fair value of stock-based compensation, the fair value of asset retirement obligations, the determination of the valuation allowance for future income tax assets and the fair value of assets and liabilities in acquisition of the accounting subsidiary. While management believes the estimates are reasonable, actual results could differ from these estimates and could impact future results of operations and cash flows.

(g) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method for calculating diluted loss per share. However, diluted loss per share is not presented where the effects of various conversions and exercise of options and warrants would be anti-dilutive. Shares held in escrow, other than when their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

(h) Foreign currency translation

The Company's operations and activities are conducted principally in Australia; hence the Australian dollar is the functional currency. The Company translates financial statements into the functional currency as follows: non-monetary assets and liabilities are translated at historical rates and monetary assets and liabilities are translated at exchange rates in effect at the end of the period. Income statement accounts are translated at average rates for the period. Gains and losses from translation of foreign currency financial statements into the functional currency are included in current results of operations. Gains and losses resulting from foreign currency transactions are also included in current results of operations.

The Company's reporting currency is the Canadian dollar. The Company translates financial statements into the reporting currency as follows: assets and liabilities are translated at the rates of exchange on the balance sheet date, and revenues and expenses are translated at average rates of exchange during the period. The resulting translation adjustments are recorded and included as part of other comprehensive income (loss)(note 5(b)).

(i) Stock-based compensation

The Company accounts for stock-based compensation expense using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments. Under this standard, stock-based payments are recorded as an expense over the vesting period or when the awards or rights are granted, with a corresponding increase to contributed surplus. When stock options are exercised, the corresponding fair value is transferred from contributed surplus to capital stock.

WARATAH COAL INC.

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(an Exploration Stage Company)

Notes to the Consolidated Financial Statements

Year Ended December 31, 2007, Six Months Ended December 31, 2006 and

Year Ended June 30, 2006

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Income taxes

Future income taxes are recorded using the asset and liability method, whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts and their respective tax basis (temporary differences). Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

4. REVERSE TAKEOVER OF WARATAH COAL PTY LTD.

On December 7, 2006, the Company completed the acquisition of all the issued and outstanding common shares of Waratah Coal Pty Ltd. ("WCP") in exchange for common shares of the Company. Pursuant to the terms of the Acquisition Agreement entered into with WCP and its shareholders, the Company issued 20,350,000 common shares, 1,250,000 Payment Special Warrants and 5,000,000 Payment Warrants to acquire 20,350,000 WCP common shares, 1,250,000 WCP Special Options and 5,000,000 WCP Options.

The transaction constituted a Reverse Take-Over (the "RTO") of the Company by WCP under the policies of the Exchange. Upon completion of the transaction, the Company changed its name from Eaglestar Ventures Inc. to Waratah Coal Inc.

The acquisition of the shares of WCP has been accounted for as a reverse takeover transaction, whereby, the legal parent (the Company) is considered to have been acquired by the legal subsidiary, WCP. Capital stock represents the authorized and issued capital of the legal parent and the dollar amount of shareholders' equity is that of the legal subsidiary, the ongoing parent company. The consolidated statements of operations and cash flows represent the results of WCP for the six months ended December 31, 2006, the results of WCP for the 12 months ended June 30, 2006 and the results of the Company for the period from December 7, 2006 to December 31, 2006. All significant inter-company balances and transactions have been eliminated.

The purchase price allocation is as follows:

Purchase price	\$2,035,000
Fair market value of net assets acquired	
Cash	\$194,282
Accounts receivable	4,959
Other current assets	88,672
	<u>287,913</u>
Liabilities	(1,000)
	<u>286,913</u>
Deficiency, charged to consolidated deficit	1,748,087
	<u>\$2,035,000</u>

WARATAH COAL INC.

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Notes to the Consolidated Financial Statements**Year Ended December 31, 2007, Six Months Ended December 31, 2006 and****Year Ended June 30, 2006**

(Expressed in Canadian dollars)

4. REVERSE TAKEOVER OF WARATAH COAL PTY LTD. (Continued)

The operating results and cash flows of Eaglestar for the initial period from January 19, 2006 (incorporation) to December 6, 2006, prior to the reverse takeover, is as follows:

Statement of operations:

EXPENSES	
Stock-based compensation	\$42,728
Professional fees	22,318
Rent	17,500
Administrative	3,952
Regulatory and transfer agent fees	3,829
Loss before other item	(90,327)
OTHER ITEM	
Interest income	4,581
Net loss for the period	\$(85,746)

Statement of cash flows:

CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss for the period	\$(84,010)
Item not affecting cash:	
Stock-based compensation	42,734
Changes in non-cash working capital items	
Decrease in receivables	(7,751)
Increase in accounts payable and accrued liabilities	1,500
Net cash used in operating activities	(47,527)
CASH FLOWS FROM FINANCING ACTIVITIES	
Issuance of shares, for cash	415,000
Share issuance costs	(155,645)
Deferred financing costs	(17,546)
Net cash provided by financing activities	241,809
Change in cash and cash equivalents during the period	194,282
Cash and cash equivalents, beginning of period	-
Cash and cash equivalents, end of period	\$194,282

WARATAH COAL INC.

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Notes to the Consolidated Financial Statements

Year Ended December 31, 2007, Six Months Ended December 31, 2006 and

Year Ended June 30, 2006

(Expressed in Canadian dollars)

5. FINANCIAL INSTRUMENTS

(a) Financial instruments

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, "financial instruments - recognition and measurement", which establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The Company classifies its debt and investments into held-to-maturity, trading, or available-for-sale categories. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as available-for-sale. Held-to-maturity securities are recorded as either short-term or long-term on the balance sheet based on the contractual maturity date and are stated at amortized cost. Investments that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized in earnings.

Debt and investments not classified as held-to-maturity or as trading are classified as available-for-sale and carried at fair value, with the unrealized gains and losses, net of tax, included in the determination of other comprehensive income (loss) and reported in shareholders' equity.

On the date of adoption, the Company remeasured its financial assets and liabilities as appropriate. Any adjustment of the previous carrying amount is recognized as an adjustment of the balance of retained earnings at the beginning of the fiscal year, except when a financial asset is classified as available-for-sale.

(b) Comprehensive income (loss)

Effective January 1, 2007, the Company adopted the CICA Handbook Section 1530, "comprehensive income", which establishes standards for presentation and disclosure of comprehensive income. Comprehensive income (loss) is the overall change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders and includes foreign currency translation gains and losses of self-sustaining foreign subsidiaries. It is made up of net income and other comprehensive income (loss). The historical make up of net income has not changed. Other comprehensive income (loss) includes gains or losses, which GAAP requires to be recognized in a period, but excluded from net income for that period.

On the date of adoption, the Company adjusted the beginning balances of the "Cumulative Translation Adjustment" and "Accumulated Other Comprehensive Income (Loss)" accounts to reflect this change. Accordingly, the Company now reports other comprehensive income (loss) in the statement of shareholders' equity and includes the account "Accumulated Other Comprehensive Income (Loss)" in the shareholders' equity section of the consolidated balance sheet.

(c) Fair value

The carrying values of cash and cash equivalents, receivables, accounts payable and accrued liabilities and due to related parties approximate their fair values because of the short-term maturity of these financial instruments.

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Year Ended December 31, 2007, Six Months Ended December 31, 2006 and

Year Ended June 30, 2006

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5. FINANCIAL INSTRUMENTS (Continued)

(d) Credit risk

The Company's financial assets that are exposed to credit risk consist of cash and cash equivalents and receivables. This risk is minimized to the extent that cash and cash equivalents are placed with major financial institutions and receivables consists of accrued interest on deposits held with a financial institution.

(e) Currency risk

The Company is exposed to foreign currency fluctuations to the extent expenditures incurred by the Company are not denominated in Australian dollars. As at December 31, 2007, the Company had liabilities that require the Company to make payments in Canadian dollars. The Company's ability to make these payments to satisfy these liabilities will be affected by foreign currency rate fluctuations. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. As at December 31, 2007, the Company had cash on hand of \$291,931 (December 31, 2006 - \$224,274; June 30, 2006 - \$nil) held in Canadian funds.

6. MINERAL PROPERTIES

As at December 31, 2007, the Company had been granted 13 mineral tenements located in Queensland and New South Wales, Australia, and had submitted a further 19 tenement applications in Queensland and in the Northern Territory, Australia, all for the exploration of coal. Subsequent to December 31, 2007, a further two tenement applications in Queensland were granted.

The cumulative costs of the Company's interest in its mineral tenements are as follows:

	Year ended December 31, 2007	Six months ended December 31, 2006	Year ended June 30, 2006
Balance, beginning of period	\$260,947	\$116,692	\$29,442
Drilling	2,002,584	-	-
Geology	930,094	12,191	511
Wages and consultants	466,910	73,936	40,901
Tenement costs and property management	275,523	58,128	45,838
Travel	180,025	-	-
Expenditures for period	3,855,136	144,255	87,250
Balance, end of period	\$4,116,083	\$260,947	\$116,692

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Year Ended December 31, 2007, Six Months Ended December 31, 2006 and
Year Ended June 30, 2006
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6. MINERAL PROPERTIES (Continued)

The following exploration expenditures are required to be undertaken as a minimum retention for exploration permits but are not provided for at the balance sheet date. However, these amounts may be varied from time to time by negotiation or the arranging of farm-outs and possibly may be removed by surrender of title where further exploration is not justified.

	Not later than one year	Later than one year but not later than five years	Total
Exploration commitments	\$1,516,000	\$5,342,000	\$6,858,000

(a) Title to mineral property interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

(b) Realization of assets

The investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

(c) Environmental

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

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(Expressed in Canadian dollars)

7. EQUIPMENT

	Cost	December 31, 2007 Accumulated Amortization	Net Book Value	December 31, 2006 Net Book Value	June 30, 2006 Net Book Value
Computer equipment	\$44,334	\$6,005	\$38,329	\$3,394	\$3,638
Office furniture and equipment	13,266	259	13,007	-	-
Total	\$57,600	\$6,264	\$51,336	\$3,394	\$3,638

8. CAPITAL STOCK

(a) Authorized

Unlimited number of common shares without par value.

(b) Private placement

- (i) During July 2006, WCP completed a private placement of 1,648,727 common shares (or 1,750,000 pre-share consolidation common shares) at a price of \$0.859 to raise \$150,290.
- (ii) Concurrent with the closing of the Acquisition on December 7, 2006, the Company completed a non-brokered private placement of 5,000,000 units and a brokered private placement of 1,000,000 units, each unit at a price of \$0.50 for gross proceeds of \$3,000,000. Each unit comprised one common share and one half of one share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of \$0.75 per share for a period of 18 months.

The Company incurred financing costs comprised of:

- ~~///~~ Commissions of 6% of the gross proceeds placed under the brokered financing payable in cash to the agent.
- ~~///~~ The agent was granted 100,000 non-transferable Agents warrants entitling it to purchase 100,000 common shares at a price of \$0.75 per share, expiring on June 6, 2008.
- ~~///~~ Total finder's fees of \$141,400 were paid on a portion of the non-brokered financing, such that each finder received a payment of 7% of the gross proceeds placed by such finder under the non-brokered financing payable in cash.
- ~~///~~ The finder's were granted a total of 323,200 non-transferable finder's warrants entitling them to purchase 323,200 common shares in the amount of 8% of the total number of units placed by such finder in the non-brokered financing. The finder's warrants are exercisable at a price of \$0.75 per warrant and expire on June 6, 2008.

The closing of the financing formed part of the Company's Qualifying Transaction involving the acquisition of WCP.

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8. CAPITAL STOCK (Continued)

(b) Private placement (Continued)

- (iii) On August 9, 2007, the Company completed a brokered private placement of 5,000,000 units of the Company at a price of \$1.60 per unit for gross proceeds of \$8,000,000, each unit comprised one common share and one-half of one transferable common share purchase warrant. Each whole purchase warrant entitles the holder to acquire one additional common share at an exercise price of \$2.25 per common share until February 9, 2009.

The Offering was brokered by Jennings Capital Inc. (the "Agent"). The Agent received a cash commission of 6% of the gross proceeds of the Offering and 300,000 broker's warrants which had a fair value of \$169,050. Each broker's warrant entitles the holder to acquire one additional common share of the Company at an exercise price of \$1.60 per common share until February 9, 2009.

(c) Escrow shares

Pursuant to the acquisition agreement (note 4), the 20,350,000 common shares, 1,250,000 Special Payment Warrants and 5,000,000 Payment Warrants of the Company issued pursuant to the reverse takeover were placed in escrow. In accordance with the escrow agreement, the release of the securities is scheduled as follows:

- ~~10%~~ 10% of the common shares, and shares issued pursuant to the exercise of Special Payment Warrants and Payment Warrants were released on completion of the Acquisition; and
- ~~the remaining escrow shares will be released in six tranches of 15% every six months thereafter.~~

As at December 31, 2007, 14,400,015 (December 31, 2006 - 26,365,000; June 30, 2006 - nil) common shares were held in escrow.

(d) Share split and share consolidation

During July 2006, WCP split its issued capital stock on a 1,220 new common shares for one old basis. The authorized share capital remained unchanged. As a result of the share split, WCP's issued capital stock increased from 14,960 common shares to 18,250,000 common shares.

During October 2006, WCP consolidated its issued capital stock on a one old for 0.942 new basis. The authorized capital stock remained unchanged. As a result of the share consolidation, WCP's issued capital stock decreased from 20,000,000 common shares to 18,842,593 common shares.

The share split and share consolidation have been reflected retroactively. In addition, references to capital stock, options and warrants in these financial statements and all prior loss per share information were retroactively restated to give effect to the share split and share consolidation unless otherwise stated.

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(Expressed in Canadian dollars)

8. CAPITAL STOCK (Continued)**(e) Stock options**

The Company has a stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of five years.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of options	Weighted average exercise price
Outstanding, June 30, 2006 and 2005	-	\$ 0.00
Options of Eaglestar transferred on RTO	650,000	\$ 0.10
Granted to accounting parent principals	5,000,000	\$ 8.99
Exchanged for payment warrants on RTO (Note 4)	(5,000,000)	\$ (8.99)
Special options granted	1,250,000	\$ 0.00
Exchanged for Special Payment Warrants on RTO (Note 4)	(1,250,000)	\$ (0.00)
Granted	2,345,000	\$ 0.62
Exercised	(500,000)	\$ 0.10
Outstanding, December 31, 2006	2,495,000	\$ 0.59
Granted	2,250,000	\$ 1.64
Exercised	(325,000)	\$ (0.37)
Outstanding, December 31, 2007	4,420,000	\$ 1.14
Options exercisable, December 31, 2007	2,820,000	\$ 0.78

Stock options outstanding at December 31, 2007 are as follows:

	Number of options	Exercisable	Exercise price	Expiry date
Incentive options	1,970,000	1,970,000	\$ 0.60	December 7, 2011
Investor relations options	200,000	200,000	\$ 0.88	December 12, 2011
Incentive options	400,000	400,000	\$ 0.80	January 30, 2012
Incentive options	50,000	50,000	\$ 1.31	May 25, 2012
Incentive options	100,000	-	\$ 1.19	June 30, 2011
Incentive options	450,000	-	\$ 1.21	December 31, 2010
Incentive options	450,000	-	\$ 1.87	February 1, 2011
Incentive options	800,000	200,000	\$ 2.24	December 10, 2012
	4,420,000	2,820,000		

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During the year ended December 31, 2007, the Company granted 2,250,000 (December 31, 2006 - 2,145,000; June 30, 2006 - nil) incentive options with a fair value of \$873,448 (December 31, 2006 - \$833,670; June 30, 2006 - \$nil). During the period ended December 31, 2006, the Company granted 200,000 investor relations options that vest 25% every three months from the date of grant. These investor relations options had a fair value of \$171,841 (December 31, 2006 - \$16,540; Jun 30, 2006 - \$nil). Stock-based compensation expense would be allocated in the statement of operations as follows:

	Year ended December 31, 2007	Six months ended December 31, 2006	Year ended June 30, 2006
Wages and benefits	\$873,448	\$833,670	\$-
Investor relations	171,841	16,540	-
	\$1,045,289	\$850,210	\$-

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of incentive options, investor relations options and brokers warrants:

	Year ended December 31, 2007	Six months ended December 31, 2006	Year ended June 30, 2006
Risk-free interest rate	4.00%	3.79%	-
Expected life of options and warrants	4.24 years	5 years	-
Annualized volatility	100.02%	77.128%	-
Dividend rate	0.00%	0.00%	-

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Warrant transactions and the number of warrants outstanding are summarized as follows:

	Number of warrants	Weighted average exercise price
Outstanding, June 30, 2006 and 2005	-	\$ 0.00
Issued in exchange for accounting parent Special Options (Payment Special Warrants)(note 4)	1,250,000	\$ 0.00
Issued in exchange for cancellation of accounting parent options (Payment Warrants)(note 4)	5,000,000	\$ 0.50
Issued as part of financing	3,423,200	\$ 0.75
Outstanding, December 31, 2006	9,673,200	\$ 0.52
Issued	2,800,000	\$ 2.18
Exercised	(2,190,500)	\$ (0.32)
Outstanding, December 31, 2007	10,282,700	\$ 1.02
Warrants exercisable, December 31, 2007	10,282,700	\$ 1.02

Warrants outstanding at December 31, 2007 are as follows:

	Number of warrants	Exercise price	Expiry date
Payment warrants	5,000,000	\$ 0.50	December 6, 2008
Placement warrants	2,059,500	\$ 0.75	June 6, 2008
Finders warrants	323,200	\$ 0.75	June 6, 2008
Agents warrants	100,000	\$ 0.75	June 6, 2008
Placement warrants	2,500,000	\$ 2.25	February 9, 2009
Agent's warrants	300,000	\$ 1.60	February 9, 2009
	10,282,700		

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The Company incurred the following expenses (excluding director fees) with contractors and consulting firms that have associations with certain directors, officers and principal advisors:

	Year ended December 31, 2007	Six months ended December 31, 2006	Year ended June 30, 2006
Legal fees	\$93,705	\$73,612	\$-
Consulting fees	\$40,229	\$41,645	\$-
Accounting and administration fees	\$86,770	\$26,317	\$-
Investor relations fees	\$136,342	\$-	\$-
Options issued for investor relations fees	\$134,890	\$16,540	\$-
Rent	\$37,014	\$4,088	\$6,500

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

At December 31, 2007, the Company owed an amount of \$13,229 (December 31, 2006 - \$2,451; June 30, 2006 - \$40,901) to an entity associated with the Chief Financial Officer and a Principal Advisor to the Company for the payment of certain accounting and administration fees and legal fees.

10. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes as follows:

	Year ended December 31, 2007	Six months ended December 31, 2006	Year ended June 30, 2006
Expected income tax recovery	\$723,365	\$363,372	\$(8,521)
Temporary differences	(89,273)	22,160	-
Stock-based compensation	(356,653)	(290,092)	-
Unrecognized tax losses	(277,439)	(95,440)	8,521
Total income tax recovery	\$-	\$-	\$-

The significant components of the Company's future income tax assets are as follows:

	Year ended December 31, 2007	Six months ended December 31, 2006	Year ended June 30, 2006
Future income tax assets:			
Non-capital loss carry forwards	\$1,053,000	\$240,000	\$(2,120)
Mineral property deductions	23,000	23,000	(22,942)
	1,076,000	263,000	(25,062)
Tax rate	31%	34%	34%
Future income tax asset	333,560	89,420	(8,521)
Valuation allowance	(333,560)	(89,420)	8,521
Net future income tax assets	\$-	\$-	\$-

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10. INCOME TAXES (Continued)

The Company has available for deduction against future taxable income, non-capital losses of approximately \$73,000 for Canadian tax purposes. These losses if not utilized, will expire in 2026 to 2027. For Australian tax purposes, the Company has a further \$380,000 of losses available to be carried forward with no expiration date. Future tax benefits which may arise as a result of these non-capital losses have not been recognized in these financial statements and have been offset by a valuation allowance as it is more likely than not they will not be realized.

11. SEGMENTED INFORMATION

The Company has one reportable operating segment, which is the exploration and development of mineral properties in Australia. All the Company's assets are located in Australia.

12. SUBSEQUENT EVENTS

The following events occurred subsequent to December 31, 2007:

- (a) 711,000 warrants were exercised to purchase 711,000 common shares in the Company at a price of \$0.75, raising \$533,250.
- (b) Two mineral tenements were granted to the Company and an additional two applications had been submitted.
- (c) The Company entered into an agreement to lease office premises for a term of four years. Under this agreement the Company has provided a guarantee to the lessor of AUS \$215,160.

13. CONTINGENT LIABILITY

Waratah Coal Pty Ltd. has provided a guarantee for the fulfillment of a mining tenement obligation to the (NSW) Minister for Mineral Resources for the amount of \$17,182 (AUS \$20,000).

14. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current year's presentation.