

**WARATAH COAL INC.**  
**Management Discussion and Analysis**  
**(Form 51-102F1)**  
**For the year ended December 31, 2007**  
**Information as of March 7, 2008 unless otherwise stated**

**Note to Reader**

The following management discussion and analysis of the financial condition and results of operations of Waratah Coal Inc. (“Waratah” or the “Company”) should be read in conjunction with the Company’s annual audited financial statements for the year ended December 31, 2007, six months ended 31 December 2006, and year ended 30 June 2006, together with the notes thereto, as well as, the Companies previous financial and MD&A reports. The material herein, as of March 7, 2008 updates that information. These annual audited financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Quarterly financial statements are prepared by management on the same basis.

**Forward-Looking Information**

This discussion includes certain statements that may be deemed “forward-looking statements.” All statements in this discussion, other than statements of historical facts that address future production, reserve potential, exploration drilling, exploration activities and events or developments that the Company expects, are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, continued availability of capital and financing, and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements.

**Business of the Company**

*Overview*

Waratah is a mineral resource company focusing on the acquisition, exploration and development of coal deposits in Australia, where it has been granted 15 exploration licenses and has applications in progress for another 19 licenses. Waratah also plans to accelerate new project investigations, both within Australia and in the Australasian region. Global demand for both thermal and metallurgical coal has increased along with global economic growth and the increased application of clean-coal technology and Waratah is well-positioned to take advantage of these trends.

Waratah’s strategy is to build shareholder value through acquisition, exploration and development of coal projects in Australasia. This strategy has been developed by a synthesis of Waratah’s core skills in project evaluation, structured acquisition, exploration and project development and operations, an area where Waratah executives have significant experience.

Waratah believes that the following strategies will return significant value for shareholders:

- Most important is the application of high-volume, underground mining techniques to deep metallurgical coal resources. Waratah has a competitive edge in applying these techniques to underground coal exploration and development, given its executive experience in that area.

- Waratah believes it can build resource tonnage based on the identification of previously unrecognized metallurgical coals in an environment of growing demand.
- The Company also believes that continued high energy prices have increased the potential for a significant coal-to-liquids operation for one of its project areas.
- Waratah's exploration team is well-advanced in the search for new concealed and previously unidentified coal-bearing sedimentary basins. Queensland hosts examples of very large coal mines and resources such as Blair Athol and Wolfgang which exemplify this type of deposit in a concealed basin.

At present, Waratah is an exploration stage company with no producing properties and consequently has no current operating income cash flow or revenues. There is no assurance that a commercially viable mineral deposit exists on any of Waratah's properties.

### Exploration Update

Waratah currently has 15 granted coal exploration licenses, 14 in Queensland and one in New South Wales. In addition to the granted licenses the Company has another 19 coal exploration licenses under application - 16 in Queensland and three in the Northern Territory.

The 15 mineral tenements already granted to the Company are as follows:

State	Tenement Number	Tenement Name	Date of Grant
New South Wales	EL 6467	Nymboida	October 12, 2005
Queensland	EPC 994	Moah/Stanwell	August 4, 2006
Queensland	EPC 1015	Strathpine	January 22, 2007
Queensland	EPC 1029	Styx	April 20, 2006
Queensland	EPC 1039	Pocky Creek	March 9, 2007
Queensland	EPC 1040	Monkland	June 22, 2006
Queensland	EPC 1053	Alpha	August 30, 2007
Queensland	EPC 1056	Blair Athol	September 28, 2007
Queensland	EPC 1058	Fairlight	November 16, 2007
Queensland	EPC 1059	Cooktown	November 16, 2007
Queensland	EPC 1073	Bingaree	November 29, 2006
Queensland	EPC 1079	Alpha Extended	November 2, 2007
Queensland	EPC 1080	Laglan	November 2, 2007
Queensland	EPC 1183	Capella Project	January 14, 2008
Queensland	EPC 1184	Duaranga Project	January 14, 2008

The 19 mineral tenement applications currently held by the Company are as follows:

State	Tenement Number	Tenement Name	Date of Application
Queensland	EPCA 1074	Bingaree North	August 21, 2006
Queensland	EPCA 1105	Dingo Creek	November 1, 2006
Queensland	EPCA 1155	Jericho South	June 12, 2007
Queensland	EPCA 1156	Jericho	June 12, 2007
Queensland	EPCA 1157	Jericho North	June 12, 2007
Queensland	EPCA 1182	Back Creek	August 29, 2007
Queensland	EPCA 1186	Blackwater	September 3, 2007
Queensland	EPCA 1200	Belyando South	November 2, 2007
Queensland	EPCA 1212	Belyando North	January 2, 2008
Queensland	EPCA 1213	Belyando Central	January 2, 2008
Queensland	EPMA 16868	Alpha Four	September 7, 2007
Queensland	EPMA 16870	Alpha Three	September 7, 2007
Queensland	EPMA 16871	Alpha One	September 7, 2007
Queensland	EPMA 16872	Alpha Six	September 7, 2007
Queensland	EPMA 16873	Alpha Two	September 7, 2007
Queensland	EPMA 16874	Alpha Five	September 7, 2007
Northern Territory	EL 25463	Port Keats	July 14, 2006
Northern Territory	EL 25482	Port Keats North	July 17, 2006
Northern Territory	EL 25483	Mt Goodwin	July 17, 2006

### ***Summary of projects***

Set out below is a summary of Waratah's key exploration opportunities.

#### ***Galilee Basin - a major new province play***

Waratah has taken a large exploration position in the eastern Galilee Basin in central Queensland. The Company has four applications and five granted licenses, South Alpha, Pocky Creek, North Alpha, Alpha Extended and Laglan.

The Galilee Basin is attractive due to the presence of four relatively continuous seams dipping very gently to the west. The seams are reported to contain high quality thermal coal, low in sulphur and ash after washing. The Waratah license area surrounds an existing resource historically reported to contain 2.1 billion tonnes (Queensland Coals, 14th Edition, 2003, Department of Natural Resources and Mines).

The area is regarded as being structurally undisturbed and the high continuity of the seams indicates there is good potential to identify a very large resource of high quality thermal coal. Waratah believes the considerable tonnage potential in the area would warrant the development of high volume infrastructure which would be required to transport any product to the coal export facilities at Gladstone on the central Queensland coast.

Waratah recently announced an Inferred Resource of 2.145 Billion tonnes of thermal coal in EPC 1040 and 0.975 Billion tonnes of thermal coal in EPC 1053. The southern extension of the EPC 1053 resource

is currently being drilled and will extend west into EPC 1039 shortly. A third party currently holds a 2.1 Billion tonne resource between EPC 1040 and EPC 1053. EPC 1079 also flanks this resource to the west. The granting of these new EPC's will allow Waratah to track the extent of the known current resources, including the Hancock Prospecting P/L resource, further down dip. As current drilling indicates a benign structural environment with the coal seams dipping 0.5% to the west, Waratah believe that further resources at reasonable mining depths are highly likely.

With Waratah Coal now having a total of 5 EPC's granted which cover an area of 2,577km<sup>2</sup> in the Galilee Basin (and a further 4 applications pending), Waratah Coal is the largest resource tenure holder in this newest coal province of Australia.

Whilst Waratah continues to expand the known resource the company is also currently investigating options to develop this province to deliver world class tonnage production. This scoping study includes high volume rail and port options as well as "coal to oil" and domestic power generation options.

The five principal coal seams in the Alpha area are sub-bituminous high volatile perhydrous coals suitable for use as thermal coal and potentially liquefaction, gasification and other petrochemical applications. Historical open-hole or partially cored drill holes were drilled by a Shell Development Australia Pty Ltd and Western Mining Corporation Limited joint venture between 1974 and 1976, with one fully-cored hole drilled by Queensland Department of Mines in 1972. Waratah has drilled some 70 chip and partly cored holes to date on EPC's 1040 and 1053 and drilling continues with 5 rigs currently. A further 3 rigs will be deployed following the recent granting of EPC's 1079 and 1080.

#### *Styx and Nymboida - small scale, high value projects*

These projects have had coal mines closed over 25 years ago. They have coking coal properties and are close to existing infrastructure. New data provides an opportunity to discover new resources.

A program of 16 deep drill holes is proposed for the Styx Basin Project. The Styx Basin is located on the Central Queensland Coast, mid way between Mackay and Rockhampton. The project covers a structurally controlled sedimentary basin from which high energy cretaceous coals were mined until 1964. Government records show the existence of metallurgical properties in some of the seams. Previous coal and gas exploration has indicated aggregate coal seams up to 14 meters thick, including coal seams below the known mined levels. Waratah intends to explore for a target resource of metallurgical coal down dip of the old workings and in poorly-tested lower seams below existing mined seams. The potential to apply modern underground mining techniques and the location of the project on the main north - south rail line provide the Styx Basin with added attraction.

A scout program of 5 holes drilled in August 2007 failed to find any continuance of the thick coal exhibit in the gas exploration hole to the east of Ogmoo Village. It is possible that this intersection was fault or dip exaggerated. The program was curtailed by inclement weather and future drilling will now focus on areas to the north and south where historical data shows reasonable coal intersections.

In addition to the Styx Basin, Waratah holds an exploration license over the Nymboida Project, located 29km south west of the regional town of Grafton in NSW Australia. Like the Styx Basin project, Nymboida was an historic underground coal mine which was worked up until 1979 supplying high energy coal for a local power station. The operation was closed when the small-scale local power station was replaced by connection to the main state power grid. Mining operations at Nymboida were conducted on the Farquhar's Creek Seam which was recognized at the time as one of the highest energy coals in New South Wales, due to the coal's metallurgical properties.

In July 2007, Waratah announced positive results of the initial drilling program and coal quality analysis at its Nymboida Project. The enhanced potential for an underground coking coal mine at Nymboida supports Waratah's continuing evaluation of the project.

Based on the features of the Farquhar's Creek seam and the strata hosting it the Farquhar's Creek seam has potential develop to an underground plow operation. Modern longwall plow faces are being installed in China, USA, Russia, Czech Republic and Kazakhstan to exploit coal seams down to 0.65m thickness.

The Nymboida Coal Measures are located in the Clarence-Moreton Basin. The coal measures are early to mid Triassic Bowen Basin equivalents representing a southern extension of the South East Queensland Esk Trough system and consist of carbonaceous shales, conglomerates, sandstones and coal seams.

The company will now commit substantial funding to the testing of the resource potential of the Farquhar's Creek seam to the East and North of the historic mine in order to further extend the resource potential. A network of access tracks will be prepared which allows for testing of the coal bearing strata on a regional scale, and a substantial drilling program will follow.

#### *Strathpine - Surat Basin, Dawson Valley Rail*

This project has seen Jurassic steaming coal extracted at numerous mines nearby. It is a well known, environmentally acceptable coal type, containing high volatiles. Key points on previous work on this project include:

- 38m net coal to 100m depth in oil well "Strathpine #1".
- Coal starts at 15m just below oxidation.
- Coal is open along 8km strike and 5km dip "40km<sup>2</sup>".
- 25km to rail haul point to Brisbane and Gladstone.
- Long term planning for rail connection to Gladstone.
- Nearby producing steaming coal mines at Wilkie Creek produces from same coal seam (Macalister).

A program of 17 holes was initiated in August 2007. Initial holes probed the continuity of coal in the Strathpine-1 well. Such thicknesses of coal were not intersected and it is believed the density traces in the geophysics were reflecting those of carbonaceous silts. Drilling was then diverted to the western flank of the deposit where cumulative coal thicknesses up to 8m were confirmed at open cut depths. Drilling in 2008 will test the North - South extension of this coal.

#### *Bowen Basin - Bindaree and Bindaree North*

Recent drilling by a major gold company intersected two coal seams some thirty kilometers east of the previously accepted eastern edge of the coal bearing Bowen Basin sediments. The coal seams were intersected below a shallow volcanic cover which has masked their presence from previous discovery. The Coal seam overlays the Back Creek group which is recognized as the immediate underlying geological sequence of the valuable German Creek measures on the western edge of the Bowen Basin.

Waratah is designing a geological investigation program to test for the presence of economically viable coal measures below the volcanic cover representing a new definition of the eastern edge of the productive Bowen Basin. Bindaree covers exploration targets for high value coking and thermal coal in the lower Bowen Basin Coal Measures in an area that has previously been subject to very limited coal exploration. Importantly, the stratigraphic sequence targeted by Waratah also hosts significant coal seams along strike to the north which are currently the subject of exploration drill programs by major coal companies.

Research by Waratah has identified coal seams of up to 5m net thickness in mineral exploration drill holes. The type and quality of the coal is yet to be determined. The prospectivity of the area is further supported by the additional identification of coal seams in an identical stratigraphic position to the previously mentioned drill hole in other mineral exploration drill holes in the area. Waratah has

secured through Bindaree and EPC Application 1074 “Bindaree North” an estimated 110km of strike extension with good coal exploration potential in a previously unidentified area.

#### *Stanwell and Blair Athol - discovery of hidden basins*

The Stanwell project is located immediately north of the Capricorn highway opposite the Stanwell Power station in central Queensland. The Stanwell project is based on exploration for concealed coal basins. Queensland hosts examples of very large coal mines and resources such as Blair Athol and Wolfgang which exemplify this type of deposit in a concealed basin.

The majority of coal mined today is from projects exhibiting simple and easily recognizable outcropping geological features. A core element of the Waratah exploration strategy is to identify hidden coal basins which may have been difficult to recognize in the past due to the presence of overlying volcanics and alluvium. The Stanwell project is located on an anomalous gravity low.

Drilling to date has concentrated on the southeastern flank of the EPC. This area is overlain by basaltic flows. Only minor intersections of Stanwell Coal Measures were located in a scout drilling program. Field work located a disused well, only meters deep further to the north. Surrounding mullock showed coal cuttings and future exploration will drill the surrounding area.

In November 2007, Waratah Coal announced the granting of EPC 1056 in the Blair Athol Region. The lease is valid for 5 years and comprises 215 sub-blocks covering a large area (about 900km<sup>2</sup>) north and north-west of the town of Clermont - with the Blair Athol and Wolfgang Basins roughly at its centre, and the Miclere Basin in the northern portion.

The presence of large economic coal bodies is well documented in these basins and the scope of Waratah Coal’s present exploration is to identify ‘Blair Athol’ or ‘Wolfgang’ type Permian coal deposits that are economically viable to mine.

The Blair Athol mine, majority owned by Rio Tinto, produces 12mtpa of low ash, low sulphur, and high volatile thermal coal. Three coal seams are of interest with the largest measuring 29m.

#### *Laura Basin*

In December 2007, Waratah Coal was granted 2 new exploration permits known as EPC 1058 (Fairlight) and EPC 1059 (Cooktown) in the Laura Basin in Queensland, Australia.

The Laura Basin is one of Mesozoic stratigraphy on the eastern side of Cape York Peninsula. It forms a broad synclinal depression of Jurassic and Cretaceous sediments trending NNW. These sediments unconformably overlie an uneven basement of folded Palaeozoic sediments and granites.

Coal occurrences are common in the lower Dalrymple Sandstone. Within the Laura Basin known coking coal resources have been identified at Bathurst Range (G6-G8 with a CSN of 7-9) in the Bathurst Seam in amounts greater than 50 Mt (seam thickness >1.5 m).

Past exploration of the area has been relatively poor and reviews of historic data including geological, geophysical, and drilling programs indicate that the areas within the present lease have good potential for the discovery of export coking coal deposits.

The two EPCs cover areas that show pronounced gravity lows that indicate the existence of coal bearing sequences. The main prospective target is the Jurassic Dalrymple sandstone formation which will be tested for coal-bearing horizon.

Target areas in each EPC have been identified and regions of approximately 25km<sup>2</sup> in each respective EPC have been identified for the initial exploratory program. Almost no previous exploration drilling has occurred in these prospective areas.

Scout exploration programs are planned for each EPC respectively and initially some 30 drill holes have been strategically positioned to begin to test the extent of potential coal deposits. Where relevant, a number of the coal seam intersections will be cored for analysis.

### ***Personnel***

**Peter Lynch, 43**, Chief Executive Officer and President of Waratah, has been involved in the resources industry for eighteen years, principally the Australian coal mining industry. Mr. Lynch began his career as a mining engineer with Shell Coal Australia in 1989 progressing to the level of undermanager obtaining his Mine Managers certificates of Company for Open Cut and Underground coal mines along the way. In 1993, Mr. Lynch was employed as an under manager at North Goonyella Coal Mines owned by White Mining and Sumitomo Corporation through to 1995. In 1995 Mr. Lynch was employed as Mine and Project Manager of Oaky North Underground Mine owned by MIM Ltd. In this role he was responsible for the design, construction and operation of an A\$227 million modern longwall underground coal project. The Oaky North Mine still holds the Australian annual longwall production record of 7.6 Mt.

While completing the construction of the Oaky North Project, Mr. Lynch was appointed to the position of General Manager of the entire Oaky Creek Coal Complex. Oaky Creek Coal included a second underground longwall mine and a three dragline open cut operation. The complex was the subject of ongoing expansion from 2.8Mtpa in 1995 to a capacity of 10Mtpa by 2001. At the end of 2000, Mr. Lynch was employed in a MIM corporate office becoming the General Manager Lead Zinc Development, a role which oversaw the initial planning to reinvent the MIM zinc business utilizing the in-house developed 'Albion Technology'.

From 2002 to 2003 Mr. Lynch was employed as Managing Director of Australian Premium Coals Pty Ltd. (APC) the operating joint venture for the Coppabella Project. During this time he was responsible for overseeing the construction of the JVs new Moorvale open cut project. Following APC, Mr. Lynch served as the Director of Business Development, Gallipoli Mining Pty Ltd. a private mining company owned 50% by Nippon Mining and Metals of Japan. During the course of his working career, Mr. Lynch has served on the Boards of private entities including, Dalrymple Bay Coal Terminal Pty. Ltd. and Queensland Mines Rescue Service.

Mr. Lynch is a member of the Australian Institute of Mining and Metallurgy and the American Society for Mining, Metallurgy and Exploration Inc, and graduated from the University of New South Wales with a Bachelor of Engineering (Mining).

**Nicholas Mather, 50**, Non-Executive Director of Waratah, has over 25 years experience in exploration and resource company management. His career has taken him to a variety of countries exploring for precious and base metals and fossil fuels. Mr. Mather has focused his attention on the identification of and investment in large resource exploration projects.

He was managing director of BeMaX Resources NL (an Australian company listed on ASX) from 1997 until 2000 and instrumental in the discovery of the world class Ginkgo mineral sand deposit in the Murray Basin in 1998. As an executive director of Arrow Energy NL (also ASX listed) until his resignation in October 2004, Mr. Mather drove the acquisition and business development of Arrow's large Surat Basis Coal Bed Methane project in South East Queensland. He was managing director of Auralia Resources NL, a junior gold explorer before it's A\$23 million merger with Ross Mining NL in 1995. He was also a non-executive director of Ballarat Goldfields NL until his resignation in 2004, having recently assisted that company in its recapitalization and relisting on the ASX in 2002.

Mr. Mather is an Executive Director of D'Aguilar Gold Limited, an ASX listed resources explorer and also an Executive Director of Solomon Gold Plc a London Stock Exchange AIM listed company, exploring for world class gold-copper ore bodies in the Solomon Islands.

Mr. Mather is a member of the Australian Institute of Mining and Metallurgy and graduated from the University of Queensland with a Bachelor of Science, Honors (Geology).

**Damien Reynolds, 39**, resigned as Non-Executive Director of Waratah in October 2007.

**Shaun Maskerine, 41**, Corporate Secretary of Waratah, was appointed Non-Executive Director of Waratah in October 2007. Mr. Maskerine has worked with public companies for over 10 years. He has served on the board of a number of resource and industrial companies and has extensive experience in corporate finance and compliance issues. Previous positions include VP, Corporate Finance and Director of Odessa Petroleum Corporation, Corporate Secretary of Minco Metals and Mining, President and Director of Dragon Pharmaceuticals, Vice President Operations and Director of SmartCool Systems Inc. Mr. Maskerine is current Vice President, Investment Banking at Longview Capital Partners and serves on the boards of a number of private and public resource companies.

**David Campbell**, Exploration Manager of Waratah, was appointed in January 2007. Mr. Campbell is a highly qualified and experienced coal professional with a diverse range of roles in some of the most respected companies in the coal industry. Mr. Campbell has held senior geological roles with companies including: Agip Australia, New Hope Group, BHP Minerals, Bulga Coal, Glencore Coal, Peabody and SRK Consulting. More recently he has been involved in project development roles including General Manager of Baralaba Coal (Peabody). Mr. Campbell's strong technical experience and proven project management track record will strengthen Waratah's intention to transition from Coal Explorer to Coal Producer on the back of its extensive portfolio of assets.

## **Risks and Uncertainties**

The Company is subject to a number of risk factors due to the nature of its business and the present stage of development. The following risk factors should be considered:

The Company is a junior mineral exploration company listed on the TSX Venture Exchange and engaged in the acquisition, exploration and development of mineral properties. It has not yet determined whether its properties contain mineral reserves that are economically recoverable. The recoverability of the amounts shown for resource assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposition of the properties. The Company's ability to continue its operations is dependent on its ability to secure additional financing, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. In order to continue developing its mineral properties, management is actively pursuing such additional sources of financing; however, in the event this does not occur, there is doubt about the ability of the Company to continue as a going concern. The Financial Statements and discussion and analysis of the financial condition, changes in financial condition and results of operations of the Company for the year ended December 31, 2007, six months ended December 31, 2006, year ended June 30, 2006 and period ended June 30, 2005 do not include the adjustments that would be necessary should the Company be unable to continue as a going concern.

The amount of the Company's administrative expenditures is related to the level of financing and exploration activities that are being conducted, which in turn may depend on the Company's recent exploration experience and prospects, as well as the general market conditions relating to the availability of funding for exploration-stage resource companies. Consequently, the Company does not acquire properties or conduct exploration work on them on a pre-determined basis and as a result

there may not be predictable or observable trends in the Company's business activities and comparisons of financial operating results with prior years may not be meaningful.

#### *Access to Land*

Several of the Waratah tenements are exploration licenses and access to land within the tenement area is dependant upon leases being granted and, in the case of coal production, the acquisition or lease of freehold land or reaching an equitable access agreement with landholders. Waratah may be unable to reach agreement with landowners to enter property for intended exploration such as for seismic surveys and/or drilling programs or for any mining activities on terms favorable to Waratah or at all.

#### *Cultural Heritage and Native Title*

If evidence of native occupation or heritage exists on to any land to which Waratah requires access, Waratah may be unable to gain access to such land, or may experience delay in obtaining such access. When exercising a right or permission for access to any land, Waratah will be required by law to act as not to disturb physical evidence of human occupation of prehistoric or historic significance without specific statutory permission. Waratah has not undertaken cultural heritage searches and only limited background land tenure searches for native title, and accordingly is not able to proffer an opinion as to whether aboriginal cultural heritage exists on any land covered by the tenements and can only confirm the existence of claims for native title on the granted tenements as at the date the searches were conducted, being October 25, 2006. Further, Waratah is not able to advise whether a claim for native title will be upheld or rejected over any particular parcel of land covered by a tenement.

#### *Competition*

There is competition within the mining industry for the discovery and acquisition of properties considered to have commercial potential. Waratah competes with other mining companies, many of which have greater financial resources than Waratah, for the acquisition of coal claims, leases and other coal interests as well as for the recruitment and retention of qualified employees and other personnel.

#### *Exploration, Development and Operating Risks*

The exploration for and development of coal deposits involves significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate. Few properties which are explored are ultimately developed into producing mines. There can be no guarantee that the estimates of quantities and qualities of coal disclosed will be economically recoverable. With all mining operations there is uncertainty and, therefore, risk associated with operating parameters and costs resulting from the scaling up of extraction methods tested in pilot conditions. Coal exploration is speculative in nature and there can be no assurance that any coal discovered will result in an increase in Waratah's resource base.

Waratah's operations will be subject to all of the hazards and risks normally encountered in the exploration, development and production of coal. These include unusual and unexpected geological formations, rock falls, seismic activity, flooding and other conditions involved in the extraction of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although precautions to minimize risk will be taken, operations are subject to hazards that may result in environmental pollution, and consequent liability that could have a material adverse impact on the business, operations and financial performance of the Company.

### *Substantial Capital Requirements; Liquidity*

Substantial additional funds for the establishment of Waratah's current and planned mining operations will be required. No assurances can be given that Waratah will be able to raise the additional funding that may be required for such activities, should such funding not be fully generated from operations. Coal prices, environmental rehabilitation or restitution, revenues, taxes, transportation costs, capital expenditures and operating expenses and geological results are all factors which will have an impact on the amount of additional capital that may be required. To meet such funding requirements, Waratah may be required to undertake additional equity financing, which would be dilutive to shareholders. Debt financing, if available, may also involve restrictions on financing and operating activities. There is no assurance that additional financing will be available on terms acceptable to Waratah or at all. If Waratah is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion, and pursue only those development plans that can be funded through cash flows generated from its existing operations.

### *Funding*

Unless and until Waratah develops or acquires income producing assets, it will be dependant upon existing funds and its ability to obtain future equity or debt funding to support exploration, evaluation and development of the properties into which it has an interest.

Waratah's ability to raise further equity or debt, or to diverse part of its interests in a project and the terms of such transactions will vary according to a number of factors, including the success of exploration results and the future development of the projects, stock market conditions and prices for coal.

### *Volatility of Coal Prices*

The market price of coal is volatile and is affected by numerous factors that are beyond Waratah's control. These include international supply and demand, the level of consumer product demand, international economic trends, currency exchange rate fluctuations, the level of interest rates, the rate of inflation, global or regional political events and international events as well as a range of other market forces. Sustained downward movements in coal market prices could render less economic, or uneconomic, some or all of the coal extraction and/or exploration activities to be undertaken by Waratah.

### *Limited Operating History*

Waratah is a relatively new exploration company with limited operating history. Waratah was incorporated in May 2005 and has yet to generate a profit from its activities. Waratah is subject to all of the business risks and uncertainties associated with any new business enterprise, including the risk that it will not achieve its growth objective. Waratah anticipates that it may take several years to achieve positive cash flow from operations.

### *No Mineral Reserves / Mineral Resources*

All of the properties in which Waratah holds an interest are considered to be in the early exploration stage only and do not contain a known body of commercial minerals. Mineral reserves are, in the large part, estimates and no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. Reserve estimates for properties that have not yet commenced production may require revision based on actual production experience. Market price fluctuations of metals, as well as increased production costs or reduced recovery rates may render mineral reserves containing relatively lower grades of mineralization uneconomic and may ultimately result in a restatement of reserves. Moreover, short-term operating factors relating to the mineral reserves, such as the need for orderly development of the ore bodies and the processing of

new or different mineral grades may cause a mining operation to be unprofitable in any particular accounting period.

#### *Environmental Risks*

Waratah's exploration and appraisal programs will, in general, be subject to approval by regulatory bodies. Additionally, all phases of the mining business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and state and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with mining operations. The legislation also requires that facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs.

#### *Dependence on Key Personnel*

Waratah's success will depend on its ability to attract and retain its key personnel. The loss of any key executive or manager of Waratah may have an adverse effect on the future of Waratah's business. The Company competes with numerous other companies for the recruitment and retention of qualified employees and contractors.

#### *Currency Risk*

Waratah's revenues and expenses will be incurred in Australian dollars, though its financings are completed in Canadian dollars. Although the Company has taken certain steps to help mitigate foreign currency fluctuations, there is no assurance that the activities or products are or will continue to be effective. Accordingly, the inability of Waratah to obtain or to put in place effective hedges could materially increase exposure to fluctuations in the value of the Canadian dollar relative to the Australian dollar. This could adversely affect the Company's financial position and operating results.

#### *Conflicts of Interest*

Certain of the directors and officers of Waratah will be engaged in, and will continue to engage in, other business activities on their own behalf and on behalf of other companies (including mineral resource companies) and, as a result of these and other activities, such directors and officers of the Company may become subject to conflicts of interest. The BCBCA provides that in the event that a director has a material interest in a contract or proposed contract or agreement that is material to the issuer, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement, subject to and in accordance with the BCBCA. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the BCBCA. To the management of Waratah's knowledge, as at the date hereof there are no existing or potential material conflicts of interest between the Company and a director or officer of Waratah except as otherwise disclosed herein.

#### *Dividends*

To date, Waratah has not paid any dividends on their outstanding shares. Any decision to pay dividends on the shares of Waratah will be made by its board of directors on the basis of Waratah's earnings, financial requirements and other conditions.

### *Kyoto Protocols*

The Kyoto Protocol to the United Nations Framework Convention on Climate Change was negotiated in December 1997 and aims to reduce emissions of greenhouse gases. Whilst these restrictions have not yet been ratified by the member nations, their possible future ratification and implementation could adversely impact on the price and demand for coal or may result in the imposition of additional taxes or levies or other increased costs.

### *Governmental Regulations and Processing Licenses and Permits*

The activities of Waratah are subject to government approvals, various laws governing prospecting, development, land resumptions, production taxes, labor standards and occupational health, mine safety, toxic substances and other matters, including issues affecting local Aboriginal populations. Although the Company believes that its activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development. Amendments to current laws and regulations governing operations and activities of exploration and mining, or more stringent implementation thereof, could have a material adverse impact on the business, operations and financial performance of the Company. Further, the mining licenses and permits issued in respect of its projects may be subject to conditions which, if not satisfied, may lead to the revocation of such licenses. In the event of revocation, the value of Waratah's investments in such projects may decline.

### *Uninsured Risks*

Waratah, as a participant in mining and exploration activities, may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs. Furthermore, the Company may incur a liability to third parties (in excess of any insurance coverage) arising from negative environmental impacts or any other damage or injury.

## **SELECTED FINANCIAL INFORMATION**

The following table sets forth selected financial information of the Company for, and as at the end of, each of the last financial periods of the Company up to and including December 31, 2007. This financial information is derived from the financial statements of the Company which were audited by Smythe Ratcliffe, Vancouver. The Company prepares financial information according to Generally Accepted Accounting Principles ("GAAP") and all information is reported in Canadian Dollars.

	December 31 2007	December 31 2006	June 30 2006
Total Revenues	\$-	\$-	\$-
Income from continuing operations	\$-	\$-	\$-
Net loss for the period	\$2,120,062	\$1,064,982	\$25,062
Net loss per share	\$0.06	\$0.05	\$0.002
Total assets	\$10,193,517	\$3,232,404	\$274,312
Long term financial liabilities	\$-	\$-	\$-

No cash dividends have been declared or paid since the date of incorporation and the Company has no present intention of paying dividends on its common shares. The Company anticipates that all available funds will be invested to finance the growth of its business.

The net loss amount is affected mainly by the stock-based compensation, employee benefits, administration and legal costs. There are no revenues. Interest is disclosed separately.

Interest income is dependent upon interest rates and the amount of financing raised each year by the Company. Interest rates will vary due to market conditions and the Company has no control over the fluctuation of rates.

Expenses are mainly composed of stock-based compensation, employee benefits, administration, legal, travel and conventions and investor relations.

All of the above factors must be taken into consideration when comparing Total Revenues and Net Loss for each period.

## SUMMARY OF QUARTERLY INFORMATION

The following table sets forth a comparison of revenues and earnings for the previous 8 quarters ending with December 31, 2007. Financial information is prepared according to GAAP and is reported in Canadian Dollars.

	Mar-31 2006	Jun-30 2006	Sep-30 2006	Dec-31 2006	Mar-31 2007	Jun-30 2007	Sep-30 2007	Dec-31 2007
Interest income	\$-	\$1,537	\$1,050	\$6,725	\$33,479	\$27,861	\$60,900	\$133,934
Net loss	\$55	\$25,007	\$26,004	\$1,038,978	\$589,024	\$381,678	\$477,880	\$671,480
Net loss per share	\$0.000	\$0.001	\$0.001	\$0.051	\$0.018	\$0.03	\$0.044	\$0.017

## SHARE ISSUANCES

### (1) Share split and share consolidation

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.

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.

### (2) Acquisition

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

The Acquisition was completed concurrently with Financing noted below.

### (3) Financing

- (a) 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 Finders 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.

- (b) On August 9, 2007 the Company announced that it closed a brokered private placement, issuing 5,000,000 units of the Company at a price of \$1.60 per unit raising aggregate gross proceeds of \$8,000,000.

Each unit comprised one common share and one-half of one transferable common share purchase warrant. Each whole such purchase warrant is exercisable into one additional common share of the Company 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 6.0% of the gross proceeds of the Offering. The Agent was also issued 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.

All of the securities issued under the private placement were subject to a four-month hold period that expired on December 10, 2007. The gross proceeds raised from the issuance of the Units will be used for exploration and development expenditures for the Company's Galilee Basin Project and Waratah's other coal projects in Australia and for working capital purposes.

#### (4) Options Exercised

During the year 150,000 options were exercised to purchase 150,000 common shares in the Company at a price of \$0.10 raising \$15,000.

Also during the year 175,000 incentive options were exercised to purchase 175,000 common shares in the Company at a price of \$0.60 raising a further \$105,000.

#### (5) Warrants Converted

During the year 940,500 warrants were converted to purchase 940,500 common shares in the Company at a price of \$0.75 raising \$705,375.

Also during the year 1,250,000 special payment warrants were converted to purchase 1,250,000 common shares in the Company at a nil price.

### **RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

The loss for the year ended December 31, 2007 was \$2,120,062. Waratah spent \$3,855,136 on exploration and \$2,447,699 on administrative expenses. The largest elements of the administrative expenses were stock-based compensation of \$1,045,289 and wages and benefits of \$437,252.

At December 31, 2007, the Company had total assets of \$10,193,517. On a net basis, operations for the year consumed cash of \$1,231,837. The operating loss of \$2,120,062 was the largest element of cash flows from operating activities, offset by non-cash items including amortization of \$5,751 and stock-based compensation of \$1,045,289 and by net working capital cash flows, including a \$237,029 increase in accounts receivable, \$594 increase in other current assets and a \$74,808 increase in accounts payable and accrued liabilities.

Waratah generated \$8,296,552 from financing activities in the year ended December 31, 2007. The Company used \$3,711,790 of cash in investing activities in the year ended December 31, 2007, with \$3,818,010 being used for exploration properties and \$56,192 being used for to acquire equipment, offset by security bond refunds of \$162,412.

In aggregate, the Company generated cash of \$3,000,826 in the year ended December 31, 2007. The Company had a cash balance of \$5,772,970 at December 31, 2007.

The loss for the period ended December 31, 2006 was \$1,064,982. Waratah spent \$1,072,046 on operations, \$1,045,702 of which was spent in the fourth quarter.

The Company spent \$144,255 on exploration and \$51,897 on administrative expenses. The largest elements of the administrative expenses were consulting fees \$26,317.

At December 31, 2006, the Company had total assets of \$3,232,404. On a net basis, operations for the period consumed cash of \$306,517. The operating loss of \$1,064,982 was the largest element of cash flows from operating activities, offset by non-cash items including amortization \$661 and stock-based compensation \$850,210 and by net working capital cash flows, including a \$95,203 increase in accounts receivable and a \$2,797 increase in accounts payable and accrued liabilities.

Waratah generated \$2,828,999 from financing activities in the period ended December 31, 2006, with \$2,828,999 of that happening in the fourth quarter.

The Company used \$144,672 of cash in investing activities in the period ended December 31, 2006, with \$144,255 being used in the purchase of exploration properties.

In aggregate, the Company generated cash of \$2,430,965 in the period ended December 31, 2006, of which \$2,404,961 was generated in the fourth quarter. The Company had a cash balance of \$2,772,144 at December 31, 2006.

The loss for the period ended June 30, 2006 was \$25,062. Waratah spent \$26,599 on operations, \$26,544 of which was spent in the fourth quarter.

The Company spent \$87,250 on exploration and \$26,599 on administrative expenses. The largest elements of the administrative expenses were legal fees \$13,301 and consulting fees \$7,311.

At June 30, 2006, the Company had total assets of \$274,312. On a net basis, operations for the period consumed cash of \$13,100. The operating loss of \$25,062 was the largest element of cash flows from operating activities, offset by non-cash items including amortization \$30 and by net working capital cash flows, including a \$18,832 increase in accounts payable and accrued liabilities, which did not require cash flow.

#### RELATED PARTY TRANSACTIONS

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 31 December 2007, the Company owed an amount of \$13,229 (December 31, 2006 - \$2,451; June 30, 2006 - \$40,901) to entities 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.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's exploration activities have been funded through the sale of share capital and the Company expects that it will continue to be able to utilize this source of financing until it develops cash flow from its operations. There are no assurances that the Company can continue to obtain such financings; failure to obtain funding would result in the curtailment of exploration activities until such financing could be obtained.

At December 31, 2007, the Company's working capital position was \$5,657,122.

On August 9, 2007 the Company announced that it closed the brokered private placement previously announced on July 23, 2007, and as increased on July 26, 2007, issuing 5,000,000 units of the Company at a price of \$1.60 per unit raising aggregate gross proceeds of \$8,000,000.

Each unit comprised one common share and one-half of one transferable common share purchase warrant. Each whole such purchase warrant is exercisable into one additional common share of the Company 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 6.0% of the gross proceeds of the Offering. The Agent was also issued 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.

All of the securities issued under the private placement were subject to a four-month hold period that expired on December 10, 2007. The gross proceeds raised from the issuance of the Units will be used for exploration and development expenditures for the Company's Galilee Basin Project and Waratah's other coal projects in Australia and for working capital purposes.

Apart from the initiatives discussed above, the Company is not aware of any trends, commitments or events that may affect its liquidity in the foreseeable future. The Company has not made any commitments for capital expenditures. Material increases or decreases in the Company's liquidity will be substantially determined by the success or failure of raising additional funds through private placements and its planned exploration programs.

#### **COMMITMENTS**

Certain future exploration expenditures are required to be undertaken by the Company as a minimum retention for exploration permits. These expenditures were set out in Note 6 to the Annual Financial Statements for December 31, 2007. The Company has no other material commitments at this time.

#### **SUBSEQUENT EVENTS**

Subsequent events are listed in Note 12 to the Financial Statements for December 31, 2007.

#### **ACCOUNTING POLICIES**

Accounting policies are listed in Note 3 to the Financial Statements for December 31, 2007.

#### **FINANCIAL INSTRUMENTS**

Fair value estimates of financial instruments are made at a specific point of time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matter of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value 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.

#### **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Company's size and the number of staff impact the Company's internal controls. Due to the limited number of staff, it is not possible to achieve complete segregation of duties. Similarly, the Company must engage accounting assistance with respect to complex, non-routine accounting issues, Canadian GAAP matters, tax compliance and reporting for its international operations.

Notwithstanding these weaknesses, the Company's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements and that information is timely and accurately disclosed consistent with Canadian securities laws and regulations.

Although the identified weaknesses may be considered to increase the risk that a material misstatement in the Company's financial statements would not be prevented or detected, neither has resulted in a material misstatement in the financial statements.

The CEO and the CFO oversee all material transactions and related accounting records. The audit committee of the Company, with management, reviews the financial statements of the Company, on a quarterly basis.

While management and the board of directors of the Company work to mitigate the risk of a material misstatement in the Company's financing reporting, the Company's control system, no matter how well designed or implemented, can only provide reasonable, but not absolute, assurance of detecting, preventing and deterring errors and fraud.

#### **OUTSTANDING SHARE DATA AS OF MARCH 7, 2008**

The authorized capital of the Company, as of March 7, 2008 consists of an unlimited number of common shares without par value. At the date of this report, the Company has issued 40,226,500 common shares. The Company has 4,680,000 stock options and warrants to purchase 9,571,700 common shares outstanding.

#### **OTHER INFORMATION**

The Company's website address is [www.waratahcoal.com](http://www.waratahcoal.com). Other information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **On behalf of the Board of Directors**

*"Peter Lynch"*

---

Peter Lynch  
Director