

**WARATAH COAL INC.**  
**Management Discussion and Analysis**  
**(Form 51-102F1)**  
**For the period ended March 31, 2008**  
**Information as of May 29, 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 unaudited interim financial statements for the period ended 31 March 2008, together with the notes thereto, as well as, the Companies previous financial and MD&A reports. The material herein, as of May 29, 2008 updates that information. These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

**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 22 exploration licenses and has applications in progress for another 14 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:

- Large resources of thermal coal exist in the Galilee Basin, Queensland, Australia, their potential has remained undeveloped. Waratah Coal's vision is to develop the basin on a scale sufficient to underwrite the provision of new, efficient, high capacity infrastructure connecting with the growing world seaborne coal market.

- 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 22 granted exploration licenses, 21 in Queensland and one in New South Wales. In addition to the granted licenses the Company has another 27 exploration licenses under application, 23 in Queensland, three in the Northern Territory and one in New South Wales.

The 22 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        | Duaringa Project | January 14, 2008   |
| Queensland      | EPC 1186        | Blackwater       | March 12, 2008     |

| State      | Tenement Number | Tenement Name    | Date of Grant     |
|------------|-----------------|------------------|-------------------|
| Queensland | EPC 1200        | Belyando South   | April 11, 2008    |
| Queensland | EPC 1212        | Belyando North   | April 7, 2008     |
| Queensland | EPC 1213        | Belyando Central | April 7, 2008     |
| Queensland | EPM 16870       | Alpha Three      | February 28, 2008 |
| Queensland | EPM 16871       | Alpha One        | February 28, 2008 |
| Queensland | EPM 16873       | Alpha Two        | March 12, 2008    |

The 27 exploration 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 1222       | Donny Brook         | February 1, 2008    |
| Queensland         | EPCA 1266       | Goodwood            | April 1, 2008       |
| Queensland         | EPCA 1268       | Kolan River         | April 1, 2008       |
| Queensland         | EPCA 1280       | Lennox              | April 22, 2008      |
| Queensland         | EPCA 1281       | Edie Creek          | April 22, 2008      |
| Queensland         | EPCA 1283       | Springvale          | April 22, 2008      |
| Queensland         | EPCA 1284       | Eastmere Creek      | April 22, 2008      |
| Queensland         | EPCA 1285       | Alice River         | April 22, 2008      |
| Queensland         | EPCA 1286       | Jordan Creek        | April 22, 2008      |
| Queensland         | EPCA 1287       | Lake Galilee        | April 24, 2008      |
| Queensland         | EPCA 1288       | Clarke Creek        | April 24, 2008      |
| Queensland         | EPCA 1289       | Gorge Dam           | April 24, 2008      |
| Queensland         | EPCA 1290       | Diamond Creek       | April 24, 2008      |
| Queensland         | EPMA 16868      | Alpha Four          | September 7, 2007   |
| Queensland         | EPMA 16872      | Alpha Six           | September 7, 2007   |
| Queensland         | EPMA 16874      | Alpha Five          | September 7, 2007   |
| Queensland         | EPMA 17335      | Surbiton            | February 5, 2008    |
| New South Wales    | EL 3357         | Nymboida - Nth Ext. | December 3, 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 energy province play*

Waratah has taken a large exploration position in the eastern Galilee Basin in central Queensland, an area of 15,250km<sup>2</sup>. The Company has fourteen 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 commenced drilling activities in the Galilee Basin in March 2007. To date drilling activity has been split between two distinct areas, Alpha South and Alpha North. By the end of calendar 2007 Waratah had five drill rigs active across its exploration licences with plans in place to see this expanded to nine drill rigs by the July 2008.

The South Alpha project area adjoins the southern boundary of an historic resource of 2.1 Billion tonnes of Thermal Coal held by others. By the end of calendar 2007 a total of 2.145 billion tonnes of inferred coal resources had been declared on the Waratah South Alpha project area. To date the drilling of South Alpha has been focused on only a small proportion of EPC 1040 and EPC 1079.

The North Alpha project area adjoins the northern boundary of the historic 2.1 billion tonne thermal coal resource held by others. Drilling has focused on EPC 1053 and EPC 1039 some 37km north of Waratah's EPC 1040. EPC 1053 already hosts a JORC-compliant inferred resource of 675 million tonnes of thermal coal on its northern portion. Waratah Coal's drilling program will test the unexplored area to the south of this resource, covering 140km<sup>2</sup>. By the end of Calendar year 2007 an additional 300 million tonnes of inferred coal resources had been declared at North Alpha bringing Waratah's total inferred thermal coal resources at its North Alpha Project to 975 million tonnes.

The combination of 2.145 Bt at South Alpha and 975 Mt at North Alpha brings Waratah's total inferred thermal coal resources in the Galilee Basin to 3.12 Billion tonnes. The results of this calendar year's drilling programs to date are yet to be reported, drilling activity continues.

The Galilee Basin is a known geological basin containing Permian-age high quality thermal coals which when washed produces a highly marketable export quality product. The main thrust of the Waratah Coal exploration program is to prove the continuity of the known four seams which account for the 2.1 billion tonnes of coal resource on the licence to the south of Waratah's EPC 1053 North Alpha licence. This area was extensively explored in the 1970's by companies including Bridge Oil, Total, Cogema and the Shell Company.

Waratah has already confirmed the extension of these seams to the south in its EPC 1040 and further to the north within EPC 1053. Coal intersections over the four seams on the adjacent drill line in EPC 1053's northern resource show total coal thicknesses up to 30m with the thickest seam 21m.

Waratah's 100%-owned Galilee Basin licences and applications now cover 15,250km<sup>2</sup>, extending over 240km along strike to the north and south adjacent to the historical resource as well as adjacent and down dip, to the west. Waratah is targeting the potential for a very large scale export thermal coal project, should large tonnages of economically mineable coal be identified. Further exploration in Waratah Coal's Galilee Basin licences is expected to confirm Waratah Coal's Galilee tenures as one of the largest undeveloped black coal resources in Australia.

#### *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.

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 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. Further geological assessment of the drilling appears to suggest that some drill holes actually intersected a seam lower than the Farquhar Seam (the seam mined in the old underground colliery). This seam, albeit 1.1m thick, exhibited excellent coking properties.

Waratah now believes it has two potential underground targets which could possibly be extracted using thin seam "face plough" technology. The enhanced potential for an underground coking coal mine at Nymboida supports Waratah's continuing evaluation of the project, although drilling had been delayed by inclement weather. Tracks and drill sites have been dozed with a series of holes targeting the northern and eastern down dip extensions of the Farquhar Seam. Waratah recently announced that it has commenced the second phase of drilling at its Nymboida coking coal project.

In addition Waratah Coal has made an application to the NSW Department of Primary Industries for an additional Exploration License (ELA 3375) adjoining the current license to the north. Waratah hopes to find additional coal seam extensions in this new license.

Results of the second stage drilling are expected within the next quarter. If drilling confirms a suitable resource, Waratah will look to expedite the project. Nymboida could in the event of the definition of a feasible project, enter development and production ahead of the Company's Galilee Basin project thereby potentially providing cash flow to help develop the Galilee Basin.

Additionally, the Bardool seam, which was intersected in the previous program, will also be targeted in some deeper holes. This seam has also shown excellent coking properties in limited intersections to date.

#### *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.

A program of 17 holes was initiated in August 2007. Initial holes probed the continuity of coal in the Strathpine One well. Substantial coal thickness was not intersected and it is believed the density traces in the geophysics were reflecting those of carbonaceous silts and cavities. Drilling was then diverted to the western flank of the deposit where **cumulative coal thickness up to 8m** was confirmed at open cut depths. Drilling in July 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.

Desktop studies of the Bindaree EPC 1073 have been completed and target drilling areas identified. Waratah is awaiting landholder notification and other statutory notification prior to program commencement expected May 2008.

#### *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, 44**, 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 Gingko 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).

**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.

### **SUMMARY OF QUARTERLY INFORMATION**

The following table sets forth a comparison of revenues and earnings for the previous 8 quarters ending with March 31, 2008. Financial information is prepared according to GAAP and is reported in Canadian Dollars.

|                       | Jun-30<br>2006 | Sep-30<br>2006 | Dec-31<br>2006 | Mar-31<br>2007 | Jun-30<br>2007 | Sep-30<br>2007 | Dec-31<br>2007 | Mar-31<br>2008 |
|-----------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Interest income       | \$1,537        | \$1,050        | \$6,725        | \$33,479       | \$27,861       | \$60,900       | \$133,934      | \$78,211       |
| Net loss              | \$25,007       | \$26,004       | \$1,038,978    | \$589,024      | \$381,678      | \$477,880      | \$671,480      | \$898,586      |
| Net loss per<br>share | \$0.001        | \$0.001        | \$0.051        | \$0.018        | \$0.03         | \$0.044        | \$0.017        | \$0.022        |

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

The loss for the period ended March 31, 2008 was \$898,586. Waratah spent \$1,606,791 on exploration and \$1,055,882 on administrative expenses. The largest elements of the administrative expenses were stock-based compensation of \$377,805 and wages and benefits of \$279,908.

At March 31, 2008, the Company had total assets of \$49,301,278. On a net basis, operations for the year consumed cash of \$377,685. The operating loss of \$898,586 was the largest element of cash flows from operating activities, offset by non-cash items including amortization of \$3,752 and stock-based compensation of \$377,805 and by net working capital cash flows, including a \$51,204 decrease in accounts receivable, \$51 increase in other current assets and an \$88,191 increase in accounts payable and accrued liabilities.

Waratah generated \$39,551,209 from financing activities in the period ended March 31, 2008. The Company used \$1,706,767 of cash in investing activities in the period ended March 31, 2008, with \$1,698,250 being used for exploration properties and \$8,517 used to acquire furniture and equipment.

In aggregate, the Company generated cash of \$37,466,757 in the period ended March 31, 2008. The Company had a cash balance of \$5,730,376 and funds held in trust of \$37,509,351 at March 31, 2008.

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.

#### 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:

|  | Period ended<br>March 31, 2008 | Year ended<br>December 31, 2007 |
|--|--------------------------------|---------------------------------|
| Legal fees                                 | \$83,807                       | \$93,705                        |
| Consulting fees                            | \$8,556                        | \$40,229                        |
| Accounting and administration fees         | \$24,143                       | \$86,770                        |
| Investor relations fees                    | \$30,395                       | \$136,342                       |
| Options issued for investor relations fees | \$-                            | \$134,890                       |
| Rent                                       | \$82,810                       | \$37,014                        |

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 March 31, 2008, the Company owed an amount of \$44,096 (year ended December 31, 2007 - \$13,229) to entities associated with directors, officers and consultants of the Company, for the payment of certain exploration expenditure, rent, legal, consulting, accounting and administration and investor relations 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 March 31, 2008, the Company's working capital position was \$42,995,393.

On March 28, 2008, the Company announced that it closed the brokered private placement previously announced on March 13, 2008, and as increased on March 14, 2008, issuing 12,698,413 units of the Company at a price of \$3.15 per Unit raising aggregate gross proceeds of \$40,000,000.95.

Each Unit comprises one common share and one-half of one transferable common share purchase warrant of the Company. Each Warrant is exercisable into one additional common share of the Company at an exercise price of \$4.50 per common share until March 28, 2010.

The Offering was brokered by a syndicate of agents led by Jennings Capital Inc. and included M Partners Inc. and Canaccord Capital Corporation. The Agents received a cash commission of 6.0% of the gross proceeds of the Offering. The Agents were also issued 761,904 broker's warrants. Each Broker's Warrant entitles the holder to acquire one additional common share of the Company at an exercise price of \$3.15 per common share until March 28, 2008.

All of the securities issued under the private placement are subject to a four-month hold period expiring on July 29, 2008. Proceeds from the Offering 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 9 to the Financial Statements for March 31, 2008.

## **ACCOUNTING POLICIES**

Accounting policies are listed in Note 3 to the Financial Statements for March 31, 2008.

## **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 MAY 29, 2008**

The authorized capital of the Company, as of May 29, 2008 consists of an unlimited number of common shares without par value. At the date of this report, the Company has issued 55,320,919 common shares. The Company has 4,180,000 stock options and warrants to purchase 14,836,805 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"*

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Peter Lynch  
Director