GLOUCESTER COAL

NOTICE OF GENERAL MEETING AND EXPLANATORY STATEMENT

GLOUCESTER COAL LTD

ACN 008 881 712

Date:	8 July 2011
Time:	9.30am (AEST)
Place:	Minter Ellison Level 23, Rialto Towers 525 Collins Street Melbourne, Australia

CONTENTS

Chairman's letter	2
Key dates	4
Important notices	5
Notice of General Meeting	7
Voting and proxies	10
Explanatory Statement	11
Schedule – Independent Expert's Report	53

CHAIRMAN'S LETTER

7 June 2011

Dear Shareholder

Proposed acquisitions of:
- **Donaldson Coal Holdings Ltd; and**
- **Ellemby Holdings Pty Ltd.**

On 16 May 2011 Gloucester Coal Ltd (**Gloucester** or **Company**) announced:

- the proposed acquisition of the entire issued share capital of Donaldson Coal Holdings Ltd (**Donaldson**) from Noble Group Limited (**Noble**) for an enterprise value of $585 million[1] comprising:
  - $360 million in new Gloucester Shares issued to Noble at $9.75 per share[2]; and
  - $225 million in debt comprised of: $186 million of debt from Noble (agreed to be repaid) and $39[3] million of debt from a third party lender (assumed) expected to be refinanced at completion (**Donaldson Acquisition**);
- separately, and, subject to completion of the Donaldson Acquisition, proposed new coal marketing arrangements between Gloucester, Noble Marketing and Noble (**Marketing Arrangements**);
- the proposed acquisition of the entire issued share capital of Ellemby Holdings Pty Ltd (**Ellemby**) for consideration of at least $30 million, comprising:
  (a) $30 million in cash;
  (b) 1,000 new Gloucester converting preference shares (**Converting Shares**) for the provision of additional Gloucester Shares to Ellemby, subject to achievement of key milestones; and
  (c) additional Gloucester Shares to be provided in stages, subject to a 12 month escrow period (sale restriction) of 50% of the shares provided, under the terms of issue of the Converting Shares as follows:
    (i) $1.16 per Proven or Probable Reserves tonne capped at $70 million (indexed to CPI) satisfied by the provision of additional Gloucester Shares at the then prevailing 20 business day VWAP on completion of approved drilling program if the holders of Converting Shares provide Gloucester with a JORC compliant report in relation to ore reserves prior to completion of the drilling program (**Stage 1**);
    (ii) $0.70 per Proven or Probable Reserves tonne capped at $50 million (indexed to CPI) satisfied by the provision of additional Gloucester Shares issued at the then prevailing 20 business day VWAP payable on receipt of mining lease and planning approval (**Stage 2**); and
    (iii) additional Gloucester Shares equal in value to 2.5% of the total (indexed to CPI) for each complete calendar quarter between finalisation of the Stage 2 JORC report (following grant of the mining lease and planning approval) and 31 December 2016,

  (collectively, **Monash Acquisition**); and
- that a General Meeting of Gloucester would be called to consider resolutions relating to the Donaldson Acquisition, the Monash Acquisition and the Marketing Arrangements.

The proposed Monash Acquisition is conditional on the proposed Donaldson Acquisition and is subject to various conditions, including Gloucester shareholder approval. The Donaldson Acquisition is subject to the completion of the Monash Acquisition and shareholder approval, amongst other conditions.

Gloucester announced on 16 May 2011 an equity raising of approximately $230 million through a fully underwritten 2 for 11 non-renounceable accelerated pro rata entitlement offer (the **Equity Raising**).

The net proceeds raised from the Equity Raising will be used to fund the cash consideration for the Monash Acquisition (if it proceeds), partly fund repayment of existing Noble debt owed by Donaldson and payment of associated transaction costs, assuming the resolutions to approve the Donaldson Acquisition, the Marketing Arrangements and the Monash Acquisition are passed.

If the Donaldson Acquisition and the Monash Acquisition do not proceed (due to failure of shareholder approval or for any other reason), then monies raised under the Equity Raising will be used to:

- fund new opportunities and strategic initiatives in line with Gloucester's strategy to create a leading Australian coal company; and
- fund its capital expenditure and working capital.

I am now pleased to enclose the documentation for the General Meeting. The General Meeting will be held on 8 July 2011 at Minter Ellison, Level 23, Rialto Towers, 525 Collins Street, Melbourne, Australia commencing at 9.30am (AEST).

Shareholder approval is being sought at the General Meeting for the Donaldson Acquisition and the Marketing Arrangements because Noble is a related party of Gloucester. Noble and its associates are excluded from voting on resolutions to approve the Donaldson Acquisition and the Marketing Arrangements.

Shareholder approval is also being sought at the General Meeting for the Monash Acquisition, completion of which is inter-conditional with the Donaldson Acquisition.

The Monash Acquisition is conditional on the resolutions to approve the Donaldson Acquisition and the Marketing

1 Subject to completion adjustments.
2 New shares to be subject to 12 months escrow from completion.
3 Based on forecast debt balance upon completion.

Arrangements proceeding. The Donaldson Acquisition and the Marketing Arrangements are conditional on the resolutions to approve the Monash Acquisition proceeding. In addition, shareholder approval is being sought to amend the Gloucester constitution to permit Gloucester to issue and Convert the Converting Shares in accordance with the proposed terms of issue.

Your Independent Directors engaged Deloitte Corporate Finance Pty Limited (**Independent Expert**) to prepare an Independent Expert's Report (**IER**) on the Proposed Transactions. The Independent Expert has concluded that the Donaldson Acquisition, including the Marketing Arrangements (including the issue of Gloucester Shares as consideration) and the Monash Acquisition are fair and reasonable to Gloucester Shareholders that are not associated with Noble. A copy of the IER was originally provided to ASX on 16 May 2011 and an amended copy accompanies the enclosed Explanatory Statement. Your Independent Directors encourage you to read it carefully as part of your assessment of whether or not to vote in favour of Gloucester undertaking the Donaldson Acquisition and the Monash Acquisition and entering into the Marketing Arrangements.

The Donaldson Acquisition, the Marketing Arrangements and the Monash Acquisition are collectively referred to in the enclosed Explanatory Statement as the **Proposed Transactions**. Further information in relation to the Proposed Transactions, including their rationale, advantages, disadvantages and risks, is set out in the Explanatory Statement.

Your Independent Directors unanimously recommend that you vote in **favour** of the Resolutions proposed at the General Meeting. In forming their unanimous recommendation in relation to the Proposed Transactions, the Independent Directors have carefully considered the following matters:

- the proposed acquisitions are consistent with Gloucester's strategy to create a leading Australian coal company;
- the proposed acquisitions are expected to create significant value for Gloucester Shareholders over the medium term;
- the Donaldson and Monash Acquisitions position Gloucester for further NSW growth:
  - expansion of existing production base and significant increase in resource base from 340 Mt[4] to 1,512 Mt[5];
  - access to new major Hunter Valley coking and thermal coal development opportunity in Monash;
- the Donaldson and Monash Acquisitions significantly enhance Gloucester's production profile and diversification in both near and medium term:
  - Gloucester will be a multi-mine operator with operations across all stages of the development curve;
  - expected increase in medium-term annual production from 5.5 Mtpa[6] to c.10 Mtpa[7,8];
  - capability to produce 40 to 50% metallurgical coal post ramp up of Middlemount, including up to 1 Mtpa of semi-soft coking coal from the Donaldson Abel mine;
  - creates opportunities to blend existing Gloucester product with Donaldson product;
- infrastructure holdings to deliver growth:
  - Donaldson delivers Newcastle port capacity through its 11.6% shareholding in NCIG to facilitate growth of the enlarged Gloucester group;
- centralised new export coal marketing arrangements with Noble with capacity to develop alternative in house capacity;
- Monash provides potential large scale development opportunity:
  - potential large semi-soft and thermal coal resource, located in an area where coal seams are well understood;
  - potential for large scale underground operation (up to 7 Mtpa), with majority of product expected to be typical Hunter Valley semi-soft coking coal;
  - located close to rail and port infrastructure relative to development opportunities which are located in the Gunnedah and Mudgee Basins;
- repositioning Gloucester relative to its ASX peers; and
- increased market capitalisation and free float, which is expected to improve index weighting, liquidity and investor interest.

On behalf of the Gloucester Board, I thank you for your continued support of Gloucester.

Yours sincerely

James MacKenzie
Chairman
Gloucester Coal Ltd

4 Includes near 50% interest in Middlemount.
5 Refer to footnote 4 above.
6 Refer to footnote 4 above.
7 Refer to footnote 4 above.
8 Projected production figures are shown on an equity basis. Projected production figures are estimates only and are subject to the risks outlined in Section 11, including but not limited to the risks relating to port allocation and capacity, rail access, operational risks and resource and reserve estimates. Forward-looking statements are not guarantee of future performance and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of Gloucester.

KEY DATES

Date of this Notice of Meeting and Explanatory Statement	7 June 2011
Latest time and date for lodgement of completed proxy forms for the General Meeting	9.30am (AEST) on 6 July 2011
Time and date for determining eligibility to vote at the General Meeting	7.00pm (AEST) on 6 July 2011
Time and date of the General Meeting	9.30am (AEST) on 8 July 2011

IMPORTANT NOTICES

General

The Notice of Meeting and Explanatory Statement are dated 7 June 2011.

This document is important. You should read it in its entirety before making a decision on how to vote on the Resolutions to be considered at the General Meeting. A proxy form for the meeting is enclosed. If you are in doubt as to what you should do, you should consult your legal, investment or other professional adviser.

Defined terms

Capitalised terms in the Notice of Meeting and Explanatory Statement are defined either in the Glossary in Section 15 or where the relevant term is first used.

Responsibility

The Notice of Meeting and Explanatory Statement have been prepared by Gloucester under the direction and oversight of its Independent Directors.

Deloitte has prepared the Independent Expert's Report in relation to the Proposed Transactions, as set out in the Schedule. Gloucester and its related bodies corporate do not assume any responsibility for the accuracy and completeness of the Independent Expert's Report, except to the extent any inaccuracy or incompleteness in that document arises directly from the inaccuracy or incompleteness of information given to the Independent Expert by the Gloucester Group.

Information in relation to Donaldson and Monash is based on information made available to Gloucester by Donaldson and the Monash Vendors (as applicable), and in some cases has been extracted or adapted from publicly available information or third party sources with consent. To the maximum extent permitted by law Gloucester does not accept responsibility for any errors, omissions or misstatements in Section 5 or 8 that are attributable to errors, omissions or misstatements in public documents lodged by any person other than Gloucester with ASX or otherwise. Gloucester does not, subject to the Corporations Act, make any representation or warranty, express or implied, as to the accuracy or completeness of such information.

Noble and its affiliates (excluding Gloucester), advisors to Gloucester, and each of their respective directors, officers and employees (**Other Persons**) have not been involved in the preparation of, and have not authorised, permitted or caused the issue, lodgement, admission, dispatch or provision of this Notice of Meeting and do not make or purport to make any statement in this Notice of Meeting. None of the Other Persons makes any representation or warranty as to the currency, accuracy, reliability or completeness of information and nor do they make any representation or warranties to Gloucester Shareholders concerning the Proposed Transactions. To the maximum extent permitted by law, the Other Persons expressly disclaim all liabilities:

(a) in respect of, make no representations regarding, and take no responsibility for any part of this document or in relation to the Proposed Transactions; and

(b) for any expenses, losses, damages or costs that may be incurred by you as a result of that information being inaccurate or incomplete in any way for any reason.

ASIC and ASX

A draft of this Explanatory Statement was provided to ASIC for its review under section 218 of the Corporations Act in relation to the Resolutions. ASIC has not, as it is entitled to do under section 220 of the Corporations Act, provided any comments on that draft, in so far as the draft constitutes the proposed explanatory statement required under section 218 of the Corporations Act for the Resolutions.

A final copy of this Notice of Meeting and Explanatory Statement was lodged with ASIC and provided to ASX. Neither ASIC, ASX nor any of their respective officers takes any responsibility for the contents of this document, or any documents that accompany it.

Forward-looking statements

Some of the statements appearing in this document may be in the nature of forward-looking statements. The words 'anticipate', 'believe', 'expect', 'project', 'forecast', 'estimate', 'likely', 'intend', 'should', 'could', 'may', 'target', 'plan', 'consider', 'foresee', 'aim', 'will' and similar expressions are intended to identify forward-looking statements. Indications of and guidance on, future production, resources, reserves, sales, capital expenditure, earnings and financial position and performance are also forward-looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties many of which are outside Gloucester's control. Those risks and uncertainties include factors and risks specific to Gloucester, Donaldson and Monash such as (without limitation) the volume and price of coal sales, the impact of inflation on operating and development costs, any fluctuations in exchange rates, risks associated with forward sales, operational risks, risks associated with the exploration or developmental stage of projects, the imprecise nature of resource and reserve statements, access to and costs of infrastructure and transport and taxation (including the proposed MRRT), regulatory issues and changes in law and accounting policies, the fluctuating industry and commodity cycles, any reliance on third parties and joint ventures in the development of projects, any imposition of significant obligations under environmental regulations, the impact on competitiveness of the business resulting from carbon trading and carbon tax imposed by Australian and foreign governments, any climate change impact (including regarding water allocation), any increased competition, any loss of key long-term contracts, the adverse impact of wars, terrorism, political, economic or natural disasters, any inability to enforce legal rights, any native title claims, the ability to service existing debt and to refinance its debt to meet its expenditure needs and any future acquisitions, further exploration or new projects, loss of key personnel and delays in obtaining or inability to obtain any necessary government approvals or exploration licences, impact of changes to interest rates, effect of new technologies, the availability and cost of key equipment, the New South Wales coal royalty regime, risks associated with industrial action, changes to health and safety regulations, incorrect capital expenditure estimates, changes to government fiscal, monetary and regulatory policies, reliance on third parties or risks associated with Donaldson or the Monash Assets or the benefits/efficiencies of the Proposed Transactions.

Actual events or results may differ materially from the events or results expressed or implied in any forward-looking statement and such deviations are both normal and to be expected.

None of Gloucester, any of its officers or any person named in this document or involved in the preparation of this document make any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward-looking statement, or any events or results expressed or implied in any forward-looking statement, and you are cautioned not to place undue reliance on those statements.

The forward-looking statements in this document reflect views held only as at the date of this document. Gloucester has no obligation to disseminate after the date of this document any updates or revisions to any such statements to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any of those statements are based unless it is required so under the Corporations Act to update or correct this document or pursuant to its continuous disclosure obligations under ASX Listing Rules and the Corporations Act.

No financial product advice

This document and any accompanying document is not financial product or investment advice nor a recommendation in respect of Gloucester Shares. It has been prepared without taking into account the objectives, financial situation or needs of shareholders or other persons. Before deciding how to vote or act Shareholders and others should consider the appropriateness of the information having regard to their own objectives, financial situation and needs and seek legal, taxation and financial advice appropriate to their jurisdiction and circumstances. Gloucester is not licensed to provide financial product advice in respect of Gloucester Shares or any other financial products.

No internet site is part of this document

No internet site is part of this Notice of Meeting or Explanatory Statement. Gloucester maintains an internet site (www.gloucestercoal.com.au). Any references in this document to this internet site is a textual reference only and does not form part of this document.

NOTICE OF GENERAL MEETING

A general meeting of Gloucester Coal Ltd (**Gloucester**) will be held on 8 July 2011 at Minter Ellison Lawyers, Level 23 Rialto Towers, 525 Collins Street, Melbourne, Australia commencing at 9.30am (AEST).

Business

1. Donaldson Acquisition Resolution

Resolution 1

To consider and, if thought fit, to pass (with or without modification) the following resolution:

'Subject to the passing of resolutions 2, 3 and 5, that for the purposes of:

*(a) sections 208 and 217 to 227 inclusive of the Corporations Act, the Shareholders of Gloucester approve Gloucester giving the financial benefits and the contracts requiring the provision of financial benefits in connection with the Donaldson Acquisition, the nature of which is set out in the Explanatory Statement accompanying and forming part of the notice of this meeting to the related parties set out in that Explanatory Statement (each, **Relevant Related Party**);*

*(b) Listing Rule 10.1, the Shareholders of Gloucester approve the acquisition of the entire issued share capital of Donaldson from one or more of the Relevant Related Parties as described in that Explanatory Statement (**Explanatory Statement**);*

(c) Listing Rule 10.11, the Shareholders of Gloucester approve the issue of approximately $360 million (subject to completion adjustments) in new Gloucester Shares at a price of $9.75 per Gloucester Share as consideration for the Donaldson Acquisition, as described in the Explanatory Statement; and

(d) the Corporations Act and Listing Rule 10.1, the Shareholders of Gloucester approve the entering into of the Donaldson Acquisition Transaction Documents and any and all transactions and arrangements contemplated in the Donaldson Acquisition Transaction Documents.'

Note: If this resolution is passed it constitutes approval for the purposes of Listing Rule 10.11 to the issue of the Consideration Shares, and approval for such issue is not required under Listing Rule 7.1.

2. Marketing Arrangements Resolution

Resolution 2

To consider and, if thought fit, to pass (with or without modification) the following resolution:

'Subject to the passing of resolutions 1, 3 and 5, that for the purposes of sections 208 and 217 to 227 inclusive of the Corporations Act, the Shareholders of Gloucester approve Gloucester giving the financial benefits and the contracts requiring the provision of financial benefits in connection with the Marketing Arrangements, the nature of which is set out in the Explanatory Statement, to the Relevant Related Parties.'

3. Monash Acquisition

Resolution 3

To consider and, if thought fit, to pass (with or without modification) the following resolution:

'Subject to the passing of resolutions 1, 2, 4 and 5, that the shareholders of Gloucester approve:

(a) for the purposes of Listing Rule 7.1 and all other purposes, the issue of 1,000 Converting Shares at a price of $1.00 per Converting Share as described in the Explanatory Statement; and

(b) the entering into of the Monash Acquisition Transaction Documents and any and all transactions and arrangements contemplated in the Monash Acquisition Transaction Documents.'

Resolution 4

To consider, and if thought fit to pass the following resolution which will be proposed as a special resolution:

'That the Constitution is modified as follows:

(a) delete 'and' where appearing in rule 2.2(a)(ii);

(b) add 'and' immediately after ';' in rule 2.2(a)(iii);

(c) add immediately after rule 2.2(a)(iii):

'(iv) preference shares in accordance with the terms of Schedule 3;'; and

(d) add immediately after Schedule 2 the following as Schedule 3:

Schedule 3: Converting Preference Shares (Non-cumulative Dividend)

1. In this schedule, unless the context otherwise requires:

***Dividend** means any distribution of any property (including without limitation, money, paid up shares, debentures, debenture stock or other securities of the company or of any other corporation) to a Holder in respect of a Preference Share as a dividend, whether interim or final.*

***Dividend Date** means, in respect of a Preference Share, a date specified in the Issue Resolution on which a Dividend in respect of that Preference Share is payable.*

***Dividend Rate** means, in respect of a Preference Share, the terms specified in the Issue Resolution for the calculation of the amount of Dividend to be paid in respect of that Preference Share on any Dividend Date, which calculation may be wholly or partly established by reference to an algebraic formula.*

***Franked Dividend** has meaning given to the term 'franked distribution' in section 995-1 of the Income Tax Assessment Act 1997 (Cth) (whichever provision applies).*

***Holder** means, in respect of a Preference Share, the registered holder of that share.*

***Insolvency Dividend** means any Dividend which becomes payable to a Holder upon the occurrence of an event of insolvency in relation to the Company under the terms specified in the Issue Resolution.*

***Issue Resolution** means the resolution specified in paragraph 3 as amended from time to time.*

***Preference Share** means a share issued under rule 2.2(a)(iv).*

2. *Each Preference Share confers upon its Holder:*
   (a) *the rights referred to in rules 2.2(b) and 2.2(c);*
   (b) *the right in a winding up to payment in cash of:*
      (i) *the amount then paid up on it;*
      (ii) *an Insolvency Dividend, to the extent the provisions of the Issue Resolution allow for one; and*
      (iii) *(whether the Directors have determined to pay a Dividend or not) the amount equivalent to the Dividend payable throughout the period from and including the preceding Dividend Date to the date of commencement of the winding up (calculated on a daily basis assuming a 365 day year) in respect of that Preference Share,*

   in priority to holders of ordinary shares or any other class of shares ranking behind the Preference Shares;
   (c) *subject to law and the Directors determining a Dividend to be payable, the right in priority to any payment of a Dividend on ordinary shares, to a non-cumulative preferential Dividend payable on each Dividend Date in relation to that Preference Share calculated in accordance with the Dividend Rate in relation to that Preference Share;*
   (d) *no right to participate beyond the extent elsewhere specified in this paragraph 2 in surplus assets or profits of the Company, whether in winding up or otherwise;*
   (e) *the right to convert (whether at the option of the Company or the Holder or both) into an ordinary share in accordance with the Issue Resolution; and*
   (f) *the right to be issued or transferred (as determined by the Company from time to time) ordinary shares in accordance with the Issue Resolution.*
3. *The Directors may only allot a Preference Share by a resolution that specifies:*
   (a) *the Dividend Date;*
   (b) *the Dividend Rate; and*
   (c) *any other terms and conditions to apply to that Preference Share.*
4. *The Issue Resolution in establishing the Dividend Rate for a Preference Share may specify that the Dividend is to be:*
   (a) *fixed;*
   (b) *variable depending upon any variation of the respective values of any factors in an algebraic formula specified in the Issue Resolution; or*
   (c) *variable depending upon such other factors as the Directors may specify in the Issue Resolution,*

   and may also specify that the Dividend is to be a Franked Dividend or not a Franked Dividend.
5. *Where the Issue Resolution specifies that the Dividend to be paid in respect of the Preference Share is to be a Franked Dividend, the Issue Resolution may also specify:*
   (a) *the extent to which such Dividend is to be franked; and*
   (b) *the consequences of any Dividend paid not being so franked, which may include a provision for an increase in the amount of the Dividend to such an extent or by reference to such factors as may be specified in the Issue Resolution.*
6. *Conversion of a Preference Share in accordance with the Issue Resolution:*
   (a) *does not constitute the redemption, cancellation or buy-back of the Preference Share or an issue, allotment or creation of a new share; and*
   (b) *constitutes a variation of the rights attached to the Preference Share that confers on the Holder all of the rights and obligations in respect of an ordinary share in the Company, ranking equally in all respects with each of the other ordinary shares then on issue.*
7. *The certificate (if any) issued by the Company in relation to any Preference Share, must specify in relation to that Preference Share:*
   (a) *the date of issue of the Preference Share;*
   (b) *the Dividend Rate and Dividend Dates; and*
   (c) *any other matter the Directors determine.'*

4. Financial assistance

Resolution 5

To consider, and if thought fit, to pass the following resolution which will be proposed as a special resolution:

'Subject to the passing of resolutions 1, 2 and 3, that the shareholders of Gloucester approve the transactions described in the Explanatory Statement and all elements of those transactions that may constitute financial assistance by the companies referred to in the Explanatory Statement as Target Group Companies for the purposes of section 260B of the Corporations Act 2001 (Cth), including (without limitation) that each Target Group Company may:

*(a) execute, or accede to, (as an obligor) a facilities agreement between Gloucester, (Lender) and others (**Facilities Agreement**);*

(b) give an interlocking guarantee and indemnity (which may be contained in the Facilities Agreement) for the repayment of money that may become owing, and to secure (among other things) each obligor's obligations, under the Facilities Agreement and any related document;

(c) to secure its obligations under the Facilities Agreement (including the guarantee and indemnity) and any related document:
   (i) execute a fixed and floating charge or charges over its assets and undertaking;
   (ii) if required under the Facilities Agreement, execute a registrable real property mortgage or mortgages over its real property interests (if any); and

(iii) if required under the Facilities Agreement, execute a share mortgage or mortgages over shares and associated rights held by it in certain subsidiaries (if any);

(d) if the Facilities Agreement (or any subsequent refinancing facility) needs to be refinanced at some time in the future, from time to time:

(i) execute, or accede to (as an obligor), a new facilities agreement:

(A) on substantially the same terms as the Facilities Agreement; or

(B) on terms as approved by the board of directors or the members (or both) at the relevant time; and

(ii) give one or more of a guarantee, indemnity or security interest over its assets (whether by way of mortgage, fixed or floating (or both) charge or otherwise) to secure each obligor's obligations under any new facilities agreement and any related document;

(e) execute, or accede to, an intercreditor deed or a subordination deed or a security trust deed (or any or all of them) as an obligor; and

(f) execute, or accede to, any document ancillary to, or in connection with, the Facilities Agreement, any new facilities agreement and any guarantee, indemnity or security interest given in connection with the Facilities Agreement, any new facilities agreement and any related document.

In this resolution a reference to any document in this resolution is the document as amended, restated or replaced from time to time.'

Voting exclusion statement – Donaldson Acquisitions and Marketing Arrangements

The Company will disregard any votes cast on Resolution 1 or 2 by:

(a) a Relevant Related Party;

(b) an associate of any Relevant Related Party;

(c) a party to the transaction referred to in the Resolution;

(d) any associate of such a party;

(e) any person who is to receive Gloucester Shares or Converting Shares under the terms of the Donaldson Acquisition or the Monash Acquisition; or

(f) any associate of such a person.

However, the above does not prevent the casting of a vote if:

(g) it is cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the proposed resolution; and

(h) it is not cast on behalf of a person of the kind expressed in paragraphs (a) to (f) inclusive above.

Voting exclusion statement – Monash Acquisition

The Company will disregard any votes cast on Resolution 3 by:

(a) any Monash Vendor or any Monash Guarantor (each being a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary shares if the Resolution is passed); or

(b) an associate of any person or persons referred to in paragraph (a).

However, the Company need not disregard a vote if:

(c) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(d) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

By order of the board

Date 7 June 2011

Signed 

Name Craig Boyd
Company Secretary/Chief Financial Officer

VOTING AND PROXIES

Gloucester has determined, in accordance with regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) that Gloucester's Shares quoted on ASX at 7.00pm (AEST) on 6 July 2011, will be taken, for the purposes of the General Meeting, to be held by the persons who held them at that time.

Accordingly, those persons are entitled to attend and vote at the General Meeting.

The General Meeting will be held at 9.30am (AEST) on 8 July 2011 at Minter Ellison, Level 23 Rialto Towers, 525 Collins Street, Melbourne, Australia.

PROXIES, ATTORNEYS AND REPRESENTATIVES

1. A Shareholder who is entitled to attend and vote at the General Meeting may appoint up to two proxies or attorneys to attend and vote on behalf of that Shareholder.
2. If a Shareholder appoints two proxies or attorneys, the appointment of the proxies or attorneys may specify the proportion or the number of that Shareholder's votes that each proxy or attorney may exercise. If the appointment does not so specify, each proxy or attorney may exercise half of the votes. Fractions of votes will be disregarded.
3. Where a Shareholder appoints more than one proxy or attorney, neither proxy or attorney is entitled to vote on a show of hands, and on a poll, each proxy or attorney may only exercise votes in respect of those Shares or voting rights the proxy or attorney represents.
4. Neither a proxy nor an attorney need be a Shareholder of Gloucester.
5. A proxy may be an individual or body corporate.
6. The appointment of a proxy or attorney is not revoked by the appointor attending and taking part in the General Meeting, but if the appointor votes on a resolution, the proxy or attorney is not entitled to vote, and must not vote, as the appointor's proxy or attorney on the resolution.
7. To be effective, Gloucester must receive the instrument appointing the proxy or attorney and, if the instrument is signed by the Shareholder's attorney, the authority under which the instrument is signed (or a certified copy of the authority) by no later than 9.30am (AEST) on 6 July 2011. A sample form of the instrument appointing a proxy or attorney accompanies this notice of General Meeting.
8. Proxy forms may be lodged with Computershare:
   (a) by mail to:
   Computershare Investor Services Pty Limited
   GPO Box 242
   Melbourne Victoria 3001, or
   (b) in person at:
   Computershare Investor Services Pty Limited
   Level 4, 60 Carrington Street
   Sydney New South Wales 2000, or
   (c) by facsimile to:
   1800 783 447 (within Australia); or
   +61 3 9473 2555 (outside Australia), or
   (d) Custodian Voting:
   For intermediary online subscribers only (custodians) please visit:
   www.intermediaryonline.com to submit your voting intentions.
9. Alternatively, proxy forms may be lodged with Gloucester:
   (a) by mail, to the attention of the Company Secretary, at:
   Gloucester Coal Ltd
   PO Box 137
   Chatswood New South Wales 2057, or
   (b) by delivery to Gloucester's registered office, to:
   Citadel Towers (Tower B)
   Level 15, 799 Pacific Highway
   Chatswood New South Wales 2067, or
   (c) by facsimile to:
   +61 2 9413 4802.
10. A corporate Shareholder or proxy may elect to appoint a representative to vote. Where a corporate Shareholder or proxy appoints a representative, the chairperson of the meeting may require a person acting as representative to establish to the chairperson's satisfaction that the person is duly appointed to act. If the person fails to satisfy that requirement, the chairperson may exclude the person from attending or voting at the meeting. Accordingly, Gloucester encourages written proof of a representative's appointment to be lodged with or presented to Gloucester by no later than 9.30am (AEST) on 6 July 2011. Representatives of corporate Shareholders or proxies are also encouraged to produce a copy of the instrument of their appointment and to produce it if requested at the General Meeting.
11. For a Resolution to be passed, it must be approved by more than 50% of the total number of votes which are cast on each Resolution, unless it is a Special Resolution in which case it must be approved by at least 75% of the total number of votes which are cast on it.
12. Voting exclusions apply to Resolutions 1, 2 and 3. Refer to the voting exclusion notices in the Notice of Meeting. No voting exclusions apply to Resolutions 4 and 5.
13. Subject to paragraph 12, the chairman of the General Meeting proposes to vote undirected proxies in favour of each Resolution.

EXPLANATORY STATEMENT

EXPLANATORY STATEMENT

This Explanatory Statement accompanies and forms part of the notice of meeting and should be read in conjunction with it.

1. BACKGROUND

1.1 Equity Raising

Gloucester has recently completed a 2 for 11 fully underwritten accelerated non-renounceable pro rata entitlement offer raising approximately $230 million, comprising:

- a $218 million underwritten institutional component (**Institutional Entitlement Offer**); and
- a $12 million underwritten retail component (**Retail Entitlement Offer**),

(together, the **Equity Raising**).

The net proceeds of the Equity Raising will be used to fund the Monash Acquisition, to repay certain indebtedness of Donaldson to Noble, to fund completion adjustments in respect of the Donaldson Acquisition and for working capital, assuming Resolutions 1 to 5 are passed.

If the Donaldson Acquisition and the Monash Acquisition do not proceed (due to failure of shareholder approval or for any other reason), then monies raised under the Equity Raising will be used to:

- fund new opportunities and strategic initiatives in line with Gloucester's strategy of becoming a leading Australian coal company; and
- fund capex and working capital.

1.2 Gloucester Shareholder approval

The Donaldson Acquisition, the Marketing Arrangements and the Monash Acquisition are subject to approval by Gloucester Shareholders. Noble and its associates are excluded from voting on the Resolutions to approve the Donaldson Acquisition and the Marketing Arrangements (i.e. Resolutions 1 and 2).

These approvals and the applicable voting entitlements are described in further detail in Section 13 of this Explanatory Statement.

If Gloucester Shareholders approve the Proposed Transactions, the scale of Gloucester's existing business will be substantially increased. Therefore, Gloucester Shareholders will be shareholders in a substantially enlarged company with a different mix of assets and a different risk profile. A profile of Gloucester following the approval and implementation of the Proposed Transactions is provided in Section 10.

1.3 Financial assistance

This Explanatory Statement is given to members of Gloucester for, amongst other purposes, the purpose of section 260B(4) of the Corporations Act.

It contains information known to Gloucester which is material to deciding how to vote on the resolution set out in the accompanying notice of meeting. Resolution 5, set out in the notice of meeting, approves the giving of financial assistance by companies that will become subsidiaries of Gloucester following the Proposed Transactions.

The key terms of the proposed financial assistance are summarised in Section 12.

2. PURPOSE OF GENERAL MEETING

The purpose of the General Meeting is to seek Shareholder approval for the Donaldson Acquisition, the Marketing Arrangements and the Monash Acquisition.

2.1 Donaldson Acquisition

(a) Resolution 1 – Donaldson Acquisition

The purpose of Resolution 1 is to seek Shareholder approval for the proposed acquisition by Gloucester of the Donaldson Group. Donaldson's key assets include mining operations in the Hunter Valley, specifically the Donaldson Open Cut Mine, the Tasman Underground Mine and the Abel Underground Mine, as set out in more detail in Section 5.

Under the Donaldson Acquisition, Noble agrees to sell to Gloucester 100% of the shares in Donaldson, subject to Shareholder approval and other conditions described more fully in Section 6.

The purchase price for the acquisition of Donaldson is A$585 million[9] with the consideration estimated to be satisfied by the issue of $360 million in new Gloucester Shares issued to Noble at $9.75 per share; and assumption of $225 million in debt comprised of:

(i) $186 million of Noble debt (agreed to be repaid); and

(ii) $39 million[10] of debt from a third party lender assumed (expected to be refinanced at completion).

Gloucester and Noble have entered into the Donaldson Share Purchase Deed to give effect to the Donaldson Acquisition. The key terms of the Donaldson Share Purchase Deed are summarised in Section 6.

(b) Approval of Gloucester Shareholders required

Resolution 1 requires a simple majority of votes cast by eligible Gloucester Shareholders present and voting at the General Meeting in order to be passed. Noble and its associates are excluded from voting on the Resolution.

Further information about the approvals required, including information required to be given to Gloucester Shareholders under

9 Subject to completion adjustments.
10 Based on forecast debt balance upon completion.

the Corporations Act and ASX Listing Rules, is set out in Section 13 of this Explanatory Statement.

2.2 Marketing Arrangements

(a) Resolution 2 – Marketing Arrangements

The purpose of Resolution 2 is to seek Shareholder approval for Gloucester giving the financial benefits and the contracts requiring the provision of financial benefits in connection with the Marketing Arrangements set out in more detail in Section 7.

The Marketing Services Agreement appoints Noble Marketing to provide long-term international marketing services, advice and information as and when requested by Gloucester from time to time in relation to the sale and marketing of:

- coal mined from a mine in NSW owned either solely, partly or through a joint venture by the Gloucester Group (in proportion to Gloucester's underlying share or entitlement to coal produced from that mine) and exported from the Port of Newcastle;
- coal exported from the Port of Newcastle by a third party whose ownership of the mine from which the coal was mined arose through the Gloucester Group;
- coal exported from the Port of Newcastle by a third party using facilities provided by the Gloucester Group or its related bodies corporate or third party coal purchased by Gloucester or its related bodies corporate for the sole or dominant purpose of blending and sale by way of export by ship from the Port of Newcastle; and
- in all cases including such coal or third party coal sold to the Noble Group,

(together, **Export Coal**).

The appointment of Noble Marketing does not preclude Gloucester using its own internal resources instead of Noble Marketing but is otherwise exclusive, with the exception of existing exclusive marketing arrangements entered into by members of the Gloucester Group.

The consideration to be provided for Noble Marketing's services is to be calculated at a rate of 2% multiplied by:

- the actual sales of Export Coal to a maximum of 8.25 Mtpa of Export Coal in excess of 3.5 Mtpa; and
- the volume weighted average gross sales price per tonne FOBT Port of Newcastle (less adjustment for quality standards and specifications) in respect of sales of the Export Coal.

The consideration is payable whether or not Gloucester requires Noble Marketing's Services.

The reviewed pro forma balance sheet on page 28 of the Investor Presentation provides for a financial liability of $80,228,000 on account of the Marketing Arrangements. The amount ultimately paid will depend on a range of factors including the volumes of, and the prices obtained for, Export Coal.

(b) Approval of Gloucester Shareholders required

Resolution 2 requires a simple majority of votes cast by eligible Gloucester Shareholders present and voting at the General Meeting in order to be passed. Noble and its associates are excluded from voting on the Resolution.

Further information about the approvals required, including information required to be given to Gloucester Shareholders under the Corporations Act and ASX Listing Rules, is set out in Section 13 of this Explanatory Statement.

2.3 Monash Acquisition

(a) Resolution 3 – Monash Acquisition

The purpose of Resolution 3 is to seek Shareholder approval for the proposed acquisition by Gloucester of the Monash Group. Monash's key assets are the Tenements, as described more fully in Section 8.

Under the Monash Acquisition, the Monash Vendors agree to sell to Gloucester 100% of the shares in Ellemby, subject to Shareholder approval and other conditions described in Section 9.

The purchase price for the acquisition of Ellemby is $30 million initial cash consideration plus deferred consideration to be calculated on the terms set out in Section 9.

Gloucester and the Monash Vendors have entered into the Monash Share Sale Deed to give effect to the Monash Acquisition. The key terms of the Monash Share Sale Deed are summarised in Section 9.

(b) Approval of Gloucester Shareholders required

Resolution 3 requires a simple majority of votes cast by eligible Gloucester Shareholders present and voting at the General Meeting in order to be passed.

Further information about the approvals required, including information required to be given to Gloucester Shareholders under the Corporations Act and ASX Listing Rules, is set out in Section 13 of this Explanatory Statement.

(c) Resolution 4 – Converting Shares

Part of the consideration for the Monash Acquisition is the issue of the Converting Shares.

The Converting Shares will be non-cumulative preference shares that will confer on their holders certain rights including the right to be provided additional shares in the achievement of certain benchmarks specified in the terms of issue.

Refer to Section 9.4 for the rights to be attached to Converting Shares.

(d) Resolution 4 – Amendment to Constitution

The Corporations Act requires certain key rights attached to preference shares to be specified in the constitution or in a stand alone special resolution. The Company has chosen to comply with these requirements by amending its Constitution as proposed in Resolution 4.

Resolution 4 is proposed as a special resolution, requiring at least 75% of the votes cast by eligible Gloucester Shareholders present and voting at the General Meeting in order to be passed.

2.4 Financial Assistance

(a) Resolution 5 – Financial Assistance

Part 2J.3 of the Corporations Act provides that a company may provide financial assistance to a person to acquire shares (or units of shares) in the company or a holding company of the company only if:

(i) the giving of the financial assistance does not materially prejudice:

(A) the interests of the company or its shareholders; or

(B) the company's ability to pay its creditors; or

(ii) the financial assistance is approved by shareholders under section 260B of the Corporations Act) (which also requires advance notice to ASIC); or

(iii) the financial assistance is exempted under section 260C of the Corporations Act.

The above restriction applies irrespective of whether the financial assistance is given before or after the acquisition of shares.

The expression 'financial assistance' is not defined in the Corporations Act. Courts have interpreted this expression as having no technical meaning. Instead, courts examine the commercial arrangements between parties liberally so that both direct and indirect arrangements, including arrangements that in any way facilitate a person's acquisition of shares, may constitute the provision of financial assistance.

(b) Approval of Gloucester Shareholders required

Resolution 5 is proposed as a special resolution requiring the approval of at least 75% of the votes cast by eligible Gloucester Shareholders present and voting at the General Meeting, in order to be passed.

2.5 Key reasons to vote in favour of and against the Proposed Transactions

Set out below is a brief summary of the key reasons to vote in favour or against the Proposed Transactions. Please refer to pages 10 – 11 of the Introduction (under the headings Advantages and Disadvantages of the Proposed Transactions) to the Independent Expert's Report and Section 4.3 of this Explanatory Statement (which sets out the Independent Directors' recommendations) for further details.

(a) Key reasons to vote in favour of the Donaldson Acquisition Proposal

(i) The Proposed Transactions will position Gloucester for growth. Gloucester will be a multi-mine operator with significantly enhanced production profile and growth pipelines and assets across all stages of development. Gloucester will also have access to increased port infrastructure holdings to deliver this growth.

(ii) Gloucester will have an enhanced production growth profile in the near and medium term after acquiring Donaldson and will produce a mix of metallurgical and thermal coal production. The acquisition of Donaldson also creates opportunities to blend existing Gloucester product with Donaldson product.

(iii) Gloucester will have a more diversified portfolio of assets and product offering and a higher annual production after acquiring Donaldson. In addition, Gloucester will have assets in production (or close to production) in different geographic regions therefore reducing concentration risks with operating assets in the existing locations.

(iv) Donaldson is a producing asset with a large resource base that is close to the Port of Newcastle (c.25 km), providing it with the opportunity to expand with relatively low mine-to-port logistics costs.

(v) Upon completion of the Proposed Transactions and the Equity Raising, Gloucester will have an increased market capitalisation. This may improve Gloucester's access to debt and equity funding.

(vi) The Independent Expert has concluded that the Donaldson and Monash Acquisitions are fair and reasonable to shareholders that are not associated with Noble.

(vii) The Donaldson and Monash Acquisitions are unanimously recommended by Gloucester's Independent Directors.

(b) Key reasons to vote against the Donaldson Acquisition Proposal

(i) As additional Gloucester shares will be issued to Noble under the Proposed Transactions, a dilution of ownership of Gloucester by shareholders not associated with Noble will occur and accordingly such shareholders will have their exposure to the potential upside from Gloucester's asset portfolio diluted. In particular, Noble's voting power in Gloucester will increase from approximately 55.3% immediately after the Equity Raising (having decreased from around 65% immediately before the Equity Raising) to approximately 63.4% if the Proposed Transactions proceed to Completion. See further Section 10.4.

(ii) You may disagree with the recommendation of the Gloucester Directors to vote in favour of the Proposed Transactions.

(iii) Acquisition of Donaldson will change the risk profile and risks of investment in the enlarged Gloucester group. Donaldson has predominantly underground mines while Gloucester has open cut operations.

(iv) Donaldson's operating costs are currently high relative to its peers, although are expected to reduce following introduction of longwall units.

(v) Donaldson has a significant capital expenditure program forecast for the next three years which may reduce cashflows available to distribute to shareholders.

(vi) The Donaldson transaction may reduce Gloucester shareholders exposure to metallurgical coal.

(vii) Unless other funding sources are arranged, Gloucester will need to take on a significant amount of debt to fund the planned expansion at Donaldson.

(viii) The acquisition of Donaldson will add another asset at the expansion stage to the existing Gloucester assets which are also developing or expanding, creating a strain on cash reserves.

(c) Key reasons to vote in favour of the Marketing Arrangements

(i) Grandfathers existing exclusive marketing arrangements.

(ii) Gives flexibility for Gloucester to develop its own marketing capability.

(d) Key reasons to vote against the Marketing Arrangements

(i) Marketing fees are payable until 2040, subject to a potential prepayment of the Marketing fees if a party other than Noble acquires over 50% of Gloucester.

(ii) Adds to underlying cost base of Gloucester and Donaldson, as marketing fees are payable whether or not the Gloucester group acquires marketing services from Noble Marketing.

(e) Key reasons to vote in favour of the Monash Acquisition

(i) Monash provides Gloucester with a potential large scale development opportunity.

(ii) A resource base of 287 Mt has already been defined at Monash. The Project has potential to be a large semi-soft and thermal coal resource and is located in area where coal seams are well understood.

(iii) The project has the potential to be a large scale underground operation (up to 7 Mtpa), with majority of product expected to be semi-soft coking coal.

(iv) Located close to rail and port infrastructure relative to development opportunities which are located in the Gunnedah and Mudgee Basins.

(v) Limited new quality coking coal exploration projects available in NSW with all new licences going out to full competitive tenders.

(f) Key reasons to vote against the Monash Acquisition

(i) Monash is an early stage asset and carries more development risk than a producing asset.

(ii) Limited drilling has been undertaken on the Monash project so there is no certainty that a viable project is feasible on the Monash tenements.

(iii) Size of capital expenditure required to bring the project to production is not clearly defined due to the early stage nature of the asset.

(g) Key reasons to vote in favour of financial assistance

(i) Allows acquired Donaldson and Monash Groups to provide financial support for Gloucester's external acquisition and working capital financing.

(h) Key reasons to vote against financial assistance

(i) Allows the resources of Gloucester and its subsidiaries to be put at risk to support Gloucester Group corporate debt.

3. INDEPENDENT EXPERT'S REPORT

The Independent Directors engaged Deloitte to prepare an Independent Expert's Report for Gloucester Shareholders (other than Noble) to express an opinion on whether the Donaldson Acquisition including the Marketing Arrangements (including the issue of Gloucester Shares) and the Monash Acquisition are fair and reasonable to Gloucester Shareholders other than Noble.

The Independent Expert's Report was released to ASX on 16 May 2011 and a copy as amended is reproduced in full in the Schedule to this Explanatory Statement. You should read that report in its entirety as part of your assessment of how to vote on the Resolutions.

The Independent Expert has concluded that the Proposed Transactions are fair and reasonable to Gloucester shareholders that are not associated with Noble.

The key conclusions from the Independent Expert's Report in respect of the Donaldson Acquisition including the Marketing Arrangements are summarised below:

- The Independent Expert has concluded that the Donaldson Acquisition (including the Marketing Arrangements) is fair and reasonable to Shareholders not associated with Noble by estimating the fair market value of Donaldson and comparing the value to the estimated fair market value of the consideration to be paid by Gloucester pursuant to the Donaldson Acquisition (including the Marketing Arrangements).
- In the view of the Independent Expert, the consideration payable by Gloucester to Noble under the Donaldson Acquisition is less than the range of the fair market value of Donaldson (including the Marketing Arrangements) and, therefore, the Donaldson Acquisition is fair. As the Donaldson Acquisition (including the Marketing Arrangements) is fair, it is also reasonable to Shareholders not associated with Noble.

The key conclusions from the Independent Expert's Report in respect of the Monash Acquisition are summarised below:

- The Independent Expert has concluded that the Monash Acquisition is fair and reasonable to Shareholders not associated with Noble by estimating the fair market value of the Monash Assets and comparing the value to the estimated market value of

the consideration to be paid by Gloucester pursuant to the Monash Acquisition.

- In the view of the Independent Expert, the consideration payable by Gloucester to Noble under the Monash Acquisition is less than the range of the fair market value of the Monash Assets and therefore, the Monash Acquisition is fair. As the Monash Acquisition is fair, it is also reasonable to Shareholders not associated with Noble.

However, the Independent Expert has also considered a number of other factors in assessing the reasonableness of the Proposed Transactions. These are set out in full in the Independent Expert's Report.

The above summary of the key conclusions and opinion of the Independent Expert is qualified in its entirety by, and should be read in conjunction with, the Independent Expert's Report which is set out in full in the Schedule to this Explanatory Statement.

An individual Gloucester Shareholder's decision in relation to the Proposed Transactions may be influenced by their personal circumstances. If, after reading this Explanatory Statement in its entirety, a Gloucester Shareholder has any queries in relation to the Donaldson Acquisition and/or the Monash Acquisition they should contact their legal, financial or other professional adviser.

4. DIRECTORS' RECOMMENDATIONS AND INTENTIONS

4.1 Directors of Gloucester

Director	Position
James MacKenzie	Non-Executive Chairman (Independent Director)
David Brownell	Non-Executive Director (Independent Director)
Gregory Fletcher	Non-Executive Director (Independent Director)
Denis Gately	Non-Executive Director (Independent Director)
Ricardo Leiman	Non-Executive Director
William Randall	Non-Executive Director

4.2 Directors' recommendation

(a) Independent Directors

The consideration and negotiation of the Proposed Transactions has been under the supervision and control of a committee of Gloucester's Independent Directors, Mr James MacKenzie, Mr Greg Fletcher and Mr Denis Gately (the **Independent Board Committee**).

Mr David Brownell is not a member of the Independent Board Committee.

Each of the Independent Directors, comprising the members of the Independent Board Committee and David Brownell, recommends that Gloucester Shareholders vote in favour of the Resolutions. The reasons for their recommendation are set out in Section 4.3.

(b) Other Directors

Both Ricardo Leiman and William Randall are employees of the Noble Group. Ricardo Leiman is the Noble Group Chief Executive Officer and William Randall is the Noble Group Head of Energy Coal & Carbon Complex.

Due to their relationship with the Noble Group and Noble Group's interest in the Donaldson Acquisition and Marketing Arrangements, Ricardo Leiman and William Randall do not believe it is appropriate to make a recommendation in relation to the Donaldson Acquisition or the Marketing Arrangements.

Each of Ricardo Leiman and William Randall do not make any recommendation as to how Gloucester Shareholders should vote in relation to the Resolution 1, 2 or 3. Each of them recommend that Gloucester Shareholders vote in favour of Resolutions 4 and 5. The reasons for their recommendation are set out in Section 4.3, to the extent the reasons given in Section 4.3 relate to Resolutions 4 and 5.

4.3 Reasons for recommendation

The Independent Directors' reasons for their recommendation are summarised as follows:

1. The acquisition of Donaldson and Monash is consistent with Gloucester's strategy, and the consideration payable to Noble for Donaldson and to Ellemby for Monash is fair

The Independent Directors believe the acquisition of the Donaldson and Ellemby will significantly advance Gloucester's growth strategy to become a leading Australian coal company.

Donaldson and Monash will provide Gloucester with considerable near-term production growth to ensure the company is well placed to benefit from expected long-term strength in thermal and metallurgical coal markets.

Following analysis of the development plan for Donaldson and Monash, and having regard to the outlook for thermal and metallurgical coal, the Independent Directors believe the consideration payable to Noble for Donaldson and to the Monash Vendors for Ellemby is fair to Gloucester Shareholders not associated with Noble.

2. The Independent Expert has concluded that the proposed acquisition of the Donaldson and Monash Assets (including the issue of the Consideration Shares) is fair and reasonable to Gloucester Shareholders not associated with Noble

The Independent Expert appointed by the Independent Directors has concluded that the acquisition of Donaldson including the Marketing Arrangements (including the issue of Gloucester Shares

as consideration) and the acquisition of Monash are fair and reasonable to Gloucester Shareholders that are not associated with Noble.

The Independent Expert has valued the:

- Enterprise value of the Donaldson Assets between: $609 million and $671 million; and
- Monash Tenements between $60 million and $140 million.

3. The acquisition of Donaldson and Monash position Gloucester to deliver further growth in New South Wales

Gloucester will be a multi-mine operator with assets across all stages of the development curve, solid production base and significant growth pipelines.

Figure 3.1 – Projects Across All Stages of Development

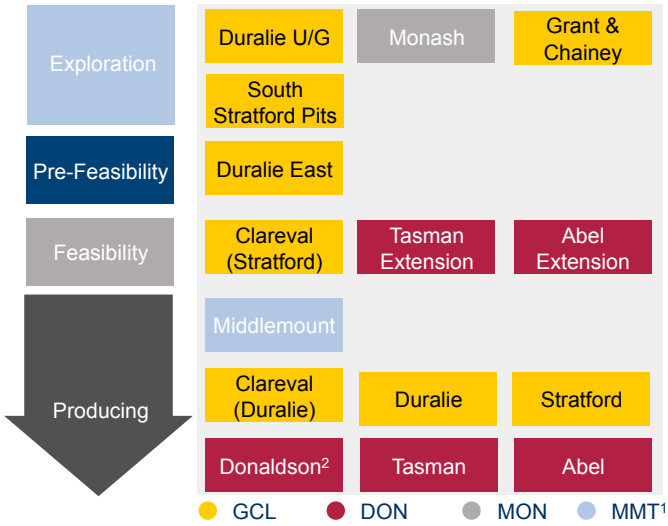
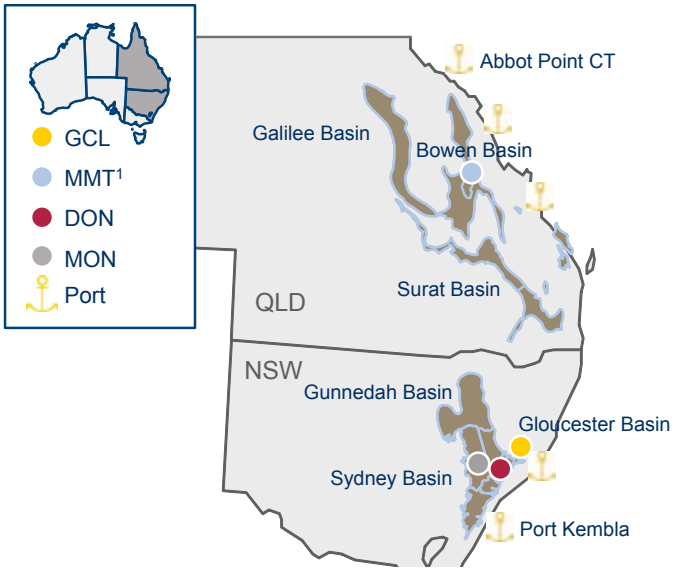


Figure 3.2 – Location of Projects

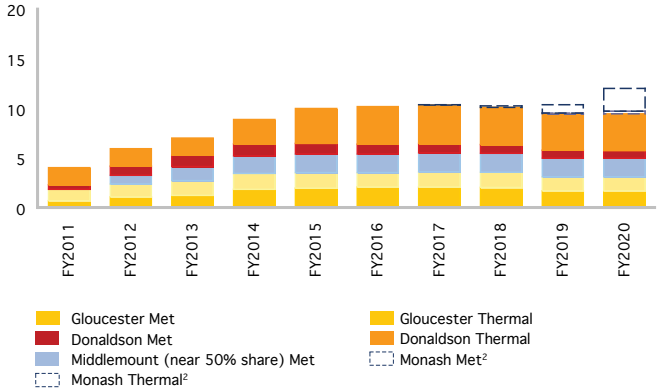


Notes:
1 Refers to Middlemount.
2 Donaldson mine is not currently producing as overburden is being stripped on a new development area.

4. The acquisition of Donaldson and Monash significantly enhances Gloucester's production profile in both near and medium term

- Mix of metallurgical and thermal production
- Creates opportunities to blend existing Gloucester product with Donaldson product
- Capability to produce 40 to 50% metallurgical coal post ramp up of Middlemount including up to 1 Mtpa of semi-soft coking coal from the Donaldson Abel mine.

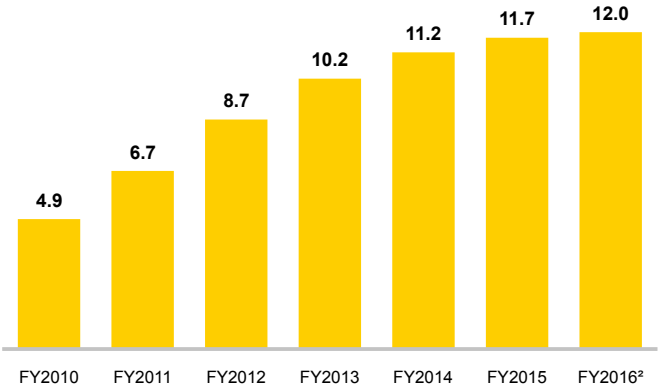
Figure 4.1 – Pro Forma Saleable Production(Mt)1



Notes: Based on June Year end production.
1 Projected production figures and mine life figures are estimates only and are subject to the risks outlined in Section 11, including but not limited to the risks relating to port allocation and capacity, exploration and development, uncertainties and other factors, many of which are outside the control of Gloucester.
2 Monash figures set out in this graph are based on concept level mine studies. The concept level mine study figures reflect only the assumptions used in the concept level mine studies. The concept level mine study figures are not an indication of any future reserves or resources that may be discovered in respect of the Monash Tenements. Forward-looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of Gloucester.

5. Donaldson will provide infrastructure holdings to deliver growth

Figure 5.1 – Combined Donaldson/Gloucester Port Capacity in NSW[1]



Notes:
1 Based on current capacity at PWCS (and NCIG) and expected capacity allocations from Donaldson's NCIG shareholding. Statements regarding future capacity allocation are estimates only and are subject to the risks outlined in Section 11. Forward-looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of Gloucester.
2 Includes allocation from PWCS T4 development from CY2015.

6. Monash provides the potential for large scale development opportunity

Monash is potentially a large semi-soft and thermal coal resource with coal seams in an area that are well understood and an expected majority of typical Hunter Valley semi-soft coking coal. Monash is located close to rail and port infrastructure relative to most other development opportunities, which are located in the Gunnedah and Mudgee Basins.

4.4 Possible disadvantages of the Proposed Transactions

The Independent Expert has noted that the Proposed Transaction may entail some disadvantages for Gloucester Shareholders (excluding Noble). The Independent Expert notes that the Monash Tenements are early-exploration stage assets which, if advanced through exploration and project feasibility to project development, will require significant capital investment over their development period. If the Proposed Transactions are completed, Gloucester Shareholders (excluding Noble) will become exposed to the development risks of the Monash Tenements.

Other possible disadvantages considered by the Independent Directors include:

(a) Change in risk profile and risks of investment in the Merged Group

If the transaction is implemented, there will be a change in the risk profile to which Gloucester shareholders are exposed.

If the transactions are approved, Gloucester will acquire both Donaldson and Monash. As a consequence, Gloucester Shareholders will be exposed to risk factors relating to Donaldson's operations which include the different technical risk profile of its underground mines, its different coal and product mix and its fixed price coal customer contracts while also being exposed to development risks on the Monash project. Shareholders will also be exposed to certain additional risks relating to the combined Group and the integration of the three companies.

(b) Change in cash profile and capital expenditure requirements

The cash flow generation from operations and requirements for project development of the enlarged Gloucester group will be different to those of Gloucester alone.

Donaldson has a significant capital expenditure program planned for the next 3 to 5 years including the Abel underground and extension, Tasman Underground Development and CHPP expansion, while Monash requires $20 million for a drilling program, $15 million for required approvals and environmental assessment, and potentially $1 billion+ capital to reach production. This change in cash flow profile and requirements for project development will increase competition for funds that may have otherwise been available for investment in Gloucester projects.

A condition precedent of the Donaldson Acquisition is Gloucester sourcing new debt facilities, on acceptable terms to Gloucester, of an amount determined by Gloucester not exceeding $500 million.

(c) Increased depreciation and amortisation (D&A) expenses resulting from uplift in fair value of assets

At completion the purchase price will be allocated to the underlying net assets of Donaldson and Monash. To the extent that the consideration increases the fair value of Donaldson, this will likely result in a mark-up of the value of Donaldson's assets. These increased asset values, excluding any goodwill that may be recognised, will need to be depreciated or amortised in accordance with the relevant accounting standards. This will result in depreciation and amortisation charges being substantially greater than the depreciation and amortisation charges of Gloucester and Donaldson as separate businesses, significantly reducing reported earnings in the future to that extent.

4.5 Directors' voting intentions

The following sets out the Relevant Interests of Gloucester Directors in the Gloucester Shares as at the date of the Notice of Meeting:

Name of Directors	No. of Shares
James MacKenzie	5,600
David Brownell	Nil
Greg Fletcher	Nil
Denis Gately	2,000
Ricardo Leiman	Nil
Will Randall	Nil

Each Director with a Relevant Interest in Gloucester Shares intends to vote those Shares in favour of the Resolutions.

5. INFORMATION ABOUT DONALDSON

5.1 Disclaimer

Information in relation to Donaldson is based on information made available to Gloucester by Donaldson, and in some cases has been extracted or adapted from publicly available information or third party sources with consent. To the maximum extent permitted by law Gloucester does not accept responsibility for any errors, omissions or misstatements in Section 5 that are attributable to errors, omissions or misstatements in public documents lodged by any person other than Gloucester with ASX or otherwise. Gloucester does not, subject to the Corporations Act, make any representation or warranty, express or implied, as to the accuracy or completeness of such information.

Noble and its affiliates (excluding Gloucester), advisors to Gloucester, and each of their respective directors, officers and employees (**Other Persons**) have not been involved in the preparation of, and have not authorised, permitted or caused the issue, lodgement, admission, dispatch or provision of this Notice of Meeting and do not make or purport to make any statement in this Notice of Meeting. None of the Other Persons makes any representation or warranty as to the currency, accuracy, reliability or completeness of information and nor do they make any representation or warranties to Gloucester Shareholders concerning the Proposed Transactions. To the maximum extent permitted by law, the Other Persons expressly disclaim all liabilities:

(a) in respect of, make no representations regarding, and take no responsibility for any part of this document or in relation to the Proposed Transactions; and

(b) for any expenses, losses, damages or costs that may be incurred by you as a result of that information being inaccurate or incomplete in any way for any reason.

5.2 Donaldson Group Mines

The Donaldson Group is a coal producer based in New South Wales with mining operations in the Hunter Valley just south of Maitland, 25 kilometres from Newcastle and Port Waratah.

Figure 5.2.1: Summary of Donaldson's Existing Portfolio

		Resources (Mt)[1,2]				Reserves (Mt)[1]		
Mine	**Seam**	**Measured[3,5]**	**Indicated[3,5]**	**Measured & Indicated[3,5]**	**Inferred[3,5]**	**Proven ROM[4,6]**	**Probable ROM[4,6]**	**Total ROM[4,6]**
Open cut						2.5		2.5
Tasman	Fassifern	29.7	9.3	39.0	6	12.9	5.1	18.0
	West Borehole	19.2	11.4	30.6	6	6.6	1.1	7.7
Tasman Extension	Great Northern	0.4	0.6	1.0	0	–	–	–
	West Borehole	28.8	17.1	45.9	9	0.3	7.8	8.2
	Sandgate	50.6	38.6	89.2	28	0.7	0.4	1.1
Abel	Upper Donaldson	63.4	9.5	72.9	0	24.2	7.7	31.9
	Lower Donaldson	94.0	14.9	108.9	0	21.7	8.6	30.3
	Upper Big Ben	123.8	36.9	160.7	3	–	–	–
	Ashtonfield	6.9	2.0	8.9	0	–	–	–
Abel Extension	Upper Donaldson	19.7	18.9	38.6	28	1.7	10.0	11.7
	Lower Donaldson	28.4	28.7	57.1	42	7.3	11.7	19.0
	Lower Big Ben	16.0	5.5	21.5	0	–	–	–
	Ashtonfield	54.5	13.9	68.4	0	17.4	4.7	22.1
	Rathluba	10.1	10.2	20.3	0	–	–	–
Total		545.5	217.5	763.0	122	95.4	57.1	152.4

The Donaldson Group's production

Notes:
1 As at 1 July 2009.
2 Resources are inclusive of Reserves.
3 Air dried basis (ad).
4 As received moisture basis (ar): ROM = 6.0%, Marketable = 8.0%.
5 All resources comply with the JORC Code 2004. The information on page 20 relates to Coal Resources at the Tasman Underground Mine and Abel Underground Mine, and the two prospects, the Abel Extension and Tasman Extension, is based on information compiled by Ian D. Blayden, employed by Geological and Management Services Pty Ltd ABN 47001 256 248. Ian Blayden is a Member of the Mineral Industry Consultants Association and a member of The Australian Institute of Geoscientists.
6 The Reserves Statement complies with the JORC Code 2004. The information on page 20 relates to Coal Reserves at the Tasman Underground Mine and Abel Underground Mine, and the two prospects, the Abel Extension and Tasman Extension, is based on information compiled by David A. Thomas, employed by IMC Mining Group Pty Ltd. Mr Thomas is a member of AusIMM.

The Donaldson Group's production is sourced from three mines:

(a) the Donaldson Open Cut Mine;

(b) the Tasman Underground Mine; and

(c) the Abel Underground Mine.

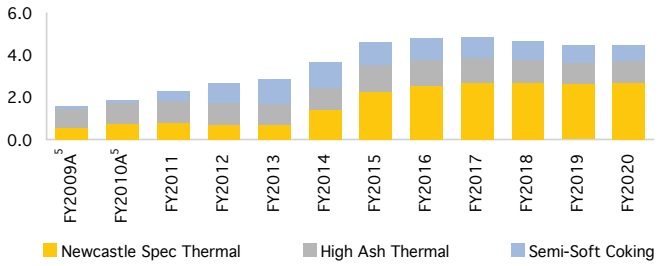
The Abel and Tasman underground mines are currently active and producing, with an estimated mine life of approximately 20+ years each. A planned connection and underground conveyor between the Abel and Tasman underground mines is scheduled to be completed by 2018.

The Donaldson Open Cut Mine is not currently producing as overburden is being stripped on a new development area. Mining at Donaldson Open Cut is expected to cease in December 2012, from which point all of the Donaldson Group's operations will be underground.

Current JORC reserves are estimated at 152.4 Mt[11] and JORC resources are estimated at 885 Mt[12].

Production is a mix of thermal and semi-soft coking coal. Donaldson Group mines produced 2.0 Mt in CY10, with plans to increase production capacity to 4.5-5.0 Mt in CY16[13].

Figure 5.2.2: Expected Saleable Production (Financial Year, Mt)[1]



Notes:

1 Projected production figures are estimates only and are subject to the risks outlined in Section 11 including but not limited to the risks relating to port allocation and capacity, rail access, operational risks and resource and reserve estimates. Forward-looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties and other factors, many of which are outside control of Gloucester.

2,3 Actuals.

The Donaldson Group has 10-year rolling contracts at PWCS and an 11.6% founding shareholding in NCIG with an allocation of approximately 6.3 Mtpa expected in FY2015 comprising:

- 30 Mtpa terminal (3.5 Mtpa Donaldson allocation) was commissioned in 2010;
- 23 Mtpa expansion (1.3 Mtpa Donaldson allocation) under construction and expected to be fully operational in 2013; and
- further 13 Mtpa expansion (1.5 Mtpa Donaldson allocation) to be completed by 2014.

The Donaldson Group also has a train haulage agreement to the Port of Newcastle.

5.3 Donaldson Group Structure

Donaldson was established as an unlisted public company in 1996 and is the holding company of Donaldson Coal Finance Pty Ltd ACN 132 842 105 and Donaldson Coal. Donaldson Coal is, in turn, the holding company of Newcastle Coal Company Pty Ltd ACN 074 900 208, Primecoal International Pty Ltd ACN 100 114 038 and Abakk Pty Ltd 059 212 065 (Donaldson Group).

Donaldson's shareholder is Mt Vincent Holdings and its ultimate holding company is Noble.

6. SUMMARY OF DONALDSON ACQUISITION

6.1 Donaldson Acquisition

On 16 May 2011, Gloucester announced that it had entered into an agreement with Noble, Mt. Vincent Holdings Pty Ltd and Gloucester (Sub-Holdings 1) to acquire the entire issued share capital of Donaldson.

6.2 Summary of the Donaldson Share Purchase Deed

The Donaldson Share Purchase Deed is the deed under which Gloucester has agreed to acquire (through a wholly-owned subsidiary, Gloucester (Sub-Holdings 1) Pty Ltd (**Gloucester Sub-Holdings 1**)) the entire issued share capital of Donaldson from Noble.

The consideration for Donaldson will be $585[14] million with the consideration satisfied by the issue of $360 million in new Gloucester Shares issued at $9.75 per share and the assumption of $225 million of net debt comprised of:

(a) $186 million of Noble debt (agreed to be repaid); and

(b) $39 million[15] of debt from a third party lender assumed (expected to be refinanced at completion).

The proposed acquisition of Donaldson will be subject to the following principal conditions:

(a) FIRB approval;

(b) the approval of the Gloucester shareholders of the Donaldson Acquisition;

11 As at 1 July 2009.

12 Refer to footnote 11 above.

13 Refers to Abel and Tasman only. Donaldson mine is forecast to close in CY12. Projected production figures and mine life figures are estimates only and are subject to the risks outlined in Section 11, including but not limited to the risks relating to port allocation and capacity, exploration and development, mining approvals, rail access, operational risks and resource and reserve estimates. Forward-looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of Gloucester.

14 Subject to completion adjustments.

15 Based on forecast debt balance upon completion.

(c) completion of the Monash Acquisition;

(d) Gloucester sourcing new debt facilities of an amount determined by Gloucester up to $500 million on acceptable terms to Gloucester; and

(e) no action being taken by a regulatory authority prohibiting the sale of Donaldson to Gloucester.

Completion is proposed to take place after all of the conditions precedent to the sale and purchase of Donaldson have been satisfied or waived. The end date for satisfaction or waiver of all conditions is 31 July 2011.

A post completion adjustment mechanism is included to address any differences between the expected net asset position at completion and the actual net asset position at completion.

Gloucester and Noble have standard termination rights under the Donaldson Share Purchase Deed.

The Donaldson Share Purchase Deed makes provisions for both Gloucester and Noble to guarantee their respective subsidiaries' obligations under the Donaldson Share Purchase Deed.

The Donaldson Share Purchase Deed contains other customary provisions to be found in an asset share sale deed of this nature including negotiated warranties and indemnities in respect of certain key matters relating to title to assets and certain ancillary matters with regard to Donaldson.

6.3 Reprofiling of existing sale contracts with Donaldson

The parties to contract NRPL–9250NP (**Re-Profiling Agreement**) are Donaldson Coal, a wholly-owned subsidiary of Donaldson, and Noble Marketing.

The purpose of the Re-Profiling Agreement is to consolidate and re-negotiate various existing coal supply contracts between Donaldson Coal and Noble Resources into a single supply contract within the context of the Donaldson Acquisition.

Donaldson will have a number of fixed and floating price coal supply contracts in place following completion of the Proposed Transactions. An overview of volume, price and duration of the contracts is as follows:

Fixed Price Thermal Coal Contracts

(a) 287,000 t in 2H CY11 at US$78.91/t, and 400,000 t to be delivered in CY12 at US$82.25/t[16].

(b) 17,000 t to Q3 CY11 at US$122/t[17].

(c) 127,500 t in Q3 CY11 at US$116.50/t, and 144,500 t in Q4 CY11 at US$120.50/t[18].

(d) 5,800,000 t to be delivered (3,000,000 t +/– 200,000 t of global thermal coal[19] and 2,800,000 t of thermal or high ash product), from CY12 up to CY18 at US$102.58/t[20] with production prioritised each calendar year to deliver into this contract as outlined below:

- First priority of Donaldson is sales of up to 650,000 t of low ash coal for use in blending or steel manufacture;
- Second priority is fulfilment of the floating price contract listed below;
- Third priority is 400,000 t to be delivered in CY12 at US$82.25/t under the fixed price contract listed at (a) above; and
- Fourth priority is the 5,800,000 t to be delivered under this contract, subject to annual caps of CY12: 1.5 Mt, CY13: 2.4 Mt, CY14: 1.9 Mt and CY15+: 2.0 Mtpa.

This contract is an aggregation and consolidation of various contracts with Noble into a single supply agreement.

Donaldson may consider buying coal on market to satisfy its fixed price contracts and enable it to produce higher value semi-soft coking coal, if the semi-soft price premium to the thermal price warrants this.

Floating Price Thermal Coal Contracts

- 360,000 t in 2H CY12 at US$85.12/t, with 2,500,000 t from CY12 to CY16 at a price to be re-negotiated each calendar year to reflect market price[21].

6.4 Tax Indemnity Deed

Gloucester, Gloucester (Sub-Holdings 1), Mt Vincent Holdings and Noble have entered into a Deed of Indemnity in relation to the Donaldson Acquisition. Under the Deed of Indemnity, Noble and Mt Vincent Holdings jointly and severally indemnify Gloucester, and members of its consolidated tax group, in respect of certain taxation and stamp duty liabilities in relation to the Donaldson Acquisition. The taxation liabilities which are the subject of the Deed relate to circumstances where a member of the Gloucester consolidated tax group suffers a disallowance of certain prescribed deductions for income tax purposes. The stamp duty liabilities which are the subject of the Deed relate to stamp duty being levied in certain circumstances arising from the parties entering into the transaction documents to implement the Acquisition.

To the extent that any taxation or stamp duty liability is indemnified, the indemnity will include all losses, costs and expenses incurred or suffered by an indemnified party arising from that liability and all costs and expenses properly payable in connection with any action taken by the indemnified party under the deed.

The indemnity given in respect of taxation liabilities will not apply in certain prescribed circumstances which are typical for a tax indemnity. These include but are not limited to where an amount has been recovered by any indemnified party in respect of the same

16 Volume may be adjusted +/– 10% at the buyer's option, with delivery of 100,000 t +/– 10% per quarter at the buyer's option.
17 Volume may be adjusted +/– 10% at the buyer's option.
18 See footnote 17 above.
19 Global thermal coal as per GlobalCOAL SCoTA Phys Newc.
20 High ash coal sold into contract priced at a discount to US$102.58/t due to energy and high ash price adjustments.
21 Volume may be adjusted +/– 20% at the buyer's option.

subject matter, where the same circumstances give rise to a tax benefit to any indemnified party or where the amount of the claim is increased as a result of the failure of an indemnified party to take certain actions under the deed.

The indemnity given in respect of taxation liabilities also ceases to apply to a claim made after, and no indemnified party can make any claim after, a person other than Noble or a related body corporate of Noble acquires:

(a) a 'relevant interest' (as defined in the Corporations Act) in more than 50% of the issued ordinary shares of Gloucester; or

(b) 'control' of Gloucester, within the meaning of Section 50AA of the Corporations Act, other than as a result of acquiring control of Noble or any other member of the Noble Group.

The deed also contains other provisions typically found in a tax indemnity including but not limited to provisions for refunds, consultation and conduct of claims and dispute procedures.

7. SUMMARY OF MARKETING ARRANGEMENTS

7.1 Marketing Arrangements with Noble

The parties to the Marketing Services Agreement are Gloucester, Noble Marketing and Noble.

The Marketing Services Agreement appoints Noble Marketing to provide as and when required by Gloucester from time to time long-term international marketing services, advice and information in relation to the sale and marketing of Export Coal.

The appointment will take effect on completion of the Donaldson Acquisition and will be of no effect if this has not occurred by the End Date.

The appointment of Noble Marketing does not preclude the Gloucester Group using its own internal resources instead of Noble Marketing but is otherwise exclusive with the exception of the existing exclusive marketing arrangements entered into by members of the Gloucester Group.

The consideration to be provided for Noble Marketing's services is to be a marketing fee (**Marketing Fee**), calculated in accordance with the following formula:

Rate x **Volume** x **Price**

Rate: 2% per annum

Volume: Actual NSW sales of Export Coal shipped from the Port of Newcastle up to a maximum of 8.25 Mtpa of Export Coal in excess of 3.5 Mtpa

Price: Volume weighted average gross sales price per tonne FOBT Port of Newcastle (less adjustment for quality standards and specifications) in respect of sales of the Export Coal.

The Marketing Fee is calculated for each month and payable approximately 10 business days after the month end. Reconciliations against monthly payments are to occur every six months.

For as long as the Marketing Fee is payable, Gloucester has the right to call on Noble to provide marketing services, but is not obliged to take any marketing services from Noble. This provides opportunity to Gloucester to develop in house marketing capability. The Marketing Fee is payable whether or not Gloucester acquires marketing services from Noble Marketing.

If a party other than Noble acquires over 50% of Gloucester:

(a) either Gloucester or Noble can request a prepayment of the Net Present Value (**NPV**) at a 12% post tax discount rate for the unexpired period between 2020 and 2040;

(b) the prepayment will be based on a volume of 8.25 Mtpa;

(c) the parties are to agree forecast coal prices for the purposes of the NPV calculation;

(d) if Gloucester requests the prepayment, then the NPV is payable in cash; and

(e) if Noble requests the prepayment, Gloucester can pay in cash or Gloucester scrip (issued at then prevailing 20 trading day VWAP) at its election.

The reviewed pro forma balance sheet on page 47 of the Investor Presentation provides for a financial liability of $80,228,000 on account of the Marketing Fee. The amount of Marketing Fee paid will depend on a range of factors including the volumes of, and the prices obtained for, Export Coal.

The appointment of Noble Marketing by Gloucester under the Marketing Services Agreement is subject to the following conditions:

(a) the approval of Gloucester shareholders; and

(b) the completion of the Donaldson Acquisition by Gloucester.

It is a term of the Marketing Services Agreement that all existing marketing and royalty arrangements between Gloucester (including Donaldson) and Noble, or any of their respective subsidiaries, with respect to Export Coal be terminated.

The Marketing Services Agreement commences upon the satisfaction of the conditions listed above and will expire on 31 December 2040.

8. INFORMATION ABOUT MONASH

8.1 Disclaimer

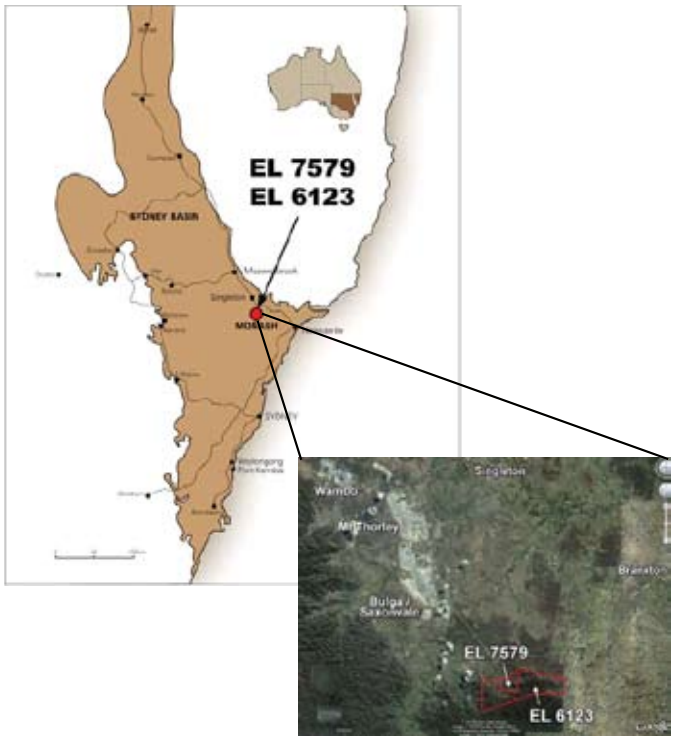
Information in relation to Monash is based on information made available to Gloucester by the Monash Vendors, and in some cases has been extracted or adapted from publicly available information

or third party sources with consent. To the maximum extent permitted by law Gloucester does not accept responsibility for any errors, omissions or misstatements in Section 8 that are attributable to errors, omissions or misstatements in public documents lodged by any person other than Gloucester with ASX or otherwise. Gloucester does not, subject to the Corporations Act, make any representation or warranty, express or implied, as to the accuracy or completeness of such information.

8.2 Monash Assets

The Monash Group is the operator of a prospective export early stage exploration project (exploration titles EL 6123 and EL 7579), covering an area of 22.19 square kilometres in the Hunter Valley Region, Hunter Valley in New South Wales (**Monash Project**).

Figure 8.2.1: Monash Project Location



Subject to exploration success and approvals, the Monash Group is targeting project commissioning and first coal production in FY2017 from an underground operation, ramping up to full production of up to 9 Mtpa ROM in FY2022. The resource has potential to support a mine life of over 20 years.

The Monash Project is expected to produce a split of approximately 58% semi-soft coal and 42% thermal coal and has estimated JORC Resources of 287 Mt (13 Mt indicated and 274 Mt inferred).

Figure 8.2.2: Summary of Monash's Existing Portfolio

Coal Seams	Indicated (Mt)	Inferred (Mt)	Indicated and Inferred (Mt)
Woodlands Hill	2.1	43	45
Blakefield	2.4	48	50
Whynot	2.9	57	60
Whybrow	2.8	46	49
Borehole	2.2	57	59
Fassifern	0.7	23	24
Total	13.0	274	287

Note
This Competent Person's Statement is in relation to Monash's resources only. All resources comply with the JORC Code 2004. The information in this Notice of Meeting that relates to EL 6123 and EL7579 (Monash Project Area), is based on information compiled by Ian D. Blayden, employed by Geological and Management Services Pty Ltd ABN 47001 256 248. Ian Blayden is a Member of the Mineral Industry Consultants Association, The Australian Institute of Geoscientists and AusIMM.
Dr Blayden has sufficient experience which is relevant to the style and mineralisation, and type of deposit under consideration, and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code of Reporting of Mineral Resources and Ore Reserves.
Dr Blayden consents to the inclusion in this Notice of Meeting of the matters based on their information in the form and context in which it appears.

The Monash Project is strategically located near existing infrastructure, being only 12 km from a rail line and in a region serviced by Hunter Valley Rail Network. Coal from the Monash Project is expected to be shipped from the Port of Newcastle, approximately 95 km away.

8.3 Monash Group Structure

Ellemby was established as proprietary company in 1999 and is the holding company of Monash Coal Pty Ltd ACN 069 359 011 and Monash Coal Unit Trust (**Monash Group**).

Ellemby's ultimate holding companies are Molti Consulting Pty Ltd ACN 075 282 521, SES Rotges Investments Pty Limited ACN 088 935 620 and McActivity Pty Limited ACN 053 014 127.

9. SUMMARY OF MONASH ACQUISITION

9.1 Monash Acquisition Proposal

On 16 May 2011, Gloucester announced that it had entered into an agreement with the Monash Vendors and the Monash Guarantors to acquire (through a wholly-owned subsidiary, Gloucester (Sub-Holdings 2)) the entire issued share capital of Ellemby.

9.2 Summary of the Share Sale Deed

The Monash Share Sale Deed is the deed under which Gloucester has agreed to acquire (through a wholly-owned subsidiary, Gloucester (Sub-Holdings 2)) the entire issued share capital of Ellemby from the Monash Vendors.

The consideration for the entire issued share capital of Ellemby will be:

(a) $30 million in cash consideration; and

(b) the issue of 1000 Converting Shares.

The proposed acquisition of Ellemby will be subject to the following principal conditions:

(a) FIRB Approval;

(b) the approval of the Gloucester shareholders to the Monash Acquisition;

(c) a special resolution being passed by the Gloucester shareholders to amend the constitution of Gloucester to permit the issue of the Converting Shares;

(d) no action being taken by a regulatory authority prohibiting the sale of Ellemby to Gloucester (Sub-Holdings 2); and

(e) completion of the Donaldson Acquisition.

9.3 Restructure

Prior to the sale of Ellemby, all assets and liabilities of the Monash Group that do not relate to the Tenements will be transferred to another entity outside of the Monash Group.

9.4 Terms of the Converting Shares

The Converting Shares will be preference shares in Gloucester with a face value of $1.00 per share and will pay a dividend at a rate of 5% per annum on face value ($50 per annum in total).

The Converting Shares will entitle the Monash Vendors to receive a number of additional Gloucester Shares as deferred consideration (**Additional Shares**), to be issued in stages according to the achievement of certain milestones with respect to the Monash Tenements after the Monash Acquisition:

(a) **Stage One:** Additional Shares will be issued on finalisation of a reserves report setting out the ore reserves for the exploration area of the Monash Tenements in accordance with the Joint Ore Reserves Committee (**JORC**) Code. Finalisation of the report will occur shortly after completion of an agreed drilling program, except if the holders of Converting Shares elect to earlier provide Gloucester with a JORC compliant report, in which case the Stage 1 payment is to be provided shortly after the early provision of that report.

The number of Stage 1 Additional Shares issued will be determined based on AUD 1.16 per tonne of JORC Code-compliant proved or probable reserves of resources at the Monash Tenements, capped at a total value of AUD 70.0 million (**Stage 1 Payment**). The Stage 1 Payment cap will be adjusted for inflation from a March 2011 base.

(b) **Stage Two:** Additional Shares will be issued on the date a second JORC Code-compliant ore reserves report is finalised assessing at least 60 Mt of proved or probable reserves within the Monash Tenements. The Stage 2 payment is subject to a mining lease being issued after Stage 1 and within 10 years of completion of the Monash and Donaldson Acquisitions (**Mining Lease**) following the receipt of planning approval to undertake an underground longwall coal mining operation of 4 million tonnes ROM coal production p.a over at least 15 years for aggregate proved or probable reserves of at least 60 Mt.

The number of Stage 2 Additional Shares issued will be determined based on AUD 0.70 per tonne of proved or probable reserves within the area of the planning approval for the Monash Tenements capped at a total value of AUD 50 million (**Stage 2 Payment**). The Stage 2 Payment is additional to the Stage 1 Payment. The Stage 2 Payment cap will be adjusted for inflation from a March 2011 base.

(c) **Stage Three:** following the issue of a Mining Lease, in addition to the Stage 1 Payment and the Stage 2 Payment, further additional shares will be issued if the Stage 2 Payment date occurs prior to 31 December 2016 (**Stage 3 Payment**).

The Stage 3 Payment will be calculated on a quarterly basis over the period between the Stage 2 Payment date and 31 December 2016 and is 2.5% of the Stage 2 Payment (Stage 3 Payment).

In each of these scenarios, additional Gloucester Shares will be provided to holders of Converting Shares at a price per share equal to the then prevailing 20 business day VWAP.

Additional Gloucester Shares may also be required to be provided to holders of Converting Shares in certain circumstances, including on a change in control of Gloucester, a change in the Tenements or termination of the Works Agreement, rather than provided in paragraphs (a) to (c) above. A cash dividend, in lieu of the issue of additional Gloucester Shares, will be payable to holders of Converting Shares should Gloucester become insolvent.

When no additional Gloucester Shares are to be provided under the terms of the Converting Shares, each Converting Share will convert into one fully paid Gloucester Share.

9.5 Works Agreement

To support the exploration and development of the Tenements, Monash Coal agrees to fund:

(a) a drilling program for the Tenements (contained in schedule 2 of the Works Agreement);

(b) a process and budget for Monash Coal to obtain a mining lease for an underground longwall coal mining operation (for at least 4 MTPA ROM coal over 15 years or more) and necessary surface infrastructure on terms and conditions which are reasonably consistent with approvals and authorisations for other longwall coal mining operations in the Hunter Valley; and

(c) a process and budget for Monash Coal to obtain planning and environmental approvals and other authorisations required for its coal mining operations.

Venasi Consult Pty Ltd (the entity to which the excluded assets of the Monash Group are transferred) will manage the drilling program, the mining lease process and the approval process (set out at a to c above) at Monash Coal's cost up to a cap of $15 million for the mining lease process and the approval process and a cap of $20 million for the drilling program.

The parties have agreed that the purchaser can require the drilling program Services under the Works Agreement to be commenced prior to completion.

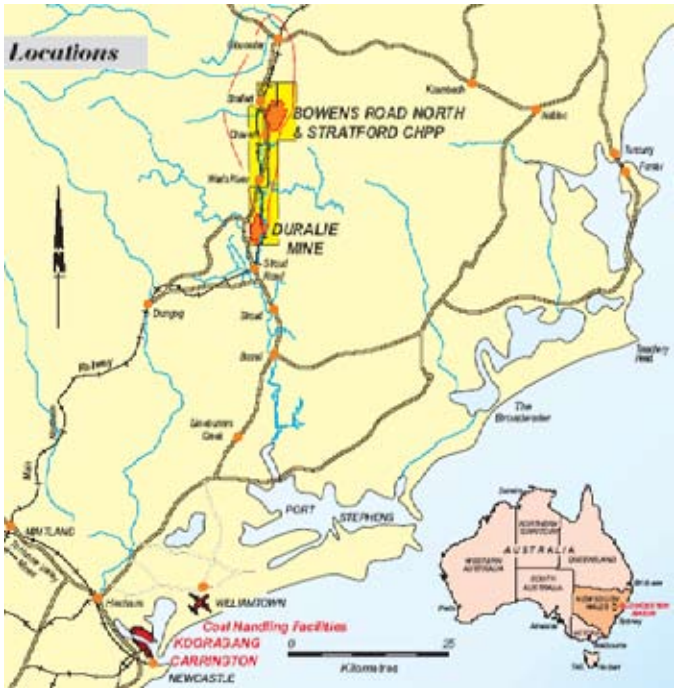
10. PROFILE OF GLOUCESTER FOLLOWING THE PROPOSED TRANSACTIONS

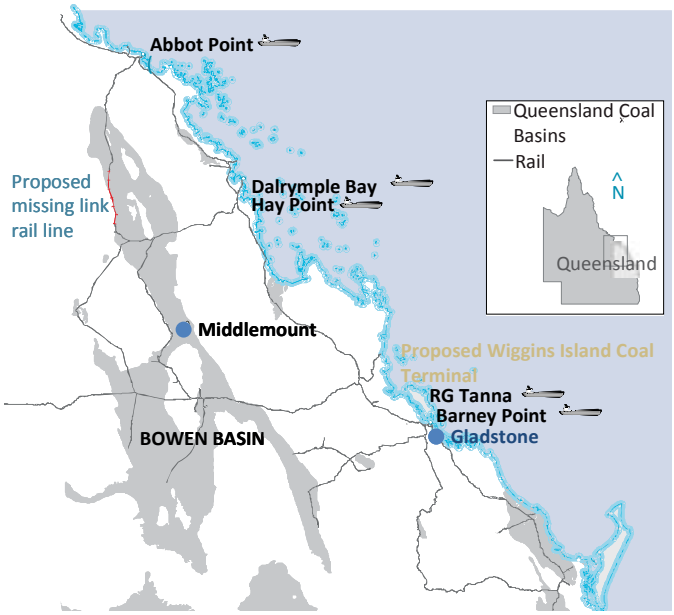
10.1 Purpose of this Section

The purpose of this Section 10 is to provide Gloucester Shareholders with a profile of the 'new Gloucester' if the Resolutions for the Donaldson Acquisition and the Monash Acquisition are approved and the Proposed Transaction proceeds.

10.2 Overview of Gloucester

Gloucester (ASX: GCL) is a metallurgical and thermal coal mining company with two open cut mining operations, Stratford and Duralie, in the Gloucester Basin of New South Wales. The company holds coal exploration licences which cover a large proportion of the basin, and include a large number of known coal deposits. Gloucester also owns nearly 50% of the Middlemount Mine in the Bowen Basin.





Gloucester's coal sales for the year ending 30 June 2010 were c.2.0 Mt, of which 0.75 Mt was metallurgical coal. Gloucester's metallurgical coal is a high value product and is noted for its high fluidity, which enhances pricing and supports demand relative to semi-soft coking coals and thermal coals. The majority of Gloucester's product is exported to Asia via the port of Newcastle.

Figure 10.2.1: Summary of Gloucester's historical production

	12 months to June 2009	12 months to June 2010	Change
Coal source	**kt**	**kt**	**%**
Duralie	1,595	1,694	6%
Bowens Road North	944	933	(1%)
Co-disposal	25	304	1,116%
Roseville	125	170	36%
Total ROM delivered to CHPP	2,689	3,101	15%
Preparation plant			
ROM coal processed	2,604	2,919	12%
Total yield	66%	66%	–
Total product	1,728	1,918	11%

10.3 Asset and financial profile of Gloucester following the Proposed Transactions

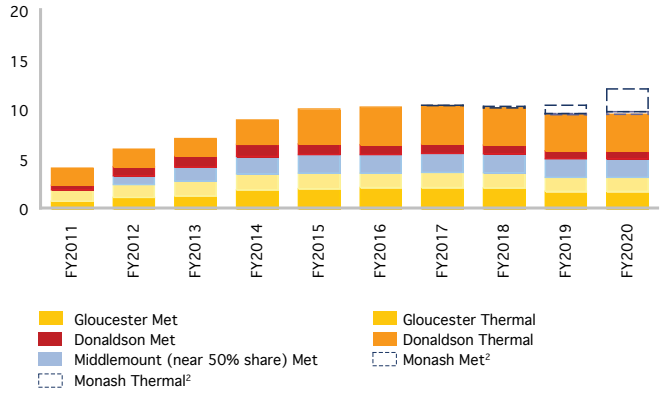
If the Proposed Transactions proceed, Gloucester will comprise:

- the existing Gloucester Group including a near 50% interest in Middlemount;
- the Donaldson Group; and
- the Monash Group.

Information about the Donaldson Group and the Monash Group is provided in Sections 5 and 8.

Gloucester has a growth strategy, with a focus on increasing coal production. The acquisition of Donaldson and Monash will add scale and increase coal volumes.

Figure 10.3.1: Projected Pro Forma Saleable Production (Mt)[1]



Notes: Based on June Year end production.

1 Projected production figures and mine life figures are estimates only and are subject to the risks outlined in Section 11, including but not limited to the risks relating to port allocation and capacity, exploration and development, mining approvals, rail access, operational risks and resource and reserve estimates. Forward-looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of Gloucester.

2 Monash figures set out in this graph are based on concept level mine studies. The concept level mine study figures are reflect only the assumptions used in the concept level mine studies. The concept level mine study figures are not an indication of any Reserves or Resources that may be discovered in respect of the Monash Assets. Forward-looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of Gloucester.

Pro forma balance sheet

($000's)	Reviewed Gloucester 31-Dec-10 (Note 2)	Reviewed Equity Raising (Note 3)	Reviewed Debt, net of fees (Note 4)	Reviewed Sub-Total	Audited Donaldson 31-Dec-10 (Note 5)	Reviewed Monash 31-Dec-10 (Note 6)	Reviewed Purchase Price Adjustments (Note 7)	Reviewed Pro Forma Balance Sheet
Total Current Assets	118,601	223,079	35,394	377,074	97,236	819	(213,292)	261,837
Total Non-Current Assets	952,451	–	–	952,451	255,683	56	777,658	1,985,848
Total Assets	1,071,052	223,079	35,394	1,329,525	352,919	875	564,366	2,247,685
Total Current Liabilities	77,639	–	–	77,639	280,013	819	(83,934)	274,537
Total Non-Current Liabilities	231,148	(2,023)	35,394	264,519	8,664	–	380,726	653,909
Total Liabilities	308,787	(2,023)	35,394	342,158	288,677	819	296,792	928,446
Net Assets	762,265	225,102	–	987,367	64,242	56	267,574	1,319,239
Total Equity	762,265	225,102	–	987,367	64,242	56	267,574	1,319,239

Included in the total amount of total liabilities is the balance of third party debt ($39.3 million) and Noble debt ($129.2 million) as at 31 December 2010. The forecasted debt balance as at 30 June 2011 is $225.0 million consisting of third party debt ($39.3 million) and Noble debt ($185.7 million).

Notes:

1 The financial information has been prepared under the historical cost convention except for certain financial instruments which are measured at fair value in accordance with Australian accounting standards.

2 Extracted from the reviewed balance sheet of Gloucester as at 31 December 2010.

3 Represents the issue of 25,535,829 shares at $9.00 to raise $229.8 million less transaction costs of $4.7 million (net of tax).

4 Terms of debt have not yet been agreed. Completion of the transaction is conditional upon Gloucester securing debt financing on terms acceptable to Gloucester.

5 Extracted from the audited balance sheet of Donaldson as at 31 December 2010. The audit report contains an emphasis of matter regarding tax uncertainties. Gloucester has arranged for tax indemnities in the Donaldson Share Purchase Deed, accordingly no provision is recognised in the pro forma balance sheet regarding this matter.

6 Extracted from the reviewed balance sheet of Monash as at 31 December 2011 after adjusting for inconsistent accounting policies.

7 Represents the purchase price adjustments relating to the following transactions:

- A Acquisition of 100% of the issued capital of Donaldson Coal Holdings Limited for a total consideration of $360.0 million. This acquisition has been accounted for as a business combination under AASB 3: Business Combinations and accordingly, transaction costs of $40.2 million have been expensed. These costs pertain to stamp duty, landholders duty and advisors fees.
- B Acquisition of 100% of the issued capital of Ellemby Holdings Pty Limited for a total consideration of $30.0 million in the form of cash and 1,000 converting shares with an assessed fair value of $57.6 million. Details of the converting preference shares are outlined in Section 9.4. This acquisition has been accounted for as an asset purchase and accordingly, incidental acquisition costs of $2.6 million have also been capitalised.
- C The above purchase price adjustments have been determined on a provisional basis under AASB 3 and may be amended within 12 months of the acquisition date. Purchase price adjustments may be amended due to final valuations being completed.

10.4 Impact on issued share capital and shareholder base

As at 16 May 2011, Gloucester's issued share capital comprised 140,447,062 Shares.

Following the allotment of Gloucester Shares offered under the Institutional Entitlement Offer on 24 May 2011, Noble holds approximately 55.7% of Gloucester Shares on issue (excluding the impact of the Retail Entitlement Offer and the shares to be issued as consideration under the Donaldson Offer). Noble remains Gloucester's single largest Shareholder. Noble did not participate in the Equity Raising.

The Retail Entitlement Offer opened on 20 May 2011 and closed at 5.00pm (AEST) on 6 June 2011. Eligible retail shareholders registered as such on the record date for the Retail Entitlement Offer 7.00pm (AEST) on 12 May 2011 were entitled to participate in the Retail Entitlement Offer.

Following the completion of the Equity Raising, Gloucester's issued share capital is expected to comprise up to 165,982,891 Shares, subject to the reconciliation of shareholder entitlements, of which Noble is expected to hold approximately 55.3%.

If the Proposed Transactions complete:

- assuming maximum allocations are made of Gloucester Shares under the Equity Raising and the Consideration Shares are issued to Noble, Gloucester's issued share capital will increase by 36,923,076 shares so that the total number of Shares on issue would increase to 202,905,967;
- Noble's shareholding in Gloucester would be diluted to a maximum of 63.4%.

11. RISK FACTORS RELATING TO ACQUISITIONS

11.1 Introduction

If the Donaldson Acquisition and the Monash Acquisition proceed, there are a number of risk factors which may affect the future operating and financial performance of Gloucester and the future investment performance of Gloucester Shares. This Section 11 summarises the risks to which Gloucester is already exposed as a participant in the coal industry, together with the further risks to which Gloucester will be exposed on completion of the Donaldson Acquisition and the Monash Acquisition. Gloucester Shareholders are also subject to the general risks associated with investing in listed securities.

Many of the risks identified in this Section 11 are outside the control of Gloucester. In deciding whether or not to approve the Donaldson Acquisition and the Monash Acquisition, you should carefully consider the risks set out in this Section 11 together with the other information set out in this Explanatory Statement.

Additional risks and uncertainties not currently known to Gloucester may also have a material adverse effect on the businesses of the Donaldson Group, the Monash Group and Gloucester (and consequently, the subsequent combined group). The information set out below does not purport to be, nor should it be construed as representing, an exhaustive list of the risk affecting Gloucester or Gloucester merged with the Donaldson Group and/or the Monash Group.

(a) Regulation of Coal Supply Chain/Port Capacity

NPC, NCIG and PWCS have agreed a framework for the implementation of a long-term solution for access to and expansion of export capacity at the Port of Newcastle. The ACCC has authorised the framework document and related agreements (the **Framework Arrangements**) for 15 years to 31 December 2024. The ACCC has the power to review the authorisation in certain circumstances, including where a condition has not been complied with or there has been a material change in circumstances. There is a risk that at some time over the life of Gloucester's or Donaldson's port usage agreements with NCIG and PWCS, the ACCC will become entitled to conduct such a review, or that the authorisation will not be renewed (or renewed on the same terms) beyond 2024. In that event, the contractual rights of shippers, including Donaldson and Gloucester, to use port capacity may be affected in a way which has a material adverse effect on them.

(b) Sanctions for breach of open access obligations for NCIG

Under the Framework Arrangements, NPC can impose material contractual sanctions on all NCIG shippers if NCIG fails to give effect to and enforce certain contractual obligations of its shippers that are intended to facilitate open access to a shipper's excess

NCIG capacity. The possible sanctions include, among other things, the suspension of the right to nominate for additional PWCS throughput capacity until the failure is rectified to NPC's satisfaction, and loss by NCIG shippers (whether or not at fault) of certain of their capacity entitlements through the PWCS port facilities. Also, the NCIG shipper to whom NCIG's failure relates could be made to transfer some or all of its NCIG capacity to the other NCIG shippers, to compensate for their loss of PWCS capacity. Donaldson and Gloucester are parties to these arrangements with NPC, but Gloucester currently has an exemptions from certain of the sanctions. Gloucester will lose that exemption when it acquires ownership of Donaldson.

(c) Restrictions on use and transfer of Donaldson's port capacity

Donaldson's right to ship coal through its capacity at NCIG's and PWCS's port facilities is subject to certain restrictions. These include, among others, a restriction of the source of the coal that can be shipped to particular 'source mines', and a restriction on the amount Donaldson is permitted to charge third parties for use or transfer of its port capacity (generally, Donaldson cannot receive more than a 5% uplift above the charges it is required to pay). These restrictions, together with certain anti-hoarding obligations, will limit the value that can be realised through the use or transfer of Donaldson's excess port capacity.

(d) Port Allocation

Adverse weather conditions, operational issues and other events outside the control of Donaldson and Gloucester could result in a reduced ability or entitlement to export coal, exposure to increased demurrage costs, defaults and penalties under sales contracts and other material adverse consequences for Gloucester and/or Donaldson.

(e) Variable and open ended port charges

The charges payable by shippers for their entitlements to use of NCIG's and PWCS's respective port terminals could increase or decrease substantially from time to time as a result of events and circumstances beyond a shipper's control.

(f) Expansion of NCIG Terminal – associated risks

NCIG has announced a project to expand the capacity of its terminal at Newcastle Port from 30 Mtpa to 53 Mtpa. Based on its current 11.6% shareholding and assuming the expansion realises the further 23 Mtpa of capacity currently envisaged, Donaldson's share of the additional capacity would be 1.276 Mtpa. The expansion project carries risks for Donaldson, including (but not limited to) the risk of Donaldson's existing capacity entitlement with PWCS and/or NCIG being constrained due to an unexcused delay in completion of the project, the risk of NCIG passing through to its shippers cost overruns, increased financing costs, foreign exchange losses or liabilities incurred to customers for delay. There is also a risk to impairment of Donaldson's investment in NCIG being exposed to damages or other financial risks under Donaldson's coal sales and hedging arrangements.

(g) Regulation of Coal Supply Chain

Donaldson has contracted rail haulage until 30 June 2014, for the haulage of coal, by rail, from the rail loop at Bloomfield Colliery to the Port of Newcastle. Accordingly, Donaldson is reliant on contract counter-parties to comply with its contractual obligations in order for Donaldson's processed coal to be transported to the Port of Newcastle. There is no certainty that Donaldson will be able to contract for sufficient rail haulage for coal production after expiry of its current rail haulage agreement.

In addition, Australian Rail Track Corporation (**ARTC**) – the operator of the Hunter Valley Rail Network – has submitted an access undertaking application to the ACCC in relation to the Hunter Valley Rail Network, to replace existing access arrangements. The terms of the final revised access arrangements, if approved by the ACCC, are not yet known. Accordingly, it is not possible to assess, with certainty, the likelihood of Donaldson being able to secure sufficient rail access to meet its capacity entitlements at the port, or to otherwise meet anticipated saleable production under the new access arrangements.

Efficient and reliable rail transportation is important for Donaldson to meet its export sale obligations and earn revenue (and profits) from the sale of coal. Delays or shortfalls in rail transportation, or inability to secure sufficient rail transportation entitlements in the future, could have an adverse effect on Donaldson's business.

(h) Bloomfield Coal Handling and Preparation Plant (CHPP)

Donaldson has an agreement with the Bloomfield Group (Bloomfield) for the provision by Bloomfield of coal handling services up until the end of 2018. Donaldson is reliant on Bloomfield to comply with its contractual obligations in order for coal to be processed and loaded onto rail cars for transport to the Port of Newcastle.

(i) Ashtonfield Lease

Donaldson and Bloomfield are joint tenant lessees of land leased from Ashtonfield. The lease has a 21 year term expiring on 31 March 2029. Under the lease, the lessees are granted the right to carry out open cut mining operations on Ashtonfield land (a right exercised by Bloomfield in relation to its own open cut mining operations) and the right to carry out coal processing operations at the Bloomfield CHPP (which is used to process Bloomfield's coal and Donaldson's coal) and tailing emplacement activities.

Since the leasehold interest is held as joint tenants, all lease liabilities are joint and several liabilities of Donaldson and Bloomfield. As a result, there is a risk that Donaldson may become responsible for all of the liabilities under the lease in the event that Bloomfield becomes insolvent or otherwise does not comply with obligations under the lease allocated to it.

(j) Land Access Arrangements

The Bloomfield CHPP is adjacent to a rail loop not owned by Donaldson. Donaldson coal is loaded onto rail cars from the Bloomfield CHPP and transported via the rail loop to the public railway line. The rail loop crosses over land owned by various third parties. If any of the landowners who have entered into the access arrangements sell their parcels of land, the access arrangements are not binding on their successors in title.

The *Ashtonfields Coal-Mines Railway Act 1921* (NSW) grants the right for the public to use the rail loop subject to payment of a toll to the owner of the rail loop. If the rail loop has been unused for any period of three years since 1921, the public's right of access lapses. Gloucester has no reason to believe that the access has lapsed on this ground; however it has not been able to conclusively verify that this is the case.

Based on the assumption that Bloomfield owns the rail loop Donaldson considers that it is able to seek a Mining Lease over land occupied by the rail loop subject to payment of compensation to landowners concerned for any compensable loss. There is no guarantee that Donaldson or Gloucester will be able to obtain that lease and all necessary mining approvals. If Bloomfield does not own the rail loop Donaldson could not obtain a mining lease over it without the approval of the owner of the rail loop. However, Donaldson may be able to seek to obtain a mining lease over land within the rail loop corridor, upon which no improvements are located to build a rail loop if such consent is not able to be obtained.

(k) Exploration and development projects and development risk

The Monash Assets, are at an early stage exploration or development stage. Coal exploration and mine development generally involves a high degree of risk and is subject to hazards and risks including unusual and unexpected geological formations, seismic activity, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, any facilities, damage to life or property, environmental damage and possible legal liability. There is a risk that unforeseen geological difficulties will be encountered in Gloucester's mining operations. This may cause a loss of revenue due to lower production than expected and/or higher operations and maintenance costs and/or ongoing unplanned capital expenditure in order to meet production cost targets.

(l) Mining approvals

The successful development of the Monash Assets depends on Gloucester being able to obtain all necessary regulatory approvals, including any approvals arising under applicable mining laws, environmental regulations and other laws. There can be no guarantee that all such approvals will be obtained, either at all or on terms or in time to enable Gloucester to successfully develop those assets.

(m) Project uncertainty

As Monash is an early stage development project, there is a risk that the production rates, product mix, capital and operating costs differ from those currently expected.

(n) Land/rail access

Rail access rights to the main Hunter Valley rail corridor for the development of the Monash Assets may require the consent of competing coal producers. Alternative access routes to the main Hunter Valley rail corridor may require the consent of the Commonwealth Government. There is a risk that these third parties may refuse access to the relevant rail line or land, which may impact the development of the Monash Assets.

(o) Impact of inflation on costs

Higher than expected inflation rates generally, or specific to the mining industry in particular, could be expected to increase operating and development costs and potentially reduce the value of future project developments. While, in some cases, such cost increases might be offset by increased selling prices, there is no assurance that this would be possible.

(p) Exchange rate risks and hedging

Gloucester enters into forward exchange contracts to partially hedge its currency risk in relation to foreign currency sales and contracted sales denominated in foreign currency. Most of these forward exchange contracts have maturity dates of less than one year from the reporting date. The impact of exchange rate movements will vary and may depend on the terms of the hedging contracts and the duration of the hedging contracts. The impact of movements in exchange rates may be negative depending on their duration, timing and magnitude.

(q) Forward Sales

The Gloucester and Donaldson groups enter into coal supply agreements which include obligations to supply coal at prices that are either fixed or floating. The fixed price contracts may be denominated in either A$ or US$ and act as a hedge against future adverse selling price movements, as such reduce the ability to benefit from increases in future selling prices and additionally, if agreements are denominated in A$, movements in foreign exchange rates. In addition, to the extent that the contracted volumes cannot be delivered on an agreement a liability may arise.

(r) Operational Risks

The mining operations of the Gloucester and Donaldson groups may be affected by (amongst other things) the following: weather/ natural disasters; unexpected maintenance or technical problems; unplanned capital expenditure; variations in coal seam thickness and quality; variations in the amount of rock and soil overlaying coal deposits and other variations in geological conditions; and increases in labour costs

(s) Resources and reserve estimates

Resource and reserve estimates are stated to be prepared in accordance with the JORC Code and are expressions of judgment based on knowledge, experience and industry practice. Often these estimates were appropriate when made, but may change significantly when new information becomes available. There are risks associated with such estimates, including that coal mined may be of a different quality, tonnage or strip ratio from the estimates. Resource and reserve estimates are necessarily imprecise and depend to some extent on interpretations, which may ultimately prove to be inaccurate and require adjustment. Adjustments to resources and reserves could affect Gloucester's development and mining plans.

(t) Infrastructure and transport

Gloucester's future growth is contingent on government and private sector delivery of proposed transport infrastructure. The development of this infrastructure and the future cost of access to new and existing infrastructure is outside Gloucester's control. Coal produced from Gloucester's mining operations is transported to customers by a combination of rail and sea. A number of factors could disrupt these transport services, including weather-related problems, rail or port capacity constraints, key equipment and infrastructure failures and industrial action, impairing Gloucester's ability to supply coal to its customers.

(u) Availability and Cost of Key Equipment

Gloucester has significant new equipment requirements and any delay on the part of equipment suppliers to deliver to schedule, or any cost increases could have an adverse impact on Gloucester's financial performance and/or financial position.

(v) Coal sales and prices

Gloucester and its subsidiaries, which will include Donaldson and subject to commencement of production Monash, will derive their revenue from the sale of coal. Their coal supply agreements are generally renegotiated quarterly/annually, though contracts covering longer periods are also agreed. Difficulties encountered in those negotiations may adversely affect Gloucester's financial performance if the price that customers are willing to pay and/or the quantity of coal required by customers are below expectations.

Coal prices may fall as a result of a number of factors beyond Gloucester's control, including increased global supply, decreased demand, currency exchange rates, general economic conditions and other factors. Gloucester can give no assurance as to the prices it will achieve for any of its coal products in the future.

(w) Exploration and development projects, geological risk and overlapping tenements risk

Some of the projects in which Gloucester and its subsidiaries (which will include Donaldson and Monash) have an interest (which includes the Middlemount Coal Project) are at an exploration or development stage. Coal exploration and mine development generally involves a high degree of risk and is subject to hazards and risks including unusual and unexpected geological formations, seismic activity, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, any facilities, damage to life or property, environmental damage and possible legal liability.

There is a risk that unforeseen geological difficulties will be encountered in Gloucester Group's mining operations. This may cause a loss of revenue due to lower production than expected and/or higher operations and maintenance costs and/or ongoing unplanned capital expenditure in order to meet production cost targets.

The information provided in this Notice of Meeting in relation to Gloucester Group's projects is the current estimate of coal resources and reserves, capital and operating cost, as determined from geological data obtained from drill holes and other exploration techniques and feasibility studies, mine plans and projections conducted to date.

The Duralie and Stratford Coal Mines and associated exploration licences adjoin or are overlapped by petroleum exploration licences held by AGL. AGL recently was granted concept and planning approval for the development of a coal seam methane production facility, pipeline and associated gas wells over parts of their petroleum exploration licences. Under their planning approval AGL is required to consult with Gloucester regarding the location of their pipeline and gas well infrastructure. Further, any petroleum production lease granted to AGL is likely to include a condition requiring AGL to negotiate a co-operation agreement with the Company in respect of operational interaction issues. Gloucester has been working with AGL for some time, to ensure a co-ordinated approach to the development of both the coal and gas resources in the area and to protect its interests in relation to the coal resource.

(x) Government policy and taxation

Changes in relevant taxation laws, interest rates, other legal, legislative and administrative regimes, and government policies in Australia may have an adverse effect on the assets, operations and ultimately the financial performance of Gloucester and the market price of Gloucester shares.

(y) Industry and commodity cycles

The demand for, and price of, coal is highly dependent on a variety of factors, including international supply and demand, the price and availability of alternative fuels, actions taken by governments, and global economic and political developments.

Gloucester will be affected by prevailing steel market and electricity generation conditions in the countries and sectors in which it sells its product. Adverse changes in market sentiment or conditions can and will impact Gloucester's ability to manage operating costs and

have sales meet installed production capacity. These impacts could lead to a reduction in earnings and the carrying value of assets that are outside of Gloucester's control.

(z) Minerals Resource Rent Tax[22]

The Federal Government announced on 2 July 2010 that it intends to introduce a MRRT from 1 July 2012, payable at the rate of 30% on profits made from the exploitation of Australia's non-renewable resources. The MRRT will apply to all coal and iron ore mining projects in Australia. Projects coming under the MRRT regime will also be entitled to a 25% extraction allowance.

Although at this stage, exact details concerning the MRRT remain uncertain and the extent to which the MRRT may impact on Gloucester and/or its operations is yet to be determined, the introduction of the MRRT has the potential to increase Gloucester's effective tax rate, which could adversely affect Gloucester's financial performance and share price.

(aa) Joint ventures and reliance on third parties

Through Gloucester's participation in joint ventures and its use of contractors and other third parties for exploration, mining and other services generally, it is reliant on a number of third parties for the success of its current operations and for the development of its growth projects. While the situation is normal for the mining and exploration industry, problems caused by third parties may arise which have the potential to impact on the performance and operations of Gloucester. Any failure by counterparties to perform their obligations may have a material adverse effect on Gloucester and there can be no assurance that Gloucester would be successful in attempting to enforce any of its contractual rights through legal action.

(bb) Environmental regulation

Environmental regulation of mining activities at both State and Federal level imposes significant obligations on mining companies. Changes in these laws and regulations may adversely affect Gloucester's operations, including profitability of the operations.

In addition, mining is an industry that has become subject to increasing environmental responsibility and liability. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environment regulation, if any, will not adversely affect Gloucester's operations.

(cc) Global Warming – Carbon trading/carbon tax

The regulatory response to the risk of global warming, including unilateral action by Australia, may affect coal prices and the competitiveness of Gloucester's products in the world energy market. Unilateral action by Australian governments (or multilateral action involving Australian governments which is not universal) may decrease the competitiveness of Australian coal exports relative to competing coal exporters (e.g. South Africa and South American countries).

The Federal Government has announced it will introduce a carbon tax from July 2012 but details about the carbon price and compensation have not been finalised. Although at this stage, details concerning a carbon tax remain uncertain and the extent to which a carbon tax may impact on Gloucester and/or its operations is yet to be determined, the introduction of a carbon tax has the potential to increase Gloucester's effective tax rate, which could adversely affect Gloucester's financial performance and share price.

(dd) Water and power management

Gloucester uses water to suppress dust on mine sites and to wash coal. Power is necessary including for operation of the continuous miners and the Bloomfield CHPP. Gloucester currently has access to adequate water and power supply. However, in the future, no assurance can be given that sufficient water or power will be available or that access to water and power will not be disrupted in the future. Climate changes and changes to water allocations and to government policy may affect Gloucester's access to water and power necessary for existing and future mining operations.

(ee) Competition

Competition from Australian and international producers of coal may affect the cash flow and earnings which Gloucester will realise from its operations. Gloucester may also encounter competition from other mining companies for the acquisition of new projects to sustain or increase its coal production, affecting its ability to acquire new interests on acceptable terms.

(ff) NSW Coal Royalties

On 1 July 2004, the NSW Government introduced an ad valorem coal royalty regime. This system was revised on 1 January 2009 but remained an ad valorem coal royalty regime.

A royalty is also payable on coal in coal reject if the coal reject is used or disposed of for the purpose of producing energy. Gloucester can provide no guarantee that the NSW Government will not vary these royalties or its method of calculation. Any new tax impost or increase in royalty may have an adverse effect on Gloucester's financial performance and/or financial position

(gg) Reliance on third parties

The use by Gloucester of contractors and other third parties for exploration, mining and other activities creates reliance on others

22 This is a summary only of the MRRT as proposed by the Federal Government and does not include proposals by the major political parties other than the ALP – limited details are available at this stage, and the impact of the MRRT is yet to be determined. Investors should seek their own advice to form their own assessment of the impact of the MRRT.

for the success of current operations and for the development of exploration projects. Problems caused by third parties may arise with the potential to affect the financial performance of Gloucester.

(hh) Reliance on major customers for sales

Gloucester derives revenues from contracts generally renegotiated quarterly/annually, though contracts covering longer periods are also agreed. If these contracts expire and are not renewed, or customers default and other replacement customers are not found, the financial results of Gloucester may be adversely affected. Active spot markets for coal in Australia and overseas partially mitigate this risk.

(ii) Wars, terrorism, political, economic and natural disasters

Events may occur within or outside Australia that could impact upon the world economy, the market for coal, the operations of Gloucester and the price of Gloucester's shares. For example, war, acts of terrorism, civil disturbance, political intervention and natural activities such as earthquakes, floods, fire and poor weather affecting the transport and mining of coal. Gloucester has a limited ability to insure against some of these risks

(jj) Enforcement of legal rights

Gloucester and its subsidiaries have entered into contracts which are important to the future of their businesses. Any failure by counterparties to perform those agreements may have a material adverse effect on Gloucester and there can be no assurance that it would be successful in enforcing any of its contractual rights through legal action

(kk) Native title

Any native title claims or cultural heritage issues arising in the future may delay production from exploration areas where Gloucester does not already hold mining leases or freehold title.

(ll) Current and future finance

No assurance can be given that any refinancing required from time to time will be available on terms favourable to Gloucester. In such circumstances, if Gloucester is unable to secure refinancing or refinancing on favourable terms, this may have a material adverse effect on Gloucester.

Gloucester's ability to service its debt will depend on its future performance and cash flows, which will be affected by many factors, certain of which are beyond Gloucester's control. Any inability of Gloucester to service its existing debt may have a material adverse effect on Gloucester.

Existing credit facilities and internally-generated funds may not be sufficient for expenditure that might be required for acquisitions, new projects, further exploration and feasibility studies. Gloucester may need to raise additional debt or equity in the future. There is no assurance that Gloucester will be able to obtain additional debt or equity funding when required, or that the terms associated with that funding will be favourable, which may have an adverse effect on Gloucester.

(mm) Capital expenditure estimates

Gloucester has a substantial capital expenditure program which will increase if the Donaldson and Monash Acquisitions complete. There is a risk that the capital costs could be greater than expected and if this is the case, it may adversely affect Gloucester's financial performance and/or financial position.

(nn) Key personnel

Gloucester has a number of key management personnel on whom it depends to run Gloucester's business. The loss of any of these officers or other key personnel, coupled with any inability to attract suitably qualified replacement personnel due to a shortage of labour, could have a material adverse effect on Gloucester's financial performance.

(oo) Industrial action

Gloucester is conscious of its reliance on skilled and productive employees and contractors to maintain its production levels. It has taken deliberate steps to be thorough in selecting individuals with such characteristics to be its employees and has created a collective agreement for its employees. In addition, any industrial action by Gloucester's employees or contractors' employees has the potential to disrupt coal production and consequently, may adversely affect Gloucester's financial performance and/or financial position.

(pp) Health and safety

Health and safety regulation affects Gloucester's activities. Coal production and underground mining are potentially hazardous activities. If any injuries or accidents occur in a mine, this could have financial implications for Gloucester including potential production delays or stoppages and this may have an adverse effect on Donaldson's financial performance and/or financial position.

(qq) Approvals

Gloucester's financial performance could be adversely affected as a result of delays in obtaining necessary government approvals or if applications lodged for exploration licences are not granted, or exploration licences that have been granted for a fixed term are not renewed upon expiry.

(rr) Risks related to proposed efficiencies/benefits under the Proposed Transactions

There is also a risk that any potential efficiencies and/or benefits for Gloucester of the acquisition of the Donaldson Assets and/or Monash Assets are not achieved in full or in a timely manner.

In addition, a number of third parties are party to contractual arrangements concerning the Donaldson Assets and/or Monash Assets. Third parties may seek to challenge, set aside or reverse Gloucester's acquisition of the Donaldson Assets and/or Monash Assets. Although Gloucester is confident that its acquisition of the Donaldson Assets and/or Monash Assets will withstand any such challenge, litigation can give rise to uncertainties and the process and consequences of any such challenge may have a material adverse impact on Gloucester's operational and financial performance and/or position.

12. FINANCIAL ASSISTANCE

12.1 The acquisitions

(a) Under the Proposed Transactions, Gloucester is proposing to acquire the entire issued ordinary share capital of Donaldson and Ellemby.

(b) After completion of the Proposed Transactions, the Target Group Companies will be subsidiaries of the Company.

12.2 Sections 260A and 260B of the Corporations Act

(a) Under section 260A of the Corporations Act, a company may financially assist a person to acquire shares (or units of shares) in the company or a holding company of the company only if:

(i) giving the assistance does not materially prejudice:

(A) the interests of the company or its shareholders; or

(B) the company's ability to pay its creditors; or

(ii) the assistance is approved by shareholders under section 260B; or

(iii) the assistance is exempted under section 260C.

(b) Under section 260B of the Corporations Act, if immediately after the acquisition, the company will have an Australian listed holding company, the financial assistance must also be approved by a special resolution of the holding company. Because Gloucester will be the holding company of the Target Group Companies after the Proposed Acquisitions, members of Gloucester are asked to approve the financial assistance.

(c) A company may be regarded as giving financial assistance if it gives something needed in order that a transaction be carried out or something in the nature of aid or help. Common examples of financial assistance include issuing a debenture, giving security over the company's assets, and giving a guarantee or indemnity in respect of another person's liability.

12.3 The financial assistance

(a) As part of the arrangements under the Proposed Transactions, Gloucester expects to put in place term facilities of up to approximately $500 million under a facilities agreement between Gloucester, (**Lender**) and others.

(b) In order to secure and regulate the obligations of Gloucester and any applicable subsidiary or related entity of it in relation to the finance facilities, each Target Group Company may:

(i) execute, or accede to, the Facilities Agreement as an obligor;

(ii) give an interlocking guarantee and indemnity (which may be contained in the Facilities Agreement) for the repayment of money that may become owing, and to secure (among other things) each obligor's obligations, under the Facilities Agreement and any related document;

(iii) to secure its obligations under the Facilities Agreement (including the guarantee and indemnity) and any related document:

(A) execute a fixed or floating (or both) charge or charges over its assets and undertaking;

(B) if required under the Facilities Agreement, execute a registrable real property mortgage or mortgages over its real property interests (if any); and

(C) if required under the Facilities Agreement, execute a share mortgage or mortgages over shares and associated rights held by it in certain subsidiaries (if any); and

(iv) execute, or accede to, any document ancillary to, or in connection with, the Facilities Agreement and any guarantee, indemnity or security interest given in connection with, or ancillary to, the Facilities Agreement and any related document.

(c) Gloucester expects to arrange refinancing and additional financing facilities (including working capital facilities) of an amount to be determined in the future, from time to time. In order to secure and regulate the obligations of Gloucester and any applicable subsidiary or related entity of it in relation to new financing facilities, each Target Group Company may, from time to time:

(i) execute, or accede to, a new facilities agreement as an obligor:

(A) on substantially the same terms as the Facilities Agreement; or

(B) on terms approved by the board or members (or both) at the relevant time;

(ii) give one or more of a guarantee, indemnity or security interest over its assets (whether by way of mortgage, fixed or floating (or both) charge or otherwise) to secure each obligor's obligations under any new facilities agreement and any related document; and

(iii) execute, or accede to, any document in connection with, or ancillary to, any new facilities agreement or guarantee, indemnity or security interest given in connection with any new facilities agreement and any related document.

(d) Each Target Group Company may also execute, or accede to:

(i) an intercreditor deed;

(ii) a subordination deed; or

(iii) a security trust deed,

to (among other things) regulate the rights of the parties under, or deriving rights in connection with, the Finance Documents.

(e) It is expected that each Target Group Company's obligations under each Finance Document will be significant. Those obligations could include:

(i) unconditionally and irrevocably guaranteeing the performance of the obligations (including payment obligations) of Gloucester and any applicable subsidiary or related entity of it under the Finance Documents from time to time;

(ii) indemnifying each Finance Party and other parties against any liability, loss or cost incurred by them under, or in connection with, the Finance Documents; and

(iii) giving security interests over its assets to secure its obligations and the obligations of Gloucester or any applicable subsidiary or related entity of it under the Finance Documents from time to time.

(f) Entering into, and performing obligations under, the Finance Documents will constitute financial assistance and requires the prior approval of members.

12.4 Reasons for the financial assistance

Gloucester requires finance under the Facilities Agreement to part fund the repayment of $186 million of debt from Noble (agreed to be repaid), the refinancing of approximately $39[23] million of Donaldson's net debt from third party lenders, and to fund capital expenditure and provide working capital for the business of the Gloucester Group and Target Group Companies and related companies.

12.5 Effects of the financial assistance

(a) The giving of the guarantee and indemnity and any security in connection with the finance facilities, may impact on each Target Group Company's ability to borrow money in the future, and it is possible that this could materially prejudice the interests of each Target Group Company and its shareholders. This is because a lender may be deterred by the existence of the Finance Documents from making finance facilities available to each Target Group Company. However, representatives of the new ultimate shareholders of the Target Group Companies participated in negotiations relating to the acquisition of the shares, including in relation to Gloucester (and the other related companies) entering into the Finance Documents, and have agreed to those arrangements because they believe them to be in their best interests.

(b) The assessment of material prejudice, including each Target Group Company's ability to pay its creditors, embraces the whole transaction and so brings into account its immediate consequences in terms of determining whether there is a material prejudice. The assessment of material prejudice has quantitative and qualitative elements.

(c) The quantitative element involves an assessment of the impact of the Finance Documents on each Target Group Company's balance sheet, future profits and future cash flows. The prejudice to each Target Group Company's ability to pay its creditors relates to the guarantees and indemnities and security interests to be provided by each Target Group Company under the Finance Documents. If Gloucester or any applicable subsidiary or related entity of it defaults under the Finance Documents, any one or more of the Finance Parties may decide to make a demand under the Finance Documents (including by a call on a guarantee and indemnity or enforcement of security given by Gloucester (or both)). Accordingly, each Target Group Company will be liable for the default of Gloucester or any applicable subsidiary or related entity of it under the Finance Documents.

(d) The qualitative aspect requires an assessment of all the interlocking elements of the commercial transaction as a whole to determine where the net balance of financial advantage lies. The directors of Gloucester consider that the acquisition of the shares by Gloucester is to the benefit of each Target Group Company and promotes the interests of each Target Group Company. This is on the basis that the Target Group Companies will inherit committed shareholders who will be focussed on the performance of the Target Group Companies and their business.

(e) The directors of Gloucester do not currently have any reason to believe that Gloucester (or any applicable subsidiary or related entity of it) is likely to default in its obligations under the Finance Documents.

(f) However, if a Finance Party becomes entitled to enforce any of its rights under a Finance Document because Gloucester or any applicable subsidiary or related entity of it defaults, the enforcement may materially prejudice the interests of each Target Group Company or its shareholders. On enforcement, among other rights, a Finance Party may become entitled to procure the sale of the assets of each Target Group Company. The sale of assets on enforcement may yield a return to each Target Group Company (and ultimately its shareholders) significantly lower than could have been achieved by each Target Group Company had those assets been otherwise sold. This may materially prejudice the interests of each Target Group Company and its shareholders.

(g) Accordingly, the directors have decided to refer the proposal to shareholders for approval under section 260B of the Corporations Act in light of the guarantee, indemnity and security that is to be provided by the Target Group Companies under the Finance Documents.

23 Based on forecast debt balance upon completion.

12.6 Recommendation of directors

The directors recommend that shareholders vote in favour of the resolution for the reasons in paragraph 12.4.

12.7 Approval of financial assistance

Under section 260B(2) of the Corporations Act, shareholder approval for financial assistance by the Target Group Companies must be approved by special resolution passed at a general meeting of Gloucester.

12.8 Notice to ASIC

Copies of the notice of meeting of the proposed resolution and this Explanatory Statement were lodged with the Australian Securities and Investments Commission before being sent to the members, in accordance with section 260B(5) of the Corporations Act.

12.9 Disclosure of information

The directors consider that this Explanatory Statement contains all material information known to Gloucester that could reasonably be required by members in deciding how to vote on the proposed resolution, other than information that it would be unreasonable to require Gloucester to disclose because Gloucester has previously disclosed the information to its members.

12.10 Inspection of documents

Copies of the Finance Documents (in draft or final copy) are available for inspection by a member upon request to Gloucester.

13. GLOUCESTER SHAREHOLDER APPROVALS

13.1 Introduction

This Section 13 summarises the Corporations Act and Listing Rule requirements relevant to the Resolutions proposed at the General Meeting.

13.2 Resolution 1 – Donaldson Acquisition Proposal

(a) Chapter 2E of the Corporations Act

Chapter 2E of the Corporations Act contains prohibitions on Gloucester, as a public company, providing a financial benefit to any related party, unless the provision of that benefit is approved in advance by Gloucester Shareholders or falls within certain exceptions.

Mt Vincent Holdings and Noble are related parties of Gloucester due to Noble's controlling shareholding in Gloucester. A 'financial benefit' is broadly defined in the Corporations Act to include buying an asset from, selling an asset to or issuing shares to, a related party.

The sale and transfer of Donaldson by Noble to Gloucester under the Donaldson Share Purchase Deed, the issue of Gloucester Shares as consideration and, if required, the payment of completion adjustments, constitute the giving of a financial benefit by Gloucester to Noble.

Although the Independent Directors believe that the exception relating to financial benefits given to related parties on terms that would be reasonable in the circumstances if the public company and the related party were dealing at arm's length might apply, the Independent Directors have decided that it is appropriate in all of the circumstances to seek approval of Gloucester Shareholders for the purposes (among other things) of Chapter 2E. Resolution 1 is proposed for this purpose.

The Corporations Act requires that the Explanatory Statement to the Notice of Meeting setting out the resolution to approve the provision of the relevant financial benefit contain certain information under section 219 of the Corporations Act. This information is set out below:

(i) *The related parties to whom the proposed Resolution 1 would permit financial benefits to be given*

The related parties to whom Resolution 1 would permit Gloucester to give financial benefits are as follows:

(A) Noble; and

(B) the following subsidiaries of Noble:

(I) Mt Vincent Holdings;

(II) Noble Resources; and

(III) Noble Marketing.

(ii) The nature of the financial benefits

The nature of the financial benefit to be provided by Gloucester is as follows:

(A) the acquisition of Donaldson;

(B) the provision of consideration for Donaldson including the repayment of $186 million of debt from Noble and the issue of Gloucester Shares;

(C) the payment of completion adjustments if required;

(D) the provision of certain warranties, indemnities and undertakings including procuring the release of guarantees; and

(E) the provision of other rights and the incurring of other obligations,

under the Donaldson Share Purchase Deed and other documents either executed at the same time or to be delivered on completion of the Donaldson Acquisition, including without limitation, the provision of financial benefits under the Re-Profiling Agreement as described in Section 6.3 by Donaldson Coal to Noble Marketing.

(iii) Information relating to the directors of Gloucester

The Independent Directors recommend that Gloucester Shareholders pass Resolution 1, on the basis that the Independent Directors believe that the provision of the financial benefits contemplated by Resolution 1 will be in the best interests of Gloucester Shareholders. The reasons for that belief are set out in Section 4.3.

Ricardo Leiman and Will Randall are abstaining from making a recommendation on the Resolution as they are not considered to be independent. Messrs Leiman and Randall are employed in an executive capacity by Noble.

None of the Directors has a material personal interest in the outcome of the Resolution, other than in the case of Messrs Leiman and Randall, who are executives of Noble.

(iv) Other material information

Other than as set out in this Explanatory Statement, there is no information known to Gloucester or any of its Directors which is reasonably required by Gloucester Shareholders to decide whether or not it is in the interests of Gloucester to pass Resolution 1.

(b) Listing Rule 10.1

Broadly, under Listing Rule 10.1, Gloucester must obtain the approval of its Shareholders before acquiring a substantial asset from, or disposing of a substantial asset to, a related party, a subsidiary, a substantial holder[24], an associate of any of these persons or a person whose relationship to Gloucester or to any of these other persons is such that, in ASX's opinion, the transaction should be approved. There are certain exceptions to Listing Rule 10.1, none of which are applicable to the matters subject to approval under Listing 10.1 in the Notice of General Meeting.

The notice of meeting setting out the resolution to approve the relevant transaction must include a voting exclusion statement and an independent expert's report expressing an opinion on whether the Proposed Transaction (including the issue of Gloucester Shares as consideration) is fair and reasonable to the non-associated Gloucester Shareholders. The voting exclusion statement appears in the Notice of Meeting. The Independent Expert's Report prepared by Deloitte is set out in the Schedule to this Explanatory Statement and includes an opinion for the purpose of Listing Rule 10.1 on whether the Resolution is fair and reasonable to the Gloucester Shareholders other than Noble or its associates.

(c) Listing Rule 10.11

Broadly, under Listing Rule 10.11, Gloucester must obtain the approval of its Shareholders before issuing shares to a related party. The Donaldson Share Purchase Deed provides for the issue to Noble of Gloucester Shares on completion which requires approval for the purposes of this Listing Rule. No exception applies.

Approval for the purposes of Listing Rule 10.11 means that approval for the purposes of Listing Rule 7.1 (broadly, the '15% limit' on share issues) is not required.

The approximate number of shares to be issued is $360 million ÷ $9.75 = 36,923,076. See section 10.4.

The shares will be issued on completion of the Donaldson Acquisition, currently expected for 11 July 2011, but in any event not later than 1 month after the date of the meeting.

(d) Voting exclusion statement

The Company will disregard any votes cast on Resolution 1 by:

(a) a Relevant Related Party;

(b) an associate of any Relevant Related Party;

(c) a party to the transaction referred to in the Resolution;

(d) any associate of such a party;

(e) any person who is to receive Gloucester Shares or Converting Shares under the terms of the Donaldson Acquisition or the Monash Acquisition;

(f) any associate of such a person.

However, the above does not prevent the casting of a vote if:

(g) it is cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the proposed resolution; and

(h) it is not cast on behalf of a person of the kind expressed in paragraphs (a) to (f) inclusive above.

24 For the purposes of Listing Rule 10.1, a person who, together with their associates, has at least 10% voting power in Gloucester or who, together with their associates, has had at least 10% voting power in Gloucester at any time in the previous six months.

13.3 Resolution 2 – Marketing Arrangements

(a) Chapter 2E of the Corporations Act

Chapter 2E of the Corporations Act contains prohibitions on Gloucester, as a public company, providing a financial benefit to any related party, unless the provision of that benefit is approved in advance by Gloucester Shareholders or falls within certain exceptions.

The parties to the Marketing Agreement, are related parties of Gloucester due to Noble's controlling shareholding in Gloucester.

The provision of marketing services by Noble Marketing to Gloucester under the Marketing Agreement and the payment of a marketing fee to Noble Marketing as consideration constitute the giving of a financial benefit by Gloucester to Noble.

Although the Independent Directors believe that the exception relating to financial benefits given to related parties on terms that would be reasonable in the circumstances if the public company and the related party were dealing at arm's length might apply, the Independent Directors have decided that it is appropriate in all of the circumstances to seek approval of Gloucester Shareholders for the purposes (among other things) of Chapter 2E.

The Corporations Act requires that the Explanatory Statement to the Notice of Meeting setting out the resolution to approve the provision of the relevant financial benefit contain certain information under section 219 of the Corporations Act. This information is set out below:

(i) *The related parties to whom the Resolution 2 would permit financial benefits to be given*

The related parties to whom Resolution 2 would permit Gloucester to give financial benefits are as follows:

(A) Noble; and

(B) Noble Marketing.

(ii) *The nature of the financial benefits*

The nature of the financial benefit to be provided by Gloucester is as follows:

(A) the payment of fees in consideration for services, advice and information as and when requested by Gloucester in relation to the sale and marketing of Export Coal; and

(B) the provision of other rights and the incurring of other obligations,

under the Marketing Agreement and other documents either executed at the same time or to be delivered on completion of the Marketing Agreement.

(iii) *Information relating to the directors of Gloucester*

The Independent Directors recommend that Gloucester Shareholders approve Resolution 2, on the basis that the Independent Directors believe that the provision of the financial benefits contemplated by Resolution 2 will be in the best interests of Gloucester Shareholders. The reasons for that belief are set out in Section 4.3.

Ricardo Leiman and Will Randall are abstaining from making a recommendation on the Resolution as they are not considered to be independent. Messrs Leiman and Randall are employed in an executive capacity by Noble.

None of the Directors has a material personal interest in the outcome of the Resolution, other than, in the case of Messrs Leiman and Randall, who are executives of Noble.

(iv) *Other material information*

Other than as set out in this Explanatory Statement, there is no information known to Gloucester or any of its Directors which is reasonably required by Gloucester Shareholders to decide whether or not it is in the interests of Gloucester to pass Resolution 2.

13.4 Resolution 3 – Monash Acquisition & Converting Shares

(a) Listing Rule 7.1

The Monash Acquisition does not require the approval of Gloucester Shareholders under Chapter 2E of the Corporations Act as it is not a related party acquisition.

However, under Listing Rule 7.1, Gloucester must obtain the approval of its Shareholders because the issue of 1000 Converting Shares at a price of $1.00 per Converting Share will exceed the '15% limit' on share issues or substantially reduce the capacity of Gloucester to issue shares within the 15% limit[25].

Listing Rule 7.1 provides that a listed company must not issue or agree to issue subject to specified exceptions, during any 12 month period any equity securities which, when aggregated with the number of the other securities issued within that 12 month period, exceed 15% of the number of ordinary shares on issue at the beginning of the 12 month period, unless the issue falls within one of the nominated exceptions, or the prior approval of members of the company at a general meeting is obtained.

The Monash Share Sale Deed provides for the issue of Converting Shares to the Monash Vendors on completion of the Monash Acquisition, currently expected for 11 July 2011, but in any event not later than 3 months after the date of the meeting. The issue of the Converting Shares requires approval for the purposes of this Listing Rule.

The Listing Rules require that the Notice of Meeting setting out the resolution to approve the issue of the Gloucester Shares in accordance with Listing Rule 7.1 contain certain information under Section 7.3 of the Listing Rules. This information is set out in this Section 13.4(a) and Section 9.4.

(b) Voting exclusion statement

The Company will disregard any votes cast on Resolution 3 by:

(a) any Monash Vendor or any Monash Guarantor (each being a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary shares if the Resolution is passed); and

(b) an associate of any person or persons referred to in paragraph (a).

25 As the number of shares to be provided (if they are to be provided) is determined by reference to the relevant prevailing VWAP, the 15% limit will be judged on the basis of VWAP at the time of issue of the Converting Shares.

However, the Company need not disregard a vote if:

(c) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(d) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Information relating to the directors of Gloucester

The Independent Directors recommend that Gloucester Shareholders approve Resolution 3, on the basis that the Independent Directors believe that the issue of the Conversion Shares as part of the consideration for the Monash Acquisition, will be in the best interests of Gloucester Shareholders. The reasons for that belief are set out in Section 4.3.

None of the Independent Directors has a material personal interest in the outcome of the Resolution.

Ricardo Leiman and Will Randall are abstaining from making a recommendation on the Resolution as they are not considered to be independent. Messrs Leiman and Randall are employed in an executive capacity by Noble.

None of the Directors has a material personal interest in the outcome of the Resolution, other than, in the case of Messrs Leiman and Randall, who are executives of Noble.

Other material information

Other than as set out in this Explanatory Statement, there is no information known to Gloucester or any of its Directors which is reasonably required by Gloucester Shareholders to decide whether or not it is in the interests of Gloucester to pass Resolution 3.

13.5 Resolution 4 – Constitution

(a) Chapter 2B of the Corporations Act

Broadly, under Chapter 2B of the Corporations Act, Gloucester must obtain the approval of its Shareholders before modifying its constitution. Any modifications to a company's constitution must be approved by a special resolution, requiring at least 75% of the votes cast by eligible Gloucester Shareholders present and voting at the General Meeting in order to be passed.

The proposed amendments to the Gloucester constitution, to permit Gloucester to issue and Convert the Converting Shares as part of the consideration for the Monash Acquisition, are set out Resolution 4.

If passed by the required number of Gloucester Shareholders, the special resolution to amend Gloucester's constitution will take effect on the date on which the resolution is passed (currently proposed for 8 July 2011).

Information relating to the directors of Gloucester

The Directors recommend that Gloucester Shareholders approve Resolution 4, on the basis that the Directors believe that the amendments to the Gloucester constitution, to allow Gloucester to issue and Convert the Converting Shares as part of the consideration for the Monash Acquisition, will be in the best interests of Gloucester Shareholders. The reasons for that belief are set out in Section 4.3.

None of the Directors has a material personal interest in the outcome of the Resolution.

Other material information

Other than as set out in this Explanatory Statement, there is no information known to Gloucester or any of its Directors which is reasonably required by Gloucester Shareholders to decide whether or not it is in the interests of Gloucester to pass Resolution 4.

13.6 Resolution 5 – Financial Assistance

(a) Part 2J.3 of the Corporations Act

Part 2J.3 of the Corporations Act provides that a company may provide financial assistance to a person to acquire shares (or units of shares) in the company or a holding company of the company only if:

(i) the giving of the financial assistance does not materially prejudice:

(A) the interests of the company or its shareholders; or

(B) the company's ability to pay its creditors; or

(ii) the financial assistance is approved by shareholders under section 260B of the Corporations Act (which also requires advance notice to ASIC); or

(iii) the financial assistance is exempted under section 260C of the Corporations Act.

The above restriction applies irrespective of whether the financial assistance is given before or after the acquisition of shares.

The expression 'financial assistance' is not defined in the Corporations Act. Courts have interpreted this expression as having no technical meaning. Instead, courts examine the commercial arrangements between parties liberally so that both direct and indirect arrangements, including arrangements that in any way facilitate a person's acquisition of shares, may constitute the provision of financial assistance.

Resolution 5 is proposed to comply with section 260B(2) of the Corporations Act, which provides that if the company will be a subsidiary of a listed domestic corporation immediately after the acquisition referred to in section 260A occurs, the financial resolution must also be approved by a special resolution passed at a general meeting of that corporation.

The Corporations Act requires that the Notice of Meeting setting out the resolution to approve the provision of the relevant financial assistance contain certain information under section 260B of the Corporations Act. This information is set out in Section 12.3.

Information relating to the directors of Gloucester

The Directors recommend that Gloucester Shareholders approve Resolution 5, on the basis that the Directors believe that the provision of financial assistance under the provisions of the Donaldson Share Purchase Deed, will be in the best interests of Gloucester Shareholders. The reasons for that belief are set out in Section 4.3.

None of the Directors has a material personal interest in the outcome of the Resolution.

Other material information

Other than as set out in this Explanatory Statement, there is no information known to Gloucester or any of its Directors which is reasonably required by Gloucester Shareholders to decide whether or not it is in the interests of Gloucester to pass Resolution 5.

13.7 Worked example of provision of Shares under Converting Share Terms of Issue

Set out below is a worked example of the number of Shares that may be provided to the Monash Vendors under the Converting Share Terms of Issue.

(a) Stage 1 Payment – Worked Example

This example assumes that all Stage 1 Payment milestones are achieved and the Stage 1 Payment cap of $70,000,000[1] is reached or exceeded.

The number of Shares to be provided to the Monash Vendors, assuming a range of VWAPs, is as follows:

VWAP	Number of Shares to be provided
$8.00	8,750,000
$9.00	7,777,777
$10.00	7,000,000
$11.00	6,363,636

(b) Stage 2 Payment – Worked Example

This example assumes that all Stage 2 Payment milestones are achieved and the Stage 2 Payment cap of $50,000,000[2] is reached or exceeded. This example also assumes that the granting of a Mining Lease does not occur before 31 December 2016, and therefore no Stage 3 Payment occurs.

The number of Shares to be provided to the Monash Vendors, assuming a range of VWAPs, is as follows:

VWAP	Number of Shares to be provided
$8.00	6,250,000
$9.00	5,555,555
$10.00	5,000,000
$11.00	4,545,454

For more information regarding the Converting Share Terms of Issue please refer to section 9.4.

14. ADDITIONAL INFORMATION

14.1 Implications if the Resolutions are not passed

If the Resolutions are not passed, then the acquisitions of Donaldson and Monash and the issue of the Gloucester Shares and the Converting Shares will not proceed and the Donaldson Share Purchase Deed and the Monash Share Sale Deed will be of no force or effect for failure of a condition precedent. As the Marketing Arrangements are subject to a condition precedent of completion of the Donaldson Acquisition, the Marketing Services Arrangements will not take effect.

If the Monash and Donaldson Acquisitions do not proceed (due to failure to receive shareholder approval or for any other reason), then Gloucester will use the monies raised under the equity raising to fund new opportunities and strategic initiatives in line with its strategy to create a leading Australian coal company and fund its capital expenditure and working capital. This may involve reviewing capital expenditure plans in relation to other projects, repayment of debt or restructure of the Company's debt profile, as well as consideration of alternative strategic opportunities consistent with Gloucester's strategy.

14.2 No other material information

Except as set out in this Explanatory Statement, in the opinion of the Independent Directors, there is no other information material to the making of a decision on how to vote in relation to the Resolutions, being information that is within the knowledge of any Independent Director or of any subsidiary of Gloucester which has not been previously disclosed to Gloucester Shareholders.

Gloucester will issue a supplementary document to the Explanatory Statement if it becomes aware of any of the following between the date this Explanatory Statement is lodged with ASIC and provided to ASX and the date the general meeting is held:

(a) a material statement in the Explanatory Statement is false or misleading in a material aspect;

(b) a material omission from this Explanatory Statement;

(c) a significant change affecting a matter included in this Explanatory Statement; or

(d) a significant new matter has arisen and it would have been required to be included in this Explanatory Statement if it had arisen before the date this Explanatory Statement is lodged with ASIC and provided to ASX.

1 Not adjusted for CPI
2 Not adjusted for CPI

Depending on the nature and timing of the changed circumstances and subject to obtaining any relevant approvals, Gloucester may circulate and publish any supplementary document by:

(a) making an announcement to ASX;

(b) placing an advertisement in daily newspapers (as defined in the Corporations Act) ordinarily published in Australia;

(c) posting the supplementary document to Gloucester Shareholders at their registered address as shown on Gloucester's register of Shareholders; or

(d) posting a statement on Gloucester's corporate website,

as Gloucester in its sole and absolute discretion considers appropriate.

14.3 Authorisation

This Explanatory Statement has been approved by a resolution passed by the Directors of Gloucester.

15. GLOSSARY AND INTERPRETATION

15.1 Glossary

Term	*Meaning*
Abel or **Abel Mine** or **Abel Underground Mine**	Operating coal mine owned by Donaldson
Acquisitions	The Donaldson Acquisition and the Monash Acquisition
AEST	Australian Eastern Standard Time
Ashtonfields	Ashtonfields Pty Ltd ACN 084 407 652
ASIC	Australian Securities and Investments Commission
ASX Settlement	ASX Settlement Pty Ltd ABN 49 008 504 532, the body which administers the CHESS system in Australia
ASX Settlement Rules	the Settlement Rules of ASX Settlement
ASX	ASX Limited ACN 008 624 691 or, as the context requires, the financial market conducted by it
ASX Listing Rules or **Listing Rules**	The Listing Rules of ASX
Bloomfield	Bloomfield Collieries Pty Ltd ACN 000 106 972
CHPP	Coal handling and preparation plant
Computershare	Computershare Investor Services Pty Ltd ABN 48 078 279 277
Constitution	The constitution for the time being of Gloucester
Convert	In relation to the Converting Shares has the meaning given in the Converting Share Terms of Issue, under which the Converting Share converts by a variation of its rights to a Gloucester Share ranking equally in all respects with Gloucester Shares then on issue
Converting Shares	Gloucester converting preference shares issued to the Monash Vendors, as part consideration for the Monash Assets, in accordance with the Converting Share Terms of Issue
Converting Share Terms of Issue	The terms of issue of the Converting Shares agreed to between Gloucester and the Monash Vendors in respect of the Converting Shares and summarised in Section 9.4
Corporations Act	The *Corporations Act 2001* (Cth)
CY	Calendar year ended or ending 31 December
Deloitte or **Independent Expert**	Deloitte Corporate Finance Pty Limited ACN 003 833 127
Directors	James MacKenzie, David Brownell, Greg Fletcher, Denis Gately, Ricardo Leiman and William Randall
Donaldson	Donaldson Coal Holdings Ltd ACN 074 921 243
Donaldson Acquisition	The proposed acquisition of the Donaldson Group by Gloucester
Donaldson Assets	The assets owned by Donaldson, including the Donaldson Mines
Donaldson Acquisition Transaction Documents	The Donaldson Share Purchase Deed, the Marketing Services Agreement, the Re-Profiling Agreement and the Indemnity Deed
Donaldson Coal	Donaldson Coal Pty Ltd ACN 073 088 945
Donaldson Group	Donaldson, Donaldson Coal Finance Pty Ltd ACN 132 842 105, Donaldson Coal, Newcastle Coal Company Pty Ltd ACN 074 900 208, Primecoal International Pty Ltd ACN 100 114 038 and Abakk Pty Ltd ACN 059 212 065
Donaldson Mines	Operating coal mines owned by the Donaldson Group including the Donaldson Open Cut Mine, Abel Mine, Tasman Underground Mine and the Abel Extension and Tasman Extension Exploration Area

Term	*Meaning*
Donaldson Share Purchase Deed	The share purchase deed dated 15 May 2011 between Mt. Vincent Holdings, Gloucester (Sub-Holdings 1), Gloucester and Noble
Ellemby	Ellemby Holdings Pty Limited ACN 089 542 987
End Date	31 July 2011 or such other date as Noble and Gloucester agree
Equity Raising	Has the meaning given to it in the Chairman's letter
Explanatory Statement	This Explanatory Statement, which forms part of the Notice of Meeting (but excluding the Independent Expert's Report)
Export Coal	Has the meaning given to it in Section 2.2(a)
Facilities Agreement	a facilities agreement between Gloucester, Lender and others, referred to in Resolution 5 and Section 12
Finance Documents	The Facilities Agreement and each document referred in paragraph 12.3(b) and paragraph 12.3(c) of this Explanatory Statement
Finance Party	A financier, arranger, agent, hedging lender, trustee or security trustee under the Finance Documents
FIRB	Foreign Investment Review Board
FY	Financial year ended or ending 30 June
General Meeting	The general meeting of Gloucester to be held at 9.30am on 8 July 2011 at Minter Ellison, Level 23 Rialto Towers, 525 Collins Street, Melbourne Australia to consider and vote on the Resolutions contained in the Notice of Meeting
Gloucester or **the Company**	Gloucester Coal Ltd ACN 008 881 712
Gloucester Board or **Board**	The board of directors of Gloucester
Gloucester Group	Gloucester and its related bodies corporate
Gloucester Share or **Share**	A fully paid ordinary share in Gloucester
Gloucester Shareholder or **Shareholder**	A person registered as a holder of Gloucester Shares on the register of members of Gloucester maintained by Computershare on behalf of Gloucester
Gloucester (Sub-Holdings 1)	Gloucester (Sub-Holdings 1) Pty Ltd ACN 150 079 002
Gloucester (Sub-Holdings 2)	Gloucester (Sub-Holdings 2) Pty Ltd ACN 150 079 020
Hunter Valley	The area of the Donaldson Mines, located approximately 25 kilometres from Newcastle and Port Waratah
Hunter Valley Rail Network	The 452 kilometres of track from Port Waratah, Newcastle to Werris Creek via Muswellbrook
Indemnity Deed	The tax covenant of Mt Vincent Holdings in relation to the Donaldson Acquisition as discussed in Section 6.4
Independent Board Committee	The independent board committee, formed in connection with consideration of the Acquisitions, comprising Mr James MacKenzie, Mr Greg Fletcher and Mr Denis Gately
Independent Directors	The independent directors of Gloucester, being Mr James MacKenzie, Mr David Brownell, Mr Greg Fletcher and Mr Denis Gately
Independent Expert's Report or **IER**	The report prepared by the Independent Expert on the Proposed Transactions, as set out in the Schedule to this Explanatory Statement
Institutional Entitlement Offer	An underwritten accelerated pro-rata entitlement offer of approximately 24.3 million Gloucester Shares at a price of A$9.00 per Share, raising a total of A$218 million, as announced by Gloucester on 16 May 2011

Term	*Meaning*
Investor Presentation	The presentation to investors concerning the Donaldson Acquisition Proposal, the Monash Acquisition Proposal and Equity Raising prepared by Gloucester and released as an announcement to ASX on 16 May 2011
JORC	The Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
JORC Code	2004 Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (The JORC Code) prepared by JORC
Lender	The providers of financial accommodation to members of the Gloucester Group contemplated by Resolution 5
Marketing Arrangements	the arrangements for the marketing and sale of Export Coal between Gloucester and Noble Marketing constituted by the Marketing Services Agreement
Marketing Services Agreement	The marketing services agreement between Gloucester, Noble Marketing and Noble dated 15 May 2011
Middlemount	Middlemount Coal Pty Ltd ACN 122 348 412
Middlemount Mine	the mine in the Bowen Basin of Queensland owned by Middlemount
Monash or **Monash Group**	Ellemby, Monash Coal and Monash Coal Unit Trust
Monash Acquisition Transaction Documents	The Monash Share Sale Deed and the Works Agreement
Monash Assets	The assets owned by Ellemby including the tenements
Monash Acquisition	The proposed acquisition of the Monash Group by Gloucester
Monash Coal	Monash Coal Pty Ltd ACN 069 359 011
Monash Guarantors	Leigh McPherson, Mark McPherson and Brendan McPherson
Monash Share Sale Deed	The Share Sale Deed dated 15 May 2011 between Gloucester Coal Ltd, Gloucester (Sub-Holdings 2), Molti Consulting Pty Ltd, SES Rotges Investments Pty Ltd, McActivity Pty, Brendan McPherson, Leigh McPherson and Mark McPherson
Monash Vendors	Molti Consulting Pty Ltd ACN 075 282 521, SES Rotges Investments Pty Limited ACN 088 935 620 and McActivity Pty Limited ACN 053 014 127
MRRT	Minerals Resource Rent Tax
Mt	Million tonnes
Mtpa	Million tonnes per annum
Mt Vincent Holdings	Mt Vincent Holdings Pty Ltd ACN 105 086 440
NCIG	Newcastle Coal Infrastructure Group Pty Limited ACN 111 228 221
Noble	Noble Group Limited
Noble Group	Noble and its related bodies corporate
Noble Marketing	Noble Resources Pte Ltd (a Singapore company)
Noble Resources	Noble Resources Group Limited (a Singapore company)
Notice of Meeting or **Notice of General Meeting**	The notice of general meeting of Gloucester to be held on 8 July 2011 set out in this document
NPC	Newcastle Port Corporation
NSW	New South Wales

Term	*Meaning*
Proposed Transactions	The Donaldson Acquisition, the Marketing Arrangements and the Monash Acquisition
PWCS	Port Waratah Coal Services Ltd ACN 001 363 828
related body corporate	The meaning given in the Corporations Act
Relevant Related Party	Noble and the following subsidiaries of Noble: Noble Resources and Noble Marketing
Re-profiling Agreement	The Re-Profiling Agreement dated 15 May 2011 between Donaldson Coal and Noble Marketing
Resolutions	A resolution set out in the Notice of Meeting
Retail Entitlement Offer	The underwritten retail component of the Equity Raising, raising up to approximately A$12 million, as announced by Gloucester on 16 May 2011
ROM	Run of mine
t	Tonnes
Target Group Company	either the Donaldson Group or the Monash Group
Target Group Companies	the Donaldson Group and the Monash Group
Tasman or **Tasman Underground Mine**	Operating coal mine owned by Donaldson
Tenements	Exploration Licence 6123 and Exploration Licence 7579 held by Monash Coal and any extension, renewal, replacement, conversion or substitution of either or both of Exploration Licence 6123 and Exploration Licence 7579
VWAP	In respect of a period means the volume weighted average price of Gloucester Shares sold on ASX over that period excluding various categories of off-market trades
Works Agreement	The Works Agreement between Venasi Consult Pty Ltd, Gloucester Coal Ltd, Leigh McPherson and Monash Coal

15.2 Interpretation

In this Explanatory Statement unless the context otherwise requires:

(a) the singular includes the plural and vice versa and words importing one gender include other genders;

(b) terms defined in the Corporations Act as at the date of this Explanatory Statement have the meanings given to them in the Corporations Act at that date;

(c) a reference to dollars, A$, AUD, $ and cents is a reference to Australian currency;

(d) a reference to a statute of any parliament or any section, provision or schedule of a statute of any parliament includes a reference to any statutory amendment, variation or consolidation of the statute, section, provision or schedule and includes all statutory instruments issued under the statute, section, provision or schedule;

(e) a reference to a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;

(f) a reference to a Section or Schedule is a reference to a part of this Explanatory Statement and a reference to this Explanatory Statement includes any schedules;

(g) a reference to time is a reference to time in Sydney, New South Wales; and

(h) headings and bold type are used for reference only.

APPENDICES – GLOUCESTER, DONALDSON AND MONASH COAL RESERVES AND RESOURCES AND COMPETENT PERSON'S STATEMENT

Gloucester's Existing Portfolio[26]

Competent Person's Statement for Gloucester Coal

Resources statement as at 30 June 2010

Region	Area	Measured	Indicated	Measured & Indicated	Inferred
Stratford	Bowens Road North (A)	2.7	0.6	3.3	–
	Avon North (A)	–	3.0	3.0	–
	Roseville West (A)	–	35.5	35.5	5
	Co-disposal Area	–	2.3	2.3	–
	Stratford East (B)	–	5.8	5.8	4
Grant & Chainey (B)	Grant & Chainey	–	56.8	56.8	25
Duralie (A)	Duralie Main Pit	0.7	8.3	9.0	–
	Duralie North West	9.9	4.5	14.4	1
	Duralie East	–	9.2	9.2	3
	Railway Pit	12	0.5	1.7	–
Total	Open Cut	14.5	126.5	141.0	38
Duralie (A)	Duralie Underground	0.9	39.9	40.8	59
Total	Open Cut & Underground	15.4	166.4	181.8	97

Reserves statement as at 30 June 2010

Region	Area	Proven	Probable	Proven & Probable
Duralie	Main Pit (B)	–	6.2	6.2
	Clareval West (B)	10.6	0.6	11.2
	Railway Pit (A)	0.9	–	0.9
	North East (A)	–	6.5	6.5
Stratford (B)	Avon North	–	3.1	3.1
	Bowens Road North	1.8	0.4	2.2
	Co-disposal Area	–	2.2	2.2
	Grant & Chainey	–	15.0	15.0
	Stratford East	–	2.9	2.9
	Stratford South	–	6.5	6.5
	Roseville West (& South)	–	18.1	18.1
Total	Open Cut Reserves	13.3	61.5	74.8

26 As detailed in the JORC Coal Reserves and Resources Update in the ASX announcement of 26 July 2010.

This Competent Person's Statement is in relation to Gloucester's reserves and resources only, and does not cover reserves and resources reported for Middlemount.

Notes on JORC resources

The estimates of coal resources have been carried out in accordance with the "2004 Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (the JORC Code)" prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia. Coal resources are reported inclusive of coal reserves (i.e. coal reserves are not additional to coal resources).

Coal resources have been updated by subtraction of mined tonnes for Duralie Main Pit, Roseville West and Co-disposal area.

The information that relates to Gloucester's coal resources on page 48 is based on information compiled by:

(A) Ms Janet Bartolo, a full-time employee of McElroy Bryan Geological Services Pty Ltd; and

(B) Mr Shaun Tamplin, a full-time employee of Tamplin Resources Pty Ltd.

Ms Janet Bartolo and Mr Shaun Tamplin are members of the Australasian Institute of Mining and Metallurgy and have sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as competent persons as defined in the JORC Code. Ms Janet Bartolo and Mr Shaun Tamplin consent to the inclusion in this Notice of Meeting of the matters based on their information in the form and context in which it appears.

Notes on JORC reserves

The estimates of coal reserves have been carried out in accordance with the "2004 Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (the JORC Code)" prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia. Coal resources are reported inclusive of coal reserves (i.e. coal reserves are not additional to coal resources).

The information that relates to Gloucester's coal reserves on page 48 is based on information compiled by:

(A) Mr Robert MacKenzie, a full-time employee of Runge Ltd trading as MinarcoMineConsult; and

(B) Mr Shaun Tamplin, a full-time employee of Tamplin Resources Pty Ltd.

Mr Robert MacKenzie and Mr Shaun Tamplin are members of the Australasian Institute of Mining and Metallurgy. Mr Robert MacKenzie and Mr Shaun Tamplin have sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as competent persons as defined in the JORC Code.

Mr Robert MacKenzie and Mr Shaun Tamplin consent to the inclusion in this Notice of Meeting of the matters based on their information in the form and context in which it appears.

Competent Person's Statement for Middlemount

Gloucester's Existing Portfolio

	Resources (Mt)				Reserves (Mt)		
	Measured	Indicated	Measured & Indicated	Inferred	Proved	Probable	Total
Middlemount[1,2]	89.3	31.5	120.8	1.8	69	27	96

Notes:
1 Sourced from Company Filings – Gloucester Coal 'Updated Coal Reserves – Middlemount' (17 March 2011).
2 100% basis – as at 17 March 2011.

This Competent Person's Statement is in relation to Middlemount's reserves and resources only.

Notes on JORC resources

The estimates of coal resources have been carried out in accordance with the "2004 Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (the JORC Code)" prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia. Coal resources are reported inclusive of coal reserves (i.e. coal reserves are not additional to coal resources).

The information that relates to Middlemount's coal resources on page 50 is based on information compiled by:

(A) Mr Greg Jones, a full-time employee of JB Mining Services Pty Ltd.

Mr Greg Jones is a member of the Australasian Institute of Mining and Metallurgy and has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a competent person as defined in the JORC Code. Mr Greg Jones consents to the inclusion in this Notice of Meeting of the matters based on his information in the form and context in which it appears.

Notes on JORC reserves

The estimates of coal reserves have been carried out in accordance with the "2004 Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (the JORC Code)" prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia. Coal resources are reported inclusive of coal reserves (i.e. coal reserves are not additional to coal resources).

The information that relates to Middlemount's coal reserves on page 50 is based on information compiled by:

(A) Mr Mark Bryant, Principal Mining Consultant of Bryant Mining Pty Ltd and a member of The Minserve Group Pty Ltd.

Mr Mark Bryant is a member of the Australasian Institute of Mining and Metallurgy and has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a competent person as defined in the JORC Code. Mr Mark Bryant consents to the inclusion in this Notice of Meeting of the matters based on his information in the form and context in which it appears.

Competent Person's Statement for Donaldson

Donaldson's Existing Portfolio

		Resources (Mt)[1,2]				Reserves (Mt)[1]		
Mine	Seam	Measured[3,5]	Indicated[3,5]	Measured & Indicated[3,5]	Inferred[3,5]	Proven ROM[4,6]	Probable ROM[4,6]	Total ROM[4,6]
Open cut						2.5		2.5
Tasman	Fassifern	29.7	9.3	39.0	6	12.9	5.1	18.0
	West Borehole	19.2	11.4	30.6	6	6.6	1.1	7.7
Tasman Extension	Great Northern	0.4	0.6	1.0	0	–	–	–
	West Borehole	28.8	17.1	45.9	9	0.3	7.8	8.2
	Sandgate	50.6	38.6	89.2	28	0.7	0.4	1.1
Abel	Upper Donaldson	63.4	9.5	72.9	0	24.2	7.7	31.9
	Lower Donaldson	94.0	14.9	108.9	0	21.7	8.6	30.3
	Upper Big Ben	123.8	36.9	160.7	3	–	–	–
	Ashtonfield	6.9	2.0	8.9	0	–	–	–
Abel Extension	Upper Donaldson	19.7	18.9	38.6	28	1.7	10.0	11.7
	Lower Donaldson	28.4	28.7	57.1	42	7.3	11.7	19.0
	Lower Big Ben	16.0	5.5	21.5	0	–	–	–
	Ashtonfield	54.5	13.9	68.4	0	17.4	4.7	22.1
	Rathluba	10.1	10.2	20.3	0	–	–	–
Total		545.5	217.5	763.0	122	95.4	57.1	152.4

This Competent Person's Statement is in relation to Donaldson's reserves and resources only.

1 As at 1 July 2009.
2 Resources are inclusive of Reserves.
2 Air dried basis (ad).
3 As received moisture basis (ar): ROM = 6.0%, Marketable = 8.0%.
4 All resources comply with the JORC Code 2004. The information on page 51 relates to Coal Resources at the Tasman Underground Mine and Abel Underground Mine, and the two prospects, the Abel Extension and Tasman Extension, is based on information compiled by Ian D. Blayden, employed by Geological and Management Services Pty Ltd ABN 47001 256 248. Ian Blayden is a Member of the Mineral Industry Consultants Association, The Australian Institute of Geoscientists, and AUSIMM.
5 The Reserves Statement complies with the JORC Code 2004. The information on page 51 relates to Coal Reserves at the Tasman Underground Mine and Abel Underground Mine, and the two prospects, the Abel Extension and Tasman Extension, is based on information compiled by David A. Thomas, employed by IMC Mining Group Pty Ltd. Mr Thomas is a member of AusIMM.

Both Dr Blayden and Mr Thomas have sufficient experience which is relevant to the style and mineralisation, and type of deposit under consideration, and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 edition of the Australasian Code of Reporting of Mineral Resources and Ore Reserves.
Dr Blayden and Mr Thomas consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

Competent Person's Statement for Monash

Monash's Existing Portfolio

Coal Seams	Indicated (Mt)	Inferred (Mt)	Indicated and Inferred (Mt)
Woodlands Hill	2.1	43	45
Blakefield	2.4	48	50
Whynot	2.9	57	60
Whybrow	2.8	46	49
Borehole	2.2	57	59
Fassifern	0.7	23	24
Total	13.0	274	287

This Competent Person's Statement is in relation to Monash's resources only.
All resources comply with the JORC Code 2004. The information on page 52 that relates to EL 6123 and EL7579 (Monash Project Area), is based on information compiled by Ian D. Blayden, employed by Geological and Management Services Pty Ltd ABN 47001 256 248. Ian Blayden is a Member of the Mineral Industry Consultants Association and a member of The Australian Institute of Geoscientists.
Dr Blayden has sufficient experience which is relevant to the style and mineralisation, and type of deposit under consideration, and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code of Reporting of Mineral Resources and Ore Reserves.
Dr Blayden consents to the inclusion in the report of the matters based on their information in the form and context in which it appears.

SCHEDULE – INDEPENDENT EXPERT'S REPORT

Deloitte.

Gloucester Coal Ltd

Independent expert's report and Financial Services Guide

May 2011

Deloitte.

Financial Services Guide

What is a Financial Services Guide?

This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use our services. This FSG includes details of how we are remunerated and deal with complaints.

Where you have engaged us, we act on your behalf when providing financial services. Where you have not engaged us, we act on behalf of our client when providing these financial services, and are required to give you an FSG because you have received a report or other financial services from us.

What financial services are we licensed to provide?

We are authorised to provide general financial product advice or to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes and government debentures, stocks or bonds.

Our general financial product advice

Where we have issued a report, our report contains only general advice. This advice does not take into account your personal objectives, financial situation or needs. You should consider whether our advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is provided to you in connection with the acquisition of a financial product you should read the relevant offer document carefully before making any decision about whether to acquire that product.

How are we and all employees remunerated?

We will receive a fee of approximately Australian dollars 600,000 (excluding GST) in relation to the preparation of this report. This fee is not contingent upon the success or otherwise of the proposed acquisition by Gloucester Coal Ltd (Gloucester), through a wholly owned subsidiary, of Donaldson Coal Holdings Limited (Donaldson) from Noble Group Limited (Noble) and 100% of Ellemby and its controlled entities, including Monash Coal Pty Limited and Monash Coal Unit Trust (together, Monash) from Ellemby Investments Pty Limited (Ellemby) (the Proposed Transactions).

Other than our fees, we, our directors and officers, any related bodies corporate, affiliates or associates and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary and while eligible for annual salary increases and bonuses based on overall performance they do not receive any commissions or other benefits as a result of the services provided to you. The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance. We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

Associations and relationships

We are ultimately owned by the Deloitte member firm in Australia (Deloitte Touche Tohmatsu). Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu.

During the past two years, we have prepared three previous independent expert's reports for Gloucester. We have also prepared a valuation report for Gloucester in respect of its interest in the Middlemount Mine project. The independent expert reports and the valuation report were unrelated to the Proposed Transactions.

What should you do if you have a complaint?

If you have any concerns regarding our report or service, please contact us. Our complaint handling process is designed to respond to your concerns promptly and equitably. All complaints must be in writing to the address below.

If you are not satisfied with how we respond to your complaint, you may contact the Financial Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to help them resolve complaints relating to the financial services industry. FOS' contact details are also set out below.

The Complaints Officer
PO Box N250
Grosvenor Place
Sydney NSW 1220
complaints@deloitte.com.au
Fax: +61 2 9255 8434

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
info@fos.org.au
www.fos.org.au
Tel: 1300 780 808
Fax: +61 3 9613 6399

What compensation arrangements do we have?

Deloitte Touche Tohmatsu holds professional indemnity insurance that covers the financial services provided by us. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

16 May 2011

Deloitte Corporate Finance Pty Limited, ABN 19 003 833 127, AFSL 241457 of 550 Bourke Street, Melbourne, VIC 3000

Member of Deloitte Touche Tohmatsu Limited

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The Independent Directors
Gloucester Coal Ltd
Level 15, Keycorp Towers
799 Pacific Highway
Chatswood NSW 2067

30 May 2011

Dear Directors

Independent expert's report

Introduction

On 16 May 2011, Gloucester Coal Ltd (Gloucester) announced that it had entered into an agreement with Noble Group Limited (Noble) to acquire, through a wholly owned subsidiary, Noble's 100% interest in Donaldson Coal Holdings Limited (Donaldson).

Gloucester also entered into an agreement with the shareholders of Ellemby Holdings Pty Limited (Ellemby)[1] for the acquisition of 100% of Ellemby and its controlled entities, including Monash Coal Pty Limited and Monash Coal Unit Trust (together, Monash) which own two exploration licences (Monash Exploration Assets) (Proposed Monash Acquisition).

Collectively, the Proposed Donaldson Acquisition and the Proposed Monash Acquisition are referred to as the Proposed Transactions.

The Proposed Transactions are subject to the approval of shareholders at a General Meeting (GM) to be held on or about 8 July 2011. The Proposed Donaldson Acquisition is subject to approval of shareholders other than Noble (Non-associated Shareholders), whilst the Proposed Monash Acquisition is subject to approval of all shareholders, including Noble, at the GM. The Proposed Transactions are inter-dependent and will not proceed unless the terms of both the Proposed Donaldson Acquisition and the Proposed Monash Acquisition are approved by relevant shareholders at the GM.

Under the terms of the Proposed Donaldson Acquisition, Gloucester will acquire a 100% interest in Donaldson from Noble for consideration consisting of the issue of approximately 36.9 million fully paid ordinary shares in the entity comprising Gloucester, Donaldson and the Monash Exploration Assets (Proposed Merged Entity). In addition, AUD 225 million is to be paid to Donaldson to extinguish all of its debts estimated to comprise approximately AUD 39.3 million of net debt provided by third party lenders and approximately AUD 185.7 million of debt provided by Noble. In addition, Noble's existing marketing arrangements with Donaldson, which currently provides for a fee of 3% of total revenues payable to Noble, will be replaced with a new arrangement. The new arrangement provides for a fee of 2% on exported volumes in excess of 3.5 million tonnes per annum (Mtpa) up to a maximum of 11.75 Mtpa (i.e. the fee will only apply to 8.25 Mtpa) from the Port of Newcastle by the entity comprising Gloucester and Donaldson and any other entities in which Gloucester may acquire an equity interest in the future, multiplied by an agreed price[2] (Marketing Arrangement). The Marketing Arrangement will continue until 31 December 2040.

[1] Ellemby is majority-owned by entities associated with Messrs Brendan, Mark and Leigh McPherson. Mr Brendan McPherson was previously the Chief Executive Officer (CEO) of Donaldson before being appointed as the CEO of Gloucester in February 2011
[2] the agreed price is to be calculated as the volume weighted average gross sales price per tonne free on board trimmed (FOBT) Port of Newcastle determined by reference to the relevant bill of lading

Under the key terms of the Proposed Monash Acquisition, Gloucester will acquire a 100% interest in Monash for an initial consideration consisting of AUD 30.0 million in cash. In addition, Ellemby will be issued 1,000 unlisted converting shares (Converting Shares) in the Proposed Merged Entity. The Converting Shares will provide the Proposed Merged Entity with a mechanism through which additional ordinary shares can be provided[3] to Ellemby to effect a purchase price adjustment should certain milestones be achieved in respect of the Monash Exploration Assets over an agreed timeframe (Additional Shares). Should the milestones be met, the number of Additional Shares provided will be based on the 20-business day volume weighted average price (VWAP) of the Proposed Merged Entity on the day prior to the relevant date of which the share are to be provided.

Collectively, the Converting Shares and the Additional Shares are referred to as the Contingent Consideration. The Contingent Consideration will be determined as follows:

- the first stage of Additional Shares will be provided on finalisation of an ore reserves report for the exploration area of the Monash Exploration Assets in accordance with the Joint Ore Reserves Committee (JORC) Code (Stage 1). Finalisation of the report will occur shortly after completion of the agreed drilling program, except if the holders of Converting Shares elect to provide Gloucester with a JORC Code-compliant report earlier, in which case the Stage 1 payment is to be provided shortly after the provision of that report.

  The value of Stage 1 Additional Shares provided will be determined based on AUD 1.16 per tonne of JORC Code-compliant Proved or Probable Reserves for the Monash Exploration Assets capped at a total value of AUD 70.0 million (Stage 1 Payment). The Stage 1 Payment cap will be adjusted for inflation on a quarterly basis from completion of the Proposed Transactions using a March 2011 base

- the second stage of the Additional Shares will be provided on the date a second JORC Code-compliant ore reserves report is finalised for the Monash Exploration Assets (Stage 2). The Stage 2 payment is subject to the Proposed Merged Entity (or a subsidiary thereof) being granted a mining lease after Stage 1 and within ten years of completion of the Proposed Transactions (Mining Lease) following the Proposed Merged Entity (or a subsidiary thereof) receiving planning approval to undertake an underground longwall coal mining operation of 4 million tonnes (Mt) run of run of mine (ROM) coal production per annum over at least 15 years for aggregate Proved or Probable Reserves of at least 60 Mt.

  The value of Stage 2 Additional Shares provided will be determined based on AUD 0.70 per tonne of Proved or Probable Reserves within the area of the planning approval for the Monash Exploration Assets capped at a total value of AUD 50.0 million (Stage 2 Payment). The Stage 2 Payment is additional to the Stage 1 Payment. The Stage 2 Payment cap will be adjusted for inflation on a quarterly basis from completion of the Proposed Transactions using a March 2011 base

- following the Proposed Merged Entity (or a subsidiary thereof) being granted a Mining Lease, in addition to the Stage 1 Payment and the Stage 2 Payment, further Additional Shares will be provided if the Stage 2 Payment determination date (referring to when the conditions of Stage 2 are determined to have been met) occurs prior to 31 December 2016 (Stage 3).

  The Stage 3 payment will be calculated on a quarterly basis over the period between the Stage 2 Payment determination date and 31 December 2016 (Stage 3 Payment)

- the Converting Shares will convert into 1,000 fully paid ordinary shares in the Proposed Merged Entity at the earlier of:
  - final provision of the Additional Shares, and
  - the date that it is determined by the Proposed Merged Entity that Ellemby has not satisfied the conditions for which it will become entitled to the Additional Shares.

The independent directors of Gloucester (Independent Directors) are preparing the notice of meeting (Notice of Meeting) containing the detailed terms of the Proposed Transactions for the purposes of the GM.

[3] the Proposed Merged Entity may procure the transfer of existing shares on issue at the time the Additional Shares are to be issued as an alternative to issuing new shares in the Proposed Merged Entity

This independent expert's report will accompany the Notice of Meeting which will be sent to all shareholders following completion of the review of the Notice of Meeting and its accompanying documents, including this independent expert's report, by the Australian Securities & Investments Commission (ASIC) which is expected on or around 3 June 2011. This independent expert's report may need to be updated in the course of ASIC's review to reflect material changes in market conditions and circumstances prior to the dispatch of the Notice of Meeting.

On 16 May 2011, Gloucester also announced a fully underwritten, accelerated non-renounceable institutional pro-rata entitlement offer to raise AUD 229.8 million at AUD 9.00 per share, which is a pro rata entitlement offer to existing shareholders (Capital Raising). Noble has announced that it does not intend to participate in the Capital Raising.

Noble currently holds 65.3% of Gloucester. Following completion of the Capital Raising, Noble's shareholding in Gloucester will reduce to 55.3%. The Capital Raising is not conditional on approval of the Proposed Transactions by relevant shareholders. Following the Proposed Transactions, Noble's shareholding in the Proposed Merged Entity will be 63.4%.

Purpose of the report

Chapter 10 of the Listing Rules of the Australian Securities Exchange (ASX) (the Listing Rules) requires, when the disposal of a substantial asset to related parties is proposed, the preparation of a report by an independent expert stating whether the proposed transaction is fair and reasonable to the non-associated shareholders. In addition, the directors may request the preparation of a report by an independent expert, when a transaction with a related party requires member approval under Chapter 2E of the Corporations Act 2011 (Cth) (Corporations Act). The Independent Directors have requested that Deloitte Corporate Finance Pty Limited (Deloitte) provide an independent expert's report advising whether, in our opinion, the Proposed Transactions are fair and reasonable to the Non-associated Shareholders.

Whilst an independent expert's report is not required in respect of the Proposed Monash Acquisition (as the Ellemby vendors are not related parties of Gloucester), we have been requested to evaluate the Proposed Transactions together, as approval of the Proposed Donaldson Acquisition by Non-associated Shareholders and approval of the Proposed Monash Acquisition by all shareholders are both required for either of the Proposed Transactions to proceed.

We have prepared this report having regard to Chapter 10 of the Listing Rules and relevant ASIC Regulatory Guides.

This report is to accompany the Notice of Meeting containing details of the Proposed Transactions, which will be sent to all shareholders and has been prepared for the exclusive purpose of assisting Non-associated Shareholders in their consideration of the Proposed Transactions. We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose.

Basis of evaluation

In order to assess whether the Proposed Transactions are fair and reasonable for the purpose of the Listing Rules we have:

- assessed whether the Proposed Transactions are fair by estimating:
    - the fair market value of Donaldson and comparing the value to the estimated fair market value of the consideration to be paid by Gloucester pursuant to the Proposed Donaldson Acquisition
    - the fair market value of the Monash Exploration Assets and comparing the value to the estimated fair market value of the consideration to be paid by Gloucester pursuant to the Proposed Monash Acquisition
- assessed the reasonableness of the Proposed Transactions by considering other advantages and disadvantages of the Proposed Transactions to the Non-associated Shareholders.

Summary and conclusion

In our opinion the Proposed Transactions are fair and reasonable to Non-associated Shareholders. In arriving at this opinion, we have had regard to the following factors:

The Proposed Transactions are fair

The consideration offered by Gloucester under the Proposed Donaldson Acquisition is below the range of our estimate of the fair market value of Donaldson.

The consideration offered by Gloucester under the Proposed Monash Acquisition is below the range of our estimate of the fair market value of the Monash Exploration Assets.

We adopted the same approach in our valuation of Donaldson and our valuation of a share in the Proposed Merged Entity, with similar inputs adopted for key assumptions including future coal prices, foreign exchange rates and discount rates. Therefore, changes to key assumptions are unlikely to affect our conclusion because the relativity of the values derived for Donaldson and the Proposed Merged Entity should not be materially affected.

Set out below is a comparison of our assessment of the fair market value of Donaldson and the Monash Exploration Assets with the consideration offered by Gloucester.

Valuation of Donaldson and the Monash Exploration Assets[4]

Our valuation of Donaldson using the discounted cash flow method and our valuation of the Monash Exploration Assets based on an assessment of value provided by Behre Dolbear Australia Pty Limited (BDA), an independent technical expert, are provided in Sections 10 and 11, respectively and are summarised in the tables below.

Table 1: Valuation of Donaldson

	Section	Low (AUD million)	High (AUD million)
Deloitte selected value of Donaldson	**10.2.1**	**580.0**	**610.0**
Premium to discounted cash flow value	10.2.2	5%	10%
Total value of Donaldson including premium		**609.0**	**671.0**
Surplus assets	10.2.3	-	-
Enterprise value of Donaldson		**609.0**	**671.0**
Net debt[1]	10.2.4	(225.0)	(225.0)
Equity value of Donaldson		**384.0**	**446.0**

Source: Deloitte analysis

Note:

1. Based on Donaldson's agreed debt position as at 30 June 2011.

Table 2: Valuation of the Monash Exploration Assets

	Section	Low (AUD million)	High (AUD million)	Most likely value (AUD million)
Value of Monash Exploration Assets	**11.1**	**60.0**	**140.0**	**95.0**

Source: BDA

[4] we note that the figures in Table 1 to Table 10 are subject to rounding

Valuation of consideration

Estimating the value of the consideration under the Proposed Transactions requires the estimation of the value of a share in the Proposed Merged Entity. Our valuation of a share in the Proposed Merged Entity is set out in Section 12 and is prepared on a minority interest basis, as Noble will not increase its stake in Gloucester as a result of the Proposed Transactions and Non-associated Shareholders will continue to hold minority interests in the Proposed Merged Entity.

We have estimated the fair market value of a share in the Proposed Merged Entity on a minority interest basis using the sum-of-the-parts methodology as summarised in the following table.

Table 3: Valuation of the Proposed Merged Entity based on sum-of-the-parts method

	Section	Unit	Low value	High value
Total value of the Proposed Merged Entity's operating assets and development projects	**12.2.1**	**AUD million**	**2,050.0**	**2,150.0**
Premium to discounted cash flow value	12.2.2	%	10.0%	10.0%
Total value of Proposed Merged Entity's operating assets and development projects including premium		**AUD million**	**2,255.0**	**2,365.0**
Middlemount Mine Royalty Stream[1]	12.2.3	AUD million	270.0	280.0
Exploration assets of the Proposed Merged Entity	12.2.4	AUD million	110.0	115.0
Surplus assets	12.2.5	AUD million	-	-
Net debt[2]	12.2.6	AUD million	(224.9)	(224.9)
Equity value (on a control basis)		**AUD million**	**2,410.1**	**2,535.1**
Discount for minority interest	12.2.7	%	20.0%	15.0%
Equity value on a minority interest basis		**AUD million**	**1,928.1**	**2,154.8**
Number of shares on issue[3,4]	7.3	*Million*	*202.9*	*202.9*
Value of a share in the Proposed Merged Entity		AUD	9.50	10.62
Deloitte assessed value of a share in the Proposed Merged Entity		**AUD**	**9.50**	**10.60**

Source: Deloitte analysis

Notes:

1. As part of the acquisition of an interest in the Middlemount Mine project and other assets in September 2010, Gloucester acquired a right to receive a royalty from Noble of 4% of the FOBT sales from the Middlemount Mine project or such amount as Noble receives under the deed governing the Noble Middlemount Mine project royalty arrangements. This is referred to as the Middlemount Mine Royalty Stream
2. Based on the Proposed Merged Entity's estimated net debt position as at 30 June 2011 as per the ASX announcement dated 16 May 2011
3. Assuming 36.9 million shares in the Proposed Merged Entity are issued under the Proposed Transactions and 25.5 million shares are issued under the Capital Raising
4. Excludes the Converting Shares.

To provide additional evidence of the fair market value of a share in the Proposed Merged Entity, we have considered the resource multiples implied by our valuation compared to the resource multiples observed for comparable transactions and comparable listed companies. These cross checks provide support for our valuation.

As set out above, we estimated the value of a share in the Proposed Merged Entity to be in the range of AUD 9.50 to AUD 10.60 on a minority interest basis.

Under the Proposed Donaldson Acquisition, Gloucester has offered 36.9 million shares in the Proposed Merged Entity to Noble. Under the Proposed Monash Acquisition, Gloucester has offered AUD 30.0 million in cash to Ellemby.

We set out below the value of the consideration under the Proposed Donaldson Acquisition and the Proposed Monash Acquisition.

Table 4: Valuation of the consideration under the Proposed Donaldson Acquisition[1]

	Section	Unit	Low	High
Deloitte assessed value of a share in the Proposed Merged Entity (on a minority interest basis)	**12.2.8**	**AUD**	**9.50**	**10.60**
Number of shares to be issued to Noble	7.3	*Million*	*36.9*	*36.9*
Deloitte assessed value of the consideration under the Proposed Donaldson Acquisition		**AUD million**	**350.8**	**391.4**

Source: Deloitte analysis

Table 5: Valuation of the consideration under the Proposed Monash Acquisition[1]

	Section	Unit	Low	High
Cash consideration payable to Ellemby		**AUD million**	**30.0**	**30.0**
Deloitte assessed value of the consideration under the Proposed Monash Acquisition		**AUD million**	**30.0**	**30.0**

Source: Deloitte analysis

Note:

1. Excludes Contingent Consideration.

Comparison of value for the Proposed Donaldson Acquisition

Set out in the table below is a comparison of our assessment of the fair market value of Donaldson with the value of the consideration being offered by Gloucester under the Proposed Donaldson Acquisition.

Table 6: Evaluation of the Proposed Donaldson Acquisition[1]

	Section	Low (AUD million)	High (AUD million)
Estimated fair market value of Donaldson	**10.2.5**	**384.0**	**446.0**
Estimated fair market value of the consideration under the Proposed Donaldson Acquisition		**350.8**	**391.4**

Source: Deloitte analysis

The range of the fair market value of Donaldson is above the range of the fair market value of the consideration being offered under the Proposed Donaldson Acquisition.

Therefore, the consideration being offered under the Proposed Donaldson Acquisition is fair.

Comparison of value for the Proposed Monash Acquisition

Set out in the table below is a comparison of our assessment of the fair market value of the Monash Exploration Assets with the consideration being offered by Gloucester under the Proposed Monash Acquisition.

Table 7: Evaluation of the Proposed Monash Acquisition

	Section	Low (AUD million)	High (AUD million)	Most likely value (AUD million)
Estimated fair market value of the Monash Exploration Assets	**11.1**	**60.0**	**140.0**	**95.0**
Estimated fair market value of the consideration under the Proposed Monash Acquisition (at most likely value)[1]		**30.0**	**30.0**	**30.0**

Source: Deloitte analysis

Note:

1. Excludes Contingent Consideration.

The fair market value of the Monash Exploration Assets, which does not include additional value associated with Proved or Probable Reserves being converted from resources and the granting of a Mining Lease, is above the fair market value of the consideration being offered under the Proposed Monash Acquisition (excluding the Contingent Consideration).

Assessment of the Contingent Consideration

In order to assess the effect of the Contingent Consideration on Non-associated Shareholders, we have:

- estimated the fair market value of the Monash Exploration Assets at Stage 1, Stage 2 and Stage 3
- estimated the fair market value of the Contingent Consideration at Stage 1, Stage 2 and Stage 3
- compared the estimated fair market value of the Monash Exploration Assets at Stage 1, Stage 2 and Stage 3 with the estimated fair market value of the Contingent Consideration at Stage 1, Stage 2 and Stage 3, respectively.

Our consideration in respect of this analysis is set out below.

Valuation of the Monash Exploration Assets at Stage 1, Stage 2 and Stage 3

BDA assisted Deloitte in estimating the fair market value of the Monash Exploration Assets by providing indicative reserve multiples for companies or assets considered comparable with the Monash Exploration Assets. We have estimated the fair market value of the Monash Exploration Assets at Stage 1 and Stage 2 by applying the reserve multiples provided by BDA (which vary based on the stage of development of the comparable companies or assets) to the maximum tonnage of Proved and Probable Reserves for which the Stage 1 Payment and Stage 2 Payment are payable. The estimated fair market value of the Monash Exploration Assets at Stage 3 is assumed to be the same as at Stage 2 as all of the conditions of Stage 2 apply to Stage 3.

The following table sets out the estimated value of the Monash Exploration Assets at Stage 1 and Stage 2 based on the indicative reserve multiples provided by BDA.

Table 8: Estimated value of the Monash Exploration Assets at Stage 1 and Stage 2

	Section	Unit	Low value	High value
Stage 1 – first ore reserves report finalised				
Tonnage cap to which Contingent Consideration applies – Stage 1		*Mt*	*60.0*	*60.0*
Reserve multiple applied to Proved and Probable Reserves at Stage 1	11.2	*times*	1.5	3.0
Estimated value – Stage 1		**AUD million**	**90.0**	**180.0**
Stage 2 – Mining Lease granted				
Tonnage cap to which Contingent Consideration applies – Stage 2		*Mt*	*71.4*	*71.4*
Reserve multiple applied to Proved and Probable Reserves at Stage 2	11.2	*times*	3.0	4.0
Estimated value – Stage 2[1]		**AUD million**	**214.2**	**285.6**

Source: Deloitte analysis

Note:

1. The estimated value at Stage 3 is assumed to be the same as at Stage 2 as all of the conditions of Stage 2 apply to Stage 3.

We note the estimated values for the Monash Exploration Assets at Stage 1 and Stage 2 in the table above reflect the value of only 60.0 Mt and 71.4 Mt of Proved or Probable Reserves, respectively, being estimated for the Monash Exploration Assets.

It is likely that the drilling costs required to convert resources to Proved or Probable Reserves and mining lease costs, which have been estimated by BDA at AUD 20 million and AUD 15 million, respectively, will be the same for the Monash Exploration Assets at Stage 1 and Stage 2 regardless of the amount of Proved or Probable Reserves estimated.

Valuation of the Contingent Consideration at Stage 1, Stage 2 and Stage 3

In order to value the Contingent Consideration at Stage 1, Stage 2 and Stage 3, we have considered the following:

- the upfront payment pursuant to the Proposed Monash Acquisition
- the additional costs expected to be incurred during Stage 1, consisting of costs associated with the drilling program and the Stage 1 Payment
- the additional costs expected to be incurred during Stage 2, consisting of costs associated with the Mining Lease and the Stage 2 Payment
- the additional costs expected to be incurred during Stage 3, consisting of the Stage 3 Payment.

  We note that the Stage 3 Payment is dependent on the date on which a Mining Lease is granted to the Proposed Merged Entity. Given the uncertainty associated with the likely timing of this, it is difficult to assess the amount and timing of the Stage 3 Payment, however we have had regard to the timing of the capital program referred to in the ASX announcement dated 16 May 2011 and have assumed:

  - the first ore reserves report for the Monash Exploration Assets is finalised following completion of an agreed drilling program two years after the estimated completion date of the Proposed Transactions of 8 July 2011 (and therefore the Stage 1 Payment will become payable) and
  - at least 71.4 Mt of Proved or Probable Reserves are estimated for the Monash Exploration Assets and therefore the maximum Stage 2 Payment will be payable (based on the Stage 2 Payment cap of AUD 50 million and the agreed payment of AUD 0.70 per tonne of Proved or Probable Reserves) and the Proposed Merged Entity is granted a Mining Lease on or around 8 July 2014 (i.e. three years after the estimated completion date of the Proposed Transactions on 8 July 2011).

Therefore, we have estimated the Stage 3 Payment to be approximately AUD 12.5 million[5].

We set out below the maximum value of the total consideration (consisting of the upfront payment pursuant to the Monash Exploration Assets and the Contingent Consideration) (in real terms).

Table 9: Valuation of the consideration (in real terms)

	Unit	Value
Tonnage cap to which Contingent Consideration applies – Stage 1	*Mt*	*60.0*
Tonnage cap to which Contingent Consideration applies – Stage 2	*Mt*	*71.4*
Rate at which Stage 1 Payment is payable	*AUD/tonne*	*1.16*
Rate at which Stage 2 Payment is payable	*AUD/tonne*	*0.70*
Stage 1 Payment	AUD million	70.0
Upfront payment pursuant to the Proposed Monash Acquisition[1]	AUD million	30.0
Drilling program costs[2]	AUD million	20.0
Deloitte assessed value of the consideration – Stage 1	**AUD million**	**120.0**
Stage 1 Payment and Stage 2 Payment	AUD million	120.0
Upfront payment pursuant to the Proposed Monash Acquisition[1]	AUD million	30.0
Drilling program costs [2]	AUD million	20.0
Mining Lease costs[2]	AUD million	15.0
Deloitte assessed value of the consideration – Stage 2	**AUD million**	**185.0**
Stage 1 Payment and Stage 2 Payment	AUD million	120.0
Maximum Stage 3 Payment[3]	AUD million	12.5
Upfront payment pursuant to the Proposed Monash Acquisition[1]	AUD million	30.0
Drilling program costs[2]	AUD million	20.0
Mining Lease costs[2]	AUD million	15.0
Deloitte assessed value of the consideration – Stage 3	**AUD million**	**197.5**

Source: Deloitte analysis

Notes:

1. Refer to Table 5
2. Assumes the costs associated with agreed drilling program are incurred on a straight line basis over the two years following completion of the Proposed Transactions, whilst the Mining Lease costs are assumed to be incurred after the agreed drilling program in the second year following completion of the Proposed Transactions (based on the capital program announced in the ASX announcement dated 16 May 2011)
3. Assumes (a) the Stage 1 and Stage 2 Payment conditions are satisfied, (b) a Mining Lease is granted to the Proposed Merged Entity on or around the 8 July 2014 (i.e. approximately three years after the Proposed Transactions is completed and a year after the agreed drilling program is completed) and (c) the completion date of the Proposed Transactions is on 8 July 2011.

Comparison of value of the Monash Exploration Assets at Stage 1, Stage 2 and Stage 3 with the Contingent Consideration

Set out in the table below is a comparison of our assessment of the estimated value of the Monash Exploration Assets at Stage 1, Stage 2 and Stage 3, assuming the maximum Proved or Probable Reserves are estimated for the Monash Exploration Assets to which the Stage 1 and Stage 2 Payments are payable, with the consideration being offered by Gloucester under the Proposed Monash Acquisition and Contingent Consideration.

Table 10: Evaluation of the total consideration (including the Contingent Consideration) under the Proposed Monash Acquisition

	Section	Low (AUD million)	High (AUD million)
Estimated fair market value of the Monash Exploration Assets – Stage 1	**11.2**	**90.0**	**180.0**
Estimated fair market value of the consideration– Stage 1		**120.0**	**120.0**

[5] represents approximately 10 quarters (or 2.5 years) between the estimated date a Mining Lease is granted (assumed to occur one year after completion of the agreed drilling program, or three years after completion of the Proposed Transactions) and 31 December 2016, multiplied by the maximum Stage 2 Payment of AUD 50.0 million multiplied by 2.5%

	Section	Low (AUD million)	High (AUD million)
Estimated fair market value of the Monash Exploration Assets – Stage 2	**11.2**	**214.2**	**285.6**
Estimated fair market value of the consideration – Stage 2		**185.0**	**185.0**
Estimated fair market value of the Monash Exploration Assets – Stage 3	**11.2**	**214.2**	**285.6**
Estimated fair market value of the consideration – Stage 3		**197.5**	**197.5**

Source: Deloitte analysis

The fair market value of the consideration (including the Contingent Consideration) being offered under Stage 1, Stage 2 and Stage 3 is within and below the range of the estimated fair market value of the Monash Exporation Assets at Stage 1, Stage 2 and Stage 3.

If less than 60 Mt of Proved or Probable Reserves are estimated at Stage 2, the Stage 2 Payment and Stage 3 Payment will not be payable and the consideration at Stage 2 and Stage 3 may be lower or higher than the fair market value of the Monash Exporation Assets at Stage 2 and Stage 3.

In addition, if more than 60 Mt of Proved or Probable Reserves are estimated for the Monash Exploration Assets at Stage 1, the fair market value of the Monash Exporation Assets at Stage 1 may be higher than set out above. If more than 71.4 Mt of Proved or Probable Reserves are estimated for the Monash Exploration Assets at Stage 2, the fair market value of the Monash Exporation Assets at Stage 2 and Stage 3 may be higher than set out above.

Overall, we consider the Proposed Monash Acquisition to be fair.

The Proposed Transactions are reasonable

In accordance with ASIC Regulatory Guide 111 an offer is reasonable if it is fair. On this basis, in our opinion the Proposed Transactions are reasonable. We have also considered the following factors in assessing the reasonableness of the Proposed Transactions.

Advantages of the Proposed Transactions

The likely advantages to Non-associated Shareholders if the Proposed Transaction is approved include:

The Proposed Merged Entity will have increased scale

The Proposed Merged Entity is likely to have a share market capitalisation in the range of AUD 1.9 billion to AUD 2.2 billion (based on a valuation range for a share in the Proposed Merged Entity of AUD 9.50 to AUD 10.60). Upon completion of the Proposed Transaction, the Proposed Merged Entity will have interests in five operating mines, five development projects and a portfolio of exploration assets. The Proposed Merged Entity will also have net Proved and Probable Reserves of 275 Mt and total resources of 1,512 Mt and a significantly larger production base than Gloucester has on a standalone basis.

The increased market capitalisation of the Proposed Merged Entity and enlarged shareholder base may attract greater analyst coverage and may lead to the inclusion of the Proposed Merged Entity in other share market indices. Following the Proposed Transactions, the market capitalisation of the Proposed Merged Entity will be greater than that of Gloucester on a standalone basis and Noble's interest will have reduced from 65.3% prior to the Capital Raising to 63.4% after the Proposed Transactions. The increase in size and free float of the Proposed Merged Entity compared to Gloucester on a standalone basis may lead to an enhanced share market profile for the Proposed Merged Entity and may provide increased liquidity and greater trading depth than that currently available to Non-associated Shareholders.

As a result of the increased market capitalisation, the Proposed Merged Entity may have improved access to both debt and equity capital markets, possibly on more attractive terms, compared with those currently available to Gloucester on a standalone basis.

The Proposed Merged Entity will have access to Donaldson's surplus port capacity at the Port of Newcastle, which provides the Proposed Merged Entity with the opportunity to significantly increase its annual production. In addition, the increased scale of the Proposed Merged Entity may also provide the business with an improved position from which to negotiate contractual terms in relation to access to infrastructure assets, coal prices and the supply of inputs.

A broader production and operating base may also enable the management of the Proposed Merged Entity to deploy their resources, both labour and capital, in a more efficient manner.

The Proposed Merged Entity will be more diversified than Gloucester on a standalone basis

Gloucester currently has a portfolio of operating, development and exploration assets located in the Gloucester Basin in New South Wales (NSW) and owns a near 50% interest in the Middlemount Mine project, a development asset located in central Queensland which is expected to become operational in the 2011 calendar year (CY).

If the Proposed Transactions are completed, the Proposed Merged Entity will have:

- a more diversified portfolio of assets than Gloucester on a standalone basis, comprising Gloucester's current portfolio of assets, the Donaldson open cut coal mine, the Tasman and Abel mines, both underground mines, the development projects comprising the Tasman Extension Project and the Abel Extension Project, and the Monash Exploration Assets
- higher annual production in general and potentially an increase in the proportion of production comprising metallurgical coal than Gloucester currently produces on a standalone basis
- a longer total potential production profile due to the larger exploration portfolio of the Proposed Merged Entity.

Disadvantages of the Proposed Transactions

The likely disadvantages to Non-associated Shareholders if the Proposed Transactions are approved include:

Increased exposure to comparatively riskier assets

The Monash Exploration Assets are early-stage exploration assets which, if advanced through exploration and project feasibility to project development, will require significant capital investment over their development period.

If the Proposed Transactions are completed, Non-associated Shareholders will become exposed to the development risks of the Monash Exploration Asset.

Opinion

In our opinion, the Proposed Transactions are fair and reasonable to Non-associated Shareholders.

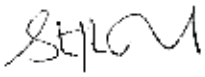
An individual shareholder's decision in relation to the Proposed Transactions may be influenced by his or her particular circumstances. In addition, we note that the value of Donaldson and a share in the Proposed Merged Entity is very sensitive to the underlying assumptions adopted. Individual shareholders may come to different conclusions in respect of key assumptions, including future coal prices, production profiles, operating expenses, capital expenditure, foreign exchange rates and discount rates. An individual shareholder's view on underlying assumptions adopted and the manner in which they are adopted may result in a different valuation conclusion to the one reached by Deloitte in our valuation of Donaldson and a share in the Proposed Merged Entity, and the variation may be material.

If in doubt the shareholder should consult an independent adviser, who should have regard to their individual circumstances.

This opinion should be read in conjunction with our detailed report which sets out our scope and findings.

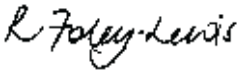
Yours faithfully

DELOITTE CORPORATE FINANCE PTY LIMITED



Stephen Reid

Director



Rachel Foley-Lewis

Director

Note: the figures in this report are subject to rounding.

Contents

1	**Terms of the Proposed Transactions**	**15**
1.1	Summary	15
1.2	Key conditions of the Proposed Transactions	16
2	**Scope of the report**	**17**
2.1	Purpose of the report	17
2.2	Basis of evaluation	17
2.3	Limitations and reliance on information	19
3	**Coal mining industry**	**20**
3.1	Overview	20
3.2	Coal resources in Australia	21
3.3	Thermal coal	22
3.4	Coking coal	24
3.5	Pricing	26
3.6	Infrastructure	27
3.7	Carbon Pollution Reduction Scheme	33
4	**Profile of Gloucester**	**34**
4.1	Gloucester history	34
4.2	Principal assets	35
4.3	Products and historical production – Gloucester Basin Assets	43
4.4	Reserves and resources	45
4.5	Capital structure and shareholders	45
4.6	Share price performance	47
4.7	Financial performance	49
4.8	Financial position	51
5	**Profile of Donaldson**	**53**
5.1	Principal assets	54
5.2	Products and historical production	57
5.3	Reserves and resources	59
5.4	Financial performance	60
5.5	Financial position	61
6	**Profile of Monash Exploration Assets**	**63**
6.1	Resources and coal potential	64
6.2	Environmental assessment	64
6.3	Conceptual mine development plan	65

7	**Profile of the Proposed Merged Entity**	**66**
7.1	Principal assets	66
7.2	Reserves and resources	67
7.3	Capital structure and shareholders	68
7.4	Potential market capitalisation	69
8	**Valuation methodology**	**70**
8.1	Valuation methodologies	70
8.2	Selection of valuation methodologies	71
8.3	Appointment and role of the technical expert	72
9	**Future cash flows**	**73**
9.1	The Models	73
9.2	Revenue assumptions	73
9.3	Other revenue	77
9.4	Operating costs	78
9.5	Capital costs	78
9.6	Corporate assumptions	79
9.7	Economic assumptions	79
9.8	Other assumptions	80
10	**Valuation of Donaldson**	**81**
10.1	Introduction	81
10.2	The sum-of-the-parts method	81
10.3	Cross check: industry rules of thumb	84
11	**Valuation of the Monash Exploration Assets**	**88**
11.1	Valuation of the Monash Exploration Assets	88
11.2	Estimated fair market value associated with future reserves	88
12	**Valuation of the Proposed Merged Entity**	**90**
12.1	Valuation of the Proposed Merged Entity	90
12.2	The sum-of-parts method	90
12.3	Cross checks	97

Appendices

Appendix 1: Glossary	102
Appendix 2: Discount rate	107
Appendix 3: Comparable entities	118
Appendix 4: Comparable transactions	123
Appendix 5: Control premium study	129
Appendix 6: Technical expert's reports	131
Appendix 7: Sources of information	214
Appendix 8: Qualifications, declarations and consents	215

1 Terms of the Proposed Transactions

1.1 Summary

On 16 May 2011, Gloucester announced that it had entered into two inter-conditional Proposed Transactions, which consist of the Proposed Donaldson Acquisition and the Proposed Monash Acquisition.

The key terms of the Proposed Donaldson Acquisition include:

- acquisition of a 100% interest in Donaldson from Noble for consideration satisfied by the issue of 36.9 million shares in the Proposed Merged Entity
- repayment by Gloucester of approximately AUD 185.7 million in Donaldson's outstanding debt to Noble and the repayment of approximately AUD 39.3 million in debt provided by third party lenders to Donaldson
- replacement of Noble's existing marketing arrangements with Donaldson with the Marketing Arrangement, which provides for a fee of 2% on exported volumes in excess of 3.5 Mtpa, up to 11.75 Mtpa (i.e. the Marketing Arrangement will only apply to 8.25 Mtpa) from the Port of Newcastle by the entity comprising Gloucester and Donaldson and any other entities in which Gloucester may acquire an equity interest in the future multiplied by the volume weighted average gross sales price per tonne FOBT Port of Newcastle determined by reference to the relevant bill of lading (less any adjustment for quality standards and specifications). The Marketing Arrangement will continue until 31 December 2040
- the re-profiling of key customer contracts for Donaldson coal.

The key terms of the Proposed Monash Acquisition include acquisition of a 100% interest in Monash for cash consideration of AUD 30.0 million. In addition, Ellemby will be issued the Converting Shares in the Proposed Merged Entity. The Converting Shares will provide the proposed Merged Entity with a mechanism through which the Additional Shares can be provided to Ellemby. Upon qualifying for conversion or should the milestones be met, the Additional Shares will be provided to Ellemby based on the 20-business day VWAP of the Proposed Merged Entity on the day prior to the relevant date the Additional Shares are provided.

The Contingent Consideration will be determined as follows:

- Stage 1 Additional Shares will be provided on finalisation of an ore reserves report for the exploration area of the Monash Exploration Assets in accordance with the JORC Code. Finalisation of the report will occur shortly after completion of the agreed drilling program, except if the holders of Converting Shares elect to provide Gloucester with a JORC-compliant report earlier, in which case the Stage 1 payment is to be provided shortly after the early provision of that report.

  The Stage 1 Payment will be determined based on AUD 1.16 per tonne of JORC Code-compliant Proved or Probable Reserves for the Monash Exploration Assets capped at a total value of AUD 70.0 million. The Stage 1 Payment cap will be adjusted for inflation on a quarterly basis from completion of the Proposed Transactions from a March 2011 base
- Stage 2 Additional Shares will be provided on the date a second JORC Code-compliant ore reserves report is finalised for the Monash Exploration Assets. The Stage 2 payment is subject to the Proposed Merged Entity (or a subsidiary thereof) being granted a Mining Lease after Stage 1 and within ten years of completion of the Proposed Transactions following the Proposed Merged Entity (or a subsidiary thereof) receiving planning approval to undertake an underground longwall coal mining operation of 4 Mt ROM coal production per annum over at least 15 years for aggregate Proved or Probable Reserves of at least 60 Mt.

  The Stage 2 Payment will be determined based on AUD 0.70 per tonne of Proved or Probable Reserves within the area of the planning approval for the Monash Exploration Assets capped at a total value of AUD 50.0 million. The Stage 2 Payment is additional to the Stage 1 Payment. The Stage 2 Payment cap will be adjusted for inflation on a quarterly basis from completion of the Proposed Transactions from a March 2011 base

- following the Proposed Merged Entity (or a subsidiary thereof) being granted a Mining Lease, in addition to the Stage 1 Payment and the Stage 2 Payment, the Stage 3 Payment will be made if the Stage 2 Payment determination date (referring to when the conditions of Stage 2 are determined to have been met) occurs prior to 31 December 2016.

  The Stage 3 Payment will be calculated on a quarterly basis over the period between the Stage 2 Payment determination date and 31 December 2016

- the Converting Shares will convert into 1,000 ordinary shares in the Proposed Merged Entity at the earlier of:
  - final provision of the Additional Shares, and
  - the date that it is determined by the Proposed Merged Entity that Ellemby has not satisfied the conditions for which it will become entitled to the Additional Shares.

The Proposed Transactions are subject to the approval of relevant shareholders at a GM to be held on or about 8 July 2011. The Proposed Donaldson Acquisition is subject to approval of Non-associated Shareholders, whilst the Proposed Monash Acquisition is subject to approval of all shareholders, including Noble, at the GM. The Proposed Transactions are inter-dependent and will not proceed unless the terms of both the Proposed Donaldson Acquisition and the Proposed Monash Acquisition are approved by relevant shareholders at the GM. The Independent Directors have prepared the Notice of Meeting containing the detailed terms of the Proposed Transactions.

On 16 May 2011, Gloucester also announced a fully underwritten, accelerated non-renounceable institutional pro-rata entitlement offer to raise AUD 229.8 million at AUD 9.00 per share, which is a pro rata entitlement offer to existing shareholders. Noble has said that it does not intend to participate in the Capital Raising.

Noble currently holds 65.3% of Gloucester. Following completion of the Capital Raising, Noble's shareholding in Gloucester will reduce to 55.3%. The Capital Raising is not conditional on approval of the Proposed Transactions by relevant shareholders. Following the Proposed Transactions, Noble's shareholding in the Proposed Merged Entity will be 63.4%.

Upon completion of the Proposed Transactions the Proposed Merged Entity will remain an ASX listed company.

1.2 Key conditions of the Proposed Transactions

The Proposed Transactions are subject to various conditions, the most significant being approval of the Proposed Donaldson Acquisition by Non-associated Shareholders and approval of the Proposed Monash Acquisition by all shareholders at the GM.

2 Scope of the report

2.1 Purpose of the report

Chapter 10 of the Listing Rules requires, when the disposal of a substantial asset to related parties is proposed, the preparation of a report by an independent expert stating whether the proposed transaction is fair and reasonable to the non-associated shareholders. In addition, the directors may request the preparation of a report by an independent expert, when a transaction with a related party requires member approval under Chapter 2E of the Corporations Act. The Independent Directors have requested that Deloitte provide an independent expert's report advising whether, in our opinion, the Proposed Transactions are fair and reasonable to the Non-associated Shareholders.

Whilst an independent expert's report is not required in respect of the Proposed Monash Acquisition (as Ellemby is not a related party to Gloucester), we have been requested to evaluate the Proposed Transactions together, as approval of the Proposed Donaldson Acquisition by Non-associated Shareholders and approval of the Proposed Monash Acquisition by all shareholders are both required for either of the Proposed Transactions to proceed.

We have prepared this report having regard to Chapter 10 of the Listing Rules and relevant ASIC Regulatory Guides.

This report is to accompany the Notice of Meeting containing details of the Proposed Transactions, which will be sent to shareholders and has been prepared for the exclusive purpose of assisting Non-associated Shareholders in their consideration of the Proposed Transactions. We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose.

2.2 Basis of evaluation

In our assessment as to whether the Proposed Transactions are fair and reasonable, we have had regard to common market practice and to ASIC Regulatory Guide 111 regarding the content of expert's reports. The regulatory guide prescribes standards of best practice in the preparation of independent expert's reports pursuant to, but not limited to, Chapter 10 of the Listing Rules.

ASIC Regulatory Guide 111

This regulatory guide provides guidance in relation to the content of independent expert's reports prepared for transactions under Chapters 2E, 5, 6 and 6A of the Corporations Act in relation to:

- takeover bids
- schemes of arrangement
- compulsory acquisitions or buy-outs
- acquisitions approved by security holders under item 7 of Section 611 of the Corporations Act
- selective capital reductions
- related party transactions
- transactions with persons in a position of influence
- demergers and demutualisations of financial institutions
- buy-backs.

ASIC Regulatory Guide 111 refers to a 'related party transaction' as a transaction with a related party that requires member approval under Chapter 2E of the Corporations Act or a transaction with a person in a position of influence that requires member approval under Chapter 10 of the Listing Rules.

In respect of related party transactions, under ASIC Regulatory Guide 111, a proposed related party transaction is:

- fair, when the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the assets being acquired
- reasonable, if it is fair, or, despite not being fair, the expert believes there are sufficient reasons for members to vote for the proposal.

To assess whether the Proposed Transactions are fair and reasonable to Non-associated Shareholders, we have adopted the tests of whether the Proposed Transactions are either fair and reasonable, not fair but reasonable, or neither fair nor reasonable, as set out in ASIC Regulatory Guide 111.

2.2.1 Fairness

ASIC Regulatory Guide 111 defines an offer as being fair if the value of the financial benefit being offered is equal to or less than the value of the assets the subject of the offer. The comparison must be made assuming 100% ownership of the target company.

Where the financial benefit given by the entity is securities in the entity and the consideration is securities in another entity held by a related party, the value of the entity's securities should be compared to the value of the securities it is purchasing.

We have valued Donaldson, the Monash Exploration Assets and a share in the Proposed Merged Entity at fair market value, which we have defined as the amount at which the assets or shares would be expected to change hands between a knowledgeable and willing but not anxious buyer and a knowledgeable and willing but not anxious seller, neither of whom is under any compulsion to buy or sell. Special purchasers may be willing to pay higher prices to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Our valuations of Donaldson, the Monash Exploration Assets and a share in the Proposed Merged Entity have not been premised on the existence of a special purchaser.

We have assessed the value of Donaldson and the Monash Exploration Assets on a control basis as the Proposed Merged Entity will own 100% of Donaldson and 100% of the Monash Exploration Assets on completion of the Proposed Transactions.

We have assessed the value of the consideration offered under the Proposed Transactions by estimating the value of the Proposed Merged Entity on a minority interest basis and dividing this value by the number of shares in that entity expected to be on issue. We have estimated the fair market value of a share in the Proposed Merged Entity on a minority interest basis as Noble will not increase its stake in Gloucester as a result of the Proposed Transactions and the Non-associated Shareholders will continue to hold minority interests in the Proposed Merged Entity.

2.2.2 Reasonableness

ASIC Regulatory Guide 111 considers an offer in respect of a related party transaction, to be reasonable if either:

- the offer is fair
- despite not being fair, the expert believes there are sufficient reasons for members to vote for the proposal.

To assess the reasonableness of the Proposed Transactions we considered the following significant factors in addition to determining whether the Proposed Transactions are fair:

- any significant shareholdings in Gloucester prior to the Proposed Transactions
- the likely market price and liquidity of shares in Gloucester in the absence of the Proposed Transactions
- alternative options available to Gloucester and the likelihood of those options occurring
- Gloucester's current bargaining position
- cash flows or other benefits available to the Proposed Merged Entity upon achieving 100% ownership of Donaldson and the Monash Exploration Assets
- any special value of Donaldson and the Monash Exploration Assets to the Proposed Merged Entity.

2.2.3 Individual circumstances

We have evaluated the Proposed Transactions for Non-associated Shareholders as a whole and have not considered the effect of the Proposed Transactions on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Proposed Transactions from the one adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Proposed Transactions are fair and reasonable. If in doubt investors should consult an independent adviser, who should have regard to their individual circumstances.

2.3 Limitations and reliance on information

The opinion of Deloitte is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. This report should be read in conjunction with the declarations outlined in Appendix 8.

This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the Accounting Professional and Ethical Standards Board Limited (APESB).

Our procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the Auditing and Assurance Standards Board (AUASB) or equivalent body and therefore the information used in undertaking our work may not be entirely reliable.

3 Coal mining industry

Coal is Australia's largest commodity export, generating approximately AUD 58 billion of revenue for the country in the financial year ended 30 June (FY) 2009[6]. Australia produces both thermal coal and metallurgical (or coking) coal, which includes hard coking coal (HCC), semi-hard coking coal (SHCC), semi-soft coking coal (SSCC) and low volatile (LV) pulverised injection coal (PCI).

The principal activities of Gloucester, Donaldson and the Monash Exploration Assets are the exploration for and the production of thermal and coking coal in NSW and Queensland. In addition to its Gloucester Basin assets, Gloucester holds a near 50% interest in the Middlemount Mine project which is engaged in the development of a SHCC and PCI coal mine in Queensland.

3.1 Overview

Coal is a fossil fuel composed primarily of carbon and hydrogen, formed through the natural application of high temperatures and pressure to biological matter over extended periods of time. Coal is mined by both open cut and underground mining methods.

Open cut mining involves using a dragline, truck/shovel fleet or a combination of these methods to remove waste rock (overburden). The uncovered coal is then recovered using excavators, trucks and/or a dragline.

Underground mines in Australia predominantly use the longwall method of mining, which involves underground roadways being cut into the coal seam to expose blocks of coal that can be up to several hundred metres wide and several kilometres long. Hydraulic roof supports then allow an automated shearer and conveyor to cut coal from the face (width) of the block. As a cut is made, the supports move forward and the roof is allowed to collapse behind the supports. Under consistent mining conditions the longwall method can recover over 75% of the coal within the area of mining.

Another commonly used underground mining technique is the bord and pillar method, which is carried out over a horizontal plane leaving pillars of unmined material as support for the mining development. These unmined pillars may subsequently be removed in a second phase of the mining process.

Coal is classified as either thermal coal or coking coal depending on its chemical and physical properties. Thermal coal and coking coal have different uses and therefore are subject to different supply and demand considerations. However a degree of substitution can occur between SSCC and thermal coal.

The majority of world coal production is consumed in the country in which it is produced. While exports represent a relatively small amount of total world coal production, more than three quarters of Australia's total coal production is exported. Australia's contribution to the global export market for thermal and coking coal is discussed in Sections 3.3 and 3.4, respectively. Over 90% of the world's imported thermal and coking coal is represented by seaborne trade and the costs associated with ocean freight represent a significant portion of the cost of delivering this coal to the end user.

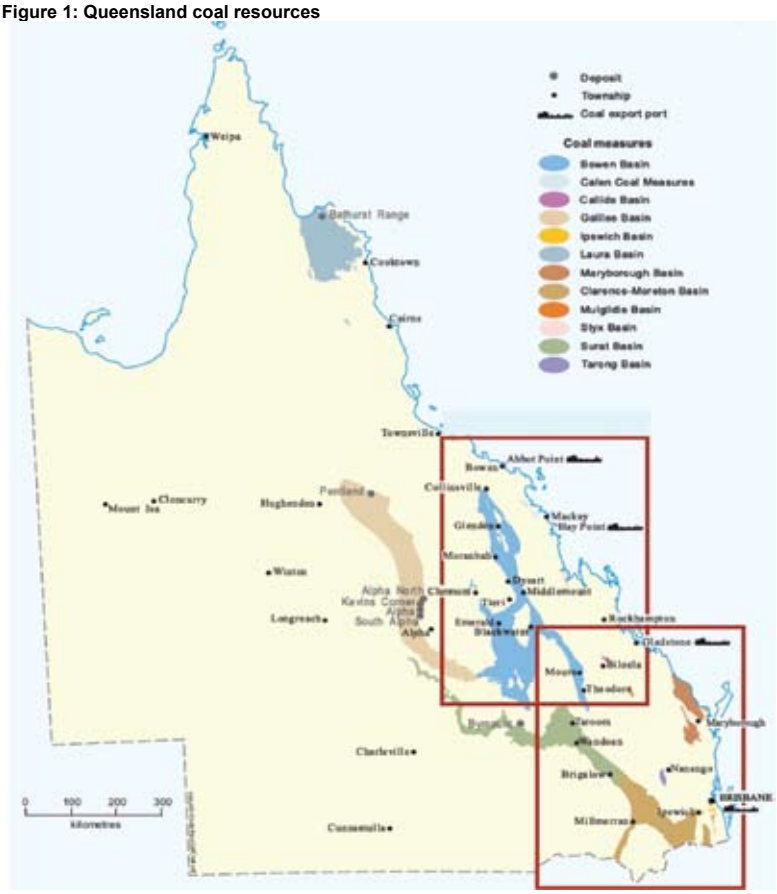
Demand for thermal and coking coal from developing economies in Asia has increased considerably in the last few years. However, increases in exported volumes from Australia have been restricted by the capacity of rail systems and coal loading terminals (coal supply chain) both in Queensland and NSW. In addition, adverse weather conditions in recent years have also affected the production of coal. The infrastructure limitations are currently being addressed through the expansion of both coal loading terminals and rail systems (refer Section 3.6).

[6] Australian Coal Association

3.2 Coal resources in Australia

Australia is rich in coal with Proved Reserves[7] of approximately 76.2 billion tonnes as at 31 December 2009.[8] More than three quarters of Australia's coal production is exported, with NSW and Queensland accounting for approximately 97% of Australia's saleable output of black coal for the year ended 30 June 2010[9]. The location of coal resources in Queensland and in NSW are illustrated in the figures below.

Figure 1: Queensland coal resources



Source: Australian Coal Association

Note:

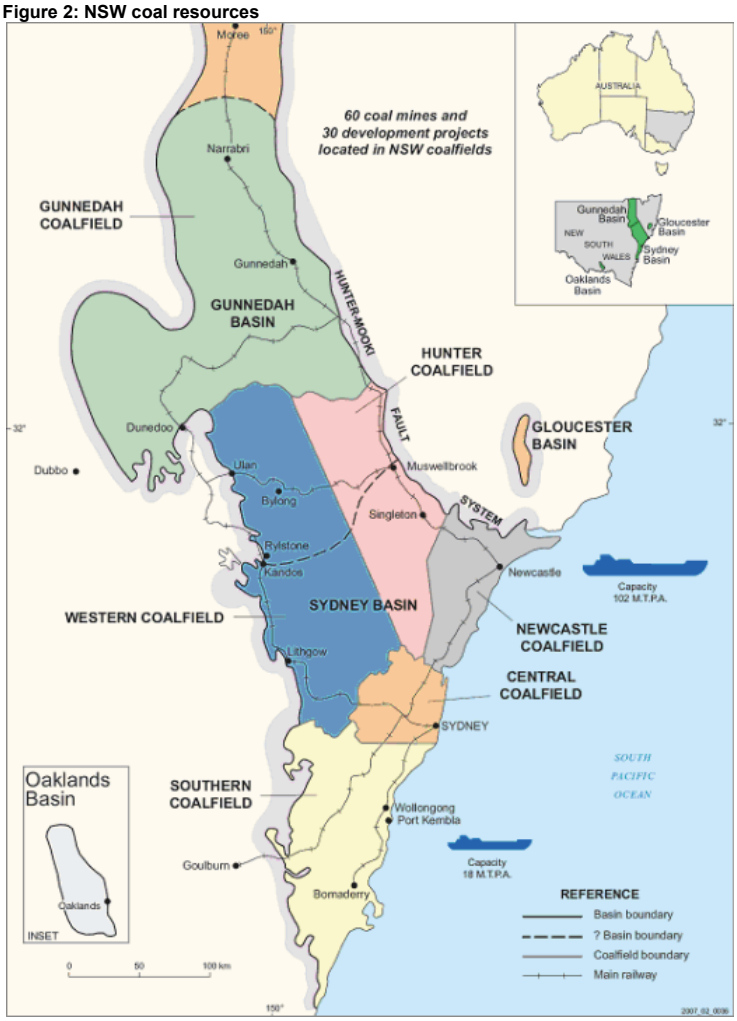
1. Detailed maps in respect of the boxed areas in the figure above are located at the Australian Coal Association's website.

[7] Proved Reserves are generally taken to be those quantities that geological and engineering information indicates with reasonable certainty can be recovered in the future from known deposits under existing economic and operating conditions

[8] BP statistical review of world energy, June 2010

[9] Australian Bureau of Agricultural and Resource Economics (ABARE)

Figure 2: NSW coal resources



Source: Department of Primary Industries, NSW Government

3.3 Thermal coal

Thermal coal is primarily used as an energy source for coal fired power plants, which generate approximately 40% of the world's electricity output. Thermal coal is also used in cement manufacturing and other major energy intensive industries which use heat and/or steam in their production processes. As a result, thermal coal is generally sold at prices which reflect its energy content.

A wide range of thermal coals are available from Australian coal producers with coal characteristics varying from mine to mine. Australian export thermal coal typically has high energy content, moderate ash levels and is generally low in contaminants such as sulphur and other heavy metals that reduce the value of the coal.

3.3.1 Demand

The key drivers of demand for Australian thermal coal are world energy demand, the competitiveness of coal relative to alternative sources of energy in the production of electricity and the accessibility and competitiveness of thermal coal suppliers to the key export markets of the Asia Pacific region. The most important driver of global thermal coal demand is economic growth in Asia, which is expected to continue to support a sustained increase in the demand for electricity.

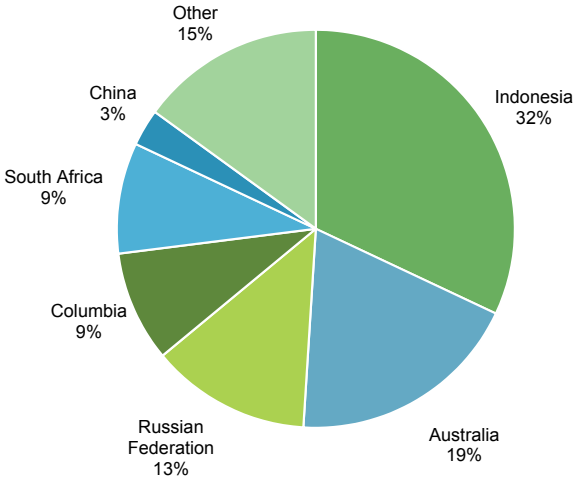
Demand for thermal coal has increased significantly in recent years as growth in the Chinese and Indian economies increased their energy needs, a growing share of which is required to be met by imports. There has also been increased demand for thermal coal by some European countries following a decline in domestic coal production in Europe. In particular, Germany and the United Kingdom, which were once net coal exporters, now rely on imported coal, while France ceased domestic coal production from 2004. Japan and the European Union are the largest importers of thermal coal.

The International Energy Agency forecasts the continued dominance of coal and other fossil fuels in the energy mix and a rising share of the energy mix of emerging economies in global energy consumption. The majority of this growth in Asia is expected to come from Japan, South Korea, India, Taiwan and China. Demand for imports in Europe is expected to remain relatively stable due to low population growth, carbon trading regulations (introduced in 2006) and competition from alternative sources of energy such as natural gas and nuclear power generation.

3.3.2 Supply

Approximately 90% of the world's imported thermal coal is represented by seaborne trade. Although Indonesia is currently the world's largest exporter of thermal coal, Australia is projected to become the leader after its rail and port infrastructure investments are completed. Other major regions that export thermal coal include the Russian Federation, Colombia and South Africa. The figure below shows the breakdown of the global seaborne thermal coal trade.

Figure 3: Global seaborne thermal coal trade



Source: Energy in Australia 2011, ABARE

A number of factors affected the global thermal coal export market in 2009, 2010 and 2011 to date:

- although market conditions improved in late 2009, oversupply existed for the duration of the year due to significantly reduced worldwide demand at the end of 2008 as a result of the global financial crisis. This prompted many mines in coal exporting countries to lower production levels and/or close down high cost mines.

  High import demand from China in 2009 helped offset the decline in demand from the rest of the world. The demand from China was driven by high domestic prices relative to the landed price of imports and high electricity demand as a result of high temperatures across Asia[10]. In addition, the bottlenecks in China's transportation infrastructure also forced the country's traders to buy coal overseas. This import demand from China and a modest increase in demand from Japan following the country's recovery from the global financial crisis continued in 2010

[10] the high domestic prices in China were precipitated by the closure of many mines in China for safety reasons and as part of the central government's policy of consolidating the mining industry

- significant investment in new coastal-based coal-fired electricity generation infrastructure in India in 2010 is expected to increase the country's demand for imported thermal coal. Recent estimates suggest the country will import 20% more coal in 2011 compared to 2010, despite rising thermal coal prices[11]
- European demand for thermal coal has recently recovered from the 2009 and early 2010 demand lows, following the restocking of utilities towards the end of 2010, and this recovery is expected to continue in 2011
- supply constraints as a result of port congestion in NSW and Queensland was reduced and the first stage of a major port expansion project at the Port of Newcastle (refer to Section 3.6.2) was completed during 2010. However Queensland was subject to severe flooding due to heavy rainfall across the north of the state in late 2010 and early 2011. This has directly impacted coal mining operations in Queensland, forcing a number of operators to halt production. In addition, rail corridors between the coal mines and ports have been damaged and/or are operating below capacity. Whilst NSW based coal miners are expected to capitalise on the export shortfalls arising from the effect of the floods in Queensland, ABARE estimates that coal exports will decline by approximately 15 Mt in the December 2010 to March 2011 period, representing approximately 6% of Australia's total coal exports in 2009[12]
- continued flat coal production, and therefore supply, from South Africa, as the result of domestic infrastructure and power supply issues. In addition, South Africa has also experienced unusually high rainfall in January 2011, which affected the delivery of coal shipments to Europe. Indonesia and Colombia have also experienced heavy rains, which reduced coal output towards the end of 2010
- a large earthquake off the coast of Japan, resulting in Japan's power utility, Tohoku Electric Power, declaring force majeure on short-term thermal coal shipments because of extensive port damage. At least five coal-fired plants were reportedly damaged or impaired by the earthquake-tsunami event whose operations together consume approximately 15 Mt per annum (Mtpa) of coal. A number of these power utilities are currently seeking to redirect shipments of coal to those utilities with capacity to increase output and to direct power north along existing power lines, however the extent to which recovery operations will take are still being assessed.

Australia's thermal coal exports from FY2005 to FY2010 are summarised in the following table:

Table 11: Australian thermal coal exports

	2005	2006	2007	2008	2009	2010
Volume (Mt)	106.4	110.82	111.62	115.07	136.36	134.97
Value (AUD million)	7,177	7,910	7,207	8,629	17,889	11,884
Implied price (AUD per tonne)	67.46	71.37	64.57	74.99	131.19	88.05

Source: ABARE

Australia will be well placed to compete for expanding demand forecast in the Asia Pacific region given its proximity to Asia and the continuing resolution of infrastructure constraints. The relatively low cost and high security of supply of Australian thermal coal is expected to continue to make it an attractive fuel source.

3.4 Coking coal

HCC is essential for the production of a strong coke which is used primarily in the steel making process. Coal that would otherwise be a thermal coal is washed harder (to a lower ash) to produce a SSCC.[13] SSCC is generally washed to achieve the coking properties required in the steel making process. SSCC is often blended with HCC or SHCC to reduce the overall cost of coal for steel production. SSCC can also be used as a substitute for thermal coal. PCI is crushed into fine powder and injected into blast furnaces as a replacement for coke in steel making. Ultra LV coal is essentially low volatile coal that has been subjected to accelerated heating during its geological formation. It is suitable for use in the sintering process to produce sintered feed for blast furnaces.

[11] Financial Times, 2 February 2011
[12] Reuters, 21 January 2011
[13] coking coals are graded according to vitrinite reflectance, moisture content, volatile content, plasticity and ash content. Coking coal is best if it has a very narrow range of volatility and plasticity. This is measured by the Free Swelling Index (FSI) test. Hard coking coal has an FSI in the range seven to nine; semi-hard coking coals have an FSI in the range of five to six and semi-soft in the range of one to three

Australian coking coals, particularly HCC and SSCC, are known for their high quality coking characteristics and are generally low in contaminants such as sulphur and phosphorous. There has been a trend towards using PCI in steel making as a partial substitute for coking coal in recent years. The stimulus behind this has been the spread between PCI and HCC prices.

3.4.1 Demand

Global demand for steel is the ultimate driver of demand for coking coal, as approximately 90% of coking coal produced worldwide is used in steel production. There is currently no viable substitute for HCC in the production of steel. The demand for steel is also the key driver for PCI coal demand. In particular, low volatile PCI coal has been proven to be a more efficient substitute for HCC than SSCC due to its higher energy and carbon content.

An important issue in the coking coal market is the relative demand for the different types of coal. HCC tends to be less plentiful and has inherent properties that allow producers to demand a premium relative to PCI and SSCC. However, it is expected that the current shortage of HCC and its relatively high price will further enhance the appeal of, and strengthen the demand for, low volatile PCI coal.

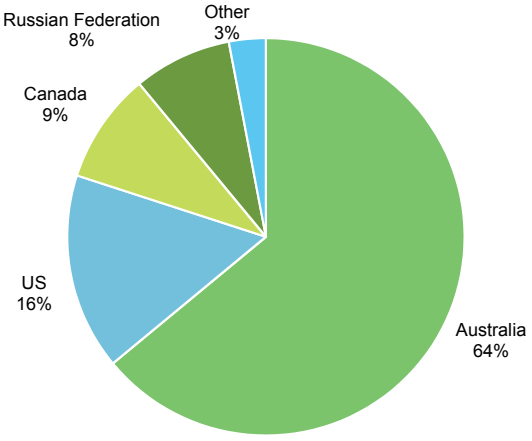
Global steel demand has increased substantially in recent years due mainly to the urbanisation and industrialisation of China and, to a lesser degree, India. Significant steel production growth is forecast in China, India, Brazil and South Korea, with potential increases in steel production in the Russian Federation. United States of America (US), European and Japanese demand is projected to remain relatively flat due to expected low gross domestic product growth, ageing populations, mature steel industries and increasing regulations on carbon emissions. Japan is currently the largest importer of coking coal.

3.4.2 Supply

Over 90% of the world's imported coking coal is represented by seaborne trade. Australia is not a significant producer or consumer of steel however it is the largest exporter of coking coal in the world, contributing nearly 64% of the world export market in FY2010. The volume of coking coal exported from Australia in recent times has been restricted by infrastructure constraints (refer Section 3.6) and heavy rainfall (most recently resulting in severe flooding in Queensland), which has impacted operations.

The figure below shows the breakdown of the global seaborne coking coal trade.

Figure 4: Global seaborne coking coal trade



Source: Energy in Australia 2011, ABARE

Australia's proximity to Asian markets relative to the other major producers provides it with a significant competitive advantage for the export of coking coal to Asian customers.

Australia's coking coal exports from FY2005 to FY2010 are summarised in the following table:

Table 12: Australian coking coal exports

	2005	2006	2007	2008	2009	2010
Volume (Mt)	124.92	120.48	131.97	136.92	125.24	157.26
Value (AUD million)	12,186	18,664	16,039	16,543	36,717	24,526
Implied price (AUD per tonne)	97.56	154.92	121.54	120.82	293.15	155.95

Source: ABARE

3.5 Pricing

Coal has traditionally been sold as a cost-plus commodity, with prices falling above or below the marginal cost of production for high cost producers. In addition to underlying supply and demand drivers of price, product coal is also priced according to the specific characteristics of the coal. Thermal coal prices are dependent on the energy content of the coal, with the benchmark price set for coal with a calorific value of 6,700 per kilogram (gross air dried) and adjustments made pro rata depending on the specific energy and ash specifications of the coal. Coking coal prices are dependent on the coking characteristics of the coal.

The international coal market can be divided between the Atlantic and Asia Pacific market regions, where significantly different market forces influence coal prices. The Atlantic and Asia Pacific market regions are discussed in the following sections.

3.5.1 Atlantic market

The Atlantic market is highly competitive with numerous coal suppliers across a large number of supplier countries. In addition, thermal coal competes against established gas, hydroelectric and nuclear power sectors in this region.

3.5.2 Asia Pacific market

The Asia Pacific market is characterised by a lack of natural resources, resulting in a high dependence on imported fuels and raw materials and reliance on trading partners for energy supply. Asian customers have traditionally been prepared to maintain an annual reference price[14] to ensure security of supply. In addition, Asian market participants continue to invest in overseas coal projects. Asian customers have historically contracted the majority of their tonnage requirements and supplemented this with limited purchases on the spot market.

In the Asia Pacific market, coal is predominantly purchased and sold pursuant to term contracts, with volumes and prices renegotiated each year on a quarterly basis. The contracts generally specify factors such as coal quality, tonnages, cargo sizes, delivery arrangements and prices agreed quarterly between the purchaser and the supplier in respect of coking coal, however thermal coal is still priced annually in most instances. The effect of strong demand and supply limitations for thermal, HCC and SSCC in the Asia Pacific market has placed upward pressure on prices in recent years.

3.5.3 Price settlements in the Asia Pacific market

Japan has historically been the world's largest coal importer and coal price settlements between Japanese steel mills and Australian coal mines tend to represent overall market conditions within the coal industry, with prices becoming market reference prices for the Asia Pacific region. Prices were historically set on annual basis during negotiations that generally take place in advance of the Japanese financial year (JFY), which commences on 1 April. Xstrata plc (Xstrata) generally sets the benchmark prices for thermal coal due to its relative market dominance, while the BHP Billiton Mitsubishi Alliance (BMA) tends to lead price setting for HCC.

SSCC prices have historically been set at a premium of 11% to 14% over the thermal coal price, which reflects the higher relative costs of production and the higher energy content of SSCC. However, in the 2008-09 JFY, coal producers successfully negotiated higher SSCC prices with reference to HCC prices. PCI coal and SSCC have

[14] annual reference price consistent with the Japanese Financial Year which commences on 1 April

traditionally been priced on a comparable basis. PCI coal has recently been priced higher than SSCC, as steel mills begin to recognise PCI coal as a viable and cost-efficient substitute for HCC. In addition, various mining companies have been seeking more flexible short term contracts for HCC (and iron ore) due to the increasing premium of spot prices over annual benchmark prices.

Despite the existence of one-year sales contracts, where coal prices have been subject to price decreases in the short term, producers have traditionally experienced difficulties in realising contracted prices due to customers declining shipments. The shift to quarterly pricing for coking coal has improved pricing outcomes for producers in recent months as they have been able to better exploit short term price increases.

The following sets out a summary of coal price settlements during 2011:

- 3 February 2011 – Xstrata and Rio Tinto Limited reportedly secured higher SSCC prices for the quarter ending March 2011 due to a shortage of HCC caused by the flooding in Queensland. Rio Tinto Limited reportedly settled pricing at United States dollars (USD) 180 per tonne free on board (FOB) (which represents 80% of the hard coking coal 'headline' price of USD 225 per tonne FOB) and a contingent deal that its June 2011 quarter pricing is also at 80% of the hard coking benchmark for that quarter. Similarly, Xstrata reportedly settled at USD 182.50 per tonne FOB for the March 2011 quarter, with a contingent deal that its price for the following two quarters will be at 77% of the hard coking benchmark
- 4 March 2011 – Anglo American plc reportedly secured a price of USD 330 per tonne for HCC with Nippon Steel Corporation and JFE Holdings for the June 2011 quarter, according to Platts
- 31 March 2011 – Xstrata and Chugoku Electric Power agreed a thermal coal contract price of USD 129.85 per tonne for JFY2012, which was 33% higher than last year's contracted price of USD 97.75 per tonne. The JFY2012 contracted price was approximately USD 9 higher than the spot price, reflecting ongoing tight supply after the flooding in Queensland and the expectation that demand may increase over the coming months to replace lost nuclear power capacity in Japan after the country's logistical issues are resolved
- 4 April 2011 – following price negotiations with the majority of customers for its Curragh mine in the Bowen Basin, Queensland, Wesfarmers Limited announced it had secured June 2011 quarterly prices approximately 53% higher for Curragh metallurgical coal (HCC, SHCC and PCI) compared to prices for the January to March 2011 quarter. Wesfarmers Limited secured a weighted average FOB contract price for HCC of approximately USD 328 per tonne
- 4 April 2011 – Rio Tinto Limited reportedly settled its June 2011 quarter HCC price at USD 330 per tonne and SSCC at USD 264 per tonne, according to research by Macquarie Bank.

In terms of thermal coal prices, supply disruptions in Colombia, Venezuela and South Africa (refer to Section 3.3.2) have increased prices in the Australian market, with spot prices at the Port of Newcastle reportedly rising to USD 140 per tonne. Prices are speculated to increase above the high experienced in 2008 of USD 197 per tonne.[15]

3.6 Infrastructure

As Australia exports the majority of its coal production, access to rail and port infrastructure is critical for producers in the coal industry. Since 2005 there has been insufficient capacity in the coal loading terminals and rail systems to match demand, resulting in large queues of ships forming at coal loading terminals, which attract significant demurrage costs for miners. These infrastructure constraints have contributed to coal prices reaching historically high levels in recent years.

The following sections outline the key rail network and coal loading terminals supporting the operations of Gloucester, Donaldson and the Monash Exploration Assets in NSW and the Middlemount Mine project in Queensland, in which Gloucester currently owns a near 50% interest.

3.6.1 Hunter Valley rail network

Coal produced in the Hunter Valley, NSW is almost exclusively transported to the Port of Newcastle via the Hunter Valley rail network (HVRN). The HVRN is managed by the Australian Government through the government-owned Australian Rail Track Corporation (ARTC).

[15] BHP Billiton Limited (BHP)

The following figure provides an overview of the Hunter Valley coal chain[16].

Figure 5: Overview of the Hunter Valley coal chain

Source: Hunter Valley Coal Chain Logistics Team

There are currently two major coal haulage operators using the HVRN: Pacific National Pty Limited (Pacific National) and Queensland Rail National (QR National). Coal producers will typically sign long term contracts with rail operators in order to secure the required rail capacity. In addition, some producers have undertaken to operate their own trains. In September 2009, Xstrata signed a deal with Freightliner Australia (a subsidiary of Freightliner Group Limited) for the provision of rail freight services, commencing in late 2010 thereby allowing Xstrata to bypass the incumbent operators.

Currently, the theoretical coal capacity of the HVRN is approximately 189.0 Mtpa. Practical deliverable capacity is significantly lower due to factors such as maintenance, surge volumes, system reliability and constraints imposed by the capacity of the Port of Newcastle. The declared capacity of the Hunter Valley coal chain[17] as an integrated operation was 94.5 Mt in 2009.

The ARTC has released annual infrastructure enhancement strategies since 2005 to ensure that rail capacity stays ahead of demand. The most recent 2009 strategy update covers a ten-year horizon to 2018. This strategy examines the levels of operational delay on the network, the operational robustness of the network and any opportunities for improved operational performance in addition to the provision of sufficient capacity. ARTC projects approximately AUD 2.3 billion will be invested in infrastructure projects from FY2007 to FY2017.

In addition, rail operators have sought to increase capacity by upgrading existing or purchasing new locomotives, increasing the number of wagons per train, and increasing the frequency of runs.

3.6.2 Port of Newcastle

There are currently three coal loading terminal operators serving the NSW coal export market: Port Waratah Coal Services Limited (PWCS) and Newcastle Coal Infrastructure Group (NCIG) operating at the Port of Newcastle, and Port Kembla Coal Terminal Limited (PKCT) operating at Port Kembla. Gloucester exports coal through the Port of Newcastle which is owned by the NSW Government-owned Newcastle Port Corporation (NPC).

[16] the chain of coal delivery in NSW from coal mines in the Hunter Valley to the Port of Newcastle and to domestic coal-fired power stations in the Hunter Valley
[17] the chain of coal delivery in NSW from coal mines in the Hunter Valley to the Port of Newcastle

PWCS was until recently the only coal loading terminal operator at the Port of Newcastle with two coal loading terminals (Carrington and Kooragang[18]) with a current combined capacity of 113.0 Mtpa. NCIG completed the first stage of a 30 Mtpa terminal at Kooragang Island in May 2010.

Infrastructure constraints in NSW are most evident at the Port of Newcastle which, together with the Dalrymple Bay Coal Terminal in Queensland, represents in excess of 55% of the total coal exporting capacity of the east coast of Australia.

Prior to 2010, the Port of Newcastle used a capacity system to manage the coal supply. Each year, coal producers were required to nominate the volumes they require to PWCS, which allocates volumes accordingly. A capacity balancing system (CBS) provided coal producers with a proportionate share of the available capacity of the coal export infrastructure supply chain. As a result, there had been little opportunity or incentive for coal producers to introduce new production capacity such as the development of new mines and expansion of existing capacity until port capacity is expanded or could be ensured.

To alleviate the infrastructure constraints in the long term, the following measures have been implemented:

- expansion of the Kooragang coal loading terminal by PWCS to increase coal loading capacity by 11 Mtpa in order to meet expected producer demand of 123.6 Mtpa in 2012 at a cost of AUD 458 million. PWCS recently approved an additional expansion project to increase capacity by a further 20 Mtpa by 2012 at an estimated cost of AUD 670 million
- PWCS is currently assessing a fourth terminal (T4) which will allow further expansion after the capacity of the current PWCS footprint at Kooragang is fully developed. However, PWCS announced in January 2011 that T4 is behind schedule by approximately a year and is expected to be completed in late 2015 or early 2016. The new terminal, which is anticipated to add between 60 Mt and 100 Mt of additional yearly export capacity, will be the only new capacity that hasn't yet been totally allocated
- a new operator, NCIG[19], completed the first stage of the terminal on Kooragang Island at the Port of Newcastle to increase capacity by 30.0 Mtpa during 2010, with the second stage commencing in August 2010 to increase capacity to 53.0 Mtpa by 2013. In addition, NCIG is also currently conducting a feasibility study for a final expansion of the terminal of 13 Mtpa to be completed by 2014. Capacity at NCIG will be allocated to the shareholders of NCIG in line with their proportionate shareholding
- producers now nominate for ten-year rolling take-or-pay agreements at PWCS. This is an annual process with the first tranche of contracts having effect from 2010. Under the Terminal Access Protocol, PWCS is required to expand capacity once the total of existing ten-year agreements and binding nominations for new ten-year allocations exceed capacity.

In addition, mining magnate Nathan Tinkler is currently working on a plan to convert at least part of the former Mayfield steelworks site into a coal terminal (Proposed Hunter Coal Terminal). Mr Tinkler holds a substantial stake in Newcastle development company Buildev Group, which controls an inland 62 hectares of the 150 hectare site after winning a 2008 State Government tender to develop it for industrial and port-related activities.

NPC controls the river-front section of the steelworks site and will need to approve access to a berth there for the proposed plan to proceed. The Proposed Hunter Coal Terminal has met with opposition from the Newcastle Member of Parliament and Minister for the Hunter.

3.6.3 Queensland

Coal produced in Queensland is transported by rail with QR National the primary coal haulage operator in the state. The Queensland State Government privatised QR National through an initial public offering on 22 November 2010. QR National owns the coal, rail freight and infrastructure assets, which were previously part of Queensland Rail. Pacific National also operates in Queensland and has announced its intention to invest AUD 140 million over a two-year period to support the expansion of its rail freight operations into the narrow gauge network in Queensland.

[18] can only accept coal deliveries by rail
[19] shareholders in the project include BHP (35.5%), Centennial Coal Limited (8.8%), Donaldson (11.6%), Peabody Energy Corporation (through Excel Coal Limited) (17.7%), Felix Resources Limited (15.3%) and Whitehaven Coal Limited (11.1%)

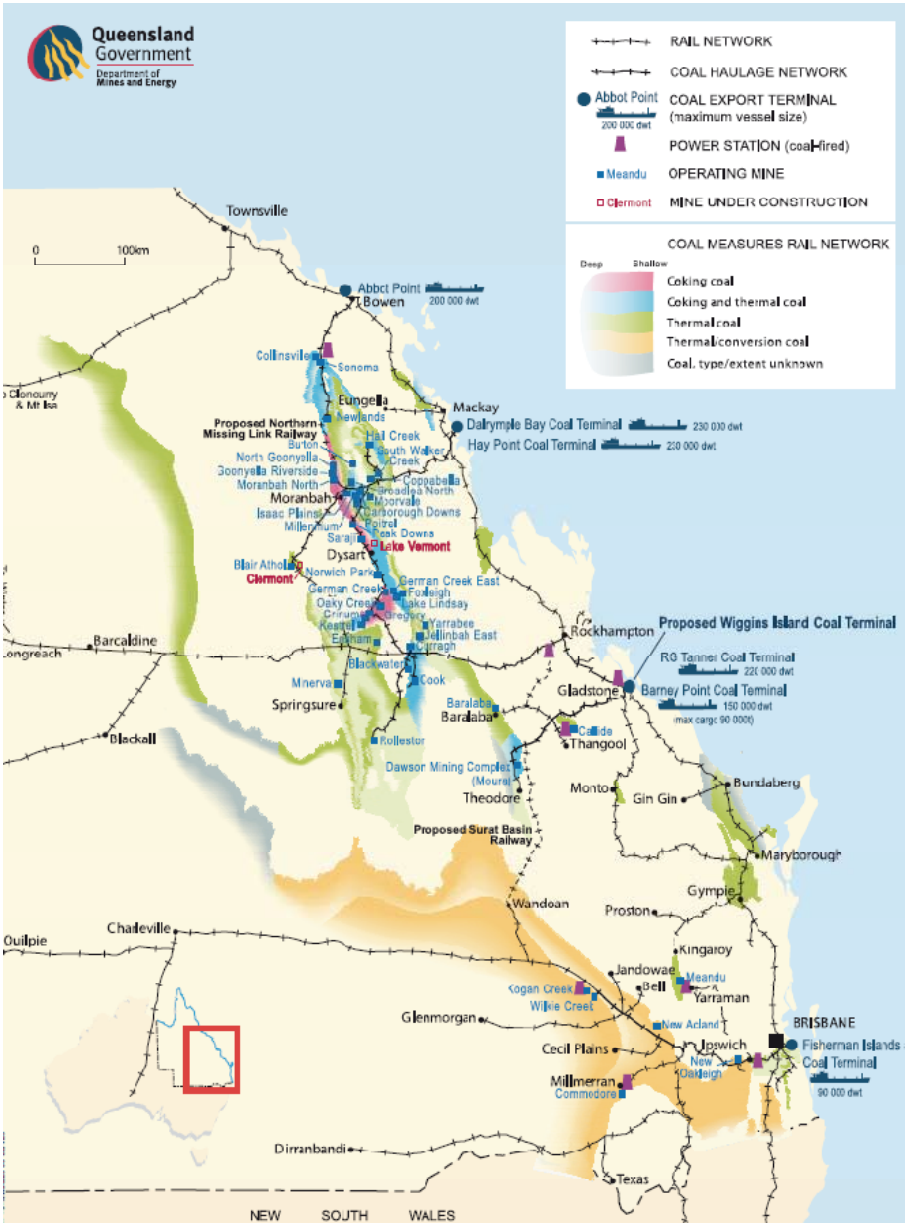
The interconnected rail system is divided into five rail systems (Newlands, Goonyella, Moura, Blackwater and Western). QR National's extensive rail network links Queensland's coal mines to six coal export terminals at four ports (Gladstone, Hay Point, Abbot Point and Brisbane) as well as to domestic coal users.

As discussed in Section 3.3, widespread and unseasonal rainfall across Queensland in December 2010 and January 2011 has adversely affected coal hauled in Queensland for at least the months of December and January. During mid-January 2011, QR National advised that its rail systems in Queensland continue to be affected by widespread flooding and that the specific impact on tonnages and network recovery costs remained under assessment. Since this announcement, QR National has reopened the Blackwater line and all other systems in the Central Queensland coal network, although speed restrictions continue to be applied in some areas. Coal haulage volumes were expected to be down by 15 Mt during the March 2011 quarter as a result of the flooding of mines in Queensland.

In addition, Cyclone Yasi, a high pressure Category 5 cyclone which passed through Queensland in early February 2011, temporarily affected the Newlands and Goonyella coal rail networks and freight train services along the east coast and also those along the north-west coast to Mount Isa.

The following figure provides an overview of the rail and port infrastructure in Queensland.

Figure 6: Overview of the rail and port infrastructure in Queensland



Source: QR National

3.6.4 Goonyella rail system

Infrastructure constraints in Queensland primarily relate to a lack of rail rolling stock availability. The expansion of rail capacity in Queensland has generally lagged the capacity expansion at ports. This is especially the case for the Goonyella rail system, which carries coal from mines in the Bowen Basin to the Port of Hay Point which has two major coal loading terminals (Dalrymple Bay and Hay Point[20]). As a result, growth in export volumes from the Port of Hay Point, which accounts for at least one third of Australia's coal exports, has slowed considerably over recent years.

To ease the rail capacity bottleneck in Queensland, QR Network, a subsidiary of QR National, established the COALRail Infrastructure Program in 2005 to deliver industry-endorsed infrastructure projects. The infrastructure projects planned for the Goonyella rail system[21] are as follows:

- an expansion of the rail system capacity to 140.0 Mtpa from 130.0 Mtpa after 2010 to support the proposed and current expansions at Dalrymple Bay Coal Terminal (DBCT) and Hay Point Coal Terminal
- the approved Goonyella to Abbot Point Expansion Project which relates to the development of the Northern Missing Link, a 69 kilometre (km) section of new track linking the Goonyella and Newlands rail systems, as well as rail capacity expansions throughout the existing Newlands rail system and at the Port of Abbot Point.

In addition, QR National will also increase transport capacity on the Goonyella rail system by procuring 45 new and upgrading 63 existing electric locomotives by the end of 2011.

3.6.5 Northern Missing Link project

The Northern Missing Link project will connect the existing mines of North Goonyella and Newlands and allow coal trains originating in Central Queensland to be directed to the port of Abbot Point, near Bowen. The proposed line will deliver an additional 30.0 Mtpa of rail infrastructure capacity to match the expected capacity of 50 Mtpa for Abbot Point Coal Terminal (APCT) after its expansion.

The line will initially utilise diesel locomotives, however plans for subsequent electrification are being considered. The total project cost including electrification is estimated at AUD 1.1 billion (in 2010 dollars) and an environmental impact statement was completed in October 2006.

On 23 October 2009, QR National agreed commercial principles with coal companies Lake Vermont Resources Pty Limited and Bowen Central Coal Management Pty Limited, ensuring future demand for the Goonyella to Abbot Point Expansion Project. Construction of the project commenced during the June 2010 quarter with completion of the project expected in January 2012. Middlemount has entered into a 15 year take-or-pay contract with QR Network for below rail access for up to 3.0 Mtpa of coal to APCT, which was executed in April 2010. Access to rail facilities under this agreement is expected to commence in 2012.

3.6.6 DBCT

DBCT is located in the Port of Hay Point, 38 km south of Mackay. DBCT has a capacity of 85.0 Mtpa and receives export coal from 18 different coal mines in the Bowen Basin via the Goonyella rail system. Prime Infrastructure Group (formerly Brookfield Asset Management Incorporated) acquired a 49.5% interest in DBCT in December 2009 as part of its acquisition of Prime Infrastructure Holdings Limited and announced its intention to expand the capacity of the coal terminal following its appointment as one of two preferred proponents for the expansion project in July 2010. Details of the proposed expansion have not yet been announced.

3.6.7 APCT

APCT is located in the Port of Abbot Point, 25 km north of Bowen. The port terminal is operated by Abbot Point Bulk Coal Pty Limited, a subsidiary of Xstrata Coal Queensland Pty Limited. The current capacity of APCT is 25.0 Mtpa with a planned expansion project expected to double the capacity by late 2011. The expansion of the port facility is expected to coincide with the planned expansion to QR National's Northern Missing Link rail project, increasing the capacity to transport coal from the Bowen Basin to APCT.

[20] owned and operated by BMA
[21] COALRail Infrastructure Program Progress Report 2008-2009

3.6.8 Wiggins Island Coal Terminal

Wiggins Island Coal Terminal is a port facility proposed to be constructed at Gladstone, Queensland, by the Gladstone Port Authority and QR National. Once all three stages are completed, it is expected to have a total capacity of 70.0 Mtpa. Construction of Stage 1 of the project (to achieve a capacity of 25.0 Mtpa) commenced in 2009.

3.7 Carbon Pollution Reduction Scheme

On 27 April 2010, the Australian Government announced its decision to delay the implementation of the Carbon Pollution Reduction Scheme (CPRS), an emissions trading scheme which was aimed at reducing greenhouse gas emissions to enable Australia to meet future emission targets, until after the expiry of the Kyoto Protocol in 2012 and subject to obtaining greater clarity on the action of other major economies including the US, China and India.

The CPRS was intended to form part of a framework for meeting Australia's target to reduce emissions either to:

- 25% below 2000 levels by 2020 under the proposed international agreement to restrain atmospheric concentrations of greenhouse gases to 450 parts per million, or
- lower levels if there is insufficient contribution to carbon reduction by other emitters around the world.

At the point of implementation of any emissions trading or similar scheme, the Government is expected to set a cap on the total amount of carbon pollution allowed to be emitted by certain industry sectors without a financial consequence. The Australian coal industry is likely to be impacted by any emissions scheme because of the waste methane that is produced during the coal mining process.

Following the initial announcement of the CPRS in 2010, the Australian Government announced a proposed carbon price mechanism on 24 February 2011, whereby a fixed carbon tax per tonne will apply from 1 July 2012 for three to five years, before moving into a "cap-and-trade" Emissions Trading Scheme (ETS) with flexible pricing.

Whilst the initial fixed price has not yet being determined, the Australian Government has indicated key details of the fixed carbon tax arrangement and the ETS will be explored in the next four to five months, however initial estimates provide for a fixed carbon tax of approximately AUD 20 per tonne, increasing at 4% per annum. The scheme will only begin on agreement being reached with a majority in both houses of Parliament and legislation being passed this year.

The proposed scheme will include stationary, energy, transport, industrial processes, fugitive emissions (including decommissioned coal mines) and emissions from non-legacy wastes, but will not affect the agricultural sector due to the complexity in measuring emissions.

The electricity sector is one of the sectors most likely to be affected by the carbon scheme. Following the announcement, electricity prices increased in the range of 6% to 8%, although current contract prices are reportedly factoring in an AUD 15 per tonne carbon cost following recent easing in electricity prices.[22]

3.7.1 Proposed taxation legislation

The Australian Government has recently announced proposed changes to the tax legislation for non-renewable resource projects, which are yet to be enacted. If the proposed reforms are adopted, existing and new Australian coal and iron ore projects will be subject to a Minerals Resource Rent Tax (MRRT) commencing on 1 July 2012. The proposed tax has the following key characteristics:

- the tax is levied at a rate of 30% of the MRRT profit less an extraction allowance of 22.5% of the tax liability to focus the tax on value of resource instead of the value added through mining expertise
- MRRT profit is assessed after deducting operating costs and capital costs from revenue and after credits for state royalties paid
- unutilised royalties and losses can be carried forward and are uplifted at a 7% premium to the long term government bond
- carry forward losses can be transferred to other projects
- companies with MRRT assessable profits under AUD 50 million per annum will be excluded.

[22] Australia and New Zealand Banking Group Limited Commodity Insight, 25 February 2011

4 Profile of Gloucester

Gloucester is a mining company listed on the ASX involved in the production and sale of coking and thermal coal. Gloucester has two operating coal mines, the Stratford Operation and the Duralie Operation, and three coal exploration licences, located in the Gloucester Basin approximately 100 km north of Newcastle in NSW (the Gloucester Basin Assets). In addition, Gloucester owns a near 50% interest in the Middlemount Mine project, a development asset located in central Queensland.

4.1 Gloucester history

An overview of the Gloucester company history is provided in the table below.

Figure 7: Company history of Gloucester

1985	• listed on the ASX as Centenary International Mining (CIM) Resources Limited
1995	• commenced development of the Stratford coal mine • first coal production from the Stratford mine and commencement of processing at the Stratford coal handling and preparation plant (CHPP)
1999	• UK Coal plc acquired 97% of the outstanding capital of CIM Resources Limited following a takeover offer
2002	• renamed Gloucester Coal Limited
2003	• commenced operations at Bowens Road North and Duralie mines
2004	• UK Coal plc sold its 97% shareholding in Gloucester to a broad range of institutional investors
2005	• Gloucester acquired the remaining 10% interest in the Stratford Joint Venture (JV) that it did not already own from ITOCHU Corporation • expansion at the Duralie mine led to a significant increase in reserves and resources • commenced processing at the Stratford CHPP
2006	• the Clareval seam was discovered at East Duralie • commenced operations on the Roseville pit
2007	• Xstrata launched an unsuccessful takeover offer for Gloucester
2008	• reserves and resources increased significantly as a result of extensive exploration works • completed the secondary flotation plant at the Stratford CHPP
2009	• Gloucester announced a scrip-based takeover offer for Whitehaven Coal Limited • Noble, a 21.7% shareholder in Gloucester, announced a cash-based takeover offer for Gloucester, conditional on Gloucester's proposed takeover of Whitehaven Coal Limited not proceeding • Gloucester announced the withdrawal of the takeover offer for Whitehaven Coal Limited • Noble acquired 87.7% of the outstanding capital of Gloucester, thereby reducing the free float of the share capital of Gloucester from 73.3% to 7.2% (allowing for the 5.1% interest held by ITOCHU Minerals & Energy of Australia (ITOCHU) at that time) • Gloucester received a takeover offer from Macarthur Coal Limited (Macarthur) of 0.84 Macarthur shares for each Gloucester share or AUD 8.00 for each Gloucester share (Macarthur Takeover Offer) • ITOCHU sold down its holding of 5.1% of Gloucester at a price of AUD 8.30 per share
2010	• Noble announced its intention to make a takeover offer at AUD 12.60 per share for the shares in Gloucester it did not already own, conditional (among other things) on the Macarthur Takeover Offer not proceeding • Gloucester announced a 28% increase in its reserves and a 10% increase in its resources • Gloucester announced it had reached agreement in respect of pricing for its SHCC for JFY2010 at prices 100% higher than those achieved in JFY2009 • Noble shareholders voted at a special general meeting to decline the Macarthur Takeover Offer and Gloucester received a takeover offer from Noble for all the shares in Gloucester it does not already own • bid implementation agreement between Gloucester and Macarthur terminated • Gloucester announced a 31% increase in its JORC reserves and a 16% increase in its JORC resources

	• Gloucester announced an entitlement offer of AUD 455 million in order to acquire Noble's interests in the Middlemount Mine project (72.48% owned by Macarthur and 27.52% owned by Noble) • the entitlement offer was completed during August and September 2010 at an issue price of AUD 9.25 per share • Gloucester paid Noble total consideration of AUD 398.7 million for Noble's interest 27.52% in the Middlemount Mine project (AUD 230.7 million) and the Middlemount Mine project royalty on 30 September 2010 (AUD 168 million). AUD 100 million of the total purchase price was funded by the issue of shares to Noble on 30 September 2010 • the takeover offer from Noble expired in October 2010, resulting in Noble owning approximately 65.3% of Gloucester • granted environmental and planning approvals for a long-term mine plan at the Duralie operation • Gloucester acquired a further near 22.48% interest in the Middlemount Mine project on 24 December 2010 from Macarthur for AUD 97.6 million following the early exercise of call options acquired in the Middlemount Mine project transaction • stage one of the Middlemount Mine project CHPP was completed during the December 2010 quarter with commissioning expected to be completed during the March 2011 quarter
2011	• the Middlemount Mine project awarded a contract valued at AUD 50 million to NRW Holdings Limited to complete preliminary operational works at the project • on 22 February 2011, Gloucester announced the appointment of Mr Brendan McPherson (previously CEO of Donaldson) as CEO and Mr Tim Crossley as Deputy CEO • on 17 March 2011, Gloucester announced a 68% increase in Proved and Probable Reserves for the Middlemount Mine project • on 14 April 2011, the Middlemount Mine project reached an agreement with NRW Holdings Limited to undertake overburden removal and coal mining for a five year period, commencing in the second half of CY2011 • on 9 May 2011, Gloucester's shares were placed in a trading halt pending Gloucester's announcement of the Proposed Transactions.

Source: ASX announcements

4.2 Principal assets

The principal operating assets of Gloucester are its 100% interests in the Stratford Operation (comprising the Bowens Road North mine and the Roseville West mine) and the Duralie Operation (comprising the Weismantel pit and the Clareval pit) located in the Gloucester Basin in NSW. Gloucester also holds a number of adjacent exploration permits and owns a near 50% interest in the Middlemount Mine project in central Queensland, which is currently in development.

The current portfolio of assets held by Gloucester is summarised in the following table.

Table 13: Summary of the principal assets held by Gloucester

Asset	Ownership interest	Operator/manager	Type of mine	Type of coal
Gloucester Basin Assets				
Stratford Operation				
Bowens Road North	100%	Ditchfield Contracting Pty Limited	O/C[1]	Mostly thermal
Roseville West	100%	Ditchfield Contracting Pty Limited	O/C	Mostly coking
Duralie Operation				
Weismantel	100%	Leighton Mining Pty Limited	O/C	Thermal/coking
Clareval	100%	Leighton Mining Pty Limited	O/C	Thermal/coking
Exploration assets – Duralie, Grant & Chainey and Stratford East				
A311	100%			
A315	100%			
EL6904	100%			
Processing facilities				
Stratford CHPP	100%	Gloucester		
Middlemount CHPP (in development)	≈50%	Sedgman Limited		
Middlemount Mine project	**≈50%**	**NRW Holdings Limited**	**O/C**	**PCI/SHCC**

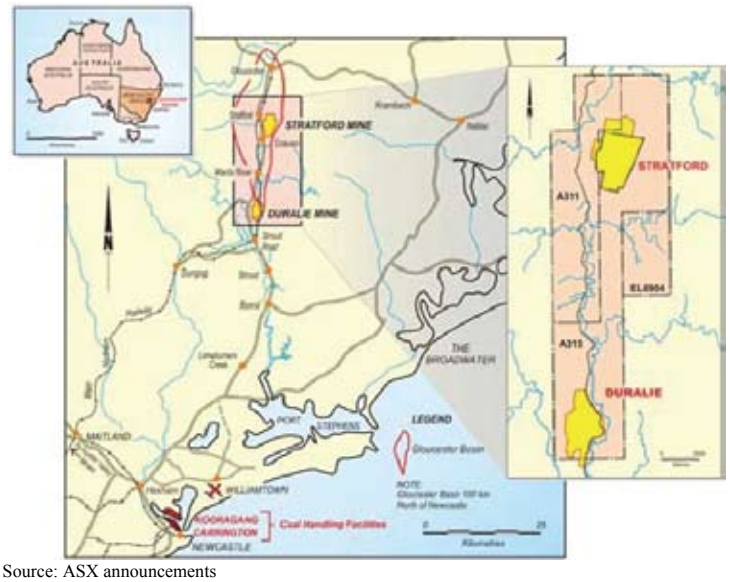
Source: ASX announcements

Note:

1. O/C – open cut.

The following figure shows the location of the Gloucester Basin Assets.

Figure 8: Gloucester Basin Assets



Source: ASX announcements

The Middlemount Mine project is a development asset located 6 km west of the township of Middlemount in central Queensland, as set out in the following figure.

Figure 9: Location of the Middlemount Mine project

Source: ASX announcements

The major assets are discussed in further detail below.

4.2.1 Operating assets – Gloucester Basin Assets

Stratford Operation

The Stratford Operation is located 15 km south of the town of Gloucester, approximately 100 km north of Newcastle in NSW and is 100% owned by Gloucester.

The development of the Stratford Operation commenced in 1995 at the Stratford Main Pit, an open-cut coal mine which produced low ash coking coal, with peak production reaching 2.7 Mtpa. The Stratford Main Pit ceased production in 2003 and the site is currently occupied by the Stratford CHPP.

The Stratford Operation has been operated by Ditchfield Contracting Pty Limited (Ditchfield) since 2007 under a long term contract for the duration of the life of the Bowens Road North and Roseville West mines.

Bowens Road North

Bowens Road North is an open cut coal mine operated by Ditchfield within the mining lease (ML) 1528 and ML1577 tenement areas. Having commenced operations in 2003, the Bowens Road North mine produces primarily mid sulphur (0.75%) thermal coal with through conventional strip mining using a truck and shovel/excavator removal method. FY2010 production was approximately 0.9 Mtpa of ROM coal.

Coal is transported by truck to the Stratford CHPP where the mid sulphur thermal coal outputs are blended with coal from the Duralie Operation, washed to produce coking and thermal coals for the export market.

Current development of Bowens Road North is focused on the northern pit with future development expected to commence at the southern pit when existing reserves are exhausted.

Roseville West

Roseville West is an open cut coal mine operated by Ditchfield within the ML1447, ML1409 and ML1360 tenement areas, located approximately 1.5 km from the Stratford CHPP.

Commencing production in 2006, the Roseville Extension Pit primarily produces a high quality coking coal characterised by high fluidity, mid sulphur and low ash and a small amount of thermal coal. Due to the low ash nature of the output, this coal is typically blended with coal from Bowens Road North and the Duralie Operation in order to reduce the overall ash content in the final product. Production for FY2010 was 0.2 Mtpa of ROM coal.

Roseville West employs conventional strip mining and coal produced is transported by truck to the Stratford CHPP for processing and blending.

Stratford CHPP

ROM coal produced at both the Stratford Operation and the Duralie Operation is processed at the Stratford CHPP, where it is washed and blended to meet the required product specifications.

Gloucester has commenced expansion of the Stratford CHPP to a capacity of 4.3 Mtpa of ROM coal, which is in the final stages of refurbishment and upgrade in order to coincide with the planned increase in mining volumes at the Duralie Operation. A further expansion is planned by 2014 to increase capacity to 5.0 Mtpa. In December 2010, Gloucester received consent to allow additional resource utilisation through a cut back into the highwall at the Bowens Road North Pit and further consent to increase production and the extension of the rail loop at the Stratford CHPP.

All of the coal processed at the Stratford CHPP is transported by rail to the Port of Newcastle for export.

Duralie Operation

The Duralie Operation is located in the southern part of the Gloucester Basin, approximately 80 km north of the city of Newcastle.

The mine, which is operated by Leighton Mining Pty Limited, was opened in 2003 following the cessation of production from the Stratford Main Pit. The mining operation at Duralie targets the Weismantel, Clareval and minor seams via an open cut pit. The seams comprise an upper coal working section, which is less than three metres thick and produces a high energy thermal coal with moderate to high sulphur. The middle and lower sections of the seams correspond to the bulk of the seams and produce a low ash, high fluidity coking coal.

The Duralie Operation is integrated with the Stratford Operation through its use of the Stratford infrastructure and processing facilities. ROM coal produced at the Duralie Operation is first received at the Duralie coal handling plant, where it is prepared for transport to the Stratford CHPP. The coal is transported to the Stratford CHPP by a shuttle train operated by QR National on the existing rail line between Duralie and Stratford. Duralie coal is blended with other raw coal and washed to produce low ash coking coal and a high ash thermal coal.

An extensive drilling project between 2005 and 2008 defined significant reserves of coal below the Weismantel seam in the Clareval seam. Based on preliminary technical studies, the Clareval seam is expected to produce equal amounts of thermal and coking coal and similar products to the Weismantel seam, but with slightly lower ash content.

A long-term mine plan (referred to as the Duralie Mine Extension Project) was completed for the Weismantel and Clareval seams in June 2008. Annual ROM coal production for the Duralie Mine Extension Project was 1.7 Mt in 2010 and is expected to increase further up to 3.0 Mtpa from 2014. The Duralie Mine Extension Project provides for the extension and continuation of open cut mining operations at the existing Duralie Operation through northerly extensions of the current workings and new mining pits. Together these extensions are projected to extend the current Duralie Operation by approximately nine years. Gloucester received environmental and planning approvals for the Duralie Mine Extension Project in late December 2010. An objector has recently commenced a merit appeal challenge in the NSW Land and Environmental Court against the grant of environmental approvals, however Gloucester management considers itself well placed to successfully defend the challenge and expects to be able to rely on the current approvals to continue the Duralie Mine Extension Project as planned.

Co-disposal

Gloucester focused on producing a low ash coking coal product between 1995 and 2000 and, consequently, high ash coal was treated as reject material and stored in ground storage cells creating co-disposal dumps of approximately 2.2 Mt of ROM coal.

Completion of the primary flotation circuit at the Stratford CHPP in 1997 allowed the coal from co-disposal dumps to be reprocessed and blended with the ROM thermal coal to produce a high ash, mid sulphur thermal coal. These co-disposal dumps are expected to be fully reprocessed by 2017.

4.2.2 Development assets – Gloucester Basin Assets and the Middlemount Mine project

Gloucester's development assets consist of exploration permits adjacent to its Stratford and Duralie operations and its ownership of a near 50% interest in the Middlemount Mine project in central Queensland.

Gloucester Basin Assets – Surrounding Stratford and Duralie areas

In addition to the Stratford and Duralie Operations, resources have been defined in a further four potential open cut areas which are lateral extensions of existing operations:

- the Grant & Chainey area (estimated Indicated Resources of 56.8 Mt and Inferred Resources of 25.0 Mt), which lies between the Stratford and Duralie operations and which comprises the Avon, Bowens Road, Weismantel and Clareval seams. The Grant & Chainey area is anticipated to comprise, on average, approximately 60% thermal coal and 40% coking coal. Currently, the Weismantel and Clareval seams have been drilled and confirmed, however require further assessment
- Stratford East (estimated Measured and Indicated Resources of 5.8 Mt and estimated Inferred Resources of 4.0 Mt), which lies to the north of the Grant & Chainey area and is a similar style of deposit, but developed on the Clareval and Avon seams
- Stratford South, which comprises the Avon, Bowens Rd, Marker, Roseville, Cloverdale, Deards and Bindaboo seams
- Roseville West area (estimated Measured and Indicated Resources of 35.5 Mt and estimated Inferred Resources of 5.0 Mt), which comprises the Linden to Roseville seams
- Avon North area (estimated Measured and Indicated Resources of 3.0 Mt), which comprises the Marker, Avon and Triple seams
- Duralie East (estimated Measured and Indicated Resources of 9.2 Mt and estimated Inferred Resources of 3.0 Mt), which is to the east of the Duralie Operation and comprises the Clareval and Weismantel seams
- Duralie Railway Pit (estimated Measured and Indicated Resources of 1.7 Mt) which is a smaller area to the south of Duralie East.

Middlemount Mine project

Macarthur acquired its original 72.66% interest in the Middlemount Mine project through its acquisition of Custom Mining Limited in early 2008. Following a number of transactions in 2010, Gloucester now holds a near 50.0% equity interest in the project, with Macarthur holding the remaining interest. Gloucester acquired its interest through the following transactions:

- Gloucester paid Noble total consideration of AUD 398.7 million for Noble's interest 27.52% in the Middlemount Mine project (AUD 230.7 million) and the Middlemount Mine project royalty on 30 September 2010 (AUD 168 million). AUD 100 million of the total purchase price was funded by the issue of shares to Noble on 30 September 2010
- Gloucester acquired a further near 22.48% interest in the Middlemount Mine project on 24 December 2010 from Macarthur for AUD 97.6 million following the early exercise of call options acquired in the Middlemount Mine project transaction.

Evaluation of the Middlemount Mine project commenced in 2008 through the development of a bulk sample pit used to assess coal quality. The first shipment from the bulk sample pit was made in the financial half-year ended 31 December 2009 followed by a second shipment of 75 kilotonnes (kt) during the March 2010 quarter. These shipments were processed at Macarthur's Coppabella CHPP located approximately 120 km north of the Middlemount Mine project and marketed as SHCC.

Bulk earthworks for site infrastructure are now complete and Gloucester and Macarthur awarded a contract valued at AUD 50 million to NRW Holdings Limited in January 2011 to complete preliminary operational works for the

Middlemount Mine project (as discussed in Section 4.1). Some of the earthworks associated with construction of the rail loop to join the Middlemount Mine to the Goonyella rail network have however been delayed by the significant wet weather experienced throughout the Bowen Basin in January 2011.

Notwithstanding these delays, completion of the rail line is expected to occur in the second half of 2011, at which time the Middlemount Mine project will commence operation as a standalone project. Macarthur has extended a portion of its DBCT port allocation to the Middlemount Mine project in exchange for a fee as an interim measure. The Middlemount Mine project continues to make progress with the coordination and development of the environmental impact study for approval to increase production at the project up to a maximum of 5.4 Mtpa ROM from FY2014. The environmental approval study was released for public comment in the December 2010 quarter and approval is expected to be obtained by mid to late CY2012. By the end of the third quarter of FY2011, the Middlemount Mine project had received 11 submissions.

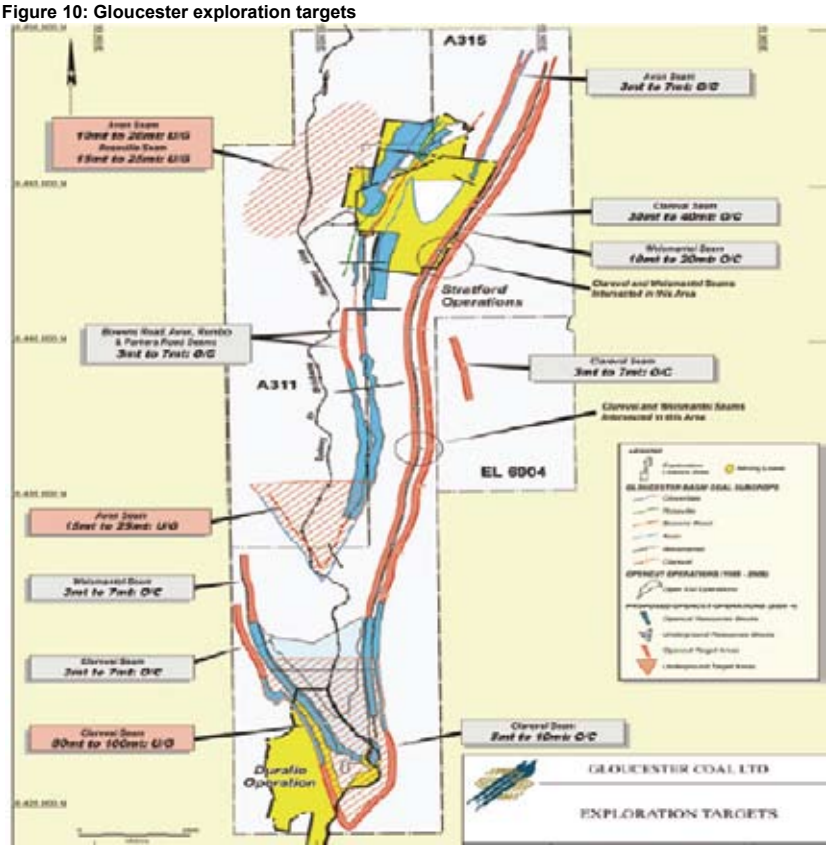
The construction of a dedicated CHPP facility (under the management of Sedgman Limited) commenced in October 2009 following approval of the mining lease in September 2009 and testing and processing of the coal was undertaken during the December 2010 quarter. Commissioning testing was undertaken during the March 2011 quarter with a further 37 kt trucked and sold to the Coppabella and Moorvale Joint Venture (73.3% owned by Macarthur).

In April 2011, the Middlemount Mine project appointed NRW Holdings Limited to undertake mining services, including clearing, overburden removal, drill and blast, coal mining, haulage and associated activities, for the Middlemount Mine project for a five year period commencing 1 July 2011. The contract is expected to provide delivery of ROM coal to meet the planned ramp up of the Middlemount Mine project from commencement of operations in late CY2011.

4.2.3 Exploration activities – Gloucester Basin Assets

Gloucester holds 14,505 hectares of potentially prospective land in the Gloucester Basin. The following figure sets out Gloucester's exploration targets.

Figure 10: Gloucester exploration targets



Source: ASX announcements

The focus of Gloucester's current exploration activities is the tenement area surrounding the Stratford and Duralie operations. Gloucester holds coal Exploration Authorisation (EA) 311 and EA 315 and Exploration Licence (EL) 6904 which collectively cover approximately 20 coal prospects including the Grant & Chainey area.

Gloucester commenced extensive exploration works over the Grant & Chainey area and around the Clareval seam in 2005 to upgrade the existing resources in the Clareval seam from Inferred to Measured status. The reserves and resources upgrade announced in April 2010 increased JORC reserves by 28% and JORC resources by 10%. A further reserves and resources upgrade was announced in July 2010, increasing reserves by 31% and resources by 16%. Gloucester intends to continue exploration in the Gloucester Basin and management has a near term target of 130 Mt of total JORC compliant reserves.

4.2.4 Other assets

As part of the acquisition of an interest in the Middlemount Mine project and other assets in September 2010, Gloucester also acquired a 100% interest of a right to receive a royalty from Noble of 4% of the FOBT[23] sales from the

[23] excluding ocean freight and insurance (as for free on board) but including trimming of cargo after loading

Middlemount Mine project or such amount as Noble receives under the deed governing the Noble Middlemount royalty arrangements (Middlemount Mine Royalty Stream).

4.2.5 Access to railway and port infrastructure

The ability of Gloucester to deliver coal products to its end customers is dependent on its continued access to infrastructure.

The major infrastructure assets of importance to Gloucester are discussed below.

Gloucester Basin Assets network

Gloucester relies on railway transportation for the transfer of coal between the Duralie Operation and the Stratford CHPP, and also from the Stratford CHPP to the Port of Newcastle for transport to end customers.

ROM coal from the Duralie Operation is transported to the Stratford CHPP by shuttle train under a contract with QR National for a total capacity of 1.8 Mtpa. Gloucester is currently in negotiations to increase the capacity to 3.0 Mt.

Coal processed at the Stratford CHPP is then railed to the Port of Newcastle under a rail services contract. The volume of coal contracted for haulage in 2011 and 2012 is 2.6 Mtpa and 2.9 Mtpa of product coal, respectively, increasing to 3.4 Mtpa by 2014. Gloucester's current rail capacity with Pacific National is sufficient to meet forecast production.

The stockpiling, blending and ship loading facilities at the Port of Newcastle are operated by PWCS. PWCS handles coal for Gloucester under a long-term contract, which provides for loading capacity for 2011 of 2.2 Mtpa of product coal, increasing to 3.1 Mtpa by 2012 through expansion of the operating capacity of PWCS. Capacity is expected to be increased to 3.5 Mtpa upon completion of T4 in late 2015 or early 2016.

Middlemount Mine project

The Middlemount Mine project has contracted port and rail infrastructure access at the APCT which has a current capacity of 25 Mtpa, with a planned expansion project expected to double capacity by late 2011.

This expansion is expected to coincide with the planned development of QR National's Northern Missing Link rail project, which will connect the Goonyella Coal System to the Newlands rail network, increasing the capacity to transport coal from the Bowen Basin to APCT. Construction of the Goonyella-APCT expansion project is on target to achieve its proposed timeline and budget. The rail link is expected to be completed by late CY2011 and will facilitate the transportation of coal from the Middlemount Mine project to APCT.

The Middlemount Mine project has entered into a 15 year take-or-pay contract with QR National for below rail access for up to 3.0 Mtpa to APCT from April 2010. It has also entered into a long term take-or-pay contract with Pacific National for above rail access for up to 3.0 Mtpa from the Middlemount Mine to the APCT. This access to rail facilities commences in 2012 and coincides with the rail and port expansion referred to above.

In addition to APCT, as discussed above, Macarthur has agreed to extend a portion of its DBCT port allocation to the Middlemount Mine project for a fee.

4.3 Products and historical production – Gloucester Basin Assets

Gloucester produces coking and thermal coal for the export and domestic markets. The typical quality specifications of coal produced by Gloucester are summarised in the following table.

Table 14: Quality of coal[1]

	Unit	Thermal coal	Coking coal
Specific energy	Kcal[2]/kg[3]	5,750 – 6,300[4]	7,550[5]
Volatile matter	%	24 – 32	33 – 34
Ash	%	19 – 24	9.9
Total sulphur (maximum)	%	0.8 – 2.5	1.05
Inherent moisture	%	1.3	1.5
Crucible swelling number		-	8.5

Source: Gloucester website

Notes:

1. The coking specifications in the table above refer to Gloucester's marketed specifications (therefore they include a portion of coal purchased from third parties used for blending with Gloucester's higher sulphur coal to achieve more marketable levels of saleable coal). In addition, all coal qualities reported are on an air dried basis
2. Kcal – kilocalorie
3. Kg – kilogram
4. Gross as received
5. Gross air dried.

Gloucester's marketable products currently comprise approximately 70% thermal coal and 30% coking coal. However, the reserves and resources upgrade announced in April 2010 included significant increases to the proportion of coking coal resources associated with the Roseville mine.

The thermal coal produced by Gloucester typically has higher sulphur and ash content than benchmark thermal coal and therefore sells at a discount relative to the benchmark price. This product is primarily sold to international coal traders who blend the sulphur and ash content down to the benchmark standards.

The coking coal produced by Gloucester typically has high fluidity and the principal customers for this coal are Japanese steel mills.

Gloucester announced in April 2010 that it had entered into SHCC sales contracts for JFY2011 volumes at prices that were approximately 100% higher than those achieved in the previous year. Furthermore, the terms of the contracts were on a quarterly basis, consistent with recent market trends, although most of the thermal coal in 2010 was sold under multi-year contracts. In anticipation of strengthening thermal coal prices Gloucester negotiated the cancellation of fixed AUD forward sales contracts of 0.7 Mtpa for the 2012 to 2014 years during the December 2010 quarter and subsequently replaced these with index linked pricing contracts.

Historical production

The following table sets out the total historical ROM coal mined for FY2007 to FY2010 for each of the Gloucester Basin Assets.

Table 15: Total ROM coal mined for the Gloucester Basin Assets

	Unit	FY2007	FY2008	FY2009	FY2010
Bowens Road North	Mt	0.86	0.93	0.94	0.93
Roseville West	Mt	0.12	0.23	0.13	0.17
Co-disposal	Mt	0.32	0.01	0.03	0.31
Stratford (total)	**Mt**	**1.30**	**1.17**	**1.10**	**1.41**
Duralie (total)	Mt	**1.84**	**1.76**	**1.60**	**1.69**
Total ROM coal delivered to CHPP	**Mt**	**3.14**	**2.93**	**2.70**	**3.10**
Total ROM coal processed	**Mt**	**3.12**	**2.76**	**2.60**	**2.92**

Source: ASX announcements

The following table sets out the key performance indicators for FY2007 to FY2010.

Table 16: Total production by product type and total sales of the Gloucester Basin Assets

	Unit	FY2007	FY2008	FY2009	FY2010
Plant feed	Mt	3.14	2.76	2.60	2.92
Total final product produced	Mt	2.00	1.80	1.73	1.92
Plant yield[1]	*%*	*64.1%*	*65.2%*	*66.5%*	*65.7%*
Sales					
Coking	Mt	0.71	0.74	0.5	0.75[2]
Thermal	Mt	1.46	1.16	1.49	1.22
Coal purchased	Mt	(0.14)	(0.12)	(0.10)	(0.18)
Total	**Mt**	**2.03**	**1.78**	**1.89**	**1.79**
Realised sales price	AUD/t	70.12	83.84	154.23	116.39

Source: ASX announcements; Deloitte analysis

Notes:

1. The washing yield is calculated as total production divided by the plant feed
2. Includes third party purchased coal.

We note the following in relation to the key performance indicators presented above:

- sales volumes were limited by the capacity constraints at the Port of Newcastle prior to 2009
- the realised sales price was typically below the export benchmark price due to quality discounts and forward sales.

4.4 Reserves and resources

Gloucester announced a reserves and resources upgrade in July 2010 for its Gloucester Basin Assets, which increased reserves by 31% and resources by 16% and Macarthur announced in March 2011 that the Middlemount Mine project had increased Proved and Probable Reserves by 68% as a result of further exploration drilling.

A summary of current JORC compliant reserves and resources estimates for Gloucester is set out in the table below.

Table 17: Coal reserves and resources of Gloucester

Region	Proved & Probable Reserves[1] (Mt)	Resources[2] Measured (Mt)	Indicated (Mt)	Inferred (Mt)	Total resources (Mt)
Gloucester Basin Assets					
Open cut					
Duralie	24.8	11.8	22.5	4.0	38.3
Stratford	35.0	2.7	47.2	9.0	58.9
Grant & Chainey	15.0	-	56.8	25.0	81.8
Total open cut	**74.8**	**14.5**	**126.5**	**38.0**	**179.0**
Underground					
Duralie	-	0.9	39.9	59.0	99.8
Total underground	**-**	**0.9**	**39.9**	**59.0**	**99.8**
Total – Gloucester Basin Assets	**74.8**	**15.4**	**166.4**	**97.0**	**278.8**
Middlemount Mine project					
Middlemount Mine project –100%	***96.0***	***89.3***	***31.5***	***1.8***	***122.6***
Middlemount Mine project ≈ 50%[3]	**48.0**	**44.7**	**15.8**	**0.9**	**61.3**
Total resources – Gloucester[4]	**122.8**	**60.1**	**182.2**	**97.9**	**340.1**

Source: ASX announcements

Notes:

1. Reserves and resources for the Gloucester Basin assets are as at 30 June 2010, based on Gloucester's ASX announcements on 26 July 2010 and 23 August 2010. Reserves and resources for the Middlemount Mine project are as at 17 March 2011, based on Macarthur's ASX announcement on that date
2. Resources are inclusive of Proved and Probable Reserves
3. Refers to Gloucester's approximate 50% share of the Middlemount Mine project's resources
4. The figures in the table above are subject to rounding.

Both the Duralie and Stratford operations produce coking coal and thermal coal, whilst the Middlemount Mine project will produce semi hard coking coal and PCI.

4.5 Capital structure and shareholders

As at 15 April 2011, Gloucester's capital structure consisted of the following:

- 140.4 million ordinary shares on issue
- 2.5 million unlisted options.

The following table lists the top ten shareholders of Gloucester as at 4 May 2011.

Table 18: Top ten fully paid ordinary shareholders of Gloucester as at 4 May 2011

Shareholder	Volume held	% outstanding
Noble	91,764,626	65.3%
National Nominees Limited	15,358,174	10.9%
HSBC Custody Nominees (Australia) Limited	8,083,812	5.8%
JP Morgan Nominees Australia	6,183,484	4.4%
JP Morgan Nominees Australia (Cash Income A/C)	2,801,615	2.0%
CS Fourth Nominees Pty Limited	2,555,685	1.8%
Citicorp Nominees Pty Limited	1,884,217	1.4%
AMP Life Limited	1,457,472	1.0%
Cogent Nominees Pty Limited	1,394,118	1.0%
Fleet Nominees Pty Limited	1,099,819	0.8%
Subtotal	**132,583,022**	**94.4%**
Other	7,864,040	5.6%
Total shares outstanding	**140,447,062**	**100.0%**

Source: Gloucester

Gloucester incentivises its employees through the Long Term Incentive Plan (LTIP). There are approximately 2.5 million options currently issued under the LTIP as at 15 April 2011. These are summarised in the following table.

Table 19: Gloucester share options on issue

Issue date	Number of options	Vesting date	Exercise price (AUD)	Expiry date
7-Jan-11	365,233	1-Sep-13	11.09	1-Jan-18
7-Jan-11	182,617	1-Sep-14	11.09	1-Jan-18
7-Jan-11	182,617	1-Sep-15	11.09	1-Jan-18
13-Apr-11	1,000,000	23-Feb-14	12.03	23-Feb-18
13-Apr-11	1,000,000	23-Feb-16	12.03	23-Feb-18
Less: cancelled options[1]	(184,339)			
Total	**2,546,168**			

Source: Gloucester

Note:

1. In connection with the termination of employment of an employee on 15 April 2011, 184,339 options (each with an exercise price of AUD 11.09) issued to that employee under the LTIP were cancelled.

As at 6 May 2011, all of the options issued under the LTIP were out of the money.

4.6 Share price performance

A summary of the share price performance of Gloucester is provided in the table below.

Table 20: Gloucester quarterly share price information

Quarter end date	Low (AUD)	High (AUD)	Last Trade (AUD)	Volume traded (million)
31-Mar-08	4.71	9.79	9.72	31.3
30-Jun-08	8.45	13.74	12.90	32.8
30-Sep-08	8.67	12.69	9.25	28.3
31-Dec-08	2.51	9.78	3.88	40.2
31-Mar-09	3.11	5.15	5.06	37.2
30-Jun-09	4.82	7.02	5.20	64.4
30-Sep-09	4.52	6.62	6.31	2.6
31-Dec-09	5.70	9.18	9.10	4.1
31-Mar-10	8.00	10.35	9.00	9.1
30-Jun-10	8.93	12.48	12.42	12.3
30-Sep-10	11.54	12.53	12.50	2.8
31-Dec-10	9.42	12.71	12.35	11.2
6-May-11[1]	9.76	13.71	9.90	22.7

Source: Capital IQ

Note:

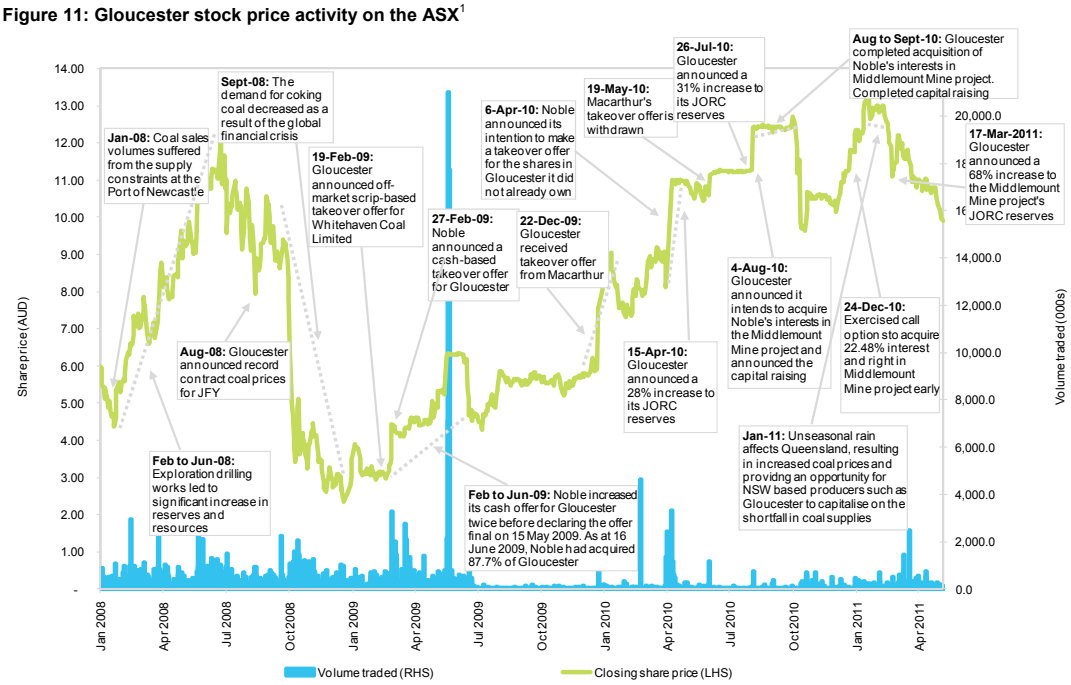
1. Referring to the trading period from 1 December 2011 to 6 May 2011.

The volume of Gloucester shares traded reduced significantly after the initial takeover offer by Noble in February 2009, following which Noble increased its interest in Gloucester to a high of 91.5% between May 2009 and June 2010. During the quarter ended 30 June 2010, the average volume of shares traded in Gloucester represented:

- 1.8% of the free float per day, or 107% for the entire period
- 0.2% of the total number of issued shares per day or 13% for the entire period.

The share price movements and trading volumes are presented graphically in the figure below.

Figure 11: Gloucester stock price activity on the ASX[1]



Source: Reuters; Gloucester; ASX announcements

Notes:

1. RHS – right hand side
2. LHS – left hand side.

4.7 Financial performance

The audited income statements for Gloucester for FY2008, FY2009 and FY2010 and the reviewed income statement for the half year (HY) ended 31 December 2010 are summarised in the table below.

Table 21: Financial performance of Gloucester

	Audited FY2008 (AUD'000)	Audited FY2009 (AUD'000)	Audited FY2010 (AUD'000)	Reviewed HY2011 (AUD'000)
Revenue	159,552	306,771	229,294	137,523
Cost of sales (excluding depreciation)	(109,721)	(166,053)	(161,373)	(95,587)
Gross profit (excluding depreciation)	**49,831**	**140,718**	**67,921**	**41,936**
Gross margin (%)	*31.2%*	*45.9%*	*29.6%*	*30.5%*
Other operating income/(expenses)	(1,455)	2,253	(839)	3,310
Administration expenses	(6,490)	(23,098)	(14,551)	(9,226)
EBITDA[1]	**41,886**	**119,873**	**52,531**	**36,020**
EBITDA margin (%)	*26.3%*	*39.1%*	*22.9%*	*26.2%*
Depreciation and amortisation	(6,376)	(6,004)	(11,306)	(7,854)
EBIT[2]	**35,510**	**113,869**	**41,225**	**28,166**
EBIT margin (%)	*22.3%*	*37.1%*	*18.0%*	*20.5%*
Net interest income/(expense)	(1,678)	554	315	3,147
Profit before tax	**33,832**	**114,423**	**41,540**	**31,313**
Income tax expense	(10,385)	(32,683)	(8,810)	(8,153)
Net income	**23,447**	**81,740**	**32,730**	**23,160**

Source: Gloucester

Notes:

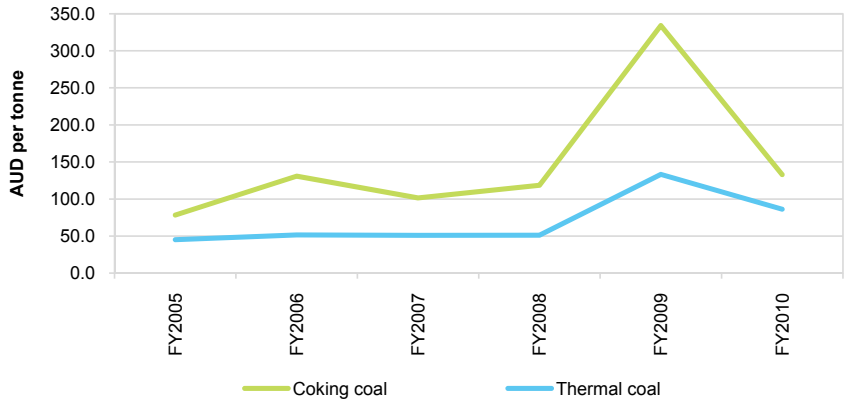
1. EBITDA – earnings before interest, tax, depreciation and amortisation
2. EBIT – earnings before interest and tax.

We note the following in relation to the financial results of Gloucester presented above:

- between 90% to 100% of revenue is generated from the sale of coal to Asia annually, with any remainder relating to domestic sales and non-Asian exports. A decline in the sales volume of coking coal in FY2009 was offset by increased sales volumes of thermal coal to maintain Gloucester's shipment obligations with the Port of Newcastle. This allowed Gloucester to reduce thermal coal stockpiles which accumulated through to the end of FY2008
- revenue increased by 92% between FY2008 and FY2009 as a result of record sales prices for both coking and thermal coal. Revenue subsequently decreased in FY2010 by 25% due to a decrease in coking coal and thermal coal prices. The average realised price in FY2010 was USD 146 per tonne for coking coal and USD 98 per tonne for thermal coal.

The average coal price achieved by product in AUD over the prior five financial years is depicted in the chart below.

Figure 12: Realised price for FY2005 to FY2010 by product type (AUD per tonne)



Source: Gloucester; Deloitte analysis

Notes:

1. FY2005 to FY2009 prices sourced from Gloucester
2. FY2010 prices based on average price in USD quoted in Gloucester's FY2010 annual report converted into AUD based on the average FY2009 exchange rate.

We note that Gloucester has agreed its coking coal price for the March 2011 quarter at a level of approximately USD 200 per tonne reflecting the effect of the recent flooding in Queensland on coking coal spot prices

- cost of sales remained relatively steady between FY2009 and FY2010. Operating expenses on a per tonne basis were higher in FY2009 than FY2008 primarily due to increased mining costs and strip ratio
- other operating income comprises mainly gains or losses on hedging and foreign currency forward sales. Gloucester recognised approximately AUD 1.2 million of foreign exchange losses during FY2010
- approximately AUD 0.7 million of Gloucester's share of losses from the Middlemount Mine project is included in other operating income and expenses in FY2011.

4.8 Financial position

The audited statements of financial position of Gloucester as at 30 June 2008, 30 June 2009 and 30 June 2010 and the reviewed statement of financial position as at 31 December 2010 are summarised in the table below.

Table 22: Financial position of Gloucester

	Audited 30-Jun-08 (AUD'000)	Audited 30-Jun-09 (AUD'000)	Audited 30-Jun-10 (AUD'000)	Reviewed 31-Dec-10 (AUD'000)
Cash	5,602	65,774	27,811	9,392
Trade and other receivables	24,461	21,497	16,588	22,383
Derivative financial assets	4,334	16,591	-	23,267
Inventory	9,892	5,179	19,179	18,023
Waste in advance	-	-	29,459	38,540
Income tax refund	-	-	-	6,996
Total current assets	**44,289**	**109,041**	**93,037**	**118,601**
Property, plant and equipment	73,317	98,290	146,126	742,440
Intangibles (exploration and evaluation)	5,000	8,700	25,619	33,021
Financial asset (royalty receivable)	-	-	-	168,000
Waste in advance	28,743	28,265	-	-
Investments	176	60	83	931
Deferred tax asset	-	-	-	8,059
Total non-current assets	**107,236**	**135,315**	**171,828**	**952,451**
Total assets	**151,525**	**244,356**	**264,865**	**1,071,052**
Trade and other payables	13,359	25,273	20,372	25,681
Derivative financial liabilities	-	-	9,670	-
Interest bearing liabilities	-	-	4,538	3,512
Income tax liability	3,960	28,716	2,886	-
Provisions	-	200	200	2,620
Employee benefits	467	564	770	826
Deferred consideration	-	-	-	45,000
Total current liabilities	**17,786**	**54,753**	**38,436**	**77,639**
Interest bearing liabilities	9,670	-	30,190	65,029
Deferred tax liabilities	15,813	15,898	7,175	156,450
Provisions	6,517	7,063	7,712	9,506
Employee benefits	81	95	156	163
Total non-current liabilities	**32,081**	**23,056**	**45,233**	**231,148**
Total liabilities	**49,867**	**77,809**	**83,669**	**308,787**
Net assets	**101,658**	**166,547**	**181,196**	**762,265**

Source: Gloucester

We note the following in relation to the balance sheets of Gloucester presented above:

- net assets increased during HY2011 as a result of Gloucester's acquisition of the Middlemount Mine project interests from Noble and Macarthur. Gloucester accounted for its investment in the Middlemount Mine project using the proportionate consolidation method of accounting in HY2011 after gaining joint control on 24 December 2010
- cash balances increased to approximately AUD 66 million as at 30 June 2009 due to record sales driven by both volume and price increases. The cash balance subsequently decreased by 30 June 2010, due primarily to capital expenditure on CHPP upgrades, land acquisitions, payment of taxation liabilities and exploration

- the interest bearing liabilities relate to a mortgage facility in respect of the acquisition of 11 Caterpillar dump trucks in FY2010 and Gloucester's share of the Middlemount Mine project's loans as at 31 December 2010
- derivatives relate to foreign currency forward contracts. Gloucester's hedging policy was revised in September 2009 to hedge 80% of forecast foreign currency sales for the next 12 months, plus 80% of contracted sales beyond 12 months which are denominated in a foreign currency
- inventories as at 30 June 2009 comprise AUD 4.3 million of coal stocks and approximately AUD 0.9 million of consumables. In response to low thermal coal prices in the second half of FY2009, Gloucester stockpiled thermal coal and focused on coking coal sales, which attracted higher spot prices. As a result, inventories increased significantly during FY2010 to AUD 19.2 million as at 30 June 2010
- waste in advance relates to expenditure incurred by Gloucester for the removal of waste from coal deposits. These costs are capitalised and expensed as the coal is extracted. These costs have been reclassified from non-current to current in FY2010 as mining of these coal deposits is expected to commence within the next 12 months
- property, plant and equipment as at 31 December 2010 mainly consists of plant and equipment and mining property and development assets. Mining property and development assets includes capitalised exploration and evaluation costs and subsequent development costs. Property, plant and equipment increased during FY2010 mainly due to the acquisition of 11 dump trucks and infrastructure, whilst the increase during HY2011 reflects Gloucester's share of the property, plant and equipment held by the Middlemount Mine project
- financial assets of AUD 168 million as at 31 December 2010 relates to the Middlemount Mine project royalty acquired by Gloucester from Noble as part of the acquisition of Noble's interests in the Middlemount Mine project on 30 September 2010. The royalty, which provides Gloucester the right to receive a 4% royalty of FOB trimmed sales from the Middlemount Mine project, has a finite life (being the life of the Middlemount Mine) and is marked to market with gains and losses recorded in the income statement
- deferred consideration of AUD 45 million relates to the acquisition of the additional 22.48% interest in the Middlemount Mine project from Macarthur on 24 December 2010 and is due on 30 June 2011
- Gloucester entered into a USD 80 million debt facility with Noble during HY2011, which matures on 1 July 2012. Gloucester drew down USD 35 million of the facility on 25 January 2011.

5 Profile of Donaldson

Donaldson was established by Ellemby in 1996 as a private coal mining company based in NSW with mining operations in the Hunter Valley just south of Maitland, 25 km from Newcastle and Port Waratah.

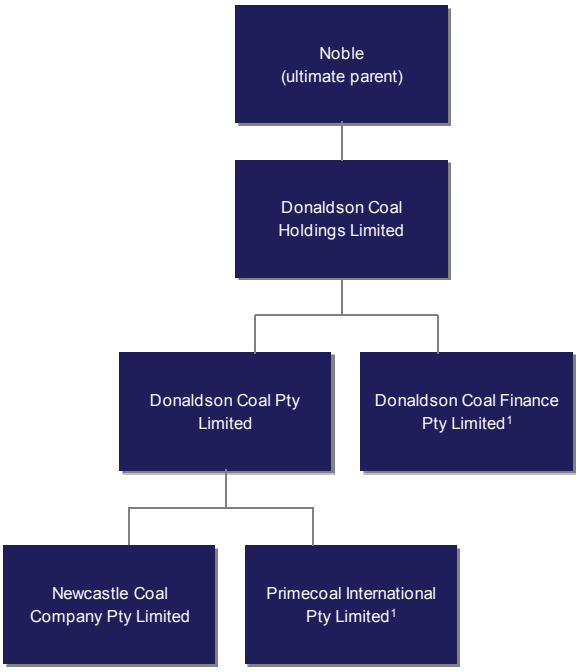
The company's focus is on mining thermal and coking coal for the export market. Export marketing is managed by Noble, one of the world's largest commodity trading companies. Currently, Donaldson employs over 350 people and has the following principal assets:

- Donaldson open cut coal mine (Donaldson Mine)
- Tasman underground coal mine (Tasman Mine) and a proposed extension (Tasman Extension Project)
- Abel underground coal mine (Abel Mine) and a proposed extension (Abel Extension Project).

Noble made its initial investment in Donaldson in 1998 and became a majority shareholder in 2003 with a 68.5% interest. At this time, Ellemby was the second largest shareholder with a 23.3% interest. In December 2010, Noble acquired the remaining interest in Donaldson that it did not already own.

The current group structure of Donaldson is set out in the figure below:

Figure 13: Donaldson group structure



Source: Donaldson

Note:

1. Donaldson Coal Finance Pty Limited and Primecoal International Pty Limited are dormant entities.

5.1 Principal assets

The following table summarises the principal assets held by Donaldson.

Table 23: Summary of the principal assets held by Donaldson

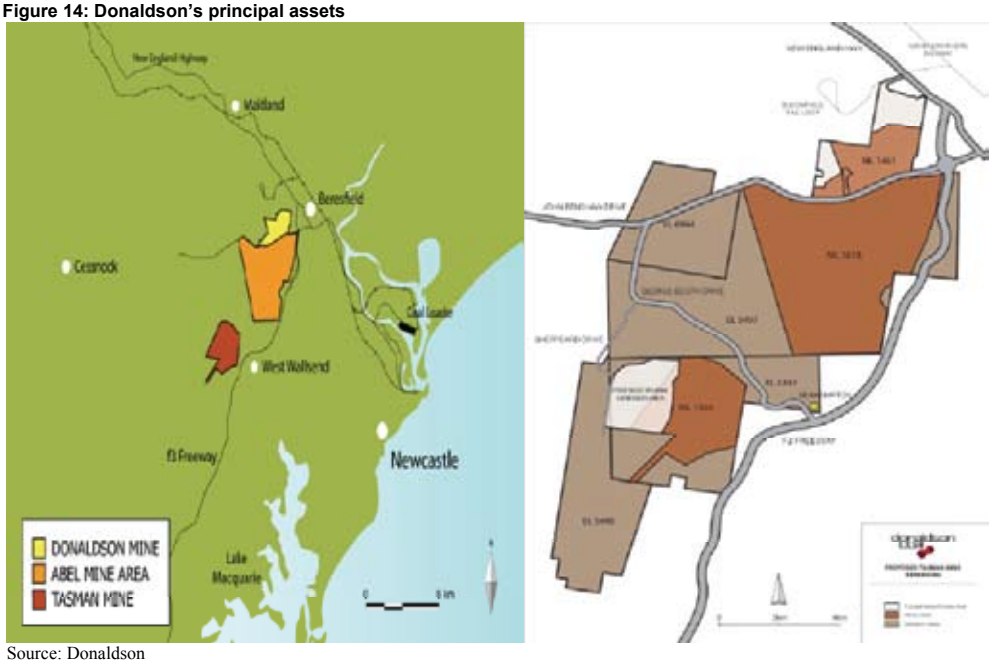
Asset	Ownership entity	Ownership interest	Operator	Type of mine	Type of coal
Operating assets					
Donaldson Mine	Donaldson	100%	Donaldson	O/C	Thermal
Tasman Mine	Donaldson	100%	Newcastle Coal Company Pty Limited	U/G	Thermal
Abel Mine	Donaldson	100%	Donaldson	U/G	Thermal, soft coking
Development projects					
Tasman Extension Project	Donaldson	100%	Newcastle Coal Company Pty Limited	n/a[1]	Thermal, soft coking
Abel Extension Project	Donaldson	100%	Newcastle Coal Company Pty Limited	n/a[1]	Thermal, soft coking

Source: Donaldson

Note:

1. n/a – not applicable (development assets).

Figure 14: Donaldson's principal assets



Source: Donaldson

5.1.1 Operating assets and development projects

Donaldson Mine

The Donaldson Mine, encompassing ML 1461, is located on the north side of John Renshaw Drive and west of Weakleys Drive in the lower Hunter Valley of NSW, approximately 10 km southeast of Maitland.

The Donaldson Mine commenced operations in February 2001 and consists of six seams of which four seams have been extracted. Operations at the central pit ceased in late 2010 and approximately 18 Mt of ROM coal was mined from 2001 to 2010. The Donaldson Mine is expected to recommence open cut operations at the small Western Pit in early 2011 and will extract approximately 2.0 Mt of ROM coal over 2011 and 2012. On completion of mining activities in 2012, the environmental rehabilitation program will be completed and the mine closed.

The Donaldson Mine produces mainly thermal coal using conventional truck and shovel haul back methods in an open cut operation. The ROM coal is transported 5 km by trucks on internal road ways to the coal washing and loading facilities of Bloomfield Coal Handling and Preparation Plant (Bloomfield CHPP) on a contractual basis, where it is washed to export specification. The processed coal is then transported by rail to the Port of Newcastle, which is 23 km away, for export to Asia.

Tasman Mine and Tasman Extension Project

The Tasman Mine, encompassing ML 1555, is located approximately 20 km west of Newcastle and 1.5 km west of the village of Seahampton. The mining lease area is approximately 952 hectares with George Booth Drive to the north and the F3 Freeway to the east.

Underground operations at the Tasman Mine using the bord and pillar method commenced in June 2006 with pillar extraction commencing in April 2007. Continuous miners are used for both first workings and secondary extraction. This two stage process accommodates irregular shaped coal deposits, allows adjustments to extraction to better manage subsidence and maximizes the efficiency of the operation. Coal is conveyed to a surface stockpile then transported by truck on public roads to the Bloomfield CHPP for processing and blending before being transported by rail to the Port of Newcastle for export.

The Tasman Mine currently operates within the Fassifern seam with a staged progression to the West Borehole seam approximately 140 m below the Fassifern seam, in 2014. Access to the West Borehole seam will be achieved either via a cross measure drift or a box-cut and both bord and pillar techniques and short longwall techniques will be used for coal production. Planned ROM production for 2011 is approximately 0.84 Mt which will be ramped up to a maximum of 0.95 Mtpa by 2015 in order to comply with state regulation which limits the transportation of coal on public roads to approximately 1.0 Mtpa. This level of ROM production is expected to be maintained for at least the next 20 years.

The proposed Tasman Extension Project relates to EL 5337, EL 5497 and EL 5498 (Tasman Extension Area) to the West and North of the Tasman underground mining lease. Mining within the proposed Tasman Extension Project is subject to the grant of necessary approvals and it is not expected to commence full scale production before late 2019. The proposed Tasman Extension Project will access reserves in the West Borehole seam, via longwall methods, which lie to the south of the existing mining lease. There is also the Sandgate seam to the northeast of the Tasman Extension Area, which is approximately 40 metres below the West Borehole seam. The Sandgate seam is amenable to both bord and pillar and longwall mining methods.

Abel Mine and Abel Extension Project

The Abel Mine, encompassing ML 1618, is located 10 km southeast of Maitland and is bounded by John Renshaw Drive to the north, the F3 Freeway to the east and by Buttai Creek to the west. The mining lease includes an area of approximately 2,755 hectares.

Construction of mine infrastructure and portals and development of the first 950 m of roadways was completed in June 2009. The Abel Mine will operate in the Upper and Lower Donaldson seams using the bord and pillar method. It currently operates four mining sections that contain a total of six continuous miners. By early 2011, the Abel mine will operate two development super-sections and two pillar extraction sections with an installed capacity of up to 1.8 Mtpa of ROM production.

A 65 metre wide mini-wall or 125 metre wide short longwall is scheduled to be commissioned during the first quarter of 2013 to increase underground production to a level where all the contract coal washing capacity at the Bloomfield CHPP can be utilised. A 225 m wide full size longwall is projected to be introduced in the third quarter of 2013. The

Abel Mine is currently approved to produce 4.5 Mtpa ROM and this level of production is expected to be maintained for at least 20 years. Government approval will be required in order to commence longwall operations at the Abel Mine.

Coal extracted from the Abel Mine will initially be stockpiled on a small conical stockpile near the mine portal, but will eventually be moved to a much larger stockpiling system in the adjacent open cut void. Coal is currently transported by truck on a private sealed road to the Bloomfield CHPP and, whilst the existing approval requires a conveyor to be built between the Abel Mine and Bloomfield CHPP when ROM production exceeds 3.5 Mtpa, Donaldson considers this to be unnecessary and will seek to have the approval amended.

The Abel Extension Project relates to EL 5497 and EL 6964 which lie to the west of the current Abel Mine operations and will involve mining in the Upper and Lower Donaldson seams, the Astonfield seam and the Sandgate seam. The Astonfield seam is located approximately 35 m below the Lower Donaldson seam. It is proposed to utilise both the longwall method and the bord and pillar method to commence extracting coal in 2013. Coal produced from the Abel Extension Project will be transported by underground conveyor to the Abel Mine portal.

5.1.2 Access to infrastructure

The ability of Donaldson to deliver coal products to its end customer is dependent on its continued access to infrastructure. The major infrastructure assets of importance to Donaldson are discussed below.

Bloomfield CHPP

Donaldson and Bloomfield are parties to a coal handling services agreement (CHSA) dated 24 June 2008 under which all ROM production from the Donaldson Mine, Tasman Mine and Abel Mine (including the planned Tasman Extension Project and Abel Extension Project) are transported to the adjoining Bloomfield CHPP for storage, processing and rail loading.

Under the CHSA, Bloomfield is to provide coal handling services until 31 December 2018 and provide access to its land until 31 March 2029. This is subject to an option, exercisable by Donaldson at any time prior to 1 July 2018 to extend the period over which Bloomfield continues to provide the services for up to ten years after 31 December 2018.

The Bloomfield CHPP can either be operated as a single or two-stage processing plant with capacity for up to 4.0 Mtpa. The services provided include storage of ROM coal, washing of coal, storage of product coal, rail loading and tailings disposal.

Under the CHSA, Bloomfield is obliged to upgrade the CHPP when requested by Donaldson, at the latter's cost. In addition, Bloomfield has also granted Donaldson the right to carry out any proposed construction activities relating to coal handling infrastructure on land owned or leased by Bloomfield.

In order to accommodate the proposed ramp up of ROM production at the Abel Mine by 2014, Donaldson has proposed that additional ROM coal handling facilities, coal processing capacity and product stockpile facilities be constructed at the Bloomfield CHPP, which will increase the existing capacity from 4.0 Mtpa to 7.5 Mtpa. These new CHPP facilities are expected to be commissioned progressively from 2012 to 2014.

Rail transportation

The Bloomfield CHPP is adjacent to a rail loop and coal can be directly loaded onto rail cars from the Bloomfield CHPP. All Donaldson production is railed 25 km to the Port of Newcastle by Pacific National under an agreement, with a total capacity of 4.5 Mtpa which expires on 30 June 2014.

Port of Newcastle

Donaldson has had a ten year (rolling) ship or pay agreement with PWCS for a port allocation of 2.2 Mtpa at either the Kooragang or Carrington coal terminals since 1 January 2010. Under the agreement, any unused port allocation will be forfeited.

Donaldson also owns 11.6% of NCIG Holdings, the parent company of NCIG, and has entered into a ten year evergreen ship or pay agreement with NCIG that requires Donaldson to pay 11.6% of NCIG's operating costs, in return for receiving an entitlement to 11.6% of the total throughput capacity of the port. Currently, this represents a port allocation of approximately 6.3 Mtpa from 2014.

In addition, participation in NCIG is expected to result in other benefits to Donaldson including:

- access to additional ship loading capacity
- likelihood of significantly reduced demurrage

- access to long term dedicated stockpiles which is expected to reduce rail freight and demurrage expenses.

Infrastructure capacity

The following table sets out the contracted infrastructure volumes of Donaldson for the period of CY2011 to CY2035.

Table 24: Summary of the contracted infrastructure capacity for Donaldson for CY2011 to CY2035

	CY2011 (Mtpa)	CY2012 (Mtpa)	CY2013 (Mtpa)	CY2014 to CY2035 (Mtpa)
Rail – rail services contract	4.5	4.5	4.5	n/a[1]
Port – Newcastle (PWCS)	2.2	2.2	2.2	2.2
Port – Newcastle (NCIG)	3.4	4.3	5.6	6.3
Total	**5.6**	**6.5**	**7.8**	**8.5**

Source: Donaldson

Note:

1. Negotiations will be entered into to secure capacity for this period.

5.2 Products and historical production

Coal quality

Donaldson primarily produces thermal coal consistent with the Newcastle benchmark specifications (refer Table 25), but also produces a high ash product as a by-product of processing operations. Donaldson also has the ability to produce a soft coking coal from the Abel Mine (Upper Donaldson and Astonfield seams) and Tasman Mine (West Borehole seam) if warranted by market conditions. All seams are capable of producing a thermal product.

The specifications of coals typically produced by Donaldson are set out in the table below.

Table 25: Quality of coal

Specification	Soft coking coal	Newcastle specification thermal	High ash thermal
Calorific value (kcal/kg)	8,200[1]	6,750[2]	5,510[2]
Inherent moisture (% ad)	2.4	2.7	3.3
Ash content (% ad)	9.5	14.5	28.5
Volatile matter (% ad)	33.3	30.3	33.0
Fixed carbon (% ad, by difference)	54.8	52.5	54.8
Total sulphur (% ad)	0.9	0.76	0.46
Crucible Swelling Number	5.5 - 6	n/a	n/a
Fluidity (ddpm)	500	n/a	n/a

Source: Donaldson, BDA

Notes:

1. daf – dry ash free
2. ad – air dried
3. ddpm – dial divisions per minute.

Donaldson's marketable products currently comprise approximately 90% thermal coal and 10% coking coal.

Thermal coal at the Newcastle specification is primarily sold via long term contracts to Taiwan Power Corporation and Chubu Electric Power Company Incorporated, typically at either the benchmark price or slightly higher. High ash thermal coal is generally sold in the Korean or Chinese market at a discount to the thermal coal benchmark price.

Coking coal is mainly sold to a range of Asian steel mills including Kobe Steel Limited, JFE Holdings, Nippon Steel Corporation and POSCO. Donaldson produces soft coking coal which is sold at a premium to the SSCC benchmark price as it is a superior coking coal product.

Sales and marketing

In the last three years, coal from Donaldson's operations has been exported to Japan, China, Taiwan, South Korea and Europe. Donaldson has outsourced its export marketing function to Noble Energy Incorporated (Noble Energy), a member of Noble.

Donaldson and Noble Energy have entered into representation and sales agreements, under which Noble Energy is appointed on an exclusive worldwide basis (excluding domestic sales in Australia) to be Donaldson's sales representative to export customers.

Services provided by Noble Energy to Donaldson include the following:

- sourcing selling opportunities for spot and long term contract markets
- marketing the Donaldson profile in relation to all the coal that it produces
- providing administration services for any arranged sales
- providing Donaldson with over-the-counter quotations
- providing Donaldson with new market enquiries where Donaldson coal products may be supplied, either on a straight basis or in a blend
- providing management support in respect to the arranging of material handling, transportation, quality management, ship loading and documentation aspects of all shipments.

Under the current marketing arrangements, Noble Energy buys as either customer or sells as agent, all Donaldson produced coal (all of which is exported).

Historical production

The following table sets out the total historical ROM coal mined for CY2008 to CY2010 for each of Donaldson's operating mines:

Table 26: Total ROM coal mined for Donaldson (Mt)[1]

	Unit	CY2008	CY2009	CY2010
Donaldson Mine	Mt	1.82	1.42	1.19
Tasman Mine	Mt	0.53	0.60	0.63
Abel Mine	Mt	0.09	0.52	1.08
Total ROM coal delivered to Bloomfield CHPP	**Mt**	**2.44**	**2.54**	**2.90**
Total ROM coal processed	**Mt**	**2.46**	**2.51**	**2.93**

Source: Donaldson

Note:

1. The figures in the table above are subject to rounding.

The following table sets out the key performance indicators for CY2008 to CY2010:

Table 27: Total production by product type and total sales of Donaldson[1]

	Unit	CY2008	CY2009	CY2010
Plant feed	Mt	2.46	2.51	2.93
Total final product produced	Mt	1.61	1.55	2.00
Plant yield	%	*65.5%*	*61.6%*	*68.1%*
Sales				
Thermal	Mt	1.44	1.39	1.84
Coking	Mt	0.17	0.16	0.19
Adjustments	Mt	-	-	(0.03)
Total sales	**Mt**	**1.61**	**1.55**	**2.00**
Realised sales price				
Low/mid ash	USD/t	80.91	70.72	88.37
High ash	USD/t	84.03	51.12	80.55
Coking	USD/t	249.96	216.07	155.19

Source: Donaldson

Note:

1. The figures in the table above are subject to rounding.

5.3 Reserves and resources

A summary of JORC compliant reserves and resources estimates for Donaldson as at 1 July 2009 is set out in the table below.

Table 28: Coal reserves and resources of Donaldson

Region	Proved & Probable Reserves (Mt)	Measured (Mt)	Resources Indicated (Mt)	Inferred (Mt)	Total resources[1] (Mt)
Donaldson Mine[2]	2.5	-	-	-	-
Tasman Mine	25.7	48.9	20.7	12.0	81.6
Tasman Extension Project	9.3	79.8	56.3	37.6	173.7
Abel Mine	62.2	288.1	63.3	3.3	354.7
Abel Extension Project	52.8	128.7	77.2	69.4	275.3
Total	**152.5**	**545.5**	**217.5**	**122.3**	**885.3**

Source: Donaldson

Notes:

1. Resources are inclusive of Proved and Probable Reserves
2. As two different competent persons prepared Donaldson's Proved and Probable Reserves and resource reports, respectively, 2.5 Mt of Proved and Probable Reserves are not included in Donaldson's total resources.

5.4 Financial performance

The audited income statement of Donaldson for CY2008, CY2009 and CY2010 are summarised in the table below.

Table 29: Financial performance of Donaldson

	Audited CY2008 (AUD'000)	Audited CY2009 (AUD'000)	Audited CY2010 (AUD'000)
Revenue	153,740	209,470	221,001
Cost of sales	(98,654)	(139,242)	(167,890)
Gross profit	**55,086**	**70,228**	**53,111**
Gross margin (%)	*35.8%*	*33.53%*	*24.03%*
Other operating income/(expenses)	(49,014)	29,958	2,941
Administration expenses	(5,053)	(19,104)	(5,893)
EBITDA	**1,019**	**81,082**	**50,159**
EBITDA margin (%)	*0.7%*	*38.71%*	*22.60%*
Depreciation and amortisation	(7,406)	(9,415)	(12,855)
EBIT	**(6,387)**	**71,667**	**37,304**
EBIT margin (%)	*(4.2%)*	*34.21%*	*16.88%*
Net interest income/(expense)	(11,575)	(8,577)	(7,221)
Profit before tax	**(17,962)**	**63,090**	**30,083**
Income tax refund/(expense)	4,855	19,003	(13,553)
Net income	**(13,107)**	**82,093**	**16,530**

Source: Donaldson

We note the following in relation to the financial results of Donaldson presented above:

- revenue increased by 36.2% in CY2009 primarily due to hedge gains of approximately AUD 84.2 million
- the CY2008 financial performance was adversely affected by net unrealised foreign currency losses of AUD 28.0 million and costs relating to an abandoned initial public offering of AUD 4.7 million (classified as other operating expenses in the table above)
- administration expenses increased by AUD 14.1 million in CY2009 due to an increase in overhead costs as a result of the Abel Mine commencing operations. These overheads were previously classified as cost of sales in CY2008.

  Administration costs decreased by AUD 13.2 million in CY2010 primarily due to a reclassification of Tasman and Abel overheads to cost of sales and a decrease in Donaldson's head office costs due to a reduction in staff
- other operating income/expenses mainly consist of foreign currency gains/losses and selling expenses such as rail freight, port charges, demurrage and royalties.

5.5 Financial position

The audited balance sheets of Donaldson as at 31 December 2008, 31 December 2009 and 31 December 2010 are summarised in the table below.

Table 30: Financial position of Donaldson

	Audited 31-Dec-08 (AUD'000)	Audited 31-Dec-09 (AUD'000)	Audited 31-Dec-10 (AUD'000)
Cash	4,790	7,030	1,673
Trade and other receivables	6,143	15,885	15,983
Inventories	11,799	19,404	16,265
Derivative financial instruments	62,223	79,261	29,329
Investments	-	-	32,883
Other assets	3,210	3,495	1,103
Total current assets	**88,165**	**125,075**	**97,236**
Trade and other receivables	877	2,599	2,196
Derivative financial instruments	78,017	7,007	-
Property, plant and equipment	107,678	132,154	155,705
Mining property and development expenditure	45,594	47,354	46,824
Deferred mining costs	20,896	33,263	31,970
Intangibles	10,067	10,992	10,913
Deferred tax asset	-	11,293	8,557
Exploration and evaluation expenditure	14,250	7,643	8,075
Total non-current assets	**277,379**	**252,305**	**264,240**
Total assets	**365,544**	**377,380**	**361,476**
Trade and other payables	38,173	19,232	60,731
Interest bearing liabilities	83,322	180,088	168,274
Derivative financial instruments	5,776	11,873	42,218
Provisions	1,543	9,310	8,790
Total current liabilities	**128,814**	**220,503**	**280,013**
Trade and other payables	206	206	206
Interest bearing liabilities	133,821	-	-
Derivative financial instruments	373	31,239	11,364
Deferred tax liability	31,728	-	-
Provisions	4,121	5,477	5,651
Total non-current liabilities	**170,249**	**36,922**	**17,221**
Total liabilities	**299,063**	**257,425**	**297,234**
Net assets	**66,481**	**119,955**	**64,242**

Source: Donaldson

We note the following in relation to the balance sheets of Donaldson presented above:

- derivative financial instruments relate to forward currency contracts and coal price swaps. Donaldson does not have a formal hedging policy
- investments relate to Donaldson's 11.6% interest in NCIG Holdings which has been measured at cost

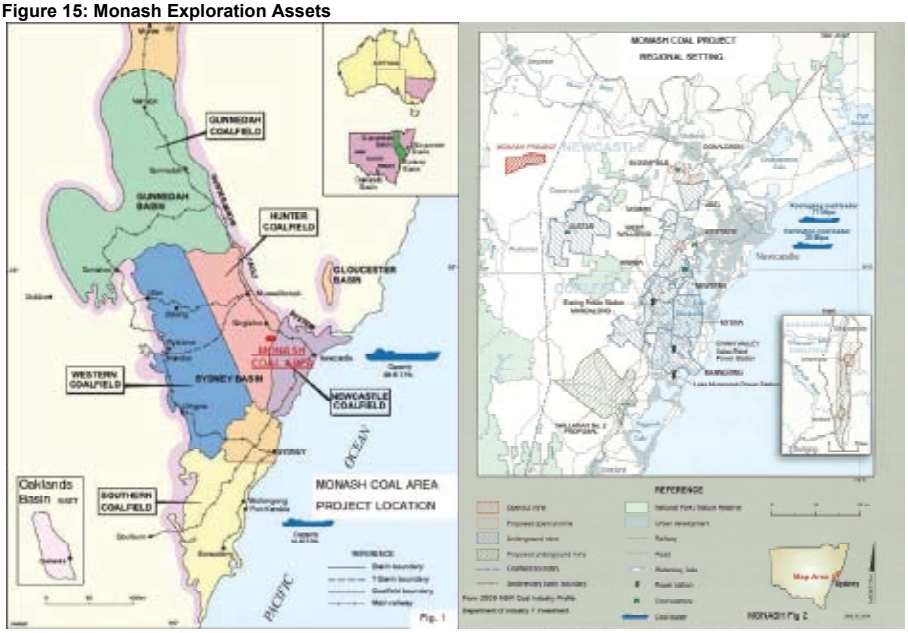
- deferred mining costs relate to costs associated with the construction of roads and infrastructure in preparation for production from the Abel and Tasman mines
- intangibles primarily relate to mining titles and computer software
- interest bearing liabilities mainly consist of AUD 129.0 million in loans from the subsidiaries of Noble which incur interest at 300 basis points (bps) over the London Interbank Offered Rate (LIBOR) and which are repayable by 31 December 2011 . In addition, there is also AUD 39.3 million of bank loans which incur interest at 200 bps over the bank bill swap rate (BBSW)
- provisions primarily relate to employee benefits and decommissioning and rehabilitation liabilities.

6 Profile of Monash Exploration Assets

The Monash Exploration Assets (100% owned by Ellemby) are located in the lower Hunter Coalfield of NSW and consist of EL 6123 and EL 7579, which are contiguous and cover an east-west elongate area covering 22.3 square km approximately 5.8 km southeast of Broke. The township of Broke is located immediately south of the Xstrata plc owned mines of Bulga and Beltana.

The Monash Exploration Assets contain rocks of Permian and Triassic age. The principal coal bearing units relate to the Wittingham Coal Measures and the overlapping Newcastle Coal Measures. The following figure shows the location of the Monash Exploration Assets:

Figure 15: Monash Exploration Assets



Source: Ellemby

6.1 Resources and coal potential

Ellemby commissioned an independent geological report by Geological and Management Services Pty Limited (GMS) in July 2010, which prepared an initial JORC resources estimate based on a review of data from historical drilling and Ellemby's own drilling program, as set out in the table below.

Table 31: Coal resources of the Monash Exploration Assets (Mt)

	Resources			
Seam	Indicated (Mt)	Inferred (Mt)	Total resources (Mt)	Potential Coal (Mt)
Fassifern	0.7	23.0	23.7	-
Borehole	2.2	56.7	58.9	5.6
Whybrow	2.8	46.3	49.1	22.9
Whynot	2.9	56.5	59.4	27.8
Blakefield	2.4	48.1	50.5	24.3
Woodlands Hill	2.1	43.1	45.2	21.8
Total	**13.1**	**273.7**	**286.8**	**102.4**

Source: Ellemby

Additional coal resources for most seams cannot be categorised within the JORC code due to a lack of drill hole control in the eastern portion of the Monash Exploration Assets. Consequently, in order to provide an estimate of what may be contained in this area, a third informal category of "Potential Coal" has been recorded by GMS.

6.1.1 Coal quality

Ellemby commissioned an independent coal quality report from Coal Marketing International Pty Limited (CMI) in July 2010. The specifications of coals expected to be produced by the Monash Exploration Assets are set out in the table below.

Table 32: Quality of coal

Seam	Inherent moisture (%)	Ash content (%)	Total sulphur (%)	FSI	Calorific value (kcal/kg)[1]	Calorific value (kcal/kg)[2]	Classification
Fassifern	2.9%	15.8%	0.4%	1.5	6,512	8,010	Thermal
Borehole	2.4%	15.1%	n/a	6.0	6,698	8,119	SSCC if ash is reduced to 9.5%, otherwise thermal
Whybrow	2.8%	14.3%	0.5%	0.5	6,772	8,169	Thermal
Whynot	1.9%	7.7%	n/a	7.5	7,403	8,188	SSCC
Blakefield	1.5%	9.1%	n/a	6.0	n/a	n/a	SSCC
Woodlands Hill	1.6%	10.5%	n/a	8.0	7,230	8,226	SSCC

Source: Ellemby

Notes:

1. Ad basis
2. Daf basis.

6.2 Environmental assessment

Ellemby commissioned an environmental due diligence assessment by GSS Environmental in August 2010, which summarised the key environmental issues associated with the Monash Exploration Assets. GSS did not include an assessment of NSW or Federal Government environmental or planning legislation that may be applicable and further work will be required in order to define the project area and potential constraints within the project area.

6.3 Conceptual mine development plan

Ellemby commissioned an independent conceptual mine development plan for the Monash Exploration Assets in February 2011. This conceptual mine development plan was prepared by IMC Mining Group Pty Limited in conjunction with other consultants. The key results are as follows:

- all six seams are expected to be mined via the longwall method and there is a potential for approximately 200 Mt of ROM coal and 145 Mt of product coal. The product mix is expected to comprise both thermal and SSCC in roughly equal proportions
- at full mine production the average operating cost per ROM and product tonne is expected to be AUD 29 and AUD 40, respectively
- the location of the potential mine lends itself readily to the securing of rail and utility access and there is ample, sufficient flat land available for the construction of CHPP facilities. However, an additional lease area will be required to incorporate all facilities and the rail loop
- an indicative capital expenditure of AUD 1.4 billion has been projected for the initial eight year mine development period (to full production of 9 Mtpa). A further AUD 916 million will be required over the concurrent 24 years to maintain this production level and exhaust the potentially recoverable coal contained in the conceptual mine development plan.

7 Profile of the Proposed Merged Entity

Upon completion of the Proposed Transactions, Gloucester will remain an ASX-listed company comprising the current operating assets and development projects of Gloucester, Donaldson and the Monash Exploration Assets.

In this section we have set out a profile of the Proposed Merged Entity, including:

- principal assets
- reserves and resources
- pro-forma capital structure and shareholders
- potential market capitalisation.

7.1 Principal assets

The principal assets of the Proposed Merged Entity will include the following:

- operating assets and development projects comprising:
  - the Gloucester Basin Assets:
    - a 100% interest in the Stratford Operation (refer to Section 4.2.1)
    - a 100% interest in the Duralie Operation (refer to Section 4.2.1)
  - a near 50% interest in the Middlemount Mine project (refer Section 4.2.2)
  - the operating assets and development projects of Donaldson:
    - a 100% interest in the Donaldson Mine (refer to Section 5.1.1)
    - a 100% interest in the Tasman Mine and Tasman Extension Project (refer to Section 5.1.1)
    - a 100% interest in the Abel Mine and Abel Extension Project (refer to Section 5.1.1)
- a 100% interest in the Middlemount Mine Royalty Stream (refer to Section 12.2.3)
- various interests in evaluation and exploration properties including the evaluation and exploration assets of the Gloucester Basin Assets (refer to Section 4.2.3) and the Monash Exploration Assets (refer Section 6.1)
- access to road, rail and port infrastructure, pursuant to the contractual rights held by Gloucester (including through Gloucester's near 50% interest in the Middlemount Mine project) and Donaldson. Refer to Sections 4.2.5 and 5.1.2
- combined reserves and resources as set out in Section 7.2.

7.2 Reserves and resources

A summary of current reserves and resources estimates for the Proposed Merged Entity is set out in the table below.

Table 33: Coal reserves and resources of the Proposed Merged Entity[1]

Region	Proved & Probable Reserves (Mt)	Resources[2] Measured (Mt)	Indicated (Mt)	Inferred (Mt)	Total resources (Mt)
Gloucester	122.8	60.1	182.2	97.9	340.1
Donaldson	152.5	545.5	217.5	122.3	885.3
Monash Exploration Assets[1]	-	-	13.1	273.7	286.8
Total	**275.3**	**605.6**	**412.8**	**493.9**	**1,512.3**

Source: Gloucester, Donaldson and Ellemby

Notes:

1. The Monash Exploration Assets also have further potential resources of 102.4 Mt (refer to Section 6.1)
2. Resources are inclusive of Proved and Probable Reserves.

7.3 Capital structure and shareholders

Following completion of the Proposed Transactions, the Proposed Merged Entity will continue to be listed on the ASX.

The following table sets out the pro-forma capital structure of the Proposed Merged Entity and the ownership interest of Noble in the Proposed Merged Entity on a fully diluted basis, assuming the Proposed Transactions are completed.

Table 34: Pro-forma indicative capital structure of the Proposed Merged Entity[1]

	Number of shares (million)	Ownership of the entity (%)[2]
Number of Gloucester shares on issue[2]	**140.4**	
Held by Noble	91.8	*65.3*
Held by Non-associated Shareholders	48.7	*34.7*
Total Gloucester shares on issue on a fully diluted basis	**140.4**	***100.0***
Shares issued in Capital Raising[3]	25.5	
Total Gloucester shares on issue on a fully diluted basis after the Capital Raising	**166.0**	
Held by Noble	91.8	*55.3*
Held by Non-associated Shareholders	74.2	*44.7*
Total Gloucester shares on issue on a fully diluted basis after the Capital Raising	**166.0**	***100.0***
Number of shares to be issued in the Proposed Merged Entity pursuant to the Proposed Transactions		
Shares to be issued to Noble[3]	36.9	
Total Proposed Merged Entity shares on issue on a fully diluted basis after the Proposed Transactions[4]	**202.9**	
Held by Noble	128.7	*63.4*
Held by Non-associated Shareholders	74.2	*36.6*
Total shares in the Proposed Merged Entity on a fully diluted basis after the Proposed Transactions	**202.9**	***100.0***

Source: Gloucester; Deloitte analysis

Notes:

1. The figures in the table are subject to rounding
2. Excludes the 2,546,168 in outstanding unlisted options as they were out of the money as at 6 May 2011 (refer to Section 4.5)
3. Refer to Section 1.1
4. Refer to Section 1.1, excludes the Converting Shares.

7.4 Potential market capitalisation

The following table shows the potential market capitalisation of the Proposed Merged Entity using a range of share prices for the Proposed Merged Entity, assuming the Proposed Transactions are completed.

Table 35: Potential share market capitalisation of the Proposed Merged Entity[1]

	Proposed Merged Entity share price				
	9.00	9.50	10.00	10.50	11.00
Potential share market capitalisation (AUD million)	**1,826.1**	**1,927.6**	**2,029.0**	**2,130.5**	**2,231.9**

Source: Deloitte analysis

Note:

1. The figures in the table are subject to rounding.

8 Valuation methodology

8.1 Valuation methodologies

To estimate the fair market value of Donaldson, the Monash Exploration Assets and the Proposed Merged Entity, we have considered common market practice and the valuation methodologies recommended by ASIC Regulatory Guide 111, which deals with the content of independent expert's reports. These are discussed below.

8.1.1 Market based methods

Market based methods estimate a company's fair market value by considering the market price of transactions in its shares or the market value of comparable companies. Market based methods include:

- capitalisation of maintainable earnings
- analysis of a company's recent share trading history
- industry specific methods.

The capitalisation of maintainable earnings method estimates fair market value based on the company's future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the company's earnings are relatively stable.

The most recent share trading history provides evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of a company than other valuation methods because they may not account for company specific factors.

8.1.2 Discounted cash flow methods

Discounted cash flow methods estimate market value by discounting a company's future cash flows to a net present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. Discounted cash flow methods are commonly used to value early stage companies or projects with a finite life.

8.1.3 Asset based methods

Asset based methods estimate the market value of a company's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method
- liquidation of assets method
- net assets on a going concern basis.

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

These asset based methods ignore the possibility that the company's value could exceed the realisable value of its assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable, a significant proportion of a company's assets are liquid, or for asset holding companies.

8.2 Selection of valuation methodologies

The sections below outline the valuation methodologies that are, in our opinion, most appropriate for assessing the fair market value of Donaldson, the Monash Exploration Assets and a share in the Proposed Merged Entity.

Donaldson

We have estimated the fair market value of Donaldson by aggregating the estimated fair market value of its underlying assets and projects on a sum-of-the-parts basis and deducting net debt as follows:

- operating assets and development projects of Donaldson – we have selected the discounted cash flow method to value the operating assets and development projects due to the following factors:
    - management has long term cash flow projections for the operating assets and development projects
    - these assets have a finite life and thus it is not appropriate to use a capitalisation of maintainable earnings approach
    - significant capital expenditure will be required for the operating assets and development projects
- surplus assets (if any) based on the book value of any surplus assets or liabilities
- cash and debt position – current balance of cash and interest bearing liabilities.

To provide additional evidence of the fair market value of a share in Donaldson, we have considered the reserve and resource multiples implied by our valuation of Donaldson compared with the reserve and resource multiples observed for comparable listed companies and comparable transactions, respectively.

Monash Exploration Assets

We have engaged BDA to assess the fair market value of the Monash Exploration Assets. BDA has also assisted Deloitte in estimating the fair market value of the Monash Exploration Assets assuming further exploration activity results in the conversion of resources at the Monash Exploration Assets into Proved and Probable Reserves.

The evaluation and exploration assets associated with Monash Exploration Assets have been valued based on a number of valuation methodologies having regard to:

- the planned future expenditure in respect of exploration permits
- values implied by farm out agreements
- historical expenditure to date on the permits
- resource multiples observed for comparable transactions involving companies or projects at a broadly similar stage of development.

Proposed Merged Entity

We have estimated the value of a share in the Proposed Merged Entity using the sum-of-the-parts methodology.

We have applied a sum-of-the-parts methodology to value the Proposed Merged Entity as follows:

- operating assets and development projects of Gloucester (including its near 50% interest in the Middlemount Mine project) and Donaldson have been valued based on the discounted cash flow methodology
- the Middlemount Mine Royalty Stream using the discounted cash flow methodology
- evaluation and exploration assets have been valued based on a number of methodologies as set out above. We have engaged BDA to assess the value of the evaluation and exploration assets of the Proposed Merged Entity (refer Section 11 and 12.2.4 for further details)
- surplus assets (if any) based on the book value of any surplus assets or liabilities
- corporate overhead savings – based on the quantum of overhead savings expected as a result of the Proposed Transactions
- cash and debt position – current balance of cash and interest bearing liabilities
- consideration of applicable premiums and discounts.

To provide additional evidence of the fair market value of a share in the Proposed Merged Entity, we have also had regard to the reserve and resource multiples implied by our valuation of the Proposed Merged Entity compared with the reserve and resource multiples observed for comparable transactions and comparable listed companies. In addition, we have considered the price per share implied by the Capital Raising to provide further evidence as to the value of a share in the Proposed Merged Entity on a minority interest basis.

8.3 Appointment and role of the technical expert

BDA, an independent mining expert, was engaged to prepare reports providing a technical assessment of certain key assumptions underpinning the financial model for the operating assets and development projects of Donaldson and Gloucester (including its near 50% interest in the Middlemount Mine project).

The management of Donaldson prepared a financial model (the Donaldson Model) to estimate the future cash flows of the operating assets and development projects of Donaldson. The management of Gloucester prepared a financial model (the Gloucester Model) estimating the future cash flows of the operating assets and development projects of Gloucester, including its near 50% interest in the Middlemount Mine. Together, the Gloucester Model and the Donaldson Model are referred to as the Models.

In relation to the models and in respect of each of asset/project, BDA reviewed and/or provided input into the formulation of the following assumptions:

- levels of reserves and resources
- producing profiles (including production profiles for potential expansion cases)
- operating expenditure, including rehabilitation and abandonment costs
- capital expenditure
- other relevant assumptions.

BDA was also engaged to provide an assessment of the value of the Monash Exploration Assets.

BDA prepared its technical review having regard to the code for Technical Assessment and Valuation of Minerals and Petroleum Assets and Securities for Independent Expert Reports (the VALMIN code). The scope of BDA's work was controlled by Deloitte. A copy of each of BDA's reports is provided in Appendix 6.

9 Future cash flows

9.1 The Models

Donaldson and Gloucester management have prepared the Models which estimate the future cash flows to be generated by the operating assets and development projects of Donaldson and Gloucester. The Models include projections of real, after-tax cash flows in AUD for each asset/project over life of mine.

The Models were prepared based on:

- historical costs and production profiles of the assets/projects, as appropriate
- the latest reserves statements, which are certified in accordance with the JORC code
- the life of mine plans for the operating assets and development projects of Donaldson and Gloucester
- access to road, rail and port infrastructure, consistent with contractual rights held by the entities
- the ability to potentially optimise the thermal coal produced by Gloucester and Donaldson through blending with coal produced by other entities.

The analysis we have undertaken in respect of the Models includes:

- engaging a technical expert, BDA, to review and/or provide the technical assumptions underlying the Models
- holding discussions with the management of Donaldson and Gloucester concerning the preparation of the projections in the Models and their views regarding the assumptions on which the projections are based
- limited analytical procedures regarding the mathematical accuracy of the Models (our work did not constitute an audit or review of the projections in accordance with the AUASB standards).

Deloitte engaged BDA to prepare a report providing a technical review of certain assumptions (reserves, resources, production volumes, production mix, operating expenditure and capital expenditure) underpinning the future cash flows of each mine/project. BDA has visited the operating assets of Donaldson and Gloucester, held discussions with the management of Donaldson and Gloucester and reviewed data, reports and other information that is either publicly available or made available to them by Donaldson and Gloucester.

We have made adjustments to the cash flow projections in the Models where it was considered appropriate. These adjustments included, but were not limited to, pricing, foreign exchange rates, inflation and taxation assumptions.

We have valued the operating assets and development projects of Donaldson and Gloucester based on the technical assumptions reviewed and/or provided by BDA and our assessment of coal prices, foreign exchange rates, inflation and the discount rate applicable to the future cash flows associated with these assets.

Our work did not constitute an audit or review of the projections in accordance with the AUASB standards and accordingly we do not express any opinion as to the reliability of the projections or the reasonableness of the underlying assumptions. However, nothing has come to our attention as a result of our limited work that suggests that the assumptions on which the projections are based have not been prepared on a reasonable basis unless specified otherwise.

Since projections relate to the future, they may be affected by unforeseen events and they depend, in part, on the effectiveness of management's actions in implementing the plans on which the projections are based. Accordingly, actual results are likely to be different from those projected because events and circumstances frequently do not occur as expected, and those differences may be material.

The key assumptions underpinning our analysis are described in the following sections. All figures are quoted on a total mine basis.

9.2 Revenue assumptions

Revenue is a function of saleable production volumes and commodity prices. Where projected volumes are contracted, the Models project revenue as a function of the contracted volumes with their contracted prices.

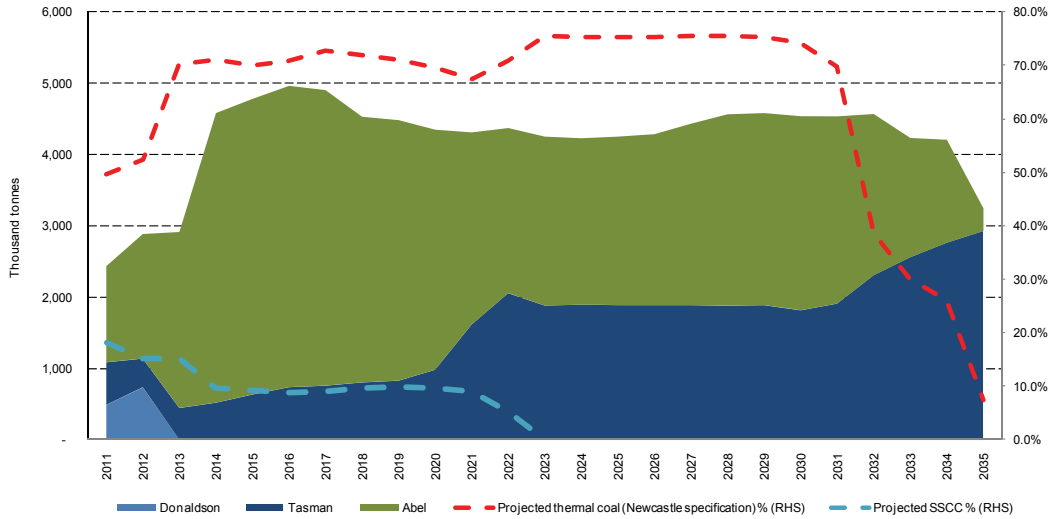
Saleable production volumes

Donaldson

The figure below outlines the projected saleable coal production volumes from the operating assets of Donaldson on a 100% basis until 31 December 2035. Open cut operations at Donaldson Mine are projected to cease by CY2013. The Tasman Mine and Abel Mine are projected to continue underground operations for the entire projection period.

As discussed in Section 5.2, Donaldson also has the ability to produce a soft coking coal from certain seams in the Abel Mine and the Tasman Mine, if warranted by market conditions. This is achieved through further washing and therefore no investment in additional infrastructure is required. The figure below shows the proportion of Newcastle specification thermal coal projected to be mined, with the remainder of production being high ash thermal coal and soft coking coal product. On average, thermal coal and SSCC are projected to be approximately 63% and 5% of total production, respectively, throughout the projection period.

Figure 16: Projected saleable coal production by mine



Source: Donaldson Model

Note:

1. Projections are on a calendar year basis commencing 1 January.

We note the following in relation to the projected saleable production volumes:

- projected volumes are based on mining all of the Proven and Probable Reserves and 12.8 Mt of Measured Resources for the Donaldson Mine, Tasman Mine and Abel Mine
- the Donaldson Model projects that from 2032 to 2035 average thermal coal production will decrease to approximately 26% of total production, mainly due to the high ash content of the coal produced from the Tasman Mine
- annual saleable production volumes take account of coal handling and preparation and infrastructure capacity constraints.

Donaldson's total production over the period covered by the projections is expected to be exported.

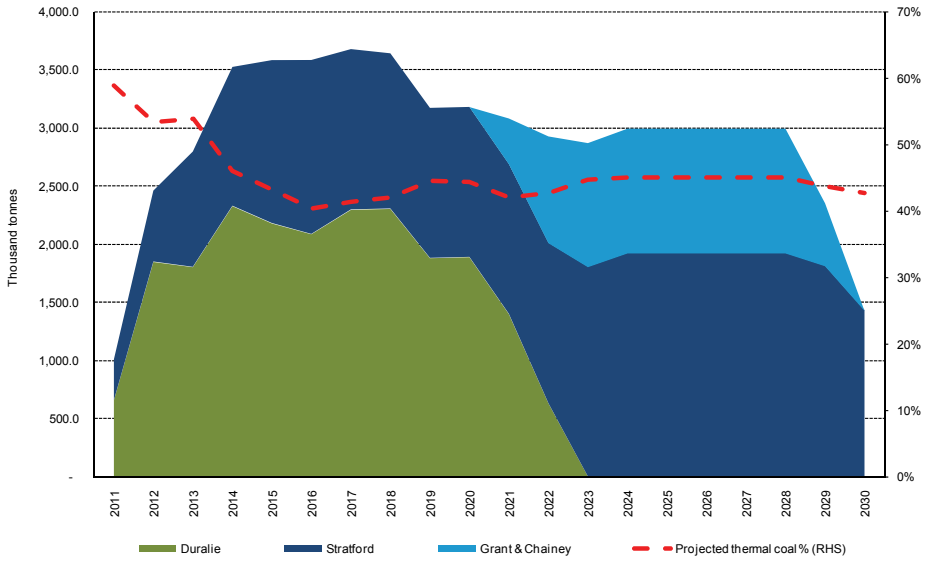
Donaldson has approximately 752 Mt of Measured and Indicated Resources associated with its operating assets and development projects which are not included in the Donaldson Model. With additional drilling, these Measured, Indicated and Inferred Resources could potentially be converted to reserves in the future and therefore could underpin the extension of the lives of the Tasman Mine and Abel Mine (refer to Section 10.2.2 for further discussion).

Gloucester – Gloucester Basin assets

The figure below outlines the projected saleable coal production volumes from the operating assets of Gloucester located in the Gloucester Basin on a 100% basis until 30 June 2030. Open cut operations at Duralie are projected to cease by FY2022 and mining at the Grant & Chainey area is projected to commence in FY2021 and continue until the end of FY2029. Open cut operations at Stratford are projected to continue for the entire projection period.

The figure below also shows the proportion of thermal coal projected to be mined, with the remainder of production being SHCC. The proportion of thermal coal produced is projected to remain relatively consistent throughout the projection period, at an average of approximately 45%.

Figure 17: Projected saleable coal production by mine[1]



Source: Gloucester Model

Note:

1. Projections are on a financial year basis commencing 1 July.

We note the following in relation to the projected saleable production volumes:

- volumes in the Gloucester Model are projected on the basis that the life of mine (LOM) for the operations of the Gloucester Basin Assets is expected to be extended as a result of the conversion of Measured and Indicated Resources to reserves. Projected volumes are based on:
  - mining all Duralie open cut Proved and Probable Reserves and 5 Mt of Indicated Resources
  - mining 35 Mt of Proved and Probable Reserves and 11 Mt of Indicated Resources for the Stratford operations
  - mining 15 Mt of Probable Reserves for the Grant & Chainey area
- annual saleable production volumes take account of coal handling and preparation and infrastructure capacity constraints.

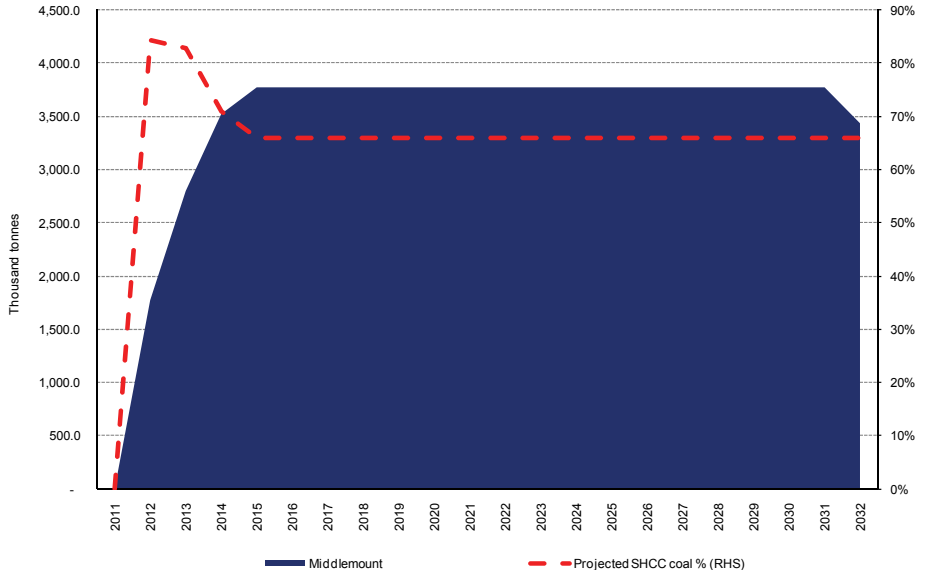
The majority of Gloucester's total production over the period covered by the projections is expected to be exported.

Gloucester has approximately 91 Mt of Measured and Indicated Resources associated the Gloucester Basin Assets which are not included in the Gloucester Model. With additional drilling, these Measured and Indicated Resources could potentially be converted to reserves in the future and therefore could underpin the extension of the lives of the existing mines and the Grant & Chainey area (refer to Section 12.2.2 for further discussion).

Gloucester – Middlemount Mine project (100% basis)

The figure below outlines the projected saleable coal production volumes from the Middlemount Mine project on a 100% basis. Open cut operations at the Middlemount Mine project are assumed to commence during FY2011 and are projected to continue until 30 June 2032. The figure below also shows the proportion of SHCC coal projected to be mined, with the remainder of production being PCI.

Figure 18: Projected saleable coal production - Middlemount Mine project[1,2]



Source: Gloucester Model

Notes:

1. Projections are on a financial year basis commencing 1 July
2. Initial production at the Middlemount Mine project is expected to be 100% PCI.

We note the following in relation to the projected saleable production volumes:

- projected volumes are based on mining all Proved and Probable Reserves and 7 Mt of Measured Resources for the Middlemount Mine project (on a 100% basis)
- the Gloucester Model projects that after the initial three years of production, the proportion of PCI produced remains relatively consistent throughout the projection period, at an annual average of 34%
- annual saleable production volumes take account of coal handling and preparation and infrastructure capacity constraints.

All of the Middlemount Mine project's total production over the projection period is expected to be exported.

Middlemount has recently undertaken further evaluation work in relation to its coal resources. Based on BDA's view and its experience in other comparable operations in the region, we understand that further extension of the life of the Middlemount Mine project may be possible (refer to Section 12.2.2 for further discussion).

Coal pricing assumptions

Coal produced by Donaldson and Gloucester is predominantly exported to overseas markets. Long term coal supply contract price negotiations with Japanese electricity utilities and steel mills set the benchmark level for other thermal coal and coking coal price settlements in Asia.

We have had regard to the following in selecting appropriate pricing assumptions for export thermal coal, PCI and SSCC:

- recent broker forecasts for Australian thermal coal, SSCC, PCI coal and HCC

- the margins above cash costs implied by the broker forecasts for Australian thermal coal, SSCC, PCI coal and HCC
- recent price settlements achieved by Donaldson and Gloucester and their competitors with particular regard to the terms and duration of these settlements
- historical export contract prices into the Asia Pacific market, as set out in Section 3.5.3
- historical average discount to benchmark prices realised by Donaldson and Gloucester in relation to their high ash thermal coal and thermal coal. Historically the contract prices achieved for high ash thermal coal produced by Donaldson have been at a discount to the Global Newcastle Index coal price due to adjustments for:
  - differences between the actual and specified calorific value
  - ash content
  - sulphur content
- average premium to benchmark prices realised by Donaldson in respect to its soft coking coal. Historically, the contract prices achieved for soft coking coal produced by Donaldson have been at a premium to the SSCC benchmark price as it is a superior coking coal product
- average discounts/premiums to benchmark prices expected to be realised by the Middlemount Mine project in respect to its SHCC and PCI coal
- other publicly available price estimates and commentary including, but not limited to, industry research and announcements released by comparable companies
- the pricing relationship between SHCC, SSCC and HCC. In recent years, the contract prices achieved for SHCC produced by Gloucester have been approximately midway between benchmark SSCC and HCC prices
- infrastructure capacity constraints which are expected to result in pricing pressure in the near to medium term but will be alleviated once additional capacity comes on line by approximately FY2013 (refer Section 3.6).

Based on our analysis, we have adopted real export pricing assumptions as set out in the table below.

Table 36: Selected export pricing assumptions (in real CY2011 terms)

USD per tonne	2011	2012	2013	2014	Long term
Export thermal coal	120.0	120.0	110.0	95.0	85.0
SSCC	200.0	155.0	135.0	115.0	105.0
Low volatile PCI coal	210.0	170.0	150.0	120.0	115.0
SHCC	232.5	187.5	167.5	142.5	130.0
HCC	265.0	220.0	200.0	170.0	155.0

Source: Deloitte analysis

The selected pricing assumptions refer to price expectations for coal of standard quality. The Models apply quality and energy content adjustments to these prices, where appropriate, to account for the specific qualities of the coal produced by Donaldson and Gloucester.

It should be noted that our valuation is highly sensitive to changes in the export coal price projections. Coal prices are subject to volatility resulting from factors such as perceived shortages and leading economic indicators.

9.3 Other revenue

As discussed in Section 5.1.2, Donaldson has access to port capacity at NCIG through its 11.6% ownership interest in NCIG Holdings. Currently, this represents a port allocation of approximately 6.3 Mtpa from 2014 which is in excess of Donaldson's production profile projected by the Models. We have considered how Donaldson and the Proposed Merged Entity may benefit from this excess capacity under a number of scenarios and included some upside from this analysis in our valuation of Donaldson and the Proposed Merged Entity.

9.4 Operating costs

The Models include projections of operating costs in real terms, which are summarised as follows:

- overburden removal costs for open cut mining operations are projected on a fixed cost per bank cubic metre
- processing costs including mining, coal handling and preparation and site administration costs are projected on a fixed cost per ROM tonne
- transport costs including freight and port charges and demurrage costs are projected on a fixed cost per FOB tonne of coal. The Gloucester Model also includes a fee payable to Macarthur for use of a portion of its DBCT port allocation in relation to the Middlemount Mine project
- other operating costs include management and marketing fees payable to the mine operators and contractors, rehabilitation costs and levies.

  Levies primarily relate to a voluntary contribution to the Coal 21 Fund, which was established by the Australian Coal Association, to provide funding for on-going research into low emission technologies for the power generation industry
- state government royalty payments, which are calculated based on a royalty rate applied to revenue earned net of demurrage costs, port charges and levies. The royalty rate is 8.2% for open cut mines in NSW and 7.2% for underground mines in NSW. With respect to open cut mines in QLD, the royalty payment is determined based on 7.0%, if average net revenue per tonne is less than AUD 100, and 10%, in relation to average net revenue per tonne greater than AUD 100.00
- the Marketing Arrangement, which is fee that applies to all exported volumes and blended third party coal of the Proposed Merged Entity from the Port of Newcastle between 3.5 Mtpa and 11.75 Mtpa, is calculated as 2% of applicable volumes multiplied by the volume weighted average gross sales price per tonne FOBT Port of Newcastle determined by reference to the relevant bill of lading (less any adjustment for quality standards and specifications).

Where appropriate, we have converted operating costs from real terms to nominal terms using our selected inflation assumptions (refer to Section 9.7). We have also adjusted operating costs in the long term in order to ensure that they are consistent with our coal pricing assumptions.

9.5 Capital costs

Donaldson

The Donaldson Model incorporates capital costs of approximately AUD 630 million (in real terms) (excluding land disposals) over the projection period. The projected capital costs are mainly associated with the following:

- Tasman Mine from CY2012 to CY2015
- Tasman Extension Project from CY2017 to CY2019
- Abel Mine and Abel Extension Project from CY2011 to CY2015, from CY2016 to CY2018 and from CY2022 to CY2024
- upgrading the Bloomfield CHPP in CY2012 and CY2013.

The Donaldson Model also includes an allowance for ongoing maintenance capital expenditure associated with each of the operating assets and development projects.

Gloucester – Gloucester Basin assets

The Gloucester Model incorporates capital costs of approximately AUD 414 million (in real terms) (excluding land disposals) over the projection period. The projected capital costs are mainly associated with the following:

- Duralie Mine Extension Project from FY2011 to FY2012 and from FY2016 to FY2018
- expansion/upgrade of the Stratford CHPP in FY2012 and FY2017 and FY2024
- additional fleet purchases and refurbishment of the mining fleet at Duralie in FY2012 and FY2020 to FY2022, respectively

- the development of mining operations at Grant & Chainey in FY2024
- exploration expenditure between FY2011 and FY2026 in order to delineate further reserves and resources
- land acquisitions from FY2011 to FY2026 to facilitate mining operations.

The Gloucester Model also includes an allowance for ongoing maintenance capital expenditure associated with each of the operating assets and development projects.

Gloucester – Middlemount Mine project (100% basis)

The Gloucester Model incorporates total capital costs of approximately AUD 201 million (in real terms) (excluding land disposals) over the projection period. The projected capital costs are mainly associated with the following:

- the CHPP in FY2011 to FY2012
- rail loop construction in FY2011 and FY2012
- creek diversion from FY2012 to FY2015.

The Gloucester Model also includes an allowance for ongoing maintenance capital expenditure associated with the Middlemount Mine project.

9.6 Corporate assumptions

The Models include projections of corporate cash flows in real terms, which are consistent with historical corporate overhead costs.

9.7 Economic assumptions

Inflation

The future cash flows in the Models are presented in real terms. We have therefore adopted an inflation rate assumption to apply to projected real cash flows to convert them into nominal cash flows. In selecting our inflation rate assumptions, we have considered the following:

- the monetary policy adopted by the Reserve Bank of Australia is to maintain inflation within a target range of 2.0% to 3.0%
- forecasts prepared by economic analysts and other publicly available information including broker consensus.

Based on our analysis, we have selected the following inflation rate assumptions (on a calendar year basis).

Table 37: Selected inflation rate assumptions (calendar year basis)

	2011	2012	2013	Long term
Australia	3.20%	2.90%	2.40%	2.50%

Source: Deloitte analysis

Foreign exchange rate

To convert the USD denominated revenue in the Models to AUD, we have had regard to the following:

- historical and current AUD to USD exchange rates
- the AUD to USD exchange rate forward curve
- forecasts prepared by economic analysts and other publicly available information including broker consensus.

We have adopted the following foreign exchange rate assumptions (on a calendar year basis):

Table 38: Selected exchange rates (AUD to USD) (calendar year basis)

	2011	2012	2013	2014	Long term
Deloitte selected	1.04	0.99	0.94	0.87	0.78

Source: Deloitte analysis

9.8 Other assumptions

In addition to the above assumptions, the Models assume the following:

- a corporate tax rate of 30%
- working capital calculated as inventory plus receivables less payables.

10 Valuation of Donaldson

10.1 Introduction

Deloitte has estimated the fair market value of Donaldson using the sum-of-the-parts method which estimates the market value of a company by valuing each asset of the company. The value of each asset may be determined using different valuation methods.

To value Donaldson using the sum-of-the-parts method requires an estimate of the following:

- the value of the operating assets and development projects of Donaldson
- any premium to the discounted cash flow valuation necessary to account for a number of factors which may contribute to the future cash flows of the operating assets and development projects of Donaldson being greater than those included in the Donaldson Model
- surplus assets (if any) based on the current balance of any surplus assets or liabilities
- current net debt position.

This analysis is set out in Section 10.2.1 to Section 10.2.4.

In addition, we also had regard to the resource multiple implied by our valuation of Donaldson compared with the resource multiples observed for comparable transactions and comparable listed companies. This analysis is set out in Section 10.3.

10.2 The sum-of-the-parts method

10.2.1 Operating assets and development projects of Donaldson

The value of Donaldson's operating assets and development projects have been estimated using the discounted cash flow method, which estimates the market value of an asset by discounting its future cash flows to their net present value. To value the operating assets and development projects of Donaldson using the discounted cash flow method requires the determination of the following:

- future cash flows
- an appropriate discount rate to be applied to the future cash flows
- an estimate of the terminal value.

Our consideration of each of these factors is presented below.

Future cash flows

The future cash flows are described in Section 9.

Discount rate

The discount rate used to equate the future cash flows to a present value reflects the risk adjusted rate of return demanded by a hypothetical investor. We have selected a nominal after tax discount rate range of 12.0% to 12.5% to discount the future cash flows of Donaldson's operating assets and development projects to their present value.

In selecting this discount rate range we considered the following:

- the required rates of return for comparable listed Australian and international coal mining and exploration companies
- the debt to equity ratios of comparable listed Australian and international coal mining and exploration companies
- specific risks associated with the development of the Tasman Extension Project and the Abel Extension Project
- the specific business and financing risks of Donaldson
- Donaldson's current cost of debt and level of financial gearing.

A detailed consideration of these matters is provided in Appendix 2.

Terminal value

The Donaldson Model incorporates 100% of Donaldson's current Proven and Probable Reserves and 12.8 Mt of Measured Resources for the operating assets and development projects.

Approximately 752 Mt of Measured and Indicated Resources associated with the operating assets and development projects have not been included in the Donaldson Model. The extent to which these resources can be converted into reserves depends on the outcomes of future exploration and drilling, further analysis of the geology of the deposits, the availability of downstream infrastructure and future coal prices.

As discussed in Section 10.2.2 below, we have applied a premium to our discounted cash flow value of the operating assets and development projects, to recognise the possible upside potential relating to successful conversion of resources to reserves. This premium effectively incorporates a terminal value.

The discounted cash flow value

The value of the operating assets and development projects derived from the discounted cash flow methodology is highly sensitive to the discount rate, coal price and foreign exchange rate assumptions selected. We have performed sensitivity analysis applying:

- a discount rate range of 11.5% to 13.0% for the operating assets and development projects
- +/- USD 5.0 and USD 10.0 per tonne to the selected long term export coal prices from 2015 for each coal product
- a long term exchange rate in the range of USD 0.75 to USD 0.81.

In the following table we set out the fair market value of the operating assets and development projects derived using the discounted cash flow method based on the above long term coal price, exchange rate and discount rate assumptions.

Table 39: Discounted cash flow valuation (AUD'000)

	Discount rate			
Standalone	13.00%	12.50%	12.00%	11.50%
Long term coal price (real per tonne)				
+ USD 10.0	782,392	820,439	860,880	903,904
+ USD 5.0	668,636	701,218	735,834	772,641
Selected long term export prices[1]	554,507	581,584	610,327	640,863
- USD 5.0	439,182	460,627	483,357	507,468
- USD 10.0	323,004	338,731	355,353	372,932
Long term exchange rate assumption				
USD 0.75	617,071	647,151	679,096	713,051
USD 0.78	554,507	581,584	610,327	640,863
USD 0.81	495,366	519,578	545,263	572,534

Source: Deloitte analysis

Note:

1. Selected long term export prices based on the figures set out in Table 36.

The value of Donaldson is most sensitive to the long term real coal price assumptions. A change to these assumptions of USD 5.0 per tonne results in a change of approximately 25% to the value of Donaldson.

The value of Donaldson is also sensitive to the long term exchange rate assumption. A depreciation of the USD against the AUD in the long term from USD 0.78 to USD 0.81 decreases the value of Donaldson by approximately 12%.

The value of Donaldson is also sensitive to the discount rate assumption. A 0.5% change to the discount rate assumption results in a change of approximately 5% to the value of Donaldson.

Based on the above analysis, we have selected a fair market value of the operating assets and development projects in the range of AUD 580 million to AUD 610 million.

We have not included any impact of the MRRT in our assessment of the fair market value of Donaldson due to the uncertainty surrounding the proposed legislation being enacted and the limited information available on how the tax will be calculated. However, having regard to the limited information released by the Australian Government, we have considered at a high level the indicative potential impact of the proposed changes on our assessed fair market value of Donaldson. Based on this indicative analysis, the proposed changes are not likely to have any material impact on the value of Donaldson. The implementation of these proposed changes remain subject to consultation, final drafting and introduction to Parliament as legislation. Accordingly, the proposed changes may not ultimately be implemented or may be implemented in a different form.

10.2.2 Premium to discounted cash flow value

The Donaldson Model incorporates Donaldson's current Proven and Probable Reserves and Measured Resources of 165.2 Mt for the operating assets and development projects. However, there are a number of items which may contribute to the future cash flows of the operating assets and development projects which are not included in the Model. These items include:

- ***LOM greater than that captured in the Donaldson Model*** – actual reserves over the life of mines are generally greater than the original estimates. In addition to the 165.2 Mt of Proven and Probable Reserves and Measured Resources of the operating assets and development projects, which have already been incorporated in the Donaldson Model, there is still a significant amount of Measured, Indicated and Inferred Resources, which have the potential to be converted to reserves.

  The extent to which resources can be converted into reserves depends on the outcomes of further exploration drilling, analysis of the geology of the reserves, the capacity of the Bloomfield CHPP, availability of downstream infrastructure capacity and future coal prices. Any reserve upgrades may result in an extension of mine life. These resources therefore represent additional upside potential for Donaldson which is not reflected in the discounted cash flows

- ***taxation benefits*** – a potential purchaser may be able to obtain taxation deductions in relation to the value of Donaldson's exploration licences, mining leases and fixed assets

- ***potential strategic value*** – a potential purchaser of Donaldson may also be willing to pay a premium in excess of the discounted cash flow value for the strategic value offered by Donaldson and its assets. This strategic value may relate to the potential to significantly increase the potential acquirer's resource base and access to port and rail infrastructure, product diversification and demonstrated production capacity.

While the value of the above factors cannot be precisely estimated, we have had regard to the potential value impact of each factor including the possible upside potential of successful conversion of resources to reserves, and exercised our professional judgement to estimate the overall impact on the value of the operating assets and development projects.

Based on the above and on our professional judgment, we have included a premium in the range of 5% to 10% on the value of the operating assets and development assets to reflect the combined value of these factors.

10.2.3 Surplus assets

Management has advised that there are no assets which do not contribute to the operations of Donaldson and we have not identified any material surplus assets during the course of our work. Consequently, no value has been placed on surplus assets.

10.2.4 Net debt

The agreed net debt position of Donaldson as at 30 June 2011 is set out in the following table.

Table 40: Net debt

	AUD million
Interest bearing liabilities[1]	225.0
Net debt position	**225.0**

Source: Deloitte analysis

Note:

1. Comprises facility with third part lenders of AUD 39.3 million and Noble debt of AUD 185.7 million.

10.2.5 Valuation: sum-of-the-parts method

The value of Donaldson using the sum-of-the-parts method is summarised below.

Table 41: Value of Donaldson based on sum-of-the-parts method

	Section	Unit	Low	High
Total value of Donaldson's operating assets and development assets	10.2.1	**AUD million**	**580.0**	**610.0**
Premium to discounted cash flow value	10.2.2	%	5.0%	10.0%
Total value of Donaldson's assets including premium		**AUD million**	**609.0**	**671.0**
Surplus assets	10.2.3	AUD million	-	-
Net debt	10.2.4	AUD million	(225.0)	(225.0)
Equity value (on a control basis)		**AUD million**	**384.0**	**446.0**

Source: Deloitte analysis

10.3 Cross check: industry rules of thumb

We have cross checked the value of Donaldson with reference to the reserve and resource multiples implied by our valuation of Donaldson.

We note that reserve and resource multiples are only intended to provide a high level cross check for our valuation of Donaldson. The share trading reserve multiples (enterprise value, implied by the current company share price, to resources) observed for the selected comparable companies and resource multiples implied by comparable transactions may vary significantly due to various factors including different cost structures, different geotechnical/geomechanical issues, different stages of development, different ratios of reserves to total resources plus reserves and different mine lives.

The following table sets out the reserve and resource multiples implied by our selected valuation range of Donaldson.

Table 42: Resource multiple implied by Deloitte valuation of Donaldson

	Section	Unit	Low	High
Enterprise value of Donaldson (on a control basis)	10.2.5	**AUD million**	**609.0**	**671.0**
Donaldson reserves[1]	5.3	Mt	152.4	152.4
Reserve multiple (on a control basis)		**AUD per tonne**	**4.0**	**4.4**
Donaldson resources[2]	5.3	Mt	763.0	763.0
Resource multiple (on a control basis)		**AUD per tonne**	**0.8**	**0.9**

Source: Deloitte analysis

Notes:

1. Consists of Proved and Probable Reserves
2. Consists of Measured and Indicated Resources and is inclusive of Proved and Probable Reserves.

The following table sets out the reserve multiple implied by our valuation and the share trading reserve multiples (enterprise value, implied by the current company share price, to Proved and Probable Reserves) observed for Australian comparable companies (refer to Appendix 3 for further details on the comparable companies).

Table 43: Share trading reserve multiples of comparable companies

Entity	Domicile	Enterprise value (AUD million)[1]	Proved & Probable Reserves (Mt)	EV reserve multiple
Donaldson[2]	**Australia**	**640**	**152**	**4.2**
Australian coal producing companies				
Coal & Allied Industries Limited	Australia	9,205	1,102	8.4
Whitehaven Coal Limited	Australia	3,046	322	9.5
Macarthur Coal Limited	Australia	2,770	181	15.3
New Hope Corporation Limited	Australia	2,155	493	4.4
Gloucester Coal Limited	Australia	1,452	123	11.8
Gujarat NRE Coking Coal Limited	Australia	660	125	5.3
Average[3]				**9.9**
Average (excluding Macarthur)[3]				**8.5**
Australian coal developing companies				
Riversdale Mining Limited	Australia/South Africa	3,576	549	6.5
Aston Resources Limited	Australia	2,033	361	5.6
Coal of Africa Limited	Australia/South Africa	629	-	n/a
Bandanna Energy Limited	Australia	775	94	8.3
Cockatoo Coal Limited	Australia	459	67	6.8
Nucoal Resources NL	Australia	221	-	n/a
Northern Energy Corporation Limited	Australia	176	112	1.6
Carabella Resources Limited	Australia	255	-	n/a
Average[4]				**5.6**
Average – Australian entities[3,4]				**8.0**
Median – Australian entities[3,4]				**8.3**

Source: Thomson Reuters, ASX and company announcements

Notes:

1. Enterprise values converted to AUD as at 6 May 2011
2. Refers to midpoint of our valuation of Donaldson a control basis (refer to Table 42)
3. Excludes Gujarat NRE Coking Coal Limited as it is considered illiquid
4. Excludes Riversdale Mining and Coal of Africa Limited (whose coal interests are located in southern Africa).

As outlined in the table above, the reserve multiple implied by our valuation of Donaldson (on a control basis) is lower than the average share trading reserve multiples for all comparable companies identified, which are on a minority interest basis. We note the following in relation to the above:

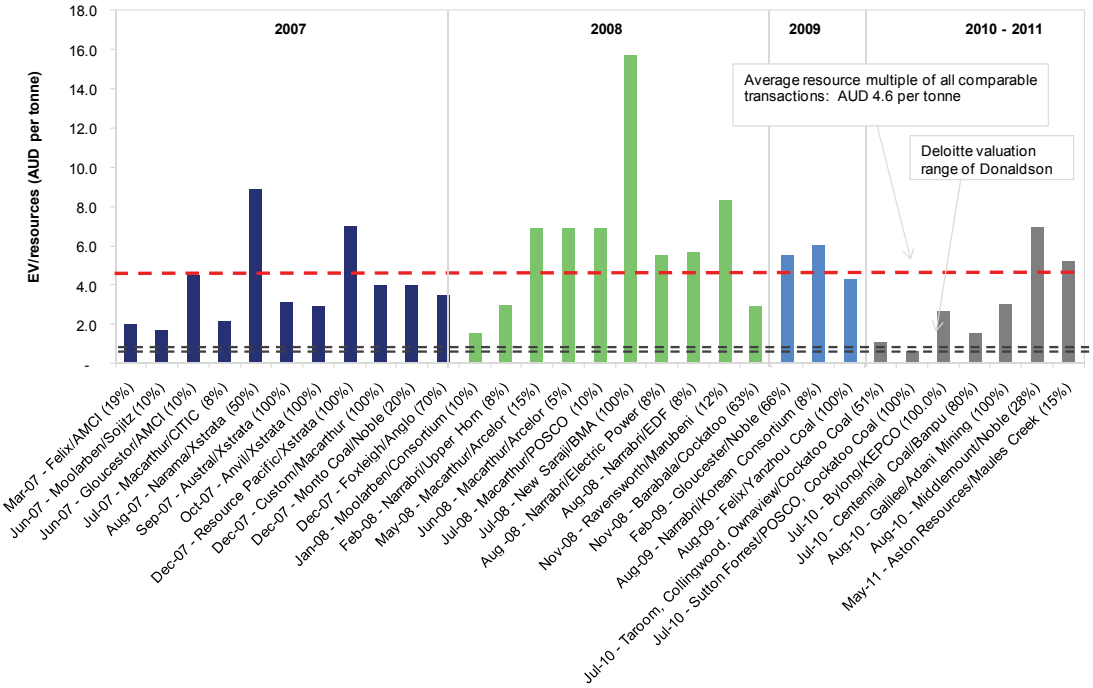
- many of the above companies are considerably larger than Donaldson. In general, larger companies have higher multiples than smaller companies. The average reserve multiple of the comparable companies with enterprise values below AUD 1 billion is 5.5 times
- open cut operations at Donaldson Mine are projected to cease by CY2013 and the Tasman Mine and Abel Mine are projected to continue underground operations for the entire projection period. These operations are subject to development risk in respect of the Abel Extension Project and the Tasman Extension Project, both of which are subject to the granting of necessary approvals.

  As a result, we consider trading multiples for coal developing companies in Australia to have operations most comparable to Donaldson. The average share trading reserve multiple for the coal developing companies in Australia (excluding Riversdale Mining Limited and Coal of Africa Limited, whose operations are located in Southern Africa) is 5.6 times, whilst the range of reserve multiples implied by our valuation of Donaldson of 4.0 times to 4.4 times is on a control basis.

After consideration of Donaldson's projected capital expenditure and the nature and stage of its operations, we consider the share trading reserve multiples broadly support our valuation of Donaldson.

The following chart sets out the resource multiples implied by our valuation of Donaldson together with the resource multiples implied by comparable transactions which have occurred since 2007 (refer to Appendix 4 for further details on the comparable transactions). We note that the resource multiples of the comparable transactions which involve the acquisition of a controlling interest could include premiums for such controlling interests. The resource multiples implied by our valuation of Donaldson are based on a control value.

Figure 19: Resource multiples of comparable transactions[1,2,3]



Source: Deloitte analysis, CapitalIQ, various company announcements, Mergermarket

Notes:

1. EV – enterprise value
2. Includes Measured and Indicated Resources and is inclusive of Proved and Probable Reserves
3. We note that the resource multiple implied by the New Saraji/BMA transaction may reflect the future potential of the deposit. As at the transaction date in July 2008, New Saraji had Measured and Indicated Resources of 156 Mt and Inferred Resources of 534 Mt. In BHP's FY2009 annual report, the resources at the New Saraji deposit (renamed Saraji East) comprised 209 Mt for Measured and Indicated Resources and 950 Mt for Inferred Resources.

We note that the overall average resource multiples implied by the comparable transactions of AUD 4.6 times is higher than the resource multiples implied by our valuation of Donaldson (on a control basis). We note that resource multiples implied by more recent transactions are lower than the average over the entire period observed from 2007. Of the transactions occurring in 2010 and 2011, five of them consisted of control transactions.[24] The average resource multiple for these transactions was 1.8 times.

The range of resource multiples implied by our valuation of Donaldson is broadly in line with the resource multiples observed for the most recent transactions occurring in 2010 involving control transactions.

Based on the above and given the limitations of this analysis, we consider the share trading reserve multiples and the comparable transaction resource multiples broadly support our valuation of Donaldson.

[24] The Middlemount/Noble transaction represented the acquisition of 28% interest in the Middlemount Mine project (i.e. a minority interest), whilst the Aston Resources/Maules Creek Corporation transaction involved the acquisition of a 15% interest in the Maules Creek coal project

11 Valuation of the Monash Exploration Assets

11.1 Valuation of the Monash Exploration Assets

Deloitte has engaged BDA to provide an assessment of the value of the Monash Exploration Assets.

BDA's valuation approach is to apply a resource multiple (AUD per tonne) to the Inferred Resource base of the Monash Exploration Assets. In determining the size of the resource multiple applied, BDA considered the resource multiples implied by comparable transactions with predominately Inferred Resources since 2008, which could be considered to have some similarity to the Monash Exploration Assets.

The table below sets out BDA's estimated current fair market value of the Monash Exploration Assets.

Table 44: BDA's valuation of the Monash Exploration Assets – (AUD million)

	Low value	High value	Most likely value
BDA estimated value	**60.0**	**140.0**	**95.0**

Source: BDA

Further detail on the valuation of the Monash Exploration Assets is set out in Section 4.3 of BDA's technical expert's report at Appendix 6.

11.2 Estimated fair market value associated with future reserves

In addition to the consideration offered by Gloucester to Ellemby under the Proposed Monash Acquisition, Gloucester has agreed to issue the Converting Shares to Ellemby for the purposes of the Contingent Consideration.

In order to assess the effect of the Contingent Consideration on Non-associated Shareholders, BDA assisted Deloitte in estimating the fair market value of the Monash Exploration Assets by providing indicative reserve multiples for companies or assets considered comparable with the Monash Exploration Assets. We have estimated the fair market value of the Monash Exploration Assets at Stage 1 and Stage 2 by applying the reserve multiples provided by BDA (which vary based on the stage of development of the comparable companies or assets) to the maximum tonnage of Proved or Probable Reserves for which the Stage 1 Payment, Stage 2 Payment and Stage 3 Payment are payable.

The fair market value of the Monash Exploration Assets at Stage 3 is assumed to be the same as Stage 2 as all of the conditions of Stage 2 apply to Stage 3.

The following table sets out the estimated value of the Monash Exploration Assets at Stage 1 and Stage 2 based on the indicative reserve multiples provided by BDA.

Table 45: Estimated value of the Monash Exploration Assets at Stage 1 and Stage 2

	Unit	Low value	High value
Stage 1 – first ore reserves report finalised			
Tonnage cap to which Contingent Consideration applies – Stage 1	*Mt*	*60.0*	*60.0*
Reserve multiple applied to Proved and Probable Reserves at Stage 1	*times*	1.5	3.0
Estimated value – Stage 1	**AUD million**	**90.0**	**180.0**
Stage 2 – Mining Lease granted			
Tonnage cap to which Contingent Consideration applies – Stage 2	*Mt*	*71.4*	*71.4*
Reserve multiple applied to Proved and Probable Reserves at Stage 2	*times*	3.0	4.0
Estimated value – Stage 2	**AUD million**	**214.2**	**285.6**

Source: Deloitte analysis

We note the estimated values for the Monash Exploration Assets at Stage 1 and Stage 2 in the table above reflect the value of only 60.0 Mt and 71.4 Mt of Proved or Probable Reserves, respectively, being estimated for the Monash Exploration Assets.

It is likely that the drilling costs required to convert resources to Proved or Probable Reserves and mining lease costs, which have been estimated by BDA at AUD 20 million and AUD 15 million, respectively, will be the same for the Monash Exploration Assets at Stage 1 and Stage 2 regardless of the amount of Proved or Probable Reserves estimated.

12 Valuation of the Proposed Merged Entity

12.1 Valuation of the Proposed Merged Entity

In this section we have estimated the fair market value of the shares in the Proposed Merged Entity. This valuation has been performed on a minority interest basis as Noble will not increase its stake in Gloucester and the Non-associated Shareholders will continue to hold minority interests in the Proposed Merged Entity. We have assessed the fair market value of a share in the Proposed Merged Entity assuming the Proposed Transactions and the Capital Raising are completed.

In order to value a share in the Proposed Merged Entity, we have adopted the sum-of-the-parts methodology. The sum-of-the-parts method estimates the market value of a company by separately valuing each asset and liability of the company and aggregating those values. The value of each asset may be determined using different valuation methods.

To value the Proposed Merged Entity using the sum-of-the-parts method requires an estimate of the following items:

- the value of the operating assets and development projects of the Proposed Merged Entity, including any corporate overhead savings to be realised assuming the Proposed Transactions proceed
- any premium to the discounted cash flow valuation necessary to account for a number of factors which may contribute to the future cash flows of the operating assets and development projects of the Proposed Merged Entity being greater than those included in the Models
- the value of the Middlemount Mine Royalty Stream
- the value of the exploration assets of the Proposed Merged Entity
- the value of any surplus assets and liabilities
- the current pro-forma net debt position
- a discount for minority interest.

This analysis is set out in Sections 12.2.1 to 12.2.7.

To provide additional evidence of the fair market value of a share in the Proposed Merged Entity, we have also had regard to the reserve and resource multiples implied by our valuation of the Proposed Merged Entity compared with the reserve and resource multiples observed for comparable transactions and comparable listed companies. In addition, we have considered the price per share implied by the Capital Raising to provide further evidence as to the value of a share in the Proposed Merged Entity on a minority interest basis.

This analysis is set out in Section 12.3.

12.2 The sum-of-parts method

12.2.1 Operating assets and development projects of the Proposed Merged Entity

The value of the operating assets and development projects of the Proposed Merged Entity has been estimated using the discounted cash flow methodology.

Future cash flows

The future cash flows relied on for the purposes of the valuation have been described in Section 9.

Discount rates

We have selected a range of nominal after tax discount rates to discount the future cash flows of operations of the Proposed Merged Entity to their present value as follows:

- for the Gloucester Basin Assets, we have selected a discount rate in the range of 10.75% to 11.25% to discount the future cash flows to their present value
- for Donaldson and the Middlemount Mine project (in which Gloucester owns a near 50% interest), we have selected a discount rate in the range of 11.5% to 12.0% to discount the future cash flows to their present value.

In selecting the above discount rate ranges we considered the following:

- the required rates of return for comparable listed Australian and international coal mining and exploration companies
- the debt to equity ratios of comparable listed Australian and international coal mining and exploration companies
- asset specific issues with respect to the operating assets and development projects of the Proposed Merged Entity
- the specific business and financing risks of the Proposed Merged Entity
- the specific risks associated with the development of the Tasman Extension Project, the Abel Extension Project and the Middlemount Mine project
- the current cost of debt and level of financial gearing of the Proposed Merged Entity.

A detailed consideration of these matters is provided in Appendix 2.

Terminal value

The Models incorporate a proportion of the current Proved and Probable Reserves and Measured, Indicated and Inferred Resources for the operating assets and development projects of the Proposed Merged Entity. However, significant Measured, Indicated and Inferred Resources associated with the operating assets and development projects of the Proposed Merged Entity have not been included in the Models. The extent to which these resources can be converted into reserves depends on the outcomes of future exploration and drilling, further analysis of the geology of the deposits, the availability of downstream infrastructure and future coal prices.

As discussed in Section 12.2.2 below, we have applied a premium to our discounted cash flow value of the operating assets and development projects, which recognises the possible upside potential relating to successful conversion of resources to reserves. This effectively incorporates a terminal value.

The discounted cash flow value

The operating assets and development projects of the Proposed Merged Entity after completion of the Proposed Transactions, comprise interests in the following:

- operating assets and development projects of Donaldson – the Donaldson Mine, Tasman Mine, Abel Mine, Tasman Extension Project and Abel Extension Project (refer Section 5.1.1)
- the Gloucester Basin Assets – the Stratford Mine, Duralie Mine and the Grant & Chainey operation (refer to Section 4.2.1)
- Gloucester's near 50% interest in the Middlemount Mine project, which is a development project located in Queensland (refer to Section 4.2.2).

The fair market value of these operating assets and development projects are highly sensitive to the discount rate, coal price and the foreign exchange rate assumptions selected. We have performed sensitivity analysis applying:

- a discount rate in the range of 10.25% to 11.75% for the Gloucester Basin Assets
- a discount rate in the range of 11.0% to 12.5% for Donaldson and the Middlemount Mine project
- +/- USD 5.0 and USD 10.0 per tonne to the selected long term export coal prices from 2015 for each coal product type
- a long term exchange rate in the range of USD 0.75 to USD 0.81.

In the following table we set out the fair market value of the operating assets and development projects derived using the discounted cash flow method based on the long term coal price, exchange rate and discount rate assumptions set out above.

Table 46: Sensitivity analysis to changes in the long term coal price, exchange rate and discount rate assumptions (AUD million)

	Discount rate			
Donaldson and the Middlemount Mine project	**12.50%**	**12.00%**	**11.50%**	**11.00%**
Gloucester Basin Assets	**11.75%**	**11.25%**	**10.75%**	**10.25%**
Long term coal price (real per tonne)				
+ USD 10.0	2,492.3	2,595.3	2,704.5	2,820.4
+ USD 5.0	2,238.4	2,329.7	2,426.6	2,529.3
Selected long term export prices[1]	1,984.1	2,063.8	2,148.2	2,237.8
- USD 5.0	1,729.0	1,797.0	1,869.0	1,945.3
- USD 10.0	1,472.7	1,528.7	1,588.1	1,650.9
Long term exchange rate assumption				
USD 0.75	2,161.6	2,249.2	2,342.1	2,440.6
USD 0.78	1,984.1	2,063.8	2,148.2	2,237.8
USD 0.81	1,817.5	1,889.8	1,966.4	2,047.6

Source: Deloitte analysis

Note:

1. Selected long term export prices based on the figures set out in Table 36.

The value of the operating assets and development projects of the Proposed Merged Entity is most sensitive to the long term real coal price. A change to long term coal price assumptions of USD 5.0 per tonne results in a change of approximately 14% to the value of the Proposed Merged Entity.

The value of the operating assets and development projects of the Proposed Merged Entity is also sensitive to the exchange rate assumptions. A depreciation of the USD against the AUD in the long term from USD 0.78 to USD 0.81 decreases the value of the Proposed Merged Entity by approximately 9%.

The value of the operating assets and development projects of the Proposed Merged Entity is also sensitive to the discount rate assumptions. A 0.5% change to the discount rate assumptions adopted in the valuation of the operating assets and development projects of the Proposed Merged Entity results in a change of approximately 4% to the value of the Proposed Merged Entity.

Based on the above analysis, we have selected a fair market value of the operating assets and development projects of the Proposed Merged Entity in the range of AUD 2,050 million to AUD 2,150 million.

We have not included any impact of the MRRT in our assessment of the fair market value of the Proposed Merged Entity due to the uncertainty surrounding the proposed legislation being enacted and the limited information available on how the tax will be calculated. However, having regard to the limited information released by the Australian Government, we have considered at a high level the indicative potential impact of the proposed changes on our assessed fair market value of the Proposed Merged Entity. Based on this indicative analysis, the proposed changes are not likely to have any material impact on the value of the Proposed Merged Entity. The implementation of these proposed changes remain subject to consultation, final drafting and introduction to Parliament as legislation. Accordingly, the proposed changes may not ultimately be implemented or may be implemented in a different form.

12.2.2 Premium to the discounted cash flow valuation

The Models incorporate the Proposed Merged Entity's current Proven and Probable Reserves of 275 Mt and 1,018 Mt of Measured and Indicated Resources for the operating and development assets of the Proposed Merged Entity. BDA has valued exploration at the underground Duralie operations to be in the range of AUD 15 million to AUD 20 million (refer to Section 12.2.4) and the most likely value of exploration at the Monash Exploration Assets to be AUD 95 million (as discussed in Section 11.1).

However, there are a number of items which may contribute to the future cash flows of the Proposed Merged Entity which are not included in the Models or the valuation of the exploration assets. These items include:

- ***LOM greater than that captured in the Models*** – actual reserves over the life of mines are generally greater than the original estimates.

  In relation to the Proposed Merged Entity, there are still significant levels of Measured, Indicated and Inferred Resources, which have the potential to be converted to reserves. The extent to which resources can be converted into reserves depends on the outcomes of further exploration drilling, analysis of the geology of the reserves, the capacity of the Proposed Merged Entity's CHPP, availability of downstream infrastructure capacity and future coal prices. Any reserve upgrades may result in an extension of the life of mine. These resources therefore represent additional upside potential for the Proposed Merged Entity which is not reflected in the discounted cash flows
- ***exploration and discovery of further resources from existing tenements*** – additional resource discoveries in the existing exploration lease areas, beyond those valued as part of the exploration assets
- ***taxation benefits*** – a potential purchaser may be able to obtain taxation deductions in relation to the value of the Proposed Merged Entity's exploration licences, mining leases and fixed assets
- ***potential strategic value*** – a potential purchaser of the Proposed Merged Entity may also be willing to pay a premium in excess of the discounted cash flow value for the strategic value offered by the Proposed Merged Entity and its assets. This strategic value may relate to the potential to significantly increase the potential acquirer's resource base and access to port and rail infrastructure, product diversification and demonstrated production capacity
- ***potential blending opportunities*** – the Proposed Merged Entity may potentially be able to blend coal from Gloucester with that from Donaldson in order to reduce reliance on third party purchased coal.

While the value of the above factors cannot be precisely estimated, we have had regard to the potential value impact of each factor including the possible upside potential of successful conversion of resources to reserves represented by our additional modelling, and exercised our professional judgement to estimate the overall impact on the value of the operating assets and development projects.

Based on the above and on our professional judgement, we consider a premium in the order of 10% to the value of the operating assets and development projects to be appropriate to reflect the combined value of these factors of the Proposed Merged Entity.

12.2.3 Middlemount Mine Royalty Stream

We have assessed the value of the Middlemount Mine Royalty Stream (refer Section 4.2.4) using the discounted cash flow method based on the following:

- coal sales revenue for the Middlemount Mine project projected by the Gloucester Model (refer Section 9.2)
- a discount rate range of 10.25% to 10.75%, having regard to the risks associated with the royalty cash flows relative to the overall project
- the Australian corporate tax rate of 30%.

Based on the above, we estimated the value of the Middlemount Mine Royalty Stream to be in the range of AUD 270 million to AUD 280 million.

12.2.4 Exploration assets of the Proposed Merged Entity

Deloitte engaged BDA to provide an assessment of the value of the evaluation and exploration assets of the Proposed Merged Entity. A brief discussion of BDA's approach to the valuation of exploration assets is set out in Section 8.3.

The estimated value of the exploration assets of the Proposed Merged Entity is set out in the table below.

Table 47: BDA's valuation of the exploration assets of the Proposed Merged Entity

	Low (AUD million)	High (AUD million)
Gloucester[1]	15.0	20.0
Monash Exploration Assets[2,3]	95.0	95.0
Total value of the exploration assets of the Proposed Merged Entity	**110.0**	**115.0**

Source: BDA

Notes:

1. Relates to Duralie underground operations
2. Represent's most likely value as advised by BDA
3. Based on current resources; does not include additional value associated with the Proved or Probable Reserves that may be converted from resources with additional drilling.

12.2.5 Surplus assets and liabilities

Management of Gloucester, Donaldson and the Monash Exploration Assets have advised that there are no assets which do not contribute to the operations of each of the businesses and we have not identified any material surplus assets or liabilities during the course of our work. Consequently, no value has been attributed to surplus assets.

12.2.6 Net debt

The current pro-forma net debt position of the Proposed Merged Entity is set out in the following table.

Table 48: Net debt of the Proposed Merged Entity

	(AUD million)
Cash proceeds from Capital Raising[1]	**229.8**
Less: cash consideration for Monash Exploration Assets[1]	(30.0)
Less: transaction costs[2]	(49.5)
Remaining cash proceeds from Capital Raising before debt repayments	**150.3**
Repayment of net debt of Donaldson – third party lenders[1]	(39.3)
Repayment of net debt of Donaldson – Noble[1]	(185.7)
Debt drawn down by Gloucester after Capital Raising and debt repayments[3]	**(74.7)**
Net debt - Proposed Merged Entity	
Net debt calculation – Gloucester[4]	
Noble shareholder loan – Gloucester	36.0
Noble shareholder loan – Middlemount Mine project	41.8
Other interest bearing liabilities[5]	72.4
Net debt – Gloucester	**150.2**
Less: debt drawn down by Gloucester after Capital Raising and debt repayments	74.7
Net debt – Gloucester after Capital Raising and debt repayments	**224.9**
Net debt – Donaldson	**225.0**
Repayment of net debt of Donaldson – third party lenders	(39.3)
Repayment of net debt of Donaldson – Noble	(185.7)
Net debt – Donaldson after debt repayment	**-**
Total net debt – Proposed Merged Entity	**224.9**

Source: Deloitte analysis

Notes:

1. Refer to Section 1.1
2. As per the ASX announcement dated 16 May 2011 detailing the proposed usage of the capital raised in the Capital Raising
3. In addition to drawing down on existing debt, Gloucester is expected to draw down on a new debt facility of approximately AUD 35 million
4. Represents estimated position as at 30 June 2011 as per the ASX announcement dated 16 May 2011
5. Includes an expected debt draw down of AUD 45 million in relation to deferred consideration in respect of Gloucester's most recent acquisition of an interest in the Middlemount Mine project, which is payable in June 2011.

12.2.7 Discount for minority interest

A valuation of a company based on the sum-of-parts method, where the principal assets are valued using the discounted cash flow methodology, results in an estimate of the fair market value of the company on a control basis. The difference between the market value of a controlling interest and a minority interest is referred to as the premium for control. Australian studies indicate the premiums required to obtain control of companies range between 20% and 40% of the portfolio holding values. A minority interest discount is the inverse of a premium for control (*minority interest discount = 1-(1/(1+control premium))*) and generally ranges between 15% and 30%.

The owner of a controlling interest has the ability to do many things that the owner of a minority interest does not. These include:

- control the cash flows of the company, such as dividends, capital expenditure and compensation for directors
- determine the strategy and policy of the company

- make acquisitions or divest operations
- control the composition of the board of directors.

If the Proposed Transactions are approved, the consideration paid for Donaldson and the Monash Exploration Assets will be scrip and part cash and part scrip, respectively, and Non-associated Shareholders will remain minority holders of shares in the Proposed Merged Entity. Our valuation of a share in the Proposed Merged Entity, based on the sum-of-the-parts method where the principal assets are valued using the discounted cash flow methodology, has therefore been adjusted to reflect a minority interest basis.

The following factors have been taken into consideration in determining an appropriate minority interest discount for the Proposed Merged Entity:

- we considered the control premiums implied by recent transactions in the Australian coal mining and broader mining sector:
    - excluding transactions which involved companies with an enterprise value lower than AUD 100 million, for recent transactions in the broader Australian mining sector, the average control premium is in the range of 25% to 35%, and the median control premium is in the range of 20% to 30%
    - excluding transactions which involved companies with an enterprise value lower than AUD 100 million, for recent transactions in the Australian coal mining sector, the average control premium is in the range of 15% to 30%, and the median control premium is in the range of 10% to 25%
- having regard to the average and median control premiums implied by these transactions, a control premium in the range of 20% to 30% implies a minority interest discount in the range of 17% to 23%
- there may be additional synergies that could be achieved by certain potential purchasers of the Proposed Merged Entity, such as cost and revenue synergies in addition to the cost savings referred to in Section 9.1. We expect the value of the synergies associated with the acquisition of the Proposed Merged Entity, beyond those that could be achieved by the Proposed Merged Entity, to be relatively low.

Based on these considerations, we believe that a discount at the low end of the observed range is appropriate, and consider a minority interest discount in the range of 15% to 20% to be reasonable.

12.2.8 Summary: sum-of-the-parts method

The value of the Proposed Merged Entity derived from the sum-of-the-parts method is summarised below.

Table 49: Value of the Proposed Merged Entity based on sum-of-the-parts method

	Section	Unit	Low value	High value
Total value of the Proposed Merged Entity's operating assets and development projects	**12.2.1**	**AUD million**	**2,050.0**	**2,150.0**
Premium to discounted cash flow value	12.2.2	%	10.0%	10.0%
Total value of Proposed Merged Entity's operating assets and development projects including premium		**AUD million**	**2,255.0**	**2,365.0**
Middlemount Mine Royalty Stream	12.2.3	AUD million	270.0	280.0
Exploration assets of the Proposed Merged Entity	12.2.4	AUD million	110.0	115.0
Surplus assets	12.2.5	AUD million	-	-
Net debt	12.2.6	AUD million	(224.9)	(224.9)
Equity value (on a control basis)		**AUD million**	**2,410.1**	**2,535.1**
Discount for minority interest	12.2.7	%	20.0%	15.0%
Equity value on a minority interest basis		**AUD million**	**1,928.1**	**2,154.8**
Number of shares on issue	7.3	*Million*	*202.9*	*202.9*
Value of a share in the Proposed Merged Entity		AUD	9.50	10.62
Deloitte assessed value of a share in the Proposed Merged Entity using the sum-of-the-parts method		**AUD**	**9.50**	**10.60**

Source: Deloitte analysis

We have selected a valuation range for a share in the Proposed Merged Entity to be in the range of AUD 9.50 to AUD 10.60 based on the sum-of-the-parts method.

12.3 Cross checks

12.3.1 Industry rules of thumb

We have cross checked the value of the Proposed Merged Entity with reference to the reserve and resource multiples implied by our valuation of the Proposed Merged Entity.

We note that reserve and resource multiples are only intended to provide a high level cross check for our valuation of Proposed Merged Entity. The share trading reserve multiples (enterprise value, implied by the current company share price, to resources) observed for the selected comparable companies and resource multiples implied by comparable transactions may vary significantly due to various factors including different cost structures, different geotechnical/geomechanical issues, different stages of development, different ratios of reserves to total resources plus reserves and different mine lives.

The following table sets out the resource multiples implied by our selected valuation range.

Table 50: Reserve and resource multiple implied by Deloitte valuation of the Proposed Merged Entity

	Section	Unit	Low value	High value
Deloitte assessed value of a share in the Proposed Merged Entity	12.2.8	**AUD**	**9.50**	**10.60**
Number of shares on issue	7.3	*Million*	*202.9*	*202.9*
Equity value (on a minority basis)		**AUD million**	**1,927.6**	**2,150.8**
Net debt	12.2.6	AUD million	224.9	224.9
Enterprise value of the Proposed Merged Entity (on a minority basis)		**AUD million**	**2,152.5**	**2,375.7**
Reserves of the Proposed Merged Entity[1]	7.2	Mt	275.3	275.3
Reserve multiple (on a minority interest basis)		**AUD per tonne**	**7.8**	**8.6**
Resources of the Proposed Merged Entity[2]	7.2	Mt	1,018.4	1,018.4
Resources multiple (on a minority interest basis)		**AUD per tonne**	**2.1**	**2.3**

Source: Deloitte analysis

Notes:

1. Consists of Proved and Probable Reserves
2. Consists of Measured and Indicated Resources and is inclusive of Proved and Probable Reserves.

The following table sets out the share trading resource multiples (enterprise value, implied by the current company share price, to resources) observed for the selected comparable companies (refer to Appendix 3 for further details on the comparable companies).

Table 51: Share trading reserve multiples of comparable companies

Entity	Domicile	Enterprise value (AUD million)[1]	Proved & Probable Reserves (Mt)	EV reserve multiple
Proposed Merged Entity[2]	**Australia**	**2,264**	**275**	**8.2**
Australian coal producing companies				
Coal & Allied Industries Limited	Australia	9,205	1,102	8.4
Whitehaven Coal Limited	Australia	3,046	322	9.5
Macarthur Coal Limited	Australia	2,770	181	15.3
New Hope Corporation Limited	Australia	2,155	493	4.4
Gloucester Coal Limited	Australia	1,452	123	11.8
Gujarat NRE Coking Coal Limited	Australia	660	125	5.3
Average[3]				**9.9**
Average (excluding Macarthur)[3]				**8.5**
Australian coal developing companies				
Riversdale Mining Limited	Australia/South Africa	3,576	549	6.5
Aston Resources Limited	Australia	2,033	361	5.6
Coal of Africa Limited	Australia/South Africa	629	-	n/a
Bandanna Energy Limited	Australia	775	94	8.3
Cockatoo Coal Limited	Australia	459	67	6.8
Nucoal Resources NL	Australia	221	-	n/a
Northern Energy Corporation Limited	Australia	176	112	1.6
Carabella Resources Limited	Australia	255	-	n/a
Average[4]				**5.6**
Average – Australian entities[3,4]				**8.0**
Median – Australian entities[3,4]				**8.3**

Source: Thomson Reuters, ASX and company announcements

Notes:

1. Enterprise values converted to AUD as at 6 May 2011
2. Refers to midpoint of our valuation of the Proposed Merged Entity on a minority interest basis (refer to Table 50)
3. Excludes Gujarat NRE Coking Coal Limited as it is considered illiquid
4. Excludes Riversdale Mining and Coal of Africa Limited (whose coal interests are located in southern Africa).

As shown in the table above, the reserve multiple implied by our valuation of the Proposed Merged Entity (on a minority interest basis) is consistent with the average share trading reserve multiple for all comparable companies identified.

As discussed in Section 10.3, production for Donaldson is projected to arise from reserves at the underground operations of the Tasman Mine and Abel Mine from CY2013 for the remainder of the projection period. These operations are subject to development risk in respect of the Abel Extension Project and the Tasman Extension Project, both of which are subject to the granting of necessary approvals.

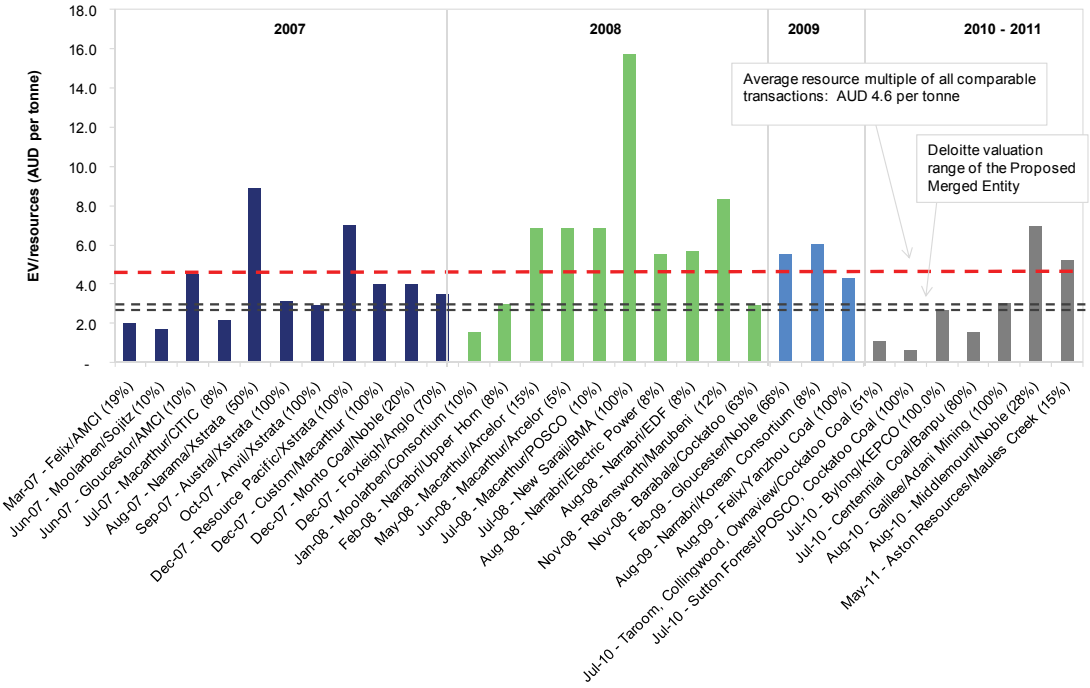
Further, the Monash Exploration Assets are early stage exploration assets which will require significant capital investment over their development period, if advanced through exploration and project feasibility to project development.

These operations are likely to affect the overall multiple of the Proposed Merged Entity by weighting the multiple more towards coal developing companies, which face similar risks.

We consider the share trading reserve multiples support our valuation of the Proposed Merged Entity.

The following chart sets out the resource multiples implied by our valuation of the Proposed Merged Entity (on a minority interest basis) together with the resource multiples implied by comparable transactions which have occurred since 2007 (refer to Appendix 4 for further details on the comparable transactions). We note that the resource multiples of the comparable transactions which involve the acquisition of a controlling interest could include premiums for such controlling interests. We have presented the resource multiples implied by our valuation of the Proposed Merged Entity on a minority basis in the chart below.

Figure 20: Resource multiples of comparable transactions[1,2]



Source: Deloitte analysis, CapitalIQ, various company announcements, Mergermarket

Notes:

1. Includes Measured and Indicated Resources and is inclusive of Proved and Probable Reserves
2. We note that the resource multiple implied by the New Saraji/BMA transaction may reflect the future potential of the deposit. As at the transaction date in July 2008, New Saraji had Measured and Indicated Resources of 156 Mt and Inferred Resources of 534 Mt. In FY2009 BHP annual report, the resources at the New Saraji deposit (renamed Saraji East) comprised 209 Mt for Measured and Indicated Resources and 950 Mt for Inferred Resources.

We note that the overall average resource multiples implied by the comparable transactions of AUD 4.6 per tonne is higher than the range of resource multiples implied by our valuation of the Proposed Merged Entity. However, resource multiples implied by more recent transactions are lower than the average over the entire period observed from 2007. Of the most recent transactions occurring in 2010 and 2011, five are consisted of control transactions.[25] The average resource multiple for these transactions was 1.8 times.

The range of resource multiples implied by our valuation of the Proposed Merged Entity of 2.1 times to 2.3 times (on a minority interest basis) is in line with multiples observed for the transactions occurring in 2010 involving control transactions.

Based on the above and given the limitations of this analysis, we consider the share trading reserve multiples and the comparable transaction resource multiples broadly support our valuation of the Proposed Merged Entity.

[25] the Middlemount/Noble transaction represented the acquisition of 28% interest in the Middlemount Mine project (i.e. a minority interest), whilst the Aston Resources/Maules Creek transaction involved the acquisition of a 15% interest in the Maules Creek coal project

12.3.2 Recent share trading in Gloucester and the Capital Raising

On 16 May 2011 Gloucester announced the Capital Raising, which is a fully underwritten, accelerated non-renounceable institutional pro-rata entitlement offer to raise AUD 229.8 million at AUD 9.00 per share and which is a pro rata entitlement offer to existing shareholders. We note that the price per share implied by the Capital Raising reflects a minority interest value, as the shareholders participating in the Capital Raising hold minority interests in Gloucester. The issue price of the Capital Raising of AUD 9.00 represents a 9.1% discount to the closing share price of Gloucester on 6 May 2011 of AUD 9.90. We note equity placements often occur at a discount to the closing share price prior to the announcement of the placement to encourage investor participation.

We have also had regard to the standalone value of a share in Gloucester (on a minority interest basis) derived from our valuation of the Proposed Merged Entity and compared this to the pre-announcement share trading price of a Gloucester share. In our opinion, the pre-announcement trading price of a share in Gloucester provides supports for this value.

Appendix 1: Glossary

Reference	Definition
α	Specific company risk premium
β	Beta estimate
ABARE	Australian Bureau of Agricultural and Resource Economics
Abel Extension Project	Proposed extension of the Abel Mine
Abel Mine	Abel underground coal mine
ad	Air dried
Additional Shares	The additional shares that Ellemby will become entitled to (as a result of the Converting Shares) should certain milestones be achieved in respect of the Monash Exploration Assets over an agreed timeframe
AFSL	Australian Financial Services Licence
AGSM	Australian Graduate School of Management
AMCI	American Metals & Coal International
APCT	Abbot Point Coal Terminal
APESB	Accounting Professional and Ethical Standards Board Limited
ARTC	Australian Rail Track Corporation
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
AUASB	Auditing and Assurance Standards Board
AUD	Australian dollars
BBSW	Bank bill swap rate
BDA	Behre Dolbear Australia Pty Limited
BHP	BHP Billiton Limited
Bloomfield CHPP	Bloomfield Coal Handling and Preparation Plant
BMA	BHP Billiton Mitsubishi Alliance
bps	Basis points
Capital Raising	The fully underwritten, accelerated non-renounceable institutional pro-rata entitlement offer announced by Gloucester on 16 May 2011 to raise AUD 229.8 million at AUD 9.00 per share, which is a pro rata entitlement offer to existing shareholders
CAPM	Capital Asset Pricing Model
CBS	Capacity balancing system
CEO	Chief Executive Officer
CHPP	Coal handling and preparation plant
CHSA	Coal handling services agreement
CIM	Centenary International Mining
CMI	Coal Marketing International Pty Limited

Reference	Definition
Contingent Consideration	Together, the Converting Shares and the Additional Shares
Converting Shares	1,000 unlisted converting shares issued to Ellemby in the Proposed Merged Entity pursuant to the Proposed Monash Acquisition
Corporations Act	Corporations Act 2001 (Cth)
CPRS	Carbon Pollution Reduction Scheme
CY	Calendar year
D/V	Proportion of enterprise funded by debt
daf	Dry ash free
Damodaran	Aswath Damodaran
DBCT	Dalrymple Bay Coal Terminal
ddpm	Dial divisions per minute
Deloitte	Deloitte Corporate Finance Pty Limited
Donaldson	Donaldson Coal Holdings Limited
Donaldson Mine	Donaldson open cut coal mine
Donaldson Model, the	Financial model prepared by the management of Donaldson to estimate the future cash flows of the operating assets and development projects of Donaldson
Duralie Mine Extension Project	The long term mine plan prepared for the Weismantel and Clareval seams in June 2008
E/V	Proportion of enterprise funded by equity
EA	Exploration Authorisation
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EL	Exploration Licence
Ellemby	Ellemby Investments Pty Limited
EMRP	Equity market risk premium
ETS	Emissions Trading Scheme
EV	Enterprise value
FICS	Financial Industry Complaints Service
FOB	Free on board
FOBT	free on board trimmed
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
FSI	Free Swelling Index
FY	Financial year ended 30 June
Gloucester	Gloucester Coal Ltd
Gloucester Basin Assets, the	Gloucester operating coal mines in NSW, being the Stratford Operation and the Duralie Operation, and its three coal exploration licences in NSW
Gloucester Model, the	Financial model prepared by the management of Gloucester to estimate the future cash flows of the operating assets and development projects of Gloucester
GM	General Meeting
GMS	Geological and Management Services Pty Limited
HCC	Hard coking coal
HVRN	Hunter Valley rail network

Reference	Definition
HY	Half year
Independent Directors	The independent directors of Gloucester
ITOCHU	ITOCHU Minerals & Energy of Australia
JFY	Japanese financial year
JORC	Joint Ore Reserves Committee
JV	Joint Venture
Kcal	Kilocalorie
K_d	Cost of debt capital
K_e	Cost of equity capital
KEPCO	Korea Electric Power Corporation
Kg	Kilogram
Km	Kilometre
Kt	Kilotonnes
LHS	Left hand side
LIBOR	London Interbank Offered Rate
Listing Rules	Listing Rules of the Australian Securities Exchange
LOM	Life of mine
LTIP	Long Term Incentive Plan
LV	Low volatile
Macarthur	Macarthur Coal Limited
Macarthur Takeover Offer	The takeover offer from Macarthur for Gloucester consisting of 0.84 Macarthur shares for each Gloucester share or AUD 8.00 for each Gloucester share
Marketing Arrangement	The marketing fee of 2% to be applied to exported volumes in excess of 3.5 Mtpa, up to 11.75 Mtpa (i.e. the Marketing Arrangement will only apply to 8.25 Mtpa) from the Port of Newcastle by the entity comprising Gloucester and Donaldson and any other entities in which Gloucester may acquire an equity interest in the future, multiplied by the volume weighted average gross sales price per tonne FOBT Port of Newcastle determined by reference to the relevant bill of lading (less any adjustment for quality standards and specifications)
Mining Lease	The mining lease which must be issued to the Proposed Merged Entity within ten years of completion of the Proposed Transactions for Ellemby to become entitled to the Stage 2 Payment
ML	Mining lease
Models, the	The Gloucester Model and the Donaldson Model
Monash	Monash Coal Pty Limited and Monash Coal Unit Trust
Monash Exploration Assets	The two exploration licences owned by Monash
Morningstar	Morningstar, Incorporated
MRRT	Minerals Resource Rent Tax
MSCI Index	Morgan Stanley Capital International World Index
Mt	Million tonnes
Mtpa	Mt per annum
NCIG	Newcastle Coal Infrastructure Group
NEC	Northern Energy Corporation Limited

Reference	Definition
New Hope	New Hope Corporation Limited
Noble	Noble Group Limited
Noble Energy	Noble Energy Incorporated
Non-associated Shareholders	Shareholders other than Noble
Notice of Meeting	The notice of meeting prepared by the Independent Directors containing the detailed terms of the Proposed Transactions for the purposes of the GM
NPC	Newcastle Port Corporation
NSW	New South Wales
O/C	Open cut
Pacific National	Pacific National Pty Limited
PCI	Pulverised injection coal
PKCT	Port Kembla Coal Terminal Limited
POSCO	POSCO Company Limited
PPA	Purchase price adjustment
Proposed Donaldson Acquisition	The proposed transaction in which Gloucester has agreed to acquire Noble's 100% interest in Donaldson and Noble's existing marketing arrangements with Donaldson is replaced with the Marketing Arrangements
Proposed Hunter Coal Terminal	The proposed conversion of at least part of the former Mayfield steelworks site into a coal terminal
Proposed Merged Entity	The entity comprising Gloucester, Donaldson and the Monash Exploration Assets
Proposed Monash Acquisition	The proposed transaction in which Gloucester has agreed to acquire Monash from Ellemby
Proposed Transactions, the	Together, the Proposed Donaldson Acquisition and the Proposed Monash Acquisition
PWCS	Port Waratah Coal Services Limited
QR National	Queensland Rail National
R_f	Risk free rate
RHS	Right hand side
R_m	Expected return on the market portfolio
ROM	Run of mine
SHCC	Semi-hard coking coal
SSCC	Semi-soft coking coal
Stage 1	The first stage of the Contingent Consideration, whereby Additional Shares in the Proposed Merged Entity will be provided to Ellemby on the date a JORC Code-compliant ore reserves report for the Monash Exploration Assets is finalised
Stage 2	The second stage of the Contingent Consideration, whereby Additional Shares in the Proposed Merged Entity will be provided to Ellemby on the date a second JORC Code-compliant ore reserves report is finalised for the Monash Exploration Assets and is subject to the Proposed Merged Entity being granted a Mining Lease
Stage 3	The third stage of the Contingent Consideration whereby, Ellemby will be provided Additional Shares in the Proposed Merged Entity subject t to a Mining Lease being granted to the Proposed Merged Entity. The Stage 3 Payment will be calculated on a quarterly basis over the period between the Stage 2 Payment determination date and 31 December 2016 and is calculated as 2.5% of the Stage 2 Payment
Stage 1 Payment	The Stage 1 Payment is calculated as AUD 1.16 per tonne of Proved or Probable Reserves,

Reference	Definition
	capped at a total value of AUD 70.0 million. The Stage 3 payment cap will be adjusted for inflation on a quarterly basis from completion of the Proposed Transactions from a March 2011 base
Stage 2 Payment	The Stage 2 Payment is calculated as AUD 1.16 per tonne of Proved or Probable Reserves, capped at a total value of AUD 50.0 million. The Stage 3 payment cap will be adjusted for inflation on a quarterly basis from completion of the Proposed Transactions from a March 2011 base
Stage 3 Payment	The Stage 3 Payment will be calculated on a quarterly basis over the period between the Stage 2 Payment determination date and 31 December 2016 and is calculated as 2.5% of the Stage 2 Payment
T4	A proposed fourth terminal being assessed by PWCS as a result of the expansion of the Kooragang coal loading terminal
Tasman Extension Area	Tasman Extension Project relates to EL 5337, EL 5497 and EL 5498
Tasman Extension Project	Proposed extension pf the Tasman Mine
Tasman Mine	Tasman underground coal mine
t_c	Corporate tax rate
TC	Thermal coal
U/G	Underground
US	United States of America
USD	United States dollars
VALMIN code, the	Valuation of Minerals and Petroleum Assets and Securities for Independent Expert Reports
VWAP	Volume weighted average price
WACC	Weighted average cost of capital
Xstrata	Xstrata plc

Appendix 2: Discount rate

The discount rate used to equate the future cash flows to their present value reflects the risk adjusted rate of return demanded by a hypothetical investor for the asset or business being valued.

Selecting an appropriate discount rate is a matter of judgement having regard to relevant available market pricing data and the risks and circumstances specific to the asset or business being valued.

Whilst the discount rate is in practice normally estimated based on a fundamental ground up analysis using one of the available models for estimating the cost of capital (such as the Capital Asset Pricing Model (CAPM)), market participants often use less precise methods for determining the cost of capital such as hurdle rates or target internal rates of return and often do not distinguish between investment type or region or vary over economic cycles.

For ungeared cash flows, discount rates are determined based on the cost of an entity's debt and equity weighted by the proportion of debt and equity used. This is commonly referred to as the weighted average cost of capital (WACC).

The WACC can be derived using the following formula:

$$WACC = \left(\frac{E}{V} * K_e\right) + \left(\frac{D}{V} * K_d (1 - t_c)\right)$$

The components of the formula are:

K_e = cost of equity capital

K_d = cost of debt

t_c = corporate tax rate

E/V = proportion of enterprise funded by equity

D/V = proportion of enterprise funded by debt

The adjustment of K_d by (1- t_c) reflects the tax deductibility of interest payments on debt funding. The corporate tax rate has been assumed to be 30%, in line with the Australian corporate tax rate.

Cost of equity capital (K_e)

The cost of equity, K_e, is the rate of return that investors require to make an equity investment in a firm.

We have used the CAPM to estimate the K_e for Donaldson and the Proposed Merged Entity. The CAPM calculates the minimum rate of return that the company must earn on the equity-financed portion of its capital to leave the market price of its shares unchanged. The CAPM is the most widely accepted and used methodology for determining the cost of equity capital.

The cost of equity capital under CAPM is determined using the following formula:

$$K_e = R_f + \beta(R_m - R_f) + a$$

The components of the formula are:

K_e = required return on equity

R_f = the risk free rate of return

R_m = the expected return on the market portfolio

β = beta, the systematic risk of a stock

α = specific company risk premium

Each of the components in the above equation is discussed below.

Risk free rate (Rf)

The risk free rate compensates the investor for the time value of money and the expected inflation rate over the investment period. The frequently adopted proxy for the risk free rate is the long-term government bond rate.

Since there is no zero-coupon government bond issued by the Australian Government, we have utilised the zero coupon bond yield calculated by Thomson Reuters, which excludes the coupon payments from the 10-year Australian Government Bond. In determining R_f we have taken the 5-day average of the zero coupon 10-year Australian Government Bond yield for the period of 2 May 2011 to 6 May 2011 as shown in the table below.

Table 52: Five-day average of the 10-year zero-coupon Australian Government bond yield as at 6 May 2011

	Yield
2 May 2011	5.54%
3 May 2011	5.49%
4 May 2011	5.52%
5 May 2011	5.52%
6 May 2011	5.56%
Five day average as at 6 May 2011	**5.53%**

Source: Thomson Reuters

The 10-year bond rate is a widely used and accepted benchmark for the risk free rate in Australia. This rate represents a nominal rate and thus includes inflation.

Equity market risk premium (EMRP)

The EMRP ($R_m - R_f$) represents the risk associated with holding a market portfolio of investments, that is, the excess return a shareholder can expect to receive for the uncertainty of investing in equities as opposed to investing in a risk free alternative. The size of the EMRP is dictated by the risk aversion of investors – the lower (higher) an investor's risk aversion, the smaller (larger) the equity risk premium.

The EMRP is not readily observable in the market and therefore represents an estimate based on available data. There are generally two main approaches used to estimate the EMRP, the historical approach and the prospective approach, neither of which is theoretically more correct or without limitations. The former approach relies on historical share market returns relative to the returns on a risk free security; the latter is a forward looking approach which derives an estimated EMRP based on current share market values and assumptions regarding future dividends and growth.

In evaluating the EMRP, we have considered both the historically observed and prospective estimates of EMRP.

Historical approach

The historical approach is applied by comparing the historical returns on equities against the returns on risk free assets such as Government bonds, or in some cases, Treasury bills. The historical EMRP has the benefit of being capable of estimation from reliable data; however, it is possible that historical returns achieved on stocks were different from those that were expected by investors when making investment decisions in the past and thus the use of historical market returns to estimate the EMRP would be inappropriate.

It is also likely that the EMRP is not constant over time as investors' perceptions of the relative riskiness of investing in equities change. Investor perceptions will be influenced by several factors such as current economic conditions, inflation, interest rates and market trends. The historical risk premium assumes the EMRP is unaffected by any variation in these factors in the short to medium term.

Historical estimates are sensitive to the following:

- the time period chosen for measuring the average
- the use of arithmetic or geometric averaging for historical data
- selection of an appropriate benchmark risk free rate
- the impact of franking tax credits

- exclusion or inclusion of extreme observations.

The EMRP is highly sensitive to the different choices associated with the measurement period, risk free rate and averaging approach used and as a result estimates of the EMRP can vary substantially.

We have considered the most recent studies undertaken by the Centre for Research in Finance at the Australian Graduate School of Management (AGSM), Morningstar, Incorporated (Morningstar), ABN AMRO/London Business School and Aswath Damodaran (Damodaran). These studies generally calculate the EMRP to be in the range of 5% to 8%.

Prospective approach

The prospective approach is a forward looking approach that is current, market driven and does not rely on historical information. It attempts to estimate a forward looking premium based on either surveys or an implied premium approach.

The survey approach is based on investors, managers and academics providing their long term expectations of equity returns. Survey evidence suggests that the EMRP is generally expected to be in the range of 6% to 8%.

The implied approach is based on either expected future cash flows or observed bond default spreads and therefore changes over time as share prices, earnings, inflation and interest rates change. The implied premium may be calculated from the market's total capitalisation and the level of expected future earnings and growth.

Selected EMRP

We have considered both the historically observed EMRP and the prospective approaches as a guideline in determining the appropriate EMRP to use in this report. Australian studies on the historical risk premium approach generally indicate that the EMRP would be in the range of 5% to 8%.

In recent years it has been common market practice in Australia in expert's reports and regulatory decisions to adopt an EMRP of 6%.

Having considered the various approaches and their limitations, we consider an EMRP of 6% to be appropriate.

Beta estimate (β)

Description

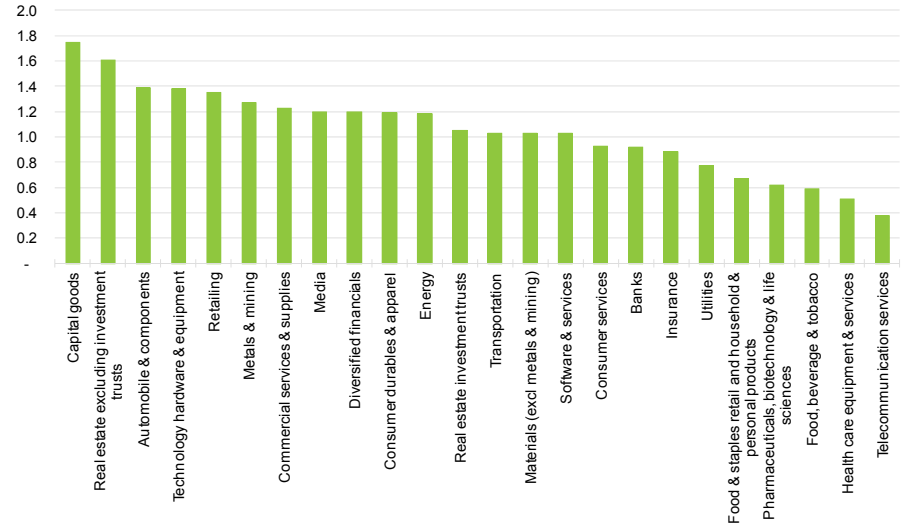
The beta coefficient measures the systematic risk or non-diversifiable risk of a company in comparison to the market as a whole. Systematic risk, as separate from specific risk as discussed below, measures the extent to which the return on the business or investment is correlated to market returns. A beta of 1.0 indicates that an equity investor can expect to earn the market return (i.e. the risk free rate plus the EMRP) from this investment (assuming no specific risks). A beta of greater than one indicates greater market related risk than average (and therefore higher required returns), while a beta of less than one indicates less risk than average (and therefore lower required returns).

Betas will primarily be affected by three factors which include:

- the degree of operating leverage employed by the firm in that companies with a relatively high fixed cost base will be more exposed to economic cycles and therefore have higher systematic risk compared to those with a more variable cost base
- the degree of financial leverage employed by a firm in that as additional debt is employed by a firm, equity investors will demand a higher return to compensate for the increased systematic risk associated with higher levels of debt
- correlation of revenues and cash flows to economic cycles, in that companies that are more exposed to economic cycles (such as retailers), will generally have higher levels of systematic risk (i.e. higher betas) relative to companies that are less exposed to economic cycles (such as regulated utilities).

The betas of various Australian industries listed on the ASX are reproduced below and provide an example of the relative industry betas for a developed market.

Figure 21: Betas for various industries (as at 31 December 2010)



Source: Securities Industry Research Centre of Asia-Pacific Limited

The differences are related to the business risks associated with the industry. For example, the above diagram indicates transportation companies are more correlated to overall market returns with a beta close to 1.0 whereas telecommunications and other infrastructure companies (in particularly those that are regulated) typically have betas lower than 1.0.

The geared or equity beta can be estimated by regressing the returns of the business or investment against the returns of an index representing the market portfolio, over a reasonable time period. However, there are a number of issues that arise in measuring historical betas that can result in differences, sometimes significant, in the betas observed depending on the time period utilised, the benchmark index and the source of the beta estimate. For unlisted companies it is often preferable to have regard to sector averages or a pool of comparable companies rather than any single company's beta estimate due to the above measurement difficulties.

Market evidence

In estimating an appropriate beta for Donaldson and the Proposed Merged Entity we have considered the betas of listed companies that are comparable to Donaldson and the Proposed Merged Entity. These betas, which are presented below, have been calculated based on weekly returns, over a two year period, compared to a relevant domestic index and the Morgan Stanley Capital International World Index (MSCI Index).

Table 53: Analysis of betas for listed companies with comparable operations to Donaldson and the Proposed Merged Entity

Company	Domicile	Enterprise value (AUD million)[1]	Debt to enterprise value[2]	Domestic index 2 years weekly		MSCI Index 2 years weekly	
				Levered beta	Unlevered Beta[3]	Levered beta	Unlevered Beta[3]
Australian entities							
Coal producing companies							
Coal & Allied Industries Limited	Australia	9,205	(5)%	0.6	0.6	0.5	0.5
Whitehaven Coal Limited[4]	Australia	3,046	(3)%	1.4	1.4	1.1	1.1
Macarthur Coal Limited	Australia	2,770	(9)%	1.9	1.9	1.7	1.7
New Hope Corp Limited	Australia	2,155	nm	1.0	1.0	0.9	0.9
Gloucester Coal Limited	Australia	1,452	(3)%	0.8	0.8	0.7	0.7
Gujarat NRE Coking Coal Limited[4]	Australia	660	21%	0.4	0.4	0.3	0.2
Average - Australian coal producing companies[5]			**(5)%**	**1.2**	**1.2**	**1.0**	**1.0**
Coal developing companies							
Aston Resources Limited	Australia	2,033	nm	nm	nm	nm	nm
Bandanna Energy Limited[4]	Australia	775	(9)%	2.4	2.4	2.0	2.0
Cockatoo Coal Limited	Australia	459	(4)%	1.1	1.0	0.8	0.7
Nucoal Resources NL	Australia	221	(2)%	0.3	0.3	0.3	0.3
Northern Energy Corporation Limited	Australia	176	(10)%	2.0	2.0	1.8	1.8
Carabella Resources Limited	Australia	255	nm	nm	nm	nm	nm
Average - Australian coal developing companies[6]			**(10)%**	**1.8**	**1.8**	**1.5**	**1.5**

Company	Domicile	Enterprise value (AUD million)	Debt to enterprise value	Domestic index 2 years weekly		MSCI Index 2 years weekly	
				Levered beta	Unlevered beta	Levered beta	Unlevered beta
International entities							
Entities with domestic and export sales							
Yanzhou Coal Mining Co Limited	China	21,457	(0)%	1.5	1.4	0.8	0.8
Peabody Energy Corporation	US	16,926	13%	1.9	1.8	1.8	1.7
Bumi Resources Tbk PT	Indonesia	11,877	36%	1.5	1.0	1.2	0.8
Adaro Energy Tbk PT	Indonesia	8,907	11%	1.1	1.0	0.9	0.8
Alpha Natural Resources, Incorporated	US	5,679	8%	2.3	2.1	2.1	2.0
Patriot Coal Corporation	US	2,237	14%	3.3	3.0	3.1	2.7
Entities with export sales							
China Shenhua Energy Company Limited	China	81,946	(1)%	1.4	1.3	0.4	0.4
Consol Energy, Incorporated	US	13,585	12%	2.0	1.8	1.9	1.7
Massey Energy Corporation	US	6,852	15%	2.9	2.5	2.6	2.3
Arch Coal, Incorporated	US	6,111	28%	2.3	1.8	2.2	1.7
Average - international entities			**14%**	**2.0**	**1.8**	**1.7**	**1.5**
Median - international entities			**12%**	**2.0**	**1.8**	**1.9**	**1.7**
Average – overall[7]			**6%**	**1.8**	**1.6**	**1.5**	**1.4**
Median – overall[7]			**0%**	**1.9**	**1.8**	**1.7**	**1.7**

Source: Thomson Reuters

Notes:

1. Enterprise values as at 6 May 2011. Enterprise values have been converted to AUD using the relevant exchange rate as at 6 May 2011
2. Refers to average two year debt to enterprise value ratio
3. Levered betas have been unlevered using the entity's average two year gearing
4. The observed betas for these companies may be affected by recent takeover speculation/activity
5. The average calculation of the Australian coal producing companies excludes Gujarat NRE Coking Coal Limited as it is considered illiquid
6. The average calculation of the Australian coal developing companies excludes Nucoal Resources NL as it is considered illiquid
7. The overall average and median calculations exclude Gujarat NRE Coking Coal Limited and Nucoal Resources NL.

Descriptions for each of the above companies are provided in Appendix 3.

The observed beta is a function of the underlying risk of the cash flows of the company, together with the capital structure and tax position of that company. This is described as the levered beta.

The capital structure and tax position of the entities in the table above may not be the same as those of Donaldson and the Proposed Merged Entity. The levered beta is often adjusted for the effect of the capital structure and tax position. This adjusted beta is referred to as the unlevered beta. The unlevered beta is a reflection of the underlying risk of the pre-financing cash flows of the entity.

Selected beta (β)

In selecting an appropriate beta for Donaldson and the Proposed Merged Entity we have considered the following:

- coal mining and exploration assets have varying risk profiles depending on the maturity of the asset and the stage of their development. Gloucester and Donaldson are coal producers, which have mining operations and exploration assets in the Gloucester Basin and the Hunter Valley region, respectively. In addition Gloucester has development activities in Queensland, through its near 50% interest in the Middlemount Mine project. The Middlemount Mine project is expected to commence production in the second half of CY2011.

  Accordingly, we have considered companies that are in the production phase and are operating and developing coal projects in developed economies, particularly Australia. The average unlevered beta for comparable Australian coal producing companies, based on the domestic index and the MSCI Index, is 1.2 and 1.0, respectively, whilst the average unlevered beta for comparable Australian coal developing companies, based on the domestic index and the MSCI Index, is 1.8 and 1.5, respectively

- the majority of the international comparable companies derive a significant portion of revenue from domestic coal sales, with the exception of Bumi Resources Tbk PT and Adaro Energy Tbk PT, compared to Donaldson and the Proposed Merged Entity. Gloucester currently exports the majority of its coal to Asia, whilst Donaldson exported all of its coal in the last three years to Japan, China, Taiwan, South Korea and Europe

- with the exception of Adaro Energy Tbk PT, Bumi Resources Tbk PT and Peabody Energy Corporation, the selected international comparable companies that export coal, export to the European and South American markets compared to Donaldson and Gloucester which mostly export to the Asian market. As a result, these international comparable companies are likely to achieve different prices compared to Donaldson and the Proposed Merged Entity

- of the Australian coal producing companies, two have mines located in Queensland, being Macarthur and New Hope Corporation Limited, and four have mines located in NSW, being Coal & Allied, Whitehaven Coal Limited (Whitehaven), Gujarat NRE Coking Coal Limited and Gloucester. Of these companies, we consider the operations of Whitehaven to be the most comparable to those of Donaldson and the Proposed Merged Entity based on the following:

  - Whitehaven's overall product mix (thermal, SSCC and PCI) is similar to Donaldson thermal and soft coking) and the Proposed Merged Entity (thermal coal, soft coking and SHCC). In addition, similar to Donaldson and the Proposed Merged Entity, Whitehaven's operations consist of both open cut and underground mines

  - Whitehaven's Gunnedah Operations include four open cut mines producing mostly thermal and SSCC and it has recently commenced production at its Narrabri project, which is an underground mine producing low ash, high energy, low sulphur thermal coal for the export market. Stage 2 of the Narrabri project, which involves construction of a longwall operation, is expected to commence in September 2011 with the first longwall coal scheduled for December 2011.

    Gloucester operates open cut mines and currently has open cut expansions proposed for its Stratford and Duralie mines.

    Donaldson currently operates two underground mines (the Abel Mine and the Tasman Mine) with plans to expand production via the Abel Extension Project and the Tasman Extension Project. These proposed extension projects will use both the bord and pillar and longwall mining methods

  - Whitehaven owns an 11% interest in NCIG, whilst Donaldson also owns 11.6%. However, we note that Whitehaven's export growth is expected to be constrained in the medium term by port capacity at

the Port of Newcastle, whilst Donaldson currently has excess capacity (based on its existing allocation at PWCS and NCIG and current production volumes)

- notwithstanding the above, we note the betas observed for Whitehaven may be affected by a number of recent company specific events, including:
  - Whitehaven management commenced a sale process to sell the company in October 2010, which remains ongoing
  - Whitehaven has a number of fixed-price legacy contracts which, in the event of the company having a shortfall in coal, will need to be met with purchased coal or cash settled. Whitehaven experienced a production shortfall of 0.65 Mt during the December 2010 quarter (which was covered on the spot market) and settled a further 0.72 Mt in cash. The shortfall was created by the closure of Whitehaven's Werris Creek mine as a result of adverse weather during the December 2010 quarter. The combined effect of this shortfall is expected to have a substantial effect on FY2011 earnings
- the unlevered beta for Whitehaven, based on the domestic index and the MSCI Index, is 1.4 and 1.1, respectively
- we consider the operations of Donaldson to be of greater risk than those of the Proposed Merged Entity, which will incorporate the operations of Donaldson. We note that the production profile (ROM and saleable) and current resource estimate[26] for the Proposed Merged Entity is significantly higher when compared to Donaldson. Therefore, the operations of the Proposed Merged Entity, which will incorporate the operations of Donaldson, will be significantly larger than Donaldson on a standalone basis.

We consider it preferable to have regard to sector averages or a pool of comparable companies rather than any single company's beta estimate due to the inherent difficulties in measuring the beta of the underlying company being valued. In addition, we note current debt to equity levels are below historical levels due to the strong earnings generated by high coal prices achieved in the past two years.

Assuming an unlevered beta in the range of 1.10 to 1.20, a corporate tax rate of 30% and a debt to equity mix of 25% debt and 75% equity gives a relevered beta of 1.24 to 1.32 for Donaldson.

Assuming an unlevered beta in the range of 1.00 to 1.10, a corporate tax rate of 30% and a debt to equity mix of 25% debt and 75% equity gives a relevered beta of 1.16 to 1.24 for the Proposed Merged Entity.

On this basis we have selected a levered beta in the range of 1.25 to 1.35 for Donaldson and a levered beta in the range of 1.15 to 1.25 for the Proposed Merged Entity.

Specific company risk premium (α)

The specific company risk premium adjusts the cost of equity for company specific factors, including unsystematic risk factors such as:

- company size (which we discuss in detail below)
- depth and quality of management
- reliance on one key individual or a few key members of management
- reliance on key customers
- reliance on key suppliers
- product diversity (limits on potential customers)
- geographic diversity
- labour relations, quality of personnel (union/non-union)
- capital structure, amount of leverage
- existence of contingent liabilities.

The CAPM assumes, amongst other things, that rational investors seek to hold efficient portfolios, that is, portfolios that are fully diversified. One of the major conclusions of the CAPM is that investors do not have regard to specific company risks (often referred to as unsystematic risk).

[26] Resources consist of Proved and Probable Reserves and Measured and Indicated Resources as defined by JORC

Selection of specific company risk premium: development risk

We have applied a specific company risk premium to the volumes anticipated to be mined from Donaldson to take into account development risk.

We have not applied a specific company risk premium for the operating assets and developing assets of the Proposed Merged Entity, which will incorporate the operations of Donaldson, with the exception of the volumes anticipated to be mined from Donaldson and the Middlemount Mine project (in which Gloucester owns a near 50% interest).

Donaldson

In determining an appropriate specific risk premium to apply to Donaldson, we have had regard to the development risks associated with the Tasman Extension Project and the Abel Extension Project, which are subject to the granting of necessary approvals and are not expected to commence production until 2019 and 2013, respectively. Consequently, this results in greater uncertainty over the timing and magnitude of future cash flows for Donaldson.

We note the following in relation to the Tasman Extension Project and the Abel Expansion Project:

- mining within the proposed Tasman Extension Project is subject to the grant of necessary approvals and is not expected to commence full scale production before late 2019. Planned ROM production for 2011 is approximately 0.8 Mt which will be ramped up to a maximum of 0.95 Mtpa by 2015 in order to comply with state regulation which limits the transportation of coal on public roads to approximately 1.0 Mtpa. This level of ROM production will then be maintained for at least the next 20 years
- a 65 m wide mini-wall or 125 m short longwall is scheduled to be commissioned during the first quarter of 2013 to increase underground production at the Abel Mine to a level where all the contract coal washing capacity at the Bloomfield CHPP can be utilised. The Abel Mine is currently approved to produce up to 4.5 Mtpa ROM and this level of production is expected to be maintained for at least 20 years, however Government approval will be required in order to commence longwall operations at the Abel Mine.

On this basis, we have selected a specific company risk premium of 1% to apply to cash flows associated with Donaldson.

Gloucester – Middlemount Mine project

We have applied a specific company risk premium to the Middlemount Mine project to account for development risk which results in greater uncertainty over the timing and magnitude of future cash flows for the Middlemount Mine project.

In determining an appropriate specific risk premium to apply to the Middlemount Mine project, we have had regard to the following:

- the construction of a dedicated CHPP facility (under the management of Sedgman Limited) commenced in October 2009 following approval of the mining lease in September 2009 and testing and processing of the coal was undertaken during the December 2010 quarter. Commissioning testing was undertaken during the March 2011 quarter with a further 37 kt trucked and sold to the Coppabella and Moorvale Joint Venture (73.3% owned by Macarthur)
- a dedicated rail loop and water pipeline for the Middlemount Mine project will be required. Construction was expected to commence during CY2010, however this was delayed as a result of extended negotiations relating to interim rail and water supply agreements. In addition, the significant wet weather experienced throughout the Bowen basin in January 2011 has affected the timing and some of the earthworks associated with construction of the rail loop to join the Middlemount Mine to the Goonyella rail network. As result, construction is now expected to commence in 2011, with completion of the rail line expected to occur in the second half of CY2011
- the environmental approval study was released for public comment in the December 2010 quarter to increase production at the project up to a maximum of 5.4 Mtpa from FY2014. By the end of the third quarter of FY2011, the Middlemount Mine project had received 11 submissions. This approval is expected to be obtained by mid to late CY2012.

On this basis, we have selected a specific company risk premium of 1.0% to apply to cash flows associated with the Middlemount Mine project.

Dividend imputation

Dividends paid by Australian corporations may be franked, unfranked, or partly franked. A franked dividend is one that is paid out of company profits which have borne tax at the company rate, currently 30%. Where the shareholder is an Australian resident individual or complying superannuation fund, it will generally be entitled to a tax credit (called an imputation credit) in respect of the tax paid by the company on the profits out of which the dividend was paid. If the recipient of the dividend is another company, the dividend will give rise to a credit in that company's franking account thereby increasing the potential of the company to pay a franked dividend at a later stage.

We have not adjusted the cost of capital or the projected cashflows for the impact of dividend imputation due to the diverse views as to the value of imputation credits and the appropriate method that should be employed to calculate this value. Determining the value of franking credits requires an understanding of shareholders' personal tax profiles to determine the ability of shareholders to use franking credits to offset personal income. Furthermore, the observed EMRP already includes the value that shareholders ascribe to franking credits in the market as a whole. In our view, the evidence relating to the value that the market ascribes to imputation credits is inconclusive.

Conclusion on cost of equity

Based on the above factors we arrive at a cost of equity, K_e, for Donaldson and the Proposed Merged Entity as follows:

Table 54: K_e applied to valuation of Donaldson

	Donaldson	
Input	Low	High
Risk free rate (%)	5.53	5.53
EMRP (%)	6.00	6.00
Relevered beta	1.25	1.35
Specific company risk premium (%)	1.00	1.00
K_e – calculated	**14.03**	**14.63**

Source: Deloitte analysis

Table 55: K_e applied to valuation of Proposed Merged Entity

	Proposed Merged Entity			
	Operating assets and development projects		Middlemount Mine project and Donaldson	
Input	Low	High	Low	High
Risk free rate (%)	5.53	5.53	5.53	5.53
EMRP (%)	6.00	6.00	6.00	6.00
Relevered beta	1.15	1.25	1.15	1.25
Specific company risk premium (%)	-	-	1.00	1.00
K_e – calculated	**12.43**	**13.03**	**13.43**	**14.03**

Source: Deloitte analysis

Cost of debt capital (K_d)

We have selected a pre-tax cost of debt of 8.50% for Donaldson and the Proposed Merged Entity as we consider a margin of 300 basis points above the current risk free rate to be reasonable based on the rates currently payable by companies with comparable risk profiles to Donaldson and the Proposed Merged Entity.

We note the following:

- Donaldson is currently incurring an interest rate of 300 basis points over LIBOR on loans from the subsidiaries of Noble. In addition, Donaldson is also currently incurring an interest rate of 200 bps over the BBSW on its bank loans
- Gloucester currently has a mortgage facility in relation to the purchase of 11 dump trucks of which approximately AUD 35 million was drawn down as at 30 June 2010, incurring a fixed interest rate of 5.7% per annum
- Gloucester is currently incurring an interest rate of 250 basis points over LIBOR on the USD 80 million loan facility provided by Noble at the end of 2010.

Debt to enterprise value ratio

We have adopted a target debt to enterprise value ratio of 25% for Donaldson and the Proposed Merged Entity.

Calculation of WACC

Based on the above, we have assessed the nominal post-tax WACC for Donaldson and the Proposed Merged Entity to be:

Table 56: WACC applied to valuation of Donaldson

	Donaldson	
Input	Low	High
Cost of equity capital (%)	14.03	14.63
Cost of debt capital (%)	8.50	8.50
Debt to enterprise value ratio (%)	25.00	25.00
Tax rate (%)	30.00	30.00
WACC (%)	**12.01**	**12.46**
Selected WACC (%)	**12.00**	**12.50**

Source: Deloitte analysis

Table 57: WACC applied to valuation of the Proposed Merged Entity

	Proposed Merged Entity			
	Operating assets and development projects		Middlemount Mine project and Donaldson	
Input	Low	High	Low	High
Cost of equity capital (%)	12.43	13.03	13.43	14.03
Cost of debt capital (%)	8.50	8.50	8.50	8.50
Debt to enterprise value ratio (%)	25.00	25.00	25.00	25.00
Tax rate (%)	30.00	30.00	30.00	30.00
WACC (%)	**10.81**	**11.26**	**11.56**	**12.01**
Selected WACC (%)	**10.75**	**11.25**	**11.50**	**12.00**

Source: Deloitte analysis

Appendix 3: Comparable entities

The following table provides analysis of the share trading multiples of companies with comparable activities to those of Donaldson and the Proposed Merged Entity.

Table 58: Comparable share trading multiples – market trading

Entity	Domicile	Enterprise value (AUD million)[1]	Total reserves (Mt)[2]	Total resources (Mt)[3,4]	EV reserve multiple	EV resource multiple
Australian entities						
Coal producing companies						
Coal & Allied Industries Limited	Australia	9,205	1,102	3,450	8.4	2.7
Whitehaven Coal Limited	Australia	3,046	322	780	9.5	3.9
Macarthur Coal Limited	Australia	2,770	181	606	15.3	4.6
New Hope Corporation Limited	Australia	2,155	493	1,096	4.4	2.0
Gloucester Coal Limited	Australia	1,452	123	242	11.8	6.0
Gujarat NRE Coking Coal Limited	Australia	660	125	253	5.3	2.6
Average[5]					**9.9**	**3.8**
Coal developing companies						
Riversdale Mining Limited	Australia/ South Africa	3,576	549	3,083	6.5	1.2
Aston Resources Limited	Australia	2,033	361	441	5.6	4.6
Coal of Africa Limited	Australia/ South Africa	629	-	1,988	n/a	0.3
Bandanna Energy Limited	Australia	775	94	361	8.3	2.1
Cockatoo Coal Limited	Australia	459	67	540	6.8	0.8
Nucoal Resources NL	Australia	221	0	13	n/a	17.1
Northern Energy Corporation Limited	Australia	176	112	247	1.6	0.7
Carabella Resources Limited	Australia	255	-	70	n/a	3.6
Average[6]					**5.6**	**2.4**
Average – Australian entities[5,6]					**8.0**	**3.1**
Median – Australian entities[5,6]					**8.3**	**3.2**
International entities						
Entities with domestic and export sales						
Yanzhou Coal Mining Company Limited	China	21,457		2,522		8.5
Peabody Energy Corporation	US	16,926		2,179		1.9
Bumi Resources Tbk PT	Indonesia	11,877		2,860		4.2
Adaro Energy Tbk PT	Indonesia	8,907		1,410		3.0
Alpha Natural Resources, Incorporated	US	5,679		558		2.5
Patriot Coal Corporation	US	2,237		1,865		1.2
Entities with export sales						
China Shenhua Energy Company Limited	China	81,946		7,282		11.3
Consol Energy, Incorporated	US	13,585		4,400		3.1
Massey Energy Corporation	US	6,852		2,800		2.4
Arch Coal, Incorporated	US	6,111		4,445		1.4

Entity	Domicile	Enterprise value (AUD million)[1]	Total reserves (Mt)[2]	Total resources (Mt)[3,4]	EV reserve multiple	EV resource multiple
Average – international entities[7]						**2.5**
Median – international entities[7]						**2.5**
Average – overall[8]						**2.6**
Median – overall[8]						**2.5**

Source: Thomson Reuters, ASX and company announcements

Notes:

1. Enterprise values converted to AUD as at 6 May 2011
2. Total reserves consist of Proved and Probable Reserves
3. Total resources consist of Measured and Indicated Resources and are inclusive of reserves
4. Resources for some international comparables consist of marketable reserves
5. Excludes Gujarat NRE Coking Coal Limited as it is considered illiquid
6. Excludes Nucoal Resources Limited (which is considered an outlier), Riversdale Mining and Coal of Africa Limited (whose coal interests are located in southern Africa)
7. Excludes Yanzhou Coal Mining Company Limited and China Shenhua Energy Company Limited, which are considered outliers
8. Excludes Gujarat NRE Coking Coal Limited, Nucoal Resources Limited, Yanzhou Coal Mining Company Limited and China Shenhua Energy Company Limited.

We provide the descriptions for each of the above comparables as follows:

Australian entities

Coal & Allied

Coal & Allied operates underground coal mines and open cut mines in NSW. The company's producing assets include the Mount Thorley Warkworth mines, the Hunter Valley operations and the Bengalla mine. In addition, Coal & Allied also owns several development and exploration projects in NSW. The company produces thermal coal, SSCC and PCI coal and exports to international markets (Japan, Asia and Europe) and the domestic market.

Whitehaven

Whitehaven is a coal production company operating in the Gunnedah region of NSW. Whitehaven's producing assets include the Canyon, Tarrawonga and the Rocglen open cut mines near Boggabri, the Sunnyside mine near Gunnedah and the Werris Creek mine north of Quirindi. Whitehaven is currently developing its Narrabri North thermal coal JV project. The company sells SSCC, PCI and thermal coal to the global steel, power generation and metallurgical industries.

Macarthur

Macarthur is a coal mining, production and exploration company operating in Australia. The company's projects include the Coppabella coal mine, the Moorvale project in the Bowen Basin of Central Queensland and the Middlemount Mine project.

New Hope Corporation Limited

New Hope Corporation Limited (New Hope) is a thermal coal producing company based in Brisbane, Queensland. The company operates two coal mines, the New Acland mine (150 km west of Brisbane) and the New Oakleigh mine (23 km west of Ipswich) and owns the Queensland Bulk Handling Pty Limited export coal terminal at the Port of Brisbane. New Hope also owns various coal exploration tenements in South East and Central Queensland. The company sells its coal to a number of countries in the Asia-Pacific region and to the Australian domestic market.

Gloucester

Gloucester is an Australia-based company. The company is engaged in the production and marketing of coking and thermal coals from the Stratford Mine comprising the Bowens Road North pit, Roseville pits and co-disposal and from the Weismantel and Clareval pits at the Duralie Mine. Gloucester also owns a near 50% interest in the development asset, the Middlemount Mine project.

Gujarat NRE Coking Coal Limited

Gujarat NRE Coking Coal Limited, formerly Gujarat NRE Minerals Limited, is an Australia-based company. The company is engaged in the mining and producing, selling and exporting of coal. The company operates the NRE No. 1 Colliery mine and the NRE Wongawilli Colliery mine (both hard coking coal) in Wollongong in NSW.

Riversdale Mining Limited

Riversdale Mining Limited is engaged in the exploration, mining and development of various resource projects in southern Africa, which are primarily prospective for anthracite coal. The company holds interests in various properties, including the Zululand Anthracite Colliery mine located in the Zululand coalfield of northern Kwa-Zulu Natal and Mozambique tenement areas. Riversdale Mining Limited also has a JV arrangement with Tata Steel Limited to develop a coal project in Mozambique.

Aston Resources Limited

Aston Resources Limited engages in the exploration and development of coal projects in Australia. It owns interests in the Maules Creek project located in the Gunnedah Basin of NSW. The company explores for metallurgical coal and thermal coal. Aston Resources Limited is based in Brisbane.

Coal of Africa Limited

Coal of Africa Limited is engaged in the acquisition, exploration and development of thermal and metallurgical coal projects in South Africa. It also manufactures and distributes various magnesium alloys for the specialised foundry industries, including aerospace, aeronautical, motor and steel mill roll industries. The company sells its coal products primarily in North America, Europe, South East Asia, Australasia and Africa.

Bandanna Energy Limited

Bandanna Energy Limited is primarily engaged in the exploration for coal in its Bowen Basin operated tenements, including the Arcturus, Dingo West, Springsure Creek and Arcadia project areas. It also owns oil and gas exploration interests in the Cooper Basin of South Australia and Queensland and various mineral exploration licences, primarily for shale oil in Queensland.

Cockatoo Coal Limited

Cockatoo Coal Limited explores for and mines coal in Queensland. The company's key assets include the Baralaba mine in the Bowen Basin and the Woori coal project (for which Cockatoo Coal Limited recently completed the pre-feasibility stage). Cockatoo Coal Limited produces PCI and thermal coal, which is exported to the global markets. In addition the company manages a number of coal exploration rights in the Bowen Basin and the Surat Basin, both in Queensland.

Nucoal Resources NL

Nucoal Resources NL is engaged in the exploration and production of coal in Australia. It owns the Doyles Creek coal project located in the Hunter Valley in NSW.

Northern Energy Corporation Limited

Northern Energy Corporation Limited (NEC) has interests in a portfolio of coking and thermal coal projects, including the Colton hard coking coal project near Maryborough, Queensland, the Elimatta thermal coal project, located to the west of Wandoan, Queensland, the Yamala thermal/PCI coal project, between Emerald and Blackwater, Queensland and the Ashford hard coking coal project, located to the north of Inverell, NSW.

Carabella Resources Limited

Carabella Resources Limited is engaged in the exploration and development of coking and thermal coal projects in Australia. Its tenement portfolio comprises seven exploration permits for coal, including two granted and five at the application stage covering a total exploration area of approximately 3,606 square km in the Bowen, Mulgildie, Clarence-Moreton and Eromanga Basins in Queensland.

International entities

Yanzhou Coal Mining Company Limited

Yanzhou Coal Mining Company Limited operates underground mines and coal preparation plants in China and Australia (following the acquisition of Felix Resources Limited in August 2009). The company's coal production is sold in domestic and international markets. The company also provides railway transportation services and is engaged in coal-fired electricity generation.

Peabody Energy Corporation

Peabody Energy Corporation mines and markets coal in the US and Australia and has a minority interest in Venezuela's largest mine. The company owns ten operations in Australia through its wholly owned subsidiary Peabody Pacific Pty Limited. Peabody Energy Corporation produces low-sulphur coal, primarily for use by electric utilities. The company also trades coal and emission allowances.

Bumi Resources Tbk PT

Bumi Resources Tbk PT operates several coal mines throughout Africa, the Middle East and Indonesia, producing predominantly thermal coal. The company is the largest thermal coal producer in Indonesia, accounting for approximately a third of Indonesia's total coal production and is one of the largest thermal coal exporters in the world.

Adaro Energy PT

Adaro Energy PT is currently Indonesia's second largest thermal coal producer, operates the largest single coal mine in Indonesia and is a significant supplier to the global seaborne thermal coal market. Adaro Energy PT and its subsidiaries currently deal in coal mining and trade, coal infrastructure and logistics and mining contractor services.

Alpha Natural Resources, Incorporated

Alpha Natural Resources, Incorporated extracts, processes and sells thermal and metallurgical coal. The company operates from more than 60 surface and underground mines and owns 14 coal preparation plants in the northern and central Appalachian regions in the US. The company sells its coal to electric generators, steel and other industrial producers.

Patriot Coal Corporation

Patriot Coal Corporation is a producer and marketer of thermal and coking coal in the eastern US, with 14 current mining operations in the Appalachia region and the Illinois Basin in the Rocky Mountains. The company exports and supplies domestic electric utilities, industrial users and metallurgical coal customers and has approximately 1.9 billion tonnes of Proven and Probable Reserves.

China Shenhua Energy Company

China Shenhua Energy Company is an integrated coal-based energy company, focusing on thermal coal production and power generation businesses in China. The company operates several underground and open cut mines throughout China. The company also owns and operates an integrated coal transportation network, consisting of rail lines and port facilities. The company sells most of its coal to the domestic market.

CONSOL Energy, Incorporated

CONSOL Energy Incorporated produces high-bituminous coal and coal bed methane. The company operates 18 active mining complexes across six states in the US. The company sells its coal primarily to the electric power generators in the US. The majority of the company's mines are underground operations using longwall mining systems.

Massey Energy Company

Massey Energy Company produces, processes and sells bituminous, low-sulphur thermal and metallurgical coal through its processing and shipping centres. The company currently operates 42 underground and 14 open cut coal mines in West Virginia, Kentucky and Virginia in the US. Massey Energy Company provides its coal to electricity generators, industrial and metallurgical customers.

Arch Coal, Incorporated

Arch Coal, Incorporated is engaged in the production and sale of thermal and metallurgical coal from its 19 open cut and underground mines to power plants, steel mills and industrial facilities in the US. The company owns or controls approximately 360,000 acres of land in West Virginia, Wyoming, Illinois, Utah, Kentucky, New Mexico and Colorado in the US.

Appendix 4: Comparable transactions

Below are the details of comparable market transactions, listed by target company.

Table 59: Comparable mergers and acquisition multiples in Australia

Announcement date	Target company/project	Bidding company	Deal value (AUD million)[1]	Coal type	% acquired	Type of mine	Operating mine?	EV/ resources[2]
Control transactions								
04-Aug-10	Linc Energy Limited / Galilee	Adani Mining Pty Limited	1,500	TC	100.0	O/C	No	3.0
05-Jul-10	Anglo American plc / Taroom, Collingwood and Ownaview	Cockatoo Coal Limited	106	TC	51.0	O/C	No	1.1
05-Jul-10	Anglo American plc / Bylong	Korea Electric Power Corporation (KEPCO)	403	TC	100.0	U/G	No	2.7
05-Jul-10	Anglo American plc / Sutton Forest	POSCO Company Limited (POSCO)	72	TC	100.0	U/G	No	0.6
05-Jul-10	Centennial Coal Company Limited	Banpu Public Company Limited	2,504	TC, Coking	80.1	U/G & O/C	Yes	1.5
13-Aug-09	Felix Resources Limited	Yanzhou Coal Mining Company Limited	3,539	TC, PCI, SSCC	100.0	U/G & OC	Yes	4.3
27-Feb-09	Gloucester	Noble	383	TC, Coking	66.0	O/C	Yes	5.5
26-Nov-08	Peabody Energy Corporation / Baralaba mine	Cockatoo Coal Limited	52	TC, PCI	62.5	O/C	Yes	2.9
17-Jul-08	New Hope Corporation Limited / New Saraji project	BMA	2,450	MC	100.0	U/G	No	15.7
21-Dec-07	POSCO and Itochu JV / Foxleigh coal mine	Anglo American plc	712	PCI	70.0	O/C	Yes	3.5
10-Dec-07	Custom Mining Pty Limited	Macarthur	275	PCI, Coking	100.0	O/C	No	4.0
05-Dec-07	Resource Pacific Holdings Limited	Xstrata plc	1,082	SSC, TC	100.0	U/G	Yes	7.0
17-Sep-07	Austral Coal Limited / Tahmoor mine	Xstrata plc	557	HCC	100.0	U/G	Yes	3.1
17-Sep-07	Centennial Coal Company Limited / Anvil Hill project	Xstrata plc	425	TC	100.0	O/C	No	2.9
Average								**4.1**
Median								**3.1**

Announcement date	Target company/project	Bidding company	Deal value (AUD million)[1]	Coal type	% acquired	Type of mine	Operating mine?	EV/ Resources[2]
Minority interest transactions								
6-May-11	Aston Resources/Maules Creek	ITOCHU Corporation	245	SSCC, PCI	15.0	O/C	No	5.2
04-Aug-10	Noble / Middlemount Mine project	Gloucester	231	SHCC, PCI	27.5	O/C	No	6.9
06-Aug-09	Whitehaven / Narrabri coal project	Korean Consortium	136	TC	7.5	U/G	No	6.0
19-Nov-08	Resource Pacific Holdings Pty Limited / Ravensworth underground mine	Marubeni Corporation	188	SSCC	12.0	U/G	Yes	8.3
01-Aug-08	Whitehaven / Narrabri coal project	Electric Power Development Company Limited	125	TC	7.5	U/G	No	5.5
01-Aug-08	Whitehaven / Narrabri coal project	EDF Trading	129	TC	7.5	U/G	No	5.7
01-Jul-08	Macarthur	POSCO	424	HCC, SHCC, PCI, TC	10.0	O/C	Yes	6.9
30-Jun-08	Macarthur	ArcelorMittal NV	212	HCC, SHCC, PCI, TC	5.0	O/C	Yes	6.9
21-May-08	Macarthur	ArcelorMittal NV	631	HCC, SHCC, PCI, TC	14.9	O/C	Yes	6.9
27-Feb-08	Whitehaven / Narrabri coal project	Upper Horn Investment Limited	68	TC	7.5	U/G	No	3.0
02-Jan-08	Felix Resources Limited / Moolarben coal project	Consortium of companies	90	TC	10.0	U/G & O/C	No	1.5
10-Dec-07	Monto Coal 2 Pty Ltd	Noble	48.5	TC	19.6	O/C	No	4.0
07-Aug-07	Iluka Resources Limited / Narama mine	Xstrata plc	54	TC	50.0	O/C	Yes	8.8
02-Jul-07	Macarthur	CITIC Resources Australia Pty Limited	113	PCI, TC	8.4	O/C	Yes	2.2
27-Jun-07	Gloucester	American Metals & Coal International (AMCI)	40	Coking, TC	10.0	O/C	Yes	4.5
07-Jun-07	Felix Resources Limited / Moolarben coal project	Sojitz	90	TC	10.0	U/G	No	1.7
21-Mar-07	Felix Resources Limited	AMCI	188	MC, TC	19.2	U/G	Yes	2.0
Average							**5.1**	**5.1**
Median							**5.5**	**5.5**
Overall average								**4.6**
Overall median								**4.0**

Source: Mergermarket, Capital IQ, ASX announcements, Deloitte analysis

Notes:

1. Deal value converted to AUD on announcement date of the transaction
2. EV/resources = enterprise value/resources, where resources are based on Measured and Indicated Resources and are inclusive of Proved and Probable Reserves for the mine/project/company
3. TC – thermal coal.

We provide the descriptions for each of the above transactions as follows:

Control transactions

Linc Energy Limited (Galilee) / Adani Mining Pty Limited

Linc Energy Limited sold its non-core coal tenement in the Galilee Basin to Adani Mining Pty Limited for AUD 500 million in cash and an AUD 2 per tonne royalty (indexed for inflation) for the first twenty years of coal production. This transaction provided shareholders with a net present value of approximately AUD 1.5 billion.

Anglo American plc (Taroom, Collingwood and Ownaview) / Cockatoo Coal Limited

Anglo American plc sold its interests in the undeveloped coal assets, Taroom, Collingwood and Ownaview, to Cockatoo Coal Limited for cash proceeds of approximately AUD 106 million. The assets comprise Anglo American plc's share in three open cut coal deposits in Queensland, all of which are 51% held by Anglo American plc and 49% by Mitsui & Company Limited. As part of the transaction, Cockatoo Coal Limited was issued a call option by KEPCO to transfer ownership of the 51% interest in the Ownaview asset to KEPCO for a 30% interest in the Bylong asset, which was acquired by KEPCO from Anglo American plc alongside Cockatoo Coal Limited's transaction.

Anglo American plc (Bylong) / KEPCO

Anglo American plc sold the Bylong asset to KEPCO for cash proceeds of approximately AUD 403 million. The Bylong asset is an underground coal deposit in the Sydney Basin, NSW, with 150 Mt of Indicated Resources.

Anglo American plc (Sutton Forest) / POSCO

Anglo American plc sold the Sutton Forest asset (also an underground coal deposit in the Sydney Basin, NSW) to POSCO for implied consideration of approximately AUD 72 million. Cockatoo Limited later issued AUD 21.5 million shares to POSCO to acquire 30% of the asset.

Centennial Coal Company Limited / Banpu Public Company Limited

Banpu Public Company Limited, the listed Thai coal focused energy group, acquired the 80.1% it does not already own in Centennial Coal Company Limited with an offer of AUD 6.20 per share in cash. The deal valued the entire share capital of Centennial Coal Company Limited at approximately AUD 2.5 billion.

Felix Resources Limited / Yanzhou Coal Mining Company Limited

Yanzhou Coal Mining Company Limited, the dual listed Chinese coal mining group, merged with Felix Resources Limited, an Australian coal producer. The transaction was conducted via a scheme of arrangement with an offer of AUD 16.95 per Felix Resources Limited share in cash. The deal valued the entire share capital of Felix Resources Limited at AUD 3.5 billion.

Gloucester / Noble

Noble increased its interest in Gloucester to an 87.7% stake (from 21.7% interest prior to the transaction) pursuant to a takeover offer of AUD 7.00 per share plus approximately AUD 6 million to option holders. At the time of the transaction Gloucester had 102 Mt of Measured and Indicated Resources.

Peabody Energy Corporation (Barabala mine) / Cockatoo Coal Limited

Peabody Energy Corporation sold its 62.5% interest in the Baralaba mine, located in the Bowen Basin of Queensland, for AUD 52 million to Cockatoo Coal Limited. The Baralaba mine has been operational since July 2005 and produces both PCI and thermal coal. The Baralaba mine has synergistic value to Cockatoo Coal Limited as it is located adjacent to existing exploration tenements.

New Hope Corporation Limited (New Saraji project) / BMA

BMA, a JV between BHP and Mitsubishi Corporation, acquired the New Saraji coal project from New Hope Corporation Limited for AUD 2.45 billion in cash. The New Saraji coal project contains a large high quality

metallurgical coal Measured and Indicated Resource, which was estimated to be 156.3 Mt at the time of the transaction. The project is located in the Bowen Basin in central Queensland.

POSCO and ITOCHU JV (Foxleigh coal mine JV) / Anglo American plc

Anglo Coal Australia, a subsidiary of Anglo American plc, acquired a 70% interest in the Foxleigh coal mine JV in Queensland for AUD 712 million from the POSCO and ITOCHU JV. At the time of the transaction, Foxleigh was producing 2.5 Mtpa of PCI coal for the steelmaking industry and had Measured and Indicated Resources of 290 Mt.

Custom Mining Pty Limited / Macarthur

Macarthur acquired Custom Mining Pty Limited in January 2008 for a total consideration of AUD 275 million. The interest of Custom Mining Limited included 70% of the Middlemount Mine project and a farm-in agreement for up to 70% of the Dingo West prospect. Custom Mining Pty Limited had total Measured and Indicated Resources of 68.4 Mt.

Resource Pacific Holding Limited / Xstrata plc

Titan Holdings Finance Pty Limited, a subsidiary of Xstrata plc, acquired Resource Pacific Holdings Limited for AUD 3.20 per share. Resource Pacific Holdings Limited's Measured and Indicated Resources are made up of six coal seams totalling 153.2 Mt.

Centennial Coal Company Limited (Austral Coal Limited) / Xstrata plc

Centennial Coal Company Limited accepted an offer from Helios Australia Pty Limited (a subsidiary of Xstrata plc), with respect to Centennial Coal Company Limited's interest in Austral Coal Limited for a total consideration of AUD 542 million in October 2007. At the time of the transaction, Austral Coal Limited had Measured and Indicated Resources of 227.1 Mt.

Centennial Coal Company Limited (Anvil Hill project) / Xstrata plc

Centennial Coal Company Limited sold its Anvil Hill project to Xstrata plc in October 2007 for AUD 425 million cash. At the time of the sale, the Anvil Hill Project had 146.6 Mt of Measured and Indicated Resources.

Minority interest transactions

Aston Resources (Maules Creek) / ITOCHU Corporation

ITOCHU Corporation paid Aston Resources Limited total consideration of AUD 345 million for a 15% interest in the Maules Creek project. The Maules Creek coal project is located in the Gunnedah Basin and is within close proximity of the main railway line servicing the coal terminals at the Port of Newcastle. The Maules Creek coal project has a detailed 20 year mine plan and is expected to commence production in the second half of 2012, with saleable production exceeding 10Mtpa from 2014.

Noble (Middlemount Mine project) / Gloucester

Gloucester paid Noble total consideration of AUD 398.7 million for Noble's interest 27.52% in the Middlemount Mine project (AUD 230.7 million) and the Middlemount Mine project royalty on 30 September 2010 (AUD 168 million). AUD 100 million of the total purchase price was funded by the issue of shares to Noble on 30 September 2010. Included in the purchase price was the right to acquire a further 2.48% interest in the project from Macarthur for a further AUD 8 million and an option to acquire a further 20% interest from Macarthur for an exercise price of approximately AUD 100 million.

Whitehaven (Narrabri coal project) / Korean Consortium

A Korean consortium consisting of Daewoo International Corporation and Kores Company Limited acquired 7.5% stake in Narrabri coal project from Whitehaven for AUD 136 million. The Narrabi coal project had 303.3 Mt of Measured and Indicated Resources at the time of the transaction. The Narrabri coal project is located in NSW and construction of the mine commenced in January 2008. At the time of the transaction, production was expected to commence in the second half of 2009.

Resource Pacific Holdings Pty Limited / Marubeni Corporation

Marubeni Corporation increased its shareholding in Resource Pacific Holdings Pty Limited, a subsidiary of Xstrata, from 10.24% to 22.22% in November 2008. As a result, Marubeni Corporation acquired an 11.98% interest in the company for Japanese Yen 13 billion. The resources of Resource Pacific Holding Pty Limited at the time of the transaction were 189 Mt.

Whitehaven (Narrabri coal project) / Electric Power Development Company Limited

On 1 August 2008, Whitehaven accepted an offer from Electric Power Development Company Limited to acquire 7.5% of the Narrabri coal project for AUD 125 million. The Narrabi coal project had 303.3 Mt of Measured and Indicated Resources at the time of the transaction.

Whitehaven (Narrabri coal project) / EDF Trading

On 1 August 2008, Whitehaven accepted an offer from EDF Trading to acquire 7.5% of the Narrabri coal project for AUD 129 million. The Narrabi coal project had 303.3 Mt of Measured and Indicated Resources at the time of the transaction. EDF Trading is a wholly owned subsidiary of the EDF Group, one of Europe's largest utility companies.

Macarthur / POSCO

POSCO became a substantial shareholder of Macarthur in July 2008 when it acquired a 10% interest, or 21.2 million shares, in Macarthur at AUD 20.0 per share. POSCO is one of the world's largest steel producers and has a long term customer relationship with Macarthur. At the time of the transaction, Macarthur's Measured and Indicated Resources were estimated to be 618.1 Mt.

Macarthur / ArcelorMittal NV

ArcelorMittal NV, the world's largest steel making company, acquired a 14.9% interest in Macarthur Coal in May 2008, by purchasing 31.6 million ordinary shares in Macarthur at AUD 20.0 per share. ArcelorMittal NV acquired a further 5% interest in Macarthur in June 2008, for the same price of AUD 20.0 per share, or a deal value of AUD 212.2 million. At the time of the transactions, Macarthur's Measured and Indicated Resources were estimated to be 618.1 Mt.

Whitehaven (Narrabri coal project) / Upper Horn Investments Limited

Whitehaven Coal Limited signed an agreement with Upper Horn Investments Limited, a wholly owned subsidiary of China's Guangdong Yudean Group Company Limited to sell the company a 7.5% stake in the Narrabi coal project for AUD 67.5 million. The Narrabi coal project had Measured and Indicated Resources of 303.3 Mt.

Felix Resources Limited (Moolarben coal project) / Consortium of companies

A consortium of companies, consisting of KEPCO and four of its generator subsidiaries, Kosep, Komipo, Kowep and Kospo plus Korea Resource Corporation and Hanwha Corporation Limited signed an agreement with Felix Resources Limited in January 2008 to purchase a 10% equity shareholding in the Moolarben coal project. The consortium paid Felix Resources Limited AUD 90 million plus 10% of development costs. At the time of the transaction the Moolarben coal project had planning approval for up to 10 Mtpa of saleable production and 595.8 Mt of Measured and Indicated Resources.

Monto Coal 2 Pty Limited / Noble

Paway Limited, the Australia based investment holding company with interests in coal mining and a wholly subsidiary of Noble, acquired a 19.61% stake in Monto Coal 2 Pty Limited, the Australia based coal mining company, from Macarthur for consideration of AUD 48.5 million. Monto Coal 2 Pty Limited has a 51% interest in the Monto Coal JV, which owns the Monto coal project.

Iluka Resources Limited (Narama mine) / Xstrata plc

Iluka Resources Limited divested a 50% non-operating interest in the Narama thermal coal mine, located in the Hunter Valley, to Xstrata plc in January 2008. The sale consideration was approximately AUD 54.4 million. The Narama thermal coal mine had approximately 12.3 Mt of Measured and Indicated Resources at the time of the transaction.

Macarthur / CITIC Resources Australia Pty Limited

CITIC Resources Australia Pty Limited increased its shareholding in Macarthur from 11.62% to 19.99% in July 2007, for total purchase consideration of approximately AUD 112.9 million from the Talbot Group. At the time of the announcement, Macarthur had Measured and Indicated Resources of 579.2 Mt.

Gloucester / AMCI

In June 2007, AMCI acquired a 10% interest in Gloucester on-market for approximately AUD 40.2 million. At the time of the acquisition, Gloucester had 91 Mt of Measured and Indicated Resources.

Felix Resources Limited (Moolarben coal project) / Sojitz Corporation

Sojitz Corporation acquired a 10% stake in the Moolarben coal project from Felix Resources Limited for AUD 90 million, plus its pro-rata share of the capital cost to develop the Moolarben mine. At the time of the transaction, the Moolarben coal project had Measured and Indicated Resources of 532 Mt.

Felix Resources Limited / AMCI

AMCI acquired the interest of Resources Management and Mining Pty Limited in Felix Resources Limited, which represented 19.2% of the company in May 2007. At the time of the transaction, Felix Resources Limited had 524.4 Mt of Measured and Indicated Resources.

Appendix 5: Control premium study

Deloitte study

We conducted a study of premiums paid in Australian transactions completed between 1 January 2000 and 27 April 2011. This study was conducted by Deloitte staff for internal research purposes. Our merger and acquisition data was sourced from Bloomberg and Reuters and yielded 458 transactions that were completed during the period under review[27].

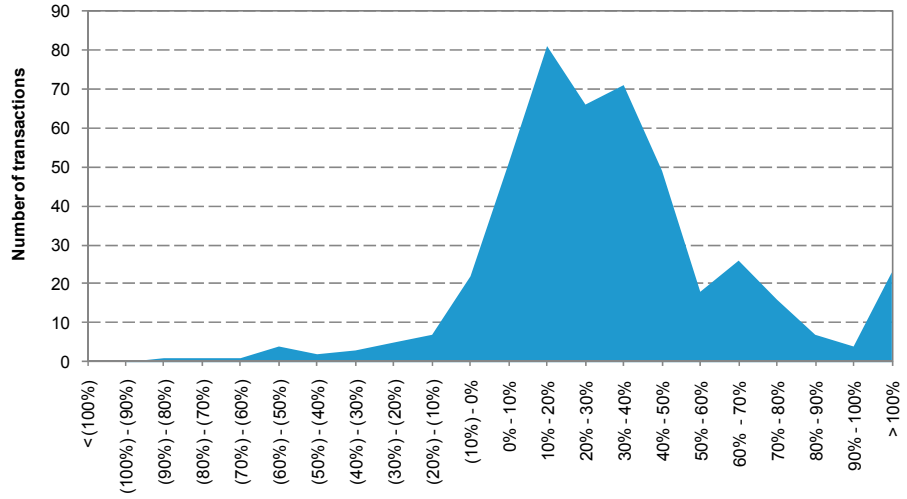
Our data set consisted of transactions where an acquiring company increased its shareholding in a target company from a minority interest to a majority stake or acquired a majority stake in the target company.

We assessed the premiums by comparing the offer price to the closing trading price of the target company one month prior to the date of the announcement of the offer. Where the consideration included shares in the acquiring company, we used the closing share price of the acquiring company on the day prior to the date of the offer.

Summary of findings

As the following figure shows, premiums paid in Australian transactions between 1 January 2000 and 27 April 2011 are widely distributed with a long 'tail' of transactions with high premiums.

Figure 22: Distribution of data



Source: Deloitte analysis

[27] excluding transactions for which inadequate data was available

The following table details our findings.

Table 60: Premium analysis – findings

	Control premium
Average	33%
Median	28%
Upper quartile	45%
Lower quartile	11%

Source: Deloitte analysis

Notwithstanding the relatively wide dispersion of control premiums observed in our study we consider the control premium range of 20% to 40% to be representative of general market practice for the following reasons.

Many of the observed control premiums below 20% are likely to have been instances where the market has either been provided with information or anticipated a takeover offer in advance of the offer being announced. Accordingly, the pre-bid share trading price may already reflect some price appreciation in advance of a bid being received, which creates a downward bias on some of the observed control premiums in our study.

Many of the observed control premiums above 40% are likely to have been influenced by the following factors which create an upward bias on some of the observed control premiums in our study:

- some acquirers are prepared to pay above fair market value to realise 'special purchaser' value which is only available to a very few buyers. Such 'special purchaser' value would include the ability to access very high levels of synergistic benefits in the form of cost and revenue synergies or the ability to gain a significant strategic benefit
- abnormally high control premiums are often paid in contested takeovers where there are multiple bidders for a target company. In such cases, bidders may be prepared to pay away a greater proportion of their synergy benefits from a transaction than in a non-contested situation
- some of the observations of very high premiums are for relatively small listed companies where there is typically less trading liquidity in their shares and they are not closely followed by major broking analysts. In such situations, the traded price is more likely to trade at a deeper discount to fair market value on a control basis.

Accordingly, the observed control premiums to share trading prices for such stocks will tend to be higher.

Other studies

In addition to the study above, we have also had regard to the following:

- a study conducted by S.Rossi and P.Volpin of London Business School dated September 2003, 'Cross Country Determinants of Mergers and Acquisitions', on acquisitions of a control block of shares for listed companies in Australia announced and completed from 1990 to 2002. This study included 212 transactions over this period and indicated a mean control premium of 29.5% using the bid price of the target four weeks prior to the announcement
- 'Valuation of Businesses, Shares and Equity' (4th edition, 2003) by W.Lonergan states at pages 55-56 that: *"Experience indicates that the minimum premium that has to be paid to mount a successful takeover bid was generally in the order of at least 25 to 40 per cent above the market price prior to the announcement of an offer in the 1980s and early 1990s. Since then takeover premiums appear to have fallen slightly."*
- a study conducted by P.Brown and R.da Silva dated 1997, 'Takeovers: Who wins?', JASSA: The Journal of the Securities Institute of Australia, v4(Summer):2-5. The study found that the average control premium paid in Australian takeovers was 29.7% between the period January 1974 and June 1985. For the ten year period to November 1995, the study found the average control premium declined to 19.7%.

Appendix 6: Technical expert's reports

131
Deloitte: Gloucester Coal Ltd – Independent expert's report

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6th May 2011

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Ms Nicole Vignaroli
Director - Corporate Finance/Valuations
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Dear Sirs,

REPORT FOR DELOITTE CORPORATE FINANCE PTY LIMITED

INDEPENDENT TECHNICAL REVIEW OF

DONALDSON COAL OPERATIONS, NSW, AND

MONASH EXPLORATION ASSET, NSW

1.0 BACKGROUND

1.1 Introduction

Deloitte Touche Tohmatsu ("Deloitte") has been commissioned by Gloucester Coal Limited ("Gloucester"), to provide an independent expert's report ("IER") to the Gloucester shareholders (the "shareholders"), advising whether the offers to purchase the Donaldson Coal Pty Limited ("Donaldson") coal assets in New South Wales from Noble Group Limited ("Noble") and the Monash coal tenements ("Monash Exploration Asset") in NSW from Ellemby Investments Pty Limited ("Ellemby"), the Proposed Transaction, are fair and reasonable.

In the event that the Proposed Transaction eventuates, an IER may be required to assist the Gloucester shareholders in their decision regarding the Proposed Transaction, as it would constitute an acquisition of a substantial asset from a related party. Subject to the final terms of the Proposed Transaction, an IER may be required pursuant to the Corporations Act 2001, ASX Listing Rules or at the discretion of Gloucester's directors in relation to the Proposed Transaction. The IER will accompany a Notice of Meeting to be provided to shareholders. The IER Deloitte has requested BDA review the Donaldson and Monash assets and prepare an Independent Technical Expert's Review as part of the IER.

Deloitte has appointed Behre Dolbear Australia Pty Limited ("BDA") the Technical Specialist, as defined by the 2005 "Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports" (the "Valmin Code") as adopted by the AusIMM. As Technical Specialist, BDA has prepared an independent technical assessment of the Donaldson Operations (collectively, the "Donaldson Assets") and valuation of the Monash Coal exploration tenements (collectively, the "Monash Exploration Asset") in the Hunter Valley in NSW (see Figure 1). BDA has provided their findings in the form of a report (the Independent Technical Expert's Report) summarising the key findings, including an opinion as to the fair market value of Monash. This report sets out the conclusions that BDA has reached in the assessment of the Donaldson Assets and the Monash Exploration Asset.

It is understood that the BDA report will be referred to in the Deloitte's assessment and may be reproduced as an appendix to the IER.

With respect to estimates of resources and reserves, BDA has conducted its review in recognition of the requirements of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, prepared by the Joint Ore Reserve Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC) - Effective December 2004 ("the JORC Code"). BDA has neither undertaken an audit of the Donaldson nor Monash Exploration Asset data nor has it re-estimated the resources and reserves, but has reviewed the resource and reserve estimates prepared by Donaldson, Ellemby and/or their consultants.

This report has been prepared in accordance with the relevant requirements under the Listing Rules of the ASX and the practice notes and policy statements issued by the Australian Securities and Investment Commission ("ASIC") as they apply to the preparation of independent expert reports and valuations. It contains forecasts and projections based on information provided by Donaldson and Ellemby.

BDA's assessment of the projected production schedules and capital and operating costs are based on technical reviews of project data and site visits. However, these forecasts and projections cannot be assured and factors both within and beyond the control of Donaldson or Ellemby could cause the actual results to be materially different from the assessments and projections contained in this report.

1.2 BDA Capability and Independence

This report has been prepared as advisory information to Deloitte by the signatories, whose qualifications and experience are summarised in Annexure A to this report. The review of Mineral Resources and Ore Reserves estimates and methodology has been conducted by Competent Persons, as defined under the JORC Code. Each of the Competent Persons listed in Annexure A has consented to the presentation of the findings in the form and context in which it is presented in this report. BDA provides a range of technical advisory services to the mineral resource industry, to mining operators, investors and financiers. The principal areas of activity include the management and preparation of technical due diligence studies and "fatal flaw" and project analyses. The company is well established in the areas of operational management review/technical audit and project valuation and evaluation, commonly for third party financing arrangements and our clients include banks, financial institutions and mining companies. The parent company, Behre Dolbear and Company Inc., has operated continuously as a mineral industry consultancy since 1911 and has offices in Denver, Guadalajara, London, New York, Santiago, Toronto and Vancouver, and as well as Sydney. Internationally, Behre Dolbear has worldwide coal experience spanning a broad spectrum of exploration, management, resource and reserve analysis, metallurgical studies, surface and underground mine design, technical due diligence, operations optimization and total project feasibility.

BDA has independently assessed the Donaldson Assets and the Monash Exploration Asset of the parties on the basis of both specific information provided by the companies, Donaldson and Ellemby, and individual experience in relation to the estimation of resources and reserves, life of mine plans, production and productivity estimates, operating and capital cost projections, coal quality assessments, manpower estimates, environmental requirements and compliance, workforce and community issues and Health, Safety and Environmental standards and compliance.

A draft copy of relevant sections of this report has been provided to Donaldson and Ellemby for review of the accuracy of the data used and for the correction of any material errors of fact, omissions of relevant information, or inclusion of incorrect or unreasonable assumptions that have been relied upon in this Report.

1.3 Scope of Work/Materiality/Limitations and Exclusions

BDA has reviewed the Donaldson Assets and Monash Exploration Asset in accordance with the Scope of Work provided and the limitations and exclusions specified and set out in Annexure B to this Report.

1.4 Methodology of Assessment

Donaldson Operations

BDA has visited the Abel and Tasman mine sites and considers that the Donaldson management team, including its external consultants, is experienced and capable, with a demonstrated capacity to operate the mines.

BDA has been provided with a financial model of the Donaldson Operations that incorporate projected cost data but BDA notes that, as a routine matter, where forecasts were provided, the plans, projections and budgets that have been used will inevitably be subject to revision. The Abel and Tasman Mines are in operation. There are expansion and extension plans for both mines which BDA assesses as being at a prefeasibility study level and moving to feasibility study. The Donaldson Open Cut has been temporarily shut down while preparations have been made for mining in an adjacent area for a further two years. Planning for this is at an execution stage. The BDA brief excludes commentary on commodity prices, exchange rates or economic viability and the review has been confined to assessing the technical issues relating to the project. BDA reserves the right to change its opinions on the coal mining operations expressed in this report should any of the fundamental information provided by Donaldson be significantly or materially revised.

The assumptions adopted in the financial model, and their accuracy and reliability, are largely the subject of this Report. The parameters considered include annual mining rates for both the two underground mines and their respective extensions and the short life open cut, washery yields and product coal quality, materials handling and logistics, product transport, operating and capital costs. BDA did not consider financial issues such as loan funding aspects, cashflows, profit and loss, balance sheet, non-cash items and the valuation of the operating mines and defined projects. BDA has examined the exploration assets around the two mines and considers them fully valued as significant resources within the tenements are included within the life of mine ("LOM") plan.

Thus the BDA review has focussed on the technical inputs to the financial model and has sought to validate the raw data that constitutes the mine plans and drives the financial model for the Related Asset. It specifically excludes review of commodity price and exchange rate forecasts. In particular, the BDA review covered the following areas:

- Operations: BDA has conducted site visits to the Donaldson Open Cut, Abel and Tasman mines and project area, and held discussions with head office and site management personnel.
- Resources and Reserves: BDA conducted check calculations of the resource and reserve estimates and satisfied itself that the statements were JORC compliant. The JORC-defined tonnages were checked against the sales tonnages in the financial models.
- Budgets and Life of Mine Plans: BDA checked the projected annual and life of mine production tonnages and yields against the resource base and the financial model inputs.
- Environmental Approvals: BDA reviewed the status of the environmental, statutory and regulatory licensing and compliance requirements.
- Capital and Operating Cost Estimates: BDA checked the basis of the projected annual and life of mine operating cost estimates and capital expenditure allowances against current operational costs.
- Key Potential Risk Issues: BDA has reviewed the operations and planned expansion of Abel and Tasman Operations from the perspective of material potential issues that could jeopardise the projected cash flows or the product tonnages and has provided comment on the potential risk areas where discounts may need to be applied.

All material revisions that BDA considers should be applied in the financial models have been provided to Deloitte for incorporation in the valuation.

Monash Exploration Tenements

The Monash tenements comprise an exploration project. BDA has conducted a site visit and reviewed the exploration results and drill-hole information, as well as the stratigraphic and structural interpretations made by the Monash EL holders. BDA has also reviewed conceptual mine planning for the area.BDA has provided a valuation estimate to Deloitte based on comparable transactions.

1.5 Inherent Mining Risks

When compared with many industrial and commercial operations, coal mining carries a relatively higher risk, conducted in an environment where not all events are predictable. Each coal deposit is unique. The nature of the coal deposit, the occurrence and quality of the coal, and its behaviour during mining and processing can never be wholly predicted. Estimations of the tonnes, quality and characteristics of a coal deposit are not precise calculations but are based on interpretation and on samples from drilling which, even at close drill hole spacing, provides a very small sample of the whole coal deposit. Reconciliations of past production and reserves can confirm the reasonableness of past estimates, but cannot categorically confirm the accuracy of future predictions.

An experienced management team can identify the known risks and adopt measures to mitigate the potential for interruptions consequent to such risks. However, the extent of knowledge is limited and there is always the possibility that unexpected or unpredicted events may occur, to the extent that it is considered not possible to remove all risks or to state categorically that events that may have a material impact on the operation will not occur. Detailed planning and experienced management should mitigate the risks to a reasonable extent.

2.0 OVERVIEW - DONALDSON

2.1 Summary

Donaldson Coal Holdings was established in 1996 by the Ellemby Group and was granted an exploration licence for the area now occupied by the Donaldson open cut mine. In 1997, the Newcastle Coal Company (which was subsequently acquired by Donaldson) was granted the exploration licence for the Tasman underground mine area. Noble made its initial investment in Donaldson in 1998 and became the majority shareholder in 2003, with a shareholding of 68.5%. In December 2009 Noble bought out Ellemby Resources and now owns 100% of the Company.

Donaldson has two underground coal mines, Abel (Mining Leases ("ML") 1618) and Tasman (ML1555), and an open cut mine (ML1461) and four exploration licences which makes up a contiguous area located in the Hunter Valley Coalfield, approximately 10km southeast of Maitland and approximately 20km west of the Port of Newcastle, NSW, as shown in Figure 1.

Run of Mine ("ROM") coal from the three operations is trucked to the Bloomfield coal handling and processing plant ("CHPP") for washing and production of saleable coal products for export. The total ROM coal produced in 2010 was 2.9Mt with a yield of 68% to produce approximately 2Mt of saleable coal. Donaldson does not own the Bloomfield CHPP but has a long term service agreement with a third party for the provision processing and handling procedures. The operations currently produce thermal coal products with flexibility to produce soft coking coal as the market conditions dictate.

From the Bloomfield rail loop coal is railed by Pacific National the 25km to the Port of Newcastle. Donaldson ships coal through the Port Waratah Coal Services Limited ("PWCS") terminals and the Newcastle Coal Infrastructure Group Pty Limited ("NCIG") export terminal which has recently been commissioned. Sales in 2010 were approximately 9% coking coal, 49% thermal coal and 42% high ash thermal coal.

2.2 Description of Assets

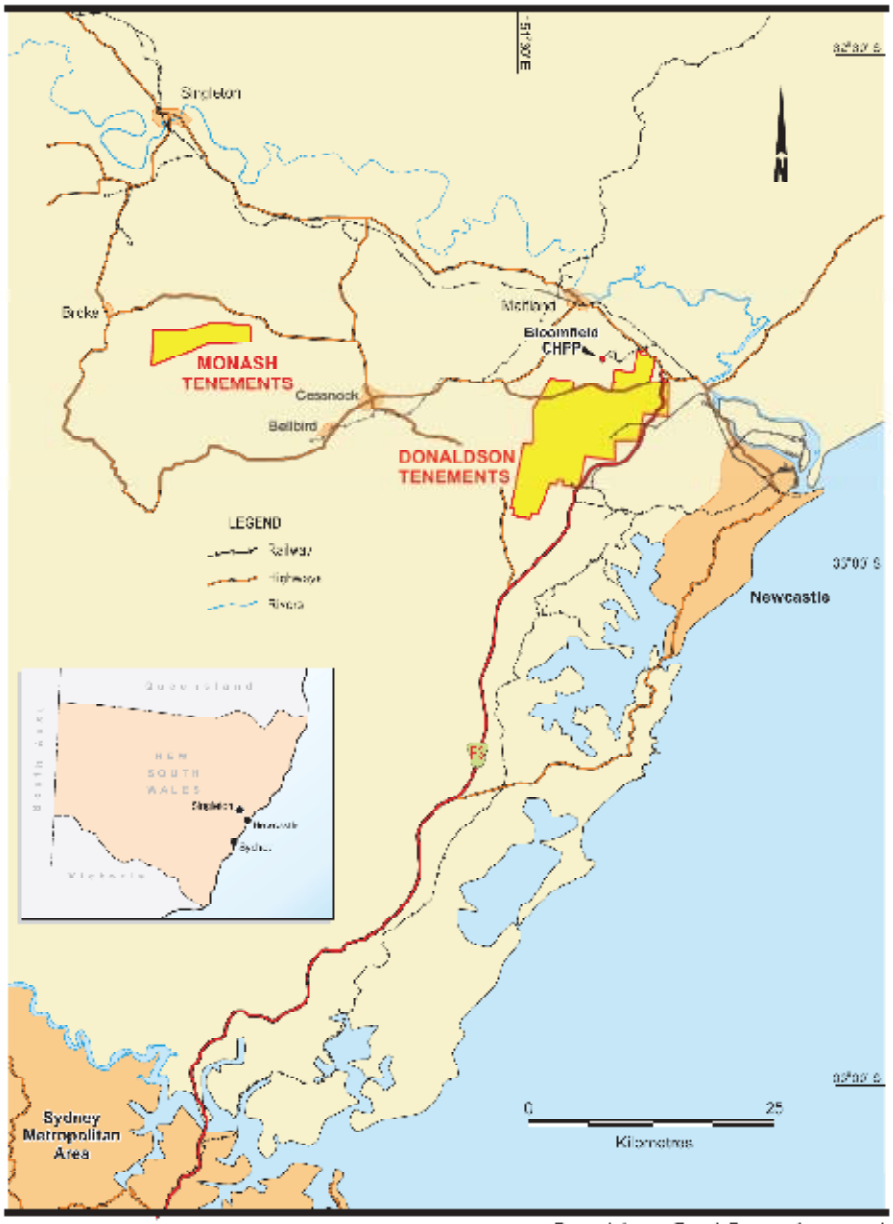
The mining operations that have been assessed as part of this assignment comprise two underground mines, an open cut mine and exploration licences adjacent to the underground operations, which are summarised in Table 2.1, and the location shown in Figure 1.

Table 2.1

Mining Operations and Exploration Areas

Mine	Status	Method	Operator
Donaldson Open Cut	Top Soil Removal and Infrastructure Completion Recommence operations in 2011	Open Cut: Truck & excavator	Donaldson Coal Limited
Abel Mine	Operating	Underground Bord and Pillar Planning Longwall	Donaldson Coal Limited
Abel Mine Extension	Exploration and long term mine planning	Bord and Pillar and Longwall	Donaldson Coal Limited
Tasman Mine	Operating	Underground Bord and Pillar	Donaldson Coal Limited
Tasman Mine Extension	Exploration and long term mine planning	Bord and Pillar Planning for longwall	Donaldson Coal Limited
Monash	Exploration area	Underground	TBA

Figure 1
Location Plan



2.3 Summary of Resources and Reserves

Resources

Donaldson's JORC-compliant resource estimate is shown in Table 2.2.

Table 2.2
Abel and Tasman Resources at July 2009

Mine	Seam	Measured (Mt adb)	Indicated (Mt adb)	Inferred (Mt adb)	Total (Mt adb)
Tasman	Fassifern	29.7	9.3	5.7	44.6
	West Borehole	19.2	11.4	6.3	36.9
Tasman Extension	Great Northern	0.4	0.6		1.0
	West Borehole	28.8	17.1	9.4	55.3
	Sandgate	50.6	38.6	28.2	117.4
Abel	Upper Donaldson	63.4	9.5	0.0	72.9
	Lower Donaldson	94.0	14.9	0.0	108.9
	Upper Big Ben	123.8	36.9	3.3	164.1
	Ashtonfield	6.9	2.0	0.0	8.9
Abel Extension	Upper Donaldson	19.7	18.9	27.9	66.5
	Lower Donaldson	28.4	28.7	41.6	98.6
	Lower Big Ben	16.0	5.5	0.0	21.5
	Ashtonfield	54.5	13.9	0.0	68.4
	Rathluba	10.1	10.2	0.0	20.3
Total		**545.5**	**217.5**	**122.3**	**885.4**

Reserves

Table 2.3 shows the Reserves to JORC compliance as at 1 July 2009 from the independent report prepared by International Mining Consultants ("IMC")[1]. In addition there is 2.5Mt of Proven open cut Reserve giving total Reserves of 152.4MT.

Table 2.3
Abel and Tasman Coal Reserves at August 2009

Mine	Seam	Proven ROM (Mt ar)	Probable ROM (Mt ar)	Total ROM (Mt ar)	Wash Yield %	Marketable Reserves (Mt ar)
Tasman	Fassifern	12.9	5.1	18.0	66.2	11.9
	West Borehole	6.6	1.1	7.7	69.0	5.3
Tasman Extension	Great Northern					
	West Borehole	0.3	7.8	8.1	56.1	4.6
	Sandgate	0.7	0.4	1.1	50.9	0.5
Abel	Upper Donaldson	24.2	7.7	31.9	70.3	22.4
	Lower Donaldson	21.7	8.6	30.3	61.7	18.7
	Upper Big Ben					
	Ashtonfield					
Abel Extension	Upper Donaldson	1.7	10.0	11.7	53.8	6.3
	Lower Donaldson	7.3	11.7	19.0	57.9	11.0
	Lower Big Ben					
	Ashtonfield	17.4	4.7	22.1	50.4	11.2
	Rathluba					
Total		**92.8**	**57.1**	**149.9**	**61.1**	**91.9**

- [1] Report to Donaldson Coal Holdings Ltd on the Statement of Coal Reserves Explorer Project, *IMC 19 November 2009*

BDA has noted that there has been a further mine plan development as of February 2011 which may have impact on the estimates listed above but to date, detailed analyses for Reserves estimates have not been completed.

2.4 Saleable Coal Projections

Donaldson has provided forecasts of saleable coal tonnages for the three coal operations, Donaldson open cut, Abel underground mine and Tasman underground mine.

Donaldson plan to increase raw coal production from the levels of 2010 of approximately 2.9Mt to around 7Mtpa by year 2015 and will be maintained at a similar level to keep saleable coal at 4.6 to 5Mtpa over the long term. Production is forecast to be a mix of coking coal, standard thermal coal and high ash thermal coal, suitable for export markets. Selection of product types will be dependent on market conditions and relative product prices.

The LOM plan assumes that the current bord and pillar mining method is supplemented by other more productive mining methods including longwall and short longwall. The plans are dependent on the approvals from the relevant authorities for the adoption of other mining methods and completion of further detailed mine design work.

From the financial model, the production forecast is set out in summary in Table 2.4.

Table 2.4

Donaldson Annual ROM and Saleable Coal Production

Mine	Unit	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total 25 years
Donaldson Open Cut														
ROM Production	Mt	0.8	1.2											2.0
Yield	%	62	62											62
Saleable Coal	**Mt**	**0.5**	**0.7**											**1.2**
Abel														
ROM Production	Mt	1.8	2.3	3.2	5.5	5.9	6.1	6.1	6.0	5.9	5.8	4.6	3.9	105
Yield	%	75	78	77	73	70	69	68	63	62	62	63	64	61
Saleable Coal	**Mt**	**1.3**	**1.7**	**2.5**	**4.1**	**4.2**	**4.3**	**4.2**	**3.8**	**3.7**	**3.6**	**3.0**	**2.6**	**67**
Tasman														
ROM Production	Mt	0.8	0.6	0.6	0.8	0.9	1.1	1.1	1.2	1.3	1.5	2.5	3.3	60
Yield	%	71	71	70	68	68	68	68	68	66	67	64	63	65
Saleable Coal	**Mt**	**0.6**	**0.4**	**0.4**	**0.5**	**0.6**	**0.7**	**0.8**	**0.8**	**0.8**	**1.0**	**1.6**	**2.1**	**39**
Total														
ROM Production	Mt	3.4	4.1	3.8	6.3	6.8	7.2	7.2	7.2	7.2	7.3	7.1	7.2	167
Yield	%	71	71	76	73	71	69	68	63	63	62	63	63	65
Saleable Coal	**Mt**	**2.4**	**2.9**	**2.9**	**4.6**	**4.8**	**5.0**	**4.9**	**4.5**	**4.5**	**4.5**	**4.5**	**4.5**	**108**

Note; Saleable coal comprises of Coking, Global Thermal and High Ash Thermal

2.5 Operating Costs

BDA has reviewed the forecast operating costs and compared the forecasts with historical mining costs. While these forecasts are reasonable, BDA has recommended that higher costs be applied in this review to reflect an extended transition from historical costs to forecast cost associated with higher productivity mining methods, and to reflect the productivity risks associated with these mining methods.

2.6 Capital Costs

Donaldson has provided sustaining and development capital cost estimates for both Tasman and Abel underground mines. BDA has reviewed the estimates and considers them realistic estimates.

2.7 Risks

BDA has reviewed the potential risks for the Donaldson operations and considers that, in the short term, the principal risk to projected cash flows would be the delays in the planned expansion of production and sales, due to approval delays, equipment delivery and installation delays, and operational productivities. Key approvals required by Donaldson to achieve the planned production include obtaining government approvals for longwall mining under privately held timbered and hilly areas in the Newcastle hinterland, as well as finalisation of feasibility studies into the technical suitability and financial viability of longwall at Abel and Tasman mines.

Other than the foregoing identified risks, BDA considers the inherent risks associated with mining have been adequately addressed in the life of mine planning and there is no evidence of any additional material risks to the projects.

2.8 Sensitivity Analysis

Reserve tonnes, yields, washery throughput, capital and operating costs are all estimates, and in practice will be subject to variations when compared with the projections in the LOM Plan and the financial model. It is appropriate therefore that in the valuation, some consideration is given to the impact of the more sensitive parameters.

BDA has examined the potential risks and possible operational variations to the various underground operations and has provided a guide to test the range of valuations that may be derived.

BDA has commented in the report on risk areas where appropriate, as summarised in Table 2.5.

Table 2.5

PROJECT SENSITIVITY STUDIES RECOMMENDATION

Item	Range	Comment
Production levels	±10%	Moderate risk of not achieving forecast.
Operating costs	±10%	Moderate risk of not achieving forecast operating costs.
Yield	±5.0%	Forecast coal preparation plant ("CPP") yields may be affected by factors such as • sales mix changes • mining dilution and losses • seam variability • mining sequencing and scheduling
Capital costs	±15%	Prefeasibility study level cost estimates
Start ups	+1 year	Potential for delays to start-up caused either by • approvals delay • project or funding delay
Product Quality	±150 kcal/kg (adb)	Test sensitivity to lower or higher than forecast product coal quality (energy)
Product type	All thermal coal production	Base case includes coking coal production
Reserves	±10%	JORC Reserve report.

3.0 DONALDSON OPERATIONS

3.1 Geology

3.1.1 Geological Setting – Newcastle Coalfields

The Donaldson mines are operating within the Newcastle Coal Measures and the underlying Tomago Coal Measures (older nomenclature). The upper seams of the operations are on the western margins of the Newcastle Measures, where seams are coalesced from the eastern stratigraphy, while the underlying seams from the Tomago Measures are well developed.

Typical stratigraphic sections in the area are those of thinner to medium-thick Permian sandstones, shales, siltstones and coal seams. The entire sequence within the ML's and EL's is up to 500m thick. Regional dip in the area is about 4^0 to the south. Topography is that of middle-level mountain ranges (Sugarloaf Range) with gently undulating relief off the range area.

Structure is mainly confined to gentle folds of alternating anticlines and synclines with minor normal faulting. Igneous intrusions have been mapped across the area but Donaldson's exploration and mining experience has shown no evidence of either structural or intrusive geology that may have major impacts on economic mining.

3.1.2 Stratigraphy and Coal Geology

Coal seams, in descending sequence, intersected within the area are:

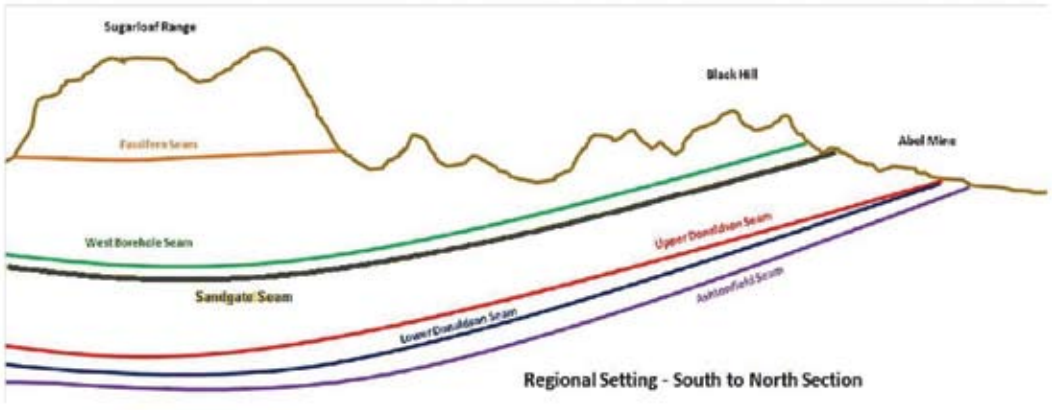
- Fassifern (Newcastle Measures)
- Great Northern
- West Borehole
- Sandgate (Tomago Measures)
- Upper and Lower Donaldson
- Upper and Lower Big Ben
- Ashtonfield
- Rathluba

It should be noted that not all seams are well developed across all of the ML and EL areas. Seam thicknesses less than 1.5m have been cut off from resource consideration.

Donaldson Coal commissioned an independent geological report on the coal resources within the areas and this report was provided by Geological Management Services ("GMS") in 2009. The following schematic shows the typical south to north section through the Donaldson areas.

Figure 2

North-south section Abel and Tasman Mines (Source : Donaldson)



Seam thickness ranges are from 1.6m (thinnest section of the Fassifern Seam considered) to 5.0m (thickest of the West Borehole Seam). Depths of cover range from 30m to 470m, with interburden thicknesses remaining reasonably constant across the area).

The Abel mine in the north is currently operating bord and pillar in the Upper Donaldson Seam. Extraction using mechanised breaker line supports ("BLS") has recently commenced in this mine. The recently commissioned Tasman mine in the south is currently operating as bord and pillar in the Fassifern Seam.

3.2 Donaldson Coal Resources and Reserve Estimates

3.2.1 Resources

Exploration has been on-going in the areas around the operations, with only about 14% of estimated resource currently in the JORC category of Inferred. The JORC-compliant resource estimate as estimated by GMS in 2009 is shown in Table 2.2.

BDA has viewed the geological database, drillhole records and laboratory analyses underlying the Resource estimates listed above. The geological modelling was carried out in Vulcan industry software programs and independently verified by GMS. Resource plans for the various seams, with JORC-compliant data points, isopachs and ashes have been made available and examined. BDA concurs with the GMS Resource estimate listed above.

3.2.2 Coal Quality

Laboratory analyses of coal cores and bulk washing in the Bloomfield CHPP for the Donaldson seams have been tabulated for the various seams in a series of spreadsheets supplied by Donaldson Coal and independently verified in the GMS report and an independent technical review by International Mining Consultants ("IMC") in 2009. BDA has examined the tabulation records and regards them as of industry standard and adequate for JORC compliance.

Raw seam ashes range from 12% to 42%, sulphur from 0.3% to 0.7% and specific energy ("SE") from 26 MJ/kg to 29 MJ/kg. Washabilities for the seams designated as economic have demonstrated a mean weighted yield as at February 2011 of 65.2% (ranging from 57.5% to 75.5%) for a two product return of export thermal of 14.5% ash (adb) with SE of 28 MJ/kg and a domestic thermal of 25-35% ash (adb) with SE of 24 MJ/kg. Sulphur content for these washed products is measured at about 0.4%.

3.2.3 Reserves

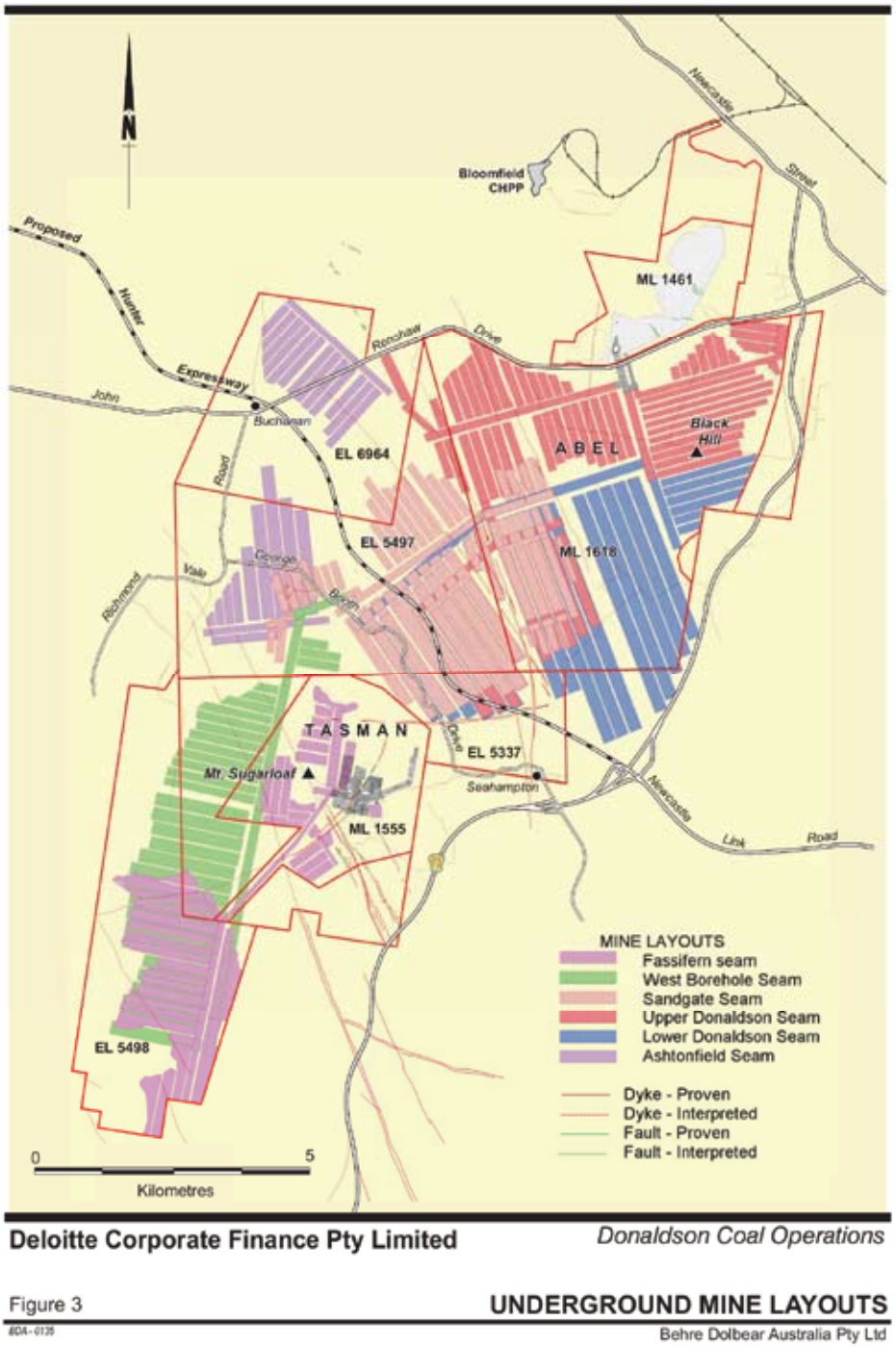
As noted above, the development of the various seams within the Abel and Tasman areas is not consistent over the tenements. Donaldson has developed the LOM plan to extract coal from the seams defined as economic in the current and foreseeable market conditions utilising a mix of bord and pillar and longwall techniques. This LOM plan has evolved over several years, being refined as additional exploration data, geotechnical data, actual mining experience from the Abel mine and market conditions were sequentially taken into account.

IMC was commissioned to provide an independent report on Reserves as the mine plan evolved, and this work is ongoing. Table 2.3, shows the Reserves to JORC compliance as at August 2009 from the IMC August 2009 report records.

BDA has noted that there has been a further mine plan development as of February 2011 which may have impact on the estimates listed above but to date IMC has not completed the detailed analyses for Reserves estimates.

Figure 3 shows the proposed and existing mining details of the mine plan as it then pertained to the 2009 IMC Reserves report discussed above. This plan shows the proposed mining methods for each of the economic seams as determined from the resource estimates. BDA is of the view that the JORC-compliant resource plans as reported by GMS for the individual seams are adequate for the proposed mining layout.

Figure 3
Mine Plan



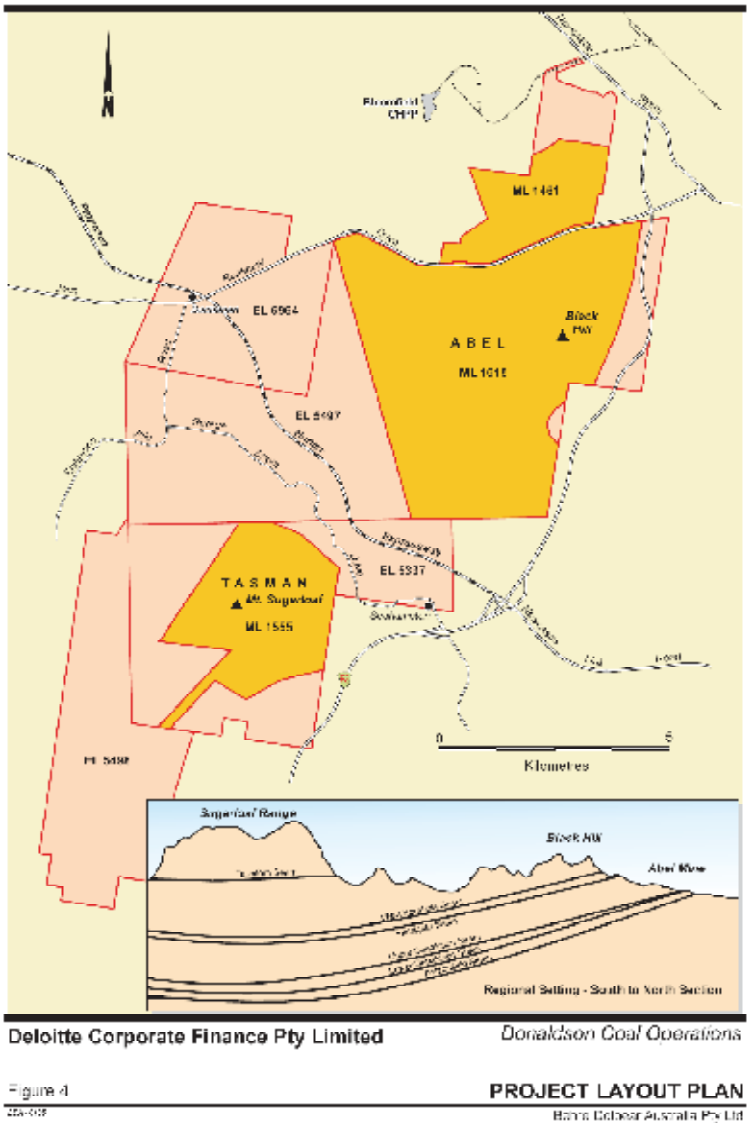
3.2.4 Tenements

Donaldson Coal Tasman and Abel underground operating coal mines are located within the Newcastle Coalfield in the area of Mt Sugarloaf about 20km north-west of Newcastle and 10km south of Maitland, NSW.

The mines are operating within two (2) mining leases (ML1551, Tasman mine and ML1618, Abel mine), with four (4) adjoining exploration licences on the peripheries of the ML's (EL's 5337, 5497, 5498, 6964). The combined area for both the mining and exploration tenements is about 110 km^2. There is an operating open cut mine, also owned by Donaldson Coal, directly adjacent on the northern boundary of Abel mine. The three mining complexes are in close proximity to one another and are collectively referred to as the Explorer Project

The location plan, Figure 4, shows the location of the ML's and EL's within the local district.

Figure 4
Location of Donaldson ELs and MLs



Donaldson's first operation was the Donaldson Open Cut which commenced operations in 2001 within ML 1461, extracting coal from the Donaldson coal seams. In 2006 Tasman Underground mine, approximately 8km south west of the open cut operations, commenced mining the Fassifern coal seam within ML 1555. In May 2008, Abel Underground mine commenced production with access from the highwall in the southwest corner of the open cut operation. Abel mine currently extracts coal from the Upper Donaldson coal seam within ML 1618.

The Donaldson Open Cut's Central pit was completed in late 2010 after extracting approximately 18Mt of ROM coal; a smaller pit, western ("Square") pit is planned to be mined in 2011 and 2012.

The strategy of the Donaldson's operations is to expand the production at Abel mine over the next three years to approximately 4.5mtpa and maintain that rate for over 20 years and after the completion of the expansion at Abel mine, Donaldson plans to immediately increase the production at the Tasman mine up to 1.1Mtpa and over the longer term, to increase production to 3.3Mtpa with coal transport being linked to the Abel mine and through the Abel portal. The Bloomfield CHPP will require expanding to accommodate the LOM plan.

3.2.5 Geotechnical Considerations

Subsidence modelling and monitoring is being carried out on the current mining method of bord and pillar and also assessing the effects of future longwall mining which is an additional extraction method for the LOM plan. A technical report by independent consultants concluded that subsidence issues were manageable with both control over the longwall areas and ongoing subsidence monitoring. In the northern area of the Donaldson seams where the interburden between the Upper and Lower Donaldson seams is quite thin (15m), it is expected that interaction between these seams is likely to result in loss of reserve. Donaldson Coal has commissioned a geotechnical report to address this issue.

Seam gas issues have been considered. Several GeoGAS Pty Ltd reports (2008 and 2010) from supplied coal cores suggest that seam gas concentrations are likely to be well within controllable limits at moderate depths to about 250m. GeoGAS has reported on seam gas content for twenty-six (26) drillholes with a range of seams from each drillhole. The reported trend of seam gas content (predominantly methane CH_4) for those seams tested, although slightly uneven, shows that to a depth of around 250m, methane content ranges from 2-4 m^3/tonne, but with increasing depth to around 350m this increases to 7-8 m^3/tonne. With regard to this reported trend, BDA is of the view that gas drainage ahead of development and across extraction blocks may well be increasingly required below 250m depth of cover.

Groundwater issues have been considered, with exploration drillholes and current mining conditions showing that this is likely to be a minor impost on mining conditions. BDA carried out an inspection of underground mining conditions in both Abel and Tasman mines (Upper Donaldson and Fassifern seams respectively) in early February 2011, with observations confirming this.

Roof/floor/rib conditions have been considered. Underground inspection in February 2011 indicated that these conditions were typical for mining these seams within the district. Standardised roof bolting and occasional rib mesh in heavily cleated zones were noted. The Upper Donaldson seam has an immediate floor of thin softer shales and siltstones and tended to break up somewhat in areas of heavy mine traffic but this is not a major impost on economic mining.

In-situ stress measurements have been considered. Sigra Pty Ltd was commissioned by Donaldson Coal for in-situ stress testing on drillhole C232 and this report was delivered on May 31st 2010. Sigra comments that the testing was done through three successful overcores at depths from 333m to 370m in the vicinity of the Upper and Lower Donaldson seams. The conclusions from this Sigra study are that the major in-situ stress is within the north-east quadrant with a high of 24Mpa in the stiffer strata and lower 10-16Mpa in weaker strata. Risk of compressive failure in roadways is assessed as slight if roof and occasional rib support is diligently maintained. BDA has reviewed the Sigra report details and concurs with this assessment.

Propensity for spontaneous combustion *has been considered.* Uniquest Pty Ltd was commissioned by Donaldson Coal for an assessment of spontaneous combustion propensity carried out on core samples from drillhole B030 within the Tasman mine area. This report, dated February 9th, 2010, presents results from testing the Victoria Tunnel and West Borehole seams. Uniquest Pty Ltd concluded from these results that propensity for self-heating for these seams is at the lower end of the medium range. BDA has reviewed the Uniquest report details and concurs with this assessment.

3.3 Donaldson Open Cut Coal Mine

3.3.1. Background

Donaldson commenced open cut mining in February 2001 on ML 1461. All raw coal from the operation is hauled to the Bloomfield CHPP. The Central pit was completed in the fourth quarter of 2010 having extracted approximately 18Mt of ROM coal. The small West Pit is scheduled to extract coal over the next two years.

3.3.2 Tenements

The Donaldson Open Cut Mine, Donaldson Coal's only open cut operation, is located 23km from the Port of Newcastle on Mining Lease 1461, contained within both Maitland and Cessnock Council areas. ML 1461 covers an area of 533 ha and expires 20 December 2020.

Donaldson Coal Mine commenced operations on 25th January 2001, following receipt of Project Approval on 14 October 1999. Both the ML and Project Approval granted Donaldson Coal permission to mine coal for a term of 11 years. The mine ceased operations in September 2010, but operations are planned to recommence in the Square Pit in Q1 2011 for a 20 month period while a further 2 Mt is mined out. The Square Pit area was included and approved in the initial Development Consent for the Open Cut operations; however, as the approved 11 year term has now expired, a request for a two year extension was lodged on 16 December 2010. The Company is still awaiting this approval.

The initial Management Operations Plan ("MOP") was granted for a twelve month period to enable operations to commence and an amended MOP permitted operations to continue until June 2006. The current MOP (which also made provision for relocation of the Hunter Water Board pipeline) was approved in June 2006, a minor amendment was approved in August 2007, and it will expire on 1 June 2012, taking the operations through to closure.

The Closure Plan is included in the current MOP, which includes an estimated closure cost of $1.63M. The statutory bond held by Government authorities is $1.657M.

The Mine operates under a current Environment Protection Licence ("EPL"), No 11080, issued on 13 September 2000 and renewed annually, a Water Works Licence (No 20SL060534) associated with clean water diversion provisions and an out of pit emplacement, and Bore Licences (Nos 20BL168123 and 20BL168124) issued on 12 November 2001 and 2002 respectively, relating to groundwater extraction from the active mining area and groundwater monitoring requirements.

See Table 3.1 below for a summary of tenement, lease and other approval schedules.

Table 3.1

Donaldson Mine Tenement Schedule

Licence No/Name	Expiry Date	Area (ha)	Conditions/Comment
ML 1461	20 Dec 2020	533ha	
Project Approval	14 Oct 2010		Date of grant 14 Oct 1999. A 2 year extension to the 11 year term was applied for on 16 December 2010
EPL 11080	13 Sep 2011		Issued 13 Sep 2000, renewed annually
Management Operations Plan ("MOP)	1 Jun 2012		Takes operations through to closure
Water Bore Licence Nos 20BL168123 & 4			Issued 12 Nov 2001 & '02 respectively

3.3.3 Open Cut Mine Plan

Donaldson Open Cut operation uses conventional hydraulic excavator and trucks to mine coal and waste rock. From the commencement of coal production in 2001 approximately 18Mt of ROM coal has been extracted from the main Central Pit. Preparations are currently being undertaken to commence mining of the smaller Square Pit with a scheduled extraction of 2Mt in 2011 and 2012. The summary of the production is shown in Table 3.2.

Table 3.2

Annual ROM and Saleable Coal Production

Mine	Unit	2011	2012	Total
Donaldson Open Cut				
ROM Production	Mt	0.8	1.2	2.0
Waste	Mbcm	2.7	2.1	4.8
Strip Ratio (waste:coal)	(bcm:t)	3.2	1.8	2.4
Yield	%	62	62	62
Saleable Coal	**Mt**	**0.5**	**0.7**	**1.2**

Note: bcm = bank cubic metre; Saleable coal comprises of Global Thermal and High Ash Thermal

As the open cut operation within the Square Pit will be in similar coal seams and waste rocks mined in the main Central Pit there will be relatively low level of risk in the mining activity. The equipment, comprising 250t and 120t hydraulic excavators and seven 100t trucks, was used to complete the Central pit in 2010 and is available to recommence mining in 2011; all equipment is hired from a third party. The majority of the planned workforce of 35 will need to be recruited prior to production recommencing.

3.4 Abel Underground Mine

3.4.1. Background

Abel Underground Mine is situated 26 km from Newcastle, with the portal coming off the high wall of Donaldson Open Cut Mine. The mine uses existing surface infrastructure and the Bloomfield CHPP (which currently has Environmental Approval for 6.5Mtpa), rail loader and rail loop for coal processing and loading.

The mine produced 0.5Mt and 1.1Mt of run of mine ("ROM") coal in 2009 and 2010 respectively and is budgeted to produce 1.8Mt in 2011. The mine is extracting coal from the Donaldson seam within the Newcastle Coalfield. The site workforce is approximately 200. ROM coal conveyed out of the mine is stockpiled at the Abel portal and then trucked the approximately 3km from the mine to the Bloomfield CHPP for processing and loading on the rail.

The long term extensions to the mine are planned to the south and west within the present ML. The extensions of Abel will involve mining in the Upper and Lower Donaldson, Ashtonfield and Sandgate seams.

3.4.2 Tenements

Project Approval (No 05-0136) was issued on 7 June 2007 and ML 1618 (covering 2,755 ha) was granted on 15 May 2008, both for 21 year terms. Mining commenced in March 2008. The Company holds current ELs Nos 5497 (Abel and Tasman Extension covering 4,990 ha and expiring 21 July 2012 and EL 6964 (Abel Extension covering 1,255 ha and expiring 10 December 2012).

The underground lease area extends southwards from John Renshaw Drive towards George Booth Drive and is bounded on the eastern side by the F3 Freeway and on the western side by Buttai Creek. The Company has Project Approval to mine in the NE of the ML under land owned by Coal & Allied and the Catholic Church. This approval expires in 2013.

EPL No 12856 was issued on 8 July 2005 and is valid until 8 July 2011, renewed annually

The MOP approved in June 2008 is now updated and valid until 31 December 2016. The statutory bond held by Government authorities is $100,000, the low amount reflecting the integration of the Abel Mine with the Donaldson Open Cut.

A Subsidence Management Plan ("SMP") for panels 1-13 covering 260ha, was approved in May 2010. An SMP approval for panels 14-26 covering an area of 221ha will be sought in Q1 2011.

A Part 3A development application for the extension of Abel Mine, which will maintain production of 4.5Mtpa for in excess of 20 years and includes an approval to mine under the new Hunter Expressway - Newcastle Link Road, is to be lodged by the end of 2012 (with community consultation to commence after the NSW State election in March 2011). Abel Extension longwall operations are planned to commence production in 2014. No longwall activity is, however, planned to occur under residences or transmission lines, in order to minimize community (and Government) concern. Creeks also are protected from longwall impact by exclusion zones. These areas will, instead, be mined by bord and pillar methods.

The current Water (Bore) Licence (No. 20BL171035) for extraction of groundwater from the active mine area was issued 5 August 2008 and is valid until 4 August 2013.

See Table 3.3 below for a summary of tenement, lease and other approval schedules.

Table 3.3

Abel Mine Tenement Schedule

Licence No/Name	Expiry Date	Area (ha)	Conditions/Comment
ML 1618	15 May 2029	2,755ha	Granted 15 May 2008 for 21 year term
Project Approval	7 Jun 2028		Granted 7 Jun 2007 for 21 year term.
EPL 12856	8 Jul 2011		Renewed annually
Management Operations Plan ("MOP")	31 Dec 2016		Approved in Jun 2008, since updated
EL 5497	21 Jul 2012	4,990ha	Applies to both Abel & Tasman Extensions
EL 6964	10 Dec 2012	1,255ha	Abel Extension
Subsidence Management Plan ("SMP")		260ha	Approved May 2010 for panels 1-13
Water Bore Licence No 20BL171035	4 Aug 2013		Issued 5 Aug 2008

3.4.3 Mine Plan

Donaldson has developed a mine layout and plan for the Abel mine based initially on the bord and pillar extraction in the Upper Donaldson seam within the ML1618. The Abel Extension lies to the west of the current Abel operations and will involve extraction of the Upper and Lower Donaldson and Ashtonfield seams. Donaldson plans to utilise both bord and pillar and longwall mining methods in the Abel Extension. Details of these longer term plans are in an early stage plan, and will be subject to ongoing design changes and refinements. The current reserves total 54Mt at Abel and a further 21Mt within the Abel Extensions; the LOM plan has scheduled a total of 108Mt of ROM coal to be extracted over 28years. Table 3.4 shows the twelve year forecast of production from Abel mine.

Table 3.4

Abel Forecast Annual ROM and Saleable Coal Production

Mine	Unit	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total 25 years
ROM Production	Mt	1.8	2.3	3.2	5.5	5.9	6.1	6.1	6.0	5.9	5.8	4.6	3.9	105
Yield	%	75	78	77	73	70	69	68	63	62	62	63	64	64
Saleable Coal	**Mt**	**1.3**	**1.7**	**2.5**	**4.1**	**4.2**	**4.2**	**4.2**	**3.7**	**3.7**	**3.6**	**2.9**	**2.5**	**67**

Note; Saleable coal comprises of Coking coal, Global Thermal and High Ash Thermal

The mine plan for Abel assumes four continuous miners ("CM"s) in the first workings in developing roadways to the mine areas, with second workings with one CM on extraction of pillars, increasing initially to two within the first few months of 2011 and a third CM on pillar extraction at the end of 2011. Donaldson is scheduling the introduction of a 125m short longwall or a 65m wide mini wall during the first quarter of 2013 to increase underground production to a level where all contract coal washing capacity is utilised. A full 225m long wall is scheduled to be installed by the last quarter of 2013with an annualised production rate of 2.6 - 2.8Mtpa with three relocations every 2 years. BDA considers the production rates for the long wall are relatively conservative and provide a reasonable basis for scheduling. Donaldson are considering various options for mining under the new Hunter Link expressway. BDA considers that this will result in a level of loss of production, which is allowed for in the valuation work.

The performance of the CMs in the first workings in 2010 was approximately 8,000m per machine per year. Donaldson is anticipating an increase in productivity to approximately 11,000m per CM per year. The increase in production will be dependent on the current machines achieving the higher productivity in development and the new CM for pillar extraction arriving on schedule.

3.5 Tasman Underground Mine

3.5.1. Background

The Tasman underground mine (ML1555) is located approximately 20km west of Newcastle and 1.5km west of the village of Seahampton. Operations commenced in June 2006 using the bord and pillar mining method with pillar extraction which commenced in April 2007.

The mine produced 600,000t and 629,000t of run of mine ("ROM") coal in 2009 and 2010 respectively and is budgeted to produce 840,000t in 2011; the operation is permitted to produce 975,000tpa and is extracting coal from the Fassifern seam within the Newcastle Coalfield. The site workforce is approximately 100. ROM coal conveyed out of the mine is stockpiled at the Tasman portal and then trucked approximately 23km from the mine to the Bloomfield CHPP for processing and loading on the rail.

The long term extensions to the mine are planned to the north, south and west of the present ML and lie within the exploration tenements, EL5337, EL5497 and EL5498. In the long term, the West Borehole and Ashtonfield seams areas planned to be mined within these ELs will require the necessary approvals to extend the ML; full scale production from these areas is not planned until 2019.

3.5.2 Tenements

ML 1555 was granted on 7 September 2004 for a term of 21 years (expiring 6 September 2025), covering approximately 952ha with George Booth Drive to the north, the F3 Freeway to the east and Mount Sugarloaf in the centre. Project Approval (No 274-9-2002) was granted on 16 March 2004, also valid for 21 years, and production commenced in late 2006. This approval is limited to 975,000tpa, which is trucked over a distance of some 20km to the Bloomfield Coal Handling and Preparation Plant ("CHPP"). Donaldson Coal plans to maintain this approved tonnage for at least 20 years.

Project Approval requires that there is to be no subsidence impact on cliff lines, of which there are several, nor removal of pillars beneath the exclusion zone protecting telecom towers (NBN and Broadcast Australia). An application for a SMP to cover panels 10-15 was lodged in November 2010 and is expected to be approved by March 2011.

The mine is operated in accordance with an Amended MOP, approved on 8 February 2008 and valid until 31 March 2012. The statutory bond maintained by Government authorities is $440,000, reflecting the low estimated closure cost for this underground operation that is largely overlain by State Forest and which is planned to link up underground with Abel Mine in about six years, after which coal will be conveyed out of the mine via the Abel portal.

The Mine operates under a current EPL (No 12483) issued 8 May 2006 and renewed annually.

Production at the Tasman Mine Extension is planned to commence in 2015, following approval of a further mining licence and obtaining Development Consent. A Part 3A application is required due to inclusion of

new surface facilities in the new development. Donaldson Coal has started the necessary Environmental Assessment process to obtain approval from the NSW and Federal Governments, which is expected to be obtained by end of 2012. This may include an application to increase the throughput at the Bloomfield CHPP to 9Mtpa (from the currently approved 6.5Mtpa); however this could alternatively be included in the Abel Mine Extension Development application.

Tasman Extension ELs are EL 5337 (1,418 ha), granted in October 1997 and which expires August 2012, and EL 5498 (1,475 ha) expiring 23 July 2011.

See Table 3.5 below for a summary of tenement, lease and other approval schedules.

Table 3.5

Tasman Mine Tenement Schedule

Licence No/Name	Expiry Date	Area (ha)	Conditions/Comment
ML 1555	6 Sep 2025	952ha	Granted 7 Sep 2004 for term of 21 years
Project Approval	16 Mar 2025		Granted 16 Mar 2004, for term of 21 years.
EPL 12483	8 May 2011		Issued 8 May 2006, renewed annually
Management Operations Plan ("MOP)	31 Mar 2012		Approved 8 Feb 2008
EL 5337	Aug 2012	1,148ha	
EL 5498	23 July 2011	1,475ha	
Water Bore Licence No 20BL171792	16 March 2013		Issued 17 March 2008

3.5.3 Mine Plan

Donaldson has developed a mine layout and plan for the Tasman Mine based initially on the bord and pillar extraction in the Fassifern seam within the ML1655. Medium to long term production is planned from the West Borehole seam, 140m below the Fassifern seam, with both bord and pillar and short longwall mining methods with the transfer of a full longwall to Tasman from Abel in the long term (20 years). Access to the West Borehole seam will be either a drift from the current Fassifern workings or a separate boxcut on surface to the seam. Details of these longer term plans are in an early stage plan, and will be subject to ongoing design changes and refinements. The current reserves total 27Mt at Tasman and a further 52Mt within the Tasman Extensions; the LOM plan has scheduled a total of 82Mt of ROM coal to be extracted over 34years. Table 3.6 shows the twelve year forecast of production from Tasman Mine.

Table 3.6

Tasman Forecast Annual ROM and Saleable Coal Production

Mine	Unit	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total 25 years
ROM Production	Mt	0.8	0.6	0.6	0.8	0.9	1.1	1.1	1.2	1.2	1.5	2.5	3.3	60
Yield	%	71	71	70	68	68	68	68	68	66	67	64	63	65
Saleable Coal	**Mt**	**0.6**	**0.4**	**0.4**	**0.5**	**0.6**	**0.7**	**0.8**	**0.8**	**0.8**	**1.0**	**1.6**	**2.1**	**39**

Note; Saleable coal comprises of Global Thermal and High Ash Thermal

The mine plan for Tasman assumes two CMs in the first workings in developing roadways to the mine areas, with second workings with one CM on extraction of pillars. In 2015 it is planned to introduce continuous haulage units to increase the productivity of the CM units and production will increase up to 1.1-1.2Mtpa, with extraction moving from the Fassifern seam to the deeper West Borehole or Sandgate seams. A short longwall is planned to be introduced into the Abel underground operation in 2012 and in 2021 this short longwall is planned to be installed in the West Borehole seam at Tasman and production rate will increase to around 3.3Mtpa.

The planned surface box cut will provide services and staff access only to the deeper West Borehole seam. It is planned to install a main conveyor from the West Borehole seam to Abel workings within the Donaldson seam so that coal can be conveyed to the Abel portal thereby removing the need to truck coal from the Tasman to Bloomfield CHPP.

3.6 Coal Washing and Handling

The Materials handling and CPP operation on the Bloomfield site are established operations and have a history of processing the coal from these mines.

The Materials Handling and Process Plant at Bloomfield is generally old and has been upgraded and modified many times during its life, often using second hand equipment. It is now in a state best described as functioning satisfactorily, but some areas are in need of repair and in others there would be a good case for modernisation.

Transport of ROM to CHPP

Haulage from the mines to the raw coal stockpile ahead of the CPP dump hoppers is an established contractor practice and paid on the basis of tonnes transported. This is a good working arrangement while the mines are operating at budget rates. However, over the last period, this has not been the case and this is causing discussion around an equitable solution with the contractor.

There have been a number of investigations into installing a conveyor to transport the coal from Abel and this will be more financially viable when the production ramps up in a few years.

Raw Coal feed at the CPP

Over the last few years the feed section of the plant has been upgraded to 1400tph capacity with a view to upgrading the plant. The feed section includes a 1,000t surge bin and 2 dump hoppers, to service the separate raw coal stockpiles of Bloomfield and Donaldson. It is reported to be performing well.

Product Coal Materials Handling & Stockpiling:

There are some issues with this area of operation that require comment. There are two skyway stacking conveyors and only one has an underground reclaim system, resulting in the need to truck a significant amount of coal around the extensive stockpile area.

It is not uncommon to have a large amount of product coal stored in this area, which is shared with Bloomfield coal, and keeping track of the several varieties and keeping them separate is difficult. From a cost point of view, the "live" volume is very small compared to the tonnage. This is an historical problem, as it has not grown with throughput. Plans have been developed by consultants on methods of addressing these issues but all require capital.

Another, more urgent, issue is that when the plant is operating at 1,000tph and the yield is relatively high, the outbye conveyors from the plant cannot cope with the tonnage and this forces the plant throughput to be compromised. This should be addressed at the earliest opportunity. Yet another issue over the Materials Handling Plant is the accuracy of the weightometers, with stock adjustments being a regular occurrence.

A conveyor fed from the underground reclaim conveyor and by truck via an inline dump hopper delivers the coal to the train loading station.

Processing Plant:

As mentioned previously, the plant is very old and has been upgraded and modified many times.

The Dense Medium Section of the plant can be arranged to operate as a single or two stage circuit. The latter is used for the production of Coking coal and a very low cutpoint is required. It was reported that in this mode of operation, the incorporation in the plant process flow design of a shared overdense circuit precludes the plant from operating at a high enough SG to prevent loss of yield. This issue needs attention.

The desliming screen is equipped with 1.0mm aperture decks and this would be selecting <1.3mm coal for the fines circuit.

The Primary Classifying Cyclones ("PCC"s) are 380mm and are reported to be cutting at 150 micron (µm). It has been established that there are losses of coal from the overflow of these cyclones to the thickener and thus tailings. The traditional method of recovering this coal in coking coal plants is flotation and a proposal has been put forward to install more flotation and ultrafines drying capacity. The estimated increase in yield is of the order of 2 to 3%, which is significant. Currently, this modification is not going ahead due to cost considerations. This stream is separated on a sieve bend at approximately 350um with the 1.3mm*350µm reporting to spirals, the product of which is processed in a Reflux Classifier ("RX"). This is done to reduce the ash of the coking coal below the level achievable by spirals alone. During the production of coking coal the RX underflow is returned to the thermal product.

The underflow from the sieve bends (350*125µm) is processed in a Jameson Flotation Cell, and the product from this is dried in a small screenbowl centrifuge. A recent PCC audit by Aurecon Hatch identified high and variable ash in the flotation product as being caused by the overloading and subsequent poor performance of the PCCs.

It is BDA's view that a full process audit of this plant is required to determine where modifications are required to de-bottleneck the plant and improve efficiency.

Yield:

The predicted yields in the model for future operations appear satisfactory where they rely on historical information. However, Donaldson recognises that there is further washability data collection required to improve the reliability of yield forecasts, especially where new seams are to be mined.

Apart from the issues of plant yield not being optimum and forward planning yields being somewhat open to speculation where historical plant data is not available, on a day-to-day basis the biggest single influence on yield is the volume of out of seam dilution included in the ROM. Donaldson is aware of this and working to minimise out of seam dilution.

BDA reviewed the available historical data comparing annual achieved (actual) yields compared to Budgeted Yields. The result over the last three years is that on average budget yields are being slightly surpassed (by +3%), and that budget forecasts are improving. This lends credence to yield budgeting on the basis of past performance.

The financial model is based on production of a mix of coking coal, standard quality thermal coal and high ash coking coal. BDA's assessment is that the yields and split of the production are reasonable. The alternative of producing just a mix of thermal coal and high ash thermal coal is also an option.

3.7 Capital and Operating Cost

3.7.1 Capital Costs

Donaldson Open Cut

There is minimal capital expenditure forecast for the open cut and is limited to infrastructure and sustaining expenditure. A total allowance over the twenty months of the open cut operation totals $2.8M. Given that the equipment is hired from a third party, there is no requirement for equipment capital. For this review, BDA considers the infrastructure and sustaining capital at approximately $2.30/t is reasonable.

Abel Underground

Donaldson has estimated the capital costs for the LOM plan to increase production from the current 1.1Mtpa mining rate up to 6Mtpa in 2015. Over this five year period, the capital costs are estimated at $192M. This consists essentially of

- mining equipment $142M
- conveyor installations/ extensions $31M
- mine services and infrastructure $19M

The mine equipment capital is planned to be spent prior to the increase in the production rate to 1.1Mtpa in the years 2014 and 2015. BDA considers the capital allowance is reasonable for the LOM plan to establish the higher production level over the five year period.

Sustaining capital allowance of around $1.70/t of production has been included in the Abel LOM plan.

Tasman Underground

Donaldson has estimated the capital costs for the LOM plan to increase production from the current 0.6Mtpa mining rate up to 1.1Mtpa in 2016 to planned major expansion to 3.3Mtpa in 2022. Over this eight year period the capital costs are estimated at $128.3M. The major items in this estimate include

- mining equipment $9.5M
- conveyor installations/ extensions $46.3M
- mine services and infrastructure $48.5

The mine equipment capital is planned to be spent prior to the increase in the production rate to 1.1Mtpa in the years 2014 and 2015. There is no allowance for the equipment or conveying required to increase the production capacity at Tasman mine in the period leading up to 2021. There may be excess equipment from Abel mine that can be transferred to Tasman mine but BDA considers there will be additional capital costs incurred in establishing the higher production level.

Sustaining capital allowance of around $2/t of production has been included in the Tasman LOM plan.

Bloomfield CHPP

There is an allowance for $81M capital expenditure over 2 years, 2012 and 2013, to allow plant upgrading before the expected mine output increase in 2014 from the longwall startup. This is split as ROM $5M, Washery upgrade $42M and Product $34M.

The plant is currently nominally a 1,000tph, 5 day per week operation. With a small amount of de-bottlenecking, it should be able to run at this rate for 7,000 hours per year giving a feed of 7Mtpa. Bloomfield retains 1Mtpa of this capacity, leaving 6Mtpa for Donaldson. The upgrading requirements should be reviewed carefully.

3.7.2 Operating Costs

Donaldson Open Cut

In the financial model, Donaldson forecasts an open cut operating unit cost of $26/t of ROM coal, inclusive of waste mining. BDA considers the overall mining cost to be high for an open cut operation with low strip ratio, but with the limited life (2 years), the small size of the pit and extraction of multiple seams with up to 16 separate coal plies the cost is considered reasonable.

Abel Underground

In the financial model, Donaldson has developed operating costs for both Abel and Tasman based on forecast unit costs for each of the mine activities including mine development, bord and pillar development and extraction and longwall mining. The overall forecast for the Abel underground mining unit cost is $25/t of ROM coal over the 25 year planning and modeled period with an initial unit cost of $40/t in 2011 at a mine production of 1.8Mt of ROM coal with unit costs reducing to the average unit cost as production increases and significant quantities of coal are produced from the more productive long wall machine. These unit costs compare with the unit operating costs in 2010 of $53/t of ROM coal, when most production was from development work. While lower unit costs will be an outcome of increased productivity and production, BDA considers the overall LOM mining cost to be low compared to current costs and has recommended that the IER valuation allows for higher ROM costs and a longer transition period to the lower costs resulting from the planned higher productivity mining systems.

Haulage costs for the 2.5km haul to the Bloomfield CHPP are forecast to be $1.80/t of ROM coal; this compares with the unit cost in 2010 of $2.50/t. It is assumed that the haul cost will be reduced with higher production rates. These savings may not be fully realised.

Tasman Underground

In the financial model, Donaldson forecasts the Tasman underground mining unit cost of $35/t of ROM coal over a ten year period, before reducing towards $25/t as production rises from 2021. These unit costs compare with the unit operating costs in 2010 of $44/t of ROM coal. BDA considers the overall LOM mining cost for Tasman to be low compared to current costs and has recommended that the IER valuation allows for higher ROM costs and a longer transition period to the lower costs resulting from the planned higher productivity mining systems.

Haulage costs for the 23km haul to the Bloomfield CHPP are forecast to be $4.20/t of ROM coal; this compares with the unit cost in 2010 of $4.25/t.

Bloomfield CHPP

The operating budget includes train loading and reject disposal. This cost is considered relatively high for a normal Hunter Valley CHP, but the plant is under-utilised, and contains 2 stage DMC circuit and a flotation plant, both of which are absent in the HV plants with the low end costs. Also this is a contract washing operation and the price will thus include provision for future repairs and for profit.

3.8 Infrastructure Capacity

3.8.1 Rail to Port of Newcastle

The Bloomfield CHPP is adjacent to a rail loop and coal can be directly loaded onto rail cars from the CHPP. All coal products are railed 25km to the Port of Newcastle by Pacific National under an agreement expiring on 30 June 2014.

3.8.2 Shiploading Capacity

Port Waratah Coal Services ("PWCS")

PWCS operates two terminals, Kooragang and Carrington, at the Port of Newcastle and has recently completed expansion works at the Kooragang terminal to increase total capacity to 113Mpa. Donaldson has a ten year (rolling) "ship or pay" agreement with PWCS for a port allocation of 2.2Mtpa.

Newcastle Coal Infrastructure Group ("NCIG")

NCIG is the third and newest coal export terminal at the port of Newcastle. With its first export coal loaded in March 2010, the 30Mtpa terminal is currently ramping up to full capacity. With demand for additional port capacity high, NCIG in late 2010 secured finance for a 23Mtpa expansion of the new terminal to be fully operation in 2013. Furthermore, NCIG is currently conducting a feasibility study for a final expansion of 13Mtpa to be completed by 2014.

Donaldson owns 11.6% of NCIG Holdings, the parent company of NCIG. It has entered into a 10 year evergreen "ship or pay" agreement with NCIG that requires it to pay 11.6% of the costs of operating NCIG, in return for receiving an allocation of 11.6% of the total throughput capacity of the port, less 12Mtpa allocated to non-NCIG shareholders in the first expansion stage. The balance of the shareholding is owned by BHP Billiton, Centennial Coal, Peabody Energy Australia, Felix Resources and Whitehaven Coal.

3.9 Coal Marketability

Donaldson is scheduling production from various seams which are suitable for producing a variety of coal products for the export market. Donaldson intends to primarily market thermal coal consistent with Newcastle specifications but can also market a high ash product which is produced as a by-product from processing operations. Donaldson also has the ability to produce a soft coking coal from the Abel underground mine if warranted by market conditions and all seams are capable of producing a thermal product. The soft coking coal product can be produced from the Upper Donaldson, Ashtonfield and West borehole seams. The specifications of coals expected to be produced by Donaldson are shown in Table 3.7.

Table 3.7
Specifications of Coals Shipped by Donaldson

Item	Coking Coal	Newcastle Spec Thermal	High Ash Thermal
Calorific Value (kcal/kg)	8,200	6,750	5,510
Inherent Moisture (% ad)	2.4	2.7	3.3
Ash Content (% ad)	9.5	14.5	28.5
Volatile Matter (% ad)	33.3	30.3	33.0
Fixed Carbon (% ad, by difference)	54.8	52.5	54.8
Total Sulphur (% ad)	0.9	0.76	0.46
Crucible Swell Number ("CSN")	5.5 - 6.0	n/a	n/a
Fluidity (ddpm)	500	n/a	n/a

Note: coal products are dry ash free basis ("daf"); Air dried basis ("ad"); dial division per minute ("ddpm")

4.0 EXPLORATION PROPERTY: MONASH

4.1 Description and Tenements

4.1.1 Introduction

The Monash Project lies approximately 6km southeast of Broke and covers an area of approximately 223ha of the densely wooded hills of the Pokolbin State Forest. The Monash Coal Exploration Project comprises two adjacent and contiguous Exploration Licences, owned by Ellemby Resources Pty Ltd, ("Ellemby") in the lower Hunter Coalfield area. These ELs, numbered EL6123 and EL7579, were granted to Ellemby in September 2003 and July 2010 respectively. Expiry dates are respectively September 2012 and September 2013, see Table 4.1.

Table 4.1
Monash Project Tenement Schedule

Licence No	Grant Date	Expiry Date	Area (km^2)
EL 6123	8 September 2003	7 September 2012	18.86
EL 7579	22 July 2010	7 September 2013	3.33

These EL's are situated within well-known coalfields. Ellemby has a significant exploration drilling programme planned with the aim of defining potential underground mining resource.

4.1.2 Location

EL6123 and EL7579 are located in the Hunter Coalfield approximately 10km west of the town of Cessnock. They cover an east-west area of elongated shape with a total area of about $22km^2$.

Figure 1 shows the generalised location of the Monash Project area.

4.1.3 Geological Settings - Hunter Coalfield

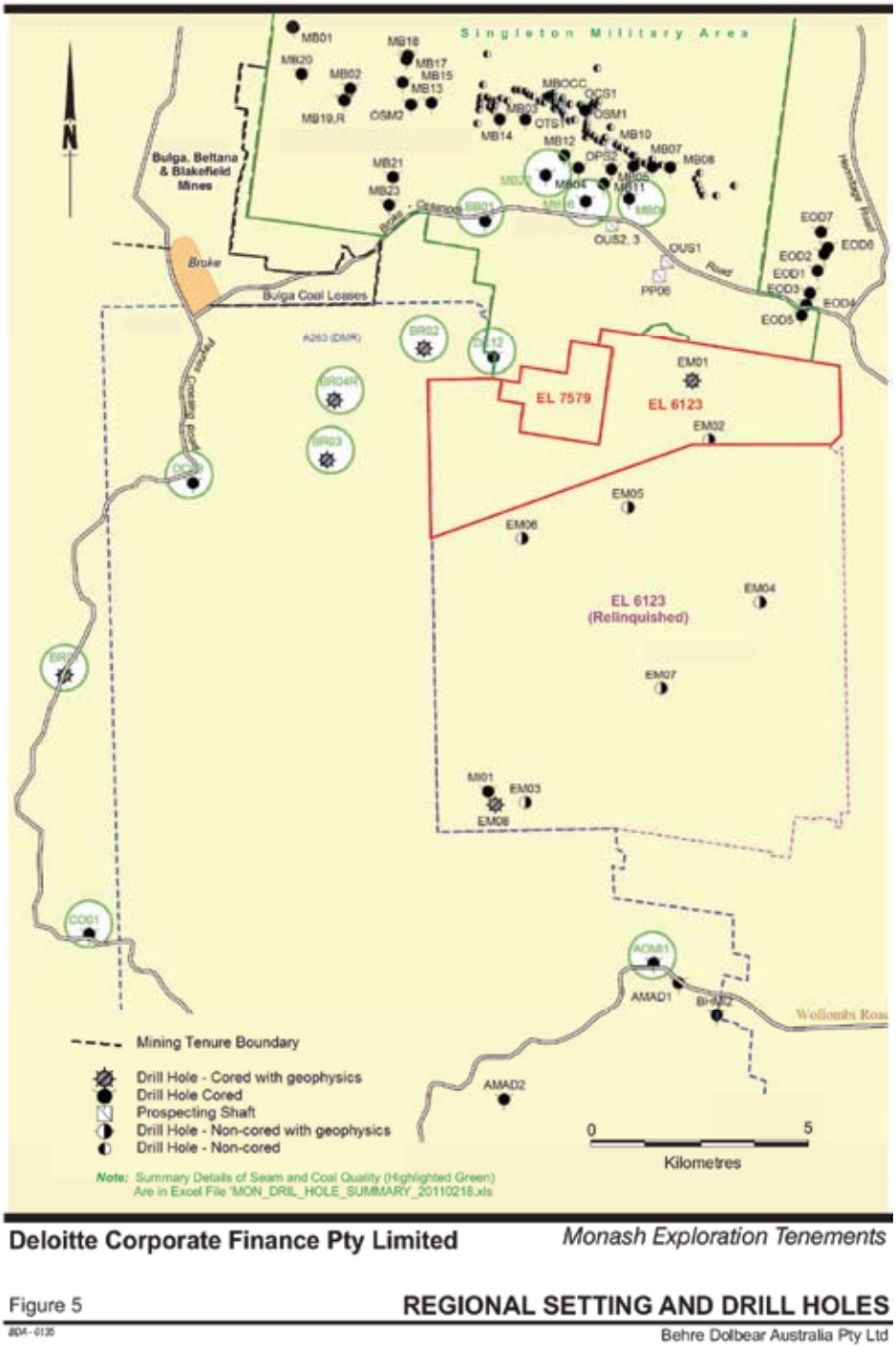
Stratigraphy within the area is well characterised as containing basal Permian Wittingham Coal Measures overlain by units from the Newcastle Coal Measures, in turn overlain by the Narrabeen Group of Triassic sediments. Typically, the Narrabeen Group comprises massive, cliff-forming sandstones with minor shales and claystones, with the underlying Coal Measures containing thinner-bedded shales, siltstones, sandstones and coal seams. These stratigraphic sequences are well explored in surrounding areas, with operating mines in both the Coal Measures.

Figure 5, supplied by Ellemby, shows the ELs in the local area with existing boreholes located in this area.

Although deeper drillhole data is sparse across the ELs, the strata dip gently across the area to the South at about 4^0, with sub-crop of the underlying Wittingham Coal Measures known in the north-eastern area from early but reasonably extensive exploration drilling.

Figure 5

Monash EL7579 and EL6123 and drillhole locations



4.1.4 Coal Geology

A geological report on the potential resource within the EL's was commissioned by Ellemby from Geological Management Services ("GMS") and completed in July 2010. This report examined the available data and collated these together with an estimate of coal resource to correlate with JORC Resource guidelines. A total of six (6) seams from the Wittingham and Newcastle Coal Measures were delineated from this report as being developed within the EL's.

Ellemby has provided BDA with drillhole logs and survey locations for the drillholes relied on by GMS as part of the database for the GMS July 2010 report. BDA has examined this database and regards it as adequate for the analyses and conclusions within the GMS report.

a) within the basal Wittingham Coal Measures, existing boreholes north of the ELs have demonstrated that the following four (4) well-known coal seams are developed (ascending order):

Woodlands Hill, Blakefield, Whynot, Whybrow

As the basal seam within the Wittinghams, the Woodlands Hill seam is believed to have a mean thickness of 2.68m and indicative coal qualities of 20.1% raw ash (10.5% without claystone bands), low sulphur, CSN of 7-8 and a SE of about 30 MJ/kg. These indicative qualities are interpolated from eight (8) existing cored boreholes to the north of the EL's. Laboratory yields for a F1.65 fraction were reported as up to 87% with a 9-11% ash product. Petrography from one borehole adjacent to the north-west boundary of the EL's reported an Ro Max of 0.82, indicating that the product may provide a good coking coal fraction. GMS estimated that the maximum depth of cover for this seam across the EL's is likely about 900m.

The Blakefield seam data is restricted to two deep holes, again the hole adjacent to the north-west boundary and the other about 5km to the west, and four shallower holes updip about 3km from the northern EL boundary. The mean thickness of the seam from these holes is 2.6m, with reported coal qualities of about 25% raw ash, with a laboratory yield at F1.45 ranging from 72%-76% and a mean product ash of 10.3%. GMS estimated that the maximum depth of cover for this seam across the EL's is likely about 800m, with the interburden from the underlying Woodlands Hill averaging about 100m.

The available Whynot seam data is restricted to three drillhole intersections from the holes noted above for the Blakefield seam. Mean seam thickness is reported as 2.6m of dull, banded coal with thinner bands of shaly coal. One hole reported raw coal analysis of 16.3% ash with an ex-bands ash of 10% for a 90% yield at F1.45. GMS estimated that the maximum depth of cover for this seam across the EL's is likely about 700m, with the interburden from the underlying Blakefield averaging about 100m, although it is noted that interburden from the shallower northern holes is considerably thinner, with a range of 42-58m.

The Whybrow seam is considered as the uppermost of the Wittingham Measures coal developed within the EL's, but again available data is limited to three drillholes, two of these located directly adjacent to the north-western EL boundary, with the third 3km to the west. This seam is reported as characteristically dull with a number of shale/claystone bands. The Whybrow seam is also well known from the underground mine South Bulga to the west of the EL's. Mean seam thickness is reported as 2.1m. Raw ash is high at a mean of 30.4%, but a F1.6 ash of 14.1% at a laboratory yield of about 70% is noted. CSN is reported as about 3. GMS estimated that the maximum depth of cover for this seam across the EL's is likely about 600m, with the interburden from the underlying Whynot averaging about 100m.

b) within the Newcastle Coal Measures, the Borehole and Fassifern seams (ascending) are both well-known and recognised.

The Borehole seam is the basal seam in the Newcastle Measures. Data available for this seam is from five boreholes and one prospecting shaft, located from the north-west edge of the EL's west to a distance of about 3km. Mean seam thickness is consistently > 1.5m with a reported maximum in these data of 2.6m. This seam is regarded generally as likely to provide a reasonable coking coal fraction. Available coal quality data (two boreholes) reports a mean raw ash of 26%, with a

F1.6 ash of 14.5%, a CSN of 4-6 and a SE of 28 MJ/kg. GMS estimated that the maximum depth of cover for this seam across the EL's is likely about 500m, with the interburden from the underlying Whybrow averaging about 100m.

The upper Fassifern seam noted from eight existing drillholes is present in the significant control hole adjacent to the north-west of the EL's (this hole is a prime data point for all of the above estimates) but existing holes to the south-east indicate that this seam is likely to deteriorate in thickness and quality across the EL's to the south. Mean seam thickness on the north-west edge is about 2.6m. Coal qualities available from four of the drillholes indicate a mean raw ash of 26.7%, with a F1.6 ash of 15.3% on a varying laboratory yield ranging from 58.5-81%. GMS did not estimate a maximum depth of cover across the EL's as the likely deterioration of seam thickness and quality mitigated against the usefulness of such an estimate. The EL's 6123 and 7579 are located in the Hunter Coalfield approximately 10km west of the town of Cessnock. They cover an east-west area of elongated shape with a total area of about 22km^2.

4.1.5 Resource Estimates

The drillhole data along the north and to the west of the EL's are of sufficient reliability and proximity to allow an estimate of resource within JORC guidelines in the northern area of the EL's to the status of Indicated/Inferred.

Ellemby modelled the various seam characteristics from this database within Vulcan geological software to allow a resource estimate. GMS has independently verified the modelling and reported a Resource estimate in the July 2010 report. BDA has examined the modelling parameters and resource estimates reported by GMS within JORC guidelines and is of the view that the results are of required industry standards.

Table 4.2 lays out the GMS Resource estimate.

Table 4.2
Monash Resources

Seam (Descending Order)	Resource Category		
	Indicated (Mt)	Inferred (Mt)	Coal Potential (Mt)
Fassifern	0.7	23	0
Borehole	2.2	57	6
Whybrow	2.8	46	23
Whynot	2.9	57	28
Blakefield	2.4	48	24
Woodlands Hill	2.1	43	22
Total	**13.0**	**274**	**102**

BDA notes that the following parameters apply to the above estimate:

- within the Inferred category, data points have been used that are 4km apart, rather than the more normally used 2km. This has been subject to discussion and is justified on the grounds that the coal seams and coalfields in this area are extremely well known, with both drilling/shaft exploration and mining operations surrounding the area of the EL's. It is also noted here that existing drillholes to the south record the same sequences. BDA has considered this and concurs with the judgement within the GMS report.

- the GMS specified category of Coal Potential is outside JORC guidelines without supporting data points and as such is not regarded as either within the Inferred or Inventory categories. The resource tonnages placed in this category are simply indicative of what may reasonably be regarded as possible, given the well-known geology of the area.

4.1.6 Proposed Exploration Program

Ellemby have outlined an exploration drillhole program, to be carried out over the next three years, designed to measure the resource and mining potential of the coal within the EL's. A total of twenty-three (23) drillholes are proposed. Ellemby has informed BDA that these exploration holes have been budgeted

and an initial drill rig contracted, with the option of adding a second rig to the programme. Each of these holes is designed to penetrate the entire sequence to below the Woodlands Hill seam. Once below the Triassic sandstone cover, the holes will be fully cored, with full geophysical logging (including acoustic scanning), full laboratory analyses of each of the coal seams and geotechnical testing of various strata sections to allow conceptual underground mine planning. Seam gas measurements and groundwater characteristics will also be undertaken. The placement of these holes will allow resource estimate to measured status when the programme is completed. BDA is of the view that this programme as outlined is of high industry standard, especially given the consideration that some of the more southern drillholes may be required to reach depths in excess of 750m.

4.1.7 Geological Risk

The GMS Report July 2010 lists three (3) risks that are clear from the examination of the existing database:

- as most of the data points that inform the Resources estimate given above lie outside the EL boundaries, there is considerable risk that seam thicknesses and qualities may not be as interpolated from the widely spaced current data. This is reflected in the resource categories reported above.
- structural geology risk (ie. large scale faulting) exists, but is not considered major. Smaller-scale faulting almost certainly exists, both normal and compressional faulting. This view is based on the considerable knowledge of the surrounding area geology from long term exploration and mining.
- igneous intrusions in the form of dykes or small sills may be present, but again the known surrounding area geology offers no evidence of large scale intrusives.

On BDA's knowledge of and experience in the area, the level of risk reported here is a reasonable view of the likelihood of uneconomic geology, so BDA concurs.

On the concept of mineability, the most likely mining method seen as suitable if the exploration programme demonstrates the seam development as suggested is longwalling. This concept raises the question of successive descending superimposition of longwalls in each seam. Although the interburden thicknesses are currently estimated at about 100m between seams, significant variations in these interburdens may have considerable impact on mine reserves and planning. The drillhole data along the north and to the west of the ELs are of sufficient reliability and proximity to allow an estimate of resource within JORC guidelines in the northern area of the ELs to the status of Indicated/Inferred.

4.1.8 Conceptual mine planning.

At the request of Ellemby Resources Pty Ltd, IMC Mining Group Pty Ltd, in conjunction with other consultants, have completed an Independent Conceptual Mine Development Plan of the EL6123 and EL7579 coal tenements in the lower Hunter Valley of NSW (the Monash Project). Conclusions from this study are given below.

Within the tenement boundaries are contained at least six coal seams of potentially minable thickness; the Fassifern and Borehole seams of the Newcastle Coal Measures and the Whybrow, Whynot, Blakefield and Woodlands Hill seams of the Wittingham Coal Measures. These six seams occur over a vertical interval of around 450m and depths ranging from sub-crop for the Fassifern seam to almost 900m under the tallest hills in the Woodlands Hill seam. The six seams provide a largely inferred resource of 287Mt of coal averaging 2.2m in thickness. A further 102Mt of non-classified coal is thought to occur in these six seams within the tenement boundaries.

Based on the available information and historical information about the six target coal seams, the Monash Project product is expected to comprise both thermal and semi-soft coking coal in roughly equal measure. A typical thermal coal specification might be 14-15% ash, 0.5% sulphur and 6700kcal/kg adb, while the semi-soft coal would contain around 9% Ash with an FSI of 6-8.

A conceptual mine plan has been developed that envisages all 6 coal seams being extracted using the longwall mining method. The individual seam separations of 50-150m should minimise seam interactions and permit both offset and superimposed layouts from seam to seam to occur. The Fassifern seam subcrop provides for a centrally located access point such that longwall panels of 300m width and up to 4.5km in

length are possible off either side of the main headings. Successive seams could be accessed through a series of declined drifts. Within the conceptual mine plan is contained potentially 200Mt of ROM coal and 145Mt of product coal. The multiple seam nature of the deposit and centrally located main headings readily lends itself to the introduction of two longwall systems, each operating in separate seams and thus minimise trunk conveying and ventilation requirements within each seam, allowing the longwalls to operate independently of each other. Additionally, as the Fassifern seam is essentially "one sided" due to thinning coal, the longwall systems can operate on opposite sides of the main headings, minimizing potential interaction of "active" longwalls. It is envisaged that each longwall could potentially produce around 4Mtpa ROM coal and 3Mtpa product coal for a period of 25 years or more. The longwalls could be introduced in the appropriate seams such that production would be a thermal coal followed by semi-soft coking coal in about 2 years time. Up to 510 permanent employees and another 75 contractors might be employed by the mine at full production.

The review has identified steep slopes and escarpments as an environmental consideration, and these have been reflected in the conceptual mine layout by avoiding shallow undermining of these areas.

An operating cost schedule has been developed coinciding with the mine production schedule. At full mine production, the indicative FOR operating cost at full production from this schedule ranges from A$25-A$32 per ROM tonne and A$36- A$46 per product tonne, with an average cost of A$29 and A$40 per ROM tonne and product tonne, respectively.

The location of the potential mine access lends itself readily to the provision of rail and utility access, with a dual 132kV line running along Broke Road within 3km of the site and the Bulga/Mt Thorley rail spur potentially accessible 12km to the north over relatively flat terrain along the high voltage line corridor. It is envisaged that water supply could be obtained from localised groundwater sources and/or the purchase of existing water licenses in the area, thence pumped to site. From Broke Road, the rail/utility corridor would be run about 3km along an existing track to the mine site.

At the mine site, there is ample, suitably flat land available for construction of the CHPP facilities. The location is also sheltered behind some hills, limiting its view from Broke Road. However, additional lease area would need to be obtained to incorporate all facilities and the rail loop.

Assuming the above basic infrastructure, an indicative capital expenditure schedule has been developed covering the anticipated 8 year mine development period (to full 9Mtpa production) and a further 24 years of production to the exhaustion of potentially recoverable coal contained in the conceptual mine plan. The capital schedule provides an indicative development expenditure of A$1,393M over 8 years to reach full production, and an additional $916M over the following 24 years to maintain this production.

BDA has reviewed this work and highlights that it is early conceptual planning based on very limited actual site data and an at best inferred coal resource. More drilling and interpretative work is required before any mine plans start to become reliable. BDA is of the view that there may be restrictions applied to undermining the cliff faces in the Monash area which may reduce mineable coal, complicate the mine layout and add to mining costs.

4.2 Valuation Methodologies

As part of the brief, BDA has been requested to estimate the value of the exploration assets of Monash Exploration Tenements to provide a guide as to their contribution to the overall value of the Related Assets. BDA has examined the information available on Monash and has considered the valuation methods that would be most appropriate, given the level of exploration to date, the extent and degree of definition of any identified resources. BDA has explained the methodologies available under the Valmin Code for the Technical Assessment and Valuation of Mineral Assets and Securities for Independent Expert Reports as adopted by the Australasian Institute of Mining and Metallurgy in 1995 and as amended and updated in 2005 (the "Valmin Code") and has then discussed each of the projects in terms of their status and valuation.

Effective Date

The effective date for the valuation is 1 March 2011.

Standards and Procedures

This report has been prepared in keeping with the Valmin Code. Resource and reserve estimation procedures and categorisations have been reviewed in terms of the JORC Code, December 2004.

Valuation Principles

As a general principle, the fair market value of a property as stated in the Valmin Code (Definition 43) is the amount a willing buyer would pay a willing seller in an arm's length transaction, wherein each party acted knowledgeably, prudently and without compulsion.

Valuation Methods

There is no single method of valuation which is appropriate for all situations. Rather, there are several valuation methods, each of which has some merit and is more or less applicable depending on the circumstances. The following are appropriate items to be considered:

- discounted cash flow
- amount an alternative acquirer might be willing to offer
- the amount which could be distributed in an orderly realisation of assets
- the most recent quoted price of listed securities
- the current market price of the asset, securities or company.

The *discounted cash flow* or net present value method is generally regarded as the most appropriate primary valuation tool for operating mines or mining projects proceeding to development in the immediate future. Valuing properties at an earlier stage of exploration where ore reserves, mining and processing methods, and capital and operating costs, are yet to be fully defined, involves the application of alternative methods. The methods generally applied to exploration properties are the *related transaction* or real estate method, the value indicated by *alternative offers* or by *joint venture terms,* and the *past expenditure* method. *Rules of thumb or yardstick values* based on certain industry ratios can be used for both mining and exploration properties. Under appropriate circumstances values indicated by *stock market valuation* should be taken into account as should any *previous independent valuations* of the property.

The valuation methods considered are briefly described below.

Net Present Value (NPV) Method

BDA considers the NPV or DCF method is not an appropriate method for valuing the Monash Exploration Tenements as there are insufficient technical details to derive reliable projections.

Alternative Valuation Methods

Related Transactions
Recent comparable transactions can be relevant to the valuation of projects and tenements. While it is acknowledged that it can be difficult to determine to what extent the properties and transactions are indeed comparable, unless the transactions involve the specific parties, projects or tenements under review, this method can provide a useful benchmark for valuation purposes. The timing of such transactions must be considered as there can be substantial change in value with time.

BDA has considered whether any comparable relevant transactions have taken place in recent years which can be used as a basis for estimation of value of the mining assets assessed herein.

Alternative Offers and Joint Venture Terms
If discussions have been held with other parties and offers have been made on the project or tenements under review, then these values are certainly relevant and worthy of consideration. Similarly, joint venture terms where one party pays to acquire an interest in a project, or spends exploration funds in order to earn an interest, provide an indication of value.

Rules of Thumb or Yardsticks
Certain industry ratios are commonly applied to coal mining projects to derive an approximate indication of value. The most commonly used ratios are dollars per tonne of coal in resources, dollars per tonne of coal in reserves, and dollars per tonne of annual production. The ratios used commonly cover a substantial range which is generally attributed to the 'quality' of the coal, the infrastructure to reach markets and the status of the tonnes estimates. Low cost of production tonnes are clearly worth more than high cost tonnes. Where a project has substantial future potential not yet reflected in the quoted resources or reserves a ratio towards the high end of the range may be justified.

Prospectivity
Over-riding any mechanical or technical valuation method for exploration ground must be recognition of prospectivity and potential, which is the fundamental value in relation to exploration properties.

Market Valuation
On the fundamental definition of value, as being the amount a knowledgeable and willing buyer would pay a knowledgeable and willing seller in an arm's length transaction, it is clear that due consideration has to be given to market capitalisation. In the case of a one project company or a company with one major asset, the market capitalisation gives some guide to the value that the market places on that asset at that point in time, although certain sectors may trade at premiums or discounts to net assets, reflecting a view of future risk or earnings potential. Commonly however a company has several projects at various stages of development, together with a range of assets and liabilities, and in such cases it is not possible to define the value of individual projects in terms of the share price and market capitalisation. BDA notes that Ellemby is an unlisted company and that the market capitalisation is not available as a guide to the value of the Monash Exploration Tenements and exploration tenements, so this method was not used as a primary guide.

Other Expert Valuations
Where other independent experts or analysts have made recent valuations of the same or comparable properties these opinions clearly need to be reviewed and to be taken into consideration. We have inquired of Ellemby whether any other recent valuations of the company or its assets have been undertaken and have been advised that there are no recent assessments.

Special Circumstances
Special circumstances of relevance to mining projects or properties can have a significant impact on value and modify valuations which might otherwise apply. Examples could be:

- *environmental risks* - which can result in a project being subject to extensive opposition, delays and possibly refusal of development approvals
- *indigenous peoples/land rights issues* - projects in areas subject to claims from indigenous peoples can experience prolonged delays, extended negotiations or veto
- *country issues* - the location of a project can significantly impact on the cost of development and operating costs and has a major impact on perceived risk and sovereign risk
- *technical* - issues peculiar to an area or orebody such as geotechnical or hydrological conditions, or metallurgical difficulties could affect a project's economics.

BDA has considered whether any such factors apply to the projects and prospects under review.

The BDA valuation does not include any adjustment for the potential future impact of any Carbon Pollution Reduction Scheme.

4.3 Monash Exploration Property Valuations

The Monash underground resource contains 287Mt of predominately Inferred Resource, with additional identified potential resources. Coal quality is a mix of semi-soft coking coal, PCI and thermal. The planned mining method is underground.

Table 4.3 shows comparable transactions which can be used to assess the value of Monash. These transactions are all of a mainly Inferred Resource. The average of these is $0.33 per tonne of Measured +

Indicated + Inferred Resource. The source of this data is Deloittes IER on Cascade Coal acquisition by White Energy dated February 2011. This would equate to a value of Monash of $95M. The highest multiple would give a value of $145m, and the lowest a value of $57M.

Table 4.3

Comparable Transactions

Date	Target	Buyer	Value $M	Coal type	% Sold	UG/OC	Mine Operating	EV/M+I+I $/t
August 2010	Linc Energy (Galilee)	Adani Mining	1,500	TC	100%	OC	No	0.2
April 2010	Vickery Sth	Coalworks	22	TC/SSC	49%	OC	No	0.5
Feb 2010	Doyles Creek	NuCoal	106	TC/SSC	10%	UG	No	0.4
May 2008	Bandanna	Ent Energy	235	TC/PCI	100%	OC/UG	No	0.2
							Average	**0.33**

Based on the Comparable Transaction data presented in Table 2.4, BDA concludes that a reasonable valuation of the Monash tenements is as follows:

Monash valuation: Range $60M to $140M, with a 'most likely' value at $95M

5.0 COAL BLENDING

As part of the current transaction, Noble has agreed to profit sharing of blending operations which include Donaldson coals. These blends include coal from Donaldson, Gloucester and other Hunter Valley mines. Three product blends are proposed, being a coking coal, semi-soft coking and a thermal coal. A report by a consultant Coal Marketing International Pty Ltd (23 March 2011) details the commercial and technical merits and attributes of this blending. In each case the value of the blended products is calculated to exceed the sum of the parts, thus producing a blend profit.

6.0 CONCLUSIONS

BDA has assessed the Donaldson Assets and has either provided and/or reviewed the technical assumptions and inputs to the financial models. BDA considers that, where a financial model has been prepared, the mine plans and schedules of tonnages are supported by reserves and resources that comply with the JORC Code and that the projected costs and productivities are supported by estimates and comparable projects. To reconcile with historical costs, and to allow for the risks associated with the mining technique changes proposed and the productivities forecast, BDA has recommended adjustments to the financial model being used for value estimation as part by Deloitte.

In the case of the Monash Exploration Asset BDA has valued the stated resources and potential for development of the resources and has valued them under the Valmin Code.

Yours faithfully
BEHRE DOLBEAR AUSTRALIA PTY LIMITED

John S McIntyre
Managing Director

ANNEXURE A

ANNEXURE A: QUALIFICATIONS AND EXPERIENCE

This report has been prepared by Behre Dolbear Australia Pty Ltd, a subsidiary of Behre Dolbear & Company Inc. Behre Dolbear has offices in Denver, New York, Toronto, Guadalajara, Santiago, Sydney, Vancouver and London. The parent company was founded in 1911 and is the oldest continuously operating mineral industry consulting firm in North America. The firm specialises in mineral evaluations, due diligence assessments, independent expert reports and strategic planning as well as technical geological, mining and process consulting.

BDA has undertaken site visits and has reviewed the technical and engineering data. The principal consultants engaged in the review are as follows:

- **Dr Rob Yeates** (BE (Min) Hon., PhD (Mining), MBA, FAusIMM, MMICA) is a Senior Associate of BDA. He is a qualified mining engineer, with over 35 years, experience in engineering, operations and management of mines and mining projects, primarily in Australia and New Zealand. His principal fields of expertise include technical audit, project feasibility and development, mine and project evaluation, operating experience in the open pit and underground mining of coal, coal haulage and transport, ship-loading, management review and operations optimisation. He has held senior management positions, including Managing Director and General Manager of Oakbridge Coal. He will review the mining and processing aspects of the operation, the capital and operating costs, and will provide opinion on the rail and port facilities. He is currently also CEO for NCIG's Newcastle port development project.
- **Mr John McIntyre** (BE (Min) Hon., FAusIMM, MMICA) is the Managing Director of BDA. He is a qualified mining engineer, with over 35 years, experience in engineering, operations and management of mines and mining projects, in Australia, New Zealand, South east Asia and Africa. His principal fields of expertise include technical audit, project feasibility and development, mine and project evaluation, operating experience in open pit and underground mining of base and precious metals, management review and operations optimisation. He has been a professional consultant for 20 years and has held several senior management positions. He will overview, edit and coordinate the BDA team and reporting.
- **Ian Poppitt** (DipTech. (Geology), MAppSc. (Geology), MAusIMM) is a Senior Associate of BDA and a qualified coal geologist, with over 40 years' experience in coal mine geology and exploration in Australia. His principal fields of expertise include technical audit, resource and reserve estimation and assessment, operating experience in the underground mining of coal and resource evaluation. He is a Qualified Person under AusIMM definitions and is familiar with the latest coal resource and reserve terminology under the JORC Code. Ian will be responsible for assessment of geology, reserves and resources estimates for the coal operations.
- **Janet Epps** (B.Sc. (Geol), M.Sc. (Envir.)) is a Senior Associate of BDA with more than 30 years' experience as a specialist in environmental science, environmental planning and impact assessment, site contamination assessments, environmental audit and community issues management, policy development and regulatory consultancy services. Ms Epps has worked with the UN, World Bank, the IFC and the Multilateral Investment Guarantee Agency (MIGA), providing policy advice to governments of developing countries on sustainable development strategies. Janet has been a pioneer in developing the sustainability in the mining industry and she has completed assignments in Australasia, South-East Asia, CIS, Africa and South America. Janet will review the environmental and licensing aspects.
- **Peter Newling** (BE (Chemical) Hons, MACPS) is an Associate of BDA. He is a qualified chemical engineer, with over 30 years' experience in coal processing and steelworks operations. He has held senior management positions in coal processing at Wollondilly, Stratford and Catherine Hill Bay collieries. Peter will review the technical aspects of the coal metallurgy and the CPP processing facilities.

- **Peter Ingham** (B.Sc. (Min), M.Sc., DIC, GDipAppFin (Sec Inst), CEng, FAusIMM, MIMMM)) is General Manager Mining of BDA and is a graduate mining engineer with more than 25 years in the mining industry in Europe, Africa, Australia and Asia. He has experience in operations management, mining contract management, strategic planning, project assessment and acquisition, cost estimation and operational audits. He is experienced in a range of commodities, including coal, copper, nickel, base metals, gold and platinum, in both surface and underground mining and will review costs and coordinate the report preparation.

ANNEXURE C

ANNEXURE B: SCOPE OF WORK

Deloitte has defined the scope of the services and has requested that BDA provides the following to assist Deloitte with the preparation of the IER:

- brief technical overview of the Donaldson Coal Projects including:
  - approvals and licenses to develop the mines
  - geology and exploration, including reserve and resource estimates
  - progress and status of the Donaldson coal projects
  - reviewing the feasibility studies and mine plans of the Donaldson coal projects
- identifying and assessing the reasonableness of the following technical assumptions contained in the financial model prepared by Noble (the Models) in relation to the Donaldson coal projects:
  - quantum of reserves and resources according to the Joint Ore Reserves Committee (JORC) Code and production profiles
  - expected life of mine ("LOM"), recovery rates and production volumes
  - operating costs estimates
  - the quantum and timing of capital cost estimates
  - rehabilitation and closure costs
  - an appropriate resource multiple to apply to JORC compliant resources that have not been considered in the Models
  - any other technical assumptions considered relevant.
- conduct site visits at the Donaldson Coal Projects and, if necessary, Monash Exploration Asset
- provide views on:
  - potential mineralisation outside of what is considered to be reserves (as reflected in the Models), including expected conversion rates to reserves and possible development profile (timing and capital cost)
  - alternative technical assumptions, where considered appropriate
  - estimate the value of the Monash Exploration Asset (if specifically requested).

The above scope of work is collectively referred to as the Services.

The Services specifically exclude any work in relation to:

- marketing, commodity price and exchange rate assumptions adopted in the Models
- financial and/or corporate taxation analysis.

BDA will prepare an Independent Technical Expert's Review summarising the key findings of the Services. BDA will provide a draft to Deloitte, subject to timing of the site visit. Given that the latest estimated dates for the site visit are early February 2011, BDA would undertake to provide Deloitte with their advice to be finalised within four weeks of the site visit.

Deloitte may make reference to the Independent Technical Expert's Review prepared by BDA throughout the IER, a copy of which will be included as an Appendix to the IER. Deloitte will take reasonable care to quote or cite BDA work appropriately. Before rendering an opinion, Deloitte will provide BDA a draft of parts of the Deloitte report to confirm the accuracy of references to the BDA report and findings in all material respects.

ANNEXURE C: REFERENCES

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- Monthly Operations Reports for 2009, 2010, Donaldson Coal
- Summary tables from Donaldson 2011 Budget
- Financial Model and associated files for Donaldson Operations, March and May 2011
- Independent Conceptual Mine Development Plan for the Monash Project, NSW (EL6123 and EL757), *IMC February 2011*

ANNEXURE C

Table of Contents

1.0 BACKGROUND 1
1.1 Introduction 1
1.2 BDA Capability and Independence 2
1.3 Scope of Work/Materiality/Limitations and Exclusions 2
1.4 Methodology of Assessment 3
1.5 Inherent Mining Risks 4

2.0 OVERVIEW - DONALDSON 5
2.1 Summary 5
2.2 Description of Assets 5
2.3 Summary of Resources and Reserves 7
2.4 Saleable Coal Projections 8
2.5 Operating Costs 8
2.6 Capital Costs 8
2.7 Risks 9
2.8 Sensitivity Analysis 9

3.0 DONALDSON OPERATIONS 10
3.1 Geology 10
3.1.1 Geological Setting – Newcastle Coalfields 10
3.1.2 Stratigraphy and Coal Geology 10
3.2 Donaldson Coal Resources and Reserve Estimates 11
3.2.1 Resources 11
3.2.3 Reserves 11
3.2.4 Tenements 13
3.3 Donaldson Open Cut Coal Mine 15
3.3.1. Background 15
3.3.2 Tenements 15
3.3.3 Open Cut Mine Plan 16
3.4 Abel Underground Mine 16
3.4.1. Background 16
3.4.2 Tenements 16
3.4.3 Mine Plan 17
3.5 Tasman Underground Mine 18
3.5.1. Background 18
3.5.2 Tenements 18
3.5.3 Mine Plan 19
3.6 Coal Washing and Handling 20
3.7 Capital and Operating Cost 22
3.7.1 Capital Costs 22
3.7.2 Operating Costs 23
3.8 Infrastructure Capacity 23
3.8.1 Rail to Port of Newcastle 23
3.8.2 Shiploading Capacity 23
3.9 Coal Marketability 24

ANNEXURE C

4.0 EXPLORATION PROPERTY: MONASH 25
4.1 DESCRIPTION AND TENEMENTS 25
4.1.1 Introduction 25
4.1.2 Location 25
4.1.3 Geological Settings - Hunter Coalfield 25
4.1.4 Coal Geology 27
4.1.5 Resource Estimates 28
4.1.6 Proposed Exploration Program 28
4.1.7 Geological Risk 29
4.1.8 Conceptual mine planning 29
4.2 VALUATION METHODOLOGIES 30
4.3 MONASH EXPLORATION PROPERTY VALUATIONS 32

5.0 COAL BLENDING 33

6.0 CONCLUSIONS 33

ANNEXURE A : QUALIFICATIONS AND EXPERIENCE 34

ANNEXURE B : SCOPE OF WORK 36

ANNEXURE C : REFERENCES 37

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6th May 2011

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Dear Sirs,

REPORT FOR DELOITTE CORPORATE FINANCE PTY LIMITED

INDEPENDENT TECHNICAL REVIEW OF

GLOUCESTER COAL AND MIDDLEMOUNT MINING PROJECTS

1.0 EXECUTIVE SUMMARY

1.1 Introduction

The Independent Directors of Gloucester Coal Limited ("GCL") have appointed Deloitte Corporate Finance Pty Limited ("Deloitte") as the Independent Expert to prepare an independent expert's report ("IER") advising the independent Directors and minority shareholders of GCL whether the terms and price for a proposed transaction (referred to herein as "the Proposed Transaction") is considered fair and reasonable. This IER is required pursuant to Chapter 10 of the Listing Rules of the Australian Securities Exchange to assist the non-associated minority shareholders in their decision whether to vote in favour of the Proposed Transaction. The IER will be included in the Notice of Meeting to be provided to Shareholders.

Deloitte has commissioned Behre Dolbear Australia Pty Limited ("BDA") as the Technical Specialist, as defined by the 2005 "Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports" (the "Valmin Code") as adopted by the AusIMM. As Technical Specialist, BDA is to provide an independent specialist report in assessing the mining assets involved in the Proposed Transaction and to provide an independent technical review of the mining assets of GCL, in this report collectively termed the "GCL Relevant Assets". This report sets out the conclusions that BDA has reached in the assessment of the following the GCL Relevant Assets being:

1. GCL Assets - 100% owned

- the Stratford open cut mines and processing operations, Gloucester Coal Basin, NSW(see Figure 2.1)
- the Duralie open cut mining operations and potential underground, Gloucester Coal Basin, NSW, and
- the associated coal deposits and resources not currently included in GCL's production plans.

2. GCL Asset - near50% owned

- the GCL interest in Middlemount Coal Pty Ltd ("Middlemount"), nearly 50%, which owns and operates the Middlemount coal project in Central Queensland (see Figure 2.2).

It is understood that the BDA report will be referred to in the Deloitte's assessment and may be reproduced as an appendix to the IER.

With respect to estimates of resources and reserves, BDA has conducted its review in recognition of the requirements of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, prepared by the Joint Ore Reserve Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC) - Effective December 2004 ("the JORC Code"). BDA has neither undertaken an audit of the Gloucester or Middlemount data nor re-estimated the resources, but has reviewed the resource and reserve estimates and comparative estimates carried out by either Middlemount or Gloucester personnel and/or consultants.

This report has been prepared in accordance with the relevant requirements under the Listing Rules of the ASX and the practice notes and policy statements issued by the Australian Securities and Investment Commission ("ASIC") as they apply to the preparation of independent expert reports and valuations. It contains forecasts and projections based on information provided by GCL and Middlemount.

BDA's assessment of the projected production schedules and capital and operating costs are based on technical reviews of project data and site visits. However, these forecasts and projections cannot be assured and factors both within and beyond the control of GCL and Middlemount could cause the actual results to be materially different from the assessments and projections contained in this report.

1.2 BDA Capability and Independence

This report has been prepared as advisory information to Deloitte by the signatories, whose qualifications and experience are summarised in Annexure A to this report. The review of Mineral Resources and Ore Reserves estimates and methodology has been conducted by Competent Persons, as defined under the JORC Code. Each of the Competent Persons listed in Annexure A has consented to the presentation of the findings in the form and context in which it is presented in this report. BDA provides a range of technical advisory services to the mineral resource industry, to mining operators, investors and financiers. The principal areas of activity include the management and preparation of technical due diligence studies and "fatal flaw" and project analyses. The company is well established in the areas of operational management review/technical audit and project valuation and evaluation, commonly for third party financing arrangements and our clients include banks, financial institutions and mining companies. The parent company, Behre Dolbear and Company Inc., has operated continuously as a mineral industry consultancy since 1911 and has offices in Denver, Guadalajara, London, New York, Santiago, Toronto and Vancouver, and as well as Sydney. Internationally, Behre Dolbear has worldwide coal experience spanning a broad spectrum of exploration, management, resource and reserve analysis, metallurgical studies, surface and underground mine design, technical due diligence, operations optimization and total project feasibility.

BDA has previously independently reviewed the Gloucester and Middlemount operations as part of other assignments for various purposes. We have considered the matter of potential conflict of interest concerning former reviews and have concluded that we would not be conflicted to prepare the requested report, on the basis that it is being prepared as an independent third party report, BDA has not provided GCL or any of the operations with technical advice, BDA will be paid professional fees (on a fixed fee basis) and expenses only for the work and payment will not be dependent on the outcome of the BDA report. None of the BDA Directors, Principals, Associates or Consultants who contributed to this report has any material interest or entitlement, direct or indirect, in:

- GCL, Middlemount, their subsidiaries, securities or any companies associated with GCL; or
- the Relevant Assets being considered; or
- the outcome of the Proposed Transaction.

BDA has independently assessed the Relevant Assets of the parties on the basis of both specific information provided by GCL and Middlemount and individual experience in relation to the estimation of resources and reserves, life of mine plans, production and productivity estimates, operating and capital cost projections, coal quality assessments, manpower estimates, environmental requirements and compliance, workforce and community issues and Health, Safety and Environmental standards and compliance.

A draft copy of this report has been provided to GCL for review of the accuracy of the data used and for the correction of any material errors of fact, omissions of relevant information, or inclusion of incorrect or unreasonable assumptions that have been relied upon in this Report.

1.3 Scope of Work/Materiality/Limitations and Exclusions

BDA has reviewed the Relevant Assets in accordance with the Scope of Work provided and the limitations and exclusions specified and set out in Annexure B to this Report.

1.4 Methodology of Assessment

BDA has been provided with a financial model of the Relevant Assets that incorporate recent cost data from GCL, but BDA notes that, as a routine matter, where forecasts were provided, the plans, projections and budgets that have been used may be subject to revision. Similarly, where only historical cost data is available, the interpretations of that data and the projections used, while based on the available information, may be subject to change, both within and beyond the control of the managing/operating entity or in a manner not anticipated in the forecast projections. The BDA brief excludes commentary on commodity prices, exchange rates or economic viability and the review has been confined to assessing the technical issues relating to the various the projects. BDA reserves the right to change its opinions on the coal mining operations expressed in this report should any of the fundamental information provided by GCL be significantly or materially revised.

The assumptions adopted in the financial models, and their accuracy and reliability, are largely the subject of this Report. The parameters considered include annual mining rates (coal and waste), strip ratios, CHPP yields and product coal quality, materials handling and logistics, product transport, operating and capital costs. BDA did not consider financial issues such as loan funding aspects, cashflows, profit and loss, balance sheet, non-cash items and the valuation of the operating mines and defined projects. BDA has examined the exploration assets and has provided valuation of those where appropriate and as specified.

Thus the BDA review has focussed on the technical inputs to the financial models and has sought to validate the raw data that constitutes the mine plans and drives the financial models for the Relevant Assets. It specifically excludes review of commodity price and exchange rate forecasts. In particular, the BDA review covered the following areas:

- Operations: BDA has conducted site visits (as part of a previous engagement) to the principal operations and projects, held discussions with head office and site management personnel and carried out inspections of the mining, processing and transport operations at each site.
- Resources and Reserves: BDA conducted check calculations of the resource estimates and satisfied itself that the statements were JORC compliant. The JORC-defined tonnages were checked against the sales tonnages in the financial models.
- Budgets and Life of Mine Plans: BDA checked the projected annual and life of mine production tonnages and yields against the resource base and the GCL financial model inputs.
- Environmental Approvals and Compliance: BDA checked the environmental, statutory and regulatory licensing and compliance requirements and reviewed environmental management, annual audits, and returns.
- Capital and Operating Cost Estimates: BDA provided and/or checked the projected annual and life of mine operating cost projections and capital expenditure allowances. The Middlemount projected operating costs were checked against first principles estimates, contract conditions and quotations in comparison with comparable operations and the (limited) operations to date. Gloucester operations have provided historical operating costs and estimates are considered to be soundly based and compatible with performances.
- Key Potential Risk Issues: BDA has reviewed each operation from the perspective of material potential issues that could jeopardise the projected cash flows or the product tonnages and has provided comment on the potential risk areas where discounts may need to be applied.

All material revisions that BDA considers should be applied in the GCL financial model have been provided to Deloitte for incorporation in the valuation.

1.5 Inherent Mining Risks

When compared with many industrial and commercial operations, coal mining, and in particular underground coal mining, carries a relatively higher risk, conducted in an environment where not all events are predictable. Each coal deposit is unique. The nature of the coal deposit, the occurrence and quality of

the coal, and its behaviour during mining and processing can never be wholly predicted. Estimations of the tonnes, quality and characteristics of a coal deposit are not precise calculations but are based on interpretation and on samples from drilling which, even at close drill hole spacing, provides a very small sample of the whole coal deposit. Reconciliations of past production and reserves can confirm the reasonableness of past estimates, but cannot categorically confirm the accuracy of future predictions.

An experienced management team can identify the known risks and put in place measures to mitigate the potential for interruptions consequent to such risks. However, the extent of knowledge is limited and there is always the possibility that unexpected or unpredicted events may occur, to the extent that it is considered not possible to remove all risks or to state categorically that events that may have a material impact on the operation will not occur. Detailed planning and experienced management should mitigate the risks to a reasonable extent.

2.0 GLOUCESTER COAL LTD OVERVIEW

2.1 Summary

BDA has visited all operations and considers that both the GCL and Middlemount management teams are experienced and capable, with a demonstrated capacity to operate the existing mines and to construct, implement and commission the planned developments reasonably within the projected budgets and timeframes. The GCL management has adopted practical, realistic and not overly conservative assumptions and understands the operational and risk constraints that drive the projects. The Middlemount management appears similarly practical and pragmatic in its approach, although it is a relatively new operation with limited history; however, future production or operations forecasts appear reasonable and compatible with similar operations. While there will be variances from the projected production and unit cost performances, the short- and long-term forecasts are considered to be based on realistic reserves and resources, proven technology and equipment, reliable historic costs and productivities, sound environmental and regulatory management and practice, appropriate infrastructure and established markets with a broad customer base.

2.2 Description of Assets

The mining operations that have been assessed as part of this assignment comprise two open cut mines owned 100% by GCL in the Gloucester area of NSW, and the Middlemount open cut mine owned nearly 50% by GCL in the Bowen basin in Queensland, which are summarised in Table 2.1 and located as shown in Figures 2.1 and 2.2.

Table 2.1

GCL Current Mining Operations

Mine	GCL Share	Type	Method	Operator
Duralie	100%	Opencut	Truck & excavator	Contract Operation - Leighton Mining
Stratford	100%	Opencut	Truck & excavator	Contract Operation – Ditchfield Contracting
Middlemount	50%	Opencut	Truck & excavator	Operated by Middlemount Coal Pty Ltd

Section 3 of this report contains more detailed descriptions of the Gloucester area operations, NSW, and Section 4 contains more detailed descriptions of the Middlemount Project, Queensland.

2.3 Summary of Resources and Reserves

Table 2.2 summarises the resources and reserves for the Gloucester mines, NSW, and Middlemount mine in Queensland. Competent Persons have prepared JORC Code-compliant estimates of resources and reserves for all operations and developing projects. Resource categories are Measured, Indicated and Inferred to reflect decreasing levels of confidence due to drill-hole spacing, availability of geological data, geological and geometric constraints. All Resources comply with the JORC Code 2004.

Reserve categories are Proved and Probable, having been converted from Measured and Indicated resources respectively, after the application of appropriate mining designs, with provisions for dilution and coal losses from mining activities. Under JORC Inferred resources do not convert to reserves due to the lower level of confidence in the estimates.

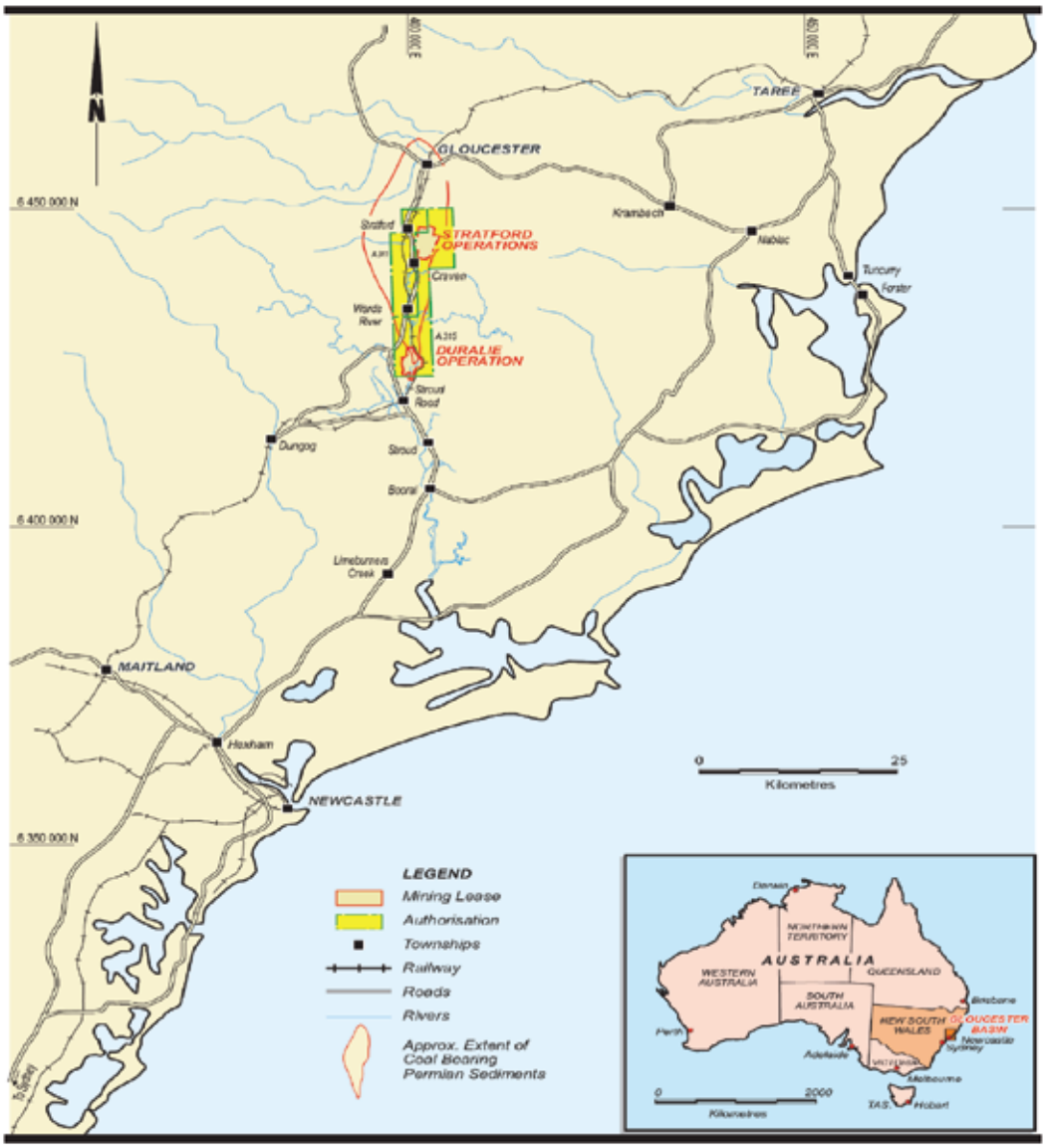
Table 2.2

Summary of JORC Resources and Reserves

Company	Resources (Mt)				Reserves (Mt)		
	Measured	Indicated	Meas & Ind	Inferred	Proved	Probable	Total
Gloucester Area							
Open Cut	14.5	126.5	141.0	38	13.3	61.5	74.8
Underground	0.9	39.9	40.8	59			
GCL Total	15.4	166.4	181.8	97	13.3	61.5	74.8
Queensland							
Middlemount	89.3	31.5	120.8	2	69.0	27.0	96.0

Middlemount is shown on 100% basis. GCL share of Middlemount is nearly 50%. GCL at 30 June 2010; Middlemount at 17 March2011

BDA notes that appropriate levels of mine planning and design layouts have been developed within the identified Measured and Indicated resources to allow a suitable basis for the estimation of JORC reserves.



Deloitte Corporate Finance Pty Ltd *NSW Coal Operations*

Figure 2.1 **LOCATION PLAN**

BDA - 01W Behre Dolbear Australia Pty Ltd

Deloitte Corporate Finance Pty Ltd — *Middlemount Mine Project*

Figure 2.2 **LOCATION PLAN**

Behre Dolbear Australia Pty Ltd

BEHRE DOLBEAR

2.4 Saleable Coal Projections

Gloucester Area Mines (100% owned)
GCL has provided forecasts of saleable coal tonnages for each operation and project. GCL is a well-established coal exporter, with coal production from both Stratford and Duralie Opencut mines.

In Financial Year 2009/10 ("FY10", financial year ending 30 June), GCL produced around 3.1 million tonnes ("Mt") of ROM coal and 1.9Mt of product coal. GCL had sales of approximately 0.75Mt of export coking coal and 1.2Mt of thermal coal. Approximately 0.2Mt of purchased coal was included in the sales.

GCL plans to increase coal production over the next five years, with the target being to increase total coal production progressively to around 3.5Mt (sales include an extra 0.1 million tonnes per annum ("Mtpa") of purchased coal).

For the financial model, the production forecasts for GCL are set out in summary in Table 2.3.

Table 2.3
GCL Gloucester Mines - Forecast Annual Total Coal Production (Mt)

Gloucester Area Mines Stratford and Duralie	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2011 -2030**
ROM Production	3.1	3.8	4.3	5.0	5.1	5.0	5.1	5.1	4.7	91
Saleable Production	1.9	2.5	2.8	3.5	3.6	3.6	3.7	3.6	3.2	59

Middlemount Mine (~50% owned)
GCL has provided forecasts of saleable coal tonnages for its share (~50%) of the Middlemount Mine. This mine commenced preliminary coal processing operations in September2010 and will ramp up to an initial planned production levels over the next 2 years. The mine plan is based on increasing coal production over the next five years, with the target being to increase total coal production progressively to around 4Mt. Initial yields are forecast to be lower than LOM yields as higher quantities of coking coals are produced than over the long term.

For the financial model, the production forecasts for GCL are set out in summary in Table 2.3.

Table 2.3
Middlemount Mine (100%) - Forecast Annual Total Coal Production (Mt) (GCL share ~50%)

Middlemount Mine (50%)	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2011 -2033**
ROM Production	2.6	4	4.9	5.1	5.1	5.1	5.1	5.1	5.1	103
Saleable Production	1.8	2.8	3.5	3.8	3.8	3.8	3.8	3.8	3.8	72

2.5 Operating Costs

BDA has reviewed the forecast operating costs in comparison with historical figures and is satisfied that in general the estimates are reasonable and realistic.

For the financial model, operating cost estimates are considered representative of the anticipated conditions and accurate within ±10% over the long term, although there will be variances experienced as a result of encountering unexpected conditions from time to time.

2.6 Capital Costs

GCL has provided sustaining and development capital cost estimates for all operations. BDA has reviewed the estimates and considers them realistic estimates, with adequate provisions for contingency. There will be variations in the forecast capital expenditures over time, but BDA considers the allowances reasonable for the projected requirements and BDA considers the ongoing capital provisions in the financial model are appropriate and compatible with industry trends.

2.7 Risks

BDA has reviewed the potential risks for the various GCL operations and considers that, in the short term, the principal risk to projected cash flows would be the delays to the planned ramp-up in production and sales. This is not considered a high risk, but could be due to approval delays, development or production delays, or lack of rail or port capacity.

Other than the foregoing identified risks, BDA considers the inherent risks associated with mining have been adequately addressed in the operations plans and there is no evidence of any additional material risks to the ongoing operations. Rail and port constraints pose some specific risks, but BDA considers that GCL management has demonstrated its awareness of these potential issues and has taken or planned measures to mitigate or counter such potential conditions.

2.8 Sensitivity Analysis

Gloucester Area

Reserve tonnes, yields, CHPP throughput, capital and operating costs are all estimates, and in practice will be subject to variations when compared with the projections in the LOM Plan and the financial model. It is appropriate therefore that in the valuation, some consideration is given to the impact of the more sensitive parameters.

BDA has examined the potential risks and possible operational variations to the various GCL and Middlemount projects and has provided a guide to test the range of valuations that may be derived. This does not address the longer-term aspects of the production forecasts of the adjacent or "add on" resources, where the reserve risks may be addressed through discounting.BDA has commented in the report on risk areas where appropriate, as summarised in Table 2.4.

Table 2.4

GCL PROJECT SENSITIVITY STUDIES RECOMMENDATION

Item	Range	Comment
Production levels –O/C	±7.5%	Low risk of not achieving forecast.
Operating costs	±10%	Test the sensitivity to operating costs.
Yield	±5%	Forecast coal preparation plant ("CHPP") yields may be affected by factors such as sales mix changes, mining dilution and losses, seam variability, mining sequencing and scheduling
Capital costs	±10%	Test the sensitivity to capital forecasts.

Middlemount

Reserve and resource tonnes, yields, CHPP throughput, capital and operating costs are all estimates, and in practice will be subject to variations when compared to those which eventuate. It is appropriate therefore that in the valuation of the Middlemount Project, some consideration is given to the impact of the more sensitive parameters. BDA has examined the potential risks and possible operational variations to Middlemount and has provided a guide to test the range of valuations that may be derived. BDA has commented in the report on risk areas where appropriate, as summarised in Table 2.5.

Table 2.5
MIDDLEMOUNT PROJECT SENSITIVITY STUDIES RECOMMENDATION

Item	Range	Comment
Production levels –O/C	±7.5%	Low risk of not achieving forecast.
Operating costs	±10%	Test the sensitivity to operating costs.
Yield	±5%	Forecast CHPP yields may be affected by factors such as • sales mix changes • mining dilution and losses • seam variability • mining sequencing and scheduling
Capital costs	±10%	Test the sensitivity to capital forecasts.
Start ups	+6 months	Examine the sensitivity of possible delayed start-up due to either CHPP, rail loop or load-out; if rail loop delayed, BDA considers trucking to Coppabella would be extended, which would increase costs

3.0 GLOUCESTER BASIN OPERATIONS AND PROJECTS

GCL has two mining operations located in the Gloucester Coal Basin : Stratford and Duralie. The company also holds coal exploration licenses A311, A315 and EL6904 which cover a large proportion of the Basin and include a number of known coal deposits. The principal assets are:

- Stratford open cut mine complex, located 15km south of Gloucester, NSW. In FY10, two mines operated, Bowens Road North and Roseville and the co-disposal reclaim operation, for total production of approximately 1.4Mt of ROM thermal and coking coal. The proven and probable reserves total 50.0Mt.
- Duralie open cut mine, which is located 20 kilometres ("km") south of Stratford, NSW. In the financial year 2010 ("FY10"), total production was approximately 1.7Mt run of mine ("ROM") thermal and coking coal. The proven and probable reserves total 24.8Mt.
- Stratford Coal Handling and Preparation Plant ("CHPP") which has a capacity of 600 tonnes per hour ("t/hr"). In FY10, the CHPP received feed from the Bowens Road North, Roseville and Duralie mines, as well as a small tonnage recovered from earlier co-disposal dumps. For FY10, the plant handled 2.9Mt of feed coal, with output of 1.9Mt of coking and thermal coal. A plant expansion is nearing completion in 2011 increasing production rates to greater than 4Mtpa.

BDA has prepared a summary overview of each operation and project in the GCL portfolio, to review the key technical aspects of each.

Ownership History

The Gloucester Joint Venture was formed in 1977 by BMI Mining Pty Ltd ("BMI") and two Syndicate members. BMI commenced an exploration programme in that year. In December 1981, BMI's joint venture partners sold their 49% aggregate interest to Esso Australia Resources Ltd.

In May 1993 Excel Mining Pty Ltd ("Excel") acquired an option over the assets of the Gloucester Joint Venture. During 1993, Excel completed a detailed feasibility study on the Stratford area that examined the viability of a small coking coal mine. CIM Resources Ltd ("CIM") and Excel concluded a Heads of Agreement in February 1994. The Stratford Joint Venture was subsequently formed in May 1994, with CIM holding a 70% interest and Excel a 30% interest.

In August 1994 a Farm-in Agreement was signed with Itochu Corporation - a major Japanese trading company - whereby Itochu earned a 10% interest in the Stratford Joint Venture. Itochu Corporation acts as the sole sales agent for Stratford coal in Japan and also purchases coal in its own right.

The Stratford Joint Venture interests up until October 1996 were CIM Resources Ltd 70%, Excel Stratford Pty Ltd 20% and ICA Coal Pty Ltd 10% (ICA Coal Pty Ltd is a subsidiary of Itochu Corporation and Itochu Australia Ltd.).

In October 1996, CIM, funded by an investment in the Company by RJB Mining of the United Kingdom, purchased the interest in the Joint Venture held by Excel Stratford Pty Ltd.

In May 2002 CIM changed its name to Gloucester Coal Ltd ("GCL"). In August 2005, GCL acquired ICA Coal Pty Limited's 10% share of the Stratford Joint Venture and associated assets, giving GCL 100% ownership. At the date of this report, Noble owns 65% of GCL.

GCL and its related companies - Stratford Coal Pty Ltd ("SCPL") and Duralie Coal Pty Ltd ("DCPL") currently own some 142 properties in the Stratford-Duralie areas totaling over 5,400ha.

3.1 Geological Setting - Gloucester Basin

The Gloucester Basin is a north-south trending asymmetrical synclinal structure 40km long and up to 10km wide. The permits held by GLC cover about half of the basin on the eastern limb and southern axial area.

The strata in the basin are of Permian age and the stratigraphy is similar to that of the adjacent Sydney Basin (Table 3.1) with the Gloucester Coal Measures a lateral equivalent of the Wittingham Coal Measures and the Weismantel/Duralie Creek formations having similarities with the Greta Coal Measures.

Coal Seams are developed throughout the sequence and as shown in Table 3.1 and Figure 3.1, GCL proposes to or is extracting coal from all the principal coal bearing Formations.

Table 3.1

Gloucester Basin Stratigraphy

Group	Sub - group	Formation	Principal Seams	Gloucester Coal Resource/Reserve Areas
Gloucester Coal Measures	Craven	Crowther Road Conglomerate		
		Woods Road / Bucketts Way	Roseville and Cloverdale	Roseville West
		Wards River Conglomerate		
		Wenhams	Bowens Road	Bowens Road North, Stratford South, Grant and Chainey
	Speldon Formation			
	Avon	Dog Trap Creek		
		Waukivory Creek	Avon	Avon North, Stratford South, Grant and Chainey
Dewrang Group		Mammy Johnson		
		Weismantel	Weismantel	Duralie North West, Duralie OC, Duralie UG, Duralie East, DuralieRailway OC
		Duralie Road	Clareval	Duralie North West, Duralie, Duralie East

The entire basin has been subject to intense lateral compression resulting in steep marginal dips, localised parasitic folding and thrust faulting parallel to the basin axis. Normal cross faults are also developed and are of sufficient displacement to effect mine development.

Coal Geology

Clareval Seam
The Clareval Seam is recognised throughout the Gloucester Coal Permit areas from the south western corner at Duralie North-west around the southern extent of the Gloucester Basin and northwards along the eastern flank into the Stratford East area for an overall strike length of about 35km. The thickness and coal quality parameters are summarised in Table 3.2 and a typical seam section is shown in Figure 3.3.

Weismantel Seam
Though widely recognised over a similar area to the Clareval Seam the main development is in the southern part of the Basin for an overall strike length of about 10km. Thickness and quality parameters are summarised in Table 3.2 and a typical seam section is shown in Figure 3.3.

Avon Seam
Well-developed on the eastern limb of the Basin, the seam is recognised over a strike length of about 15km. The seam contains numerous bands and may be up to 18m thick although the working section is very much dependent on the development of stone bands and/or the thickness of individual plies

Bowens Road Seam
Recognised over a similar area to the Avon Seam the Bowens Road Seam the seam is similar in character with multiple plies and band.

Roseville and Cloverdale Seams
These seams comprise numerous plies and stone bands (Figure 3.6). The development potential of this sequence is limited to a portion in the western part of the Stratford Lease area over a strike length of about 7km.

Coal Quality

There is no comprehensive review of seam quality parameters particularly in relation to washery yields and the production schedule. Table 3.2 is compiled from comments and tables in the various resource and reserve reports compiled for Gloucester Coal by (McElroy Bryan Geological Services ("McElroy Bryan"), Minarco-Mineconsult Pty Ltd ("Minarco-Mineconsult") and Tamplin Resources Pty Ltd ("Tamplin")). From information provided, it is evident that summary data is not available from some key areas of future development such as Duralie East and Grant &Chainey.

Table 3.2

Seam Parameters

Pit	Seam	Split	Raw Coal			Product Coal					
						Coking			Thermal		
			Thick (m)	Ash (%)	S (%)	Yield (%)	Ash (%)	S (%)	Yield (%)	Ash (%)	S (%)
Bowens Road North	Bowens Road	BR1-2	3.5	45-50	0.8				48	23	0.75
		BR2-3	7	30	0.8				70	22	
		BR4-5	4	28	0.8	20	11	0.85	65	22	0.75
Roseville West	Cloverdale Roseville		0.2-3.0	35-50	0.8-1.1	45	8.5	0.9	10	30	0.8
Stratford South Bowens	Marker 1		1.1			42.6	8.4	0.89	29.3	20	0.84
	Bowens Road**		1.5			39.1	6.7	0.93	26.1	17.2	0.90
Stratford south Avon	Marker 2		0.52 – 1.05			20.1	11	0.67	17.1	20.7	0.58
	Avon ***		1.61 – 1.71			31.2	11	0,71	31.5	21.6	0.62
	Triple		0.34 – 0.79			26.3	9.5	0.59	26.6	20.9	0.46
Grant & Chainey Bowens Road	Marker 3		0.72			15	9.5	0.5	52	19.0	0.6
	Marker 8		0.45			38.8	8.1	0.39	25.3	18.3	0.3
	Marker 1		0.53			42.6	8.4	0.89	29.3	20.0	0.84
	Bowens Road**		1.58			31.0	9.2	1.02	21	19.7	0.99
Grant & Chainey Avon	Glen Road		0.38			25	9	0.67	21	19.0	0.58
	Marker 2		0.6*			20.1	11	0.67	17.1	20.7	0.58
	Avon***		1.75*			31.2	11	0.71	31.5	21.6	0.62
	Triple		0.72*			26.3	7.0	0.54	26.6	18.4	0.42
Duralie NW	Clareval	Upper	2 - 4	20 -30	2.5 -8.5	47	10.5	2-3.5	36	21	3-5
		Main	3 - 15	15 - 22	0.8 -1.5	50	8.5	0.9-1.1	40	18	0.8-1
Duralie	Weismantel	Upper	3 - 4	35	1 - 3				72	19	2.6
		Lower	7	26-30	1.4	35	10.0	1.40	34	21	1.13
Duralie East	Weismantel	Upper	3							17	3
		lower	7				9.8	1.4		22	1.45
	Clareval	Upper	10-12						NA	15 -20	3
		Lower				NA			NA	15 -22	1-1.3
Stratford East	Clareval	Main	~15	20-35	0.6 -1.2	30	7-9	<0.9	35	19-23	0.7-1.1

* Estimated average for A311 and A315.
**Yield and quality values for Bowen Seam in Grant and Chainey Bowens Road Pit is for Bowens Road 5 split, one of 5 splits modelled but with the largest resource. Same for Stratford South
***There are 9 separate Avon Seam plies modelled. The yield and quality values for Avon Seam in Grant and Chainey Avon Pit is for Avon A-D split combination Same for Stratford South

Table 3.3 is a summary of yield values used in the GCL production schedule. Based on the values shown in Table 3.2 and allowing for the lack of some data, the modelled yields as summarised in Table 3.3 are considered reasonable.

Table 3.3

Summary of GCL Washery Yields used in Financial Model[1]

Seam	Yield		
	Coking	Thermal	Total
Duralie - Weismantel	25%	42%	67%
Duralie - Clareval	49%	31%	80%
Bowens Road	8%	50%	57%
Roseville	49%	5%	54%
Avon North	34%	28%	62%
Stratford East	35%	39%	74%
Parkers Road	31%	31%	62%
Rombo	31%	31%	62%
Co-disposal	6%	31%	37%

3.2 GCL Coal Resources and Reserve Estimates

Table 3.4 provides a summary of the JORC-compliant Resource and Reserve estimates for GCL which have each been signed off by Competent Persons (McElroy Bryan Geological Services, Minarco-MineConsult Pty Ltd ("Minarco-MineConsult") and Tamplin Resources Pty Ltd ("Tamplin")). More detailed Resource and Reserve estimates are provided within each mine section.

It should be noted that GCL has carried out an intensive programme of exploration over the last 12 months, focussing primarily in the Wenham-Cox's Rd area north of Stratford and in the Duralie East area. Resource estimates for these areas are currently in preparation through Snowden in Brisbane but the results of this estimate are not expected before completion of this review.

Table 3.4

GCL Resources and Reserves Estimates, 30 June 2010

	Resources (Mt)				Reserves (Mt)		
	Measured	Indicated	Inferred	Total	Proven	Probable	Total
Duralie open cut	11.8	22.5	4	38.	11.5	13.3	24.8
Duralie underground	0.9	39.9	59	100			
Stratford	2.7	47.2	9	59	1.8	48.2	50.0
Exploration	0.0	56.8	25	82			
Total	**15.4**	**166.4**	**97**	**279**	**13.3**	**61.5**	**74.8**

Reserves

BDA has reviewed the current reserve statements for GCL Stratford and Duralie operations, including a mine visit and discussions at site focusing on the current JORC compliant reserve statements.

The GCL operations work on the policy of proving up 10 years of mine reserves. This policy is due to:

- Limited funding for exploration during its early life, where little was known of coal resources outside of the main pits designated for production at Stratford and Duralie.
- The Port Waratah Coal Services Limited ("PWCS") nomination and allocation process in 2009, requiring a ten year independent JORC reserve estimation (report by Minarco-Mineconsult).

The Minarco-Mineconsult report references the Tamplin reserve statements and the Proven and Probable reserves as of the Minarco-MineConsult report correspond closely to the Tamplin report, with some deductions for production post their issue date.

[1] 19 March 2011

Reserve Compliance

The Tamplin reserve reports form the basis of the reserve estimations for GCL. All the reports follow a similar report structure to allow compliance to the most recent JORC Code for coal resources and reserves (2004).

These include for Proven and Probable reserves:

- An independent resource statement provided by McElroy Bryan Geological Services using Measured and Indicated resources only for reserves.
- An assessment of previous reports and background proved by GCL.
- Development of a pit shell using pit slopes parameters, mining equipment, productivities, coal quality, yields, loss and dilution.
- The pit shell is optimised using Vulcan mine software, also takes into account surface features that may preclude mining that include surface features and any preclusions to enable reserves to be estimated.

Seam sections and plies, coal quality, loss and dilution parameters all appear to be reasonable for the operations in question with estimations being made for high value coking plies in thin sections to bulk mining with large mobile equipment, e.g. roof loss estimates being 0.18m at Duralie's Weismantel operation and 0.05m at Bowen's Road North in Stratford.

For the estimation of marketable reserves as classified in JORC, this also requires the comparison of mining costs against revenues for the coal types produced.

Tamplin has stated that it has used a McCloskey two year coal price forecast for thermal coal at US$60/t and coking coal at US$90/t. Whilst this appears to be conservative for the headline Japanese reference pricing in the current market over the last two years, it will require a more rigorous approach going forward to estimate marketable reserves. It is also worth noting that Minarco-Mineconsult did not estimate marketable reserves.

The proven and probable open cut reserve estimation of 74.8Mt confirmed in June 2010 by Tamplin is considered reasonable. With 141Mt of Measured and Indicated open cut resources, the 91Mt run of mine ("ROM") coal required in the 20 year mine plan is reasonable.

3.3 Duralie Mine

Project Outline

Duralie Coal Mine ("DCM") is located in the southern part of the NSW Gloucester Basin, 20km south of GCL's Stratford Operation. It is approximately 80km north of Newcastle, between the villages of Stroud and Wards River. The mine, owned by Duralie Coal Pty Ltd ("DCPL") which is 100% owned by GCL, is integrated with GCL's Stratford Operation, maximising the use of the existing Stratford infrastructure and facilities, with ROM coal transported to Stratford by a shuttle train on the existing rail line.

Tenements

Coal in the Duralie area was first identified through an extensive drilling programme in 1970-71 and ultimately ML 1427 was granted on 6 April 1998 for a term of 21 years. Mining commenced at Duralie in February 2003 and the Mining Operations Plan ("MOP") was approved on 28 February 2003. It had several updates, including those approved on 30 July 2007 and 18 August 2008 relating to eastern highwall and drainage realignments.ML 1646, an extension to the Duralie ML, was granted 4 January 2011.

The details of these tenements are summarised in Table 3.5 following:

Table 3.5
Summary Table of Duralie Mine Tenements

Licence No/Name	Expiry Date	Conditions/Comment
ML 1427	5 Apr 2019	Granted to CIM Duralie Pty Ltd., 6 Apr 1998 for a term of 21 years
ML 1646 (Extension)	4 Jan 2032	Granted to CIM Duralie Pty Ltd4 Jan 2011
Management Operations Plan ("MOP)		Approved 28 Feb 2003, with updates 30 July 2007 & 18 Aug 2008

The estimated Mine Closure Cost under the current MOP arrangements calculated for DCM is set at approximately $3.5M, against which a Financial Assurance is deposited with the CBA by GCL in favour of NSW Department of Primary Industry ("DPI"), for $1.3M. DCPL advises that all its Duralie tenements are in good standing.

Local Geology
The existing Duralie Pit is developed on the Weismantel Seam which maintains a steep easterly dip toward the axis of the basin (Figure 3.2). The principal seam in the open cut is the Weismantel Seam, but to the north, the underlying Clareval Seam is also being mined (Figure 3.2). The Weismantel seam has a high sulphur upper section which is mined and washed separately to produce a thermal coal product. The lower section is washed to produce both coking and thermal coal products. The Duralie resources and reserves are summarised as shown in Table 3.6following.

Table 3.6

Duralie Open Cut and Underground Resources and Reserves Estimates

	Measured Resource Mt	Indicated Resource Mt	Inferred Resource Mt	Total Resource Mt	Proved Reserve Mt	Probable Reserve Mt	Total Reserve Mt
Duralie Open Cut ML1427							
Weismantel 0-100		5.1		5		6.2	6.2
Clareval 0-80	0.7	3.2		4			
Subtotal	**0.7**	**8.3**	**0**	**9**	**0.0**	**6.2**	**6.2**
Duralie NW A315**							
Weismantel 0-100	0	4.0		4			
Clareval 0-150	9.9	0.5	1	11	10.6	0.6	11.2
Subtotal	**9.9**	**4.5**	**1**	**15**	**10.6**	**0.6**	**11.2**
Duralie East A315**							
Weismantel 0-100		**6.5**		**7**		**6.5**	**6.5**
Clareval 0-80		**2.7**	**3**	**6**			
Subtotal		**9.2**	**3**	**12.**		**6.5**	**6.5**
Railway Pit ML1427 & A315							
Weismantel 0-100	**1.2**	**0.5**		**2**	**0.9**		**0.9**
Sub-total OC	**11.8**	**22.5**	**4**	**38.**	**11.5**	**13.3**	**24.8**
Duralie UG ML 1247 & A315	**0.9**	**39.9**	**59**	**100**			
Duralie OC and UG Totals	**12.8**	**62.4**	**63**	**138**	**11.5**	**13.3**	**24.8**

Note: Based on30 June 2010 Statement unless otherwise indicated. No adjustment for subsequent mining

Figure 3.1
Gloucester Basin Stratigraphic Section

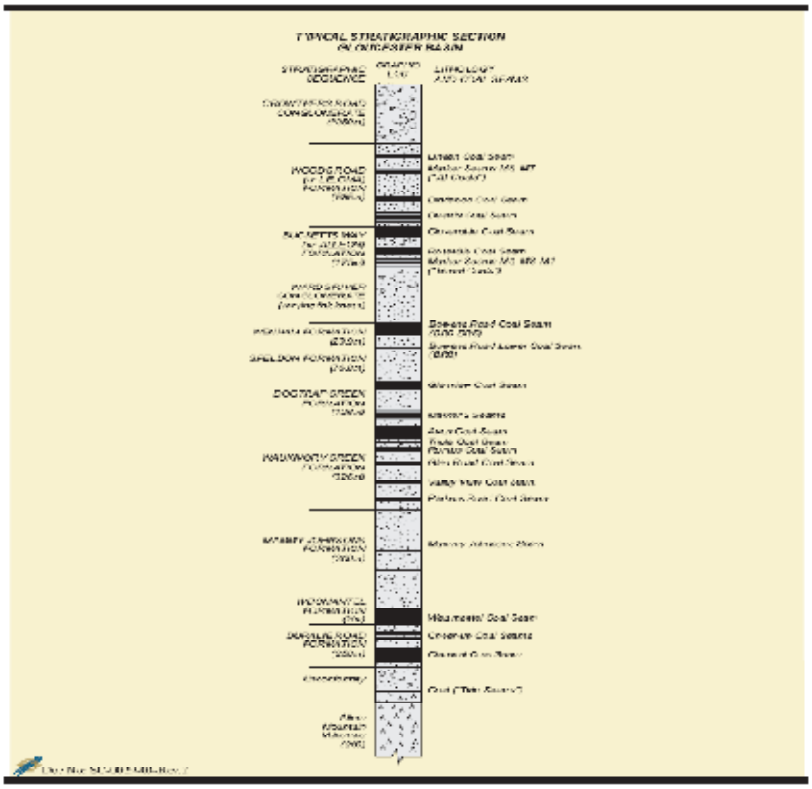
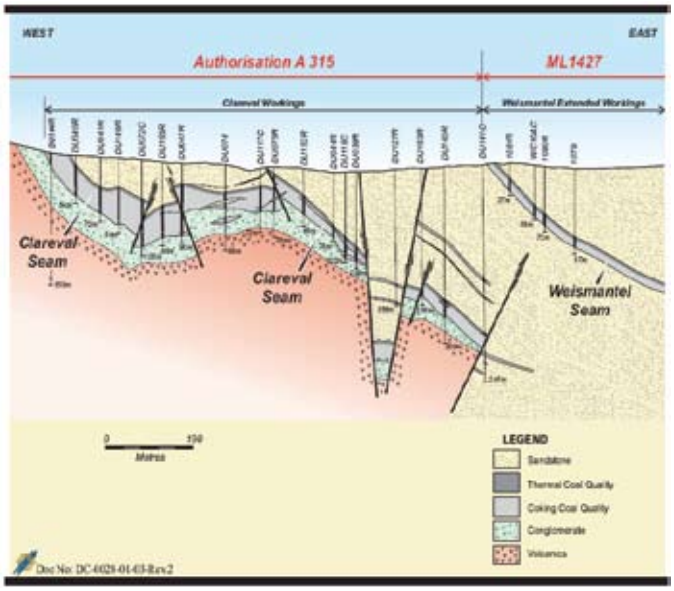


Figure 3.2
Geological Cross Section Duralie Mine Area



Opencut Mining

The Duralie operation is approximately 20km south of Stratford. It is located within ML1427 and has three exploration leases around it.

Mining operations commenced in March 2003 at Duralie based on the thickest coal formation, the synclinal structure of Weismantel seam, which occurs in four separate coal plies in the Weismantel pit. GCL has applied to develop the Clareval West and North areas and received approvals in early 2011and started operations shortly afterwards.

Mining Operations

The operation is undertaken by mining contractor, Leighton Contractors Pty Ltd ("Leighton"). Leighton was awarded the original mining contract to operate the mine and has since been awarded a seven year extension to its contract from June 2009.

The Duralie operations are mined by a large capacity mobile fleet; excavators are 350t and 250t class for overburden, and 160t class for coal removal. The truck fleet operations are based on 155t capacity trucks, which are used for both overburden and coal.

Waste removal in the 6 months to end December 2010 was at the rate of 8.6 million bank cubic metres ("Mbcm") per annum for Duralie (compared to 3.4Mbcm for Stratford). In addition the less complex structure and larger pit working room lend itself to the larger equipment class.

The overburden at Duralie also requires different handling to that at Stratford. During the development of Duralie, the waste in contact with the roof and floor of the seam were deemed to be potential acid forming ("PAF") coupled with high estimated inflows of ground water. Based on these findings Duralie's development consent prescribed a zero mine water discharge. Mining operations showed that the inflow of ground water around the seam did not eventuate and the retention dams are used for watering roads and irrigating the rehabilitated areas. Further to minimize the impact of any PAF waste, it buries designated PAF waste in clay lined areas within the pit which are then sealed off with non acid forming waste or below the final ground water table.

The mining method is designed to maximize return of its waste material into the pit void, but this has required initially the construction of out of pit dumps.

Due to limited out of pit dumping area and dump height restrictions, the mining method used is a terrace mining system. The seam is excavated to its final high wall limit and waste placed back against the high wall with designated levels and ramps based on the stability of dumps (angle of repose) pit floor working area and final depth. The mine works on 20m benches heights.

This mining system due to the swell of the waste requires some out of pit dumping. The hauling of this waste has seen GCL purchase a fleet of Caterpillar 785CXQ type haul trucks which are customized by the factory for optimizing noise reduction. This allows these trucks to haul to the higher levels out of pit during night shift and minimising noise disturbance to property in the vicinity of the operation.

GCL rails coal 20km from the Duralie mining operation to Stratford for processing before railing product coal from the Stratford CHPP to the Port of Newcastle for sale.

The annual haulage capacity from Duralie to Stratford is approximately 1.8Mtpa. With the planned production build up from Duralie it will be necessary for GCL to rail up to 2.75Mtpa, increasing to 3Mtpa FY13-20 to Stratford from Duralie. GCL intends to upgrade train capacity by 25%, increase operating days from 5 to 6, and for peak periods, increase train loads from four to five per day.

Mine Plan

The current mine plan is focused around GCL exploration focus to provide a JORC compliant 10 year reserve estimation.

With new mining areas / pits designated for development, including Stratford East and Clareval at Duralie, based on approvals being obtained, land acquisition and coal handling preparation plant ("CHPP") upgrades, the potential to mine 5Mtpa ROM can be supported between the two operations.

The waste volumes increases at Stratford due to the Stratford East Pit strip ratios being higher and are much higher than those estimated for Duralie. Cost control will require significant management focus to ensure this pit is economically viable. The impact of this pit can be seen with a sharp increase in strip ratios in 2013.

Duralie Underground Mining Project

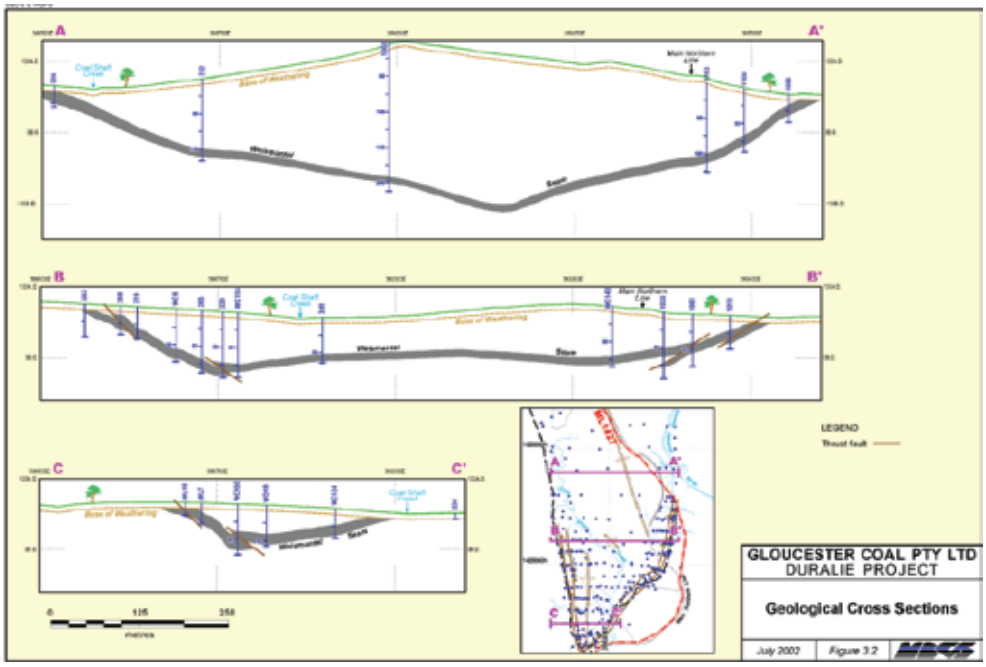
The underground mine is a potential development in the Weismantel Seam down dip of the Duralie Open Cut (Figure 3.3) but there has been virtually no planning at this stage. It is not currently included in the GCL 20 year production forecasts.

Local Geology

The area of the proposed mining operation is to involve extraction form the Weismantel Seam situated in the axial area of the Gloucester Basin between the Duralie Open Cut and the Duralie East Resource Block (Figure 3.4). Whilst Resources have been estimated for this seam and amount to around 100Mt, it should be pointed out that is based on an average seam thickness of 11m in an area of structural complexity. At this stage, it is far from certain that the whole seam section is mineable by underground methods and that mining will be possible in all areas. As a consequence, the mineable coal estimate is likely to be substantially lower than the current resource estimate.

Figure 3.3

Weismantel Seam Structure Underground Mining Area



Environmental Approvals

DCPL advises that all its Duralie environmental and other requisite approvals are in place.

Project Approval for the mine was granted on 21 August 1997. In October 1998 a Statement of Environmental Effects ("SEE") was produced to consider proposed alterations to the DCM. These proposed alterations were approved on 5 February 1999 (DA 168/99) for a term of 21 years from the date of granting of a Mining Lease in respect of the development. Construction commenced in June 2002. Development of the mine has been in accordance with DA 168/99 and subsequent Modifications (MOD-13-3-2003-i dated 29 November 2002, MOD-92-9-2003-i dated 21 August 2003, Modification dated 24 September 2003 relating to Coal Shaft Creek, Duralie Extended Modification dated March 2006,

Modification to Consent issued on 30 July 2006, DA 168-99 MOD 4 dated 27 October 2008 and a further Modification 3 December 2008). A Consolidated Consent was issued 3 December 2008.

DCPL lodged a further Part 3A application on 27 November 2009 to enable expansion of development of the Clareval Seam to 3Mtpa. Project Approval was granted by the NSW Minister for Planning on 26 November 2010 and by the Federal Government (EPBC) on 22 December 2010. As for earlier approval processes for both Stratford and Duralie mines, noise was anticipated to be the most critical environmental issue and to this effect DCPL has already purchased quieter trucks and has undertaken strategic land purchases. Water discharge from the mine was also a key issue of concern, especially to local environmental groups. A (merit-based) appeal has been lodged against the issuing of the approval by the NSW Minister for Planning (the 1st respondent), addressing the issues of water quality, endangered species/biodiversity offsets, dust and the public interest. The outcome of the appeal is anticipated around end June 2011.

Experience by the Company to date has found that engagement with the community through an active Community Consultative Committee, strategic offers of land purchase and careful attention to environment, rehabilitation and water management, has paved the way for ongoing development and environmental approvals.

Environmental Management Plans submitted to and approved by the Department of Planning ("DoP") include a Noise Monitoring Plan, Air Quality Management Plan, Blast Management Plan, Environmental Management Strategy and Environmental Monitoring Plan. The Final Void Management Plan and Mine Closure Plan are yet to be submitted.

Environment Protection License ("EPL") 11701 was issued on 4 September 2002. Notices of Variation of the EPL were dated 15 January/ 9 February 2004, 10 June 2004, 18 November/ 3 December 2005, 3 March 2006 and 11 October 2007.

Water Bore License No. 20BL168404 was granted 23 September 2002 for dewatering of Duralie Open Cut, Bore License No. 20BL168539 was granted on 31 October 2002 for monitoring bores associated with the DCM operations and an Approval under section 10 of the *Water Act 1912 (*DIPNR License - 20SL060324) was obtained for the diversion of Coal Shaft Creek.

The Main Water Dam, as well as a recently built additional dam, is prescribed under the Dams Safety Act 1978. A Dam Safety Emergency Plan ("DSEP") was prepared and a copy supplied to the Dam Safety Committee in May 2006. This document was updated in January 2009.

The above approvals are summarized in the Table 3.7.

Table 3.7
Summary Table of Duralie Environmental Approvals

Licence No/Name	Conditions/Comment
Development Consent	Granted 21 August 1997
Development Consent (DA 168/99)	A Statement of Environmental Effects approved 5 February 1999 for a term of 21 years from date of ML. Several modifications 2002-2008. A Consolidated Consent was issued 3 December 2008
Project Approval	NSW Planning approval issued 26 November 2010. Federal (EPBC) approval issued 22 December 2010. NSW approval is under a merit-based appeal against the NSW Minister for Planning
EPL 11701	Issued 4 September 2002, many variations, renewed annually
DPINR Licence (20SL060324)	Obtained for the diversion of Coal Shaft Creek
Water Bore Licence Nos 20BL168 404 &539	Issued 23 September 2002 & 31 October 2002 respectively

Note: DIPNR: NSW Department of Infrastructure, Planning and Natural Resources

3.4 Stratford Open Cut Mine

Project Outline

The Stratford Mine is located in an area of 1,500ha of cleared former grazing land to the east of The Bucketts Way, between the villages of Stratford and Craven. The Stratford mining operation was the first mining operation for GCL. Developed originally by its precursor CIM, coal production started in the Main Pit in June 1995. The Main Pit formed the largest contiguous coal formation in the Stratford Lease with mining up to 2Mtpa ROM; this area was mined out in June 2003.

During the later operation of the Main Pit, GCL discovered further exploitable coal seams on its lease area. Several seams, including Bowens Road, Avon and Roseville, were found running parallel to the Main Pit synclinal formation enabling the on-going operation of the Stratford mine lease on depletion of the Main Pit.

Tenements

Stratford Mine was established in 1995 following the granting of Mining Lease ("ML") Number 1360, issued for a term of 21 years on 21 December 1994, which was followed by an Approval to Carry Out Open Cut Coal Mining within ML 1360 on 30 June 1995.

An Amendment to this Approval was granted 26 November 1996 permitting the mining of Roseville Pit within the existing ML 1360. The balance of the Roseville Pit area could not be mined until a mining lease over that area had been granted, hence ML 1409 was granted for a 21 year term from 7 January 1997 to achieve this. A further Amendment to the Approval to Carry Out Open Cut Coal Mining dated 28 April 1997 permitted the extended mining of the Main Deposit within the existing ML 1360. The MOP, approved in January 1999, addressed completion of mining in the Main Deposit, while the further amendment approved on 7 June 2001, also covers completion of mining within the Main Deposit but also includes mining within the Bowens Road ("BR") West Pit.

The Stratford open cut area consists primarily of the Roseville West area within ML1360, ML1409, ML1447 and ML1528. Additional resource areas extend southwards outside these lease areas into A311. ML 1447, granted on 1 April 1999, is located along the western boundaries of MLs 1360 and 1409, covering an area of 52.2ha. ML 1447 includes 2.9ha for the use of the Co-disposal facility, for which approval of an expansion was granted on 24 September 1999. ML 1528, dated 31st January 2003 and covering an area of 242ha, was granted to enable mining of the BR North Deposit for a term of 21 years. The associated MOP was approved on the 4th February 2003. A further Mining Lease, ML 1577, was granted on the 1st March 2006 allowing mining activities within Ellis' Corner. Stratford Coal Pty Ltd ("SCPL") owns all the land covered by ML 1528, and all land affected by forecast mining operations i.e. for the BR North, Roseville West and its Extension, Avon North, Parkers Road and the Co-Disposal sites.

Table 3.8
Summary Table of Stratford Mine Tenements

Licence No/Name	Expiry Date	Conditions/Comment
ML 1360 (Stratford)	21-12-2015	Granted to CIM Stratford Pty Ltd 21 December 1994 for 21 years
ML 1409 (Roseville)	7-1-2018	Granted to CIM Stratford Pty Ltd 7 January 1997 for 21 years
ML 1447 (Co Disposal)	1-4-2020	Granted to CIM Stratford Pty Ltd 1 April 1999, expanded 24 September 1999, the 52.2ha ML includes 2.9ha for Co Disposal
ML 1521 (Parkers Pit)	23-9-2023	Granted to GCL. 24 September 2002
ML 1538 (Coal Handling)	24-6-2024	Granted to CIM Stratford Pty Ltd 25 June 2003
ML 1528 (BRN)	20-1-2024	ML granted to CIM Stratford Pty Ltd 20 January 2003 for 21 years
ML 1577 (BRN, Ellis' Corner)	1-3-2027	Granted to GCL 1March 2006, extension granted 13 June 2006.
Management Operations Plan	1-6-2012	Approved January 1999 for Main Deposit mine through to closure
Management Operations Plan		Approved 7 June 2001, both Main Deposit & BR West Pit
Management Operations Plan		Approved 4 February 2003 for mining of the BR North Pit
Management Operations Plan		Approved 17 February 2006 for mining the Roseville Extension
Management Operations Plan		Approved 23 May 2007 for mining the Roseville West Pit
EL 6904		Granted to GCL 9 October 2007
EL 311	28-11-2012	Renewed by GCL 13 May 2008
EL 315	28-11-2012	Renewed by GCL 13 May 2008

The estimated Mine Closure Cost under the current MOP arrangements calculated for Stratford Coal Mine is set at $10M, against which a Financial Assurance is deposited with the CBA by GCL in favour of Department of Primary Industries ("DPI"), for $10M.

Exploration License ("EL") 6904 was granted on the 9th October 2007 and ELs 311 and 315 were renewed on the 13th May 2008. GCL advises that all its Stratford tenements are in good standing, as summarised in Table 3.8.

Local Geology

The open cut is located on the eastern flank of the Gloucester Basin and the strata dip steeply to the west (Figure 3.5). Parasitic folds locally result in a reversal of dip. The pit is developed in seams of the Woods Road and Buckets Way Formations including the Deards, Cloverdale and Roseville Seams (Figure 3.1 and Figure 3.5) which are developed over stratigraphic interval of about 500m.

Coal Resource and Reserve Estimates

The Stratford open cut resources and reserves estimates are summarised in Table 3.9.

Table 3.9

Stratford Open Cut Resources and Reserves Estimates (30 June 2010)

Mine/Seam	Resources (Mt)				Reserves (Mt)		
	Measured	Indicated	Inferred	Total	Proved	Probable	Total
Bowens Road North – ML1409, ML1528							
Bowens Road 0-100	2.7	0,1		3	1.8	0.4	2.2
Marker 0-100	0	0.5		1			
Sub-total	**2.7**	**0.6**	**0**	**3**	**1.8**	**0.4**	**2.2**
Avon North – ML1360 & A315*							
Marker, Avon & Triple <200		**3.0**	**0**	**3**		**3.1**	**3.1**
Roseville West - ML1360, ML1409, ML1447 & ML1528							
Linden to Roseville 0-150		35.5	5	41		18.1	18.1
Co-disposal		2.3		2		2.2	2.2
Sub-total	**0.0**	**37.8**	**5**	**43**	**0**	**20.3**	**20.3**
Stratford South –A311, A315, ML1360							
Stratford East–A3115 & ML1360							
Weismantel 0-200			**1**	**1**			
Clareval 0-200		**5.8**	**3**	**9**		**2.9**	**2.9**
Subtotal		**5.8**	**4**	**10**			
Total	**2.7**	**47.2**	**9**	**59**	**1.8**	**26.7**	**28.5**

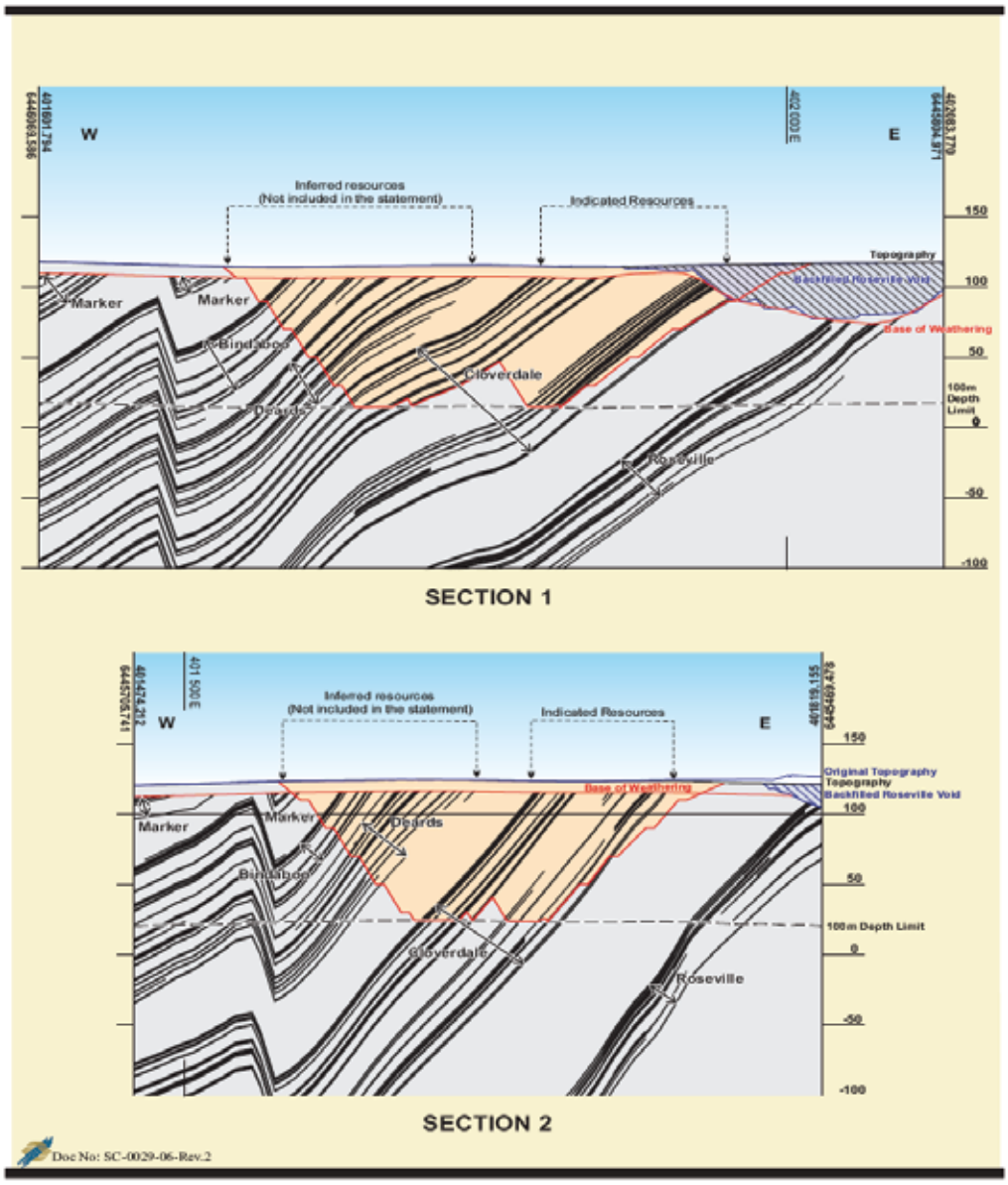
Note: Based on 30 June 2010 Statement unless otherwise indicated. No adjustment for subsequent mining

Coal Quality

Batch washing comparison data from the Bowens Road North Pit indicate a weighted average yield of 63% from four horizons but principally from the three plies of the Bowens Road Seam. Only one of these plies (BRN Lower) produces a coking product.

Coal from the Roseville West pit is derived from a number of individual working sections which, when washed, produce an overall yield of 55%. Of this, 40% is a coking product (8% ash and 0.9% S) and 10% is a thermal product (30% ash and 0.9% S).

Figure 3.5
Cross Section Roseville West Open Cut



Opencut Mining

Currently Stratford operations are focused on two pits:

- Bowen Road North Open Cut (ML1528, ML1577)
- Roseville Extension and West Open Cut (ML 1447, Ml1409, ML1360)

Mining Operations

As is common in many open cut coal operations, excavator and truck operations are utilized by the mine. A local mining contractor, Ditchfield Contracting Ltd, has been engaged on a life of mine contract for the Bowen's Road North and Roseville Pits.

The mining equipment utilized is suitable for narrow pit floor working areas and steeply dipping and highly structured coal seams. The smaller capacity (when compared to bulk mining operations) type equipment allows for a very large degree of flexibility to meet the deposit configuration, where seams intersections as thin as 150millimetre ("mm") are selectively mined.

Overburden trucks are in the 60t capacity range and are matched with 120t and 85t excavators. For coal mining extraction 35t articulated trucks are loaded by 60t and 30t excavators with these excavators have articulated buckets to allow for coal clean up and maximizing coal extraction in small benches of 4m high and limited continuity in places.

The overburden is free dug or ripped by dozers prior to removal with only 10% is blasted. The multi seam operation with varied thickness of seam section does not lend itself to blasting but the overburden does lend itself to free digging or ripping.

Each pit operates a haul back mining system as did the Main Pit; the overburden is placed back into the mined out void area, when space allows, to reduce the surface footprint of mining operations (waste dumps above the natural surface elevation) and reduce cost by minimizing the distance the waste has to be hauled.

The mining operations work day shift only with a production level of 1.15Mt, excluding 250,000t from the co-disposal recovery.

Environmental Approvals

GCL advises that all its Stratford environmental and other requisite approvals are in place.

A Development Application for the project was approved on 19 December 1994, limited to a period of 14 years from the date of grant of the Mining Lease, which was amended 17 July 1996 permitting the development and operation of the Roseville Pit. Production commenced in June 1995 with the first coal railed in July, which was later added to by coal from the Roseville Pit (1998-2000) and the BR North pit (from March 2003).

A Development Consent issued on 25 July 2001 (DA 39-02-01), limited to a period of 14 years from the date of the ML approval, permitted mining in the BR North Open Cut Coal Mine (from February 2003). This was followed by a further Development Consent for a Southern Extension of this Pit on 5 July 2002 and a further Development Consent also related to this pit development dated 1st October 2002. DA No. 39-02-01-MOD-2 was approved on the 17th November 2004 to allow ROM production from the BR North project to reach 0.9Mtpa, and a further modification of DA 39-02-01 was approved on the 20th June 2005 to allow for mining of Ellis' Corner.

On 26 November 2010 the Minister for Planning issued further modifications to the Project Approvals for both the Stratford Main and Bowens Road North pits.

Modification of DA 98/99 to allow for the mining of the Roseville Extension was approved on 18 January 2006, and an associated MOP was approved on the 17 February 2006. A further modification of the DA (23-98/99) was approved on the 16 February 2007 to allow for mining of the Roseville West pit, with the associated MOP approved on the 23 May 2007.

The 1994 Stratford Development Consent was replaced in July 2003 to permit processing of Duralie Coal Mine's coal at Stratford.

Approval of a Review of Environmental Factors for exploration drilling within the south Stratford area was approved by the DPI in July 2005.

The mine operates under Environment Protection Licence ("EPL") No. 5161 issued by the Department of Environment and Climate Change ("DECC") on 4 October 1995. EPL 5161 (covering the Stratford Coal Mine but not including BR North) was varied on the 13 June 2005 effectively reducing the licensed scale of activity of the pit from 2-3Mtpa production to 0-0.5Mtpa.

EPL 11745 was issued on 16 December 2002 to cover the BR North operations, with variations granted on 15 January 2004 and 18 November 2005. A further variation was granted in June 2005 increasing the allowed annual ROM production from BR North to 0.5 – 0.9Mtpa.

Groundwater license approval for the BR North and West, Stratford Main and Roseville pits was granted on the 1 September 2004.

The above approvals are summarised in the Table 3.10.

Table 3.10
Summary Table of Stratford Environmental Approvals

Licence No/Name	Conditions/Comment
Development Consent (Stratford Mine)	Issued 19 Dec 1994 for 14 years from grant of ML, amended 17 Jul 1996 (Development of Roseville Pit). Revised REF for A311 and A315 approved 26 May 2010. Replaced in 2003 by the 1999 Development Consent re processing Duralie coal at Stratford. Also a 24 September 1999 Development Consent (re Expansion of Western Co-disposal Storage Area), modified 4 July 2000
Development Approval (DA 98/99, DA 23-98/99)	Modification of DA approved 18 Jan 2006 (re mining Roseville Extension), again on 16 February 2007 (re mining Roseville West) & again on 1 Sep 2008 (Product Stockpile Extension)
Development Consent (DA 39-02-01)	Issued 25 July 2001 for a period of 14 years from date of grant of ML (for BR North). Modification 26 Nov 2010.
Development Consent	Issued 5 July 2002 (Southern Extension of BR North Pit) & a further Development Consent relating to this Pit dated 1 Oct 2002
Development Consent (DA 39 02-01 MOD-2)	Issued 17 Nov 2004 (re ROM production from BR North) & a further modification approved 20 June 2005 (re Ellis' Corner)
Review of Environmental Factors ("REF")	Approved by DPI July 2005 for exploration drilling in South Stratford area
EPL 5161	Issued 4 Oct 1995, varied 13 Jun 2005
EPL 11745	Issued 6 Dec 2002, varied 15 Jan 2004, Jun 2005 & 18 Nov 2005
Water Bore Licence	Issued 1 Sep 2004 (for BRN, SCM, BRW & Roseville pits)

3.5 Gloucester Exploration Projects

Project Outlines
Resources have been defined in four potential open cut areas which are lateral extensions of existing operations:

- Grant and Chainey Area which is contained within A311 and is a southerly extension of the Stratford resource areas.
- Stratford East, to the east of Grant and Chainey in ML1360 and A315 is a similar style of deposit to Grant and Chainey but developed on the Clareval seam.
- Duralie East which falls inside A315 comprising the Clareval and Weismantel seams outcropping on the eastern flank of the Gloucester Syncline to the east of the Duralie mine.
- Duralie Railway Pit which is smaller area to the south of Duralie East.

Local Geology
The following is a brief description of the four potential open cut areas exploration resources and reserves.

Grant and Chainey
Located 1km south of Stratford the Grant and Chainey Area comprises westerly dipping Bowens Road Seam (Wenham Formation) and Avon Seams (Waukivory formation) extending over a strike length of about 2km.

Stratford East
Extending for almost 2km along strike the Clareval Seam dips steeply to the west at between 55° and 65°. The seam is between 8m and 18m in thickness.

Duralie East
Located on the eastern flank of the Gloucester Basin 1km east of the Duralie Mine the Duralie East Deposit comprises westerly dipping Clareval and Weismantel Seams extending over a linear strike length of over 1km.

Duralie Railway Pit
This deposit comprises an isolated pod of westerly dipping Weismantel Seam adjacent to the main northern railway.

Coal Resource and Reserve Estimates
The JORC-compliant Resource and Reserve estimates for the GCL exploration projects as at June 30 2010 are summarised as shown in Table 3.11. It should be noted that the seam split in the conversion from resources to reserves was not specified in the GCL reserves update statement.

Table 3.11
GCL Exploration Projects Resources and Reserves Estimates

Mine/Seam	Resources (Mt)				Reserves (Mt)		
	Measured	Indicated	Inferred	Total	Proved	Probable	Total
Grant and Chainey A311 & A15							
Rombo 0-100			5	5			
Avon, Triple 0-100		18.0	7	25			
Bowens Road 0-100		11.2	4	15			
Markers, GV 0-100		4.9	2	7			
Rombo 100-200			3	3			
Avon & Triple 100-200		11.3	3	14			
Bowens Road 100-200		7.4	1	8			
Markers, GV 100-200		4.0		4			
Grant and Chainey Subtotal*						21.5	21.5
Total	**0**	**56.8**	**25**	**82**	**0**	**21.5**	**21.5**

Based on 30 June 2010 Statement ** Grant &Chainey seam split resources to reserves not specified*

3.6 Stratford Coal Handling and Preparation Plant

GCL holds the majority of its raw coal (ROM) stocks "in pit", which includes both the Stratford and the Duralie operations. The amount of coal held uncovered and ready to deliver to the CHPP can vary considerably. Coal from the mines at the Stratford operation is delivered from the mine by truck to the plant. Coal from the Duralie operation is loaded into a 2,000t train. The train is a private operation using the main Northern Line to Stratford, where it is unloaded and conveyed to the plant.

The plant is a two stage plant capable of producing low ash coking and high ash thermal coal from a single feed, or a single product thermal coal. The coarse coal is separated by dense medium cyclones technology and the small coal is processed by a combination of spirals and a Teetered Bed Separator. All of these products are dried with centrifuges. The fine coal is cleaned using flotation and the fine product is dried with vacuum filters. This is all standard and well understood technology.

The product storage at the plant has recently been increased from one to two skyline conveyors, with underground conveyor reclaiming direct to a train loading bin at 3,000tph rated capacity. The planned changes will provide a larger live pile capacity and allow better discrimination between different quality products.

This plant was erected in 1995 and originally designed for 300tph. It has been modified many times and is currently undergoing further modification and expansion from the present 500tph. It is planned to have a capacity of 4.3Mtpa by the end of 2010 and all the necessary work to achieve this goal seems to be in hand. Plans are in hand to further increase the plant throughput to 5.0Mtpa by the end of 2012, to process the increased output from Duralie mine.

The original planned life of mine was 15 years and the plant was built accordingly. It is now due for some structural repair, although the roof has recently been replaced. BDA considers that GCL management will need to provide funding for longer term maintenance such as structural blasting and painting, on top of the normal wear and tear. The plant appears to be generally in good condition and it was reported that the statutory structural inspections are up to date and any issues raised are being addressed.

The processing equipment in the plant, including the changes currently in hand, are adequate and fit for purpose. Whether it is to deliver an optimum outcome at the proposed throughput rate is beyond the scope of this report and no comment is made on this issue. From a plant perspective the forecast yields should be achievable based on previous performance on the same coals. The main cause of change in yield is a change in the amount of out of seam dilution included with the ROM coal during mining.

3.7 Capital and Operating Cost

Operating Costs

A review of the production and cost inputs to the financial model provided by GCL showing current and forecast mining costs for both Stratford and Duralie are generally reasonable and within the range of historical actual costs for the operations. The mining operations incur relatively high overburden mining costs. At Stratford, this is due to working flexible equipment in small areas with little economy of scale afforded. At Duralie, the need to blast all overburden and the long truck hauls, 2.5km one way compared to 700m at Stratford, negate the benefits of large equipment and ownership of truck fleet. Cost control at Duralie and Stratford will be critical to its success.

Capital Costs

Capital expenditure forecasts are low in relation to the output capacity of the mine, due mostly to the contract (outsourcing) nature of the mining operations. There is a major allowance for ongoing land purchases.

3.8 Infrastructure Capacity

Rail to Port of Newcastle

The rail haulage capacity between the Stratford and the Port of Newcastle is dependent on the track capacity and the rolling stock capacity. ARTC, the track provider, is confident of the required track capacity being available for the GCL planned requirements. Pacific National ("PN"), GCL's haulage contractor has indicated to GCL that it can meet the railing requirements when production is increased. In part this will be achieved by increasing train payloads from 3100 to 5400 tonnes.

Shiploading Capacity

Currently GCL exports around 2Mtpa coal through the port of Newcastle coal terminal operated by PWCS. The 10.5% ash coking coal produced by GCL is sold primarily to Japanese steel mills. Thermal coal generally sold through traders on the spot market.

As part for the implementation of the long term port solution for coal exports from the Port of Newcastle, PWCS conducted the Nomination and Allocation Process as defined in the new Terminal Allocation Protocol. As part of the process GCL obtained a portfolio of evergreen 10 year Ship or Pay contracts for

Terminal capacity. The contracted capacity in 2010 is 2.05Mt, rising to 3.12Mt in 2012. GCL nominated for further contracts in 2010 for 0.35 Mtpa from 2014. PWCS has indicated that this will be available from the proposed T4 terminal from 2016 and BDA considers it is reasonable to assume that PWCS will have this capacity available. This leaves GCL with a shortfall of port capacity of approximately 0.4 Mtpa in 2014 and 2015. While this is a risk, GCL may be able to buy allocation for this shortfall.

Coal Marketability

The primary GCL product is a semi-hard coking coal (10% ash, 1% sulphur and 5,000 ddm) for the Japanese steel mills, together with a number of secondary thermal products with variable sulphur contents that are sold to trading companies for blending as part of combined cargoes. The primary quality control issue with the coals is sulphur content. The coking product is blended (by third party) with 10% to 15% of low sulphur semi-soft coking coal from other market sources to meet a specification of 1%. GCL runs the operation to maximise coking yield and control sulphur levels by blending products from Stratford and Duralie operations. Overall yield is predicted to vary at any time from 50% to 70% depending on seams/blends being washed.

3.9 Forecast Production

GCL has provided a detailed twenty year production forecast as summarised in Table 3.12, with ROM coal production being forecast to increase from the 3.1Mt in 2011 to 5.0Mt in 2014 and maintaining this rate going forward with some variations in some years. Total ROM production is 91 Mt, coming from 179 Mt of Resources (including 75 Mt of Reserves). Residual coal Resources at the end of the 20-year plan are approximately 90 Mt. Current planned expansion of the Stratford CHPP and associated infrastructure will allow saleable coal production to increase from 1.9Mt in 2011 to 3.5Mt in 2014.

Table 3.12
GCL Gloucester Area Annual ROM and Saleable Coal Production Forecasts

Mine	Unit	2011	2012	2013	2014	2015	2016	2017	2018	2019	2011 -2030
ROM Coal											
Duralie	Mt	1.8	2.6	2.6	3.1	2.8	2.6	2.9	3.0	2.6	38
Stratford	Mt	1.3	1.2	1.8	2.0	2.3	2.4	2.2	2.1	2.1	75
Grant & Chaney[2]	Mt										66
Total GCL Production											
ROM Coal	Mt	3.1	3.8	4.3	5.0	5.1	5.0	5.1	5.1	4.7	91
CHPP Yield	%	61	65	64	70	71	72	72	72	68	65
Saleable Coal	**Mt**	**1.9**	**2.5**	**2.8**	**3.5**	**3.6**	**3.6**	**3.7**	**3.6**	**3.2**	**59**

[2] Commences 2021

4.0 MIDDLEMOUNT COAL PROJECT

4.1 Middlemount Introduction

Middlemount Coal Pty Ltd is developing the Middlemount Mine in central Queensland (refer Figure 4.1); the mining lease ML70379 was granted in September 2009.GCL's interest in the Middlemount project is nearly 50%, which is held through an incorporated joint venture between GCL (50%) and Macarthur Coal Limited (MCC) (50%).

BDA recently visited the Middlemount Project and considers that the management team is experienced and capable, with a demonstrated capacity to construct, implement and commission the Project reasonably within the projected budgets and timeframes. Our assessment of the Middlemount Project in relation to its projected production, operating costs and capital costs are based on our consideration of publicly available information, third party information provided to us and BDA knowledge and experience in relation to other comparable operations in the region.

4.2 Middlemount Project Description

Project Outline
The Middlemount Project is located 6km south-west of the township of Middlemount and approximately 270km north-west of Rockhampton, Central Queensland. Access is via the Middlemount Dysart Road. The mine will produce two commercial coal products, comprising semi-hard coking coal ("SHCC") and a pulverized coal injection ("PCI") coal, both suited for export.

The project is currently under construction and the initial production rate of 1.8Mtpa ROM coal is planned by the first half of fiscal 2012 as Stage 1. An EIS for the approval of Stage 2 project expansion to 5.4Mtpa been has submitted to government and is currently on public exhibition and is expected to be approved in late 2011. Mining, washing and blasting operations are planned to be conducted under contract and coal preparation activities will be based on 24 hours per day, seven days a week.

Tenements
Tenure of the Middlemount deposit, located in Queensland's Bowen Basin, is held under Coal Mining Lease ML70379 (1,585.5 Ha) granted in September 2009 for a term of 22 years. Surrounding the mining leases tenure is held under Exploration Permits for Coal ("EPC") EPC1225, whilst MDL282 remains in place and active. An application for MLA70417 (1,188 Ha) which immediately adjoins ML70379 to the north east was applied for on 13 October 2009 to accommodate future out-of-pit waste rock dumps.

4.3 Middlemount Geology

Regional and Local Geology
Middlemount Mine is situated in the eastern part of the Queensland Bowen Basin, 6km south-west of the town of Middlemount, and is flanked on the west by the Peak Downs Highway. The deposit is limited to the east by the structurally complex Jellinbah Fault Zone.

The economic seams sub-crop in the west close to the western boundary of the Mining Lease MDL282. The lease is of a triangular shape, with the long side paralleling strike of the Jellinbah Fault Zone, a major structural feature in the area. The principal formations in the area are the Burngrove formation and overlying Rangal coal Measures of Upper Permian age which strike in a north westerly direction and dip to the north east at between 3^0 and 7^0. The two principal economic seams in the area, both within the Rangal Coal Measures, are the Pisces Upper and Middlemount Seams. These seams are usually about 40m apart, but the sequence may include a third seam, the Tralee Seam, generally <1m in thickness, developed between the Middlemount and Pisces Seams. In different parts of the area, this seam may immediately underlie the Middlemount or immediately overly the Pisces Seam.

Minor faulting, oriented sub-parallel to the strike and usually with displacements of <5m, are known to occur in western part of the area.

A semi consolidated sequence of siltstone and sandstone, up to 40m in thickness and of Tertiary and Quaternary age, unconformably overlies the Rangal Coal measures. The depth of weathering averages about 45m in thickness, varying from around 20m in the north to over 60m in the south.

Mine Geology

The Pisces Upper seam averages 4.8m thick in the area west of the Jellinbah fault, ranging from 2m to over 6m. The thin and thick intersections are probably the result of fault thinning and overthrusting respectively. The Pisces Upper seam is divided into three working sections (PUT, PUM and PUB, top down), based on coal brightness.

The Middlemount seam averages 4m thick in the area west of the Jellinbah Fault, ranging from <2m to >7metres. As with the Pisces, the thickness variations may largely be fault-induced. Also, as with the Pisces seam, three principal working sections are recognised, the Middlemount Upper (MU), Middlemount Lower Top (MLT) and Middlemount Lower Bottom (MLB).

The Middlemount Upper working section is a high ash section that is present over most of the Middlemount area – the exception is the in the north where it is less than 0.3m thick and not included in the resource estimate. The Middlemount Lower Tops is predominantly dull with some bright banded coal. It has an average raw coal CSN average of 1 to 1.5. The Middlemount Lower bottoms have more bright coal than the top section, and the average raw coal CSN is 4 to 5.

4.4 Exploration

Up until 2007, a total of 295 holes had been drilled in the Middlemount area, including six large diameter holes and data from these holes were used to develop a resource model in 2007. Middlemount coal acquired the area in February 2008 and carried out a programme comprising 465 drillholes within ML70379 (450) and EPC1225 (15). There were four main objectives for this programme as follows:

- Oxidation drilling for the Middlemount Lower and Pisces Upper outcrop
- Infill open-hole drilling for better structural definition and delineation of the Jellinbah fault
- Core drilling of the Middlemount Lower and Pisces Upper on an approximate 500m grid to allow measured resource estimation west of the Jellinbah fault
- Subdivision of the Middlemount Lower and Pisces Upper seams into end-product working sections

A trial pit was also dug in 2008-09 in the centre of ML70379 down to the Pisces Seam to extract coal for bulk sample testing. It should be noted that during the drilling float/sink data were obtained on all plies apart from the Middlemount Upper Seam. Whilst this did not impact on the resource, it was an issue in the Reserve Estimate in terms of defining product options for the Marketable Reserves.

4.5 Coal Resources and Reserve Estimates

Resources

The resources statement has been prepared by JB Mining Services Pty Ltd, incorporating all drilling data acquired to date, and has been prepared in accordance with the JORC Code (2004). The current JORC resources for Middlemount, as at 30 June 2010, have been reported as summarised in Table 4.1, following.

Table 4.1

Middlemount JORC Resources (In-situ Moisture Basis)

Seam	Working Section	Resources (Mt)			Total (Mt)	Analyses (adb)		CSN (9% ash)
		Meas.	Ind.	Inf.		Ash (%)	VM (%)	
Middlemount Upper	MU	5.04	2.3	0	7	39.6	17.8	
Middlemount Lower Top	MLT	21.37	6.4	0	28	12.0	18.1	1.0
Middlemount Lower Bottom	MLB	12.57	5.1	0	18	13.4	18.8	5.0
Tralee	TL	1.94	2.4	1	5	27.5	17.6	
Pisces Upper Top	PUT	15.61	5.7	0	21	16.7	17.0	1.1
Pisces Upper Middle	PUM	17.80	4.9	0	23	12.4	18.5	4.6
Pisces Upper Bottom	PUB	14.99	4.7	0	20	16.1	17.8	6.2
Total		**89.32**	**31.5**	**1**	**123**			

Source: JB Mining Services Pty Ltd

Reserves

A draft Reserve Statement has been prepared by Mark Bryant of Minserve and dated February 2011. The Reserve estimate is based on the JB Mining Services Pty Ltd 2010 resource model and estimated on a block model prepared by Glen Barnes of Precision Mining in 2009, which was subsequently financially modelled by Middlemount Coal. Appropriate parameters for losses and dilution have been applied to the resource estimates to generate reserves estimates as shown in Table 4.2.

Table 4.2

Middlemount Reserves

Ply	Proved Reserve (ROM)		Probable Reserve (ROM)		Total Reserve (ROM)	
	Mt (at 8% TM)	Ash (at 8% TM)	Reserve (at 8% TM)	Ash (at 8% TM)	Reserve (at 8% TM)	Ash (at 8% TM)
MU			6.4 Mt	52.6%	6.4 MT	52.6%
MLT	17.4Mt	14.6%	3,6Mt	15.2%	21,0 Mt	14.6%
MLB	9.5 Mt	19.3%	3.1 MT	20.8%	12.6 Mt	19.7%
TL			4.0Mt	44.1%	4.0 Mt	44.1%
PUT	14.0 Mt	21.9%	3.9 Mt	21.8%	17.9 Mt	21.9%
PUM	15.0 Mt	11.4%	3,2Mt	11.6%	18.2 Mt	11.5%
PUB	12.7 Mt	22.4%	3.0 MT	20.6%	15.7 Mt	22.1%
Total	68.6 Mt	17.5%	27.2 Mt	30.0%	95.8 MT	21.0%

Marketable Reserves have been determined by applying average yield values from float/sink data and imposing a plant efficiency of 95%.

No yield data was available for the MU and TL plies and as such, although a wash plant yield of 54% is assumed (Table 4.4), no allowance is made for the product ash and the in-situ values are applied. Further, the coal is assigned to the Probable category and referred to as Blending/Thermal Coal.

The Wash plant yields assumed for the Marketable Reserves are listed in Table 4.4 and the Marketable Reserves are listed in Table 4.5. A review of the methodology indicates that the Reserve estimate is in accord with JORC Standards.

Table 4.4
Assumed Wash Plant Yields

Coal Ply	Product Coal Type	Wash Plant Yield
MU	Blend	54%
MLT	PCI	85%
MLB	Coking	71%
TL	Blend	52%
PUT	PCI and Coking	70%
PUM	Coking	87%
PUB	Coking	56%
Average		**72%**

Table 4.5
Middlemount: Marketable Reserves By Ply

Ply	Proved Mt		Probable Mt			Total Mt		
	Coking (at10.5% TM)	PCI (at9% TM)	Coking (at 10.5%TM)	PCI(at 9% TM)	Blend (at 9% TM)	Coking(at 10.5%TM)	PCI (at 9% TM)	Blend (at 9% TM)
MU								3.5
MLT		14.9		3.0			17.9	
MLB	6.7		2.2			8.9		
TL					2.1			2.1
PUT	7.4	2.4	2.6	0.6		9.3	3.1	
PUM	13.0		2.8			15.9		
PUB	7.0		1.8			8.8		
Total	34.1	17.3	8.8	3.7	5.5	42.9	21.0	5.5

4.5 Opencut Mining

Open cut mining activities will involve conventional excavator and truck operations on both coal and overburden, with the latter being placed on external dumps in the early years of operation. Ultimately, waste will be back-dumped into the mined out sections of the opencut.

Based on our consideration of the geology and physical geometry of the Middlemount Project, BDA considers that an annual ROM coal product rate of 5.1Mtpa (from 2014) over the life of the mine would be achievable, following an initial ramp-up period over approximately three years from an initial rate of around 2.6Mtpa ROM coal. Overburden removal rates are expected to be high initially as the mine ramps up rapidly with pre-strip work from the current box-cut, and stabilise in the longer term, in line with ROM production rates and an average life-of-mine economic stripping ratio of around 11.4:1 bcm waste:t ROM coal. This would be consistent with and comparable to similar operations in the same area.

4.6 Coal Preparation and Handling

The Middlemount CHPP is constructed and operational, although not fully accepted due to lack of coal for full scale operation, due later in 2011. The plant design is similar to that of other washeries in the area, operating on Rangal Measures coal seams, with reliable operational performances. It is constructed for a capacity of 400tph with an allowance to enable a simple upgrade to 700tph that is planned in 2014.

Middlemount has decided to introduce a screening option after a study of coal from the Pisces Upper ply demonstrated the ability to produce a coking coal product made from this fraction. When the washed product was screened at 20mm and the coarse fraction removed from the product, the oversize was found to be suitable for use as a PCI product and the finer sizes will be retained as an improved quality coking coal. In the case of PUT ply, the undersize fraction coal will become hard coking coal, whereas in the case of MLT ply, the coal will become semi-hard coking coal. This screening of coarse coal to improve coking coal quality is a well-established practice for Rangal coal measures.

The sizing plant addition and a second stockpile area to cater for two products are planned. The stockpile area is built, with the reclaim tunnel and coal valve opening complete, but without the feeder. The screening plant has not been designed, but a notional site has been chosen and appears workable.

BDA would expect that the Middlemount CHPP will perform largely as intended and will achieve design throughput following commissioning and ramp-up. BDA expects the CHPP design will be consistent with the production profile discussed in Section 4.5. Furthermore, BDA considers that plant LOM yields in the range of 74% and an average of 66%/34% for the coking coal/PCI products split would be achievable, as this is consistent with comparable operations in the same area and operating on essentially very similar coal types and qualities. BDA notes that lower yields are forecast in the first three years as higher coking coal percentages than PCI products are planned in this period.

4.7 Capital and Operating Costs

Forecast mining costs for Middlemount are based on the proposed mining methods to be used and appear reasonable from BDA knowledge of comparable operations. The mining operations will involve the use of excavator and truck fleets on both coal and overburden. There is some potential to reduce costs with throw blasting and dozer push where applicable. Middlemount have finalised a five year mining contract for both overburden and coal mining with NRW Holdings Ltd, after which Middlemount plan to purchase owner operated equipment including electric shovels for overburden removal and carry out coal mining with hydraulic excavators; both with relevant sized truck fleets. The mine operating costs are approximately 50% of the operating costs and reflect contract mining rates.

The forecast coal preparation plant operating costs reflect an agreement with Sedgman, who is contracted to operate the plant; site overhead costs are relatively low and make up a small proportion of total costs. Offsite costs, including transport, port, demurrage and levies/royalties are generally well defined and agreements are in place for rail and port components.

The first stage construction of the CHPP and most of the other associated coal infrastructure. The mine workshop and yard is currently under construction. The rail loop to Middlemount has been delayed by the significant wet season and it is now anticipated to be operation in the second half of 2011. Forecast capital expenditure includes the forecast costs to complete the mine workshop and the rail load-out and loop to connect with the Coppabella-DBCT line. In addition, there is provision to expand the CHPP plant from the initial design to meet the long term production rate of 5.1Mtpa ROM once production is fully ramped up. There are also allowances for creek diversions to allow extraction for all reserves within the ML. Thereafter sustaining capital will be required to maintain the output capacity of the mine; no allowance for capital replacement has been included as equipment lease costs are incorporated into the mine operating costs. There are no additional expansion capital expenditures expected post FY14.

4.8 Environmental Aspects

Environmental Approvals

Stage 1 of the mine is approved for the production of 1.8Mtpa of ROM coal designated under Mining Lease ML70379 and an amended Environmental Authority ("EA") Non Code Compliant Level 1 MIN100646307 – effective from 24 November 2009.

Stage 2 approval for 5.4Mtpa ROM coal is expected by Q4 2011. An Environmental Impact Statement (EIS) (February, 2011) has been completed and is currently on public exhibition. Stage 2 statutory approval is expected in late 2011. Total ROM coal output is expected to be 3.6Mtpa, then increasing to up to 5.4Mtpa ROM for the remaining 19 years of the mining lease life. Stage 2 mine plan proposes to mine coal along Roper Creek and Thirteen Mile Gully; consequently these two watercourses will require diversion. Roper Creek is planned to be diverted in 2012 at a cost of $19M, whilst Thirteen Mine Gully is planned to be diverted in 2015 at a cost of $33M.

Middlemount Project has an Environment Management Plan (11 February 2009) and a Plan of Operations in place which covers activities on Coal Mining Lease ML70379. Mining to date includes development of the box cut to secure a bulk sample to determine the final feasibility studies for the project and for CHPP commissioning and trial product shipments.

MLA70417 has been applied for to provide for out-of-pit overburden storage areas. The Saraji water supply pipeline is planned to be diverted within existing road reserves and immediately adjacent to the mine access and haul road alignments

The tailings storage facility ("TSF") is complete and receives fine coal rejects form the CHPP. Water from the TSF is decanted for reuse in the CHPP. The TSF constructed for Stage 1 has sufficient capacity to handle Stage 2 tailings.

Land rehabilitation plans will include profiling, contouring and top soiling of completed waste rock dumps progressively with mining operations. Middlemount will be required to provide an environmental bond to cover the maximum total rehabilitation cost for complete rehabilitation of all disturbed areas, which may vary on an annual basis due to progressive rehabilitation.

4.9 Infrastructure

It has been indicated that Middlemount rail and port capacity had been arranged through the DBCT initially and subsequently Abbot Point, once the "missing link" is completed. Further, Macarthur has extended a portion of its port allocation to Middlemount in exchange for a fee, as an interim measure until the Middlemount rail loop is complete.

The CHPP should achieve a rapid ramp up once the rail loop is constructed, as it will has already been processing coal on small tonnage basis with product being trucked from the site.

4.10 Middlemount Forecast Production

Production is forecast to commence production in FY2012 with 2Mt of ROM coal mined producing an expected yield of 1.5Mt of saleable product. Approval for 5.4Mtpa capacity is being sought and expected in Q4 2011. Mine production is scheduled to increase up to 5.1Mtpa of ROM coal capacity in late 2014with 2015 being the first full year at the 5.1Mtpa of ROM coal production producing 3.8Mtpa of saleable product coal based on the yield assumptions discussed in Section 4.6. The schedule assumes approvals are forthcoming in a timely manner for the two creek diversions required under the current production schedule.

4.11 Risks

BDA has reviewed the potential risks for the Middlemount project and considers that, in the short term, the principal risk to projected cash flows would be the slower than planned development and ramp up to full production in the Middlemount project and the ability for Middlemount to realise its allocated export tonnages through Dalrymple Bay Coal Terminal ("DBCT"). The latter may have the effect of reducing revenue from export coal sales and increasing working capital until full production is achieved. BDA has also recommended a small operating cost contingency be included, appropriate for a new and developing mine.

In the longer term, BDA considers that the development of the rail link to Abbot Point coal terminal will be critical to maintaining the full Middlemount production projections and consequently represents some risk to production from Middlemount.

Other than the foregoing identified risks, BDA considers the inherent risks associated with mining have been adequately addressed and there is no evidence of any additional material risks to the ongoing operations. BDA considers that Middlemount management has demonstrated its awareness of potential issues and has planned measures to mitigate or counter such conditions.

5.0 VALUATION OF EXPLORATION PROPERTIES

5.1 Valuation Methodologies

As part of the brief, BDA has been requested to estimate the value of the exploration assets of GCL and Middlemount, to provide a guide as to their contribution to the overall value of the Relevant Assets. BDA has examined each of these properties and has considered the valuation methods that would be most appropriate, given the level of exploration to date, the extent and degree of definition of any identified resources and the stage of development of each. In Annexure C BDA has explained the methodologies available under the Valmin Code for the Technical Assessment and Valuation of Mineral Assets and Securities for Independent Expert Reports as adopted by the Australasian Institute of Mining and Metallurgy in 1995 and as amended and updated in 2005 (the "Valmin Code"). Below BDA has then discussed each of the relevant projects in terms of their status and valuation.

5.2 Gloucester Basin Valuations – GCL ownership 100%

In the case of Gloucester Basin resources that are not part of current 20 year mine plans but are near existing operations and are logical potential extensions to the open cut operations, BDA recommended that Deloitte include these as ongoing and sequential operations in their valuation. For the underground resources a resource multiple approach is utilized. It was assumed that the resources from non-current operations could be considered as exploitable at costs comparable to the existing mines' cash flow models.

Duralie Underground - GCL ownership 100%

The Duralie underground project is outlined in Section 3.3 of this report. Coal Resources total 100Mt, of which 1% are Measured, 40% Indicated and 59% Inferred. Mine planning is at an early stage only. The seam is 10m thick, which presents challenges in terms of underground coal recovery. Coal types are expected to be a split of coking and thermal. Mining method is not yet determined, but is likely to be bord and pillar. BDA considers that the Duralie Underground should be valued by the $/ROM tonne on a risk adjusted resource base as the most appropriate valuation method at this stage, as shown in Table 5.1.

Table 5.1

BDA Valuations of Gloucester Pre-Development Underground Project

Property	Mt Resource	Mt Modelled	Mt Risk Adjusted	100% Value $M	GCL Interest %	GCL Value $M	Upside $M
Duralie Underground UG, coking, thermal	100	15	10	15	100	15	20

Duralie and Stratford Residual Open Cut coal - GCL ownership 100%

At the end of the 20 year modelled Gloucester mining operations, there remains approximately 90Mt of unmined coal resources, based on current resource estimates. BDA considers that this residual coal should be valued on an ongoing mining basis as part of the DCF valuation process for the mine operations.

5.3 Middlemount Exploration Valuation - GCL ownership ~50%

As discussed in Section 5.4, BDA considers that a total production volume in the range of 103Mt ROM coal is appropriate over the life-of-mine. This production will come from the 123 Mt of Resources (including 96 Mt of Reserves).BDA considers that the remaining unmined coal could potentially add approximately 2-3 years to the life of the Middlemount operation, and BDA considers that these resources should be valued on that basis[3].

[3]As part of the DCF valuation process.

6.0 CONCLUSIONS

BDA has assessed the Relevant Assets and has either provided and/or reviewed the technical assumptions and inputs to the Deloitte's valuation. BDA considers that, where financial models have been prepared, the mine plans and schedules of tonnages are supported by reserves and resources that comply with the JORC Code and that the projected costs and productivities are supported by historical performances. BDA considers that the estimates are compatible with experience to date and present reasonable and achievable projections for future operations.

Yours faithfully
BEHRE DOLBEAR AUSTRALIA PTY LIMITED

John S McIntyre
Managing Director

ANNEXURE A

ANNEXURE A: QUALIFICATIONS AND EXPERIENCE

This report has been prepared by Behre Dolbear Australia Pty Ltd, a subsidiary of Behre Dolbear & Company Inc. Behre Dolbear has offices in Denver, New York, Toronto, Guadalajara, Santiago, Sydney, Vancouver and London. The parent company was founded in 1911 and is the oldest continuously operating mineral industry consulting firm in North America. The firm specialises in mineral evaluations, due diligence assessments, independent expert reports and strategic planning as well as technical geological, mining and process consulting.

BDA has undertaken site visits and has reviewed the technical and engineering data. The principal consultants engaged in the review are as follows:

Mr John McIntyre (BE (Min) Hon., FAusIMM, MMICA) is Managing Director of BDA. He is a qualified mining engineer, with over 35 years experience in engineering, operations and management of mines and mining projects, in Australia, New Zealand, the Philippines and Ghana. His principal fields of expertise include technical audits, project feasibility, mine and project evaluation, mine development, open pit and underground operations in base and precious metals and coal, management reviews and operations optimisation. He has held senior management positions, including General Manager of Operations and has been a professional consultant for 20 years.

Dr Rob Yeates (BE (Min) Hon., PhD (Mining), MBA, FAusIMM, MMICA) is a Senior Associate of BDA. He is a qualified mining engineer, with over 35 years experience in engineering, operations and management of mines and mining projects, primarily in Australia and New Zealand. His principal fields of expertise include technical audit, project feasibility and development, mine and project evaluation, operating experience in the open pit and underground mining of coal, coal haulage and transport, ship-loading, management review and operations optimisation. He has held senior management positions, including Managing Director and General Manager of Oakbridge Coal. He is also currently CEO of NCIG.

Mr Ian Poppitt (DipTech. (Geology), M.App.Sc. (Geology), MAusIMM, MGSA) is a Senior Associate of BDA. He is a qualified coal geologist, with over 30 years experience in coal mine geology and exploration in Australia and overseas. His principal fields of expertise include technical audit, resource and reserve estimation and assessment, operating experience in the open cut and underground mining of coal and resource evaluation. He has held senior management positions, including Group General Manager of Cyprus Australia Coal. He is familiar with the latest ore reserve terminology under the JORC Code, effective as at December 2004. He is qualified as a Competent Person under JORC Code protocols.

Dr Ian Blayden (BSc Hon, PhD, MBA. MAusIMM, MMICA, CP(Geo) AIG) is an Associate of BDA with over 35 years experience in exploration, exploration management, prospect assessment, resource audits and the preparation of Independent Experts Reports. Principal areas of experience are resource and reserve assessments of coal, base metals, precious metals and precious stones, as well as geological technical audits and resource and reserve evaluation and determination. Most work has been undertaken in Australia, Indonesia and China, although some projects have been conducted in Ghana, Niger, Algeria, Thailand, Laos, Korea, the Philippines and Mexico.

Mr Adrian Brett (BSc Hons (Geology), MSc (Geotech), M.Envir.Law, MAusIMM) is a Senior Associate of BDA with more than 25 years experience in environmental and geo-science, including the fields of environmental planning and impact assessment, site contamination assessments, environmental audit, environmental law and policy analysis and the development of environmental guidelines and training manuals. He has worked in an advisory capacity with several United Nations and Australian government agencies. He has completed assignments in Australia, Indonesia, Thailand, the Philippines, Africa and South America and has reviewed the environmental aspects of the projects.

Ms Janet Epps (BSc. (Geol), MSc. (Envir)) is a Senior Associate of BDA with more than 30 years experience in specialist environmental and community issues management, policy development and regulatory consultancy services. Ms Epps has worked with the UN, World Bank, the IFC (the Ombudsman's Office of the IFC in Washington) and the Multilateral Investment Guarantee Agency (MIGA), providing policy advice to developing countries on designed projects and contributing towards sustainable development strategies. Ms Epps has been a pioneer in developing the sustainability concept as it relates to the mining industry and she has completed assignments in Australasia, South-East Asia, the Middle East, CIS, Africa and South America. She has worked on numerous UN consultancy projects.

Mr Dick Dunstone (BSc (Tech) Metallurgy, MAusIMM) is a Senior Associate of BDA, Principal of Dunstone Coal Technology and a graduate of the University of NSW in Metallurgy. He has over 30 years experience in the coal industry with experience in coal testing and evaluation from borecores, development of coal preparation plant flowsheets and the commissioning and operation of coal preparation plants. Mr Dunstone has presented papers on coal preparation and coal evaluation at conferences in Australia, India and Brazil and provides coal preparation expertise for mining companies and consultancies.

Mr Peter Ingham (B.Sc. (Min), M.Sc., DIC,GDipAppFin (Sec Inst), CEng, FAusIMM, MIMMM)) is General Manager Mining of BDA and is a graduate mining engineer with more than 25 years in the mining industry in Europe, Africa, Australia and Asia. He has experience in operations management, mining contract management, strategic planning, project assessment and acquisition, cost estimation and operational audits. He is experienced in a range of commodities, including coal, copper, nickel, base metals, gold and platinum, in both surface and underground mining.

ANNEXURE B :SCOPE OF WORK

Deloitte has defined the scope of the services and has requested that Behre Dolbear Australia Pty Limited (BDA) provide the following to assist Deloitte with the preparation of the IER:

BDA to provide input and advice on the appropriateness of the assumptions adopted in the financial models for the Gloucester operations and the Middlemount project, namely:

- the level of reserves and resources
- production profiles (including production profiles for potential expansion cases)
- operating expenditure, including rehabilitation and abandonment costs
- capital expenditure
- any other assumptions BDA considers relevant.

Where an assumption is considered unreasonable, Deloitte will require BDA's assistance in making the necessary changes to the assumption in the financial model.

- provide an opinion as to the value of the exploration assets of Gloucester
- assist with the assessment of the reasonableness of the assumptions for additional development scenarios, in the event that more than one development scenario is considered by Deloitte
- brief report summarising the BDA findings, including opinion as to the fair market value of the exploration assets of Gloucester, and the findings relating to the underlying assumptions for each financial model. The BDA report will form part of the IER prepared by Deloitte and may be provided (in part or full) to Gloucester.

ANNEXURE C :VALUATION METHODOLOGIES

Effective Date

The effective date for any valuation as part of this report is March 2011.

Standards and Procedures

This report has been prepared in keeping with the Valmin Code. Resource and reserve estimation procedures and categorisations have been reviewed in terms of the JORC Code, December 2004.

Valuation Principles

As a general principle, the fair market value of a property as stated in the Valmin Code (Definition 43) is the amount a willing buyer would pay a willing seller in an arm's length transaction, wherein each party acted knowledgeably, prudently and without compulsion.

Valuation Methods

There is no single method of valuation which is appropriate for all situations. Rather, there are several valuation methods, each of which has some merit and is more or less applicable depending on the circumstances. The following are appropriate items to be considered:

- discounted cash flow
- amount an alternative acquirer might be willing to offer
- the amount which could be distributed in an orderly realisation of assets
- the most recent quoted price of listed securities
- the current market price of the asset, securities or company.

The *discounted cash flow* or net present value method is generally regarded as the most appropriate primary valuation tool for operating mines or mining projects close to development. Valuing properties at an earlier stage of exploration where ore reserves, mining and processing methods, and capital and operating costs, are yet to be fully defined, involves the application of alternative methods. The methods generally applied to exploration properties are the *related transaction* or real estate method, the value indicated by *alternative offers* or by *joint venture terms,* and the *past expenditure* method. *Rules of thumb or yardstick values* based on certain industry ratios can be used for both mining and exploration properties. Under appropriate circumstances values indicated by *stock market valuation* should be taken into account as should any *previous independent valuations* of the property.

The valuation methods considered are briefly described below.

Net Present Value (NPV) Method

If a project is in operation, under development, or at a final feasibility study stage and reserves, mining and processing recoveries, and capital and operating costs are well defined, it is generally accepted that the NPV of the project cash flows is a primary component of any valuation study. This does not imply that the fair market value of the project necessarily is the NPV, but rather that the value should bear some defined relationship to the NPV.

If a project is at the feasibility study stage, additional weight has to be given to the risks related to uncertainties in costs and operational performance, risks related to the ability to achieve the necessary finance for the project and sometimes a lower degree of confidence in the reserves and recoveries. In an ongoing operation many of these items are relatively well defined.

The NPV provides a technical value as defined by the Valmin Code (Definition 36). The fair market value could be determined to be at a discount or a premium to the NPV due to other market or risk factors. BDA

considers the NPV or DCF method is not an appropriate method for valuing some of the exploration properties as there are insufficient technical details to derive reliable projections.

In certain circumstances, the NPV method can be applied to the valuation of exploration properties, where those properties are adjacent to an existing or planned mining operation, and there is a reasonable likelihood that mineralisation delineated within the exploration properties could provide a future source of feed to the existing plant. In purchasing such a property, a willing and knowledgeable buyer would be mindful of the opportunity of exploiting mineralisation which may otherwise not be viable and would pay a higher price where this potential was considered high. BDA has considered this approach in assessing a value for the future exploration potential of certain resources by suggesting that they would ultimately be treated by the nearby CHPP, thereby extending the life of the project and providing additional potential cash flows.

Alternative Valuation Methods

Related Transactions
Recent comparable transactions can be relevant to the valuation of projects and tenements. While it is acknowledged that it can be difficult to determine to what extent the properties and transactions are indeed comparable, unless the transactions involve the specific parties, projects or tenements under review, this method can provide a useful benchmark for valuation purposes. The timing of such transactions must be considered as there can be substantial change in value with time.

BDA has considered whether any comparable relevant transactions have taken place in recent years which can be used as a basis for estimation of value of the mining assets assessed herein.

Alternative Offers and Joint Venture Terms
If discussions have been held with other parties and offers have been made on the project or tenements under review, then these values are certainly relevant and worthy of consideration. Similarly, joint venture terms where one party pays to acquire an interest in a project, or spends exploration funds in order to earn an interest, provide an indication of value.

Rules of Thumb or Yardsticks
Certain industry ratios are commonly applied to coal mining projects to derive an approximate indication of value. The most commonly used ratios are dollars per tonne of coal in resources, dollars per tonne of coal in reserves, and dollars per tonne of annual production. The ratios used commonly cover a substantial range which is generally attributed to the 'quality' of the coal, the infrastructure to reach markets and the status of the tonnes estimates. Low cost of production tonnes are clearly worth more than high cost tonnes. Where a project has substantial future potential not yet reflected in the quoted resources or reserves a ratio towards the high end of the range may be justified.

Past Expenditure
Past expenditure, or the amount spent on exploration of a tenement is commonly used as a guide in determining the value of exploration tenements, and 'deemed expenditure' is frequently the basis of joint venture agreements. The assumption is that well directed exploration has added value to the property. This is not always the case and exploration can also downgrade a property and therefore a 'prospectivity enhancement multiplier' ("PEM"), which commonly ranges from 0.5-3.0, is applied to the effective expenditure. The selection of the appropriate multiplier is a matter of experience and judgement. To eliminate some of the subjectivity with respect to this method, BDA applies a scale of PEM ranges as follows to the exploration expenditure:

- PEM 0.5 - 0.9 Previous exploration indicates the area has limited potential
- PEM 1.0 - 1.4 The existing (historical and/or current) data consists of pre-drilling exploration and the results are sufficiently encouraging to warrant further exploration.
- PEM 1.5 - 1.9 The prospect contains one or more defined significant targets warranting additional exploration.
- PEM 2.0 - 2.4 The prospect has one or more targets with significant drill hole intersections.
- PEM 2.5 - 2.9 Exploration is well advanced and infill drilling is required to define a resource.
- PEM 3.0 A resource has been defined but a (recent) pre-feasibility study has not yet been completed.

GCL has provided records of past expenditure and BDA has considered whether past expenditure on the various tenements and projects provides a useful guide to value.

Prospectivity

Over-riding any mechanical or technical valuation method for exploration ground must be recognition of prospectivity and potential, which is the fundamental value in relation to exploration properties.

Market Valuation

On the fundamental definition of value, as being the amount a knowledgeable and willing buyer would pay a knowledgeable and willing seller in an arm's length transaction, it is clear that due consideration has to be given to market capitalisation. In the case of a one project company or a company with one major asset, the market capitalisation gives some guide to the value that the market places on that asset at that point in time, although certain sectors may trade at premiums or discounts to net assets, reflecting a view of future risk or earnings potential. Commonly however a company has several projects at various stages of development, together with a range of assets and liabilities, and in such cases it is not possible to define the value of individual projects in terms of the share price and market capitalisation.

BDA has considered whether the market capitalisation of the companies provides a useful guide to the value of the Project. However, as BDA was valuing only the exploration tenements, this method was not used as a primary guide.

Other Expert Valuations

Where other independent experts or analysts have made recent valuations of the same or comparable properties these opinions clearly need to be reviewed and to be taken into consideration. We have inquired of GCL whether any other recent valuations of the company or its assets have been undertaken and have been advised that the only other recent assessments have been various brokers' reports.

Special Circumstances

Special circumstances of relevance to mining projects or properties can have a significant impact on value and modify valuations which might otherwise apply. Examples could be:

environmental risks - which can result in a project being subject to extensive opposition, delays and possibly refusal of development approvals

indigenous peoples/land rights issues - projects in areas subject to claims from indigenous peoples can experience prolonged delays, extended negotiations or veto

country issues - the location of a project can significantly impact on the cost of development and operating costs and has a major impact on perceived risk and sovereign risk

technical - issues peculiar to an area or orebody such as geotechnical or hydrological conditions, or metallurgical difficulties could affect a project's economics.

BDA has considered whether any such factors apply to the projects and prospects under review.

The BDA valuation does not include any adjustment for the potential future impact of any Carbon Pollution Reduction Scheme.

Contents

1.0 EXECUTIVE SUMMARY 1
1.1 Introduction 1
1.2 BDA Capability and Independence 2
1.3 Scope of Work/Materiality/Limitations and Exclusions 3
1.4 Methodology of Assessment 3
1.5 Inherent Mining Risks 3
2.0 GLOUCESTER COAL LTD OVERVIEW 5
2.1 Summary 5
2.2 Description of Assets 5
2.3 Summary of Resources and Reserves 5
2.4 Saleable Coal Projections 8
2.5 Operating Costs 8
2.6 Capital Costs 8
2.7 Risks 9
2.8 Sensitivity Analysis 9
3.0 GLOUCESTER BASIN OPERATIONS AND PROJECTS 11
3.1 Geological Setting - Gloucester Basin 11
3.2 GCL Coal Resources and Reserve Estimates 14
3.3 Duralie Mine 15
3.4 Stratford Open Cut Mine 21
3.5 Gloucester Exploration Projects 25
3.6 Stratford Coal Handling and Preparation Plant 26
3.7 Capital and Operating Cost 27
3.8 Infrastructure Capacity 27
3.9 Forecast Production 28
4.0 MIDDLEMOUNT COAL PROJECT 29
4.1 Middlemount Introduction 29
4.2 Middlemount Project Description 29
4.3 Middlemount Geology 29
4.4 Exploration 30
4.5 Coal Resources and Reserve Estimates 30
4.5 Opencut Mining 32
4.6 Coal Preparation and Handling 32
4.7 Capital and Operating Costs 33
4.8 Environmental Aspects 33
4.9 Infrastructure 34
4.10 Middlemount Forecast Production 34
4.11 Risks 34
5.0 VALUATION OF EXPLORATION PROPERTIES 35
5.1 Valuation Methodologies 35
5.2 Gloucester Basin Valuations – GCL ownership 100% 35
5.3 Middlemount Exploration Valuation - GCL ownership ~50% 35
6.0 CONCLUSIONS 36
ANNEXURE A :QUALIFICATIONS AND EXPERIENCE 1
ANNEXURE B : SCOPE OF WORK 1
ANNEXURE C : VALUATION METHODOLOGIES 2

Appendix 7: Sources of information

In preparing this report we have had access to the following principal sources of information:

- draft Notice of Meeting prepared by Gloucester dated 16 May 2011
- the ASX announcement released by Gloucester in relation to the Proposed Transactions dated 16 May 2011
- audited financial statements for Donaldson for the calendar years ended 31 December 2005, 2006, 2007, 2008, 2009 and 2010
- audited financial statements for Gloucester for the financial years ended 30 June 2009 and 30 June 2010
- reviewed financial statements for Gloucester for the half year ended 31 December 2010
- Donaldson management information provided in the Donaldson data room
- Gloucester management information
- financial model prepared by the management of Donaldson
- financial model prepared by the management of Gloucester
- independent technical review of the mining projects of Gloucester prepared by BDA
- fiscal effects of "revised offer" Carbon Pollution Reduction Scheme November 2009 prepared by Frontier Economics
- the Policy Transition Group's report to the Australian Government in relation to the Mineral Resource Rent Tax (published December 2010)
- various publicly available media releases relating to the Mineral Resource Rent Tax
- various publicly available media releases relating to the Carbon Pollution Reduction Scheme
- annual reports for comparable companies
- company websites for Gloucester and comparable companies
- publicly available information on comparable companies and market transactions published by ASIC, Thomson Research, Capital IQ, Bloomberg, Thomson Reuters, SDC Platinum and Mergermarket
- other publicly available information, media releases and brokers reports on Gloucester, comparable companies and the coal mining industry/sectors.

In addition, we have had discussions and correspondence with certain directors and executives, including Brendan McPherson, Chief Executive Officer, Gloucester; Tim Crossley, Deputy Chief Executive Office, Gloucester; Craig Boyd, Acting Chief Financial Officer, Gloucester; Kenneth Hodgson, Corporate Accounting Manager, Donaldson; John McIntyre, Managing Director, BDA, and Rob Yeates, Senior Consultant, BDA in relation to the above information and to current operations and prospects.

Appendix 8: Qualifications, declarations and consents

The report has been prepared at the request of the Independent Directors and is to accompany the Notice of Meeting to be given to shareholders for approval of the Proposed Transactions in accordance with Chapter 10 of the Listing Rules. Accordingly, it has been prepared only for the benefit of the Independent Directors and those persons entitled to receive the Notice of Meeting in their assessment of the Proposed Transactions outlined in the report and should not be used for any other purpose. We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Proposed Transactions. This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the APESB.

The report represents solely the expression by Deloitte of its opinion as to whether the Proposed Transactions are fair and reasonable in relation to Chapter 10 of the Listing Rules.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte has relied upon the completeness of the information provided by Gloucester, Donaldson and Monash and their respective officers, employees, agents or advisors which Deloitte believes, on reasonable grounds, to be reliable, complete and not misleading. Deloitte does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to Gloucester management and draft sections of our report were issued to Donaldson and Monash management for confirmation of factual accuracy.

In recognition that Deloitte may rely on information provided by Gloucester, Donaldson and Monash and their respective officers, employees, agents or advisors, Gloucester has agreed that it will not make any claim against Deloitte to recover any loss or damage which Gloucester may suffer as a result of that reliance and that it will indemnify Deloitte against any liability that arises out of either Deloitte's reliance on the information provided by Gloucester, Donaldson and Monash and their respective officers, employees, agents or advisors or the failure by Gloucester, Donaldson and Monash and their respective officers, employees, agents or advisors to provide Deloitte with any material information relating to the Proposed Transactions.

Deloitte also relies on the valuation report prepared by BDA. Deloitte has received consent from BDA for reliance in the preparation of this report.

To the extent that this report refers to prospective financial information we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Deloitte's consideration of this information consisted of enquiries of Gloucester and Donaldson personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the AUASB or equivalent body and therefore the information used in undertaking our work may not be entirely reliable.

Based on these procedures and enquiries, Deloitte considers that there are reasonable grounds to believe that the prospective financial information for Gloucester and Donaldson included in this report has been prepared on a reasonable basis. In relation to the prospective financial information, actual results may be different from the prospective financial information of Gloucester and Donaldson referred to in this report since anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

Deloitte holds the appropriate Australian Financial Services licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employees of Deloitte principally involved in the preparation of this report were Stephen Reid, M App. Fin. Inv., B.Ec, F Fin, CA, Rachel Foley-Lewis, B.Comm., CA, F.Fin., Nicole Vignaroli, M App. Fin. Inv., B.Bus (B&F), BA, F Fin, Peter Lee, BCom (Hons), CA, F Fin., Odette Linnet, Manager, B.Com, Grad.Dip AppFin and Alexandra White, CA, BCom. Stephen and Rachel are Directors and Nicole is an Associate Director of Deloitte. Each have many years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Neither Deloitte, Deloitte Touche Tohmatsu, nor any partner or executive or employee thereof has any financial interest in the outcome of the Proposed Transactions which could be considered to affect our ability to render an unbiased opinion in this report.

Consent to being named in disclosure document

Deloitte Corporate Finance Pty Limited (ACN 003 833 127) of 550 Bourke Street, Melbourne VIC 3000 acknowledges that:

- Gloucester proposes to issue the Notice of Meeting in respect of the Proposed Transactions between Gloucester and Donaldson and Gloucester and Ellemby
- the Notice of Meeting and its accompanying documents will be issued in hard copy and be available in electronic format
- it has previously received a copy of the draft Notice of Meeting (draft Notice of Meeting) and its accompanying documents for review
- it is named in the Notice of Meeting and its accompanying documents as the 'independent expert' and it accompanies the Notice of Meeting.

On the basis that the Notice of Meeting is consistent in all material respects with the draft Notice of Meeting received, Deloitte Corporate Finance Pty Limited consents to it being named in the Notice of Meeting and its accompanying documents in the form and context in which it is so named, to the independent expert's report accompanying the Notice of Meeting and to all references to its independent expert's report in the form and context in which they are included, whether the Notice of Meeting and its accompanying documents, including this independent expert's report, is issued in hard copy or electronic format or both.

Deloitte Corporate Finance Pty Limited has not authorised or caused the issue of the Notice of Meeting and its accompanying documents and takes no responsibility for any part of the Notice of Meeting and its accompanying documents, other than any references to its name and the independent expert's report as included in its accompanying documents.

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GLOUCESTER COAL

Gloucester Coal Ltd
ABN 66 008 881 712

000001 000 GCL
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Gloucester Coal Ltd

Lodge your vote:

By Mail:
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com

For all enquiries call:
(within Australia) 1300 850 505
(outside Australia) +61 3 9415 4000

Proxy Form

For your vote to be effective it must be received by 9.30am (AEST) on Wednesday, 6 July 2011

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of Gloucester Coal Ltd.

Signing Instructions

Individual: Where the holding is in one name, the securityholder must sign.
Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.
Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

Turn over to complete the form ➔

View your securityholder information, 24 hours a day, 7 days a week:
www.investorcentre.com

☑ **Review your securityholding**
☑ **Update your securityholding**

Your secure access information is:

SRN/HIN: I9999999999

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with '**X**') should advise your broker of any changes.

I 9999999999 I ND

Proxy Form

Please mark ☒ to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Gloucester Coal Ltd hereby appoint

☐ **the Chairman of the meeting** **OR** _____

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the General Meeting of Gloucester Coal Ltd to be held at the offices of Minter Ellison on Level 23 at the Rialto Towers, 525 Collins Street, Melbourne on Friday, 8 July 2011 at 9.30am and at any adjournment of that meeting.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

		For	Against	Abstain
Resolution 1	To approve the proposed acquisition of the Donaldson Group	☐	☐	☐
Resolution 2	To approve the Marketing Arrangements	☐	☐	☐
Resolution 3	To approve the proposed acquisition of the Monash Group	☐	☐	☐
Resolution 4	To approve the modification of the Constitution	☐	☐	☐
Resolution 5	To approve Financial assistance	☐	☐	☐

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1	**Securityholder 2**	**Securityholder 3**
Sole Director and Sole Company Secretary	**Director**	**Director/Company Secretary**

Contact Name _____ **Contact Daytime Telephone** _____ **Date** / /