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Release of Explanatory Booklet

Gloucester Coal Ltd (ASX:GCL) ("Gloucester") announces that the Australian Securities and Investments Commission ("ASIC") has registered the Explanatory Booklet in relation to the previously announced scheme of arrangement for the proposed merger of Gloucester and Yancoal Australia Limited ("Scheme"). Printed copies of the Explanatory Booklet will be mailed to Gloucester shareholders shortly. A copy of the Explanatory Booklet accompanies this announcement.

The Explanatory Booklet includes an independent expert's report, prepared by Deloitte Corporate Finance Pty Ltd ("Deloitte"), which has assessed the fair market value of a Gloucester share on a control basis as being between A\$8.90 to A\$9.65 per share. This compares to the value of the combined scrip and cash to be provided to Gloucester shareholders of between A\$9.35 and A\$9.48 (including the value of a CVR share, the capital return of \$2.71 per share and the special dividend of \$0.44 per share, as more fully described in the Explanatory Booklet). Accordingly, Deloitte has concluded that, in the absence of a superior proposal, the proposed Scheme is fair and reasonable and therefore is in the best interests of those Gloucester Shareholders who receive CVR shares as part of their Scheme consideration.

Meeting details

The Scheme Meeting will be held at 10.00am on Monday, 4 June 2012 at Minter Ellison Lawyers, Level 19, Aurora Place, 88 Phillip Street, Sydney, New South Wales. The Scheme Meeting will immediately be followed by a General Meeting to approve a resolution dealing with the proposed capital return.

All shareholders are encouraged to vote either by attending these meetings in person, or by lodging a proxy vote by 11.00am on Saturday, 2 June 2012.

Directors' recommendation

The Gloucester board of directors unanimously recommends that Gloucester shareholders vote in favour of the Scheme and the capital return resolution at the upcoming meetings, in the absence of a superior proposal. Subject to that same qualification, the Gloucester directors intend to vote all Gloucester Shares held or controlled by them in favour of the Scheme and the capital return resolution.

For Further Information

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Explanatory Booklet

For a scheme of arrangement in relation to the proposed merger of Gloucester Coal Ltd and Yancoal Australia Limited

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The Notice of Scheme Meeting and the Notice of General Meeting are included in Appendices 4 and 5 respectively to this Explanatory Booklet. A proxy form for the Meetings accompanies this Explanatory Booklet. The Meetings will be held on Monday, 4 June 2012 at Minter Ellison Lawyers, Level 19, Aurora Place, 88 Phillip Street, Sydney New South Wales commencing at 10.00am.

VOTE IN FAVOUR

YOUR VOTE IS IMPORTANT IN DETERMINING WHETHER THE MERGER PROPOSAL AND CAPITAL RETURN PROCEED.

YOUR DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU VOTE IN FAVOUR OF THE MERGER PROPOSAL AND CAPITAL RETURN, IN THE ABSENCE OF A SUPERIOR PROPOSAL.

This is an important document and requires your urgent attention. If you are in any doubt as to how to deal with it, please consult your legal, financial, taxation or other professional adviser immediately.

If, after reading this Explanatory Booklet, you have any questions about the Merger Proposal or the Capital Return, please call the Gloucester Shareholder Information Line on 1300 368 646 (within Australia) or +61 3 9415 4161 (outside Australia) Monday to Friday between 9.00am and 5.00pm (Sydney time).

If you have recently sold all of your Gloucester Shares, please disregard all enclosed documents.

Financial Adviser

LAZARD

Legal Adviser

MinterEllison |
LAWYERS

OVERVIEW OF THIS EXPLANATORY BOOKLET

What is this Explanatory Booklet for?

This Explanatory Booklet has been sent to you to help you understand the terms of a proposal to merge Gloucester Coal Ltd (**Gloucester**) and Yancoal Australia Limited (**Yancoal Australia**). If the Merger Proposal proceeds, all of your Gloucester Shares will be acquired by Yancoal Australia in exchange for new securities in Yancoal Australia to be quoted on ASX.

The Merger Proposal is to be undertaken through a scheme of arrangement between Gloucester and its Shareholders (**Scheme**). In this Explanatory Booklet, the terms 'Merger Proposal' and 'Scheme' are used interchangeably. The Merger Proposal is subject to Gloucester Shareholders' approval, so this Explanatory Booklet includes information relevant to your decision as a Gloucester Shareholder whether to approve the Merger Proposal.

This Explanatory Booklet also contains information to help you understand the terms of a separately proposed Capital Return, as well as a proposed Special Dividend. The proposed Capital Return requires a separate approval of Gloucester Shareholders.

Why should you vote?

As a Gloucester Shareholder, you have a say in whether or not the Merger Proposal and the Capital Return proceed. These transactions will not proceed unless they are approved by Gloucester Shareholders – this is your opportunity to play a role in deciding the future of the business in which you have a stake.

WHAT YOU SHOULD DO NEXT

Read this Explanatory Booklet

This Explanatory Booklet contains information that is material to your decision whether or not to vote in favour of the Merger Proposal and the Capital Return. Accordingly, you should read and carefully consider the information in this Explanatory Booklet to help you make an informed voting decision.

Gloucester Shareholders should refer in particular to Section 5 for guidance on the expected advantages, possible disadvantages and other considerations relevant to the Merger Proposal and the Capital Return, as well as to Section 9 for guidance on the risk factors associated with the Merger Proposal. Answers to some frequently asked questions are included in Section 2.

This Explanatory Booklet does not take into account the financial situation, investment objectives and particular needs of any Gloucester Shareholder. If you have any queries in relation to how the Merger Proposal, Special Dividend and Capital Return may affect your specific financial situation, investment objectives or other particular needs, you should consult your legal, financial, taxation or other professional adviser before making any decision in relation to your Gloucester Shares and how to vote at the Meetings referred to below.

Consider what consideration you wish to receive and, if appropriate, make an election

The standard or 'default' consideration for your Gloucester Shares is one Yancoal Australia Ordinary Share plus a fraction of one CVR Share for each Gloucester Share you hold as at the Scheme Record Date. However, steps have been taken to maximise the opportunity for Gloucester Shareholders other than Noble to receive (in addition to Yancoal Australia Ordinary Shares), should they wish, up to one CVR Share for each of their Gloucester Shares. **If you wish to receive the default consideration of a combination of Yancoal Australia Ordinary Shares and CVR Shares, you do not need to make any election.**

'All Ordinary Shares' Election Form – if you instead wish to receive only one Yancoal Australia Ordinary Share for each Gloucester Share you hold, you must sign and complete the 'All Ordinary Shares' Election Form enclosed with this Explanatory Booklet and return it to the Gloucester Share Registry before 5.00pm (Sydney time) on Thursday, 7 June 2012. See Section 11.4 for further information on completing and lodging the 'All Ordinary Shares' Election Form.

Gloucester's Directors recommend that all Shareholders (other than Noble) **do not** lodge an 'All Ordinary Shares' Election Form, so that they will receive CVR Shares in addition to Yancoal Australia Ordinary Shares under the Scheme.

Small Shareholder Cash Election Form – if you hold 200 or less Gloucester Shares, you can elect to have the Yancoal Securities you would otherwise receive sold for you and receive the net sale proceeds.

If you wish to do this, you must sign and complete the Small Shareholder Cash Election Form enclosed with this Explanatory Booklet and return it to the Gloucester Share Registry before 5.00pm (Sydney time) on Thursday, 7 June 2012. See Section 11.4 for further information on completing and lodging the Small Shareholder Cash Election Form.

Vote at the Scheme Meeting and the General Meeting

As a Gloucester Shareholder, it is your right to vote on whether the Merger Proposal and the Capital Return should proceed.

You can vote at the Scheme Meeting (which relates to the Merger Proposal) and the General Meeting (which relates to the Capital Return):

- by proxy, using the enclosed proxy form which relates to both Meetings; or
- in person, by attending the Meetings to be held on Monday, 4 June 2012 at Minter Ellison Lawyers, Level 19, Aurora Place, 88 Phillip Street, Sydney, New South Wales, commencing at 10.00am.

If you vote by proxy, your proxy form must be received by the Gloucester Share Registry (whether in person, by mail or by fax) by 11.00am (Sydney time) on Saturday, 2 June 2012, for your vote to be counted.

Further information relating to voting is contained in Section 4, in the notices of meetings in Appendices 4 and 5 and in the proxy form for the Meetings which accompany this Explanatory Booklet.

Is the Merger Proposal in the best interests of Gloucester Shareholders?



The Independent Expert has concluded that, in the absence of a Superior Proposal, the Scheme is **FAIR AND REASONABLE** and in the **BEST INTERESTS** of those Gloucester Shareholders who receive CVR Shares as part of their Scheme Consideration. The Independent Expert's Report is included in Appendix 1 to this Explanatory Booklet.

What do the Gloucester Directors Recommend?



Your Directors **UNANIMOUSLY RECOMMEND** that you vote **IN FAVOUR OF** the Scheme and the Capital Reduction Resolution, in the absence of a Superior Proposal. Your Directors intend to vote all Gloucester Shares they hold or control **IN FAVOUR OF** the Scheme and the Capital Reduction Resolution, in the absence of a Superior Proposal.

Shareholder information line

If, after reading this Explanatory Booklet, you have any questions about the Merger Proposal or the Capital Return, please call the Gloucester Shareholder Information Line on **1300 368 646** (within Australia) or **+61 3 9415 4161** (outside Australia) Monday to Friday between 9.00am and 5.00pm (Sydney time).

Your Directors recommend that you consult your legal, financial, taxation or other professional adviser concerning the impact your decision may have on your own circumstances.

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IMPORTANT DATES AND TIMES

All references to time in this Explanatory Booklet are references to the time in Sydney, Australia unless otherwise stated.

Event	Date (and time)
First Court Hearing at which the Court made orders convening the Scheme Meeting	Friday, 27 April 2012
Last time and date by which the proxy form for the Scheme Meeting and the General Meeting must be received by the Gloucester Share Registry (whether in person, by mail or by fax)	11.00am on Saturday, 2 June 2012 Accordingly, if you intend to mail or hand deliver your proxy form, it must be received by the Gloucester Share Registry by close of business on Friday, 1 June 2012
Time and date for determining eligibility to vote at the Scheme Meeting and the General Meeting	12.00 noon on Saturday, 2 June 2012
Scheme Meeting to vote on the Merger Proposal	10.00am on Monday, 4 June 2012
General Meeting to vote on the Capital Return	11.00am on Monday, 4 June 2012 or as soon as reasonably practicable after the Scheme Meeting has concluded or been adjourned (whichever time is later)
<p>All dates and times in the remainder of this timetable are indicative only and, among other things, are subject to all necessary approvals from the Court and Regulatory Authorities. Any changes to the remainder of this timetable (which may include an earlier or later date for the Second Court Hearing) will be announced through ASX and notified on Gloucester's website at www.gloucestercoal.com.au.</p>	
Election Date: last time and date by which 'All Ordinary Shares' Election Forms ¹ and Small Shareholder Cash Election Forms ² can be lodged	5.00pm on Thursday, 7 June 2012
<p>1 Only relevant for those Gloucester Shareholders who wish to receive 100% of their Scheme Consideration in the form of Yancoal Australia Ordinary Shares. Gloucester Shareholders who wish to receive a portion of their Scheme Consideration in the form of CVR Shares, which is the option the Directors recommend, should ignore the 'All Ordinary Shares' Election Form.</p> <p>2 Only relevant for Gloucester Shareholders who hold 200 or less Gloucester Shares and who wish to receive the net sale proceeds of the Yancoal Securities to which they would otherwise be entitled.</p>	
Second Court Hearing to obtain orders approving the Scheme	Friday, 8 June 2012
Special Dividend authorised*	Friday, 8 June 2012
Gloucester Shares trade 'ex' entitlement to Capital Return and Special Dividend	10.00am on Thursday, 14 June 2012
Record date for Capital Return and Special Dividend*: time and date for determining entitlements to the Capital Return and Special Dividend*	7.00pm on Wednesday, 20 June 2012
Payment of the Capital Return (by issuance of Promissory Notes to the Trustee)*	On or about Thursday, 21 June 2012
Payment of the Special Dividend*	On or about Thursday, 21 June 2012
Effective Date of the Scheme	Friday, 22 June 2012
Suspension of trading in Gloucester Shares on ASX	4.00pm on Friday, 22 June 2012
Commencement of trading on ASX of Yancoal Australia Ordinary Shares and CVR Shares, initially on a deferred settlement basis	10.00am on Monday, 25 June 2012
Scheme Record Date: time and date for determining entitlements to Scheme Consideration	7.00pm on Friday, 29 June 2012
Implementation Date: transfer of Gloucester Shares to Yancoal Australia, issue of Yancoal Australia Ordinary Shares and CVR Shares to Scheme Shareholders	Tuesday, 3 July 2012
Expected date of dispatch of holding statements for Yancoal Australia Ordinary Shares and CVR Shares (end of deferred settlement trading and commencement of normal trading in Yancoal Australia Ordinary Shares and CVR Shares)	On or before Tuesday, 10 July 2012
Payment of Promissory Notes by Gloucester to Trustee and payment by the Trustee of an amount in aggregate equal to the Capital Return Amount to persons registered as Gloucester Shareholders as at the Capital Return Record Date	Thursday, 3 January 2013

* Determination subject to the resolution of the Directors

IMPORTANT NOTICES

General

You should read the whole of this Explanatory Booklet before making a decision on how to vote on the resolutions to be considered at the Scheme Meeting and the General Meeting. The notices convening the Scheme Meeting and General Meeting are contained in Appendices 4 and 5 respectively. A single proxy form for both Meetings, an 'All Ordinary Shares' Election Form and a Small Shareholder Cash Election Form are enclosed with this Explanatory Booklet.

Defined terms

Capitalised terms in this Explanatory Booklet are defined either in the Glossary in Section 16 of this Explanatory Booklet or where the relevant term is first used.

Purpose of this Explanatory Booklet

The purposes of this Explanatory Booklet are to:

- explain the terms and effect of the Scheme and the Capital Reduction Resolution to Gloucester Shareholders;
- explain the manner in which the Scheme and the Capital Reduction Resolution will be considered and, if approved, implemented;
- state any material interests of the Directors, whether as directors, members or creditors of Gloucester or otherwise, and the effect on those interests of the Scheme as far as that effect is different from the effect on similar interests of other persons; and
- provide such information as is prescribed by the Corporations Act and the regulations to that Act or as is otherwise material to the decision of Gloucester Shareholders whether to approve the Scheme and the Capital Reduction Resolution.

This Explanatory Booklet (other than Appendices 3, 4, 5 and 7) constitutes the explanatory statement for both the Scheme and the Capital Reduction, as required by sections 412(1) and 256C(4) respectively of the Corporations Act.

No financial product advice

The information contained in this Explanatory Booklet is not financial product or investment advice nor a recommendation in respect of Gloucester Shares, Yancoal Australia Ordinary Shares or CVR Shares. This Explanatory Booklet has been prepared without taking into account your investment objectives, financial situation, taxation position or other particular needs. Before deciding how to vote or act, Gloucester Shareholders and others should consider the appropriateness of the information having regard to their own investment objectives, financial situation, taxation position and other particular needs and seek legal, taxation and financial advice appropriate to their jurisdiction and circumstances. Neither Gloucester nor Yancoal Australia is licensed to provide financial product advice in respect of Gloucester Shares, Yancoal Australia Ordinary Shares, CVR Shares or any other financial products. A cooling-off regime (whether the regime is provided by law or otherwise) does not apply to the acquisition of Yancoal Australia Ordinary Shares or CVR Shares under the Merger Proposal.

Responsibility for information

The Yancoal Australia Information contained in this Explanatory Booklet has been prepared by and is the responsibility of Yancoal Australia. Gloucester does not assume any responsibility for the accuracy or completeness of the Yancoal Australia Information.

The Joint Information contained in this Explanatory Booklet has been prepared by and is the joint responsibility of Gloucester and Yancoal Australia.

Minter Ellison has prepared the general outline of taxation implications of the Merger Proposal in Section 10 and takes responsibility for that Section.

Deloitte Corporate Finance Pty Limited has prepared the Independent Expert's Report in relation to the Merger Proposal in Appendix 1 and takes responsibility for that report.

ShineWing Hall Chadwick has prepared the Investigating Accountant's Report in relation to the pro forma financial information for the Merged Group in Appendix 2 and takes responsibility for that report.

Other than in respect of the information identified above, the information contained in the remainder of this Explanatory Booklet has been prepared by Gloucester and its advisers and is the responsibility of Gloucester. Yancoal Australia does not assume responsibility for the accuracy or completeness of any part of this Explanatory Booklet other than the Yancoal Australia Information and the Joint Information.

Gloucester Shareholders outside Australia and New Zealand

This Explanatory Booklet has been prepared having regard to Australian disclosure requirements. These requirements may be different from those in other jurisdictions. This Explanatory Booklet and the Scheme do not in any way constitute an offer of securities in any place in which, or to any person to whom, it would not be lawful to make such an offer.

Restrictions in jurisdictions outside Australia and New Zealand may make it impractical or unlawful for Yancoal Securities to be issued under the Scheme to, or be received under the Scheme by, Gloucester Shareholders in those jurisdictions. Gloucester Shareholders whose registered addresses in the Gloucester Share Register are outside Australia or New Zealand should refer to Section 12.5(f) for more information as to whether they are considered to be Foreign Scheme Shareholders and, if so, how the Yancoal Securities to which they would otherwise be entitled will be dealt with.

Gloucester Shareholders resident outside Australia for tax purposes should also seek specific taxation advice in relation to the Australian and overseas taxation implications of their participation in the Scheme and the Capital Return.

Gloucester Shareholders resident in New Zealand

The offer of Yancoal Securities to New Zealand resident Gloucester Shareholders will be made in reliance on the Securities Act (Overseas Companies) Exemption Notice 2002. Therefore, Yancoal Australia is not required to register a New Zealand prospectus or prepare and distribute a New Zealand investment statement to New Zealand resident Gloucester Shareholders in respect of the offer of Yancoal Securities.

Gloucester Shareholders resident in the United Kingdom

This Explanatory Booklet has not been approved by a person authorised under the United Kingdom Financial Services and Markets Act 2000 (**FSMA**) and its distribution in the United Kingdom is only being made to persons in circumstances that will not constitute a financial promotion for the purposes of section 21 of the FSMA as a result of exemptions contained in the FSMA (Financial Promotion) Order 2005 (**Exempted Persons**).

This Explanatory Booklet must not be relied on by any person who is not an Exempted Person and any investment or investment activity to which this document relates is available only to Exempted Persons.

This Explanatory Booklet must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person. If a recipient is in doubt about the contents of this Explanatory Booklet, the recipient should consult a person authorised by the Financial Services Authority under the FSMA, who specialises in advising on the acquisition of investments.

This Explanatory Booklet is exempt from the restrictions in the FSMA as it is to be strictly communicated only to the following persons: (i) 'investment professionals' as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (**Order**); (ii) persons who fall within any of the categories of persons described in Articles 49(2)(a) to (e) of the Order (high net worth entities); or (iii) other persons to whom it may be lawfully communicated.

In relation to 'investment professionals', this Explanatory Booklet is only directed at persons having professional experience in matters relating to investments and any investment activity to which it relates is only available to such persons (who broadly only include certain persons specifically regulated under FSMA).

Any persons who do not have such professional experience in matters relating to investments (and who are not exempt high net worth entities) should not review this Explanatory Booklet or rely on anything contained therein and are requested to return it to the person who made it available to them.

In relation to persons described under Articles 49(2)(a) to (e) of the Order, this Explanatory Booklet is only directed at and available to such high net worth entities and persons of any other description (other than investment professionals) should not act on it.

Gloucester Shareholders resident in Hong Kong

WARNING

The contents of this Explanatory Booklet have not been reviewed or approved by any regulatory authority in Hong Kong. Recipients are advised to exercise caution in relation to any offer of the Yancoal Securities by Yancoal Australia. If recipients are in any doubt about any of the contents of this document, they should obtain independent professional advice.

The Yancoal Securities have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document other than:

- i. to 'professional investors' as defined in the Securities and Futures Ordinance (Cap. 571) in Hong Kong and any rules made under that ordinance; or
- ii. in other circumstances which do not result in the document being a 'prospectus' as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that ordinance.

Further, no person shall issue or have in its possession for the purpose of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Yancoal Securities, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Yancoal Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to

'professional investors' as defined in the Securities and Futures Ordinance (Cap. 571) and any rules made under that ordinance.

The information relating to the offering contained herein may not be used other than by the person to whom it is addressed and may not be reproduced in any form or transferred to any person in Hong Kong.

This offering is not an offer for sale to the public in Hong Kong and it is not the intention of Gloucester and Yancoal Australia that the Yancoal Securities be offered for sale to the public in Hong Kong.

Gloucester Shareholders resident in the United States

This Explanatory Booklet is neither an offer to sell nor a solicitation of an offer to buy securities as such terms are defined under the U.S. Securities Act of 1933, as amended (the **Securities Act**). The Yancoal Securities to be issued under the Scheme have not been and will not be registered under the Securities Act.

Gloucester and Yancoal Australia intend to rely on an exemption from the registration requirements of the Securities Act provided by Section 3(a)(10) of that Act in connection with the implementation of the Scheme and the issue of Yancoal Securities. Approval of the Scheme by the Court will be relied on by Gloucester and Yancoal Australia for the purpose of qualifying for the Section 3(a)(10) exemption.

None of the Securities and Exchange Commission (**SEC**), any U.S. state securities commission or any other U.S. regulatory authority has passed comment on or endorsed the merits of the Scheme or the accuracy, adequacy or completeness of this Explanatory Booklet. Any representation to the contrary may be a criminal offence.

The Scheme involves the securities of Yancoal Australia, a non-U.S. company. The Scheme is subject to disclosure requirements under Australian law that are different from those of the United States. Financial information included in this Explanatory Booklet has been prepared in accordance with IFRS that may not be comparable to the financial statements and financial information provided by U.S. companies.

It may be difficult for Gloucester Shareholders resident in the United States to enforce their rights and any claim they may have arising under U.S. Federal or state securities laws. Gloucester and Yancoal Australia are incorporated in Australia and some or all of their respective officers and directors are residents of Australia. Gloucester Shareholders resident in the United States may not be able to sue an Australian company or its officers or directors in an Australian court for violations of U.S. securities laws. It may be difficult to compel an Australian company and its affiliates to subject themselves to a U.S. court's judgment.

This Explanatory Booklet includes pro forma historical financial information, which may not comply with Article 11 of Regulation S-X of the SEC. Under Article 11, pro forma income statements must be presented assuming the Scheme has been consummated at the beginning of the first fiscal year presented and may only include adjustments which give effect to events that are (i) directly attributable to the transaction; (ii) expected to have a continuing impact on the entity; and (iii) factually supportable.

Many of the pro forma adjustments made in arriving at the pro forma historical financial information included in this Explanatory Booklet would not be permissible under the SEC's rules and regulations on pro forma financial presentations.

IMPORTANT NOTICES (CONTINUED)

In addition, this Explanatory Booklet contains certain financial data that are 'non-GAAP financial measures' under Regulation G of the SEC. For example, this Explanatory Booklet includes EBIT (earnings before interest and taxation) and EBITDA (earnings before interest, taxation, depreciation and amortisation) data. Gloucester and Yancoal Australia believe that these non-GAAP financial measures provide useful information, as it permits shareholders to examine the underlying financial performance and operating performance of their businesses. These measures are not measures of, or defined terms of, financial performance, liquidity or value under IFRS or U.S. GAAP, and the disclosure of such non-GAAP financial measures in the manner included in this Explanatory Booklet would not be permissible in a registration statement under the Securities Act. Moreover, certain of these measures may not be comparable to similarly titled measures of other companies.

Further, this Explanatory Booklet uses the terms 'Resources' and 'Measured, Indicated and Inferred Resources'. Gloucester Shareholders resident in the United States are advised that while such terms are recognised and required by the JORC Code (use of which is mandated by ASX), the SEC does not recognise them. Gloucester Shareholders resident in the United States are cautioned not to assume that all or any part of Resources, including Measured, Indicated and Inferred Resources, will ever be converted into Reserves. Gloucester Shareholders resident in the United States are also cautioned not to assume that all or any part of the Resources and Reserves estimates exist, or are economically or legally mineable.

Mining companies that file registration statements or periodic reports with the SEC are required to report their reserves in accordance with SEC Industry Guide 7. The reporting requirements under the JORC Code and SEC Industry Guide 7 are different in certain material respects. In particular, SEC Industry Guide 7 does not recognise the classification referred to as 'Resources' in the JORC Code. As a result, SEC registrants are permitted only to report proven and probable reserves, and not resources.

Gloucester Shareholders resident in Singapore

The offer of Yancoal Securities is made in reliance on the exemption under Section 272B of the Securities and Futures Act, Chapter 289 of Singapore (**SFA**), and is not made in or accompanied by a prospectus that is registered by the Monetary Authority of Singapore (**Authority**). Conversely, this Explanatory Booklet has not been and will not be registered as a prospectus with the Authority. Accordingly, this Explanatory Booklet or material in connection with the Merger Proposal, offer or sale, or invitation for subscription or purchase, of new shares and entitlements may not be circulated or distributed, nor may new shares and entitlements be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to more than 50 persons in Singapore in accordance with the conditions of Section 272B of the SFA.

ASIC and ASX

A copy of this Explanatory Booklet has been provided to ASIC for the purpose of sections 256C(5) and 411(2) of the Corporations Act, and registered by ASIC for the purpose of section 412(6) of the Corporations Act.

ASIC has examined a copy of this Explanatory Booklet. ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Scheme. If ASIC provides that statement, it will be produced to the Court at the time of the Court hearing to approve the Scheme. The Scheme has not been proposed by Gloucester or

Yancoal Australia for the purpose of enabling any person to avoid the operation of any of the provisions of Chapter 6 of the Corporations Act.

Neither ASIC nor any of its officers takes any responsibility for the contents of this Explanatory Booklet.

A copy of this Explanatory Booklet has been provided to ASX. Neither ASX nor any of its officers takes any responsibility for the contents of this Explanatory Booklet.

Important notice associated with Court order under section 411(1) of the Corporations Act

A copy of this Explanatory Booklet has been submitted to the Court to obtain an order of the Court under section 411(1) of the Corporations Act approving the convening of the Scheme Meeting. That order was obtained at the First Court Hearing on Friday, 27 April 2012. The fact that the Court has ordered that a meeting of Gloucester Shareholders be convened by Gloucester to consider and vote on the Scheme and has approved this Explanatory Booklet does not mean that the Court:

- (a) has formed any view as to the merits of the proposed Scheme or as to how Gloucester Shareholders should vote (on this matter Gloucester Shareholders must reach their own decision); or
- (b) has prepared, or is responsible for, the content of this Explanatory Booklet.

Forward looking statements

Certain statements in this Explanatory Booklet are about future matters, including forward looking statements. These forward looking statements and information, including statements and information relating to the Merged Group and the transactions contemplated by the Merger Proposal Deed, are not based solely on historical facts, but rather reflect the current expectations of Gloucester or, in relation to the Yancoal Australia Information, Yancoal Australia, concerning future results, events or other matters. These statements may sometimes be identified by the use of forward looking words or phrases such as 'if', 'when', 'believe', 'aim', 'will', 'expect', 'anticipate', 'intend', 'foresee', 'likely', 'should', 'could', 'plan', 'may', 'estimate', 'budget', 'forecast', 'envisage', 'target', 'potential' or other similar words or phrases. Similarly, statements that describe Gloucester's or Yancoal Australia's objectives, plans, goals or expectations, estimates of Reserves and Resources, future costs, production, transport capacity and expenditure are or may be forward looking statements.

The statements contained in this Explanatory Booklet about the impact that the Merger Proposal may have on the results of Gloucester's operations, the expected advantages and potential disadvantages of the Merger Proposal are also forward looking statements.

These forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, or the Merged Group, to be materially different from future results, performance or achievements expressed or implied by such statements. Such statements and information are based on numerous assumptions regarding present and future business strategies and the environment in which Gloucester, Yancoal Australia and the Merged Group will operate in the future, including the price of coal, anticipated costs and ability to achieve goals. Certain important factors that could cause actual results, performance or achievements to differ materially from those in the forward looking statements include, among others, coal price

volatility, discrepancies between actual and estimated production, mineral Reserves and Resources and metallurgical recoveries, mining operational and development risk, litigation risks, regulatory restrictions (including environmental regulatory restrictions and liability), activities by governmental authorities (including changes in taxation), currency fluctuations, the speculative nature of coal exploration, the global economic climate, dilution, share price volatility, competition, loss of key employees, additional funding requirements and defective title to mineral claims or property. See Section 9 for a discussion of potential risk factors underlying, and other information relevant to, the forward looking statements and information. Forward looking statements and information should, therefore, be construed in light of such risk factors and undue reliance should not be placed on them.

You should note that the historical performance of Gloucester and Yancoal Australia is no assurance of their or the Merged Group's future financial performance. None of Gloucester, Yancoal Australia, their respective related bodies corporate, their respective directors, nor any other person gives any representation, assurance or guarantee that the occurrence of the results or events expressed or implied in any forward looking statements and information in this Explanatory Booklet will actually occur.

The forward looking statements and information in this Explanatory Booklet reflect views held only at the date of this Explanatory Booklet.

Subject to any continuing obligations under law, Gloucester, Yancoal Australia, their respective related bodies corporate, and their respective directors disclaim any obligation or undertaking to disseminate after the date of this Explanatory Booklet any updates or revisions to any forward looking statements and information to reflect any change in expectations in relation to them or any change in the events, conditions or circumstances on which they are based.

Mineral Reserves and Resources

Reserves and Resource estimates contained in this Explanatory Booklet are stated to the JORC Code and are expressions of judgement based on knowledge, experience and industry practice. Although Reserves and Resources estimates contained in this Explanatory Booklet comply with the JORC Code, they may not comply with the relevant guidelines in other countries. Please refer to Section 9.3.1(c) for further limitations and risks associated with the Reserves and Resource estimates contained in this Explanatory Booklet.

Maps and diagrams

Any diagrams and maps appearing in this Explanatory Booklet are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in charts, maps, graphs and tables is based on information available at the date of this Explanatory Booklet.

Rounding of numerical information

Any discrepancies between totals in tables and sums of components contained in this Explanatory Booklet and between those figures and figures referred to in other parts of this Explanatory Booklet are due to rounding. Except as otherwise stated, all rounded numbers have been rounded either to one decimal place or to the nearest whole number.

Privacy and personal information

Gloucester and Yancoal Australia will need to collect personal information to implement the Merger Proposal. Such information may include the name, contact details and security holding of Gloucester Shareholders, and the name of persons appointed by Gloucester Shareholders to act as proxy, corporate representative or attorney at either or both of the Meetings. The primary purpose of collection of the personal information is to assist Gloucester in the conduct of the Meetings and to enable the Scheme to be implemented by Gloucester in the manner described in this Explanatory Booklet. Without this information, Gloucester may be hindered in its ability to carry out these purposes to full effect. The collection of certain personal information is authorised by the Corporations Act.

Personal information may be disclosed to the Gloucester Share Registry, print and mail service providers, authorised securities brokers and to related bodies corporate of Gloucester and the parties to the Merger Proposal Deed.

Gloucester Shareholders have certain rights to access personal information that has been collected. Gloucester Shareholders should contact Gloucester's company secretary in the first instance, if they wish to request access to their personal information.

Gloucester Shareholders who appoint a named person to act as their proxy, corporate representative or attorney at either or both of the meetings should ensure that they inform that person of the matters outlined above.

No internet site is part of this Explanatory Booklet

Gloucester and Yancoal Australia each maintain internet sites at www.gloucestercoal.com.au and www.yancoal.com.au respectively. Any references in this Explanatory Booklet to those or other internet sites are for information purposes only and do not form part of this Explanatory Booklet.

Date of Explanatory Booklet

This Explanatory Booklet is dated 27 April 2012.

LETTER FROM THE CHAIRMAN OF GLOUCESTER COAL LTD

27 April 2012

Dear Gloucester Shareholder,

Proposed merger with Yancoal Australia Limited

I am pleased to present to you the exciting proposal for the merger of Gloucester and Yancoal Australia Limited (**Yancoal Australia**). Yancoal Australia is a wholly owned subsidiary of Yanzhou Coal Mining Company Limited (**Yanzhou Coal**). The Merger Proposal provides Gloucester Shareholders with the opportunity to participate in a globally significant coal company that is expected to be Australia's largest listed pure-play coal producer¹.

Under the Merger Proposal, Gloucester Shareholders will transfer ownership of all of their Gloucester Shares to Yancoal Australia, which is to be listed on ASX as an element of the Merger Proposal. Gloucester Shareholders will receive as consideration one fully paid ordinary share in Yancoal Australia (**Yancoal Australia Ordinary Share**) for each Gloucester Share they hold. The Merger Proposal is being undertaken by way of a scheme of arrangement (**Scheme**), which requires both Gloucester Shareholder approval and Court approval. The terms **Merger Proposal** and **Scheme** are used interchangeably in this Explanatory Booklet.

In addition to receiving one Yancoal Australia Ordinary Share for each Gloucester Share held, Gloucester Shareholders will also have the opportunity, under the Scheme, to receive a form of share, which has been specially created for the purposes of the Merger Proposal. These shares are called contingent value rights shares and are referred to in this Explanatory Booklet as **CVR Shares**. How these shares work and how many of them a Gloucester Shareholder might receive under the Scheme, if they wished to receive them in addition to Yancoal Australia Ordinary Shares, is discussed below. The proposed Implementation Date of the Scheme is 3 July 2012.

Separate to the Merger Proposal, Gloucester Shareholders registered as such on the Capital Return Record Date² will receive A\$3.15 per Gloucester Share, comprising:

- a Special Dividend of approximately³ A\$0.44 per Gloucester Share payable after the Court Approval Date but prior to the Effective Date; and
- a Capital Return to Shareholders of approximately A\$2.71 per Gloucester Share⁴, with the proceeds on presentation of the Promissory Notes⁵ to be received no earlier than 3 January 2013.

Although the exact values of the Special Dividend and the Capital Return are not known at the date of this Explanatory Booklet, they would always total A\$3.15 per Share.

The Merger Proposal and the Capital Return each require the approval of Gloucester Shareholders. Those approvals will be sought at consecutive Shareholder meetings to be held on 4 June 2012. Your Directors unanimously recommend that you vote in favour of the Merger Proposal and the Capital Return, in the absence of a Superior Proposal. Subject to that same qualification, your Directors

intend to vote all Gloucester Shares respectively held or controlled by them in favour of the Merger Proposal and the Capital Return.

The CVR Shares and the terms of the Scheme

The negotiations between Gloucester's independent directors and representatives of Yanzhou Coal regarding the Merger Proposal resulted in the signing of the Merger Proposal Deed on 22 December 2011. Those negotiations were undertaken in the context of the Merger Proposal being implemented through a scheme of arrangement between Gloucester and its shareholders:

- under which all persons registered as Gloucester Shareholders on the Scheme Record Date⁶ would receive one Yancoal Australia Ordinary Share for each Gloucester share they held; and
- where all Gloucester Shareholders were entitled to consider together the Merger Proposal at the one meeting and vote on that proposal.

Gloucester's largest shareholder, Noble, has interests in approximately 64.5% of Gloucester's total issued share capital (representing slightly in excess of 130 million Gloucester Shares). During the course of the negotiations with Yanzhou Coal, the independent directors believed that Noble was content for the Merger Proposal to proceed on the basis that Noble received one Yancoal Australia Ordinary Share for each of its Gloucester Shares.

As the negotiations developed, the Gloucester independent directors sought to provide Gloucester Shareholders with some protection from adverse movements in the price of shares in Yancoal Australia as the listed merged entity. The result was that Yancoal Australia agreed to provide, as additional consideration to Gloucester Shareholders under the Scheme, the CVR Shares. The maximum number of CVR Shares that Yancoal Australia agreed to provide under the Scheme is the total number of Gloucester Shares on issue as at the Scheme Record Date less *130 million*.

The CVR Shares provide a level of downside price protection for Gloucester Shareholders in that if, in the 18 months (or potentially a shorter period) following completion of the Merger Proposal, the volume weighted average price of the Yancoal Australia Ordinary Shares over a certain period has fallen below A\$6.96, former Gloucester Shareholders who continue to hold CVR Shares will be compensated by up to A\$3.00 per CVR Share. This compensation will take the form of cash or the transfer of additional Yancoal Australia Ordinary Shares held by Yanzhou Coal⁷. The partial downside price protection that the CVR Shares provide will apply for a maximum period of up to 18 months following implementation of the Merger Proposal. The protection will cease to apply if, within that 18 month period (or potentially a shorter period) a Lapse Notice is issued earlier or an Early Lapse Notice is issued or deemed to be issued by Yancoal. Please see Section 3 for full details of how the CVR Shares work, including hypothetical examples and an elaboration of the timing surrounding how long the partial downside price protection will apply.

1 By saleable production based on 2011 calendar year saleable production.

2 Expected to be 7.00pm (Sydney time) on 20 June 2012. The Capital Return Record Date is the term used in this Explanatory Booklet to identify the Gloucester Shareholders entitled to participate in the Capital Return and the Special Dividend.

3 The Special Dividend is subject to the determination of the Gloucester Directors and the amount of Special Dividend will depend on Gloucester's trading performance up to the Capital Return Record Date.

4 As foreshadowed in Gloucester's 23 December 2011 announcement, the amount can vary and reflects the intended cancellation of all of the Gloucester Options for cash (see Section 11.9 for details of these intended cancellation arrangements). The Capital Return is subject to the Gloucester Directors announcing a Capital Return Record Date. See Sections 10 and 11 for further details.

5 The Promissory Notes will be delivered in discharge of Gloucester's obligations under the Capital Return. See below in this letter and Section 1.7 for further details.

6 The Scheme Record Date is expected to be 7.00pm (Sydney time) on 29 June 2012. It is the date used in this Explanatory Booklet to identify Gloucester Shareholders who will participate in the Scheme.

7 Or another Yanzhou CVR Shareholder.

The Yancoal Australia Ordinary Shares and CVR Shares will be separately quoted on ASX (initially on a deferred settlement basis), from the first business day after the Merger Proposal takes effect. It should also be noted that any Gloucester Shareholder may, if they wish, elect to receive only Yancoal Australia Ordinary Shares as scheme consideration. That is, they may elect not to receive any CVR Shares in addition to Yancoal Australia Ordinary Shares.

It is important to note that for those Gloucester Shareholders who do not make an election to receive only Yancoal Australia Ordinary Shares, the CVR Shares will be issued *in addition to* the new Yancoal Australia Ordinary Shares they receive under the Scheme.

Although the independent directors believed in the course of the negotiations leading up to the execution of the Merger Proposal Deed on 22 December 2011 that Noble was content to receive one Yancoal Ordinary Share only for each of its Gloucester Shares, the independent directors considered that it was appropriate for the CVR Shares to be made available to all Gloucester Shareholders (including Noble) under the Scheme. This was consistent with the overall context of the Merger Proposal negotiations where all Gloucester Shareholders were to be treated the same and entitled to consider together the Merger Proposal at the one meeting and vote on that proposal.

As the maximum number of CVR Shares made available by Yanzhou Coal to Gloucester Shareholders under the Scheme is the total number of Gloucester Shares on issue as at the Scheme Record Date *less 130 million*, there are insufficient CVR Shares available for each Gloucester Shareholder to receive one CVR Share for each Gloucester Share if each Gloucester Shareholder wished to receive CVR Shares in addition to Yancoal Australia Ordinary Shares.

As such, if each Gloucester Shareholder made no election to receive only Yancoal Australia Ordinary Shares (and would thus receive CVR Shares and Yancoal Australia Ordinary Shares as the default consideration), then under the terms of the Scheme, each Gloucester Shareholder would receive, for each of their Gloucester Shares, one Yancoal Australia Ordinary Share and *less than* one CVR Share on a pro rata basis. (Receipt of less than one CVR Share under the Merger Proposal on this basis is referred to in this Explanatory Booklet as **scale back**.)

Directors' recommendation

Your Directors unanimously recommend the Scheme in the terms summarised above (that is, for each Gloucester Share, Gloucester Shareholders will receive one Yancoal Australia Ordinary Share and less than one CVR Share on a pro rata basis if no elections are made to receive only Yancoal Australia Ordinary Shares) as being in the best interests of Shareholders. Reasons for the Directors' recommendation are set out in Section 5.3 of this Explanatory Booklet.

Minimum Election Condition

Although the CVR Shares have made been available to all Gloucester Shareholders under the Scheme on a pro rata basis, given the independent directors' belief that Noble was content to receive one Yancoal Australia Ordinary Share only for each its Gloucester Shares, the independent directors sought to structure the Scheme to reflect and give effect to what they believed during the negotiations to be Noble's position and so as to maximise the opportunity for shareholders other than Noble to receive (in addition to Yancoal Australia Ordinary Shares), should they wish, up to one CVR Share for each of their Gloucester Shares. The independent directors have sought to do this by undertaking a number of measures.

First, it is a condition of the Merger Proposal Deed and the Scheme that (1) elections are made in respect of at least 130 million Gloucester Shares to receive only Yancoal Australia Ordinary Shares (that is, the option that does not include any CVR Shares) and (2) arrangements are in place (as at the date that approval of the Merger Proposal is sought from the Court) to the satisfaction of Gloucester and Yancoal Australia to ensure that elections in respect of that minimum number of Gloucester Shares remain effective from the date of court approval to the Scheme Record Date ((1) and (2) together, **Minimum Election Condition**). Under the Merger Proposal Deed, the Minimum Election Condition can only be waived if both Gloucester and Yancoal Australia agree to do so. The position of your Directors is that this condition will not be waived by Gloucester. It follows that if the Minimum Election Condition is not satisfied, the Merger Proposal will not proceed.

Secondly, as noted above, the independent directors believed in the course of the negotiations leading up to the Merger Proposal Deed that Noble was content to receive one Yancoal Australia Ordinary Share only for each of its Gloucester Shares. After the announcement of the Merger Proposal on 22 December 2011, Noble stated to Gloucester (and announced to the Singapore Stock Exchange on 6 March 2012) that it:

- will vote in favour of the Merger Proposal, in the absence of a Superior Proposal; and
- will elect to receive all Yancoal Australia Ordinary Shares as its Scheme Consideration (that is, it will elect not to receive any CVR Shares) and that it will not act inconsistently with this election.

Following Noble's statement, your Directors believe that it is highly likely that each of the two required ingredients of the Minimum Election Condition will be fulfilled, if the Merger Proposal is approved by Gloucester Shareholders, thus facilitating Gloucester seeking the Court's approval of the Merger Proposal on the Second Court Hearing Date. If the Minimum Election Condition is satisfied, scale back of the CVR Shares under the Scheme would only occur if, after Court approval, Noble acts inconsistently with its stated intention including acting inconsistently, after the Court's approval of the Merger Proposal, with the arrangements that are to be put in place to satisfy the second ingredient of the Minimum Election Condition.

Given the stated intention of Noble as set out above, your Directors expect that the Minimum Election Condition will be satisfied and that the arrangements that are to be put in place to which the Minimum Election Condition relates will remain effective in the period after the Election Date to the Scheme Record Date.

The likely result should therefore be that Gloucester Shareholders (other than Noble) should, unless they elect otherwise, receive one Yancoal Australia Ordinary Share and one CVR Share for each of their Gloucester Shares. As a result, while scale back is a feature of the Scheme, your Directors have assessed the risk of scale back occurring for those Gloucester Shareholders who do not elect to receive only Yancoal Australia Ordinary Shares as low.

Nevertheless, Gloucester Shareholders should be aware of the potential for scale back to occur for those Gloucester Shareholders if Noble acts inconsistently with its stated election intention prior to the Scheme Record Date.

Having regard to all the above circumstances, your Directors unanimously recommend that all Gloucester Shareholders (other than Noble) make no election under the Scheme and so receive the default Merger Proposal consideration of Yancoal Australia Ordinary Shares and CVR Shares.

LETTER FROM THE CHAIRMAN OF GLOUCESTER COAL LTD (CONTINUED)

The terms of the CVR Shares, how they operate, procedures for making elections and the scale back mechanism that potentially applies are fully described in this Explanatory Booklet.

The Scheme Meeting and Court approval

The Scheme requires the approval of Gloucester Shareholders and the Supreme Court of Victoria. The Scheme Meeting to vote on the Merger Proposal will be held on 4 June 2012. The Scheme is also subject to certain other conditions described in this Explanatory Booklet.

What will happen if the Merger Proposal is implemented

If the Merger Proposal is implemented:

- Gloucester will become a wholly owned subsidiary of Yancoal Australia;
- Yanzhou Coal will own 78% of the ordinary shares in Yancoal Australia, with Gloucester Shareholders owning the balance of 22%; and
- Yancoal Australia will be listed on ASX and is expected to be Australia's largest listed pure-play coal producer⁸, combining most of Yancoal Australia's producing coal assets with all of Gloucester's assets and development pipeline.

The Merged Group will have a strong growth pipeline and plans for significant investment over the next five years in realising its growth opportunities. Therefore, Gloucester Shareholders will have the opportunity to participate directly in the potential benefits resulting from the enhanced scale, diversification and growth profile of the Merged Group.

The Special Dividend and Capital Return

It is proposed that the Special Dividend will be paid and the Capital Return effected after the Court approves the Scheme but before it becomes legally Effective. The date for determining eligibility to receive the Special Dividend and the Capital Return is the Capital Return Record Date (expected to be 7.00pm on 20 June 2012). Accordingly, to receive each of the Special Dividend, the Capital Return and the consideration under the Scheme, you need to be a Gloucester Shareholder on both the Capital Return Record Date and the later Scheme Record Date.

The Capital Return payable to eligible Gloucester Shareholders is to be satisfied by Gloucester issuing to a trustee Promissory Notes for the aggregate amount of the Capital Return. Eligible Gloucester Shareholders will receive the proceeds of the Promissory Notes no earlier than 3 January 2013, which is six months after the Merger Proposal is proposed to be implemented. Recognising that Gloucester will become a wholly-owned subsidiary of Yancoal Australia immediately after the Merger Proposal is implemented, arrangements have been put in place to protect the interests of Gloucester Shareholders during this six month period. However, you should note that those arrangements do not provide complete protection or an absolute assurance that the Promissory Notes will be honoured by Gloucester when they are presented for payment on what is expected to be six months after the Merger Proposal is implemented. This relies on the financial capacity at that time of Gloucester, in the first instance, and of Yancoal Australia as guarantor, in the second instance.

The Capital Return requires the separate approval of Gloucester Shareholders. This will be sought at a General Meeting to be held on 4 June 2012, following the conclusion or adjournment of the Scheme Meeting earlier that day.

It is important to note that if the Court does not approve the Merger Proposal, then the Gloucester Board does not intend to declare or authorise any Special Dividend and does not intend to proceed with the Capital Return.

The Directors' recommendation and the opinion of the Independent Expert

As stated above, your Directors unanimously recommend the Scheme in these terms (that is, for each Gloucester Share, Gloucester Shareholders will receive one Yancoal Australia Ordinary Share and less than one CVR Share on a pro rata basis if no elections are made to receive only Yancoal Australia Ordinary Shares) as being in the best interests of Gloucester Shareholders. Your Directors also note however the steps that have been taken as set out above to maximise the opportunity for Gloucester Shareholders other than Noble to receive (in addition to Yancoal Australia Ordinary Shares), should they wish, up to one CVR Share for each of their Gloucester Shares.

Your Directors' unanimous endorsement of the Merger Proposal is supported by the conclusion of Deloitte, the Independent Expert appointed by Gloucester. Deloitte's assessment of the fair market value of the consideration offered to Gloucester Shareholders under the Merger Proposal incorporates their valuation of the CVR Shares. Deloitte has concluded that, in the absence of a Superior Proposal, the Scheme is fair and reasonable and in the best interests of those Gloucester Shareholders who receive the default consideration of Yancoal Australia Ordinary Shares and CVR Shares for their Gloucester Shares. However Gloucester Shareholders should note that the value of the consideration available to any Gloucester Shareholder electing to receive only Yancoal Australia Ordinary Shares is below the range of Deloitte's estimate of the fair market value of a Gloucester Share.

Next steps

Your vote is important and I encourage you to vote either by attending the Meetings to be held on 4 June 2012 at c/- Minter Ellison Lawyers, Level 19, Aurora Place, 88 Phillip Street, Sydney, NSW, or by lodging a proxy vote. A single proxy form for both Meetings is provided with this Explanatory Booklet.

I encourage you to read this Explanatory Booklet, which contains important information in relation to the Merger Proposal, the Special Dividend and the Capital Return. If you have any questions in relation to any of these three separate corporate transactions, please call the Gloucester Shareholder Information Line on 1300 368 646 (within Australia) or +61 3 9415 4161 (outside Australia) Monday to Friday between 9.00am and 5.00pm (Sydney time) or contact your legal, financial, taxation or other professional adviser.

Yours sincerely



James MacKenzie
Chairman

⁸ By saleable production based on 2011 calendar year saleable production.

LETTER FROM THE CHAIRMAN OF THE BOARDS OF YANZHOU COAL AND YANCOAL AUSTRALIA

27 April 2012

Dear Gloucester Shareholder,

We are very pleased to provide you with the opportunity to participate in the merger of Yancoal Australia and Gloucester, creating what is expected to be Australia's largest listed pure-play coal producer⁹.

We believe that this merger has the potential to create significant value for the shareholders of both Gloucester and Yanzhou Coal. Therefore, we encourage you to vote in favour of the Merger Proposal and the separate Capital Return at the Meetings to be held on Monday, 4 June 2012.

The Merger Proposal will provide Gloucester Shareholders with the opportunity to gain exposure to the Merged Group's portfolio of producing and development assets, while retaining downside protection via the CVR Shares which you can elect to receive in addition to your shares in the Merged Group.

The Merger Proposal is unanimously recommended by the Directors of Gloucester, in the absence of a Superior Proposal. The Independent Expert has also concluded that, in the absence of a Superior Proposal, the Merger Proposal is fair and reasonable and in the best interests of those Gloucester shareholders who receive CVR Shares as part of their Scheme Consideration.

Yanzhou Coal is one of China's largest international mining groups by market capitalisation, integrating coal, coal chemical and power. Yanzhou Coal is listed in Hong Kong, New York and Shanghai, with a market capitalisation of approximately US\$14.8 billion (as at 4 April 2012). Yanzhou Coal is headquartered in Shandong province, China and has coal mining and coal processing projects in Shandong, Shaanxi, Shanxi and Inner Mongolia as well as coal and potash resources in countries such as Australia and Canada. Yanzhou Coal had coal sales in calendar year 2011 of over 60Mt.

Yancoal Australia is currently a wholly-owned subsidiary of Yanzhou Coal. Through a number of mergers and acquisitions conducted in Australia, including the acquisition of the Astar project in 2004, the acquisition of Felix Resources Limited (**Felix Resources**) in 2009 and the acquisition of Syntech Resources and the Premier coal mine in 2011, a substantial coal business has been established. Coupled with the strength of local expertise provided by Yancoal Australia's management team, Yanzhou Coal provides innovative mining technology such as longwall top coal caving (**LTCC**).

At present, Yancoal Australia has a portfolio of high quality operating export coal mines and major development projects across New South Wales and Queensland with a strong infrastructure position and a number of export coal products. Yancoal Australia has an 80% interest in the Moolarben joint venture, which produced 5.0 Mtpa of saleable export thermal coal in calendar year 2011, and is projected to produce approximately 11.6 Mtpa by 2016 (on an equity basis)¹⁰. Furthermore, Yancoal Australia owns 100% of the Yarrabee coal mine which produces PCI coal, 90% of the Ashton JV which produces semi-soft coking and thermal coals and 100% of the Astar coal mine which produces semi-hard coking and thermal coals. The exported coal products of Yancoal Australia have a strong

market position in international markets such as Japan, South Korea, Taiwan, China and India.

Yancoal Australia has benefited from support from its joint venture partners. Sojitz has a 10% stake in the Moolarben joint venture, and a Korean consortium, including Korea Resource Corporation (**KORES**), Hanwha Corporation Limited and Korea Electric Power Company, also owns 10% stake in Moolarben. In addition, Japanese trading house Itochu has a 10% stake in the Ashton JV. Yancoal Australia also has a highly experienced and well regarded local management team.

The Merged Group will benefit from the excellent management team that would be formed by Yancoal Australia and Gloucester. As the assets of Yancoal Australia and Gloucester are highly complementary, it is expected that the Merged Group will be able to achieve operational synergies, including the potential to optimise infrastructure assets, blending synergies, procurement benefits and rationalisation of certain costs. The Merged Group will also have access to know-how relating to Yanzhou Coal's proprietary LTCC technology via a licensing arrangement, for no charge for existing assets.

Shareholders of the Merged Group will also benefit from the involvement of the post-transaction controlling shareholder Yanzhou Coal. The Merged Group will have a substantial Resources and Reserves base which will underpin its future profit growth and sustainable development. Furthermore, the Merged Group proposes to adopt a dividend policy under which 25% to 40% of net profit after tax (pre-Abnormal Items) is distributed to shareholders each financial year, subject to the ongoing cash needs of the business and the directors' duties under law.

On behalf of the Boards of Yanzhou Coal and Yancoal Australia, we encourage you to vote in favour of the Merger Proposal and the separate Capital Return at the Meetings on Monday, 4 June 2012. We look forward to welcoming you as a shareholder of the Merged Group and sharing with you the potential value created by the Merger Proposal.

Yours sincerely,



Mr Li Weimin
Chairman
Yanzhou Coal Mining
Company Limited





Mr Wang Xin
Chairman
Yancoal Australia Limited


⁹ By saleable production based on 2011 calendar year saleable production.


¹⁰ Projected production figures are estimates only and are subject to the risks outlined in Section 9. Forward looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties and other factors, many of which will be outside the control of the Merged Group.


Key Reasons to Vote in Favour of the Merger Proposal and Capital Return

-  Gloucester Shareholders will have the opportunity to participate directly in the creation of what is expected to be Australia's largest listed pure-play coal producer¹¹. Your Directors believe that this direct investment exposure to the Merged Group offers a number of potential benefits to Gloucester Shareholders:
- enhanced scale and diversification from a significantly larger portfolio of quality coal assets across New South Wales and Queensland
 - attractive growth profile, supported by a large Reserves and Resources base and a strategic position in port and rail infrastructure
 - an attractive and diversified mix of metallurgical and thermal coal products
 - a strengthened financial platform to pursue growth opportunities
 - potential to realise substantial synergies
 - a combined Board and executive management team that has a proven track record in the coal industry
-

-  The receipt of CVR Shares for at least some of their holding provides those Gloucester Shareholders who do not make an 'All Ordinary Shares' Election with a level of downside protection on their shareholding in Yancoal Australia
-

-  The Independent Expert has concluded that, in the absence of a Superior Proposal, the Merger Proposal is fair and reasonable and in the best interests of Gloucester Shareholders who receive CVR Shares as part of their Scheme Consideration
-

-  If the Merger Proposal does not proceed and no alternative proposal emerges, the Gloucester share price may fall and Shareholders would continue to be exposed to certain risk factors relating specifically to Gloucester
-

-  The Capital Return allows capital that is surplus to Gloucester's requirements as a wholly owned subsidiary of Yancoal Australia to be returned to Gloucester Shareholders
-

¹¹ By saleable production based on 2011 calendar year saleable production.

Potential Reasons to Vote Against the Merger Proposal and Capital Return



Through their direct exposure to the Merged Group, the investment and risk profile for Gloucester Shareholders will change.

In particular:

- the Merged Group will have business operations that are more expansive than (and, in certain respects, different from) Gloucester's present business operations
- there are risks involved in successfully integrating the Gloucester and Yancoal Australia businesses
- the exact value of the Scheme Consideration Gloucester Shareholders will receive is uncertain
- the Merged Group will have a substantially higher debt level and will face greater currency risk than Gloucester on a continuing stand-alone basis. Specifically, the Merged Group will have pro forma net debt of A\$3.6 billion¹² compared to Gloucester's current net debt of approximately A\$380 million



Yanzhou Coal's presence as the majority, controlling shareholder of the Merged Group, with obligations to reduce its economic ownership of the Merged Group that must be fulfilled by the end of 2013, potentially places downward pressure on the share price of the Merged Group until after that time



If the Merger Proposal proceeds, there will be a smaller free float than that which presently applies to Gloucester



The tax consequences or implications of transferring your Gloucester Shares and/or receiving the Capital Return and Special Dividend may not suit your financial position



You may believe that there is a better prospect for increased value if Gloucester remains a stand-alone listed company



If the Merger Proposal proceeds, this precludes the possibility of any Superior Proposal for Gloucester emerging in the future



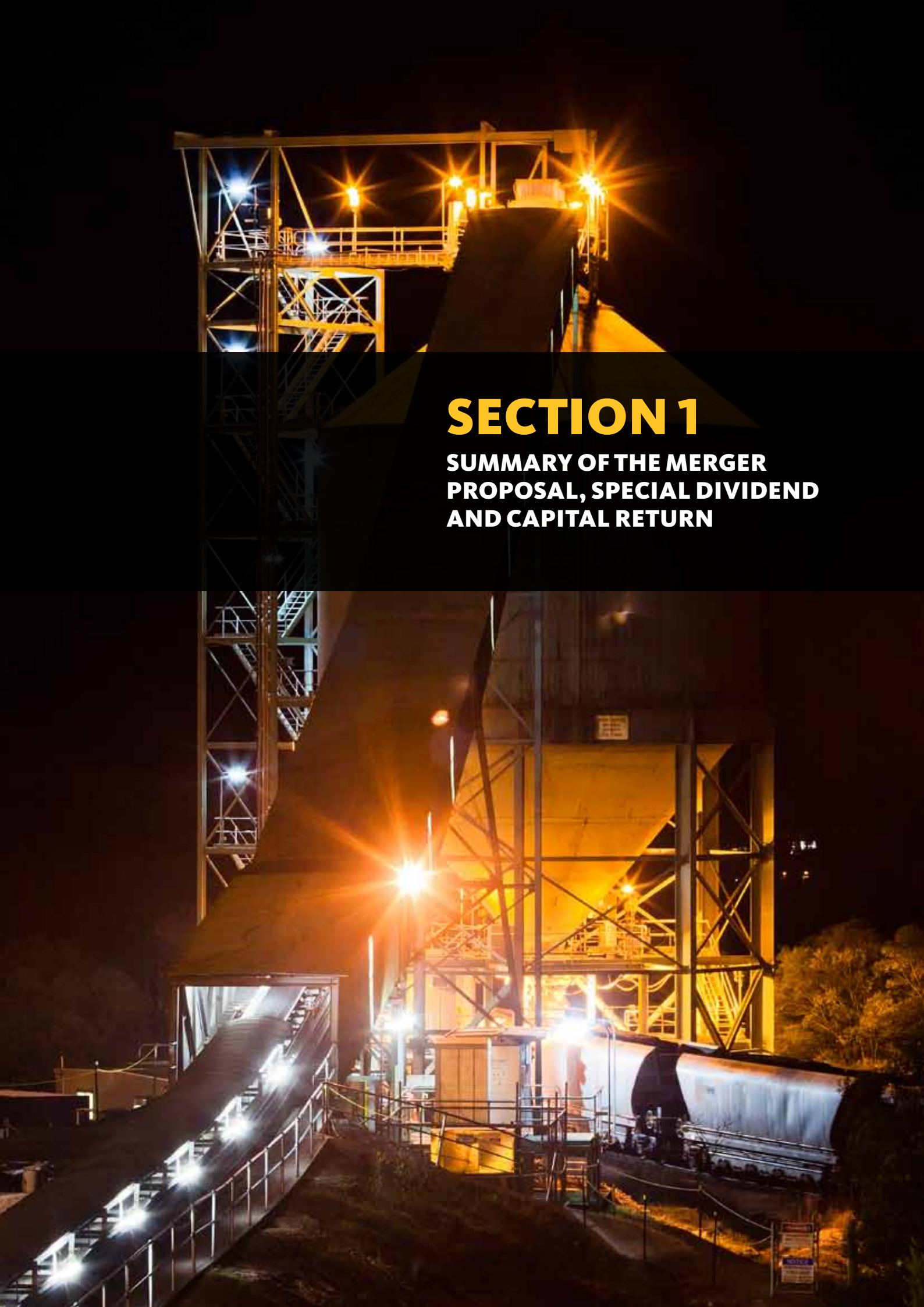
YOUR DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU VOTE IN FAVOUR OF THE MERGER PROPOSAL AND THE CAPITAL RETURN, IN THE ABSENCE OF A SUPERIOR PROPOSAL

YOUR DIRECTORS ALSO UNANIMOUSLY RECOMMEND THAT ALL SHAREHOLDERS (OTHER THAN NOBLE) DO NOT MAKE AN 'ALL ORDINARY SHARES' ELECTION, so that they will receive CVR Shares in addition to Yancoal Australia Ordinary Shares and participate to the maximum extent possible in the CVR Shares component of the Scheme Consideration

You should read this Explanatory Booklet in full before making any decision on the Merger Proposal. In particular, you should refer to Section 5 for guidance on the expected advantages and possible disadvantages of the Merger Proposal and Section 9 for guidance on the risk factors associated with the Merger Proposal. This Explanatory Booklet does not take into account the financial situation, investment objectives and particular needs of any Gloucester Shareholder. You should consult your legal, financial, taxation or other professional adviser concerning the impact your decision may have on your own circumstances.

¹² Based on figures as at 22 February 2012, primarily US\$ denominated debt converted at US\$ = A\$1.0724.

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SECTION 1

**SUMMARY OF THE MERGER
PROPOSAL, SPECIAL DIVIDEND
AND CAPITAL RETURN**

SECTION 1 – SUMMARY OF THE MERGER PROPOSAL, SPECIAL DIVIDEND AND CAPITAL RETURN

1.1 Background

On 23 December 2011, Gloucester announced that it had entered into an agreement with Yanzhou Coal Mining Company Limited (**Yanzhou Coal**) and its wholly owned subsidiary, Yancoal Australia Limited (**Yancoal Australia**) for a proposed merger between Yancoal Australia and Gloucester. The Merger Proposal was expressed to be subject to (among other matters) continuing due diligence to validate an indicative merger ratio of what was, at that time, 77% (Yanzhou Coal): 23% (Gloucester).

In that same announcement, Gloucester stated that, separately to but before the implementation of the Merger Proposal, Gloucester proposed to pay a Special Dividend and effect a Capital Return to its Shareholders.

On 6 March 2012, Gloucester announced that:

- it and Yancoal Australia had completed the reciprocal due diligence process referred to in the announcement of 23 December 2011;
- the parties had agreed on the formal terms and conditions for the Merger Proposal;
- the formal terms and conditions involved slight adjustments to the Merger Proposal announced on 23 December 2011: the adjustments related to modifications to the Terms of Issue governing CVR Shares, a A\$300 million reduction in Yancoal Australia's current debt contribution to the Merged Group¹³ (and an increase in Gloucester's current debt contribution)¹⁴ and a revised merger ratio where Gloucester Shareholders will own 22% of the Merged Group and Yanzhou Coal 78%; and
- the Merger Proposal (as adjusted) is unanimously recommended by the Gloucester Board, in the absence of a Superior Proposal and subject to the Independent Expert concluding that the Merger Proposal is in the best interests of Gloucester Shareholders. The Independent Expert has since concluded that, in the absence of a Superior Proposal, the Merger Proposal is fair and reasonable and in the best interests of those Gloucester Shareholders who receive CVR Shares as part of their Scheme Consideration.

This Section provides a summary of the key features of the Merger Proposal, the Special Dividend and the Capital Return. This summary should be read in conjunction with the additional detailed information in this Explanatory Booklet.

1.2 Effect of the Merger Proposal

If the Merger Proposal is approved and implemented, Gloucester Shareholders will transfer ownership of their Gloucester Shares to Yancoal Australia under a Scheme of Arrangement, with the result that Gloucester will become a wholly owned subsidiary of Yancoal Australia and be delisted from ASX.

In consideration for the transfer of their Shares, Gloucester Shareholders will receive newly issued securities in Yancoal Australia which would be listed on ASX (see further Section 1.3).

The terms and conditions of the Merger Proposal are set out in full in the Scheme and the Merger Proposal Deed. These documents are contained in Appendices 3 and 6 respectively.

Immediately following implementation of the Merger Proposal, Yanzhou Coal will own 78% of the shares in Yancoal Australia and Gloucester Shareholders will own the remaining 22%. Therefore, Gloucester Shareholders will continue to have an investment in Gloucester's portfolio of coal assets. In addition, they will have an investment in the enlarged asset portfolio of the Merged Group which will include most of Yancoal Australia's producing coal assets. Please refer to Section 8 for a description of the Merged Group, including its expanded portfolio of coal assets.

1.3 What you will receive under the Scheme

Subject to the Scheme becoming Effective, Gloucester Shareholders will receive:

- (a) For those Shareholders who do not make an 'All Ordinary Shares' Election – one Yancoal Australia Ordinary Share and less than one CVR Share on a pro rata basis if no 'All Ordinary Shares' Elections are made. Your Directors note, however, the steps that have been taken as described in the letter from Gloucester's Chairman and in Section 5.2 to maximise the opportunity for Gloucester Shareholders other than Noble to receive (in addition to Yancoal Australia Ordinary Shares), should they wish, up to one CVR Share for each of their Gloucester Shares.
- (b) For those Shareholders who make an 'All Ordinary Shares' Election – one Yancoal Australia Ordinary Share for every Gloucester Share held at the Scheme Record Date. To make an 'All Ordinary Shares' Election, Gloucester Shareholders must complete the 'All Ordinary Shares' Election Form accompanying this Explanatory Booklet. Instructions for completing and returning the 'All Ordinary Shares' Election Form are contained in Section 11.4.

Noble has stated to Gloucester that it will make an 'All Ordinary Shares' Election (that is, Noble will elect all Yancoal Australia Ordinary Shares as its Scheme Consideration and, as a result, will not receive any CVR Shares). Based on Noble's current shareholding, an election by Noble consistent with its intention as notified to Gloucester would satisfy a condition of the Merger Proposal that requires Gloucester Shareholders holding in aggregate at least 130 million Shares to elect to receive 100% of their Scheme Consideration in the form of all Yancoal Australia Ordinary Shares. Provided Noble makes an 'All Ordinary Shares' Election and all such similar elections continue to be effective in respect of at least 130 million Gloucester Shares as at the Scheme Record Date, Gloucester Shareholders who do not make an 'All Ordinary Shares' Election should not have their entitlements to CVR Shares scaled back¹⁵. Accordingly, your Directors recommend that you **do not** make an 'All Ordinary Shares' Election so that you receive the 'default' consideration of Yancoal Australia Ordinary Shares and CVR Shares.

A brief introduction to CVR Shares is provided in Section 1.4 below, with further details provided in Section 3. The full Terms of Issue that apply to CVR Shares are set out in Appendix 8.

¹³ The reduction in Yancoal contributed debt is a result of predominately operating cash flow during the period since November 2011, and a reduction in the A\$ value of Yancoal's US\$ denominated debt.

¹⁴ Both Yancoal Australia's and Gloucester's debt contribution can vary in the ordinary course of business.

¹⁵ The scale back mechanism is described in Section 12.5(d). To the extent that the scale back applies to you, you will receive a combination of one Yancoal Australia Ordinary Share and one CVR Share in respect of some (but not all) of the Scheme Shares held by you and you will receive only one Yancoal Australia Ordinary Share for each of the remaining Scheme Shares held by you. Therefore, you will not know the precise combination of Yancoal Australia Ordinary Shares and CVR Shares you will receive until allocations of Yancoal Australia Ordinary Shares and CVR Shares are announced (expected to be some time after the Scheme Record Date).

Certain foreign Shareholders, called 'Foreign Scheme Shareholders' in this Explanatory Booklet, will be ineligible to receive Yancoal Australia Ordinary Shares or CVR Shares¹⁶. The Yancoal Securities to which Foreign Scheme Shareholders would otherwise be entitled will be issued instead to a sale agent who will sell those securities on-market and remit the net sale proceeds to the Foreign Scheme Shareholders. A similar arrangement applies to Gloucester Shareholders who hold 200 or less Shares and who elect to receive the net sale proceeds of the Yancoal Securities to which they would otherwise be entitled. Please see Section 12.5(f) for further information.

1.4 CVR Shares in brief

Yancoal Australia will issue CVR Shares (in addition to Yancoal Australia Ordinary Shares) to Gloucester Shareholders who participate in the Merger Proposal, and who do not make an 'All Ordinary Shares' Election. In other words, if you do not elect to receive 100% of your Scheme Consideration in the form of Yancoal Australia Ordinary Shares, you will receive CVR Shares *in addition to* the new Yancoal Australia Ordinary Shares you will receive under the Scheme.

The Yancoal Australia Ordinary Shares and CVR Shares will be separately quoted on ASX (initially on a deferred settlement basis), from the first business day after the Merger Proposal takes effect.

The CVR Shares offer a level of downside price protection for Gloucester Shareholders against a fall in the price of Yancoal Australia Ordinary Shares for a maximum of up to 18 months following implementation of the Scheme. The level of downside price protection will depend on the prevailing circumstances regarding the share price of Yancoal Australia. For example, the amount that holders will receive on 'Repurchase' (as discussed in the paragraph below) will increase if the volume weighted average market price of Yancoal Australia Ordinary Shares is below A\$6.96 per share over the relevant period set out in the Terms of Issue of the CVR Shares.

The CVR Shares are to be Repurchased following implementation of the Merger Proposal for a 'Repurchase Price' equal to the amount by which the price of Yancoal Australia Ordinary Shares on ASX is less than A\$6.96, based on the 90 day VWAP 18 months after the Merger Proposal is implemented (or potentially an earlier date), subject to a cap of A\$3.00 per CVR Share and other conditions. This payment may be satisfied in cash or by the transfer of existing Yancoal Australia Ordinary Shares to the holder of the CVR Shares, with the payment alternative being at the discretion of Yanzhou Coal. Yanzhou Coal has agreed to fund the Repurchase Price.

The CVR Shares will also be Repurchased if the VWAP of Yancoal Australia Shares is above A\$6.96 for 20 out of 25 consecutive trading days. In these circumstances, you will receive a nominal cash payment (less than A\$0.01 per CVR Share) and the partial downside price protection that CVR Shares offer automatically falls away.

The partial downside price protection that the CVR Shares provide will apply for a maximum period of up to 18 months following implementation of the Merger Proposal. The protection will cease to apply if, within that 18 month period (or potentially a shorter period) a Lapse Notice is issued earlier or an Early Lapse Notice is issued or deemed to be issued by Yancoal.

CVR Shares are not 'capital guaranteed' securities which would entitle holders to at least a minimum amount on maturity, nor do they guarantee that the holder will receive a particular price for them on Repurchase.

Please see Section 3 for full details of how the CVR Shares work, including hypothetical examples and an elaboration of the timing surrounding how long the partial downside price protection will apply. The full Terms of Issue that apply to CVR Shares are set out in Appendix 8.

1.5 Warranties by Gloucester Shareholders

The Scheme provides that Gloucester Shareholders who qualify as Scheme Shareholders (including Foreign Scheme Shareholders and Electing Small Shareholders) are taken to have warranted to Gloucester, in its own right and for the benefit of Yancoal Australia, that all their Gloucester Shares which are transferred under the Scheme will, at the date of transfer, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, and that they have full power and capacity to sell and to transfer their Gloucester Shares to Yancoal Australia together with any rights attaching to those shares.

1.6 The Special Dividend and Capital Return

Separately to the Scheme, it is proposed that eligible Gloucester Shareholders receive a cash payment of A\$3.15 per Share comprising:

- (a) a fully franked Special Dividend of approximately A\$0.44 per Share¹⁷ – to be paid to all persons registered as Gloucester Shareholders as at the Capital Return Record Date (expected to be 7.00pm on Wednesday, 20 June 2012, being a date prior to the Scheme Record Date (expected to be 7.00pm on Friday, 29 June 2012)); and
- (b) a Capital Return of approximately A\$2.71 per share¹⁸ – to be paid to all persons registered as Gloucester Shareholders as at the Capital Return Record Date, with receipt of cash deferred until six months after the Merger Proposal is completed.

Although the exact values of the Special Dividend and the Capital Return are not known at the date of this Explanatory Booklet, they would always total A\$3.15 per Share.

The Capital Return would be effected by Gloucester undertaking a Capital Reduction. The same Gloucester Shareholders that are entitled to participate in the Capital Return would also be entitled to participate in the Gloucester Special Dividend. The Capital Return payable to eligible Gloucester Shareholders is to be satisfied by Gloucester issuing to the Trustee Promissory Notes for the aggregate amount of the Capital Return, payable six months after the Merger Proposal is implemented.

The Trustee will hold the Promissory Notes on trust for Gloucester Shareholders registered as such on the Capital Return Record Date. On the due date, it is proposed that the Trustee will present the Promissory Notes to Gloucester for payment and arrange for the distribution of the proceeds to the eligible former shareholders of Gloucester.

¹⁶ Gloucester's controlling shareholder, Noble, will not be a Foreign Scheme Shareholder under the relevant criteria.

¹⁷ The Special Dividend is subject to the determination of the Gloucester Directors and the amount of Special Dividend will depend on Gloucester's trading performance up to the Capital Return Record Date.

¹⁸ As foreshadowed in Gloucester's 23 December 2011 announcement, the amount can vary and reflects the intended cancellation of all of the Gloucester Options for cash. (see Section 11.9 for details of these intended cancellation arrangements). The Capital Return is subject to the Gloucester Directors announcing a Capital Return Record Date. See Sections 11 and 12 for further details.

SECTION 1 – SUMMARY OF THE MERGER PROPOSAL, SPECIAL DIVIDEND AND CAPITAL RETURN (CONTINUED)

Please refer to Section 1.7 for an explanation of why the proceeds of the Capital Return are to be received six months after the Merger Proposal is implemented and why Gloucester's obligations under the Capital Return are proposed to be discharged through the issue of the Promissory Notes. Please refer to Section 11 and Section 12 for further information in relation to the procedural aspects of and timing for the payment of the Capital Return.

Gloucester Shareholders should note the following important points in relation to the Special Dividend, the Capital Return and the Scheme:

- if Gloucester Shareholders or the Court do not approve the Scheme, the Gloucester Board does not intend to declare or authorise any Special Dividend and does not intend to proceed with the Capital Return;
- the expected record date for determining entitlements to participate in the Capital Return and the Special Dividend is 7.00pm on Wednesday, 20 June 2012;
- the expected record date for determining entitlements to participate in the Scheme is 7.00pm on Friday, 29 June 2012;
- due to the different record dates that apply to the Capital Return and the Special Dividend, on the one hand, and the Scheme, on the other, only those persons registered as Gloucester Shareholders on *both* the Capital Return Record Date and the later Scheme Record Date will be entitled to participate in the Capital Return, receive the Special Dividend and participate in the Scheme;
- therefore, Gloucester Shareholders should take careful note of the key dates applying to the Capital Return, the Special Dividend and the Scheme, as set out in the 'Important Dates and Times' at the beginning of this Explanatory Booklet, including the dates that Gloucester Shares will trade 'ex' entitlement to the Capital Return and Special Dividend. Any acquisitions and disposals of Gloucester Shares before or during these key dates will affect your entitlement to receive the Capital Return and Special Dividend and participate in the Scheme.

1.7 Capital Return – timing and Promissory Note structure

This Section 1.7 explains:

- why the proceeds of the Capital Return are to be received six months after the Merger Proposal is implemented; and
- why Gloucester's obligations under the Capital Return are proposed to be discharged through the issue of the Promissory Notes.

As part of the negotiation of the overall terms of the Merger Proposal and Capital Return, Yanzhou Coal required that Gloucester retain access to the aggregate Capital Return proceeds (expected to be approximately A\$590 million) for six months following the implementation of the Merger Proposal. Recognising that Gloucester will become a wholly-owned subsidiary of Yancoal Australia immediately after the Merger Proposal is implemented, it was agreed that certain protections needed to be established to bridge the six month period between the Implementation Date and when eligible Gloucester Shareholders would receive in cash an amount equal to their proportionate share of the Capital Return. These protections are summarised below and are intended to ensure that an amount equal to the amount of the Capital Return is paid by Gloucester six months after the Implementation Date to the persons

registered as Gloucester Shareholders on the Capital Return Record Date (excepted to be 7.00pm on Wednesday, 20 June 2012).

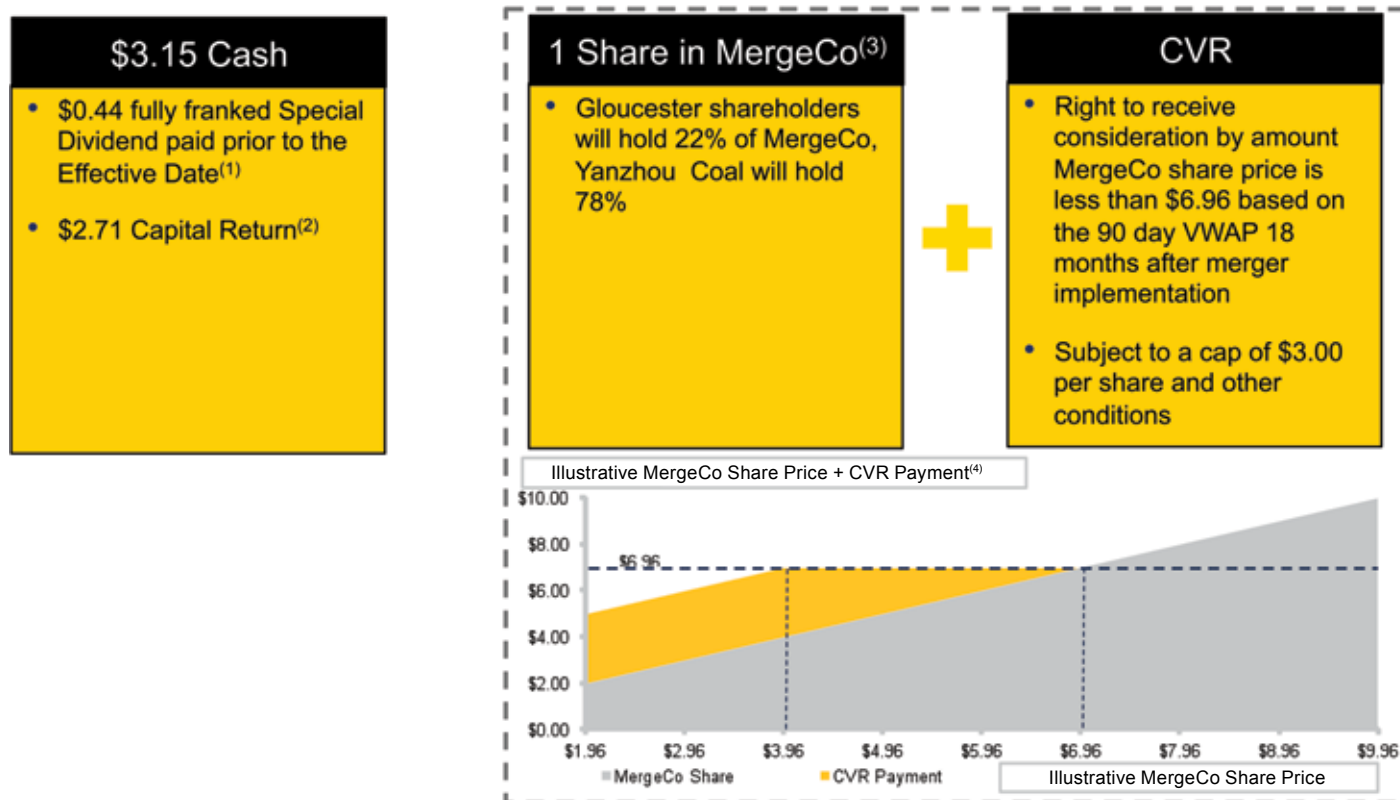
- On the Capital Return Record Date, Gloucester will owe a debt equal to the Capital Reduction Amount to Gloucester Shareholders registered as such on this date. This debt is expected to be approximately A\$590 million and will be discharged on the Capital Return Record Date by Gloucester issuing to an independent Trustee Promissory Notes with an aggregate face value equal to the Capital Reduction Amount. The Promissory Notes will be payable in full by Gloucester on 3 January 2013 or such other date, being no earlier than 3 January 2013 and no later than 31 January 2013, determined by Gloucester in accordance with the Merger Proposal Deed (**Payment Date**).
- The independent Trustee has been appointed to act as a bare trustee to (i) receive and hold the Promissory Notes on behalf of Gloucester Shareholders registered as such on the Capital Return Record Date, (ii) present these Promissory Notes to Gloucester for payment on the Payment Date and (iii) receive payment of the aggregate face value of the Promissory Notes from Gloucester on that date. Gloucester will then cause the distribution of those aggregate proceeds to the persons registered as Gloucester Shareholders on the Capital Return Record Date. See Sections 12.8 and 13.6 for further details of these arrangements. The Trustee's role as summarised above mitigates the practical risk that if the Promissory Notes were issued directly to Gloucester Shareholders registered as such on the Capital Return Record Date and if they were individually responsible for presenting their Promissory Notes for payment on the Payment Date, some of them may misplace their Promissory Notes or forget to present them for payment, with the potential consequence that they may not receive an amount in cash equal to their proportionate entitlement to the Capital Return.
- Under the Merger Proposal Deed, Yancoal Australia must have in place before the Second Court Hearing Date a A\$700 million debt facility which is dedicated to enabling Gloucester to fund the payment to the independent Trustee of the aggregate face value of the Promissory Notes on the Payment Date (see further Sections 8.7(b) and 11.5(c)).
- Under the Merger Proposal Deed, Yancoal Australia guarantees that Gloucester will perform and observe all of its obligations contained in or implied under the Promissory Notes. The practical effect of this is that Yancoal Australia is guaranteeing that, once the Merger Proposal is implemented and Gloucester becomes a wholly-owned subsidiary of Yancoal Australia, Gloucester will take the steps required on its part to ensure that an amount equal to the aggregate Capital Return Amount is paid six months after the expected Implementation Date to persons registered as Gloucester Shareholders on the Capital Return Record Date.

Your Directors consider that these arrangements appropriately protect the interests of Gloucester Shareholders registered as such on the Capital Return Record Date. However, they do not provide complete protection or an absolute assurance that the Promissory Notes will be honoured by Gloucester when they are presented for payment on what is expected to be six months after the Merger Proposal is implemented, as this relies on the financial capacity at that time of Gloucester, in the first instance, and of Yancoal Australia as guarantor, in the second instance.

1.8 What you will receive overall

The following diagram illustrates the total entitlements eligible Gloucester Shareholders who do not make an 'All Ordinary Shares' Election would receive by way of cash (through the fully franked Special Dividend and the Capital Return) and scrip (through the receipt of Yancoal Securities).

Figure 1



Notes:

- 1 Amount of Special Dividend will depend on Gloucester's trading performance up to the record date to determine entitlements to the Special Dividend and Capital Return (that is, the Capital Return Record Date). The Capital Return Record Date (to be subsequently announced) is proposed to occur at least two Business Days prior to the Effective Date of the Scheme.
- 2 Paid by Promissory Notes delivered to the independent Trustee prior to the Effective Date, with the Promissory Notes to be paid six months after the Implementation Date of the Scheme.
- 3 For Gloucester Shareholders registered as such on the Scheme Record Date. Noble has stated to Gloucester that it will make an 'All Ordinary Shares' Election (and therefore would not receive CVR Shares).
- 4 Illustrative total value ignores time value of money. Illustrative total also assumes that a Gloucester Shareholder does not (consistent with your Directors' recommendation) make an 'All Ordinary Shares' Election and that one full CVR Share is received. If the scale back mechanism under the Scheme described in Section 12.5(d) applies, a proportion of one CVR Share may be received. This diagram is provided by way of illustration only. This is not a representation of Gloucester's expectation of the share price performance of the Merged Group. Share prices may fall or rise and will be affected by both the operating and financial performance of the Merged Group as well as by general market conditions. Please refer to Section 9 for a more detailed description of risk factors affecting the Merged Group and the price of Yancoal Securities.

1.9 Tax implications and ATO Ruling

A general outline of the taxation implications for Australian resident Gloucester Shareholders in relation to receiving the Special Dividend, participating in the Capital Return and participating in the Scheme is provided in Section 10. Gloucester Shareholders should seek their own professional advice regarding the individual taxation implications relevant to them.

Gloucester has lodged two Class Ruling Requests with the Australian Taxation Office (ATO) seeking the Commissioner of Taxation's views on the specific taxation implications for Gloucester Shareholders in relation to receiving the Special Dividend, receiving the Capital Return and participating in the Scheme. The Class Ruling Requests are referred to in further detail in Section 10. There is no assurance that the ATO's views in response to these Class Ruling Requests will accord with Gloucester's expectations of the likely taxation implications of receiving the Special Dividend and Capital Return

and participating in the Scheme, as described in Section 10. Please refer to Section 5.4(d) for further details, including the possible consequences for the Merger Proposal, Special Dividend and Capital Reduction if the Class Rulings do not generally accord with Gloucester's expectations.

1.10 Conditions

The Merger Proposal is subject to a number of conditions, including:

- the Scheme being approved by Gloucester Shareholders at the Scheme Meeting by:
 - (unless the Court orders otherwise) a majority in number of Shareholders present and voting at the Scheme Meeting (in person or by proxy, corporate representative or attorney); and
 - at least 75% of the total number of votes which are cast at the Scheme Meeting;

SECTION 1 – SUMMARY OF THE MERGER PROPOSAL, SPECIAL DIVIDEND AND CAPITAL RETURN (CONTINUED)

- the Capital Reduction being approved by Gloucester Shareholders at the General Meeting by a simple majority (more than 50%) of the total number of votes which are cast at that meeting;
- the Scheme being approved by the Court;
- Gloucester Shareholders holding in aggregate at least 130 million Gloucester Shares (equivalent to approximately 64% of Gloucester Shares on issue as at the date of this Explanatory Booklet) electing to receive 100% of their Scheme Consideration in the form of all Yancoal Australia Ordinary Shares (rather than receiving any portion of their Scheme Consideration in the form of CVR Shares). In addition, Gloucester and Yancoal Australia must be satisfied that arrangements are in place that ensure the ongoing efficacy of such elections as at the Scheme Record Date;
- ASX approving the admission of Yancoal Australia to the official list of ASX and the quotation of all of Yancoal Securities on ASX;
- approvals from regulatory authorities in Australia and the People's Republic of China;
- the Hong Kong Stock Exchange confirming that Yanzhou Coal may proceed with the separate listing of Yancoal Australia on the ASX or granting a waiver to Yanzhou Coal from strict compliance with the Hong Kong Stock Exchange's approval requirement;
- no Gloucester or Yancoal Australia material adverse change (as defined), prescribed occurrences (as defined) or material warranty breaches; and
- various requirements in relation to the net debt and available facilities of Yancoal Australia and Gloucester and amendment of Gloucester converting preference share terms.

These conditions are discussed more fully in Section 11.5.

One of the required regulatory approvals has been received; namely, that of the Commonwealth Treasurer under the *Foreign Acquisitions and Takeovers Act 1975 (Cth)* to Yancoal Australia's proposed acquisition of Gloucester under the Merger Proposal. That approval is subject to the conditions noted in Section 11.7. In addition, Gloucester's largest shareholder, Noble, with interests in approximately 64.5% of Gloucester's total issued Shares, has stated to Gloucester that it:

- will vote in favour of the Merger Proposal, in the absence of a Superior Proposal; and
- does not want to receive CVR Shares for its Gloucester Shares and will accordingly make an 'All Ordinary Shares' Election (that is, it will elect not to receive any CVR Shares as part of its Scheme Consideration) and that it will not act inconsistently with this election.

The Directors believe that principles of 'Truth in Takeovers' will make it difficult for Noble to act inconsistently with these statements. Based on its current shareholding, if Noble proceeds with its notified intention of making an 'All Ordinary Shares' Election in respect of all of its Gloucester Shares, and Yancoal Australia and Gloucester are satisfied that arrangements are in place to ensure the ongoing efficacy of such elections as at the Scheme Record Date, this would satisfy the minimum 'All Ordinary Shares' election condition referred to above.

As at the date of this Explanatory Booklet, Gloucester is not aware of any circumstances which would cause any of the remaining conditions not to be satisfied or which could result in termination of the Merger Proposal Deed. Gloucester will make a statement

regarding the status of all of the conditions at the commencement of the Scheme Meeting.

1.11 Exclusivity and break fee arrangements

Under the Merger Proposal Deed:

- Gloucester has agreed to certain exclusivity arrangements in favour of Yancoal Australia;
- Yancoal Australia has agreed to certain exclusivity arrangements in favour of Gloucester; and
- Gloucester has agreed in certain circumstances to pay Yancoal Australia a break fee of A\$20 million (inclusive of GST) (however, in certain circumstances, any break fee payable by Gloucester will be reimbursed by Noble).

Please refer to Sections 5.5(e), (f), (g) and (h) for further information on these arrangements and to the Merger Proposal Deed in Appendix 6 for complete descriptions.

1.12 Implementation and timetable

If all necessary approvals and conditions for the Merger Proposal are satisfied or waived (as applicable), it is expected that the Merger Proposal will be fully implemented by Tuesday, 3 July 2012. The key dates and times in relation to the Merger Proposal are set out at the beginning of this Explanatory Booklet. Sections 11 and 12 describe in further detail the procedural aspects of the Merger Proposal and how it will be implemented.

1.13 An introduction to Yancoal Australia

Yancoal Australia is a wholly owned subsidiary of Yanzhou Coal. Yanzhou Coal acquired Felix Resources in 2009 through Yancoal Australia. Yanzhou Coal is a specialist coal mining company engaged in coal mining, coal preparation, coal sales and railway transportation of coal.

Yanzhou Coal is a joint stock limited company incorporated under the laws of the People's Republic of China and is listed on the Hong Kong Stock Exchange, New York Stock Exchange and Shanghai Stock Exchange. As at 4 April 2012, the market capitalisation of Yanzhou Coal was approximately US\$14.8 billion.

Yanzhou Coal currently operates nine coal mines in the People's Republic of China, namely the Xinglongzhuang, Baodian, Nantun, Dongtan, Jining II, Jining III, Zhaolou, Tianchi and Wenyu coal mines¹⁹, as well as a regional railway network that links these mines with the national railway grid.

The principal activities of Yancoal Australia are exploring and extracting coal resources, and operating, identifying, acquiring and developing resource related projects that primarily focus on coal in Australia. Its principal assets include:

- a 100% interest in the Austar coal mine (located in New South Wales);
- a 90% interest in the Ashton Coal Joint Venture (the Ashton coal mine is located in New South Wales);
- an 80% interest in the Moolarben Joint Venture (the Moolarben coal mine is located in New South Wales);
- a 100% interest in the Yarrabee coal mine (located in Queensland);
- a 15.4% interest in NCIG; and
- a 5.6% interest in WICET Holdings.

¹⁹ Yanzhou Coal operates these mines directly or indirectly through wholly or partly owned subsidiaries. In addition, a subsidiary of Yanzhou Coal also operates the Anyuan coal mine, which it has acquired but in respect of which the transfer registration procedures are still in progress.

A more complete profile of Yancoal Australia and its assets is provided in Section 7.

1.14 An introduction to the Merged Group

(a) Overview of the Merged Group

If the Merger Proposal proceeds, the Merged Group is expected to be Australia's largest listed pure-play coal producer²⁰ with a substantial Reserves and Resource position and an attractive pipeline of growth projects.

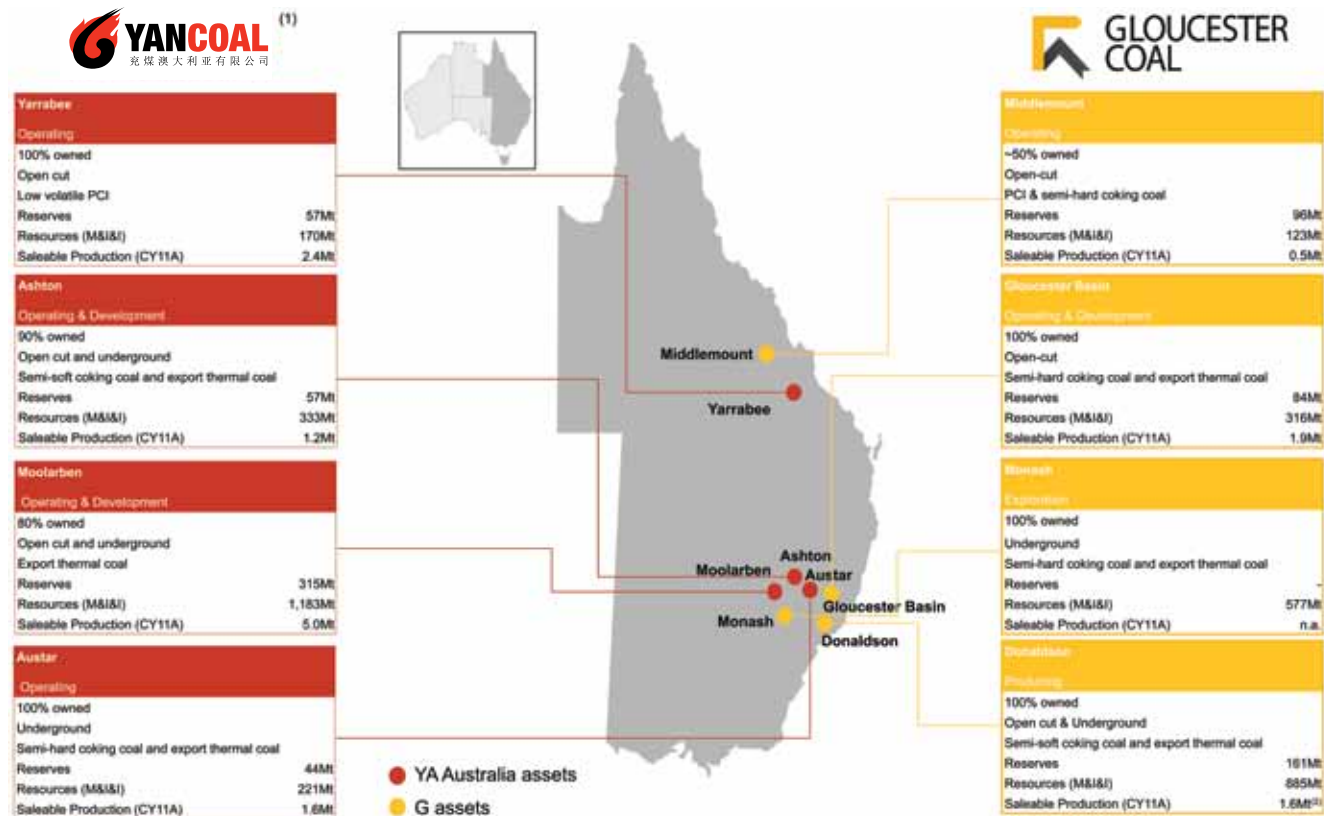
The Merged Group will have a portfolio of seven operating mines²¹, six projects under feasibility study²² and a suite of exploration assets, with projects located in the Hunter Valley (New South Wales), Gloucester Basin (New South Wales) and Bowen Basin (Queensland). These growth projects are expected to see saleable production grow from 12.8Mtpa in calendar year 2011 to approximately 25Mtpa to 33Mtpa in calendar year 2016²³. Additionally, a number of synergies are expected to arise from the merger including logistics and supply chain efficiencies, opportunities to accelerate projects due to readily available port

capacity, reduction in corporate overheads and operational costs and coal blending opportunities.

Key assets of the Merged Group will include:

- an 80% interest in the Moolarben Joint Venture;
- a 90% interest in the Ashton Coal Joint Venture;
- a 100% interest in the Auster coal mine;
- a 100% interest in the Yarrabee coal mine;
- a 100% interest in the Gloucester Basin coal operations;
- a 100% interest in the Donaldson coal operations;
- a 100% interest in the Monash Assets;
- a near 50% interest in the Middlemount Coal Joint Venture;
- the 4% Middlemount Coal Royalty;
- a 27.0% interest in NCIG; and
- a 5.6% interest in WICET Holdings.

Figure 2 – Overview of the Merged Group



Notes:

- 1 All figures shown are on a 100% basis (see Glossary in Section 16 for the meaning of the expression 'equity basis'). Reserves and Resources figures shown are reported in accordance with JORC. M&I&I is Measured, Indicated and Inferred Resources.
- 2 All information relating to Yancoal Australia is based on information provided by Yancoal Australia.
- 3 Donaldson production shown for calendar year 11. Acquisition of Donaldson effective 14 July 2011.
- 4 In respect of Yarrabee, Ashton, Moolarben and Auster Reserves and Resources refer to Section 15.2.
- 5 In respect of Middlemount Coal, Gloucester, Monash and Donaldson Reserves and Resources refer to Section 15.1.

20 By saleable production based on 2011 calendar year saleable production.

21 Gloucester Basin operations consisting of Stratford and Duralie has been counted one mine. Donaldson, consisting of Abel underground, Tasman underground and Donaldson open cut has been counted as one mine.

22 These six feasibility studies include expansions of existing operating mines, refer to Figure 4: Project Development Pipeline.

23 Projected production figures are estimates only and are subject to the risks outlined in Section 8. Forward looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties and other factors, many of which will be outside the control of the Merged Group. The upper end of this range assumes the achievement of certain synergies regarding infrastructure optimisation (refer to Section 8.15).

SECTION 1 – SUMMARY OF THE MERGER PROPOSAL, SPECIAL DIVIDEND AND CAPITAL RETURN (CONTINUED)

(b) Dividend policy

The Merged Group proposes to adopt a dividend policy under which 25% to 40% of net profit after tax (pre-Abnormal Items) is distributed to shareholders each financial year, subject to the ongoing cash needs of the business and the legal obligations of directors to the company. It is expected that Yancoal Australia will frank its dividends to the maximum extent that its franking balance allows.

Further information in relation to the expected dividend policy of the Merged Group is provided in Section 8.5(e).

(c) Rationale for the Merger Proposal

The proposed acquisition of Gloucester fits within Yancoal Australia's strategy of acquiring quality assets to which Yanzhou Coal and Yancoal Australia's technical expertise can be applied to deliver operational improvements. The Merger Proposal also provides Yanzhou Coal with an opportunity to progress towards compliance with its FIRB undertakings as part of the acquisition of Felix Resources in 2009. The Merger Proposal allows Yanzhou Coal to achieve an ASX listing of Yancoal Australia.

Gloucester Shareholders, other than Foreign Scheme Shareholders and Electing Small Shareholders, will have a direct investment exposure to Yancoal Australia's suite of high quality assets through their ownership interest in the Merged Group. Additionally, Gloucester Shareholders other than those who elect to receive all Yancoal Australia Ordinary Shares as their Scheme Consideration, will receive value protection on their investment in the Merged Group through the receipt of CVR Shares.

It is expected that both Yanzhou Coal and Gloucester Shareholders will benefit from synergies which are likely to enhance the value of the Merged Group (see Section 8.15 for a discussion of expected synergies from the Merger Proposal and Section 9.5(a) for a discussion of the risks associated with realising the full extent of the expected synergies).

(d) Yancoal Australia's post acquisition intentions

Following implementation of the Merger Proposal, Yancoal Australia will conduct a strategic review of the combined portfolio of Yancoal Australia and Gloucester assets. It is the intention of Yancoal Australia to continue to operate the businesses of Yancoal Australia (other than the Excluded Assets) and Gloucester in substantially the same manner as it is currently operated.

It should be noted that the Merged Group will not include the Excluded Assets. An overview of the Excluded Assets is provided in Section 7.5. In time, Yancoal Australia is expected to develop the assets of the Merged Group and to pursue further growth opportunities, as determined by its board.

The senior management team of the Merged Group will comprise the Executive Committee described in Section 8.4. Yancoal Australia intends to integrate Gloucester's corporate head office functions with those of Yancoal Australia and this may result in the closure or consolidation of certain offices and functions. However, it is expected that the existing Gloucester mine sites will continue to operate with substantially the same workforce.

See Section 8.5 for a detailed discussion of Yancoal Australia's intentions for the Merged Group.

1.15 Risks associated with an investment in the Merged Group

If the Merger Proposal proceeds, Gloucester will merge its business with that of Yancoal Australia and Gloucester Shareholders (other than Foreign Scheme Shareholders and Electing Small Shareholders) will receive Yancoal Securities. Consequently, those Gloucester Shareholders will be exposed to risks of an investment in the Merged Group. Set out below is a summary of key risks, some of which already apply to Gloucester Shareholders through their current investment in Gloucester but which may be greater in the context of an investment in the Merged Group. The summary below is not exhaustive. It should be read in conjunction with Section 9 which provides a more complete description of risk factors.

Exploration and development risks

The development and exploration activities of the Merged Group may be affected by factors beyond its control, including geological conditions, seismic activity, mineralisation, consistency and predictability of coal grades, changes in law²⁴, changes to the regulatory framework applying to mining (e.g. environmental legislation), overlapping resources tenure, land access arrangements, including the inability to purchase or lease land on which proposed exploration or development activities are to be undertaken, and the rights of Indigenous people on whose land exploration activities are undertaken.

There is also a risk that any required mining or related approvals are not received at all, within expected timeframes or on terms that are acceptable to the Merged Group.

Coal price and coal demand risk

Absent offsetting factors, significant and sustained adverse movements in demand for coal and coal prices (both generally and in relation to particular types and classes of coal) may have a material adverse impact on the ongoing financial performance and financial position of the Merged Group.

Transport and infrastructure risks

Coal produced from Gloucester's and Yancoal Australia's respective mining operations is transported to customers by a combination of road, rail and sea. A number of factors could disrupt or restrict access to essential coal transportation and handling services of the Merged Group. In relation to transport by sea, certain port developments and expansions are proposed or currently under construction. However, these may not proceed at all or as planned, they may be delayed or there may be changes to allocations of port capacity that have been provisionally allocated to entities including Gloucester and Yancoal.

²⁴ For example, the Federal Government announced on 2 July 2010 that it intends to introduce a Minerals Resources Rent Tax from 1 July 2012, payable at the rate of 30% on profits made from the exploitation of Australia's non-renewable resources. See further Section 9.3.3(d).

Estimates of Resources and Reserves and geology	If the Merged Group's actual Resources and Reserves are less than the current estimates included in this Explanatory Booklet, the Merged Group's prospects, value, business, results of operations and financial condition may be materially adversely affected. There are risks associated with such estimates, including that coal mined may be of a different quality or grade, tonnage or strip ratio from those in the estimates and the ability to economically extract and process the coal may not eventuate.
Operating risks	The Merged Group's coal mining operations will be subject to operating risks that could result in decreased coal production which in turn could reduce its revenues. Operational difficulties may impact the amount of coal produced, delay coal deliveries or increase the cost of mining for a varying length of time. These operating risks include industrial accidents, mine collapse, cave-ins or other failures relating to mine infrastructure, including tailings dams, interruptions due to inclement or hazardous weather conditions, power interruption, critical equipment failure, fires, and explosions, accidental mine water discharges, flooding and variations in or unusual or unexpected geological or mining conditions.
Mine closure	Closure of any of the mines of the Merged Group, before the end of their mine life (e.g. due to environmental and/or health and safety issues), could trigger significant employee redundancy costs, closure and rehabilitation expense and other costs or loss of revenues. Many of these costs will also be incurred where mines are closed at the end of their planned mine life.
Coal supply agreements	Gloucester's and Yancoal Australia's coal supply agreements typically require the delivery of a fixed or minimum quantity of coal at a location, at a time and over a period stipulated in the agreement. Most of these agreements also require the delivery of coal meeting specified quality thresholds. Failure to meet these specifications could have adverse consequences for the Merged Group.
Joint ventures and reliance on third parties	<p>The Merged Group will hold its interest in a number of coal assets in joint ventures with other parties. Under the relevant joint venture agreements, certain decisions require the approval of those other joint venture participants. These agreements rely on the co-operation of those other parties. The Merged Group cannot guarantee that joint ventures will be operated or managed in accordance with its preferred direction.</p> <p>Gloucester and Yancoal Australia also use contractors and other third parties for exploration, mining and other services generally, and they rely on a number of third parties for the success of their current operations and for developing their growth projects. Any failure by counterparties to perform their obligations may have a material adverse effect on the Merged Group.</p>
Key personnel, skilled labour and industrial action	<p>Any loss of key senior management may have a material adverse effect on the Merged Group. Similarly, the Merged Group may be materially adversely affected by any shortage of key employees required to operate its mines or other staff with specialised skills or qualifications.</p> <p>The Merged Group will also be highly exposed to the negative impact of any increases in labour costs. Where projects are being developed or expanded, large numbers of new employees may be required. There is currently a significant shortage of skilled workers in coal mining regions in Australia, which could result in the Merged Group having insufficient employees or contractors to operate its business.</p> <p>Industrial action taken by employees of the Merged Group or its mining contractors could disrupt operations.</p>
Financing risks	The Merged Group will have a pro forma net debt position of A\$3.6 billion ²⁵ . The ability of the Merged Group to service this debt will depend on future performance and cash flows, which will be affected by many factors, some of which are beyond the control of the Merged Group. The ability of the Merged Group to service its debt may be materially impacted by the interest rates applying to that debt from time to time. Any inability of the Merged Group to service its debt may have a material adverse effect on it.
Exchange rate and currency risk	The liabilities, earnings and cash flows of the Merged Group will be influenced by movements in exchange rates, especially movements in the Australian dollar/US dollar exchange rate. Any significant or sustained adverse movement in this exchange rate may have a material adverse impact on the ongoing financial performance and financial position of the Merged Group.
Competition and substitution	<p>The Merged Group will face competition from other Australian and international producers of coal. The coal industry is highly competitive, and an increase in production or reduction in price of competing coals from both Australia and overseas may adversely impact the Merged Group's ability to sell its coal products and the price attained for sales. Increased competition in the future, including from new competitors, may emerge.</p> <p>The future development of new steel making technologies or practices may also lead to greater use of lower quality coals or other carbon sources in substitution for the metallurgical coals produced by the Merged Group. This could lower demand for, and the price of, the metallurgical coals produced by the Merged Group.</p>

²⁵ Based on figures as at 22 February 2012, primarily US\$ denominated debt converted at US\$ = A\$1.0724.

SECTION 1 – SUMMARY OF THE MERGER PROPOSAL, SPECIAL DIVIDEND AND CAPITAL RETURN (CONTINUED)

Integration risks	The successful integration of the businesses of Gloucester and Yancoal Australia may take longer and/or cost more than expected. The anticipated efficiencies and synergy benefits of that integration may be less than estimated.
Contract risk	The Merger Proposal may be deemed under contracts to which members of the Gloucester and Yancoal Australia corporate groups are parties to result in a change of control in respect of Gloucester or Yancoal Australia that allows the counterparty to review or terminate the relevant contract. This may have a material adverse effect on the financial performance of the Merged Group, depending on the relevant contracts.
Accounting risk	<p>In accounting for the Merger, the Merged Group will need to perform a fair value assessment of all of Gloucester's assets, liabilities and contingent liabilities, which will include the identification and valuation of mineral rights and intangible assets. As a result of this fair value assessment, the Merged Group's depreciation and amortisation charges will be substantially greater than the depreciation and amortisation charges of Gloucester and Yancoal Australia as separate businesses, and to that extent will significantly reduce the future earnings of the Merged Group.</p> <p>To the extent goodwill is recognised in respect of accounting for the acquisition of Gloucester by Yancoal Australia, that goodwill will be subject to annual impairment testing. If the recoverable amount of goodwill is impaired, this will result in a charge against future earnings.</p>

1.16 Risks associated with holding Yancoal Securities

(a) Market price

There is presently no public market for Yancoal Securities (and none has previously existed). There can be no assurance as to the price at which Yancoal Securities will trade on ASX on implementation of the Merger Proposal, or that an active market for Yancoal Securities will develop or, if developed, that such a market will be sustained.

(b) Liquidity

If the Merger Proposal proceeds, Yanzhou Coal would hold approximately 78% of Yancoal Australia ordinary shares, Noble approximately 13% and other current Gloucester Shareholders approximately 9%. Accordingly, there would only be a limited 'free float' of shares that may be available for trading, which in turn may adversely impact the liquidity of Yancoal Australia Ordinary Shares and CVR Shares, and contribute to the market prices of these securities being volatile. The liquidity of these securities on ASX cannot be predicted with any degree of certainty. The low free float of the Merged Group is also likely to impact the ability of the Merged Group to be included in equity indices.

FIRB has approved the Merger Proposal on condition that Yanzhou Coal reduce its economic ownership of Yancoal Australia to below 70% and of Felix Resources' underlying assets as the time of acquisition of Felix Resources by Yancoal Australia (other than Excluded Felix Assets) to no more than 50% by the end of 2013. See Section 14.15 for further details.

1.17 Directors' recommendations and intentions

Your Directors unanimously believe that the Merger Proposal and Capital Return are **in the best interests of Gloucester Shareholders**. Accordingly, in the absence of a Superior Proposal, your Directors unanimously recommend that Gloucester Shareholders **vote in favour of the Scheme (to give effect to the Merger Proposal) and the Capital Reduction Resolution (to give effect to the Capital Return)**.

In the absence of a Superior Proposal, **all Directors intend to vote in favour of the Scheme and the Capital Reduction Resolution, in respect of all Gloucester Shares held by them or in which they otherwise have a relevant interest.**

No Superior Proposal has been received as at the date of this Explanatory Booklet.

Gloucester's Directors also recommend that Gloucester Shareholders (other than Noble) **do not** lodge an 'All Ordinary Shares' Election Form, so that they will receive CVR Shares in addition to Yancoal Australia Ordinary Shares and participate to the maximum extent possible in the CVR Shares component of the Scheme Consideration.

In forming their unanimous recommendation, your Directors have carefully considered the conditions, expected advantages, potential disadvantages and risks of the Merger Proposal and Capital Return. These matters are described in more detail in Sections 5 and 9 of this Explanatory Booklet and in the Independent Expert's Report in Appendix 1. Your Directors believe that the expected advantages of the Merger Proposal and Capital Return outweigh their possible disadvantages and risks.

1.18 Independent Expert

Gloucester engaged the Independent Expert, Deloitte, to prepare a report expressing an opinion on whether the Merger Proposal is in the best interests of Shareholders.

Deloitte has concluded that, in the absence of a Superior Proposal, the Merger Proposal is fair and reasonable and in the best interests of those Gloucester Shareholders who receive CVR Shares as part of their Scheme Consideration. Deloitte's report is included in Appendix 1.

You should note that Deloitte's Independent Expert's Report does not extend to providing an opinion on the Capital Return. For the reasons noted in Section 11.10(e), your Directors consider that the Capital Return is fair and reasonable to Gloucester Shareholders as a whole and will not materially prejudice Gloucester's ability to pay its creditors.



SECTION 2

FREQUENTLY ASKED QUESTIONS

SECTION 2 – FREQUENTLY ASKED QUESTIONS

Set out below are summary answers to some questions that Gloucester Shareholders may have in relation to the Merger Proposal, the Capital Return and the Special Dividend. This information is a summary only, and should be read in conjunction with the remainder of this Explanatory Booklet.

A. QUESTIONS ABOUT THE MERGER PROPOSAL

Question	Answer	Further Information
What are Gloucester Shareholders being asked to consider?	<p>You are being asked to consider and vote on a proposal to combine Gloucester's coal assets with most of Yancoal Australia's coal assets (being its existing assets other than the Excluded Assets), to create a newly listed leading pure-play coal company in Australia.</p> <p>Separately to the Merger Proposal, you are being asked to consider and vote on a Capital Return that would result in eligible Gloucester Shareholders receiving approximately A\$2.71 cash per Share (or a total of A\$3.15²⁶ cash per Share together with the Special Dividend, if the Gloucester Board authorises the Special Dividend and Gloucester pays it).</p>	<p>Sections 1, 8 and 9</p> <p>See the Q&As under Part C of this Section for further information on the proposed Capital Return and the Special Dividend</p>
How will the Merger Proposal be implemented?	<p>The Merger Proposal will be implemented by way of a scheme of arrangement between Gloucester and its Shareholders under which all Gloucester Shares will be transferred to Yancoal Australia in consideration for Yancoal Australia issuing to eligible Gloucester Shareholders Yancoal Securities which will be listed on ASX.</p> <p>The Scheme is subject to approval by Gloucester Shareholders and the Court, and certain other conditions.</p> <p>If all of the approvals and conditions for the Scheme are satisfied or waived (as applicable), the Scheme will constitute a binding arrangement between Gloucester and each Scheme Shareholder to undertake the steps required to:</p> <ul style="list-style-type: none"> • transfer all of their Gloucester Shares to Yancoal Australia; and • otherwise give effect to the Merger Proposal. <p>If all of the approvals and conditions for the Scheme are satisfied or waived (as applicable), you will be bound by the Scheme whether or not you vote at the Scheme Meeting and even if you vote against the Scheme.</p>	<p>Sections 11 and 12</p> <p>The terms of the Scheme are set out in Appendix 3</p>
Am I entitled to participate in the Merger Proposal?	<p>If you are registered as a Gloucester Shareholder by the Gloucester Share Registry at the Scheme Record Date (expected to be 12.00pm on Saturday, 2 June 2012), you will be a 'Scheme Shareholder' for the purposes of the Scheme and entitled to participate in the Merger Proposal.</p>	<p>Sections 11 and 12</p>
Is this a takeover offer?	<p>The Merger Proposal is not a takeover offer, it is a scheme of arrangement. However, if the Scheme is approved by Gloucester Shareholders and by the Court and if all of the other conditions and approvals are satisfied or waived (as applicable), the outcome will be similar to a successful 100% takeover bid in that:</p> <ul style="list-style-type: none"> • all of the Gloucester Shares will be transferred to Yancoal Australia; and • Gloucester Shareholders will receive the Scheme Consideration for each Gloucester Share registered in their name as at the Scheme Record Date. 	<p>Sections 11 and 12</p>

²⁶ As foreshadowed in Gloucester's announcement to ASX of 23 December 2011, the amount of the Capital Return can vary and reflects the intended cancellation of all of the Gloucester Options for cash (see Section 11.9 for details of these intended cancellation arrangements). The Special Dividend is subject to the determination of the Gloucester Directors and the amount of Special Dividend will depend on Gloucester's trading performance up to the Capital Return Record Date. The Capital Return is subject to the Gloucester Directors announcing a Capital Return Record Date. See Sections 11 and 12 for further details.

Question	Answer	Further Information
Why has the Merger Proposal been structured as a scheme of arrangement?	<p>Both the Gloucester and Yancoal Australia Directors consider that the Merger Proposal is in the interests of their respective shareholders, in the absence of a Superior Proposal.</p> <p>A scheme of arrangement is believed to be the most efficient structure to implement the Merger Proposal. In particular, certain features of the CVR Shares component of the Scheme Consideration would not be permitted under a conventional takeover bid, and the synergies expected to be realised from the Merger Proposal can only be realised to their fullest extent where 100% of Gloucester is acquired by Yancoal Australia. Structuring the transaction as a scheme of arrangement provides greater certainty that if the transaction is approved by Gloucester Shareholders and the Court, 100% ownership and control of Gloucester will be acquired by Yancoal Australia. A scheme structure should also ensure scrip-for-scrip CGT roll-over relief is available for those Scheme Shareholders who can benefit from it (see Section 10).</p>	
What will be the effect of the Merger Proposal?	<ul style="list-style-type: none"> • You will transfer all of your Gloucester Shares to Yancoal Australia so that Gloucester becomes a wholly owned subsidiary of Yancoal Australia. • In exchange for the transfer of your Gloucester Shares to Yancoal Australia, you will receive the Scheme Consideration. • Gloucester will be delisted from ASX. • Yancoal Australia will be listed on ASX and will be owned 78% by Yanzhou Coal and 22% by Gloucester Shareholders who participate in the Scheme. 	Sections 11 and 12

SECTION 2 – FREQUENTLY ASKED QUESTIONS (CONTINUED)

Question	Answer	Further Information
<p>What are the key conditions that need to be satisfied before the Merger Proposal, Capital Return and Special Dividend can proceed?</p>	<p>The key remaining conditions that must be satisfied are:</p> <ul style="list-style-type: none"> • Gloucester Shareholders approving the Scheme at the Scheme Meeting; • Gloucester Shareholders approving the Capital Reduction at the General Meeting; • ASX approving the admission of Yancoal Australia to ASX and granting quotation of all of its issued shares (including the CVR Shares); • the Court approving the Scheme; • prior to Court approval of the Scheme, Gloucester Shareholders holding in aggregate at least 130 million Shares elect to receive all of their Scheme Consideration in the form of all Yancoal Australia Ordinary Shares, and Gloucester and Yancoal Australia being satisfied that arrangements are in place that ensure the ongoing efficacy of such elections as at the Scheme Record Date; and • approvals from regulatory authorities in Australia and the People's Republic of China, and from the Hong Kong Stock Exchange. <p>One of the required regulatory approvals has been received; namely, that of the Commonwealth Treasurer under the <i>Foreign Acquisitions and Takeovers Act 1975</i> (Cth) to Yancoal Australia's acquisition of Gloucester under the Merger Proposal.</p> <p>In addition, Noble has indicated that it will make an 'All Ordinary Shares' Election (thereby electing to receive the Scheme Consideration alternative that does not include a combination of CVR Shares and Yancoal Shares). Based on Noble's current shareholding, this would satisfy the first limb of the Minimum Election Condition referred to above.</p> <p>The Merger Proposal and the Capital Return are each subject to various other conditions being satisfied or waived.</p> <p>Gloucester will make a statement at the commencement of the Scheme Meeting regarding the status of the conditions that apply to the Merger Proposal and the Capital Return respectively.</p>	<p>Sections 1.10 and 11.5, Appendix 6</p>
<p>Are there any risks for me if the Merger Proposal proceeds?</p>	<p>Yes. As you will be receiving Yancoal Securities in exchange for your Gloucester Shares, you will be exposed to the risks of an investment in the Merged Group. These risks include ones similar to those which presently apply to your Gloucester Shares. In addition, there are specific risks associated with the Merged Group and with holding Yancoal Securities.</p>	<p>Sections 1.15, 1.16 and 9</p>

Question	Answer	Further Information
What happens if the Merger Proposal is not approved and I still hold Gloucester Shares?	<p>If the Merger Proposal is not approved by Gloucester Shareholders or by the Court and you still hold any Gloucester Shares at either of those points in time:</p> <ul style="list-style-type: none"> • you will not receive the Scheme Consideration; • the Gloucester Board will not declare or authorise any Special Dividend; • the Gloucester Board does not intend to proceed with the Capital Return; • the price of Gloucester Shares might fall; • Gloucester may need to take steps to address funding needs arising in its business; • you will retain your current investment in Gloucester Shares and, in doing so, you will continue to retain the benefits of an investment in Gloucester as a continuing ASX-listed entity and continue to be exposed to the risks presently associated with this investment. These risks include general risks of holding shares and risks that are specific to Gloucester's business as described in Section 9.4; • the expected advantages of the Merger Proposal, as outlined in Section 5.3, will not be realised. Equally, some of the possible reasons identified in Section 5.4 to vote against the Merger Proposal will no longer be relevant; and • Gloucester will have incurred substantial costs (although some of these costs may be reimbursed by Noble in certain circumstances) and expended management time and resources for a proposed change of control transaction that does not proceed. 	Section 5.5(b)
What happens if a Superior Proposal emerges?	If a Superior Proposal emerges, this will be announced to ASX and the Gloucester Directors will carefully reconsider the Merger Proposal and the Capital Return and inform you of their recommendations.	Sections 5.4(f), 5.5(e), 5.5(f), 5.5(g), 5.5(h) and Appendix 6
Under what scenarios can Gloucester or Yancoal Australia terminate this Merger Proposal?	The Merger Proposal Deed provides for various circumstances where either Gloucester or Yancoal Australia has the right to terminate that deed and thereby withdraw from the Merger Proposal. These include the Scheme and the Capital Return not being approved by the requisite majorities of Gloucester Shareholders, the Court refusing to approve the Scheme, certain occurrences arising (some of which are within the control of each party, others of which may be outside the control of each party) or if the Gloucester Board withdraws or adversely changes its recommendation in favour of the Merger Proposal.	Section 11.6, Appendix 6

SECTION 2 – FREQUENTLY ASKED QUESTIONS (CONTINUED)

B. QUESTIONS ABOUT THE SCHEME CONSIDERATION

Question	Answer	Further Information
What will I receive if the Merger Proposal proceeds?	<p>If the Scheme becomes Effective and you are a Scheme Shareholder (other than a Foreign Scheme Shareholder or an Electing Small Shareholder), you will have the option of receiving either all Yancoal Australia Ordinary Shares or a combination of Yancoal Australia Ordinary Shares and CVR Shares.</p> <p>If you do not make an election, you will receive one Yancoal Australia Ordinary Share plus a fraction of one CVR Share for each Gloucester Share you hold as at the Scheme Record Date. However, steps have been taken to maximise the opportunity for Shareholders other than Noble to receive (in addition to Yancoal Australia Ordinary Shares), should they wish, up to one CVR Share for each of their Gloucester Shares.</p> <p>If you elect to receive only Yancoal Australia Ordinary Shares, you will receive one Yancoal Australia Ordinary Share for each Gloucester Share you hold as at the Scheme Record Date.</p>	Sections 1.3, 5.2, 12.5 and Appendix 3
What are CVR Shares?	<p>In addition to receiving one Yancoal Australia Ordinary Share for each Gloucester Share held, Gloucester Shareholders will also have the opportunity under the Scheme to receive a form of share, which has been specially created for the purposes of the Merger Proposal. These shares are called contingent value rights shares and are referred to in this Explanatory Booklet as CVR Shares.</p> <p>Section 3 provides an explanation of how CVR Shares operate, including the rights attaching to CVR Shares and hypothetical examples. The full Terms of Issue that apply to CVR Shares are set out in Appendix 8.</p>	Section 3 and Appendix 8
What if I am a foreign shareholder?	<p>Certain Gloucester Shareholders with registered addresses outside Australia and New Zealand will not be issued with Yancoal Securities²⁷. Instead, the Yancoal Securities that would otherwise be issued to them will be sold and they will receive the net sale proceeds.</p>	Section 12.5(f)
What if I am a Small Shareholder?	<p>If you hold 200 or less Gloucester Shares as at the Scheme Record Date, you are classified as a Small Shareholder.</p> <p>Instead of receiving Yancoal Australia Ordinary Shares and/or CVR Shares, you may elect to receive the net proceeds of sale of the Yancoal Securities that would otherwise be issued to you.</p> <p>Small Shareholders should consider their personal circumstances and preferences in deciding whether to receive Yancoal Securities or the net proceeds of sale of the Yancoal Securities that would otherwise be issued to them. If you are a Small Shareholder and would prefer the latter alternative, you should complete and sign the Small Shareholder Cash Election Form enclosed with this Explanatory Booklet and return it to the Gloucester Share Registry before 5.00pm (Sydney time) on Thursday, 7 June 2012.</p>	Section 12.5(g)

²⁷ Gloucester's majority Shareholder, Noble, will not be a Foreign Scheme Shareholder under the relevant criteria.

Question	Answer	Further Information
How do I make my election as to the form of Scheme Consideration that I will receive?	<p>You only need to make an election if you wish to receive 100% of your Scheme Consideration in the form of Yancoal Australia Ordinary Shares or if you hold 200 or less Gloucester Shares and wish to receive the net proceeds of sale of the Yancoal Securities that would otherwise be issued to you.</p> <p>If you wish to receive 100% of your Scheme Consideration in the form of Yancoal Australia Ordinary Shares, you must complete and sign the 'All Ordinary Shares' Election Form enclosed with this Explanatory Booklet and return it to the Gloucester Share Registry before 5.00pm (Sydney time) on Thursday, 7 June 2012.</p> <p>If you wish to receive Yancoal Australia Ordinary Shares and CVR Shares as your Scheme Consideration, you are not required to make any election.</p> <p>If you hold 200 or less Gloucester Shares and wish to receive the net proceeds of sale of the Yancoal Securities that would otherwise be issued to you, you must complete and sign the Small Shareholder Cash Election Form enclosed with this Explanatory Booklet and return it to the Gloucester Share Registry before 5.00pm (Sydney time) on Thursday, 7 June 2012.</p>	Section 11.4 provides further information on completing and submitting the 'All Ordinary Shares' Election Form or the Small Shareholder Cash Election Form
What if I don't make an election as to the form of Scheme Consideration I will receive?	The 'default' or standard Scheme Consideration for Gloucester Shareholders who do not submit an 'All Ordinary Shares' Election Form or a Small Shareholder Cash Election Form will be one Yancoal Australia Ordinary Share and one CVR Share (subject to scale back) for each Gloucester Share held on the Scheme Record Date.	Section 1.3, 11.4 and Appendix 3
What do the Directors recommend that I do regarding the Scheme Consideration?	Your Directors unanimously recommend that Shareholders (other than Noble) do NOT make an 'All Ordinary Shares' Election so that they will receive CVR Shares in addition to Yancoal Australia Ordinary Shares and participate to the maximum extent possible in the CVR Shares component of the Scheme Consideration.	Section 5.2 See also the letter from the Chairman of Gloucester at pages 8–10
Can I withdraw or change my election as to the form of Scheme Consideration if I change my mind?	Yes. If you wish to change your 'All Ordinary Shares' Election Form or your Small Shareholder Cash Election Form once you have already lodged it, you may vary or withdraw it at any time up to 5.00pm (Sydney time) on Thursday, 7 June 2012.	Section 11.4
When will I receive my Scheme Consideration?	<p>Holding statements detailing your holding of Yancoal Australia Ordinary Shares and CVR Shares are expected to be despatched to you within five Business Days after the Implementation Date.</p> <p>Foreign Scheme Shareholders and Electing Small Shareholders will receive their net proceeds of sale within approximately 15 Business Days after the Implementation Date.</p>	'Important times and dates' on page 3, Section 12, Appendix 3
Do I have to do anything to transfer my Gloucester Shares?	<p>No. If the Scheme is approved and implemented, Gloucester will automatically have authority to sign and deliver a transfer on your behalf of all of your Gloucester Shares to Yancoal Australia, and the Scheme Consideration will be provided to you. However, you should be aware that under the Scheme, you are deemed to have warranted to Gloucester that:</p> <ul style="list-style-type: none"> • all your Gloucester Shares are fully paid and not encumbered; and • you have full power and capacity to sell and transfer your Gloucester Shares. <p>Therefore, you should ensure that these warranties can be given to you before the Implementation Date.</p>	Section 12.5(b) and Appendix 3

SECTION 2 – FREQUENTLY ASKED QUESTIONS (CONTINUED)

Question	Answer	Further Information
When can I start trading my Yancoal Australia Ordinary Shares and CVR Shares on ASX?	<p>Trading on ASX of Yancoal Australia Ordinary Shares and CVR Shares is expected to commence on or about Monday, 25 June 2012 (being the first Business Day after the Effective Date), initially on a deferred settlement basis. Deferred settlement trading will continue until the dispatch of holding statements for Yancoal Australia Ordinary Shares which is expected to be on or about Tuesday, 10 July 2012.</p> <p>Gloucester will publish a newspaper notice on or about Monday, 25 June 2012, setting out the basis for allocations of Yancoal Australia Ordinary Shares and/or CVR Shares to be issued to Gloucester Shareholders. From that date, you may also call the Gloucester Information Line on 1300 368 646 (within Australia) or on +61 39415 4161 (outside Australia) to confirm your allocation of Yancoal Australia Ordinary Shares and CVR Shares.</p> <p>The expected dispatch date of holding statements for Yancoal Australia Ordinary Shares and CVR Shares is on or before five Business Days after the Implementation Date. Once holding statements are dispatched, deferred settlement trading in Yancoal Australia Ordinary Shares and CVR Shares will cease and normal settlement trading in those shares will commence.</p> <p>Please note that you are responsible for confirming your allocation of Yancoal Australia Ordinary Shares and CVR Shares before trading in those shares. If you sell Yancoal Australia Ordinary Shares or CVR Shares before receiving confirmation of your allocation, you do so at your own risk.</p>	Section 12.7
Will I have to pay brokerage fees or other costs on the disposal of my Gloucester Shares?	No. There are no brokerage or other costs payable by you in connection with the disposal of your Gloucester Shares under the Merger Proposal. However, cash proceeds received by Foreign Scheme Shareholders and Electing Small Shareholders will be received net of any applicable brokerage or other costs payable in connection with the disposal of the relevant Yancoal Securities.	Appendix 3

C. QUESTIONS ABOUT THE SPECIAL DIVIDEND AND THE CAPITAL RETURN

Question	Answer	Further Information
What is the Special Dividend and Capital Return?	<p>Separately to the Scheme, it is proposed that eligible Gloucester Shareholders will receive A\$3.15 cash per Gloucester Share comprising:</p> <ul style="list-style-type: none"> • a fully franked Special Dividend of approximately A\$0.44 per Gloucester Share²⁸; and • a Capital Return of approximately A\$2.71 per Gloucester Share²⁹. <p>Although the exact values of the Special Dividend and the Capital Return are not known at the date of this Explanatory Booklet, they would always total A\$3.15 per Share.</p>	Sections 11 and 12
What are the conditions for the Capital Return?	<p>The Capital Return is conditional on:</p> <ul style="list-style-type: none"> • Shareholders approving the Capital Reduction Resolution at the General Meeting; and • the Gloucester Board making an ASX announcement no later than two Business Days after the Court Approval Date setting the Capital Return Record Date. 	Sections 11 and 12, Appendix 6
What is the relationship between the Capital Return and the Scheme?	<p>The Scheme is conditional on Gloucester Shareholders approving the Capital Reduction Resolution at the General Meeting (being the resolution required for the Capital Return to proceed).</p> <p>The Capital Return is <i>not</i> conditional on the Scheme proceeding. However, if Gloucester Shareholders or the Court do not approve the Scheme, the Gloucester Board does not intend to proceed with the Capital Return.</p>	Section 11, Appendix 6
What is the relationship between the Special Dividend and the Scheme?	<p>If Gloucester Shareholders or the Court do not approve the Scheme, the Gloucester Board does not intend to declare or authorise the Special Dividend.</p>	
How will the Capital Return be effected?	<p>The Capital Return would be effected by Gloucester undertaking a shareholder approved equal reduction of capital that would not involve the cancellation of any Gloucester Shares or the creation of any unpaid amount on Gloucester Shares. The same Gloucester Shareholders that are entitled to participate in the Capital Return will be entitled to participate in the Special Dividend.</p> <p>The obligations of Gloucester to eligible Gloucester Shareholders under the Capital Return will be discharged by Gloucester issuing to the Trustee Promissory Notes for an amount equal to the aggregate amount of the Capital Return, payable on presentation by the Trustee six months after the Implementation Date.</p> <p>The Trustee will hold the Promissory Notes on trust for Gloucester Shareholders registered as such on the Capital Return Record Date.</p> <p>On the due date, it is proposed that the Trustee will present the Promissory Notes to Gloucester for payment and arrange for the distribution of the proceeds to the eligible former Gloucester Shareholders.</p>	Sections 1.7, 12.8 and 13.6
Who will be eligible to receive the Capital Return and the Special Dividend?	<p>All persons registered as Gloucester Shareholders as at the Capital Return Record Date will be eligible to receive the Capital Return and the Special Dividend.</p> <p>The Capital Return Record Date is currently scheduled to be Wednesday, 20 June 2012.</p>	Sections 11.10 and 12.8

²⁸ The Special Dividend is subject to the determination of the Gloucester Directors and the amount of Special Dividend will depend on Gloucester's trading performance up to the Capital Return Record Date.

²⁹ As foreshadowed in Gloucester's 23 December 2011 announcement, the amount can vary and reflects the intended cancellation of all of the Gloucester Options for cash. (See Section 11.9 for details of these intended cancellation arrangements). The Capital Return is subject to the Gloucester Directors announcing a Capital Return Record Date. See Sections 10 and 11 for further details.

SECTION 2 – FREQUENTLY ASKED QUESTIONS (CONTINUED)

Question	Answer	Further Information
When will I receive payment for the Special Dividend?	If the Gloucester Board declares or authorises the Special Dividend, it is expected that it will be paid to eligible Shareholders on or around Thursday, 21 June 2012.	'Important dates and times' on page 3, Section 12
What are the tax consequences of the Special Dividend?	It is currently expected that the Special Dividend will be fully franked.	Section 10
When will I receive payment for the Capital Return?	If the Capital Return is approved and proceeds, Gloucester will discharge its obligations to eligible Shareholders on or about the same date as the Special Dividend is paid to those Shareholders by Gloucester delivering Promissory Notes to the Trustee. Gloucester Shareholders on the Capital Return Record Date will only receive cash on the due date for payment of the Promissory Notes, which is six months after the Implementation Date; i.e. on or about Thursday, 3 January 2013 (or such other date, being no earlier than 3 January 2013 and no later than 31 January 2013, determined by Gloucester in accordance with the Merger Proposal Deed).	'Important dates and times' on page 3, Section 12.8
Why do I have to wait six months to receive payment for the Capital Return?	<p>As part of the negotiation of the overall terms of the Merger Proposal and Capital Return, Yanzhou Coal required that Gloucester retain access to the aggregate Capital Return proceeds (expected to be approximately A\$590 million) for six months following the implementation of the Merger Proposal. Recognising that Gloucester will become a wholly-owned subsidiary of Yancoal Australia immediately after the Merger Proposal is implemented, arrangements have been put in place to protect the interests of Gloucester Shareholders during this six month period.</p> <p>However, you should note that those arrangements do not provide complete protection or an absolute assurance that the Promissory Notes will be honoured by Gloucester when they are presented for payment on what is expected to be six months after the Merger Proposal is implemented. This relies on the financial capacity at that time of Gloucester, in the first instance, and of Yancoal Australia as guarantor, in the second instance.</p>	Sections 1.7, 11.10 and 12.8

D. QUESTIONS ABOUT YANCOAL AUSTRALIA AND THE MERGED GROUP

Question	Answer	Further Information
Who is Yancoal Australia?	<p>Yancoal Australia is a wholly-owned subsidiary of Yanzhou Coal, a joint stock limited company incorporated under the laws of the People's Republic of China and listed on the Hong Kong Stock Exchange, New York Stock Exchange and Shanghai Stock Exchange.</p> <p>The principal activities of Yancoal Australia are exploring and extracting coal resources, and operating, identifying, acquiring and developing resource related projects that primarily focus on coal in Australia.</p>	Sections 1.13 and 7
What will the Merged Group be called?	Yancoal Australia Limited	Section 8.1
What are the expected benefits of the Merged Group?	See Section 5.3 for the reasons why the Gloucester Directors recommend that you vote in favour of the Merger Proposal, in the absence of a Superior Proposal. Section 5.3 includes a statement of the expected benefits of merging Gloucester and Yancoal Australia to form the Merged Group. See also, Section 8 for a profile on the Merged Group.	Sections 5.3 and 8
Who will be on the Merged Group's Board?	<p>If the Merger Proposal proceeds, the Merged Group will comprise 11 directors, including:</p> <p>Mr Weimin Li – Chairman</p> <p>Mr Cunliang Lai – Co-Vice Chairman</p> <p>Mr James MacKenzie – Co-Vice Chairman and Independent Non-Executive Director</p>	Section 8.3
What will be the strategy for the Merged Group?	See Section 8.5 for further details in relation to the Merged Group's intentions in relation to its strategy and business operations.	Section 8.5
What will be the Merged Group's dividend policy?	The Merged Group expects to implement a dividend payout policy for future dividends of 25% to 40% of net profit after tax (pre-Abnormal Items), subject to the ongoing cash needs of the business and the directors' duties under law ³⁰ . It is expected that Yancoal Australia will frank its dividends to the maximum extent that its franking balance allows.	Section 8.5(e)

³⁰ Yancoal Australia's constitution requires its directors, subject in each case to applicable laws and the directors' duties under law, to pay dividends of no less than 40% of Yancoal Australia's net profit after tax (pre-Abnormal Items) each financial year, unless the directors decide to pay dividends of no less than 25% in order to prudently manage the company's financial position.

SECTION 2 – FREQUENTLY ASKED QUESTIONS (CONTINUED)

E. QUESTIONS ABOUT YOUR DIRECTORS' RECOMMENDATIONS AND INTENTIONS

Question	Answer	Further Information
What is the Directors' recommendation?	<p>Your Directors unanimously recommend that, in the absence of a Superior Proposal, Gloucester Shareholders vote in favour of the Merger Proposal and the Capital Return.</p> <p>Your Directors also unanimously recommend that Shareholders (other than Noble) do NOT make an 'All Ordinary Shares' Election so that they participate to the maximum extent possible in the CVR Shares component of the Scheme Consideration.</p>	Sections 5.2, 5.3 and 5.4
How do the Directors intend to vote in respect of their own shares?	In the absence of a Superior Proposal, all Directors intend to vote in favour of the Merger Proposal and the Capital Return, in respect of all Gloucester Shares held by them or in which they otherwise have a relevant interest.	Section 5.2
Is there an independent expert's report?	<p>Yes. Your Directors commissioned Deloitte to prepare an Independent Expert's Report on the Merger Proposal for the benefit of Gloucester Shareholders.</p> <p>Deloitte has concluded that, in the absence of a Superior Proposal, the Merger Proposal is fair and reasonable and in the best interests of those Gloucester Shareholders who receive CVR Shares as part of their Scheme Consideration.</p>	Section 1.18 and Appendix 1

F. QUESTIONS ABOUT VOTING

Question	Answer	Further Information
What meetings are being held? When and where are they being held?	<p>There are two Meetings, the Scheme Meeting and the General Meeting.</p> <p>Each meeting will be held at Minter Ellison Lawyers, Level 19, Aurora Place, 88 Phillip Street, Sydney New South Wales, on Monday, 4 June 2012, commencing with the Scheme Meeting at 10.00am (Sydney time). The Meetings will be held consecutively.</p> <p>Gloucester Shareholders who are unable to attend the Meetings may vote by proxy, attorney, or in the case of corporate shareholders or proxies, a natural person representative.</p> <p>Your vote at each Meeting is important in determining whether or not the Merger Proposal proceeds.</p>	Section 4, Appendices 4 and 5
If I wish to support the Merger Proposal, what should I do?	<p>If you are a Gloucester Shareholder, you should:</p> <ul style="list-style-type: none"> • vote in favour of the Merger Proposal at the Scheme Meeting; and • vote in favour of the Capital Reduction Resolution at the General Meeting. <p>Gloucester Shareholders who are unable to attend the Meetings may vote by proxy, attorney, or in the case of corporate shareholders or proxies, a natural person representative.</p>	Section 4
Can I vote?	All Gloucester Shareholders as at 12.00pm on Saturday, 2 June 2012, will be entitled to vote at the Scheme Meeting and the General Meeting. As voting will be conducted by poll, Shareholders will be entitled to cast one vote per Gloucester Share.	Section 4
How do I vote if I'm unable to attend the Meetings or if I don't wish to attend them in person?	<p>You may complete the enclosed personalised proxy/voting form (which applies to both Meetings) in accordance with the instructions and return it in person, by mail using the enclosed reply paid envelope or by facsimile.</p> <p>The cut-off time for lodging your proxy/voting form is 11.00am (Sydney time) on Saturday, 2 June 2012. Therefore, if you intend to mail or hand deliver your proxy form, it must be received by the Gloucester Share Registry by close of business on Friday, 1 June 2012.</p>	Section 4

Question	Answer	Further Information
What happens if I don't vote at the Meetings or if I vote against the Merger Proposal and/or the Capital Return?	<p>If the Merger Proposal is approved by the requisite majorities at the Scheme Meeting and by the Court at the Second Court Hearing, and all other conditions applying to the Merger Proposal are satisfied or waived (as applicable), the Merger Proposal will bind all Gloucester Shareholders as at the Scheme Record Date, including those who vote against it (and those who do not vote at all). In these circumstances, all Gloucester Shares (if any) that you hold as at the Scheme Record Date will be transferred to Yancoal Australia and you will receive the Scheme Consideration.</p> <p>If the Capital Return is approved by the requisite majorities at the General Meeting and all other conditions applying to the Capital Return are satisfied or waived (as applicable), it will bind all Gloucester Shareholders as at the Capital Return Record Date, including those who vote against it (and those who do not vote at all). In these circumstances, the Capital Return will apply to all persons who are registered as Gloucester Shareholders as at the Capital Return Record Date.</p>	Sections 11 and 12
Is Noble entitled to vote? What are Noble's intentions with respect to the Merger Proposal?	<p>Yes. Although Noble is a significant shareholder and financier of Gloucester, Noble is not considered to be a separate class of shareholder for the purpose of the Scheme and therefore is entitled to vote on the Merger Proposal at the Scheme Meeting in the same class as all other eligible Gloucester Shareholders. Noble is also entitled to vote on the Capital Reduction Resolution at the General Meeting.</p> <p>Noble has stated to Gloucester that, in the absence of a Superior Proposal, Noble will vote in favour of the Merger Proposal and the Capital Return and also that it will make an 'All Ordinary Shares' Election (thereby electing to receive the Scheme Consideration alternative that does not include a combination of CVR Shares and Yancoal Ordinary Shares) and that it will not act inconsistently with this election.</p> <p>On the basis that Noble proceeds with its notified intention to make an 'All Ordinary Shares' Election and that this would satisfy the condition that such elections are made in respect of at least 130 million Gloucester Shares, Gloucester's Directors recommend that other Gloucester Shareholders do not make an 'All Ordinary Shares' Election. By not making such an election, you will receive both Yancoal Australia Ordinary Shares and CVR Shares for your Gloucester Shares.</p>	Sections 1.3, 5.2 and 5.5(c)
What approvals are required at the Scheme Meeting?	<p>For the Scheme to be approved, votes in favour of the Scheme must be received from:</p> <ul style="list-style-type: none"> • (unless the Court orders otherwise) a majority in number (more than 50%) of Gloucester Shareholders voting at the Scheme Meeting (whether in person, by proxy, by attorney or, in the case of corporate Gloucester Shareholders or proxies, by corporate representative); and • Gloucester Shareholders who together hold at least 75% of the total number of Gloucester Shares voted at the Scheme Meeting. 	Sections 4 and 11
What approvals are required at the General Meeting?	<p>The purpose of the General Meeting is for Gloucester Shareholders to consider and vote on the Capital Reduction Resolution.</p> <p>That resolution requires the approval of a simple majority (more than 50%) of the votes cast by Gloucester Shareholders present and voting at the General Meeting, whether in person, by proxy or attorney or, in the case of a corporate Gloucester Shareholder or proxy, by a representative. The Merger Proposal is conditional on (among other things) this resolution being passed.</p>	Sections 4 and 11

SECTION 2 – FREQUENTLY ASKED QUESTIONS (CONTINUED)

Question	Answer	Further Information
Is voting compulsory at either meeting?	Voting is not compulsory. However, the Gloucester Board believes that the Merger Proposal and the Capital Return are important to all Gloucester Shareholders and urges you to read this Explanatory Booklet and exercise your right to vote. Your vote is important and is your opportunity to have your say on whether the Merger Proposal and the Capital Return proceed.	Section 4
What if I cannot or do not wish to attend the Meetings?	If you cannot or do not wish to attend the Meetings, you may appoint a proxy, attorney or representative to vote at the Meetings on your behalf.	Section 4, Appendices 4 and 5
There are three forms enclosed with this Explanatory Booklet: a proxy form, an 'All Ordinary Shares' Election Form and a Small Shareholder Cash Election Form. Which ones do I need to complete?	<p>Here is what you should do for each of these forms.</p> <p>White personalised proxy form – If you wish to appoint a proxy to vote on your behalf at the Scheme Meeting and the General Meeting, you should complete and sign the proxy form and return it to the Gloucester Share Registry in accordance with the instructions on that form.</p> <p><i>You only need to complete the proxy form if you wish to vote by proxy at the two Meetings. You do not need to complete the proxy form if you intend to vote in person, by attorney or by representative at the Meetings.</i></p> <p>Pink 'All Ordinary Shares' Election Form – if you wish to receive 100% of your Scheme Consideration in the form of Yancoal Australia Ordinary Shares, you must complete this form in accordance with its instructions and return it to the Gloucester Share Registry so that it is received by the Election Date (expected to be Thursday, 7 June 2012).</p> <p>You can ignore the 'All Ordinary Shares' Election Form if you wish to receive a combination of Yancoal Australia Ordinary Shares and CVR Shares. On the basis of Noble's notified intention that it will make an 'All Ordinary Shares' Election, your Directors recommend that other Gloucester Shareholders do not lodge an 'All Ordinary Shares' Election Form, so that they receive CVR Shares as well as Yancoal Australia Ordinary Shares.</p> <p>Blue Small Shareholder Cash Election Form – this form is only relevant if you hold 200 or less Gloucester Shares (that is, if you are a Small Shareholder) and wish to receive the net proceeds of sale of the Yancoal Securities that would otherwise be issued to you, in which case you should complete this form in accordance with the instructions and return it to the Gloucester Share Registry so that it is received by the Election Date (expected to be Thursday, 7 June 2012).</p> <p>You can ignore this form if you are not a Small Shareholder or if you are a Small Shareholder but you still wish to receive Yancoal Securities in accordance with the Scheme, rather than the net cash proceeds of those securities.</p>	Section 4 and (in the case of the 'All Ordinary Shares' Election Form and the Small Shareholder Cash Election Form) Section 11.4

Question	Answer	Further Information
What are my options?	<p>As a Gloucester Shareholder, your principal options are to:</p> <ul style="list-style-type: none"> • vote in favour of the Merger Proposal and the Capital Return at the Meetings to be held on Monday, 4 June 2012 (this is the course of action unanimously recommended by your Directors and the Independent Expert, in the absence of a Superior Proposal); • vote against the Merger Proposal and the Capital Return at the Meetings to be held on Monday, 4 June 2012; • vote in favour of the Merger Proposal at the Scheme Meeting but against the Capital Return at the General Meeting or vice-versa; • sell your Gloucester Shares on ASX before the Meetings to be held on Monday, 4 June 2012 (noting, however, that there is also no restriction on you selling your Gloucester Shares on ASX any time after the Meetings until close of trading in Gloucester Shares on ASX on the Effective Date (currently expected to be Friday, 22 June 2012), when trading in Gloucester Shares will end); or • do nothing; that is, neither vote in favour of or against the Merger Proposal and the Capital Return nor sell your Gloucester Shares on market. 	Section 5.6
What happens if I vote against the Merger Proposal? Can I be forced to relinquish my Gloucester Shares?	<p>If the Merger Proposal is approved by the requisite majorities at the Scheme Meeting and by the Court at the Second Court Hearing and if all the other conditions applying to the Merger Proposal are satisfied or waived (as applicable), it will bind all Gloucester Shareholders, including those who vote against it (and those who do not vote at all). In these circumstances, all Gloucester Shares (if any) that you hold as at the Scheme Record Date will be transferred to Yancoal Australia and you will receive the Scheme Consideration.</p>	Sections 11 and 12, Appendix 3
When will the results of the voting be known?	<p>The results of the votes to be cast at the Meetings will be made publicly available during or shortly after the conclusion of the Meetings.</p>	

SECTION 2 – FREQUENTLY ASKED QUESTIONS (CONTINUED)

H. GENERAL QUESTIONS

Question	Answer	Further Information
What are the tax implications of the Merger Proposal, the Capital Return and the Special Dividend?	<p>The transfer of your Gloucester Shares to Yancoal Australia pursuant to the Merger Proposal, the Repurchase of any CVR Shares received by you as Scheme Consideration and the receipt of the Capital Return and the Special Dividend may have taxation implications for you.</p> <p>The description of tax matters in this Explanatory Booklet is expressed in general terms and is not intended to provide taxation advice in respect of the particular circumstances of any Gloucester Shareholder. You should seek your own specific taxation advice for your individual circumstances.</p>	Section 10
What is the timetable for the transactions?	<p>The Scheme Meeting and the General Meeting are currently scheduled to be held on Monday, 4 June 2012. If Gloucester Shareholders approve the Scheme and Court approval is obtained, the Merger Proposal is expected to be implemented on Tuesday, 3 July 2012.</p> <p>The Capital Reduction is expected to be effected on Thursday, 21 June 2012. The independent Trustee will present the Promissory Notes to Gloucester for payment by it no earlier than Thursday, 3 January 2013.</p> <p>These dates are based on the current scheduled timetable of key dates as set out on page 3, which are subject to possible change.</p>	See 'Important Dates and Times' on page 3
Can I sell my Gloucester Shares now?	<p>You can sell your Gloucester Shares on market at any time before the close of trading on ASX on the Effective Date at the prevailing market price. The Effective Date is expected to be Friday, 22 June 2012.</p> <p>However, if you sell your Gloucester Shares on market:</p> <ul style="list-style-type: none">• you will pay brokerage on the sale;• you will not share in any potential ongoing benefits of owning shares in the Merged Group; and• there may be different tax consequences for you compared to those that would arise under the implementation of the Merger Proposal.	Section 5.6
Where can I get further information?	<p>The information in this Section 2 is a summary only. Full details of the Merger Proposal and Capital Return are set out in the remainder of this Explanatory Booklet. Please read it carefully.</p> <p>If, after reading this Explanatory Booklet, you have any questions about the Merger Proposal or the Capital Return, please call the Gloucester Shareholder Information Line on 1300 368 646 (within Australia) or +61 3 9415 4161 (outside Australia) Monday to Friday between 9.00am and 5.00pm (Sydney time).</p> <p>Your Directors recommend that you consult your legal, financial, taxation or other professional adviser concerning the impact your decision may have on your own circumstances.</p>	



SECTION 3

CVR SHARES IN DETAIL



SECTION 3 – CVR SHARES IN DETAIL

3.1 Introduction

In addition to receiving one Yancoal Australia Ordinary Share for each Gloucester Share held, Gloucester Shareholders will also have the opportunity under the Scheme to receive a form of share, which has been specially created for the purposes of the Merger Proposal. These shares are called contingent value rights shares and are referred to in this Explanatory Booklet as **CVR Shares**.

This Section 3 provides an explanation of how CVR Shares operate, including the rights attaching to CVR Shares and hypothetical examples. The full Terms of Issue that apply to CVR Shares are set out in Appendix 8.

3.2 Key features

Availability	<p>Gloucester Shareholders who do not make an 'All Ordinary Shares' Election in respect of their Scheme Consideration will receive one Yancoal Australia Ordinary Share and one CVR Share for each Gloucester Share they hold as at the Scheme Record Date (assuming they are not a Foreign Scheme Shareholder or an Electing Small Shareholder and that both ingredients of the Minimum Election Condition are satisfied as at the Second Court Hearing Date and as at the Scheme Record Date).</p> <p>Any Gloucester Shareholder may, if they wish, elect to receive only Yancoal Australia Ordinary Shares as Scheme Consideration. That is, they may elect not to receive any CVR Shares in addition to Yancoal Australia Ordinary Shares.</p> <p>Your Directors unanimously recommend that all Shareholders (other than Noble) do NOT make an 'All Ordinary Shares' Election, so that they will receive CVR Shares in addition to Yancoal Australia Ordinary Shares and participate to the maximum extent possible in the CVR Shares component of the Scheme Consideration. The reasons for that recommendation are set out in Section 5.2. The background to Noble's publicly stated intention to make an 'All Ordinary Shares' Election is set out in the letter from Gloucester's Chairman at pages 8–10.</p>
ASX listing	<p>The Yancoal Australia Ordinary Shares and the CVR Shares will be separately quoted on ASX (initially on a deferred settlement basis), from the first business day after the Merger Proposal takes Effect.</p> <p>Your Yancoal Australia Ordinary Shares and CVR Shares are not in any way 'stapled', meaning that:</p> <ul style="list-style-type: none">• they can be separately traded by you; and• you will still retain the benefit of CVR Shares even if you have sold some or all of your Yancoal Australia Ordinary Shares.
Partial price protection	<p>CVR Shares provide a level of downside protection against a fall in the price of Yancoal Australia Ordinary Shares for a maximum of up to 18 months following implementation of the Scheme, in the circumstances described below, depending on the VWAP for Yancoal Australia Ordinary Shares over the relevant period.</p> <p>If you hold CVR Shares when 'Repurchase' takes place, the consideration that you will, in most cases, receive for the Repurchase of your CVR Shares will be determined by the 90 day VWAP of Yancoal Australia Ordinary Shares leading up to either the date 18 months after the Merger Proposal is implemented or, if earlier, the date 45 days after Yancoal Australia gives a Lapse Notice. For example:</p> <ul style="list-style-type: none">• If the 90 day VWAP of Yancoal Australia Ordinary Shares is greater than A\$6.96, you will only be paid a nominal sum (less than A\$0.01) for the Repurchase of your CVR Shares.• If the 90 day VWAP of Yancoal Australia Ordinary Shares is less than A\$6.96 but greater than A\$3.96, you will be paid a price equal to the difference between A\$6.96 and the 90 day VWAP of Yancoal Australia Ordinary Shares for each CVR Share Repurchased. For example, if the 90 day VWAP of Yancoal Australia Ordinary Shares is A\$5.50, you will receive an amount equal to A\$1.46 (A\$6.96-A\$5.50) for each CVR Share Repurchased. Similarly, if the 90 day VWAP of Yancoal Australia Ordinary Shares is A\$4.15, you will receive an amount equal to A\$2.81 (A\$6.96-A\$4.15) for each CVR Share Repurchased.• If the 90 day VWAP of Yancoal Australia Ordinary Shares is less than A\$3.96, you will be paid a price equal to A\$3.00 for each CVR Share Repurchased. <p>The Repurchase Price of your CVR Shares will be satisfied by Yancoal Australia causing Yanzhou Coal (or another Yanzhou CVR Shareholder) to either:</p> <ul style="list-style-type: none">• pay the Repurchase Price in cash; or• deliver (by transfer) Yancoal Australia Ordinary Shares equal to the value (based on the relevant 90 day VWAP) of the Repurchase Price.

The manner in which the Repurchase Price of your CVR Shares will be satisfied will be specified in the Lapse Notice.

However Repurchase of the CVR Shares takes place, Yanzhou Coal has agreed to fund the Repurchase Price in a manner that will not dilute the voting or economic interests of other Yancoal Australia shareholders. This will be achieved by any Repurchase being satisfied in cash or by a transfer of existing Yancoal Australia Ordinary Shares, rather than by an issue of new Yancoal Australia Ordinary Shares.

Yancoal Australia and Yanzhou Coal have entered into the CVR Shares Agreement, that sets out Yanzhou Coal's obligations in relation to the Repurchase of CVR Shares. A summary of the CVR Shares Agreement is set out in Section 13.7. Under the CVR Share Terms of Issue, Yancoal Australia must enforce these Repurchase obligations and may not vary or waive them where the variation or waiver is adverse to the rights of CVR Shareholders.

How and when CVR Shares will be Repurchased by Yancoal Australia

At any time prior to the CVR Shares End Date, Yancoal Australia can issue a Lapse Notice at its discretion to all holders of CVR Shares. The CVR Shares End Date is the date which is 18 months from the Implementation Date³¹.

If Yancoal Australia has not issued a Lapse Notice by the CVR Shares End Date, Yancoal Australia will be deemed to have issued a Lapse Notice on the date 45 days before the CVR Shares End Date.

On or prior to the 40th Trading Day following the 45th day after the date of a Lapse Notice or the CVR Shares End Date (in respect of a deemed Lapse Notice), Yancoal Australia will implement the Repurchase of all CVR Shares for the Repurchase Price by causing them to be purchased by Yanzhou Coal (or another Yanzhou CVR Shareholder).

Early Repurchase of CVR Shares

Yancoal Australia may at its discretion issue a Lapse Notice at any time before the date 18 months after the Merger Proposal is implemented, in which case the Repurchase consideration will be based on the 90 day VWAP leading up to the date 45 days after that notice is given.

Also, if the VWAP of Yancoal Australia Ordinary Shares over 20 of any 25 consecutive Trading Days at any time prior to the date which is 90 days before the CVR Shares End Date is above A\$6.96, Yancoal Australia will procure the Repurchase of your CVR Shares for a nominal sum (less than A\$0.01) payable by cash. Therefore, the partial price protection offered by the CVR Shares will fall away before 18 months has passed from the Implementation Date if the VWAP of Yancoal Australia Ordinary Shares is A\$6.96 or higher over at least 20 out of any 25 consecutive trading days at any time prior to the date which is 90 days before the CVR Shares End Date.

Yancoal Australia must notify holders of CVR Shares if the VWAP is above A\$6.96 over 10 out of any 15 consecutive Trading Days at any time prior to the date which is 90 days from the CVR Shares End Date.

Limited ancillary rights

Each CVR Share confers a right on its holder to receive accounts, reports and notice of meetings of Yancoal Australia and to attend any general meetings of Yancoal Australia but confers no right on the holder to:

- vote at a general meeting of Yancoal Australia (except in the circumstances set out in ASX Listing Rule 6.3);
- receive dividends;
- participate in a return of capital (other than in certain limited respects); or
- subscribe for new securities of Yancoal Australia or to participate in any bonus issues of securities of Yancoal Australia.

3.3 Important points to note

(a) General

The CVR Shares will only ever have economic value to the extent that the market price of Yancoal Australia Ordinary Shares after listing is at a level *below* A\$6.96 per share. In other words, if Yancoal Australia Ordinary Shares consistently trade *above* A\$6.96, the CVR Shares will have no intrinsic value. As noted in Section 3.2, CVR Shares have no dividend rights nor any rights to participate in a return of capital (other than in certain limited respects). Conversely,

if Yancoal Australia Ordinary Shares trade below A\$6.96, the CVR Shares will have a value up to a maximum value of A\$3.00 per CVR Share.

The partial downside protection that CVR Shares provide against a fall in the price of Yancoal Australia Ordinary Shares applies for a *maximum* period of up to 18 months following implementation of the Merger Proposal. The partial downside protection ceases to apply from the time that the CVR Shares are Repurchased. As noted in the table in Section 3.2, it is possible for Repurchase to occur

³¹ This date cannot be extended. One of the terms of the revised Merger Proposal announced on 6 March 2012 is the removal of Yancoal Australia's previously proposed option to extend the CVR Shares End Date. This no longer applies.

SECTION 3 – CVR SHARES IN DETAIL (CONTINUED)

within 18 months following implementation of the Merger Proposal (see further Sections 3.3(b) and (c) below). In particular, the partial downside price protection that CVR Shares offer automatically falls away if the VWAP of Yancoal Australia Shares is above A\$6.96 for 20 out of 25 consecutive trading days, in which case the CVR Shares will be Repurchased for a nominal amount (less than A\$0.01) (again, see further Sections 3.3(b) and (c) below).

CVR Shares are not 'capital guaranteed' securities which would entitle holders to at least a minimum amount on Repurchase, nor do they guarantee that the holder will receive a particular price for them on Repurchase.

Gloucester Shareholders who receive CVR Shares as part of their Scheme Consideration will have no choice as to whether their CVR Shares are Repurchased for cash or by the transfer to them of Yancoal Australia Ordinary Shares. This is a matter for the discretion of Yanzhou Coal.

The Repurchase of your CVR Shares may have taxation implications for you: see Section 10.7. The description of tax matters in this Explanatory Booklet is expressed in general terms and is not intended to provide taxation advice in respect of the particular circumstances of any Gloucester Shareholder. You should seek your own specific taxation advice for your individual circumstances.

(b) Lapse Notice, Early Lapse Notice and other timing considerations

The Lapse Notice and the Early Lapse Notice serve discrete functions.

Yancoal may in its discretion give a Lapse Notice at any time in the 18 months after the Implementation Date. It may give a Lapse Notice irrespective of the price of Yancoal Australia Ordinary Shares. For example, Yancoal Australia may choose to give a Lapse Notice while Yancoal Australia Ordinary Shares are trading at a price above A\$6.96.

On the other hand, the 'Early Lapse Notice' is an automatic mechanism. It is deemed by clause 5 of the Terms of Issue to be given if, at any time in the period from the date CVR Shares are issued until 90 days before the End Date, the VWAP is above A\$6.96 for 20 Trading Days in any consecutive period of 25 Trading Days. In this scenario, the CVR Shares have no intrinsic value and the CVR Shares are consequently redeemed for nominal consideration (less than A\$0.01). In other words, the issue of the Early Lapse Notice happens automatically by reference to VWAP above A\$6.96 over the period specified above, whereas any Lapse Notice is given as a matter of Yancoal's discretion, with the exception of a Lapse Notice given under clause 3.2 of the Terms of Issue, on the 45th day before the End Date.

It is not possible for Yancoal to issue an Early Lapse Notice other than where the Terms of Issue automatically deem it to be given. There is no element of discretion involved in the issuance of an Early Lapse Notice. Where an Early Lapse Notice is deemed to have been issued, by definition, holders of Yancoal Australia Ordinary Shares will have had a reasonable opportunity to sell their Yancoal Australia Ordinary Shares at prices above A\$6.96.

In contrast to an Early Lapse Notice, clause 3.1 of the Terms of Issue allows Yancoal to issue a Lapse Notice at its discretion at any time until (in effect through the operation of clause 3.2 of the Terms of Issue) the 46th day before the End Date (as a Lapse Notice is deemed by clause 3.2 to be given on the 45th day before End Date if a Lapse Notice has not been given before then).

If Yancoal exercises its discretion to issue a Lapse Notice at any time, the partial downside price protection provided by the CVR Shares will end 45 days after Yancoal Australia issues the Lapse Notice.

(c) Can Yancoal time a Lapse Notice or Early Lapse Notice to its advantage in terms of how the Yancoal Australia Ordinary Share price is performing over any 90 day period?

No. For the reasons set out below, it is not possible for Yancoal to time the giving of a Lapse Notice to 'take advantage' of the price at which Yancoal Australia Ordinary Shares are trading over any 90 day period.

If the VWAP is above A\$6.96, it is possible that Yancoal Australia may wish to exercise its discretion to Repurchase the CVR Shares for nominal consideration (less than A\$0.01). In this event, the VWAP of Yancoal Australia Ordinary Shares would be above A\$6.96, meaning that holders of CVR Shares (in their separate capacity as holders of Yancoal Australia Ordinary Shares) should be better off, all other things being equal.

Moreover, the method of calculation of the 'Repurchase Price' is such that it will not be possible for Yancoal Australia to exploit short term or temporary increases in the price of Yancoal Australia Ordinary Shares. The Repurchase Price must be calculated over a period of 90 days straddling the date on which the Lapse Notice is given; that is, 45 days *before* and 45 days *after* the Lapse Notice is given. At any time that Yancoal Australia will give a Lapse Notice, Yancoal Australia will not know what the Repurchase Price will ultimately be. Even where the VWAP of Yancoal Australia Ordinary Shares in the 45 days prior to the giving of the Lapse Notice is above A\$6.96, that does not necessarily mean that this will be the case in the 45 days after the Lapse Notice is given. In other words, in all realistic scenarios where there might be a temporary increase in VWAP of Yancoal Australia Ordinary Shares above A\$6.96, Yancoal Australia will assume the risk that there is not a subsequent decrease in the price in the 45 days after the Lapse Notice has been given.

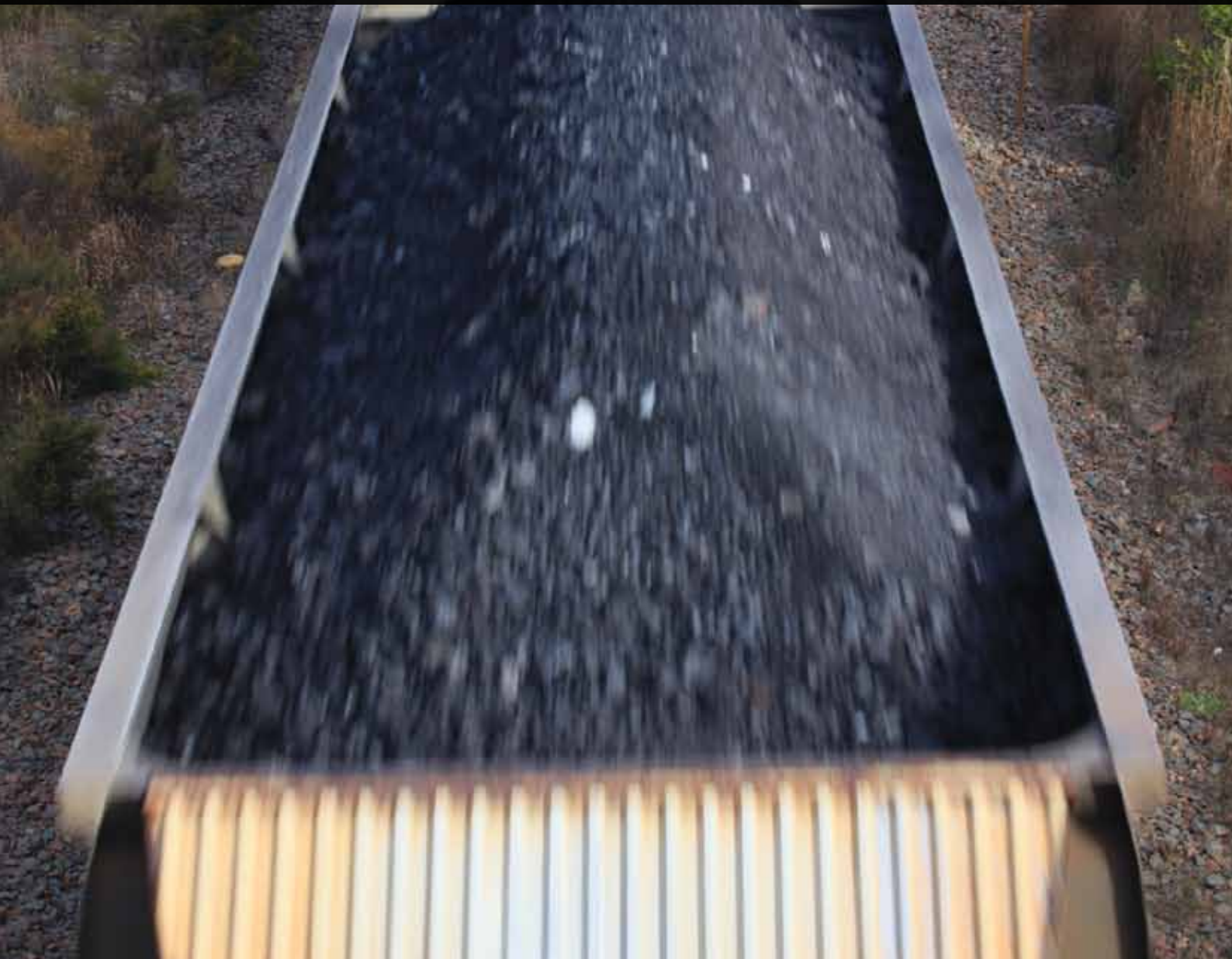
On the other hand, where there is a significant increase in the price of Yancoal Australia Ordinary Shares, then either an Early Lapse Notice will be deemed to have been given or Yancoal Australia may issue a Lapse Notice. However, in this case the holders of Yancoal Australia Ordinary Shares would hold shares of a greater value, so any 'advantage' that may accrue to Yancoal Australia through being able to effect Repurchase of the CVR Shares at a nominal value will be matched by the greater value that will have accrued to holders of Yancoal Australia Ordinary Shares.

Where the VWAP of Yancoal Australia Ordinary Shares is less than A\$3.96, the value ascribed to the CVR Shares is capped at A\$3.00. If Yancoal Australia issues a Lapse Notice in these circumstances (an Early Lapse Notice in these circumstances not being possible), then the maximum value that can be provided to CVR Shareholders will be A\$3.00. Any 'advantage' that may accrue to Yancoal Australia by eliminating its exposure under the CVR Shares will be matched by the CVR Shareholders receiving early their A\$3.00 of additional value.



SECTION 4

HOW TO VOTE



SECTION 4 – HOW TO VOTE

4.1 Two meetings

There are two meetings, the Scheme Meeting and the General Meeting. The notices convening each Meeting are contained in Appendices 4 and 5 respectively to this Explanatory Booklet. A personalised proxy form for the two Meetings is enclosed with this Explanatory Booklet.

Each Meeting will be held at Minter Ellison Lawyers, Level 19, Aurora Place, 88 Phillip Street, Sydney New South Wales on Monday, 4 June 2012, commencing with the Scheme Meeting at 10.00am (Sydney time). The General Meeting will commence at 11.00am (Sydney time) on Monday, 4 June 2012 or as soon as reasonably practicable after the Scheme Meeting concludes or is adjourned (whichever time is later).

For the Merger Proposal to proceed, votes in favour of the Scheme must be received from:

- unless the Court orders otherwise, a majority in number (more than 50%) of Gloucester Shareholders voting at the Scheme Meeting (whether in person, by proxy, by corporate representative or attorney); and
- Gloucester Shareholders who together hold at least 75% of the total number of Gloucester Shares voted at the Scheme Meeting.

The General Meeting will consider and, if thought fit, pass the Capital Reduction Resolution. The passing of the Capital Reduction Resolution by Gloucester Shareholders at the General Meeting is a condition to the implementation of the Merger Proposal.

For the Capital Reduction Resolution to be passed, the approval of a simple majority (more than 50%) of the votes cast by Gloucester Shareholders present and voting at the meeting (in person, by proxy, by corporate representative or by attorney) is required. The Capital Reduction Resolution will only take effect if the Court approves the Scheme and the Gloucester Directors announce the Capital Return Record Date within two Business Days of that approval.

The purpose and effect of the Scheme and the Capital Reduction Resolution are described in Section 11 of this Explanatory Booklet.

4.2 Your vote is important

Your Directors urge all Gloucester Shareholders to vote on the Merger Proposal at the Scheme Meeting and on the Capital Reduction Resolution at the General Meeting. The Scheme and the Capital Reduction affect your shareholding and your vote at the Meetings is important in determining whether those transactions proceed.

Your Directors encourage all Gloucester Shareholders to vote in favour of the Merger Proposal and the Capital Reduction Resolution either by submitting a completed proxy form for the Meetings to Gloucester by 11.00am (Sydney time) on Saturday, 2 June 2012 or attending the Meetings on Monday, 4 June 2012 commencing at 10.00am.

4.3 How to vote

(a) Voting entitlements

If you are registered as a Gloucester Shareholder by the Gloucester Share Registry at the Voting Entitlement Time (12.00pm Sydney time, Saturday, 2 June 2012), you will be entitled to vote at the Meetings.

Voting at the Meetings will be conducted by poll.

(b) Voting in person

Gloucester Shareholders or their proxies, attorneys or representatives (including representatives of corporate proxies) wishing to vote in person should attend the Meetings and bring a form of personal identification (such as their driver's licence).

Gloucester Shareholders, their attorneys or representatives (including proxies and their representatives) who plan to attend the Meetings in person are asked to arrive at the venue 30 minutes prior to the time designated for the commencement of the Scheme Meeting, if possible, so that their shareholding may be checked against the Gloucester Share Register and attendances noted. Attorneys should bring with them the original or a certified copy of the power of attorney under which they have been authorised to attend and vote at the meetings.

To vote in person at the Meetings, you, your proxy, your attorney, your representative or your corporate proxy's representative must attend the Meetings to be held at Minter Ellison Lawyers, Level 19, Aurora Place, 88 Phillip Street, Sydney New South Wales, on Monday, 4 June 2012, with the first meeting commencing at 10.00am (Sydney time).

(c) Voting by proxy

Gloucester Shareholders wishing to vote by proxy at the Meetings must complete and sign or validly authenticate the personalised proxy form which is enclosed with this Explanatory Booklet. A person appointed as a proxy may be an individual or a body corporate.

Completed proxy forms must be delivered to Gloucester by 11.00am (Sydney time) on Saturday, 2 June 2012 in any of the following ways:

By post in the enclosed reply paid envelope provided to the Gloucester Share Registry:

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne Victoria Australia 3001

By hand delivery to the Gloucester Share Registry at:

Computershare Investor Services Pty Limited
Level 4, 60 Carrington Street
Sydney, New South Wales Australia

By fax to the Gloucester Share Registry on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia)

For Intermediary Online subscribers only (custodians)
www.intermediaryonline.com

As the cut-off date for receipt of proxies is 11.00am (Sydney time) on Saturday, 2 June 2012, if you intend to mail or hand deliver your proxy form, it must be received by the Gloucester Share Registry by close of business on Friday, 1 June 2012.

Undirected proxies

If a Gloucester Shareholder nominates the chairman of either or both Meetings as the Gloucester Shareholder's proxy, the person acting as chairman of the relevant Meeting must act as proxy under the appointment in respect of any or all items of business to be considered at that Meeting.

If a proxy appointment is signed or validly authenticated by the Gloucester Shareholder but does not name the proxy or proxies in whose favour it is given, the chairman of either or both Meetings may at his election (a) act as proxy in respect of any or all items of business to be considered at the relevant Meeting or Meetings or (b) complete the proxy appointment by inserting the name or names of one or more Directors or the Company secretary to act as proxy under the appointment, in respect of any or all items of business to be considered at the relevant Meeting or Meetings.

Proxy appointments in favour of the chairman of the Meetings, the secretary or any Director which do not contain a direction will be voted in support of both the Scheme resolution at the Scheme Meeting and the Capital Reduction Resolution at the General Meeting (in each case, in the absence of a Superior Proposal prior to the date of the Meetings).

(d) Voting by attorney

If a Gloucester Shareholder executes or proposes to execute any document, or do any act, by or through an attorney which is relevant to the Gloucester Shareholder's shareholding in Gloucester, that Gloucester Shareholder must deliver the instrument appointing the attorney to the Gloucester Share Registry for notation.

Gloucester Shareholders wishing to vote by attorney at the Scheme Meeting and the General Meeting must, if they have not already presented an appropriate power of attorney to Gloucester for notation, deliver to the Gloucester Share Registry (at the address or facsimile number provided in Section 4.3(b) of this Explanatory Booklet) the original instrument appointing the attorney or a certified copy of it by 11.00am (Sydney time) on Saturday, 2 June 2012.

Unless the contrary is evident from the express terms of the power of attorney, any power of attorney granted by a Gloucester Shareholder will, as between Gloucester and that Gloucester Shareholder, continue in force and may be acted on, unless express notice in writing of its revocation or the death of the relevant Gloucester Shareholder is lodged with the Company.

(e) Voting by corporate representative

To vote in person at the Meetings, a Gloucester Shareholder or proxy which is a body corporate may appoint an individual to act as its representative.

To vote by corporate representative at the Scheme Meeting and General Meeting, a corporate Gloucester Shareholder or proxy should obtain an appointment of corporate representative form from the Gloucester Share Registry, complete and sign the form in accordance with the instructions on it. The completed appointment form should be lodged at the registration desk on the day of the Meetings.

The appointment of a representative may set out restrictions on the representative's powers.

The original form of appointment of a representative, a certified copy of the appointment, or a certificate of the body corporate evidencing the appointment of a representative is prima facie evidence of a representative having been appointed.

The chairman of the meeting may permit a person claiming to be a representative to exercise the body's powers even if they have not produced a certificate or other satisfactory evidence of their appointment.

4.4 Further information

Please refer to the notices of meeting in Appendices 4 and 5 to this Explanatory Booklet for further information on voting procedures and details of the resolutions to be voted on at the Meetings.

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A large yellow tracked drilling rig is positioned in a coal mine. The rig is equipped with a tall vertical mast and various mechanical components. The background shows a dark, rocky mine environment with a large rock in the distance. The lighting is dramatic, highlighting the textures of the rock and the machinery.

SECTION 5

**RELEVANT CONSIDERATIONS FOR
YOUR VOTE ON THE MERGER
PROPOSAL AND CAPITAL RETURN**

SECTION 5 – RELEVANT CONSIDERATIONS FOR YOUR VOTE ON THE MERGER PROPOSAL AND CAPITAL RETURN

5.1 Introduction

The purpose of this Section 5 is to identify significant issues for Gloucester Shareholders to consider in relation to the Merger Proposal and, separately, the proposed Capital Return.

Before deciding how to vote at the Scheme Meeting and the General Meeting, Gloucester Shareholders should carefully consider the factors discussed below and the risk factors outlined in Section 9, as well as the other information contained in this Explanatory Booklet.

If, after reading this Explanatory Booklet, you have any questions about the Merger Proposal or the Capital Return, please call the Gloucester Shareholder Information Line on 1300 368 646 (within Australia) or +61 3 9415 4161 (outside Australia) Monday to Friday between 9.00am and 5.00pm (Sydney time).

Your Directors recommend that you consult your legal, financial, taxation or other professional adviser concerning the impact your decision may have on your own circumstances.

5.2 Directors' recommendations and intentions

The Directors of Gloucester as at the date of this Explanatory Booklet are:

Director's name	Position
Mr James MacKenzie	Chairman and Independent Non-Executive Director
Mr Brendan McPherson	Managing Director and Chief Executive Officer
Dr Julie Beeby	Independent Non-Executive Director
Mr Greg Fletcher	Independent Non-Executive Director
Mr Denis Gately	Independent Non-Executive Director
Mr William Randall	Non-Executive Director

The interests of the Directors in the Merger Proposal and the Capital Return are disclosed in Section 14.

Having regard to all of the considerations discussed in this Section 5 and Section 9, your **Directors unanimously consider that the expected advantages of the Merger Proposal and Capital Return outweigh their potential disadvantages and risks. Accordingly, your Directors unanimously recommend that you vote in favour of the Scheme (to give effect to the Merger Proposal) and the Capital Reduction Resolution (to give effect to the Capital Return), in the absence of a Superior Proposal. Subject to that same qualification, all of your Directors intend to vote in favour of the Scheme and the Capital Reduction Resolution**, in respect of all Gloucester Shares held by them or in which they otherwise have a relevant interest.

No Superior Proposal from another party has been received as at the date of this Explanatory Booklet.

Your Directors also recommend that Gloucester Shareholders (other than Noble) **DO NOT** lodge an 'All Ordinary Shares' Election Form, so that they will receive CVR Shares in addition to Yancoal Australia Ordinary Shares and participate to the maximum extent possible in the CVR Shares component of the Scheme Consideration.

Gloucester's largest shareholder, Noble, with interests in approximately 64.5% of Gloucester's total issued share capital (slightly in excess of 130 million Gloucester Shares), has stated to Gloucester and publicly announced to the Singapore Stock Exchange that, in the absence of a Superior Proposal, Noble will:

- vote in favour of the Merger Proposal and the Capital Return; and
- make an 'All Ordinary Shares' Election (thereby electing to receive the Scheme Consideration alternative that does not include a combination of CVR Shares and Yancoal Shares) and that it will not act inconsistently with this election.

If Noble proceeds with its stated intention to make an 'All Ordinary Shares' Election, Noble's election would satisfy the condition to the Merger Proposal that such elections are made in respect of at least 130 million Gloucester Shares.

If the Minimum Election Condition is satisfied, scale back of the CVR Shares under the Scheme would only occur if, after Court approval, Noble acts inconsistently with its stated intention including acting inconsistently, after the Court's approval of the Merger Proposal, with the arrangements that are to be put in place to satisfy the second ingredient of the Minimum Election Condition (that is, the second of the two bullet points above).

Given the stated intention of Noble as set out above, your Directors expect that the Minimum Election Condition will be satisfied and that the arrangements that are to be put in place to which the Minimum Election Condition relates will remain effective in the period after the Election Date to the Scheme Record Date.

Therefore, the likely result should be that Gloucester Shareholders (other than Noble) should, unless they elect otherwise, receive one Yancoal Australia Ordinary Share and one CVR Share for each of their Gloucester Shares. As a result, while scale back is a feature of the Scheme, your Directors have assessed the risk of scale back occurring for those Gloucester Shareholders who do not elect to receive only Yancoal Australia Ordinary Shares as low.

Nevertheless, Gloucester Shareholders should be aware of the potential for scale back to occur for those Gloucester Shareholders if Noble acts inconsistently with its stated election intention prior to the Scheme Record Date.

Your Directors' unanimous recommendation in relation to the Merger Proposal is supported by the Independent Expert, Deloitte. The Independent Expert has concluded that, in the absence of a Superior Proposal, the Merger Proposal is fair and reasonable and in the best interests of those Gloucester Shareholders who receive CVR Shares as part of their Scheme Consideration. The Independent Expert's Report is set out in full in Appendix 1 and you are strongly encouraged to read that report as part of your assessment of the Merger Proposal.

You are not obliged to accept the Directors' recommendation or the view of the Independent Expert. Some of the reasons why you may decide to vote against the Scheme and the Capital Reduction Resolution are set out in Section 5.4. You should note that if you decide to vote against the Scheme and/or the Capital Reduction, these transactions may still be implemented if they are approved by the requisite majority of Shareholders and if the other conditions are satisfied or waived (see Section 11 and Section 12).

5.3 The key reasons for your Directors' unanimous recommendation

In unanimously recommending the Merger Proposal and Capital Return to Gloucester Shareholders, your Directors have carefully considered the following matters.

- (a) Gloucester Shareholders will have the opportunity to participate directly in the creation of what is expected to be Australia's largest listed pure-play coal producer³². Your Directors believe that this direct investment exposure to the Merged Group offers a number of potential benefits to Gloucester Shareholders.
- (b) The receipt of CVR Shares for at least some of their holding provides those Gloucester Shareholders who do not make an 'All Ordinary Shares' Election with a level of downside protection on their shareholding in Yancoal Australia.
- (c) The Independent Expert has concluded that, in the absence of a Superior Proposal, the Merger Proposal is fair and reasonable and in the best interests of those Gloucester Shareholders who receive CVR Shares as part of their Scheme Consideration.
- (d) If the Merger Proposal does not proceed and no alternative proposal emerges the Gloucester Share price may fall. In these circumstances, Gloucester Shareholders will also continue to be exposed to certain risk factors relating specifically to Gloucester.
- (e) The Capital Return allows capital that is surplus to Gloucester's requirements as a wholly owned subsidiary of Yancoal Australia to be returned to Gloucester Shareholders.

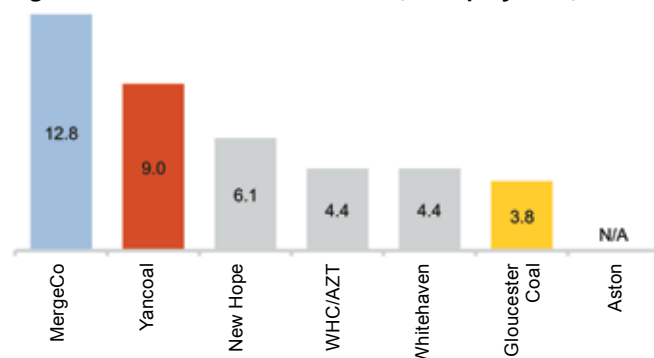
Each of the above considerations is dealt with in further detail below.

(a) Gloucester Shareholders will have the opportunity to participate directly in the creation of what is expected to be Australia's largest listed pure-play coal producer

The Merger Proposal is expected to create Australia's largest listed pure-play coal producer³³, with significantly enhanced scale, diversification and platform for growth. The Merged Group will be one of the few large scale, diversified ASX-listed coal companies, as recent consolidation has removed a number of medium to large scale coal producers from the ASX (including Centennial Coal, Riversdale Mining, Coal & Allied and Macarthur Coal).

The Merged Group will have a large and diversified Coal Resources and Reserves base of a total of 3.5Bt of Coal Resources and 697Mt of Coal Reserves (each on an equity basis) and a substantial production base from seven producing assets.

Figure 3 – CY11 Saleable Production (Mt, equity basis)



Source: Derived from ASX released company information as at 23 April 2012.

Notes:

- 1 Production based on calendar year 2011 reported production, except for New Hope which is 12 months to January 2012. Production shown on an equity basis. Gloucester production includes a full 12 months of Donaldson production. Acquisition of Donaldson effective 14 July 2011. Yancoal Australia production excludes the Excluded Assets.
- 2 The WHC/AZT bars in the above chart refer to the merger of Whitehaven and Aston, particulars of which have been released to ASX.

Enhanced scale and diversification from a significantly larger portfolio of quality coal assets across New South Wales and Queensland

The Merged Group's combined portfolio of assets and development opportunities will be larger and more diversified than Gloucester's current portfolio on a stand-alone basis.

The Merger Proposal provides Gloucester Shareholders the opportunity not only to retain exposure to the assets, operations and growth prospects of Gloucester (as a wholly owned subsidiary of Yancoal Australia), but also to participate in the expected benefits from combining the businesses of Gloucester and Yancoal Australia (other than the Excluded Assets).

The Merged Group's will have a large and diversified portfolio of quality coal assets. This will include a number of assets with lower cost structures than Gloucester's current assets, including Yancoal Australia's Moolarben open-cut mine, one of the largest and lowest cost thermal coal mines in NSW. If the Merger Proposal does not proceed the Gloucester Directors believe the process of creating an equivalent portfolio of similar quantum and size could take a number of years.

The Merged Group will have a significant portfolio of growth projects and assets across all stages of development. The Merged Group's portfolio will include interests in:

- five producing mines in New South Wales, Gloucester Basin (comprising Stratford and Duralie), Donaldson (comprising Donaldson, Abel and Tasman), Moolarben, Ashton and Astar, and two producing mines in Queensland (comprising Yarrabee and Middlemount);

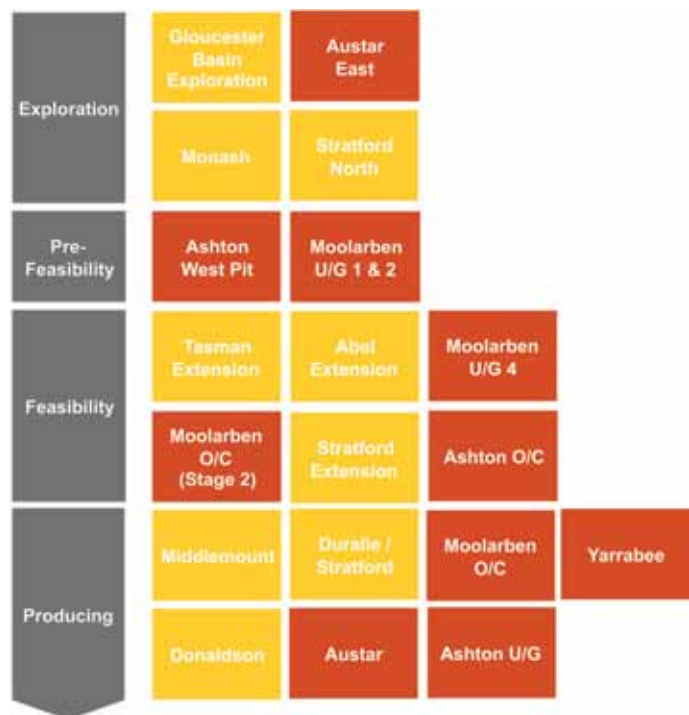
32 By saleable production based on 2011 calendar year saleable production.

33 By saleable production based on 2011 calendar year saleable production.

SECTION 5 – RELEVANT CONSIDERATIONS FOR YOUR VOTE ON THE MERGER PROPOSAL AND CAPITAL RETURN (CONTINUED)

- significant brownfield growth potential from planned production expansions at Donaldson (Abel and Tasman), Gloucester Basin (Stratford), Austar, Yarrabee and Moolarben open-cut;
- two near-term development projects of Ashton South East open-cut and Moolarben underground; and
- a suite of exploration assets including a large scale exploration opportunity in Monash.

Figure 4 – Project Development Pipeline



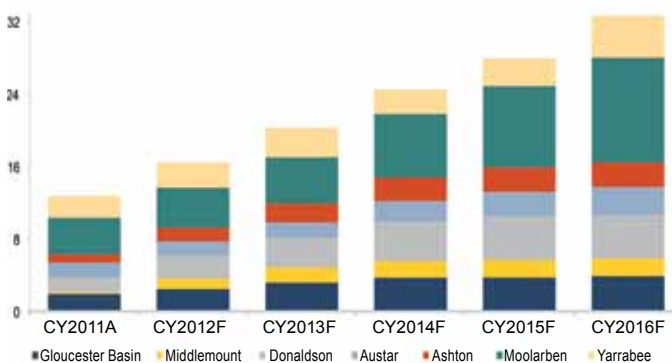
Further details of the Merged Group are provided in Section 8.

Attractive growth profile, supported by a large Reserves and Resources base and a strategic position in port and rail infrastructure

The Merged Group is expected to have an attractive growth profile through its pipeline of proposed expansions of existing operations and new greenfield developments which are planned to commence production within the next two to four years (subject to, among other things, receipt of required approvals).

The Merged Group has plans to grow saleable production from 12.8Mtpa³⁴ in calendar year 2011 to approximately 25Mtpa to 33Mtpa by calendar year 2016³⁵.

Figure 5 – Saleable production forecasts (Mt, equity basis)



Notes:

- 1 Projected production figures are estimates only and are subject to the risks set out in Section 9. Forward looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties and other factors, many of which will be outside the control of the Merged Group. The upper end of this range assumes the achievement of certain synergies regarding infrastructure optimisation (refer to Section 8.15).
- 2 If the Merged Group is unable to (i) acquire from relevant third party owners the land over which projected expansion projects are intended to take place; (ii) otherwise reach commercial agreement with relevant land owners regarding the extraction of coal (including as to terms which are commercially acceptable to the Merged Group); or (iii) obtain planning permission for the expansion projects (including as to terms which are commercially acceptable to Merged Group) or if the Merged Group is otherwise adversely affected by one or more of the applicable risks described in Section 9, there is a risk that such projects will not be able to proceed in their current form. This may have a material adverse effect on the projected production figures.

The Merged Group's growth plans are supported by a large and diversified coal Reserves and coal Resources base of a total of 697Mt of coal Reserves and 3.5Bt of coal Resources (on an equity basis).

The Merged Group has substantial port and rail capacity and allocations in place to support the growth plans of the combined operations.

The Merged Group will have substantial New South Wales port allocations. The Merged Group will have a 27% interest in NCIG and significant PWCS capacity allocations. Combined New South Wales port capacity is expected to be approximately 18.6Mtpa in calendar year 2012 and is expected to increase to approximately 27.2Mtpa in calendar year 2016³⁶. Opportunities exist for the Merged Group to leverage growth projects to utilise excess New South Wales port capacity. The Merged Group will have port capacity in Queensland at APCT, DBCT (until 2014), RG Tanna and Wiggins Island (capacity allocation only) to support production from Middlemount mine and Yarrabee mine.

³⁴ Saleable production on an equity basis. Yancoal Australia production excludes the Excluded Assets and changes in equity for Ashton have been pro-rated on an annual basis. Includes full 12 months of Donaldson production, acquisition of Donaldson effective 14 July 2011.

³⁵ Saleable production on an equity basis. Projected production figures are estimates only and are subject to the risks set out in Section 8. Forward looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties and other factors, many of which will be outside the control of the Merged Group. The upper end of this range assumes the achievement of certain synergies regarding infrastructure optimisation (refer to Section 8.15).

³⁶ Figures include capacity for PWCS Terminal 4 for when it commences operations. The Merged Group's PWCS Terminal 4 capacity from 2016 is a provisional allocation only. The availability of this capacity is subject to the successful completion of PWCS T4. If the completion of PWCS Terminal 4 is delayed or there is a shortfall of actual capacity against target capacity, this may have a material adverse effect on the projected port capacity.

The Merged Group also has contracted rail capacity in place at each of its operating mines which is sufficient for its current levels of operation. To the extent not already secured, it is anticipated that the Merged Group will be able to secure additional rail capacity in the future (to the extent required) to underpin future forecast production.

The Merged Group may also have potential capacity at one of the new APCT T4-T9 terminals through North Queensland Coal Terminal Pty Ltd (NQCT), of which Middlemount Coal is a shareholder, and has been awarded preferred respondent status. Through NQCT, Middlemount Coal (of which Gloucester has a near 50% interest) is seeking an additional 1.0Mtpa of port capacity which is in addition to the port capacity depicted in the below figure. Additionally, Middlemount Coal is in advanced discussions with other port users regarding entering into arrangements to utilise part of their excess port capacity during the period 2015 to 2017. Yancoal Australia has conditionally agreed with one of the two preferred developers of terminals at Dudgeon Point to acquire capacity from 2017 for the Merged Group in addition to the port capacity depicted in the below figure if a terminal is constructed by that developer. A final decision to develop has not yet been made and the development of the terminal (and its operational commencement date) depends on, among other things, the outcome of environmental studies and obtaining the required environmental and planning approvals.

Figure 6 – New South Wales Port Capacity (Mt, equity basis)

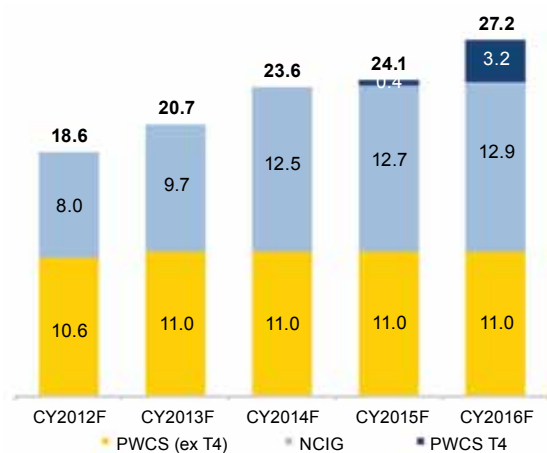
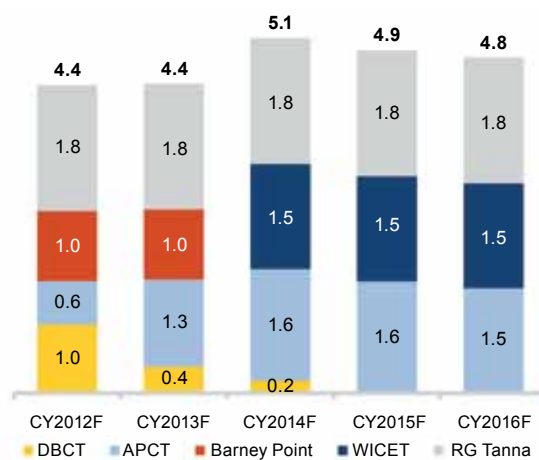


Figure 7 – Queensland Port Capacity (Mt, equity basis)



Notes:

- Data shown for year ending 31 December and shown on an equity basis. These estimates relate to future expectations and therefore involve known and unknown risks and uncertainties. The actual port capacity available to the Merged Group may vary on an annual basis as a result of one or more of the risks described in Section 9.3.1(b).
- In addition, these estimates are based on the current capacity at NCIG, PWCS, DBCT and APCT, and expected capacity allocations at NCIG and PWCS T4, and assume that:
 - PWCS (ex T4) and NCIG figures are based on current contractual entitlements and assume that the current PWCS and NCIG expansion projects (excluding the PWCS T4 expansion) will be completed on schedule;
 - in each of calendar years 2012 to 2016, the additional 0.1Mt of capacity that can be requested for Yarrabee through RG Tanna is able to be provided;
 - in each of calendar years 2012 and 2013, 1.0Mt of ad hoc capacity through Barney Point Coal Terminal is able to be secured by Yarrabee;
 - Stage 1 of WICET is constructed and operational by calendar year 2014;
 - PWCS Terminal 4 commences operation and Moolarben is allocated 3.5Mt of capacity for calendar year 2016; and
 - the ramp up of total port capacity of NCIG terminal proceeds as currently scheduled.
- Gloucester's and Yancoal Australia's PWCS T4 capacity for calendar year 2015 and calendar year 2016 is a provisional allocation only. The availability of this capacity is subject to the successful completion of PWCS T4 and modelling by the HVCCC. If the completion of PWCS T4 is delayed or there is a shortfall of actual capacity against target capacity, this may have a material adverse effect on the projected port capacity.
- Middlemount Coal (of which Gloucester has a near 50% interest) is a shareholder of North Queensland Coal Terminal Pty Ltd (NQCT) which has secured Preferred Respondent Status for the development of T4-T9 coal terminals at APCT. Through NQCT, Middlemount Coal is seeking an additional 1Mtpa of port capacity which is in addition to the port capacity depicted in the above figure.

Attractive and diversified mix of metallurgical and thermal coal products

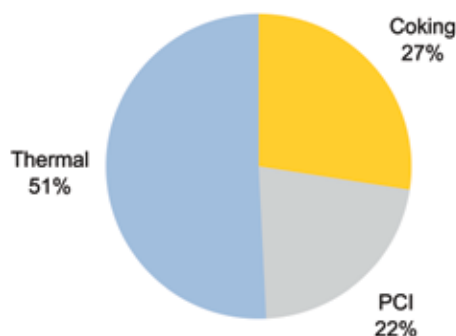
The Merged Group will produce a diversified mix of thermal and metallurgical coal products, including semi-soft, semi-hard and PCI coking coal. The Merged Group is expected to be a significant global supplier of PCI coking coal and a major supplier of both coking coal and high quality thermal coal.

The Merged Group is targeting to produce between 45 – 50% metallurgical coal products. This production will be supported by a significant Reserves and Resources position.

SECTION 5 – RELEVANT CONSIDERATIONS FOR YOUR VOTE ON THE MERGER PROPOSAL AND CAPITAL RETURN (CONTINUED)

Figure 8 – Pro forma saleable production mix (calendar year 2011, equity basis)

The figure below illustrates pro forma saleable production mix for the Merged Group for calendar year 2011 on an equity basis.



A strengthened financial platform to pursue growth opportunities

The Merged Group will have a portfolio of assets across different coal regions in New South Wales and Queensland and across different qualities of coal and projects at different stages of development. Through this diversification and enhanced scale, your Directors believe that the Merged Group should be better placed to manage the risks facing companies in the coal sector compared to Gloucester or Yancoal Australia as stand-alone companies.

The Merged Group is expected to have greater opportunities to accelerate projects and pursue growth opportunities not currently available to Gloucester as an independent stand-alone entity. Project development activities are expected to be supported by cash flows from the Merged Group's large and diversified existing production base, together with potential access to broader funding options than Gloucester on a stand-alone basis, due to the Merged Group's increased scale and diversification, and Yanzhou Coal's banking relationships.

A new A\$1 billion debt facility, that Yancoal Australia must use all reasonable endeavours to procure by the Implementation Date, is expected to fund business expansion of the Merged Group and represent an important source of funding for future growth initiatives. Gloucester has plans for over A\$500 million of capital expenditure and currently has limited existing debt capacity in its own right (Gloucester's net debt as at 22 February 2012 was A\$391 million). If the Merger Proposal does not proceed and Gloucester remains a stand-alone listed company, it may have to source additional capital to fund future capital expenditure (to the extent that it cannot be funded through operating cash flows) either through asset sell downs³⁷, new debt or equity.

The Merged Group will have other debt facilities, which are described in Section 8.7.

Potential to realise substantial synergies

The Directors and the directors of Yancoal Australia believe a number of synergy benefits should arise from the creation of the Merged Group. These benefits are expected to arise largely due to enhanced scale, removal of duplicate systems and functions and corporate benefits.

The most readily quantifiable of the benefits relate to logistics and supply chain efficiencies, opportunities to accelerate projects due to readily available port capacity, reduction in corporate overheads and operational costs, tax benefits and coal blending. The Directors and the directors of Yancoal Australia estimate that the net present value of the quantifiable synergies that may be able to be achieved by the Merged Group is in the range of A\$220 –380 million. The Independent Expert has factored potential synergies into its valuation of the Merged Group and its overall opinion that the Merger Proposal is in the best interests of Gloucester Shareholders³⁸. The Directors and the directors of Yancoal Australia consider that there is significant potential for additional synergy benefits to be realised that have not been quantified in this Explanatory Booklet. The Independent Expert also recognises that it is possible that there may be additional synergy benefits that have not been included in its valuation³⁹.

The Merged Group is expected to realise substantial synergies from optimisation of its infrastructure position and logistics efficiencies through opportunities created from a larger and more diverse portfolio of assets. This includes benefits from utilising spare port capacity held by Gloucester (through its wholly owned subsidiaries) and logistics benefits from reducing peak rail demand due to additional load points and larger stockpile capacity.

The Merged Group is expected to have greater blending opportunities due to the Merged Group's portfolio having a larger and broader suite of thermal and metallurgical coal products that have complementary qualities for blending.

The Merger Proposal is expected to generate significant corporate cost savings relating to the elimination of duplicated corporate costs across the Gloucester and Yancoal Australia businesses, including some senior management costs, head office rent, project management resources and general office and administration costs. The Directors and the directors of Yancoal Australia also understand that the taxation value of certain assets of Gloucester will be reset as a result of the Merger Proposal, potentially enabling the Merged Group to claim additional tax depreciation.

The utilisation of the Merged Group's stronger bargaining position and larger buying power is expected to generate operating cost savings. With Gloucester's current purchasing decisions to be performed within the larger Merged Group, benefits are expected to be generated from the renegotiation of a number of key consumable contracts.

Please refer to Section 8.15 for further details on these expected synergies and to Section 9 for a description of the risks that may delay and/or diminish the expected cost savings and other possible synergy benefits for the Merged Group.

Combined Board and executive management team that has a proven track record in the coal industry

The Merged Group is expected to benefit from a combined Board and executive management team that has a proven track record in the coal industry across multiple jurisdictions. Full details of the composition of the Board and key members of the executive management team are provided in Sections 8.3 and 8.4.

37 Following interest from Asian investors, Gloucester commenced a process to identify opportunities to undertake a partial sell-down of one or more of its assets. This process was put on hold following the signing of the Merger Proposal Deed on 23 December 2011.

38 See page 11 of the Independent Expert's Report in Appendix 1.

39 Ibid.

The combined Board and management team has highly complementary skills, covering corporate governance and risk management, corporate finance, technical knowledge of all facets of the coal industry, including development and operational matters. The Board and management of the Merged Group are committed to efficiently managing and growing the combined business.

(b) CVR Shares provides Gloucester Shareholders with a level of downside protection

Gloucester Shareholders who do not elect to receive 100% of their Scheme Consideration in the form of Yancoal Australia Ordinary Shares will receive a combination of Yancoal Australia Ordinary Shares and CVR Shares. CVR Shares offer a level of downside protection against a fall in the price of Yancoal Australia Ordinary Shares for a maximum period of up to 18 months following implementation of the Scheme, in certain circumstances, depending on the VWAP for Yancoal Australia Ordinary Shares over the relevant period.

The CVR Shares are to be Repurchased following implementation of the Merger Proposal for a 'Repurchase Price' equal to the amount by which the price of Yancoal Australia Ordinary Shares on ASX is less than A\$6.96, based on the 90 day VWAP 18 months after the Merger Proposal is implemented (or potentially an earlier date), subject to a cap of A\$3.00 per CVR Share and other conditions. Accordingly, CVR Shares should reduce to an extent the economic risk for Gloucester Shareholders of their participation in the Merged Group. It should be noted that this partial price protection applies for a maximum period of up to 18 months following implementation of the Scheme but the protection may cease to apply earlier: please refer to Section 3.3 for further details.

It is also important to note that CVR Shares are not 'capital guaranteed' securities which would entitle holders to at least a minimum amount on Repurchase, nor do they guarantee that the holder will receive a particular price for them on Repurchase.

Please refer to Section 3 for further details regarding how CVR Shares operate, including the rights attaching to CVR Shares and hypothetical examples. The full Terms of Issue that apply to CVR Shares are set out in Appendix 8.

(c) The Independent Expert has concluded that the Merger Proposal is in the best interests of those Gloucester Shareholders who receive CVR Shares as part of their Scheme Consideration

The Independent Expert has concluded that, in the absence of a Superior Proposal, the Merger Proposal is fair and reasonable and in the best interests of those Gloucester Shareholders who receive CVR Shares as part of their Scheme Consideration.

The Independent Expert states:

'In arriving at this opinion, we have had regard to the following factors:

The Proposed Scheme is fair

The value of the consideration offered by Yancoal under the Proposed Scheme is within and above the midpoint of the range of our estimate of the fair market value of a share in Gloucester on a control basis.

Set out in the table below is a comparison of our assessment of the fair market value of a share in Gloucester with the consideration being offered by Yancoal under the Proposed Scheme, inclusive of the value of a CVR Share.

Table 1: Evaluation of fairness

	Low value (AUD)	High value (AUD)
Deloitte Corporate Finance selected value per share in Gloucester (on a control basis)	8.90	9.65
Consideration offered by Yancoal	9.35	9.48

Source: Deloitte Corporate Finance analysis

Note:

1 The value of the Capital Return and Special Dividend are included in our assessment of the fair market value of the consideration offered to Shareholders.

'Our assessment of the fair market value of the consideration offered to Shareholders incorporates the value of the CVR Shares.'

The following table sets out our assessment of the total value of the money and securities offered to eligible Shareholders.'

Table 5: Value of consideration

	Section	Low (AUD)	High (AUD)
Value of a share in the Proposed Merged Entity	9.1.7	3.95	4.65
Value of a CVR Share	10.2	2.31	1.74
Present value of the Capital Return ¹	10.3	2.65	2.65
Present value of the Special Dividend ¹	10.4	0.44	0.44
Value of consideration offered to eligible Shareholders		9.35	9.48

Source: Deloitte Corporate Finance analysis

Note:

1 The Capital Return and Special Dividend are separate to the Proposed Scheme and will only be paid to Shareholders registered as such on the Capital Reduction Record Date.

'...we have assessed the fairness of the Proposed Scheme based on the consideration being inclusive of the CVR Shares.'

'The value of the consideration to be received by Gloucester Shareholders, including the CVR Shares, Capital Return and Special Dividend, is within the range of the estimate of the fair market value of a share in Gloucester. On this basis, we consider the Proposed Scheme is fair.'

The Proposed Scheme is reasonable

In accordance with ASIC Regulatory Guide 111 an offer is reasonable if it is fair. On this basis, in our opinion the Proposed Scheme is reasonable.

Conclusion on reasonableness

As the Proposed Scheme is fair, it is also reasonable.

However, it is important to note that the Independent Expert has also expressed the following views:

- *'the value of the consideration to any Shareholder electing not to receive the CVR Shares will be lower than for Shareholders receiving ordinary shares and CVR Shares. For those Shareholders, the value of the consideration under the Proposed Scheme is below the range of our estimate of the fair market value of a share in Gloucester' (at page 3, footnote 1); and*
- *'if the Merger Proposal proceeds ... it is possible that shares in the Proposed Merged Entity will trade at prices lower than implied by our valuation' (at page 12).*

SECTION 5 – RELEVANT CONSIDERATIONS FOR YOUR VOTE ON THE MERGER PROPOSAL AND CAPITAL RETURN (CONTINUED)

The Independent Expert's Report is included in full in Appendix 1 to this Explanatory Booklet. That report should be read in its entirety, including the assumptions on which the conclusions are based.

(d) Risk of Gloucester Share price falling if the Merger Proposal is not approved

In the one month period before 23 December 2011, being the date that the Merger Proposal was announced, the volume weighted average price of Gloucester Shares was A\$7.59.

Between 23 December 2011 and 3 April 2012, Gloucester Shares have traded in the range of A\$7.85 to A\$9.04 per Share. Your Directors expect that if the Merger Proposal does not proceed, the price of Gloucester Shares on ASX may fall, in the absence of a Superior Proposal.

Additionally, Gloucester Shareholders should be aware that if the Merger Proposal does not proceed and no Superior Proposal for Gloucester is received, there are risks associated with a continued investment in Gloucester as a stand-alone ASX listed company, in particular, with Gloucester pursuing its growth initiatives and otherwise executing its current business strategy. These risks are outlined in Sections 9.3, 9.4 and 9.7.

(e) Capital Return allows surplus capital to be returned to Shareholders

The Capital Return allows capital that is surplus to Gloucester's requirements as a wholly owned subsidiary of Yancoal Australia to be returned to Gloucester Shareholders in a timeframe consistent with Gloucester's requirements.

5.4 Possible disadvantages of the Merger Proposal and Capital Return

The Merger Proposal and Capital Return have a number of potential disadvantages and risks that Gloucester Shareholders should consider in deciding how they should vote at the Meetings.

Although the Gloucester Board is of the opinion that these disadvantages and risks are outweighed by the advantages of the Merger Proposal and the Capital Return, and that they are each in the best interests of Gloucester Shareholders in the absence of a Superior Proposal, Gloucester Shareholders should consider their individual circumstances in determining how to vote in relation to the Scheme and the Capital Reduction Resolution.

(a) Change in investment and risk profile for Gloucester Shareholders

If the Merger Proposal proceeds, Gloucester Shareholders will, depending on their elections, receive as Scheme Consideration either all Yancoal Australia Ordinary Shares or a combination of Yancoal Australia Ordinary Shares and CVR Shares (with the number of CVR Shares subject to potential scale back). Therefore, Gloucester Shareholders will have a direct investment exposure to the Merged Group. Although Gloucester and Yancoal Australia are both coal producers, the operational profile, capital structure, debt exposure, size and geography of the Merged Group will be different from that of Gloucester on a stand-alone basis. It is possible that certain Gloucester Shareholders may wish to maintain an interest in Gloucester as a stand-alone entity because they are seeking an investment in a listed company with the specific characteristics and investment focus of Gloucester. For those Shareholders, the change in risk profile of the Merged Group described below may be perceived as a disadvantage. The risks identified below, together with other risks, are considered in further detail in Section 9 of this Explanatory Booklet.

More expansive business operations

The Merged Group will have business operations that are more expansive than (and, in certain respects, different from) Gloucester's present business operations. Specifically, the Merged Group will conduct the businesses presently carried on by Yancoal Australia (other than owning the Excluded Assets), as well as Gloucester's present businesses. Further details of Yancoal Australia's business are set out in Section 7 of this Explanatory Booklet. The Merged Group will be affected by business risks which currently affect Gloucester and Yancoal Australia individually, including the following:

- adverse changes in the general economic climate caused by factors including industrial disruption, employment rates, interest rates, commodity prices, and the rate of inflation; and
- the Merged Group will be subject to competitive pressures in the coal industry.

Integration risks

There are also risks associated with the integration of organisations the size of Gloucester and Yancoal Australia, including:

- integrating accounting and financial systems;
- integrating information technology and support functions;
- integrating new management and human resource systems; and
- integrating employees.

While it is not expected, there is a risk that the integration of Gloucester and Yancoal Australia could prove more difficult or take more time than is currently contemplated. If this occurs, it could delay and/or diminish the expected cost savings and other possible synergy benefits for the Merged Group and increase operational costs. This may impact on the financial performance and position of the Merged Group and the market price of Yancoal Securities.

Exact value of Scheme Consideration is uncertain

The exact value of the Scheme Consideration that would be received by Gloucester Shareholders on implementation of the Merger Proposal is not certain because:

- in the case of Gloucester Shareholders who do not make an 'All Ordinary Shares' Election, they will not know the precise combination of Yancoal Australia Ordinary Shares and CVR Shares they will receive until allocations of Yancoal Australia Ordinary Shares and CVR Shares are announced (expected to be on or about 25 June 2012); and
- the exact value of the Scheme Consideration will depend on the price at which Yancoal Securities trade on and shortly after the Implementation Date.

There is presently no public market for Yancoal Securities and none has previously existed. No assurances can be given as to the price at which Yancoal Securities will trade on ASX immediately following implementation of the Merger Proposal or in the short to medium term thereafter. Those prices may be partly affected by the risk factors summarised above which are explained in further detail in Section 9 of this Explanatory Booklet. Section 9.6 discusses some specific risks associated with holding Yancoal Securities.

The Merged Group's debt profile and currency risk are substantially greater than Gloucester's

The Merged Group will have a pro forma net debt position of A\$3.6 billion (based on figures as at 22 February 2012, primarily US\$ denominated debt converted at US\$ = A\$1.0724), down from the pro forma net debt position as at 31 December 2011 of A\$3.86 billion, following the implementation of the Merger Proposal and after adjusting for the Capital Return. This debt comprises:

- A\$0.4 billion in net debt contributed by Gloucester;
- A\$2.4 billion in net debt contributed by Yancoal Australia; and
- A\$700 million that Yancoal Australia must use reasonable endeavours to procure prior to the Second Court Hearing Date to enable Gloucester to pay the Special Dividend, the Gloucester Option Amount and Promissory Notes for an aggregate face value equal to the Capital Reduction Amount, such Promissory Notes to be delivered by Gloucester to the Trustee in discharge of Gloucester's obligations under the Capital Return,

but does not include the new A\$1 billion facility that Yancoal Australia must use all reasonable endeavours to procure to fund business expansion of the Merged Group (see below). This new facility has not been included in arriving at the pro forma net debt figure of A\$3.6 billion for the Merged Group because there is no certainty as to when this facility will be drawn down.

The Merged Group's debt facilities will include the facilities noted below. If the new A\$1 billion business expansion facility referred to in the fourth bullet point below is obtained, the total amount of these facilities would be approximately A\$5.09 billion. It should be noted, however, that not all of the two new facilities in the third and fourth bullet points would be drawn immediately:

- the US\$3.04 billion facility which Yancoal Australia currently has in place, maturing in three almost equal tranches in 2012, 2013 and 2014 – it is a condition precedent to the Merger Proposal that Yancoal Australia confirms in writing to Gloucester before 8.00am on the Second Court Hearing Date that the terms of repayment of this facility have been amended such that the first two tranches will be extended to mature in 2017 and 2018;
- the A\$400 million debt facilities which Gloucester currently has in place with Noble that mature on 1 July 2015;
- a new facility of A\$700 million to be obtained by Yancoal Australia – it is a condition precedent to the Merger Proposal that Yancoal Australia confirm in writing to Gloucester before 8.00am on the Second Court Hearing Date that this facility is in place to enable Gloucester to fund the Special Dividend, the Gloucester Option Amount and the Promissory Notes (as at the date of this Explanatory Booklet, the terms and maturity date of this facility are not yet finalised – see Section 8.7(b) for the current status of this facility); and
- a new A\$1 billion facility that Yancoal Australia must use all reasonable endeavours to procure to fund business expansion of the Merged Group (as at the date of this Explanatory Booklet, the terms and maturity date of this facility are not yet finalised – see Section 8.7(c) for the current status of this facility).

In relation to Yancoal Australia's existing US\$3.04 billion facility, it should be noted that assuming the condition precedent requiring

the extension of the current repayment dates of the first two tranches is fulfilled, the three, almost equal, tranches of this debt will either need to be refinanced or repaid by the relevant date each of these tranches becomes due, following that extension (2014, 2017 and 2018), although if the extensions described in Section 8.7(a) are completed, the maturities would be 2017, 2018 and 2019. If the Merged Group is unable to refinance this debt, or refinance it on similar terms to those that currently apply, this debt level may place undue financial pressure on the Merged Group. In relation to the new A\$1 billion facility that Yancoal Australia must use all reasonable endeavours to procure to fund the intended business expansion of the Merged Group, it is possible that this facility may not be obtained on terms that are commercially acceptable to the Merged Group. In those circumstances, the Merged Group would need to devise alternative strategies to fund future capital expenditure and other growth initiatives. Those alternatives may present an inferior funding outcome than that which is currently contemplated by the proposed new A\$1 billion facility.

The debt profile of the Merged Group will be predominantly United States dollar denominated and the Merged Group will therefore be exposed to greater currency risk than Gloucester on a stand-alone basis, which has its debt facilities denominated in Australian dollars. An adverse movement in the A\$/US\$ exchange rate would increase the size of the debt and interest repayments for the Merged Group in Australian dollar terms.

Please refer to Section 8.14(h) for further information on the debt profile of the Merged Group and to Section 9.3.1(k) for the financing risks associated with an investment in the Merged Group.

(b) Yanzhou Coal's presence as the majority, controlling shareholder of the Merged Group, with obligations to reduce its economic ownership of the Merged Group that must be fulfilled by the end of 2013, potentially places downward pressure on the Merged Group's share price until after that time

The Commonwealth Treasurer has approved Yancoal Australia's proposed acquisition of Gloucester, subject to certain conditions. The key conditions are outlined in Sections 11.7 and 14.15. One of the conditions is that Yanzhou Coal is required to reduce its economic ownership of the Merged Group to less than 70% by 31 December 2013. Another is that Yanzhou Coal must reduce its economic ownership of the underlying assets of Felix Resources (as at the time of the acquisition of Felix Resources) by 31 December 2013 to less than 50%⁴⁰. The requirement to fulfil these two conditions may create a market perception of a 'stock overhang' that may impact the Merged Group's share price performance until these obligations are satisfied. This perception may include that, as Yanzhou Coal is required to reduce its holding in the Merged Group and/or its economic ownership of underlying assets of Felix Resources within a set timeframe and subject to the then prevailing market conditions, this may result in transactions being completed on terms that are less favourable than if the FIRB conditions noted above did not apply. Perceptions of this type may place downward pressure on the price of Yancoal Securities until these FIRB conditions are fulfilled.

⁴⁰ This is to be calculated by dividing the aggregate equity ownership of annual saleable production of all operational assets at the time of the Felix Resources acquisition by the total annual saleable production for those assets, in each case assuming that all assets were operating at full capacity (and multiplying the result by Yanzhou's percentage interest in Yancoal Australia). See Section 14.15 for further details.

SECTION 5 – RELEVANT CONSIDERATIONS FOR YOUR VOTE ON THE MERGER PROPOSAL AND CAPITAL RETURN (CONTINUED)

However, it should be noted that Yanzhou Coal may satisfy the FIRB condition requiring it to reduce its economic ownership of the Merged Group to less than 70% (which will also contribute to satisfying the condition relating to economic ownership of the Felix Resources assets) by 31 December 2013 through a number of methods other than selling its Yancoal Australia Ordinary Shares. For example, Yanzhou Coal may elect to Repurchase CVR Shares by transferring some of its existing Yancoal Australia Ordinary Shares (rather than paying cash) or allowing its holding to be diluted by not participating in any dividend reinvestment plan or any subsequent equity capital raising by Yancoal Australia.

(c) If the Merger Proposal proceeds, there will be a smaller free float than that which presently applies to Gloucester

The Merged Group is likely to have a smaller free float than that which presently applies to Gloucester, in terms of both the value of shares on issue (absent a re-rating of Merged Group's share price) and as a percentage of the Merged Group's total shares on issue. Specifically, if the Merger Proposal proceeds, Yanzhou Coal will initially hold 78% of the Yancoal Australia Ordinary Shares on issue, Noble approximately 13% and other current Gloucester Shareholders approximately 9%. Accordingly, there would only be a limited 'free float' of shares that may be publicly available for trading, which in turn may adversely impact the liquidity of Yancoal Australia Ordinary Shares and CVR Shares, and contribute to the market prices of these securities being volatile. The liquidity of these securities on ASX cannot be predicted with any degree of certainty. In addition, the secondary market for Yancoal Securities may incorporate a discount to reflect:

- the liquidity issues noted above;
- the minority ownership position of those who hold Yancoal Securities comprising the free float; and
- a perception that the presence of Yanzhou Coal as a majority shareholder reduces the prospect of a third party initiating a takeover or other corporate control transaction for the Merged Group, other than on terms that are acceptable to Yanzhou Coal.

Further, the low free float of the Merged Group is also likely to impact the capacity of the Merged Group to be included in published equity indices.

The issues noted above may be mitigated over the medium term by FIRB's requirement for Yanzhou Coal to reduce its economic ownership of the Merged Group from 78% to less than 70% and its economic ownership of the underlying assets of Felix Resources (as at the time of the acquisition of Felix Resources in 2009) to less than 50%, in each case by 31 December 2013. See further the discussion in Section 11.7. Once the first of these requirements is fulfilled, this could increase the free float from 9% to 17% which in turn should ameliorate some of the potential disadvantages noted in Section 5.4(b) and (c).

Furthermore, there are no restrictions, which Gloucester or Yancoal Australia are aware of as at the date of this Explanatory Booklet, on Noble reducing its approximate 13% shareholding in the Merged Group. To the extent (if any) that Noble reduces its shareholding in the Merged Group, this will increase the free float.

(d) Taxation considerations

Generally, it is expected that CGT roll-over relief will enable Australian resident Gloucester Shareholders who receive Yancoal Securities under the Scheme to defer any CGT liability they would otherwise incur on any gains on the disposal of their Gloucester Shares under the Scheme until the time they dispose of those

Yancoal Securities. If the Capital Return is approved and implemented it may result in capital gains tax consequences for Gloucester Shareholders.

Section 10 of this Explanatory Booklet provides a general outline of the likely taxation consequences for Gloucester Shareholders of participating in the Scheme and receiving the Special Dividend and the Capital Return. However, Gloucester Shareholders should seek their own professional advice regarding the individual taxation implications relevant to them.

Gloucester has lodged two Class Ruling Requests with the Australian Taxation Office (ATO) seeking the Commissioner of Taxation's views on the specific taxation implications for Gloucester Shareholders in relation to receiving the Special Dividend, receiving the Capital Return and participating in the Scheme. The Class Rulings are referred to in further detail in Section 10.

If, before the Scheme Meeting, the ATO states or indicates to Gloucester that it does not intend to provide Class Rulings that generally accord with Gloucester's views on the specific taxation implications for Gloucester Shareholders in relation to receiving the Special Dividend, receiving the Capital Return and participating in the Scheme, the Merger Proposal Deed contains a framework under which Gloucester and Yancoal Australia must consult in good faith over a period of 10 Business Days to determine whether there are alternative means or methods for effecting the Merger Proposal and payment of the Special Dividend and Capital Return. This consultation process may result in a revised proposal being agreed between Gloucester and Yancoal Australia and being submitted to Gloucester Shareholders for their consideration. However, there is no assurance that any such revised proposal will be developed and any revised proposal may have taxation implications that are less favourable for Gloucester Shareholders than those which are expected to apply under the terms of the Special Dividend, the Capital Return and Merger Proposal as currently proposed. Alternatively, if at the conclusion of the consultation process referred to above, agreement cannot be reached between Gloucester and Yancoal Australia on restructuring the terms of the Merger Proposal, the Capital Return and the Special Dividend, either Gloucester or Yancoal Australia may (but need not) terminate the Merger Proposal Deed.

Gloucester proposes to seek the adjournment of the Scheme Meeting and General Meeting if it has not received from the ATO a positive indication that the Class Rulings will be received in a form and on terms contemplated by the Class Ruling Requests.

(e) You may believe that there is a better prospect for increased value if Gloucester remains a stand-alone listed company

You may believe that Gloucester will deliver greater returns to Shareholders over the medium to long term by remaining a stand-alone listed company. You may believe that Gloucester's assets alone, particularly the Gloucester Basin, Abel and Tasman, and Monash, have a greater growth potential in the medium to long term than the Merged Group's combined assets. You may believe that Gloucester should develop its existing asset portfolio and consider further growth by acquisition before looking to secure a merger with another coal company.

In assessing and recommending the Merger Proposal, your Directors evaluated the other strategic alternative of Gloucester remaining a stand-alone listed company, with that alternative entailing Gloucester continuing to develop its existing portfolio of coal assets and the Board seeking to execute its current business strategy. The Directors note that the benefits of this alternative compared

to pursuing the Merger Proposal are that Gloucester would be substantially less geared and less exposed to currency risk and to the other risks associated with the Merger Proposal, as fully set out in Section 9.

However, in deciding that they should recommend the Merger Proposal, your Directors determined that, on balance, the potential benefits of the Merger Proposal as set out in Section 5.3 offer a more favourable outcome for Shareholders than the benefits that might otherwise be available to them if Gloucester remains a stand-alone listed company. In particular, your Directors have had regard to the specific risks Gloucester faces if it remains a stand-alone listed company and seeks to execute its current business strategy. These risks are discussed in Sections 9.3, 9.4 and 9.7.

(f) If the Merger Proposal proceeds, this precludes the possibility of any Superior Proposal emerging for Gloucester in the future

It is possible that, if Gloucester were to continue as a stand-alone listed company, a Competing Proposal for Gloucester which is more favourable for Gloucester Shareholders than the Merger Proposal may materialise in the future. The implementation of the Merger Proposal would mean that Gloucester Shareholders would not obtain the benefit of any such Superior Proposal. The Gloucester Board is not currently aware of any such Superior Proposal and notes that, since the Merger Proposal was announced on 23 December 2011, there has been a significant period of time for a Competing Proposal for Gloucester (which might provide a different outcome for Gloucester Shareholders) to emerge and one has not emerged. Accordingly, the Merger Proposal is the only corporate control proposal that has been received by the Gloucester Board as at the date of this Explanatory Booklet. As at that date, no Superior Proposal from another party has been forthcoming for your Gloucester Shares.

Until the date of the Scheme Meeting, there is nothing preventing other parties from making unsolicited Competing Proposals for Gloucester. Although Gloucester has agreed to certain exclusivity provisions that restrict it from soliciting or inviting, or engaging with, the proponent of a Competing Proposal, these restrictions do not prevent Gloucester from considering an unsolicited Competing Proposal that is or would reasonably be expected to result in a Superior Proposal. Yancoal Australia has the right, but not the obligation, to match any Superior Proposal.

If a Competing Proposal for Gloucester emerges prior to the Scheme Meeting, your Directors will carefully consider that proposal and will inform you of any material developments which may affect your Directors' view that the Merger Proposal is presently the most favourable proposal for all your Gloucester Shares. Any change of your Directors' current recommendation in response to the emergence of a Competing Proposal may trigger a contractual obligation on Gloucester's part to pay Yancoal Australia a break fee: see further the discussion in Section 5.5(g).

It is also relevant to note that, if the Merger Proposal proceeds, Gloucester Shareholders (in their new capacity as shareholders of the Merged Group) may still have an opportunity to realise a control premium in the event of any future change of control transaction for the Merged Group (noting, however, the earlier observation in Section 5.4(c) that any such transaction is only likely to proceed if it is supported by Yanzhou Coal as the majority shareholder).

5.5 Other relevant considerations

(a) The Merger Proposal has a number of conditions

In addition to Shareholder and Court approval, the Merger Proposal is subject to a number of other conditions. These conditions are outlined in Section 11 and are set out in full in the Merger Proposal Deed in Appendix 6. All these conditions need to be satisfied (or alternatively waived, in the case of certain conditions that are capable of being waived) in order for the Merger Proposal to proceed.

Your Directors have reviewed the conditions and do not consider them to be unduly onerous or inconsistent with market practice for a transaction of this nature. As at the date of this Explanatory Booklet, your Directors are not aware of any matter that would result in a breach or non-fulfilment of any of those conditions.

(b) 'All or nothing' outcome

If all of the conditions and approvals for the Merger Proposal are satisfied or waived (as applicable):

- the proposal will bind all persons registered as Gloucester Shareholders as at the Scheme Record Date (**Scheme Shareholders**), including those who do not vote on the proposal and those who vote against it, meaning that all persons who qualify as Scheme Shareholders will relinquish ownership of their Gloucester Shares and receive the Scheme Consideration;
- Gloucester will be wholly-owned and controlled by Yancoal Australia; and
- Gloucester will be delisted from ASX.

Conversely, if all of the conditions and approvals for the Merger Proposal are not satisfied or waived (as applicable), the status quo will be preserved, meaning that:

- Gloucester Shareholders will retain all of their Shares (subject to any trading by them of their Shares);
- Gloucester will remain listed on ASX;
- the Special Dividend will not be declared or authorised;
- the Gloucester Board does not intend to proceed with the Capital Return;
- the existing Gloucester Board and management will continue to operate Gloucester's business;
- the expected advantages of the Merger Proposal, as outlined in Section 5.3, will not be realised and, equally, some of the potential reasons identified in Section 5.4 to vote against the Merger Proposal will no longer be relevant; and
- Gloucester Shareholders will retain their current investment in Gloucester Shares and, in doing so, will continue to retain the benefits of that investment and continue to be exposed to the risks associated with this investment. These risks include general risks associated with any investment listed on the ASX as well as risks that are specific to Gloucester's business (see Section 9.4).

SECTION 5 – RELEVANT CONSIDERATIONS FOR YOUR VOTE ON THE MERGER PROPOSAL AND CAPITAL RETURN (CONTINUED)

(c) Risks of trading during deferred settlement trading period

For those Gloucester Shareholders who do not make an 'All Ordinary Shares' Election, it is possible that the demand for CVR Shares will exceed the available number, in which case the scale back mechanism described in Section 12.5(d) will apply. In these circumstances, those Gloucester Shareholders who do not make an 'All Ordinary Shares' Election will not know the precise combination of Yancoal Australia Ordinary Shares and CVR Shares they will receive until allocations of Yancoal Australia Ordinary Shares and CVR Shares are announced (expected to be on or about 25 June 2012). Noble has stated to Gloucester that it will make an 'All Ordinary Shares' Election (thereby electing to receive the Scheme Consideration alternative that does not include a combination of CVR Shares and Yancoal Australia Ordinary Shares). The Directors believe that principles of 'Truth in Takeovers' will make it difficult for Noble as a practical matter to act inconsistently with its statements. Based on Noble's current shareholding, an election by Noble consistent with its intention as stated to Gloucester would satisfy the condition of the Merger Proposal that requires Gloucester Shareholders holding in aggregate at least 130 million Shares elect to receive 100% of their Scheme Consideration in the form of all Yancoal Australia Ordinary Shares. Provided Noble makes the election and elections continue to be effective in respect of at least 130 million Gloucester Shares as at the Scheme Record Date, Gloucester Shareholders who do not make an 'All Ordinary Shares' election will not be subject to scale back of their CVR Shares under the Scheme.

Scheme Shareholders are responsible for confirming their allocation of Yancoal Securities before trading in those securities. Any Gloucester Shareholder who sells Yancoal Securities before receiving confirmation of their allocation does so at their own risk.

(d) Transaction costs

Gloucester Shareholders

If the Merger Proposal proceeds, Gloucester Shareholders will not be required to pay any brokerage or other costs on the disposal of their Gloucester Shares under the Scheme. However, the cash proceeds received by Foreign Scheme Shareholders and Electing Small Shareholders will be received net of any applicable brokerage or other costs payable in connection with the disposal of the Yancoal Securities to which they would otherwise be entitled.

Gloucester

As at the date of this Explanatory Booklet, Gloucester has incurred (or expects to incur) costs of approximately A\$9 million in developing the Merger Proposal to the point that it is capable of being submitted to Gloucester Shareholders as a formal offer for their consideration. These costs include negotiations with Yanzhou Coal and Yancoal Australia, due diligence investigations, the retention of advisers, engagement of the Independent Expert and preparation of this Explanatory Booklet. In addition, depending on the reasons why the Merger Proposal does not proceed, Gloucester may be liable to pay Yancoal Australia a break fee of A\$20 million (inclusive of GST): see Section 5.5(g) for further details.

If the Merger Proposal does not proceed and if no Superior Proposal emerges and becomes effective, Gloucester's financial year 2012 results will be negatively impacted by these transaction costs. In certain circumstances, some Gloucester's transaction costs may be reimbursed by Noble: see Section 5.5(h) for further details.

Merged Group

If the Merger Proposal proceeds, Gloucester's transaction costs and any further transaction-related costs incurred by Gloucester up to the Implementation Date will effectively be met by Yancoal Australia, as the ultimate controller of Gloucester following implementation of the Scheme. However, Scheme Shareholders (in their new capacity as shareholders of the Merged Group) will indirectly absorb a proportional share of Gloucester's transaction related costs.

Transaction and other costs incurred (or which are expected to be incurred) by Gloucester and Yancoal Australia in relation to the implementation of the Merger Proposal are currently estimated at approximately A\$66 million, which includes the costs incurred or apprehended by Gloucester of A\$9 million described above, stamp duty liabilities, costs associated with the appointment of financial and legal advisers, accounting and technical expert fees and various other costs. Estimated stamp duty costs of A\$15.5 million have been included in the pro forma balance sheet in Section 8.14. However, as at the date of this Explanatory Booklet, no detailed inquiry as to stamp duty liabilities has been undertaken and duty has yet to be assessed.

(e) Gloucester exclusivity arrangements

The Merger Proposal Deed contains exclusivity arrangements that prevent Gloucester from soliciting, inviting, encouraging or initiating any Competing Proposal or any enquiries, negotiations or discussions with any third party in relation to or that may reasonably be expected to lead to a Competing Proposal.

These exclusivity arrangements do not restrict Gloucester or the Directors from:

- considering or negotiating any unsolicited Competing Proposal from a third party that may constitute a Superior Proposal;
- changing the recommendation by the Directors in respect of a Superior Proposal;
- approving or recommending a Superior Proposal to Shareholders; or
- entering into an agreement in respect of a Superior Proposal.

However, Yancoal Australia has the right, but not the obligation, to match any Superior Proposal.

(f) Yancoal exclusivity arrangements

A reciprocal exclusivity regime applies to Yancoal Australia in favour of Gloucester, with exceptions including to allow Yancoal Australia to continue preparations for an initial public offering of its Australian coal assets, with those preparations confined to documentary and procedural matters only.

For more information in relation to the exclusivity provisions, please refer to the Merger Proposal Deed in Appendix 6.

(g) Gloucester break fee

A break fee of A\$20 million (inclusive of GST) is payable by Gloucester to Yancoal Australia in any of the following circumstances:

- the Gloucester Board (or a majority of the Gloucester Board) makes a public statement withdrawing or adversely changing or modifying its or their recommendation that Gloucester Shareholders vote in favour of the Merger Proposal and the Capital Return or makes a recommendation or statement that is inconsistent with such recommendation or statement.
- without limiting the preceding bullet point, the Gloucester Board (or a majority of the Gloucester Board) makes a public statement indicating that they no longer support the Merger Proposal and the Capital Return or that they support another transaction (including, without limitation, a Competing Proposal); or
- if at any time before the termination or expiry of the Merger Proposal Deed, a Competing Proposal is announced by a Third Party and, within one year of that announcement, the Third Party or any of its associates completes in all material respects a transaction of the kind referred to in paragraph (a), (b), (c) or (d) of the definition of Competing Proposal (refer Appendix 6).

Neither of the break fee triggers in the first two bullets above apply where the reason for the withdrawal, change or modification of recommendation is that the Independent Expert changes or withdraws its conclusion that the Scheme is in the best interest of Gloucester Shareholders (unless that change in or withdrawal of the Independent Expert's conclusion is as a result of the existence of a Competing Proposal or that Gloucester has exercised certain termination rights).

The break fee triggers do not include a situation where the Merger Proposal does not proceed simply because Gloucester Shareholders do not approve the Scheme and the Capital Return at the Meetings to be held on Monday, 4 June 2012. In addition, the break fee is not payable (or is recoverable from Yancoal Australia if already paid) to the extent that a court or the Takeovers Panel determines that all or any part of the break fee is unlawful, involves a breach of directors' duties or constitutes unacceptable circumstances or breaches an order of the Takeovers Panel.

For a complete description of the circumstances in which the break fee would be payable by Gloucester, please refer to the Merger Proposal Deed in Appendix 6.

It should also be noted that any obligation on Gloucester's part to pay the break fee may be subject to the cost reimbursement arrangements that Gloucester has entered into with Noble, as described in Section 5.5(h).

In negotiating the amount of the break fee and the circumstances in which it would be payable, Gloucester had regard to the guidelines issued by the courts and the Takeovers Panel. The Gloucester Directors consider that the break fee arrangements are reasonable and appropriate in amount, structure and effect, and that it is appropriate to agree to their terms to secure Yancoal Australia's participation in the Merger Proposal.

(h) Noble cost reimbursement arrangements

Noble has agreed to reimburse certain transaction costs incurred by Gloucester in connection with the Merger Proposal if the proposal is not implemented other than as a result of the implementation of a Competing Proposal. Noble has also agreed to reimburse any break fee payable by Gloucester in connection with the Merger Proposal if the Merger Proposal is not implemented other than:

- as a result of the implementation of a Competing Proposal; or
- where all or a majority of Gloucester Directors recommend the Merger Proposal and they subsequently change or withdraw their recommendation and the change is not due to a change in the Independent Expert's opinion that the Merger Proposal is in the best interests of Gloucester Shareholders.

5.6 What are your options and what should you do?

The following principal options are available to Gloucester Shareholders in relation to their Gloucester Shares. Gloucester encourages you to consider your personal risk profile, portfolio strategy, tax position and financial circumstances and seek professional advice before making any decision in relation to your Gloucester Shares.

SECTION 5 – RELEVANT CONSIDERATIONS FOR YOUR VOTE ON THE MERGER PROPOSAL AND CAPITAL RETURN (CONTINUED)

Vote in favour of the Merger Proposal and the Capital Return	<p>This is the course of action unanimously recommended by your Directors, in the absence of a Superior Proposal.</p> <p>To follow your Directors' unanimous recommendation, you should vote in favour of the Scheme at the Scheme Meeting and in favour of the Capital Reduction Resolution at the General Meeting. For directions on how to vote at these two Meetings and important voting information generally, please refer to Section 4.</p>
Vote against the Merger Proposal and the Capital Return	<p>If, despite your Directors' unanimous recommendation and the conclusion of the Independent Expert, you do not support the Merger Proposal or the Capital Return, you may vote against the Scheme at the Scheme Meeting and against the Capital Reduction Resolution at the General Meeting.</p> <p>However, if all of the conditions and approvals for the Merger Proposal and Capital Reduction are satisfied or waived (as applicable), these proposed transactions will bind all Gloucester Shareholders, including those who vote against them at the Meetings or those who do not vote at all.</p>
Vote in favour of the Merger Proposal but against the Capital Return (or vice versa)	<p>Although this voting course is open, Shareholders who support the Merger Proposal should also vote in favour of the Capital Return, as the approval of the Capital Reduction Resolution is a condition to the Merger Proposal proceeding.</p> <p>It is conceivable that some Shareholders may support the Capital Return but not the Merger Proposal. It is open for those Shareholders to vote in favour of the Capital Return but against the Merger Proposal. You should note, however, that unless the Merger Proposal proceeds, your Directors do not intend to proceed with the Capital Return.</p>
Sell your Gloucester Shares on ASX	<p>The existence of the Merger Proposal does not preclude you from selling your Gloucester Shares on market for cash, if you wish, provided you do so before close of trading in Gloucester Shares on ASX on the Effective Date (currently expected to be Friday 22 June 2012), when trading in Gloucester Shares will end.</p> <p>If you are considering selling your Gloucester Shares on ASX, you should have regard to the then prevailing trading prices of Gloucester Shares. You may ascertain current trading prices of Gloucester Shares through the ASX website (www.asx.com.au), by contacting your stockbroker or by reading the business pages of any major metropolitan newspaper.</p> <p>Gloucester Shareholders who sell their Gloucester Shares on ASX:</p> <ul style="list-style-type: none">• will receive cash consideration from the on-market sale rather than Yancoal Securities;• will receive the consideration for sale of their Shares sooner than they would receive the Scheme Consideration under the Merger Proposal;• may incur a brokerage charge;• will not be entitled to receive the Scheme Consideration;• may not be entitled to participate in the Special Dividend, if it is declared, or the Capital Return, if its proceeds; and• will not be able to participate in a Superior Proposal, if one emerges, noting that, as at the date of this Explanatory Booklet, your Directors have not received notice from any third party of an intention to make any Competing Proposal.
Do nothing; i.e. neither vote in favour of nor against the Merger Proposal and not sell on-market	<p>Gloucester Shareholders who elect neither to vote at the Meetings nor sell their Gloucester Shares on market will:</p> <ul style="list-style-type: none">• if the Merger Proposal is approved and implemented – have their Gloucester Shares compulsorily transferred to Yancoal Australia by operation of the Scheme and receive the Scheme Consideration; or• if the Merger Proposal fails – retain their Gloucester Shares.

SECTION 6

PROFILE OF GLOUCESTER



SECTION 6 – PROFILE OF GLOUCESTER

6.1 Overview

Gloucester is an Australian listed public company (ASX: GCL) with coal production, exploration and mining operations in the Gloucester Basin and Hunter Valley in New South Wales and in the Bowen Basin, Queensland.

As at close of trading on 19 December 2011 (being the last day of trading prior to announcement of the Merger Proposal), Gloucester had a market capitalisation of A\$1.4 billion.

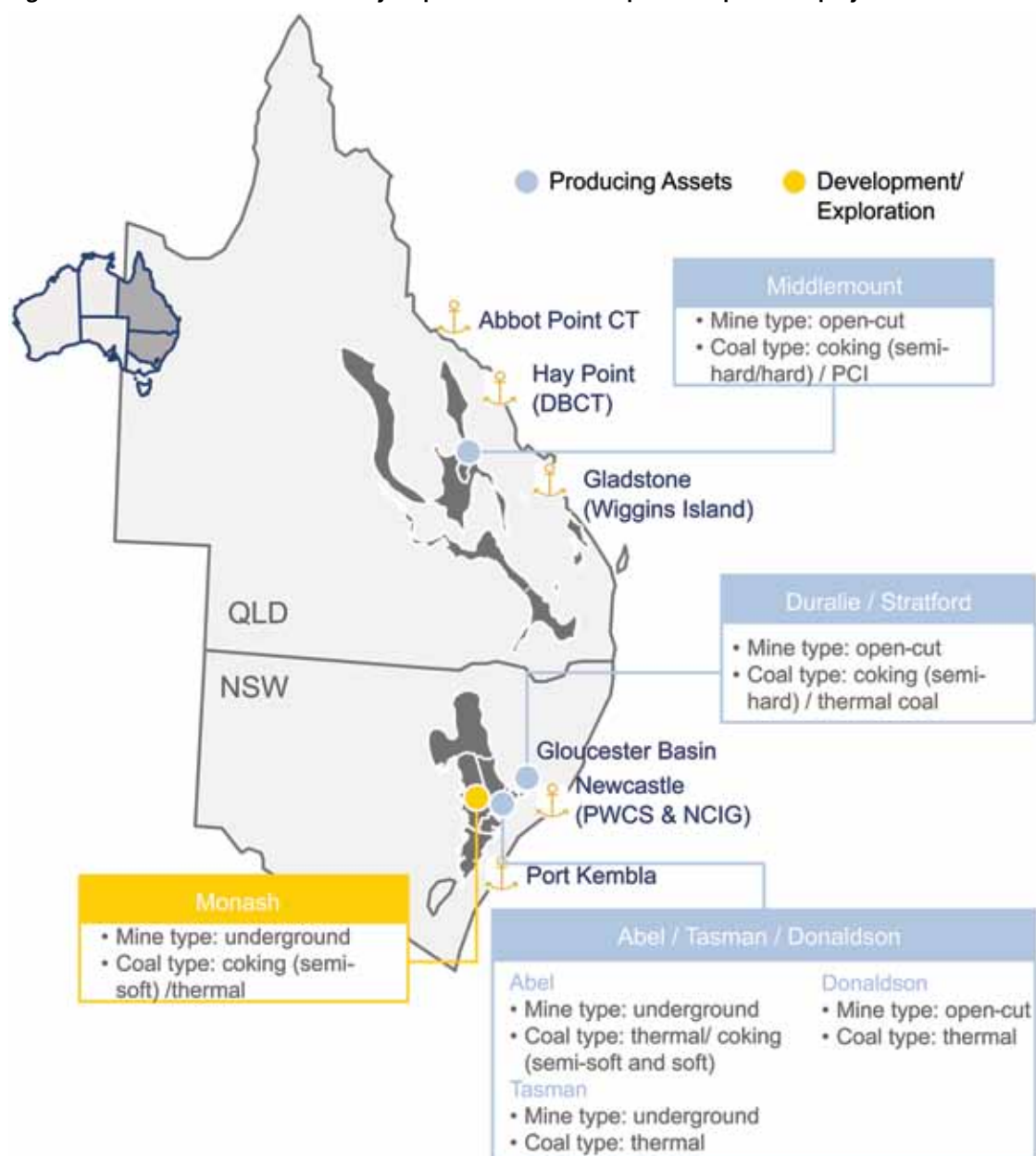
Gloucester produces metallurgical and thermal coals for export markets. Gloucester Coal operates two open-cut mines in the Gloucester Basin (Stratford and Duralie) and Donaldson Coal in the Hunter Valley, which consists of two underground mines (Tasman and Abel), and one open-cut mine (Donaldson). In Queensland, Gloucester has joint control and holds a near 50% interest in the

Middlemount Coal open-cut mine located in the Bowen Basin. Gloucester has a large Coal Reserves and Resources base with Reserves of 293 Mt and Resources of 1.8 Bt (on an equity basis)⁴¹.

In New South Wales, Gloucester has an 11.6% interest in NCIG and port allocations at Port Waratah Coal Services (**PWCS**), to support its current production and planned production growth activities. In Queensland, through its near 50% ownership in Middlemount Coal, Gloucester has port allocation at Abbot Point Coal Terminal (**APCT**) and (until 2014) Dalrymple Bay Coal Terminal (**DBCT**) and through Middlemount Coal's participation in the North Queensland Coal Terminal Pty Ltd (**NQCT**) is seeking up to 1 Mtpa (on a 100% basis) additional allocation at APCT.

The map below illustrates the location of Gloucester's major operations and development/exploration projects.

Figure 9 – Location of Gloucester's major operations and development/exploration projects



⁴¹ Please refer to Section 6.4 for further details.

Section 6.2 provides a summary of Gloucester's coal assets and development projects. A detailed profile of Gloucester's history, principal activities, coal assets and development projects is provided in section 3 of the Independent Expert's Report which forms Appendix 1 to this Explanatory Booklet. Gloucester confirms the accuracy of this factual information in the Independent Expert's Report.

6.2 Gloucester's coal portfolio at a glance

(a) Gloucester Basin

Duralie coal mine

The Duralie coal mine is located in the Southern part of the Gloucester Basin, 20 kilometres south of Gloucester's Stratford coal mine. In the project area, the basin is approximately 4 kilometres wide. The deposit consists of two target seams, the Weismantel Coal Seam and the Clareval Seam.

Duralie is an open-cut mining operation which started in March 2003. Leighton Mining operates the mine under contract to Gloucester. Duralie produces a high fluidity coking coal. To optimise the recovery of coal and improve project economics, Duralie coal is blended with other raw coal and washed to produce low ash coking coal and a higher ash thermal coal. Run of Mine (**ROM**) coal is transported to Stratford for washing by a shuttle train on the existing rail line.

Gloucester has also undertaken a concept level study to exploit potential operations east of the existing Duralie coal mine (Duralie East).

Stratford coal mine

The Stratford operation is located 95 kilometres north of Newcastle in the Gloucester Basin. It first began production in June 1995 as an open-cut operation extracting coal from multiple seams within the Gloucester Basin. Ditchfield Mining operates the mine under contract to Gloucester.

Gloucester is currently undertaking a feasibility study to expand its Stratford operations by the development of three new pits (Stratford East, Avon North and Roseville West Extension). Gloucester has also undertaken a concept level study to exploit potential coal north of the existing Stratford operations (Stratford North) and south of existing Stratford operations (Grant & Chainey).

Coal handling

ROM coal from the Gloucester Basin Mining Operations (that is, the Duralie and Stratford operations) is processed at the centralised Stratford Coal Handling and Preparation Plant (**CHPP**). The CHPP blends ROM coals for processing to produce the suite of Gloucester Basin Coal products. Coal is railed to the Newcastle Port for export and domestic use.

(b) Donaldson

Abel mine

The Abel underground mine is located approximately 25 kilometres from the Port of Newcastle, with the portal coming off the high wall of the Donaldson open-cut mine.

Abel is currently a bord and pillar operation, which uses continuous miners for first workings and secondary extraction. The mine is currently undertaking final feasibility study work for the introduction of longwall mining within the existing lease. Gloucester has also undertaken a concept level study to exploit potential, via a longwall, west of the existing mining lease (Abel Longwall Expansion Project). The mine uses existing surface infrastructure and the

Bloomfield CHPP, rail loader and rail loop for coal processing and loading.

Following extraction, coal is transported via conveyor through the high wall to the surface infrastructure area of the Donaldson Open Cut Mine. It is then trucked to the Bloomfield CHPP, where it is processed and loaded for transport by rail to the Port of Newcastle.

Abel has an expected mine life of approximately 20-25 years.

Tasman mine

The Tasman underground mine is located south of Maitland, approximately 20 kilometres from the Port of Newcastle.

Tasman is a bord and pillar operation, which uses continuous miners for first workings and secondary extraction. Tasman currently extracts coal from the Fassifern seam and is undertaking a feasibility study to develop a new mine extracting coal from the West Borehole seam. Gloucester has also undertaken a new concept level study to exploit potential south of the existing Tasman operation (Tasman Extension Project No. 2). Following extraction, the raw coal is brought to the surface where it is transported by truck to the established coal washing and loading facilities at Bloomfield Colliery (16 kilometres). There it is washed under contract to export steam coal specification. Washed coal is transported by rail and exported through the Port of Newcastle.

Tasman has an expected mine life of approximately 20-25 years.

Donaldson mine

The Donaldson open-cut mine is located approximately 25 kilometres from the Port of Newcastle. Coal is extracted by conventional truck and shovel haul back methods in an open-cut operation.

Raw coal is transported by truck on internal roadways to the established coal washing and loading facilities at Bloomfield CHPP (approximately 1.5 kilometres away) where it is washed under contract to export specification then transported by rail and exported through the Port of Newcastle.

Coal production out of the Donaldson open-cut mine is expected to cease in 2013.

(c) Middlemount

Middlemount mine is located in Queensland's Bowen Basin and is a joint venture between Peabody Energy and Gloucester. Gloucester has a near 50% interest in the Middlemount Coal joint venture.

Full scale operations at the open-cut mine commenced in November 2011. Production of high quality low phosphorus coking coal and low volatile PCI is expected to ramp up to approximately 3.8Mtpa of saleable production (100% basis). NRW Holdings Limited operates the mine under contract to Middlemount Coal.

Middlemount Coal has contracted port capacity at APCT and (until 2014) DBCT. Middlemount Coal has contracted rail capacity servicing the APCT and (until 2014) the DBCT. Gloucester receives a 4% royalty of the Free On Board Trimmed Sales from Middlemount Coal.

(d) Monash

Monash is a prospective export coking/thermal early stage exploration project strategically located near existing infrastructure in the Hunter Valley, NSW. Monash is 12 kilometres from the main rail line and 95 kilometres from Port of Newcastle

Exploration Titles EL 6123 and EL 7579 cover an area of 22.19 square kilometres and exploration drilling commenced August 2011.

SECTION 6 – PROFILE OF GLOUCESTER (CONTINUED)

A substantial upgrade to JORC Resources from 287Mt to 577Mt was announced to the Australian Stock Exchange on 16 November 2011.

The proposed mining method for Monash will be underground longwall mining. Concept studies completed on the Monash project have indicated potential for ROM production of up to 9 Mtpa over life of mine¹ and indicated an illustrative production split for Monash would be 58% coking coal (semi-soft) and 42% thermal coal.

Notes:

- 1 Projected production figures, operating costs and mine life figures are estimates only and are subject to the risks outlined in Section 9, including risks relating to port allocation and capacity, exploration and development, mining approvals, rail access, operational risks, market risks and Resources and Reserves 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.



(e) Development projects

Gloucester has a suite of development projects across all stages of development. These include expansions of existing operations at Stratford, Abel and Tasman and earlier stage exploration opportunities at Monash and Stratford North.

Figure 10 – Project development pipeline



Notes:

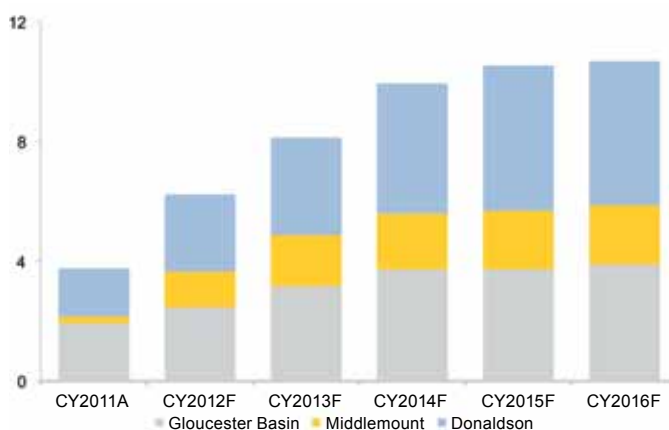
- 1 Donaldson includes Donaldson open-cut, Abel underground and Tasman underground.
- 2 Stratford Extension includes Stratford East, Avon North and Roseville West Extension.

6.3 Production profile

Gloucester's production is expected to grow substantially as Middlemount mine reaches full production and planned Abel and Tasman extensions and Gloucester Basin expansions are completed. Gloucester's operations produced 3.8 Mt of saleable coal in the 12 months to 31 December 2011⁴². Gloucester's expected future saleable production (on an equity basis) is outlined below. Note the diagram below excludes any potential future production from the Monash project.

The table below sets out recent production history for Gloucester's mines as well as expected future production (on an equity basis).

Figure 11 – Saleable production (Mt, equity basis)



Notes:

- 1 Projected production figures are estimates only and are subject to the risks outlined in Section 9, including risks relating to Resources and Reserves estimates, exploration and development, land title and access (including acquisition of required land and native title negotiation), mining approvals, rail access, port allocation and capacity, operational risks (including transport and infrastructure), market risks and the availability (or continuation) of financing. Forward looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties and other factors, many of which will be outside the control of Gloucester and the Merged Group.
- 2 Donaldson production is shown for calendar year 2011. Acquisition of Donaldson effective 14 July 2011.

⁴² Includes Donaldson production for calendar year 2011. Acquisition of Donaldson effective 14 July 2011.

6.4 Reserves and Resources

Gloucester has a thermal and metallurgical coal inventory of Reserves of 293 Mt and Resources of 1.8 Bt (on an equity basis).

(Mt)	Gloucester Basin	Middlemount (near 50% basis)	Donaldson	Monash	Combined
Reserves	84	48	161	–	293
Measured, Indicated and Inferred Resources	316	61	885	577	1,840

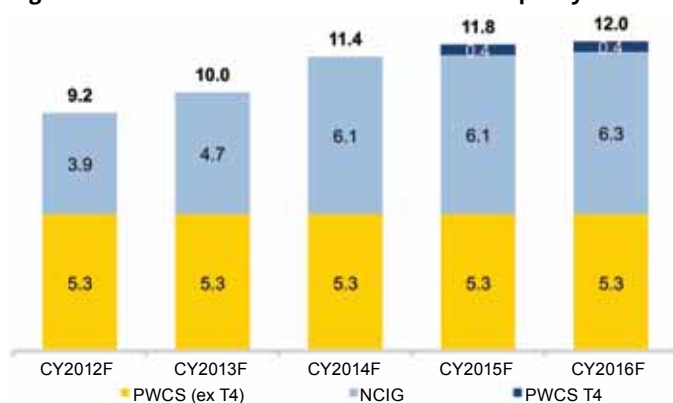
Please refer to the Competent Person statements in Section 15.

6.5 Port and rail capacity

New South Wales

Gloucester Coal (via its wholly owned subsidiary Donaldson Coal Pty Ltd) is a founding member of NCIG and has an 11.6% interest in NCIG. Gloucester has port capacity entitlements at PWCS and NCIG which are sufficient to meet current and planned future production. Gloucester has long term NSW rail contracts currently in place to meet current production and is expected to contract additional capacity to meet Gloucester's planned future production. The chart below sets out Gloucester's current and expected port capacity through the Port of Newcastle.

Figure 12 – Gloucester New South Wales Port Capacity



Notes:

- 1 Data shown for year ending 31 December and shown on an equity basis. These estimates relate to future expectations and therefore involve known and unknown risks and uncertainties. The actual port capacity available to Gloucester may vary on an annual basis as a result of one or more of the risks described in Section 9.3(b).
- 2 Includes capacity at PWCS T4.
- 3 Based on current capacity at PWCS (and NCIG) and expected capacity allocations from NCIG shareholding and PWCS T4.
- 4 Gloucester's PWCS T4 capacity for CY2015 and CY2016 is a provisional allocation only. The availability of this capacity is subject to the successful completion of PWCS T4. If the completion of PWCS T4 is delayed or there is a shortfall of actual capacity against target capacity, this may have a material adverse effect on Gloucester's existing and projected port capacity.

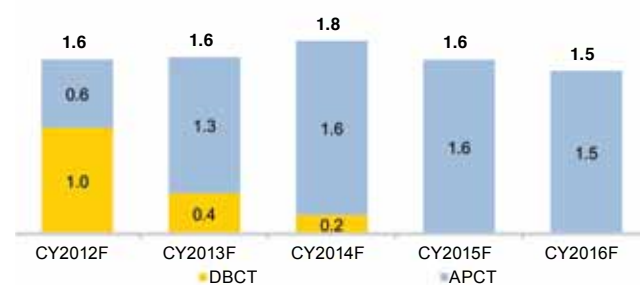
Queensland

Gloucester has a near 50% interest in Middlemount Coal. Middlemount Coal has contracted port capacity at the Abbot Point Coal Terminal (**APCT**) and (until 2014) the Dalrymple Bay Coal Terminal (**DBCT**). Middlemount Coal has contracted rail capacity servicing APCT and (until 2014) DBCT.

In addition, Middlemount Coal is a shareholder of North Queensland Coal Terminal Pty Ltd (**NQCT**) which has secured Preferred Respondent Status for the development of T4-T9 coal terminals at Abbot Point. Through NQCT, Middlemount Coal is seeking an additional 1.0Mtpa (100% basis) of port capacity which is in addition to the port capacity depicted in Figure 13. Additionally,

Middlemount Coal is in advanced discussions with other port users regarding entering into arrangements to utilise part of their excess port capacity during the period 2015 to 2017.

Figure 13 – Middlemount Coal Queensland Port Capacity (Mt, equity basis)



Notes:

- 1 Data shown for year ending 31 December and shown on an equity basis. These estimates relate to future expectations and therefore involve known and unknown risks and uncertainties. The actual port capacity available to Gloucester may vary on an annual basis as a result of one or more of the risks described in Section 9.3(b).

6.6 Historical financial information

(a) Basis of preparation

This Section summarises certain historical financial information about the Gloucester Group for the year ended 30 June 2011 and the half year ended 31 December 2011. The financial information in this Section is a summary only. Further details on Gloucester's financial performance for the year ended 30 June 2011 are provided in the audited full year results provided to ASX on 24 August 2011. Further details on Gloucester's financial performance for the half-year ended 31 December 2011 are provided in the reviewed half-year results provided to ASX on 28 February 2012. These documents are available as follows:

- from ASX or on its website at www.asx.com.au; or
- from Gloucester's website at www.gloucestercoal.com.au.

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report and half-year report.

Further detail on Gloucester's historical financial performance is provided in section 3 of the Independent Expert's Report which forms Appendix 1 to this Explanatory Booklet. Gloucester confirms the accuracy of this factual information in the Independent Expert's Report.

SECTION 6 – PROFILE OF GLOUCESTER (CONTINUED)

(b) Balance sheet

Set out below is Gloucester's consolidated balance sheet as at 31 December 2011.

Figure 14 – Consolidated balance sheet

A\$'m	Gloucester Reviewed
Current assets	
Cash and cash equivalents	30.9
Trade and other receivables	59.1
Waste in Advance	83.1
Inventories	52.3
Derivative financial instruments	2.2
Royalty receivable	15.9
Total current assets	243.5
Non-current assets	
Restricted cash	0.7
Property, plant and equipment	1,692.7
Deferred Tax Assets	13.9
Intangible assets	57.4
Exploration and evaluation assets	217.9
Royalty receivable	177.1
Investments	19.3
Total non-current assets	2,179.0
Total assets	2,422.5
Current liabilities	
Trade and other payables	74.9
Customer contracts	55.6
Interest bearing liabilities	4.1
Provisions – take-or-pay	21.2
Provisions – other	1.7
Income tax liability	0.2
Employee benefits	9.2
Total current liabilities	166.9
Non-current liabilities	
Trade and other payables	14.8
Customer contracts	77.5
Interest bearing liabilities	406.5
Deferred consideration	89.0
Deferred tax liabilities	257.4
Provisions – take-or-pay	98.6
Provisions – other	15.7
Employee benefits	0.8
Total non-current liabilities	960.3
Total Liabilities	1,127.2
Net Assets	1,295.3
Contributed equity	1,219.2
Reserves	10.4
Retained Earnings	65.7
Total equity	1,295.3

(c) Income statement

Set out below is Gloucester's consolidated income for the half year ended 31 December 2011 and the year ended 30 June 2011.

Figure 15 – Consolidated income statement

A\$'m	Reviewed for 6 months to 31-Dec-11	Audited for 12 months to 30-Jun-11
Revenue	227.0	306.5
Earnings before interest, tax, depreciation and amortisation and transaction costs	34.8	90.3
Depreciation and amortisation	(26.3)	(18.7)
Earnings before interest and tax and transaction costs	8.5	71.6
Transaction costs	(41.3)	(9.2)
Earnings before interest and tax	(32.8)	62.4
Finance costs	(24.1)	14.10
Profit before income tax	(56.9)	76.5
Income tax	20.0	(21.9)
Net profit after tax	(36.9)	54.6

Management discussion and analysis

Year to 30 June 2011

The year to 30 June 2011 saw a strong increase in revenue by 33.7% due to an 8.5% increase in tons sold along with a significant increase in coking coal prices. The average realised price in the year to 30 June 2011 was A\$211 per tonne for coking coal and A\$104 per tonne for thermal coal (compared with A\$146 per tonne for coking coal and A\$98 per tonne for thermal coal in the year ended 30 June 2010).

A\$9.2 million of transaction costs were incurred in the period, in respect of the acquisition of Middlemount Coal and Donaldson.

The strong coal prices in the year resulted in a net profit after tax of A\$54.6m.

Six months to 31 December 2011

The six months to 31 December 2011 was a period of transition for Gloucester. The completion and integration of the Donaldson and Monash businesses and the establishment of mining operations at Middlemount mine were significant achievements for the Company during the period.

The benefits of scale and the ability to manage coal type production profiles have been extremely valuable in what has been a volatile and difficult period in the coal market. The first quarter of the 2011/2012 financial year saw a gradual softening of overseas demand for export coal, in particular metallurgical coal. This situation deteriorated further in the second quarter.

Coal prices during the period were volatile, more so in the metallurgical coal market. Thermal coal prices were subdued at times. However, movements in price, in most cases, coincided with changes in the value of the Australian dollar. Movements in metallurgical coal prices were more aligned with a slowing of product demand from overseas users and general global economic conditions, affecting non-premium coking coal products and low-volatile PCI products in particular.

The split of metallurgical coal to thermal coal sold was 30% metallurgical, 70% thermal with the average realised price per tonne A\$173 per tonne for coking coal and A\$113 per tonne for thermal coal.

The weakness in coal markets globally, some production issues at the Gloucester Basin and Donaldson and sizeable transaction costs during the first half resulted in a net loss after tax of A\$36.9 million. The impact of the subdued demand for metallurgical coal was mitigated in part by a decision to change the Company's production profile towards producing a higher percentage of thermal coal, which remained relatively robust during the period.

A\$41.3 million of transaction costs were incurred in the period in respect of the Donaldson and Monash acquisitions and the current merger transaction; including A\$31 million of stamp duty costs.

The significant increase in Depreciation and amortisation for the period, compared with the year to 30 June 2011, is due to the acquisition of Donaldson and Monash, the increased interest in Middlemount Coal and the subsequent ramp up in Middlemount mine production.

The significant increase in net Finance costs for the period, compared with the year to 30 June 2011, is due to the increased debt level, drawn under the new A\$400 million Noble debt facility entered into on 14 July 2011, used to part fund the acquisition of Donaldson and H1 capex, and also the unwind of the NPV discounts on liabilities identified for recent acquisitions.

(d) Subsequent events/material changes in the financial position of Gloucester

Within the knowledge of the Directors of Gloucester, the financial position of Gloucester has not materially changed since 31 December 2011, being the date of the last reviewed balance sheet of Gloucester.

6.7 Capital Structure

As at the date of this Explanatory Booklet, the total securities of Gloucester on issue are as follows:

Security	Number
Gloucester Shares	202,905,967
Gloucester Converting Shares ¹	1,000
Gloucester Options ²	3,618,574

Notes:

- See Section 11.8 for how these securities will be dealt with under the Merger Proposal.
- See Section 11.9 for how these securities will be dealt with under the Merger Proposal.

(a) Gloucester Shares

Gloucester's substantial shareholders as disclosed to ASX as at 20 April 2012 are set out below.

Investor	Gloucester Shares	Percentage held of total Gloucester Shares %
Noble	130,791,755	64.459
UBS AG and its related bodies corporate	15,441,327	7.61
Ausbil Dexia Limited	11,397,035	5.62

Note:

The above shareholding figures are based on substantial shareholding notices lodged with the ASX.

As at 20 April 2012, the following table represents the distribution of Gloucester Shareholders owning Gloucester Shares.

Range	Total Gloucester Shareholders	Gloucester Shares	Percentage of Gloucester issued capital %
1 – 1,000	1,417	607,350	0.30
1,001 – 5,000	964	2,227,678	1.10
5,001 – 10,000	102	712,524	0.35
10,001 – 100,000	83	2,113,765	1.04
100,001 +	23	197,244,650	97.21
Total	2,589	202,905,967	100

(b) Converting Shares

As at the date of this Explanatory Booklet, Gloucester has 1,000 Converting Shares on issue held as follows:

Name	Number of Converting Shares	Percentage %
Molti Consulting Pty Ltd	150	15
SES Rotges Investments Pty Ltd*	250	25
McActivity Pty Ltd	600	60

* A company controlled by Gloucester's Managing Director, Brendan McPherson and his spouse.

See Section 11.8 for a summary of the proposed arrangements in respect of the Converting Shares if the Scheme is approved by the Court.

(c) Gloucester Options

As at the date of this Explanatory Booklet, Gloucester has 3,618,574 Gloucester Options on issue, of which 1,284,730 are held by Gloucester's Managing Director, Mr Brendan McPherson.

See Section 11.9 for a summary of the proposed arrangements in respect of the Gloucester Options if the Merger Proposal proceeds and Section 14.16 for a description of the ASX waiver that Gloucester has received to give effect to these proposed arrangements.

SECTION 6 – PROFILE OF GLOUCESTER (CONTINUED)

6.8 Marketable securities of Gloucester held by or on behalf of Directors

Director's name	Gloucester Shares held by or on behalf of the Director	Converting Shares held by or on behalf of the Director	Gloucester Options held by or on behalf of the Director
Mr James MacKenzie	5,600	–	–
Mr Brendan McPherson	–	250	1,284,730
Mr Greg Fletcher	1,000	–	–
Mr Denis Gately	5,000	–	–
Mr William Randall	–	–	–
Dr Julie Beeby	–	–	–
Total	11,600	250	1,284,730

There have been no acquisitions or disposals of Gloucester Shares, Converting Shares or Gloucester Options by any Director or their associates in the four months prior to the date of this Explanatory Booklet.

6.9 Risk factors relating to Gloucester

Risk factors relating specifically to Gloucester and its business are discussed in Section 9.4. Those risks will continue to be relevant to Gloucester Shareholders if the Scheme does not proceed and Gloucester Shareholders retain their current investment in Gloucester. If the Scheme does proceed, Gloucester Shareholders will continue to be exposed to those risks, as well as additional risks relevant to the Merged Group, as described in Section 9.3.

6.10 Further information

As a company listed on ASX and a 'disclosing entity' under the Corporations Act, Gloucester is subject to regular reporting and disclosure obligations. Broadly, these require Gloucester to announce price sensitive information to ASX as soon as Gloucester becomes aware of the information, subject to some exceptions. Gloucester's recent announcements are available from ASX's website at www.asx.com.au. Further announcements concerning Gloucester will continue to be made available on this website after the date of this Explanatory Booklet.

Pursuant to the Corporations Act, Gloucester is required to prepare and lodge with ASIC and ASX both annual and half-yearly financial statements accompanied by a statement and report from Gloucester Directors and an audit or review report. Gloucester also lodges quarterly activity reports with ASX.

Copies of any of these and other documents lodged with ASIC may be obtained from or inspected at an ASIC office.

SECTION 7

PROFILE OF YANCOAL AUSTRALIA



SECTION 7 – PROFILE OF YANCOAL AUSTRALIA

This Section has been prepared by Yancoal Australia. The information concerning Yancoal Australia and the intentions, views and opinions in this Section are the responsibility of Yancoal Australia. Gloucester and Gloucester Directors and officers do not assume any responsibility for the accuracy or completeness of this information.

This Section relates to Yancoal Australia on a stand-alone basis and does not include the effect of any synergies that may arise in connection with the Merger Proposal.

7.1 Background information

Yancoal Australia is an Australian-based coal producer and developer with six operating coal mines located in New South Wales, Queensland and Western Australia. The principal business activity of Yancoal Australia is the production of metallurgical and thermal coal for export for use in the steel and power industries in Asian markets. Yancoal Australia is a wholly owned subsidiary of Yanzhou Coal, a publicly-traded company that is listed in Hong Kong, New York and Shanghai with a market capitalisation of approximately US\$14.8 billion (as at 4 April 2012).

Through Yancoal Australia, Yanzhou Coal has created a major Australian coal producer via organic growth and a series of corporate acquisitions that commenced with the acquisition of the Southland mine in 2004 (subsequently renamed Astar), and included the subsequent acquisitions of Felix Resources in December 2009, an additional 30% shareholding in the Ashton Coal Project (**Ashton**) in May 2011, the divestment of Yancoal Australia's 51% shareholding in the Minerva Coal Project (**Minerva**) in December 2010, the acquisition of 100% of Syntech Resources Pty Limited (**Syntech**) in July 2011 and the acquisition of 100% of Premier Coal Limited (**Premier Coal**) in December 2011.

During this time Yancoal Australia has invested approximately A\$4.6 billion in its operations (including the acquisition of Felix Resources in December 2009), has grown coal sales from 0.2Mt in 2006 to 9.5Mt in 2011 (equity basis⁴³), has amassed total coal Resources and Reserves of 1,637Mt and 405Mt over the same time period (equity basis⁴⁴) and for the year ended 31 December 2011 reported revenues of over A\$1.5 billion and net profit after tax of approximately A\$302 million⁴⁵.

The table below outlines the key milestones in Yancoal Australia's history:

Date	Description
2004	Yanzhou Coal acquires Southland mine (subsequently renamed Astar)
2006	Astar production commences under Yancoal Australia ownership, using LTCC technology at Astar
2009	Completes A\$3.3 billion acquisition of 100% of Felix Resources (assets include interests in Moolarben, Yarrabee, Ashton, Minerva, Harrybrandt, Athena, Wilpeena and Ultra Clean Coal technology)
2010	Construction of Moolarben 14.0Mtpa coal handling and preparation plant (CHPP) completed
2010	Production commences at Moolarben open-cut mine Sells its 51% interest in Minerva after one of the joint venture partners exercises its pre-emptive right
2011	Acquires a further 30% interest in Ashton for US\$250 million Acquires Syntech Resources, including the Cameby Downs open-cut mine for A\$202 million Revised Moolarben Stage 2 application lodged to increase ROM production to 17.0Mtpa for the open-cut and underground mines Moolarben reaches Stage 1 capacity of 7.0Mtpa ROM production in under two years Announces merger proposal with Gloucester Completes the acquisition of Premier Coal (and Premier Char) from Wesfarmers for A\$296.8 million

7.2 Yancoal Australia operations

(a) Overview

Yancoal Australia owns direct and indirect interests in six operating mines and three exploration projects, and shareholdings in NGIG, the parent company of Newcastle Coal Infrastructure Group Pty Ltd, and an interest in WICET Holdings. In addition, Yancoal Australia holds a number of intellectual property assets including an interest in the proprietary know-how regarding the LTCC technology, Ultra Clean Coal (**UCC**) and Premier Char. A simplified corporate structure is outlined in Figure 16 on page 73.

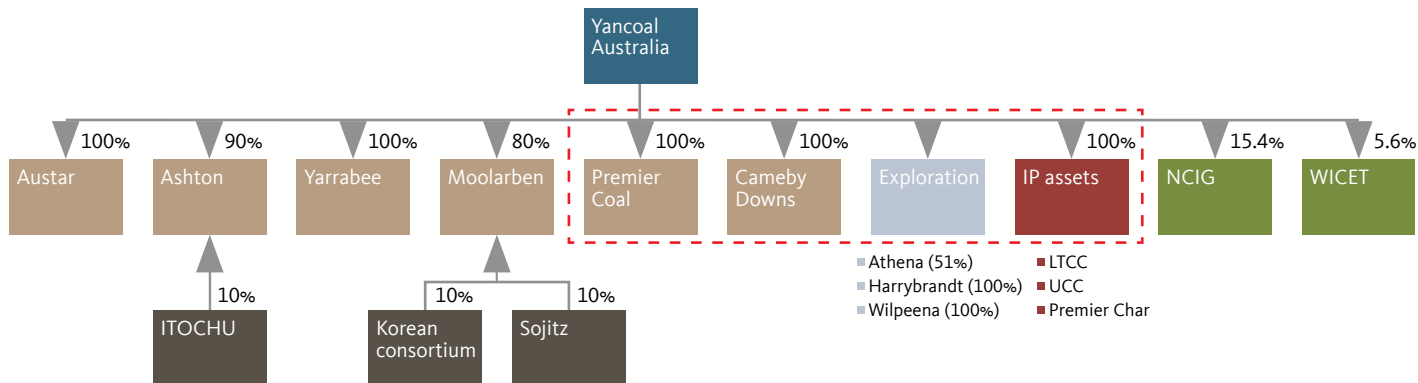
Not all of the Yancoal Australia assets described above will form part of the assets of the Merged Group if the Scheme is implemented. As outlined in Figure 16, Cameby Downs, Premier Coal, the three exploration projects and the intellectual property assets will be excluded from the Merged Group. All further references to Yancoal Australia's production profiles and Reserves and Resources in this Section 7 refer only to the assets of Yancoal Australia that will form part of the Merged Group. For further details of the material assets of the Merged Group, please refer to Section 8. For information on the Excluded Assets see Section 7.5.

⁴³ in each case, excluding sales from the Excluded Assets.

⁴⁴ in each case, excluding sales from the Excluded Assets.

⁴⁵ 2011 financial information is based on audited financial report for the period ended 31 December 2011.

Figure 16 – Overview of Yancoal Australia assets



Note: The assets within the dashed line box are Excluded Assets.

(b) Organic growth strategy

As part of a process to review the organic growth potential of its current operations, during 2011 Yancoal Australia initiated a detailed assessment of each mine’s production constraints and evaluated possible expansion projects to increase their ROM coal production. The goals of this analysis were to identify viable and achievable expansion plans at each mine site to be delivered within a 5 year timeframe, determine the individual expenditure needs of each expansion project and assess internal and external risks.

Subsequently, Yancoal Australia has scheduled a significant capital expenditure program which plans to invest A\$1.8 billion over the five years to 2016 (equity basis) with the goal of increasing ROM production from approximately 12.3Mt in 2011 to approximately 28Mt by 2016 (equity basis)⁴⁶. The capital expenditure program includes commitments for the development of new projects including underground operations at Moolarben and the upgrading of existing facilities at Moolarben, Ashton, Austar and Yarrabee. In addition to increasing existing production capacity, the organic growth strategy aims to increase efficiencies, reduce operating unit costs and enhance profitability across all mine sites.

(c) New South Wales mines



Moolarben

Moolarben is located 40 kilometres north east of the town of Mudgee in central western NSW. Operations comprise an existing open-cut mine producing export quality thermal coal and an underground thermal coal development project. Yancoal Australia (through wholly owned subsidiaries) holds an 80% interest in and is the manager of the Moolarben unincorporated joint venture with the remaining 20% interest held by Sojitz (10%) and a consortium (10%) comprising KORES, Hanwha Corporation Limited and Korea Electric Power Company and four of its subsidiaries. Yancoal Australia’s 80% interest in Moolarben was acquired as part of its acquisition of Felix Resources in 2009.

Moolarben currently produces an export thermal coal product from the open-cut mine, with current attributable Resources and Reserves (open-cut and underground), totalling 1,183Mt and 315Mt, respectively. Moolarben benefits from the geology of the Ulan coal seam which has thickness ranging from six to 15 metres, a low strip ratio and a relatively simple mining operation.

⁴⁶ Projected production figures are estimates only, are subject to the risks set out in Section 8 and excludes production from the Excluded Assets. Forward looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties and other factors, many of which will be outside the control of the Merged Group.

SECTION 7 – PROFILE OF YANCOAL AUSTRALIA (CONTINUED)

Moolarben currently has approval to produce up to 10.0Mt of saleable coal a year, or extract up to 8.0Mt of ROM coal a year from its open-cut mining operations, and up to 4 Mt of ROM coal a year from its underground mining operation. Since commencing operations in May 2010, Moolarben has achieved its initial Stage 1 approved capacity of 7.0Mtpa ROM production (and has conditional approved capacity of 8.0Mtpa ROM production), yielding total saleable production of 5.0Mt (100% basis) in 2011. Yancoal Australia has now re-submitted its Stage 2 planning application to increase open-cut ROM production capacity to 13.0Mtpa with the underground mine expected to reach ROM production of approximately 4.0Mtpa. Yancoal Australia is also currently considering a further planning application to increase ROM production in excess of these proposed Stage 2 applications. Subject to mining leases and other requisite approvals being granted, which requires the purchase of the Stage 2 development lands not owned by Yancoal Australia or the entering into of a commercial arrangement with the relevant landholders, the Stage 2 development area will encompass mining of the areas marked OC4, UG1 and UG2 on the map of Moolarben operations below.



The low life-of-mine strip ratio of 3.6 and modern 14.0Mtpa capacity CHPP positions the Moolarben open-cut mine within the lower quartile of Australian coal mine costs. Yancoal Australia is currently assessing various options to increase the Moolarben CHPP capacity to coincide with the start up of mining in the underground areas. Coal produced from the UG1 and UG2 areas does not require washing. However, if the higher ash UG4 is mined in the future, its product will require washing.

Subject to acquiring relevant land and obtaining the requisite landholder consents, mining lease (which cannot be granted until the relevant land or landholder consent is obtained) and governmental approvals, it is proposed that longwall mining commence in UG1 in 2016 to coincide with the current timetable for the expected opening of Port Waratah Coal Services (PWCS) T4 port expansion. There is also the option of mining UG4, which is at a more advanced stage of approvals than UG1 and UG2. Yancoal Australia is currently assessing the geology of the Moolarben underground areas for the potential of

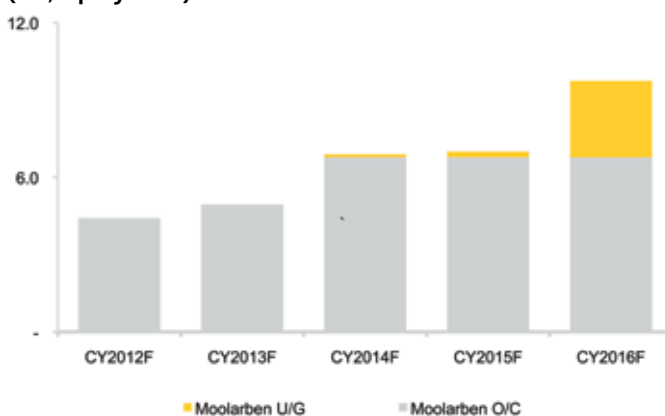
using LTCC technology or utilising high reach mining technology methods.

Moolarben has an established rail loop and loading facilities. Subject to rail line constraints, the mine has existing port capacity of 0.6Mtpa through PWCS and 5.2Mt through NCIG in 2012, which is expected to increase to 8.3Mtpa at NCIG as the terminal reaches its full capacity of 66Mtpa. Yancoal Australia has been granted a provisional allocation of a further 3.5Mtpa from the PWCS T4 development which will increase total allocation across the two ports to over 12Mtpa. The additional 3.5Mtpa PWCS T4 allocation is subject to, among other things, the successful completion of PWCS T4.

As part of their investment in Moolarben the Korean consortium signed long term off-take contracts for Moolarben coal volumes.

Over the period 2012 to 2016, approximately A\$1.0bn (on a 100% basis) in capital investment is expected to be spent developing the low-cost open-cut and underground operations at Moolarben.

Figure 17 – Moolarben saleable production estimates (Mt, equity basis)



Notes:

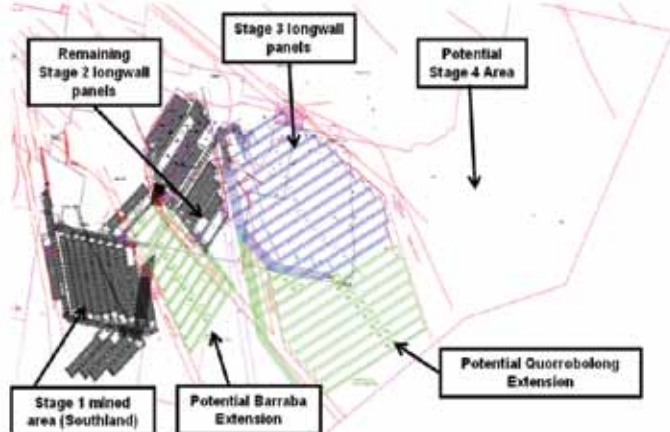
- Data shown for year ending 31 December and shown on an equity basis. These estimates relate to future expectations and therefore are subject to the risk factors set out in Section 9, and involve known and unknown risks and uncertainties. The actual production is likely to vary on an annual basis as a function of supply, demand, other market conditions and potentially, the impact of one or more of the risks described in Section 9. Forward looking statements are not a guarantee of future performance which may be outside the control of the Merged Group.
- In addition, these estimates assume that:
 - the conditions attaching to Moolarben's approved capacity of 8.0Mtpa ROM production are satisfied from calendar year 2012;
 - the approvals, mining leases and land (or landholder consents) necessary for Stage 2 production to commence are obtained during calendar year 2013;
 - PWCS T4 commences operation and the 3.5Mt of capacity provisionally allocated to Moolarben for calendar year 2016, becomes available; and
 - additional above-rail capacity to match Moolarben's estimated saleable production is obtained and additional below-rail capacity is obtained for calendar year 2012 to match that estimated saleable production.

Austar

Austar is located 65 kilometres west of Newcastle and 12 kilometres south west of Cessnock in New South Wales. The underground mine has operated for over 60 years under a number of companies and was purchased by Yancoal Australia in 2004. Following the acquisition, Yancoal Australia invested approximately A\$264 million which included installing LTCC machines at the mine. Commercial mining by Yancoal Australia began in October 2006. The investment in the LTCC technology allowed increased coal recovery rates from Austar, and therefore significantly improved mine economics.

Management at Austar is focused on completing mining in the Stage 2 area and on developing the new Stage 3 area. Underground development in Stage 3 commenced in 2009 with commercial longwall production expected to start in 2013. The life of the Stage 3 mining area is about 10 years. Because of the large resource base on the mine's existing tenements, future mining is anticipated to move into other areas of the deposit outlined in the Figure 18 below (e.g. Barraba, Quorrobolong and the Stage 4 area). Austar has current Reserves of 44Mt and further drilling is scheduled to take place over the next few years aimed at converting the substantial Resources (221Mt) into additional Reserves.

Figure 18 – Areas of deposit for Austar



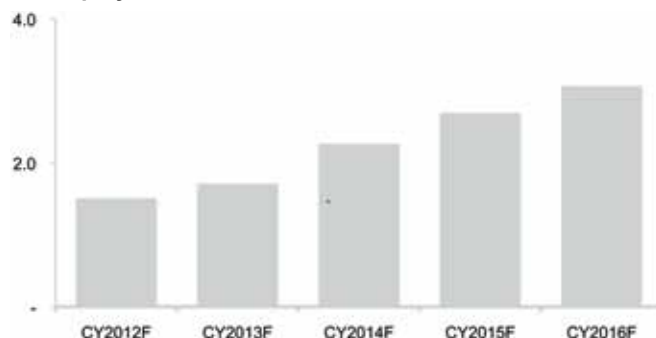
In conjunction with the Stage 3 mining area, Yancoal Australia has committed capital to replace and upgrade specific equipment throughout the Austar coal processing chain to improve capacity and maximise production on the currently underutilised LTCC machine. New equipment scheduled for the program includes upgrading mine conveyors and the CHPP process system, extending the product gantry, introducing additional product coal recovery feeders and upgrading and increasing capacity on the existing rail and load out facility. Approximately A\$250 million is expected to be spent over the five years to 2016.

Austar has historically produced a high quality semi-hard coking coal and in 2011 produced 1.9Mt of ROM coal and 1.6Mt of saleable production (1.7Mt ROM coal and 1.4Mt saleable production in 2010). Yancoal Australia intends to increase ROM coal production to approximately 3.7Mtpa⁴⁷ in the future following the implementation of the Austar equipment upgrade described above.

Austar coal is transported via the ARTC Hunter Valley Network and the privately owned South Maitland Railway to Newcastle where the mine has an allocation of 2.1Mtpa through PWCS in 2012 increasing to 2.6Mtpa in 2013. Should the Merger Proposal not proceed, Yancoal Australia intends to apply for additional PWCS T4 capacity in late 2012.

Austar has historically produced a benchmark semi-hard coking coal. However, disruption to Queensland coal supplies caused by the heavy rainfall in Queensland during early 2011 caused many Asian steelmakers to replace low sulphur coal from Queensland with high sulphur coal from North America. As Austar coal is relatively high in sulphur, it was displaced from the market as it was no longer suitable for the steelmakers to use as a blend coal. Austar therefore lost its two key contracts. This has resulted in Austar coal being sold as premium thermal coal (energy adjusted) rather than a semi-hard coking coal, under short term contracts. Yancoal Australia is anticipating that in 2013 it will start to regain business with traditional steelmaker customers as their contracts with North American coal producers start to expire.

Figure 19 – Austar saleable production estimates (Mt, equity basis)



Notes:

- 1 Data shown for year ending 31 December and shown on an equity basis. These estimates relate to future expectations and therefore are subject to the risk factors set out in Section 9, and involve known and unknown risks and uncertainties, which may be outside the control of the Merged Group. The actual production is likely to vary on an annual basis as a function of supply, demand, other market conditions and potentially, the impact of one or more of the risks described in Section 9.
- 2 In addition, these estimates assume that:
 - approvals to increase ROM production to at least 3.7Mtpa are obtained by calendar year 2016;
 - PWCS Terminal 4 commences operation and Austar is allocated at least 0.4Mt of capacity for calendar year 2016 (should the Merger Proposal not proceed Yancoal Australia will apply for this capacity in late 2012);
 - additional port capacity to match Austar's estimated saleable production is obtained from calendar year 2015; and
 - additional above-rail capacity to match Austar's estimated saleable production is obtained.

⁴⁷ Projected production figures are estimates only and are subject to the risks set out in Section 8. Forward looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties and other factors, many of which will be outside the control of the Merged Group.

SECTION 7 – PROFILE OF YANCOAL AUSTRALIA (CONTINUED)

Ashton

Ashton is located 94 kilometres north-west of Newcastle and 12 kilometres north-west of Singleton in the Hunter Valley. Yancoal Australia is the operator of the Ashton unincorporated joint venture and has a 90% interest, with the remaining 10% interest held by ITOCHU Corporation. Yancoal Australia acquired an initial 60% interest in Ashton as part of its acquisition of Felix Resources in 2009 and then purchased a further 30% in 2011 from International Marine Corporation for US\$250 million.

The operations comprise both an operating underground mine and an open-cut mine development following the scheduled closure of the North East Open-Cut (**NEOC**) operation in early 2011, in readiness for mining of the South East Open-Cut (**SEOC**) area to commence. The underground mine has 40Mt in Reserves.

The open-cut area at the mine includes the SEOC which has 17Mt in Reserves. Total Resources across the open-cut and underground mining areas are 333Mt. Yancoal Australia has also identified adjoining exploration tenements that could allow the company to increase open-cut mining in the Ashton area on future cessation of operations at the SEOC mine. These tenements are held by third parties. Accordingly, in addition to the requisite licences and approvals, satisfactory arrangements to acquire these tenements would need to be agreed with those third parties.



The development of the Ashton underground longwall operation commenced in late 2005 with first coal production in early 2007. Underground mining at Ashton produced 1.7Mt ROM coal in 2011 and is expected to increase to 2.9Mt⁴⁸ as the next seam (Upper Liddel) is developed and mining of the current seam (Pikes Gully) is completed. Total production from Ashton in 2011 was 2.2Mt of ROM coal and 1.2Mt of saleable product (including coal from the

NEOC). Approximately A\$290 million (on a 100% basis) is expected to be spent over the five years to 2016.

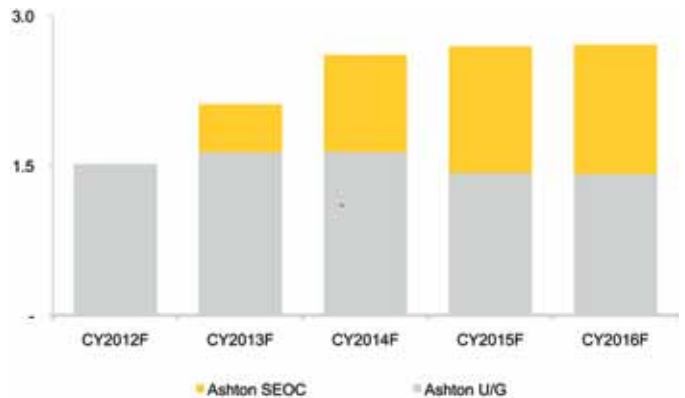
On 19 December 2011, the New South Wales Planning Assessment Commission (**PAC**) refused Yancoal Australia's planning application for the Ashton SEOC development due to the project's potential impacts on Glennie's Creek and its associated water resources and its potential noise and dust emissions. Yancoal Australia has successfully appealed the refusal of this application and, as a result, PAC will now review its decision, including considering an addendum submission from the Department of Planning and Infrastructure that recommended that the SEOC development be approved.

The existing Ashton SEOC application (refused 19 December 2011 but now being reviewed) sought approval for the mining of approximately 16.5Mt of ROM coal at the SEOC over a seven year period (that is, approximately 3.6Mtpa after an initial ramp up period), as well as modification consents to allow an increase in the ROM production rate at the Ashton mine complex from 5.45Mtpa to 8.6Mtpa and increase in the ROM production rate from the underground mine from 2.95Mtpa to 5.0Mtpa (as well as other ancillary amendments to approvals). Yancoal Australia's application to increase ROM production at the underground mine to 5.0Mtpa remains subject to planning approval.

Ashton has an established rail loop and loader, with current rail capacity in line with port entitlements. Ashton currently has port allocation of 3.0Mtpa through PWCS, and should the Merger Proposal not proceed, it intends to apply for additional PWCS T4 capacity in late 2012.

Both the underground and open-cut Ashton mines typically produce semi-soft coking coal, which is used by customers for blending due to its low ash and sulphur content.

Figure 20 – Ashton saleable production estimates (Mt, equity basis)



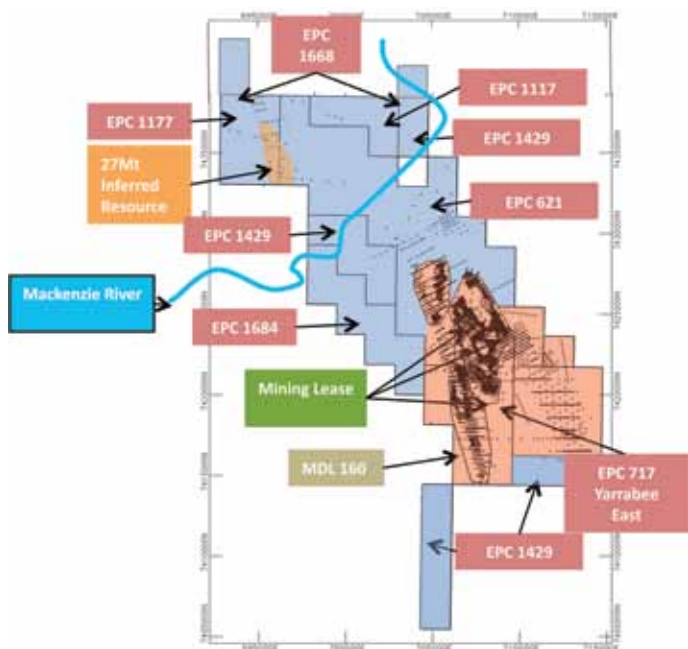
Notes:

- 1 Data shown for year ending 31 December and shown on an equity basis. These estimates relate to future expectations and therefore involve known and unknown risks and uncertainties. The actual production is likely to vary on an annual basis as a function of supply, demand, other market conditions and potentially, the impact of one or more of the risks described in Section 9.
- 2 In addition, these estimates assume that:
 - the South East Open-Cut (**SEOC**) development planning approval, together with other approvals, mining leases and land (or landholder consents) necessary for SEOC production to commence, are obtained by calendar year 2013; and
 - additional above-rail capacity to match Ashton's estimated saleable production is obtained.

⁴⁸ Projected production figures are estimates only and are subject to the risks set out in Section 8. Forward looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties and other factors, many of which will be outside the control of the Merged Group.

(d) Queensland mines

Yarrabee



Yarrabee is located in the Bowen Basin, approximately 150 kilometres west of Rockhampton and 280 kilometres north-west of the Port of Gladstone. Yancoal Australia has a 100% shareholding in Yarrabee Coal Company Pty Ltd which holds the mining tenements at Yarrabee and acquired this open-cut mine as part of its acquisition of Felix Resources in 2009.

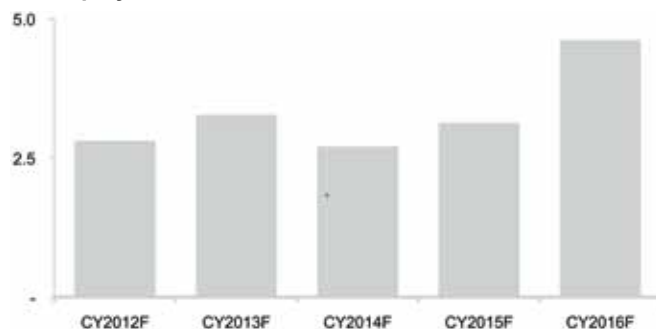
Yarrabee commenced production in 1994 as a small open-cut mine with a limited life. However, production has gradually increased over a number of years. Since acquiring the mine, Yancoal Australia has delineated further Resources and Reserves that are expected to extend the mine life and increase production. The operation currently has Resources of 170Mt and Reserves of 57Mt. Yancoal Australia plans to conduct further drilling over the large tenement position in the next three years with the aim of converting the Resources to Reserves.

Yarrabee produces a low volatile pulverised coal injection (**PCI**) coal which is used in steel making. Production in 2011 consisted of 3.1Mt of ROM coal and saleable production of 2.4Mt (increased from 2.3Mt ROM production and 2.0Mt saleable product in 2010). Yancoal Australia expects to spend approximately A\$520 million (on a 100% basis) over the five years to 2016 to achieve peak ROM coal and saleable production of 5.8Mt and 4.6Mtpa⁴⁹, respectively.

Coal product is currently hauled via road to the Boonal load out facility on the Blackwater rail system. Yarrabee has a Take Or Pay (TOP) contract with QR National to haul 2.3Mtpa of product, until 30 June 2014, with a best endeavours obligation to increase this to 2.8Mtpa. Yarrabee's annual port allocation consists of 1.7Mt at RG Tanna with an additional 0.1Mt dependent on available capacity and up to 1.0Mt through Barney Point (ending in 2014) on a best endeavours basis, with further port allocation of 1.5Mtpa at WICET Stage 1 from commissioning of that facility which is expected to

occur in 2014. Yancoal Australia has agreed with Adani Mining Pty Ltd to conditionally acquire port capacity of 1.3Mtpa for Yarrabee at Dudgeon Point, subject to approval and construction of that facility. This capacity is expected to become available from 2017. A final decision to develop has not yet been made and the development of the terminal (and its operational commencement date) depends on, among other things, the outcome of environmental studies and obtaining the required environmental and planning approvals.

Figure 21 – Yarrabee saleable production estimates (Mt, equity basis)



Notes:

- 1 Data shown for year ending 31 December and shown on a 100% basis. These estimates relate to future expectations and therefore involve known and unknown risks and uncertainties. The actual production is likely to vary on an annual basis as a function of supply, demand, other market conditions and potentially, the impact of one or more of the risks described in Section 9.
- 2 In addition, these estimates assume that:
 - additional port capacity to match Yarrabee's estimated saleable production is obtained for calendar year 2013 and 2016; and
 - additional below-rail and above-rail capacity to match Yarrabee's estimated saleable production is obtained.

⁴⁹ Projected production figures are estimates only and are subject to the risks set out in Section 8. Forward looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties and other factors, many of which will be outside the control of the Merged Group.

SECTION 7 – PROFILE OF YANCOAL AUSTRALIA (CONTINUED)

7.3 Resources and Reserves

Yancoal Australia has a thermal and metallurgical coal JORC inventory totalling 1,637.4Mt in Resources (equity basis) and 404.9Mt in Recoverable Reserves (equity basis).

Statement of Resources

Mine/Project	Ownership	Measured (Mt)	Indicated (Mt)	Inferred (Mt)	Total (Mt)	Competent Person
Moolarben	80%	376.4	598.4	208.4	1,183.2	(3)
Austar	100%	81.1	69.9	70.0	221.0	(1)
Ashton	90%	152.0	146.1	35.3	333.5	(2)
Yarrabee	100%	65.0	84.3	20.5	169.7	(3)
Total coal Resources (100%)		674.8	898.7	334.2	1,907.4	
Total coal Resources (equity basis)		584.0	764.4	289.0	1,637.4	

Statement of Reserves

Mine/Project	Ownership	Recoverable Reserves (Mt)			Competent Person
		Proved (Mt)	Probable (Mt)	Total (Mt)	
Moolarben	80%	82.8	232.2	315.0	(3)
Austar	100%	12.7	31.5	44.2	(3)
Ashton	90%	42.7	14.6	57.2	(3, 4)
Yarrabee	100%	38.1	19.1	57.2	(5)
Total coal Reserves (100%)		176.3	297.3	473.7	
Total coal Reserves (equity basis)		155.5	249.5	404.9	

Please refer to the competent person statements in Section 15.2.

7.4 Port capacity

Yancoal Australia is a founding member of NCIG and has a 15.4% interest in NCIG and a 5.6% interest in the WICET Holdings. Accordingly, Yancoal Australia has port capacity entitlements at NCIG and WICET, as well as contracted entitlements at PWCS and RG Tanna and best endeavours arrangements for capacity at Barney Point.

Figure 22 – Yancoal Australia New South Wales Port Capacity (Mt, equity basis)

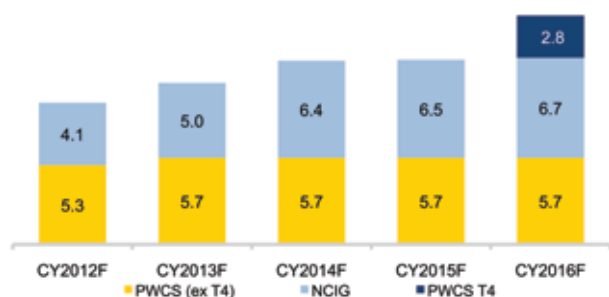
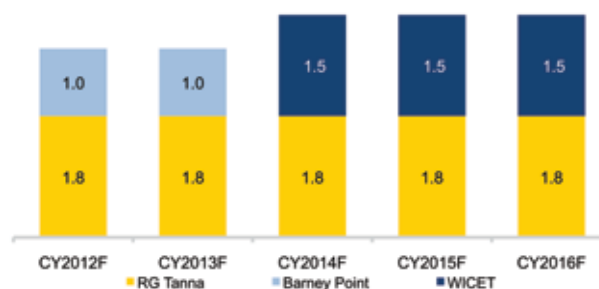


Figure 23 – Yancoal Australia Queensland Port Capacity (Mt, equity basis)



Notes:

- Data shown for year ending 31 December and shown on an equity basis. These estimates relate to future expectations and therefore involve known and unknown risks and uncertainties. The actual port capacity available to Yancoal Australia may vary on an annual basis as a result of one or more of the risks described in Section 9.3(b).
- In addition, these estimates are based on current capacity at NCIG and PWCS and expected capacity allocations at NCIG and PWCS T4, and assume that:
 - PWCS (ex T4) and NCIG figures are based on current contractual entitlements and assume that the current PWCS and NCIG expansion projects (excluding the PWCS T4 expansion) will be completed on schedule;
 - in each of calendar years 2012 to 2016, the additional 0.1Mt of capacity that can be requested for Yarrabee through RG Tanna is able to be provided;
 - in each of calendar years 2012 and 2013, 1.0Mtpa of ad hoc capacity through Barney Point Coal Terminal is able to be secured by Yarrabee;
 - Stage 1 of WICET is constructed and operational in calendar year 2014;
 - PWCS Terminal 4 commences operation and Moolarben is allocated 3.5Mt of capacity for calendar year 2016; and
 - the ramp up of total port capacity of NCIG terminal proceeds as currently scheduled.
- Yancoal Australia's PWCS T4 capacity for calendar year 2016 is a provisional allocation only. The availability of this capacity is subject to the successful completion of PWCS T4 and modelling by the HVCC. If the completion of T4 is delayed or there is a shortfall of actual capacity against target capacity, this may have a material adverse effect on the projected port capacity. Should the Merger Proposal not proceed, Yancoal Australia intends to apply for approximately 0.4Mt of additional PWCS T4 capacity commencing from calendar year 2016. This is not shown in Figure 22, since the application has not yet been made.

7.5 Overview of Excluded Assets⁵⁰

The assets described in this section are Excluded Assets. They are currently owned (directly or indirectly) by Yancoal Australia. However, before the Merger Proposal is implemented, each Excluded Asset will be transferred to Yanzhou Coal (or a subsidiary) pursuant to the Restructure Agreement.

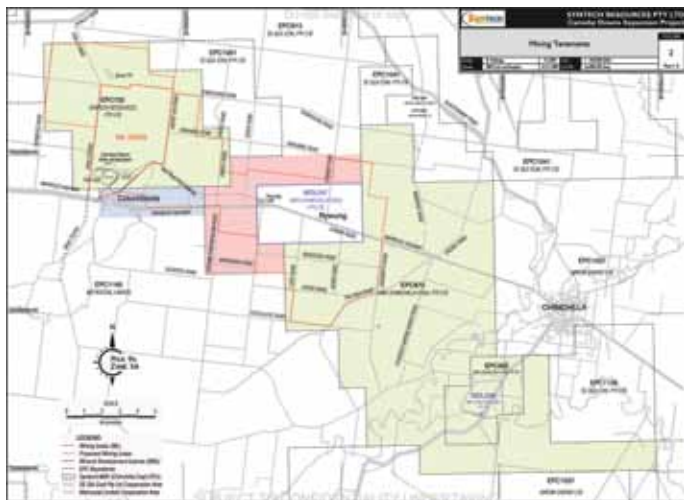
Most of these Excluded Assets are ROFR Assets – that is, after they are transferred to Yanzhou Coal (or a subsidiary) they will be subject to a right of first refusal in favour of the Merged Group. In certain circumstances, Syntech (including Cameby Downs) and Premier Coal may also be transferred back to the Merged Group on or shortly before 31 December 2014.

Details of these arrangements, as well as arrangements relating to the management of these Excluded Assets by Yancoal Australia, are set out in Section 8.9.

Since the Excluded Assets will not be assets of the Merged Group immediately following the implementation of the Merger Proposal, they have been excluded from the pro forma accounts of Yancoal Australia and the Merged Group set out in Section 8.14.

(a) Cameby Downs

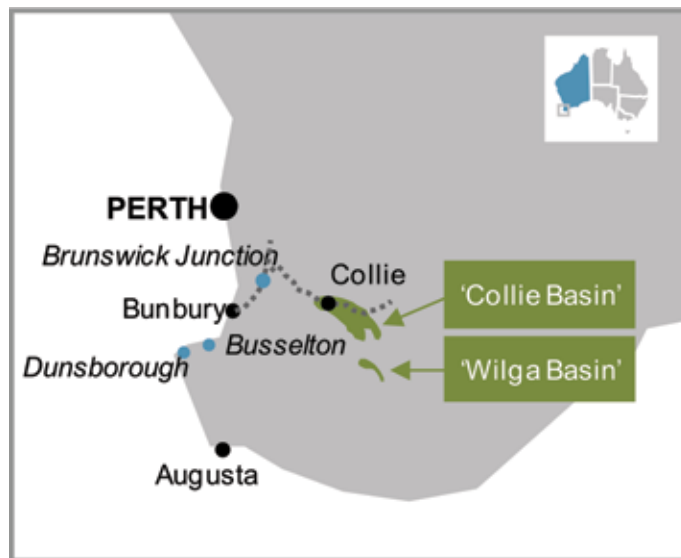
Cameby Downs is located near Chinchilla in the Surat Basin approximately 340km north-west of Brisbane. Yancoal Australia has a 100% shareholding and acquired the open-cut mine as part of its acquisition of Syntech in 2011. Production commenced in late 2010, with the first coal shipped in early 2011.



Cameby Downs produces export thermal coal and following the acquisition by Yancoal Australia in July 2011 produced 0.8Mt of ROM coal and 0.6Mt of saleable product to the end of December 2011. The Queensland floods adversely impacted sales in the first half of 2011 following severe damage to the rail line around the Toowoomba range section. However, the rail line was fully restored by mid-2011 allowing for sales to resume at normal levels. Current Resources and Reserves at Cameby Downs total 324Mt and 409Mt⁵¹, respectively. The current mining operation is surrounded by several large tenements owned by Syntech that hold potential for further significant increases in Resources.

Cameby Downs has port allocation of 1.4Mtpa through the Queensland Bulk Handling facility in Brisbane. It is possible that its allocation at the port may increase in the future, allowing for increased production at Cameby Downs.

(b) Premier Coal



Note: Map not drawn to scale.

Premier Coal operates a conventional truck and shovel open-cut mine located in the Collie Coal Basin approximately 200km south of Perth. Yancoal Australia completed the acquisition of Premier Coal from Wesfarmers Limited at the end of December 2011.

The Premier coal mine has been in continuous operation for over 60 years and produces domestic thermal coal, producing 2.8Mt of coal in 2010. ROM coal is crushed but not washed (due to low inherent ash levels) prior to being sold to a number of domestic customers. Current Resources and Reserves are 535Mt and 138Mt, respectively.

As one of only two Western Australian coal producers, Premier Coal is the preferred supplier to a number of public and private sector companies. Its largest customer is Verve Energy, a state owned entity with which it has signed a long term supply contract. Verve Energy owns and operates two power stations located close to the mine, with coal output from the mine conveyed directly to the power stations. Premier Coal is party to a state agreement, which requires reservation of 50% of extractable Reserves for the needs of Western Australian strategic industries.

⁵⁰ Coal Resources and Reserves in this Section 7.5 have been reported in accordance with the JORC Code. See Section 15.2 for details of the reports prepared by Competent Persons on which these amounts are based. The Resources and Reserves information for Premier Coal are a summary of the information contained in the 2011 Wesfarmers Limited annual report. Yancoal Australia completed the acquisition of Premier Coal from Wesfarmers on 30 December 2011.

⁵¹ Resources calculated excluding Reserves, and Reserves refer to recoverable reserves.

SECTION 7 – PROFILE OF YANCOAL AUSTRALIA (CONTINUED)

(c) Exploration assets

Athena

Athena was acquired as part of the Felix Resources acquisition in 2009. It is an exploration project located adjacent to, and north of, the operating Minerva mine, in central Queensland. It is owned by Yancoal Australia (51%), Sojitz (45%) and KORES (4%) in an unincorporated joint venture.

The exploration permit covers an area of approximately 27,000 hectares. Historical exploration studies indicate the presence of underground coal Resources in that area, with the current JORC statement indicating total inferred Resources of 54Mt.

Harrybrandt

Harrybrandt is 100% owned by Yancoal Australia through Tonford Pty Ltd having been acquired as part of the Felix Resources transaction in 2009, and is located near the township of Nebo in central Queensland.

Harrybrandt has current total Resources of 103.9Mt of low volatile PCI coal and anthracite coal. A concept/pre-feasibility study was completed in 2010 for an open-cut mine producing saleable product of approximately 2.5Mtpa of low volatility anthracite, low volatile PCI and thermal coals.

Wilpeena

Yancoal Australia, through its subsidiary Yarrabee Coal Company Pty Ltd, holds a 100% interest in the Wilpeena area in central Queensland, which is located to the north of the Yarrabee mine and the Mackenzie River. The tenements are considered prospective for low volatile PCI coal, with current total inferred Resources of 27Mt.

(d) Intellectual property assets

LTCC technology

Yancoal Australia has had the benefit of proprietary know-how relating to use of LTCC technology at Austar. The LTCC technology is suitable for use in thick coal seams where additional coal can be recovered by a rear face conveyor, leading to greater levels of resource recovery.

The underground LTCC technology was successfully introduced at the Austar Mine in 2006. Yancoal Australia recently signed an agreement with Peabody Energy relating to the introduction of the technology at the North Goonyella Mine in Queensland.

Before the Second Court Hearing Date, Yanzhou Coal, Yancoal Australia and Yancoal Technology Development Pty Ltd will enter into the LTCC Licence Agreement, which will provide Yancoal Australia with access to patents, services and certain know-how relating to LTCC technology after the Merger Proposal is implemented. A summary of the key terms of LTCC Licence Agreement is provided in Section 13.3.

Ultra Clean Coal technology

Yancoal Australia acquired 100% of the UCC technology as part of the Felix Resources acquisition in 2009. The pilot plant is located at Cessnock in the Hunter Valley and aims to chemically reduce the amount of ash in the processed coal, so that it burns more efficiently. This in turn reduces carbon dioxide emissions when the coal is used. In the short-term, development of the UCC technology is focused on the testing of the technology on an industrial diesel engine.

Premier Char

Yancoal Australia acquired 100% of Premier Char from Wesfarmers in 2011 as part of the Premier Coal acquisition. The patented technology allows an innovative process for the production of coal char from low rank coals. Char has a number of properties that enable its substitution for commonly used coal and carbon products, resulting in improved performance in a range of industrial processes.

The demonstration char plant was placed on a care and maintenance program in 2009 due to an extended shutdown and subsequent closure of its main domestic customer as a result of the global financial crisis. The char plant is currently inactive.

7.6 Historical Financial Information

(a) Basis of preparation

This Section summarises certain historical financial information about Yancoal Australia for the year ended 31 December 2011. The Yancoal Australia pro forma historical financial information has been prepared based upon the audited financial information of Yancoal Australia at 31 December 2011 together with a number of pro forma adjustments. This historical pro forma financial information has been prepared by the management of Yancoal Australia, in accordance with the recognition and measurement principles of IFRS, for illustrative purposes only to show the effect of the transfer of the Excluded Assets pursuant to the Scheme.

Further detail on Yancoal Australia's historical performance is provided in section 4 of the Independent Expert's Report which forms Appendix 1 to this Explanatory Booklet. Yancoal Australia confirms the accuracy of this factual information in the Independent Expert's Report.

(b) Pro forma balance sheet of Yancoal Australia

Set out below is the audited Yancoal Australia balance sheet as at 31 December 2011 together with pro forma adjustments applied. Each adjustment is described in detail in the notes.

Figure 24 – Yancoal Australia Reviewed Pro forma Balance Sheet as at 31 December 2011

A\$'m	Yancoal Australia Audited	Transfer of excluded assets (Note 1)	Yancoal Australia Pro forma Reviewed (Note 2)
Current assets			
Cash and cash equivalents	291.0	(8.2)	282.8
Restricted cash	60.4	–	60.4
Trade and other receivables	254.5	(52.4)	202.1
Inventories	137.3	(20.1)	117.2
Derivative financial instruments	16.4	–	16.4
Other assets	65.0	(7.3)	57.7
Promissory note	–	648.0	648.0
Total current assets	824.6	560.0	1,384.6
Non-current assets			
Trade and other receivables	77.8	–	77.8
Equity accounted investments	3.0	–	3.0
Other financial assets	25.0	–	25.0
Property, plant and equipment	1,400.5	(426.6)	973.9
Mining tenements	2,325.0	(74.8)	2,250.2
Deferred tax assets	59.4	(43.5)	15.9
Intangible assets	132.5	(32.9)	99.6
Exploration and evaluation assets	661.7	(134.5)	527.2
Total non-current assets	4,684.9	(712.3)	3,972.6
Total assets	5,509.5	(152.3)	5,357.2
Current liabilities			
Trade and other payables	206.5	(47.5)	159.0
Interest bearing liabilities	999.4	–	999.4
Derivative financial instruments	6.6	–	6.6
Provisions – other	0.9	–	0.9
Income tax liability	9.3	–	9.3
Total current liabilities	1,222.7	(47.5)	1,175.2
Non-current liabilities			
Trade and other payables	1.3	–	1.3
Interest bearing liabilities	1,993.9	–	1,993.9
Deferred tax liabilities	471.0	(69.6)	401.4
Provisions – other	58.1	(35.2)	22.9
Total non-current liabilities	2,524.3	(104.8)	2,419.5
Total liabilities	3,747.0	(152.3)	3,594.7
Net assets	1,762.5	–	1,762.5
Contributed equity	973.0	–	973.0
Reserves	6.3	–	6.3
Retained earnings	783.2	–	783.2
Total equity	1,762.5	–	1,762.5

Notes:

- 1 This adjustment reflects a decrease in assets and liabilities resulting from the transfer of the Excluded Assets at book value to Yanzhou Coal, or one or more of its related bodies corporate, together with the impact of the extinguishment of all intercompany balances owing to the Merged Group and the recognition of a promissory note of equal value. Values are subject to adjustment as at completion of the transfer of the Excluded Assets.
- 2 The Yancoal Australia pro forma balance sheet does not include any tax liability which may arise on the transfer of Excluded Assets as no reliable estimate can be made as at the date of this Explanatory Booklet. Under the terms of the Merger Proposal Deed, Yanzhou will ensure that Yancoal Australia is in the same economic position as if the transfer of Excluded Assets had not given rise to any tax liability.

SECTION 7 – PROFILE OF YANCOAL AUSTRALIA (CONTINUED)

(c) Pro forma income statement of Yancoal Australia

Set out below is the audited Yancoal Australia income statement for the year ending 31 December 2011 together with the pro forma adjustment applied and described in note 1.

Figure 25 – Yancoal Australia Reviewed Pro Forma Income Statement for the year ended 31 December 2011

A\$'m	Yancoal Australia Audited	Transfer of excluded assets ¹	Yancoal Australia Pro forma Reviewed
Revenue	1,523.7	(62.0)	1,461.7
Earnings before interest, tax, depreciation and amortisation	619.8	(17.8)	602.0
Depreciation and amortisation expense	(131.2)	4.1	(127.1)
Earnings before interest and tax	488.6	(13.7)	474.9
Finance costs	(55.4)	0.1	(55.3)
Profit before income tax	433.2	(13.6)	419.6
Income tax	(131.7)	0.4	(131.3)
Net profit after tax	301.5	(13.2)	288.3

Note:

1 An adjustment to reflect the Excluded Assets as though they had been transferred on 1 January 2011.

Management discussion and analysis

Pro forma revenue of A\$1,461.7 million mainly comprises revenue from coal sales. In the year ended 31 December 2011, and in each case on a 100% basis, thermal coal sold was 6,642,733 tonnes for revenue of US\$732,721,915 at an average FOB selling price of US\$110.30/tonne and metallurgical coal sold was 4,798,116 tonnes for revenue of US\$924,439,298 at an average FOB selling price of US\$192.67/tonne.

Against a generally weakening demand outlook for both thermal coal and metallurgical coal, the heavy rains in Queensland in early 2011 considerably tightened supply which supported prices, particularly for metallurgical coal. However, as supply returned to normal, prices of both metallurgical and thermal coal steadily decreased. Metallurgical coal demand was depressed by the deterioration in the business environment for the steel mills and thermal coal demand was affected by a slowdown in demand from China. Both were also affected by increasing coal supply out of the USA.

During the year ended 31 December 2011 Yancoal Australia increased its saleable coal production (equity basis) to 9.2Mt from 7.6Mt in 2010. This 20% increase was achieved despite open-cut production at Ashton ceasing at the end of the first quarter when coal reserves in the North East Open-cut (NEOC) were exhausted. The other three mines were able to increase production during 2011 with Moolarben the outstanding operation as production increased by 48% over the previous year to reach 4.0Mt (equity basis). Yarrabee also performed strongly and increased production by 24% to 2.42Mt.

Total FOB cash costs increased at three of the operations. All four mines paid more in royalties as higher priced coal increased payments (royalties are based on a percentage of the achieved coal price) to both the Queensland and New South Wales governments. At Ashton the closure of the NEOC combined with the lack of approval for the development of the South East Open-cut resulted in a rise in overall costs. In addition the failure to obtain a timely approval for the diversion of Bowman's Creek over the Ashton underground mine area caused an extra longwall move which also impacted costs. At Yarrabee an increase in the strip ratio and the use of additional contractor overburden mining capacity caused a rise in costs. Moolarben was able to maintain its costs as the mine

reached its full operating capacity (7.0Mtpa ROM coal) and was able to utilise its infrastructure and equipment more effectively.

On 13 May 2011, Yancoal Australia increased its holding in Ashton by 30% (to 90%). The above income statement includes revenue of A\$38.6 million and EBIT of A\$0.8 million earned from this additional investment after 13 May 2011.

Pro forma EBITDA of A\$602.0 million was earned after total operating costs (excluding depreciation and financing costs) of A\$859.7 million. Operating costs include contractual services and plant hire expenses of A\$221.4 million, employee related expenses of A\$172.1 million, transportation expenses of A\$148.0 million, Government royalties of A\$102.6 million and other costs of A\$215.6 million. EBITDA includes foreign exchange gains on Yancoal Australia's US\$ denominated debt facilities of which Yancoal Australia reported A\$2.1 million in foreign exchange gains for the year ending 31 December 2011. Foreign exchange exposure on US\$ denominated debt facilities is a non-cash item and is only settled upon maturity of these facilities.

Depreciation and amortisation of A\$127.2 million represents the write-off of property, plant and equipment, mining tenements and intangibles over their useful lives. None of Yancoal Australia's assets were considered impaired during the year ending 31 December 2011.

The majority of finance costs relate to interest incurred on the Felix Acquisition Facility and the Ancillary Felix Facility, see Section 8.7(a) for more details. These are US\$ denominated facilities of US\$2.9 billion and A\$140 million, respectively, which were fully drawn at 31 December 2011 and equate to an aggregate of A\$2,993.3 million translated at the year end exchange rate. The interest applicable to these facilities is currently US\$ LIBOR plus 0.75% and US\$ LIBOR plus 0.8% respectively, but is likely to increase as part of the proposed amendments to these facilities.

(d) Subsequent events/material changes in the financial position of Yancoal Australia

Within the knowledge of Yancoal Australia, and other than as disclosed in this Explanatory Booklet, the financial position has not materially changed since 31 December 2011, being the date of the last audited balance sheet of Yancoal Australia.

7.7 Current directors of Yancoal Australia

As at the date of this Explanatory Booklet, the directors of Yancoal Australia are:

- Xin Wang (Chairman)
- Weimin Li (Vice Chairman)
- Cunliang Lai (Executive Director)
- Murray Bailey (Managing Director)
- Yuxiang Wu (Director)
- Vincent O'Rourke (Independent Non-Executive Director)

Profiles of Yancoal Australia directors that will be directors of the parent company of the Merged Group if the Scheme is implemented, are set out in Section 8.3.

7.8 Interests in Gloucester and dealings in Gloucester securities by Yancoal Australia's directors

As at the date of this Explanatory Booklet, Yancoal Australia does not have a relevant interest in any Gloucester Shares, nor any voting power in Gloucester, and:

- Neither Yancoal Australia nor any of its associates has provided, or agreed to provide, or has received or agreed to receive, consideration for a Gloucester Share under a sale, purchase or agreement for sale or purchase of Gloucester Shares in the four months before the date of this Explanatory Booklet; and
- From four months before the date of this Explanatory Booklet, neither Yancoal Australia nor any of its associates gave, offered to give or agreed to give a benefit to another person which was likely to induce the other person, or an associate of the other person, to vote in favour of the Scheme or dispose of Gloucester Shares, which was not offered to all Gloucester Shareholders⁵².

7.9 Prior dealings of Yancoal Australia Ordinary Shares

As at the date of this Explanatory Booklet⁵³:

- all of the issued shares in Yancoal Australia are held by Yanzhou Coal; and
- there have been no sales of any Yancoal Australia Ordinary Shares in the three months prior to the date of this Explanatory Booklet.

⁵² However, Yancoal Australia has agreed to fund amounts payable to Gloucester Option holders (some of whom may also hold Gloucester Shares) for cancellation of their Options in connection with the Scheme. Refer to Section 11.9 for further detail.

⁵³ Apart from the issue of the Enforcement Share to Gloucester for A\$1.00 on 21 March 2012. The Enforcement Share is discussed in Section 12.9.

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SECTION 8

PROFILE OF THE MERGED GROUP



SECTION 8 – PROFILE OF THE MERGED GROUP

8.1 Overview of the Merged Group

(a) Introduction

The proposed merger of Gloucester and Yancoal Australia brings together two complementary and attractive portfolios of assets to create a leading listed coal company. The Merged Group, to be known as Yancoal Australia Limited, will be listed on ASX and is expected to be Australia's largest listed pure-play coal producer⁵⁴. It will have a diversified portfolio of metallurgical and thermal coal mines across New South Wales and Queensland, as well as a strong infrastructure position. The Merged Group will have:

- a portfolio of seven operating mines⁵⁵, six projects under feasibility study⁵⁶ and a suite of exploration assets, expected to produce approximately 25Mtpa – 33Mtpa saleable production in calendar year 2016⁵⁷;
- a diversified product mix of metallurgical and thermal coal;
- JORC compliant attributable Resources of 3.5Bt and attributable Reserves of 697Mt;
- New South Wales port infrastructure holdings, including 27.0% of NCIG, to underpin long-term growth; and
- a proven operational management team with complementary skill sets, focussed on maximising shareholder value.

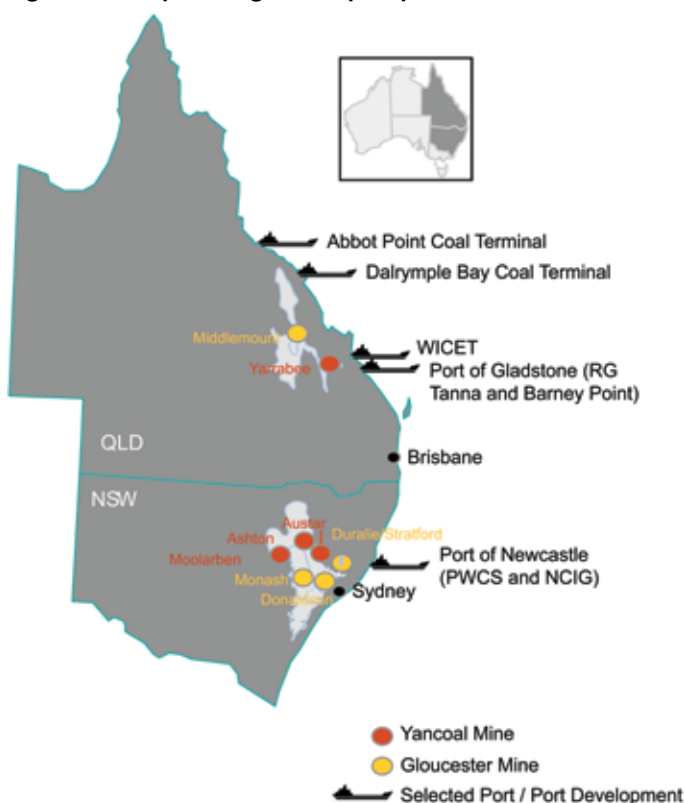
The Merged Group will own the following assets:

- an 80% interest in the Moolarben Joint Venture, which comprises an open-cut mine and an underground development project located in the Upper Hunter Valley region of New South Wales (see Section 7.2(c));
- a 90% interest in the Ashton Joint Venture, which comprises an underground mine and an open-cut development project located in the Hunter Valley region of New South Wales (see Section 7.2(c));
- a 100% interest in Auster, an underground coal mine located in the Hunter Valley region of New South Wales (see Section 7.2(c));
- a 100% interest in Yarrabee, an open-cut coal mine located in Queensland (see Section 7.2(d));
- a 100% interest in the Gloucester Basin Coal Operations, which comprise the Stratford and Duralie open-cut coal mines, located in the Gloucester Basin in New South Wales (see Section 6.2(a));
- a near 50% interest in the Middlemount Coal Joint Venture (alongside Peabody Energy Australia Pty Ltd which is the other joint venture partner), which comprises an open-cut coal mine located in the Bowen Basin in Queensland (see Section 6.2(c));

- a 100% interest in the Donaldson Coal Operations, which comprises the Donaldson open-cut coal mine and Abel and Tasman underground coal mines, located approximately 25 kilometres west of the Port of Newcastle in New South Wales (see Section 6.2(b));
- a 100% interest in Monash, an exploration project for a potential underground mine located in New South Wales (see Section 6.2(d));
- the 4% Middlemount Coal Royalty;
- a 27.0% interest in NCIG (see Sections 6.5 and 7.4); and
- a 5.6% interest in WICET Holdings (see Section 7.4).

For more information in relation to the assets of Gloucester and Yancoal Australia, please refer to Sections 6 and 7 respectively.

Figure 26 – Map of Merged Group's Operations



⁵⁴ By saleable production based on 2011 calendar year saleable production.

⁵⁵ Gloucester Basin operations consisting of Stratford and Duralie have been counted as one mine. Donaldson, consisting of Abel underground, Tasman underground and Donaldson opencut has been counted as one mine.

⁵⁶ These six feasibility studies include expansions of existing operating mines, refer to Figure 4: Project Development Pipeline.

⁵⁷ Projected production figures are estimates only and are subject to the risks outlined in Section 8. Forward looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties and other factors, many of which will be outside the control of the Merged Group. The upper end of this range assumes the achievement of certain synergies regarding infrastructure optimisation (refer to Section 8.15).

(b) Resources and Reserves of the Merged Group

The Merged Group will have a substantial Resources and Reserves base across both New South Wales and Queensland. A table of the Merged Group's Resources and Reserves is set out below.

Figure 27 – Merged Group JORC Resources

Project (Mt)	Ownership	Measured	Indicated	Inferred	M&I&I
Moolarben	80%	376.4	598.4	208.4	1,183.2
Austar	100%	81.1	69.9	70.0	221.0
Ashton	90%	152.0	146.1	35.3	333.5
Yarrabee	100%	65.0	84.3	20.5	169.7
Gloucester Basin	100%	19.4	187	110	316
Middlemount	~50%	89.3	31.5	1.8	122.6
Monash	100%	29.7	70.0	477.0	576.7
Donaldson	100%	659.4	182.9	42.7	885.0
Total (100% basis)		1,472.3	1,369.6	965.7	3,807.7
Total (equity basis)		1,337.1	1,219.6	919.6	3,476.3

Figure 28 – Merged Group JORC Reserves

Project (Mt)	Ownership	Proved	Probable	Total
Moolarben	80%	82.8	232.2	315.0
Austar	100%	12.7	31.5	44.2
Ashton	90%	42.7	14.6	57.2
Yarrabee	100%	38.1	19.1	57.2
Gloucester Basin	100%	11.0	72.6	83.6
Middlemount	~50%	69.0	27.0	96.0
Monash	100%	0.0	0.0	0.0
Donaldson	100%	115.9	44.8	160.7
Total (100% basis)		372.2	441.8	813.9
Total (equity basis)		319.2	381.5	697.4

Note:
In respect of Donaldson, Gloucester Basin, Monash and Middlemount, please refer to the competent person statements in Section 15.1. In respect of Moolarben, Austar, Ashton and Yarrabee, please refer to the competent person statements in Section 15.2.

(c) Production profile of the Merged Group

The Merged Group will have a significant production base from seven producing assets, with significant expected growth in production from its existing portfolio. The Merged Group will be one of Australia's largest listed pure-play coal producers⁵⁸ with expected production of approximately 25Mtpa – 33Mtpa by calendar year 2016⁵⁹.

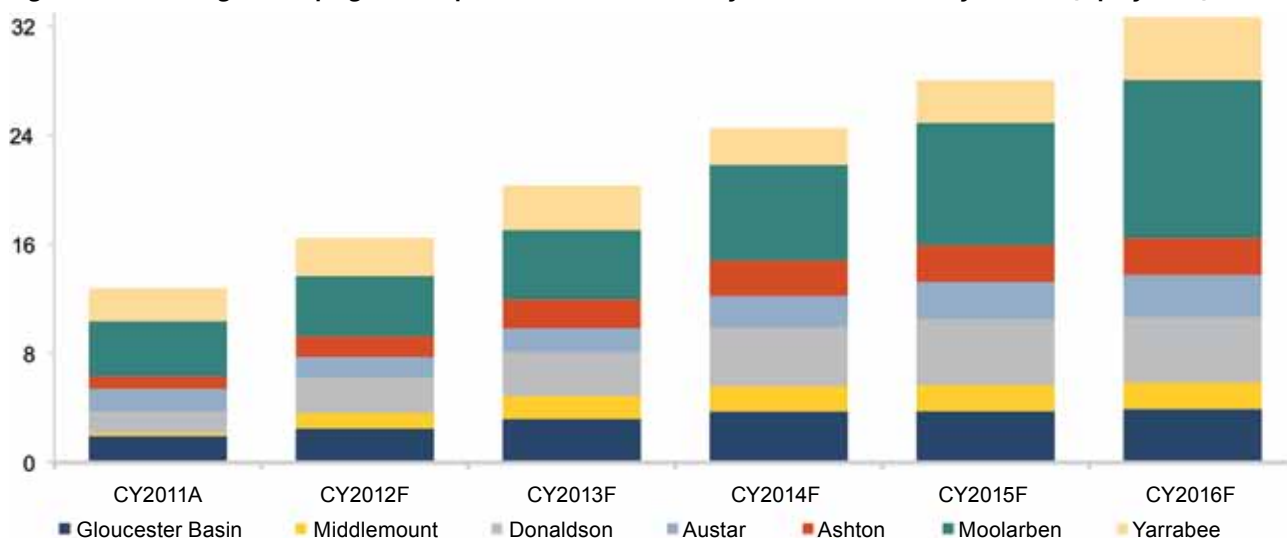
The Merged Group's estimated growth in production from calendar year 2011 to calendar year 2016 is set out in the chart below.

⁵⁸ By saleable production based on 2011 calendar year saleable production.

⁵⁹ Projected production figures are estimates only and are subject to the risks outlined in Section 8. Forward looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties and other factors, many of which will be outside the control of the Merged Group. The upper end of this range assumes the achievement of certain synergies regarding infrastructure optimisation (refer to Section 8.15).

SECTION 8 – PROFILE OF THE MERGED GROUP (CONTINUED)

Figure 29 – The Merged Group's growth in production from calendar year 2011 to calendar year 2016 (equity basis)



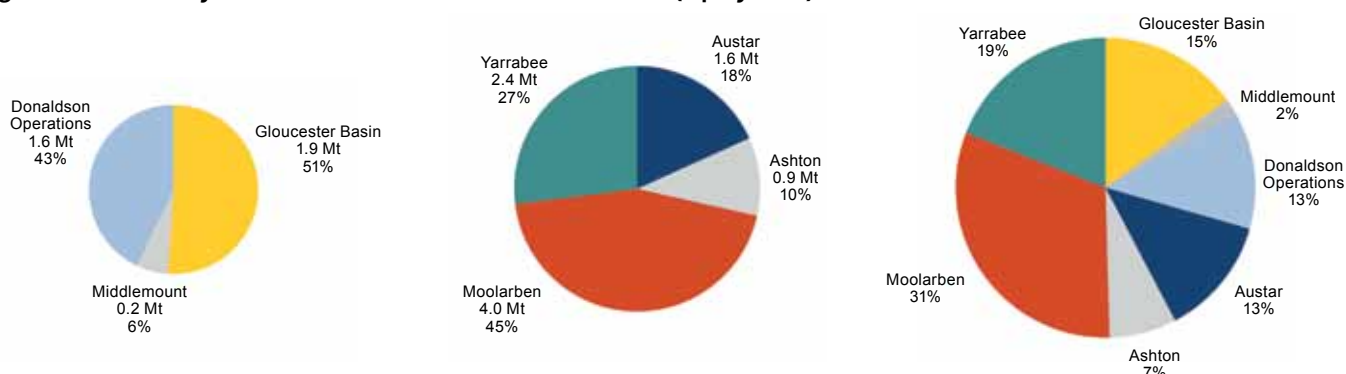
Notes:

- 1 Projected production figures are estimates only and are subject to the risks outlined in Section 9. Forward looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties and other factors, many of which will be outside the control of the Merged Group. The upper end of this range assumes the achievement of certain synergies regarding infrastructure optimisation (refer to Section 8.15).
- 2 If the Merged Group is unable to (i) acquire from relevant third party owners the land over which projected expansion projects are intended to take place; (ii) otherwise reach commercial agreement with relevant land owners regarding the extraction of coal (including as to terms which are commercially acceptable to the Merged Group); or (iii) obtain planning permission for the expansion projects (including as to terms which are commercially acceptable to Merged Group) or if the Merged Group is otherwise adversely affected by one or more of the applicable risks described in Section 9, there is a risk that such projects will not be able to proceed in their current form. This may have a material adverse effect on the projected production figures.

As full feasibility studies have not been completed on all of the Merged Group's assets, these figures are estimates based on the current expectations of the management of Yancoal Australia and Gloucester based on the information presently available to them (and on the assumptions relating to the production estimates for the respective mines set out in Sections 6 and 7 in Figures 11, 17, 19, 20 and 21). Capacity constraints including funding limitations and limitations to available port and rail capacity, together with risks including delays in receiving development approvals, acquiring or obtaining access to required land and adverse weather, may prevent these targets from being met. Please refer to Section 9 for a complete description of potential risk factors which may prevent these targets from being met.

The Merged Group will have a diversified production base with seven producing assets. The figures below set out the Merged Group's saleable production by mine on an equity basis for calendar year 2011.

Figure 30 – Calendar year 2011 Saleable Production contributions (equity basis)



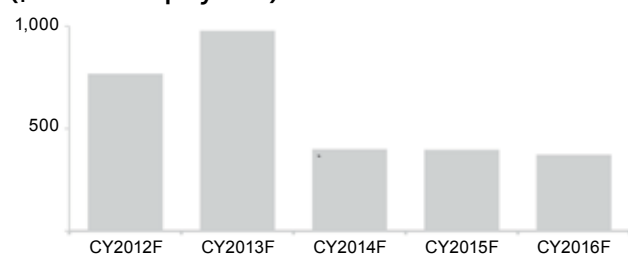
Note: Donaldson production shown for calendar year 2011. Acquisition of Donaldson effective 14 July 2011.

(d) Capital expenditure profile of the Merged Group

The Merged Group has a substantial capital expenditure program which will be required to support its strong production growth profile.

The Merged Group's expected capital expenditure over the period 2012 to 2016 is set out in Figure 31 below. However, as full feasibility studies have not been completed on all of the Merged Group's assets, the figures below are estimates based on the current expectations of the management of Yancoal Australia and Gloucester based on the information presently available to them.

Figure 31 – Merged Group capital expenditure estimate (\$A million – equity basis)



Note: Projected capital expenditure figures are estimates only and are subject to the risks set out in Section 9. Forward looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties and other factors, many of which will be outside the control of the Merged Group.

(e) Infrastructure access for the Merged Group

The Merged Group has combined New South Wales port capacity of approximately 19 Mtpa in calendar year 2012 which is expected to increase to approximately 27 Mtpa in calendar year 2016⁶⁰. This New South Wales port capacity includes capacity in connection with the Merged Group's 27% interest in NCIG, as well as significant PWCS capacity allocations.

Gloucester's excess port capacity at NCIG may potentially be utilised by one or more of Yancoal Australia's assets in order to allow acceleration of the development of those assets where port capacity may be a constraint.

The Merged Group will have port capacity in Queensland at APCT, DBCT, RG Tanna and WICET Stage 1 (capacity allocation only) to support production from Middlemount mine and Yarrabee mine. The Merged Group may also have a potential 1Mtpa of capacity (100% basis) at one of the APCT T4-T9 terminals proposed to be developed. This capacity would be secured through North Queensland Coal Terminal Pty Ltd, of which Middlemount Coal (of which Gloucester has a near 50% interest) is a shareholder, which has secured preferred respondent status. Additionally, Middlemount Coal is in advanced discussions with other port users regarding entering into arrangements to utilise part of their excess port capacity during the period 2015 to 2017.

A subsidiary of Yancoal Australia has also entered into a Commitment Deed with one of the two preferred developers of terminals at Dudgeon Point. This will secure capacity for the Merged Group of a terminal if constructed by that developer – a final decision to develop has not yet been made and the development of the terminal depends on, among other things, the outcome of environmental studies and obtaining the required environmental and planning approvals.

Access to port is very important for coal mining companies on the east coast of Australia. As the below charts demonstrate, the Merged Group will have substantial port capacity via its interest in NCIG and its interest in WICET Holdings, together with negotiated access agreements with other coal terminals. To the extent not already contracted, it is anticipated that the Merged Group will be able to secure additional port capacity in the future to the extent required by future forecast production.

The Merged Group also has contracted rail capacity in place at each of its operating mines which is sufficient for its current levels of operation. To the extent not already secured, it is anticipated that the Merged Group will be able to secure additional rail capacity in the future to the extent required by future forecast production.

Figure 32 – New South Wales Port Capacity (Mt, Equity Basis)

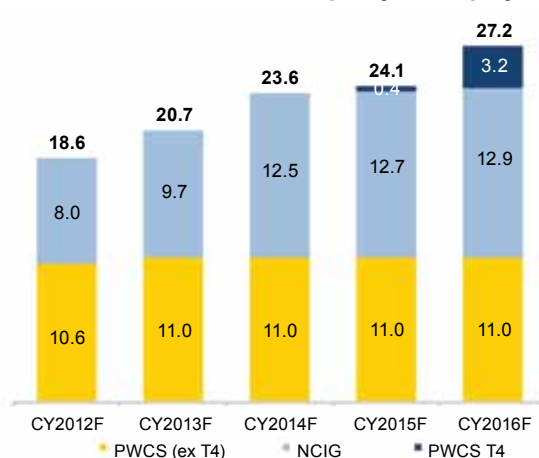
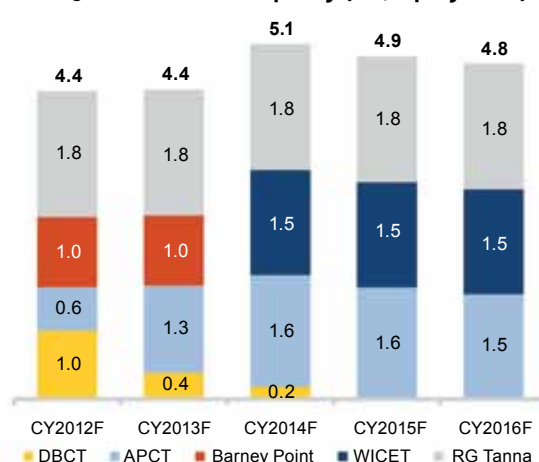


Figure 33 – Queensland Port Capacity (Mt, Equity Basis)



Notes:

- Data shown for year ending to 31 December and shown on an equity basis. These estimates relate to future expectations and therefore involve known and unknown risks and uncertainties. The actual port capacity available to the Merged Group may vary on an annual basis as a result of one or more of the risks described in Section 9.3(b).
- In addition, these estimates are based on current capacity at NCIG, PWCS, DBCT and APCT, and expected capacity allocations at NCIG and PWCS T4, and assume that:
 - PWCS (ex T4) and NCIG figures are based on current contractual entitlements and assume that the current PWCS and NCIG expansion projects (excluding the PWCS T4 expansion) will be completed on schedule;
 - in each of calendar years 2012 to 2016, the additional 0.1Mt of capacity that can be requested for Yarrabee through RG Tanna is able to be provided;
 - in each of calendar years 2012 and 2013, 1.0Mtpa of *ad hoc* capacity through Barney Point Coal Terminal is able to be secured by Yarrabee;
 - Stage 1 of WICET is constructed and operational by calendar year 2014;
 - PWCS Terminal 4 commences operation and Moolarben is allocated 3.5Mt of capacity for calendar year 2016; and
 - the ramp up of total port capacity of NCIG terminal proceeds as currently scheduled.
- Gloucester's and Yancoal Australia's PWCS T4 capacity for calendar year 2016 and calendar year 2016 is a provisional allocation only. The availability of this capacity is subject to the successful completion of PWCS T4 and modelling by the HVCCC. If the completion of PWCS T4 is delayed or there is a shortfall of actual capacity against target capacity, this may have a material adverse effect on the projected port capacity.
- Middlemount Coal (of which Gloucester has a near 50% interest) is a shareholder of North Queensland Coal Terminal Pty Ltd (NQCT) which has secured Preferred Respondent Status for the development of T4-T9 coal terminals at APCT. Through NQCT, Middlemount Coal is seeking an additional 1Mtpa of port capacity which is in addition to the port capacity depicted in the above figure.

60 Figures include capacity for PWCS Terminal 4 for when it commences operations. The Merged Group's PWCS Terminal 4 capacity for 2016 is a provisional allocation only. The availability of this capacity is subject to the successful completion of PWCS T4 and modelling by the HVCCC. If the completion of PWCS Terminal 4 is delayed or there is a shortfall of actual capacity against target capacity, this may have a material adverse effect on the projected port capacity.

SECTION 8 – PROFILE OF THE MERGED GROUP (CONTINUED)

(f) Benefits from access to Yanzhou Coal's LTCC technology

The Merged Group is expected to achieve improved resource recovery from a licence to use proprietary know-how relating to use of underground LTCC technology. The LTCC technology is suitable for use in thick coal seams where additional coal can be recovered by a rear face conveyor, leading to greater levels of resource recovery. Yancoal Australia currently uses the LTCC technology at the Astar coal mine and the Merged Group will benefit from the know-how relating to this technology that is the subject of the LTCC Licence Agreement. Please see Sections 7.5(d) and 13.3 for further details of these licensing arrangements.

8.2 Rationale for the Merger Proposal

(a) Rationale for Yanzhou Coal and Yancoal Australia

Yancoal Australia has pursued a strategy of delivering value for its shareholder by:

- building a portfolio of high quality coal assets through exploration and acquisition in known coal basins (with a focus on New South Wales and Queensland);
- optimising performance at its existing operations and pursuing expansion strategies to take advantage of economies of scale; and
- utilising the technical expertise within Yancoal Australia and Yanzhou Coal to drive operational efficiencies.

The Merger Proposal provides Yancoal Australia with exposure to Gloucester's assets. These assets fit within Yancoal Australia's strategy of acquiring quality assets to which the technical expertise of Yancoal Australia can be leveraged to drive operational efficiencies.

The Merger Proposal also provides Yanzhou Coal with an opportunity to progress towards compliance with its undertakings to the Foreign Investment Review Board as part of the acquisition of Felix Resources Limited in 2009. The Merger Proposal allows Yanzhou Coal to achieve an ASX listing of Yancoal Australia.

Under the Merger Proposal, Yanzhou Coal will be able to retain a significant interest in Yancoal Australia's existing high quality asset base. The Merger Proposal is also expected to deliver substantial synergies to the Merged Group (see Section 8.15).

(b) Rationale for Gloucester

The Merger Proposal is expected to deliver a number of key benefits to Gloucester Shareholders. The expected benefits are identified in Section 5.3. The Gloucester Board recommends that Gloucester Shareholders vote in favour of the Merger Proposal at the Scheme Meeting, in the absence of a Superior Proposal.

The Independent Expert has concluded that, in the absence of a Superior Proposal, the Merger Proposal is fair and reasonable and in the best interests of those Gloucester Shareholders who receive CVR Shares as part of their Scheme Consideration.

8.3 Director profiles of the Merged Group Board

Following implementation of the Scheme, Yancoal Australia will become the parent company of the Merged Group and will be listed on the ASX. The following are short profiles of each of the proposed directors of Yancoal Australia following implementation of the Scheme.

Weimin Li

Chairman (currently Vice Chairman of Yancoal Australia)

Experience and expertise

Mr Li is a Doctor of Engineering, EMBA, and is an Engineering Technique Application Researcher. Since commencing his career, Mr Li has been awarded many titles such as Shandong Provincial Youth-and-Middle-Aged Specialists for the Outstanding Contributions, First-Rank Entrepreneurs of Shandong Province, First-Class Coal Mine Manager in the Chinese Coal Industry and Top-Ten Outstanding Managers of the Chinese Coal Industry. He is highly experienced in coal business management having been appointed as the General Manager of Yanzhou Coal in July 2009, the General Manager and a director of Yankuang Group in December 2010, and Chairman of the Board of Directors of Yanzhou Coal also at that time. He is a graduate of China University of Mining and Technology and Nankai University.

Other current directorships

Mr Li currently is a director of Yankuang Group. He also holds the position of the Chairman of the Board of Directors of Yanzhou Coal; Vice Chairman of the Board of Yanmei Heze Neng Hua Co., Ltd; Chairman of the Board of Yanzhou Coal Orders Neng Hua Co., Ltd; Chairman of the Board of Yankuang Xinjiang Neng Hua Co., Ltd; Chairman of the Board of Yanzhou Coal Yuliu Nenghua Co., Ltd; Chairman of the Board of Shaanxi Future Energy Chemical Corp. Ltd and Chairman of the Board of Yancoal International (holding) Co., Ltd.

Cunliang Lai

Co-Vice Chairman (currently Executive Director of Yancoal Australia)

Experience and expertise

Mr Lai is a senior engineer holding the titles of EMBA and Doctor of Engineering. He has been awarded the title of the China National Top-Ten Coal Mine Managers, China National Coal Industry's Top-100 Achievers award and Shandong Provincial Youth-and-Middle-Aged Specialists for the Outstanding Contributions. Mr Lai has more than 20 years of experience in coal mine management and holds the position of deputy general manager of Yankuang Group and Yanzhou Coal and is a director and the General Manager of Yancoal Australia. Mr Lai successfully completed the acquisition of the Astar Coal Mine and the establishment of an appropriate corporate governance structure for the company. Mr Lai has also successfully applied the LTCC technology in Australia and gained significant experience in Australian coal business management. He is a graduate of China University of Mining and Technology and Nankai University.

Other current directorships

Mr Lai is currently a director of Yancoal International (holding) Co., Ltd.

James MacKenzie

Co-Vice Chairman (Independent Non-Executive Director) (currently Chairman and Independent Non-Executive Director of Gloucester)

Experience and expertise

James MacKenzie has been Chairman and Independent Non-Executive Director of Gloucester since 16 June 2009.

Mr MacKenzie has extensive experience as a company director having held a number of directorships over the past 10 years. From 2000 to 2007, he led the transformation of the Victorian Government's Personal Injury Schemes as Chairman of the TAC

and Victorian WorkCover Authority. Previously, he held senior executive positions with ANZ Banking Group, Norwich Union and Standard Chartered Bank.

Mr MacKenzie is a Chartered Accountant and was a Partner in both the Melbourne and Hong Kong offices of an international accounting firm, now part of Deloitte. In 2003, he was awarded the Centenary Medal for services to public administration.

Other current directorships

Chairman, Mirvac Group Board (since 2005); Chairman, Pacific Brands Limited (since 2008) and Director, Melco Crown Entertainment Limited (since 2008).

Yuxiang Wu

Director (currently Director of Yancoal Australia)

Experience and expertise

Mr Wu is a post-graduate and a Senior Accountant. Mr Wu has extensive experience in organising accounting, financial control, capital operation, risk management and corporate compliance for Yanzhou Coal and Yancoal Australia. He is the Chief Financial Officer and a director of Yanzhou Coal, and is also very experienced in financial management and business development in the coal industry.

Other current directorships

Mr Wu is presently a director of Yanzhou Coal; director of Yanmei Heze Neng Hua Co., Ltd; director of Yanzhou Coal Shanxi Neng Hua Company Limited and director of Yancoal International (holding) Co., Ltd.

Baocai Zhang

Director

Experience and expertise

Mr Zhang, born in May 1967, a senior accountant with an EMBA degree, is a director, the deputy manager and the board secretary of Yanzhou Coal. Mr Zhang joined Yanzhou Coal's predecessor in 1989 and was appointed as the head of the planning and finance department of Yanzhou Coal in 2002. He was appointed as a Director and the board secretary of Yanzhou Coal in 2006 and was appointed as the deputy general manager of Yanzhou in 2011. Mr. Zhang graduated from Nankai University.

Other current directorships

Mr Zhang is presently a director of Yanzhou Coal; director of Yanzhou Coal Yulin Neng Hua Co., Ltd; director of Inner Mongolia Haosheng Coal Mining Limited and director of Yancoal International (holding) Co., Ltd.

Xinghua Ni

Director

Experience and expertise

Xinghua Ni, born in October 1956, a senior engineer, is the chief engineer of Yanzhou Coal. He joined Yanzhou Coal's predecessor in 1975 and became the deputy chief engineer of the Yanzhou Coal's parent company in 2000. He has promoted to be the chief engineer of Yanzhou Coal in 2002. He graduated from Tianjin University.

Other current directorships

Mr Ni is presently a director of Shaunxi Future Energy Chemical Corp. Ltd.

Boyun Xu

Director (currently General Manager Business Development and Co – Company Secretary of Yancoal Australia)

Experience and expertise

Boyun joined Yancoal Australia in 2005 and has current executive responsibilities as Co-Company Secretary functions and in relation to the company's business development. Boyun served for five years as a member of the Board of Yancoal Australia and Deputy Managing Director. Boyun has 25 years international management and engineering experience in the industry. Prior to joining Yancoal Australia he served as Deputy Chief Engineer in Yankuang Group in China and China Business Manager in Minarco in Australia. Boyun holds an Executive Master of Business Administration degree from University of Technology Sydney, a Masters degree of Mining Engineering from University of New South Wales and a Bachelor of Mining Engineering from Shandong University of Science and Technology in China.

Other current directorships

Mr Xu is presently an alternate director of Ashton Coal Mines Limited.

William Randall

Independent Non-Executive Director (currently Non-Executive Director of Gloucester)

Experience and expertise

William Randall has been a Director of Gloucester since 16 June 2009.

Mr Randall is head of Noble's Energy Coal & Carbon Complex division. He holds a Bachelor degree in Business major in International Marketing and Finance. He started his career at Noble in Australia, transferring to Asia in 1999 where he established Noble's coal operations, mining and supply chain management businesses.

Following his appointment as director of Noble Energy Inc in 2001, Mr Randall continued to build the global coal and coke marketing network and asset pipeline. He was appointed global head of Coal & Coke in 2006 and became a member of the Noble Group Executive Board in 2008 and subsequently assumed the title of Head of Hard Commodities. He became an Executive Director of Noble Group Limited in February 2012.

Other current directorships

Director, Noble

Director, Gloucester

Director, Blackwood Corporation Limited

Director, East Energy Resources Limited

Vincent O'Rourke AM

Independent Director (currently Independent Director of Yancoal Australia)

Experience and expertise

Mr O'Rourke was appointed a Director of Yancoal Australia on 6 January 2010. Mr O'Rourke brings over 40 years of corporate and railway industry experience spanning operations, finance and business management. In 1990, Mr O'Rourke was appointed Queensland Commissioner for Railways and was the CEO of Queensland Rail (**QR**) from 1991 to 2000. As CEO of QR, Mr O'Rourke oversaw a 10 year program of reform and modernization including corporatisation in 1995.

SECTION 8 – PROFILE OF THE MERGED GROUP (CONTINUED)

Other current directorships

Mr O'Rourke is presently Chairman of the Queensland Workplace Health and Safety Board, Chairman of Rail Innovation Australia Pty Ltd and a Director of Mater Health Services Brisbane Limited. He is also a non-executive director of ASX listed companies Bradken Limited and White Energy Company Limited.

Geoff Raby

Independent Director

Experience and expertise

Dr Raby was Australia's Ambassador to the People's Republic of China from 2007 to 2011. Prior to that, he was a Deputy Secretary in the Department of Foreign Affairs and Trade (DFAT).

Dr Raby has extensive experience in international affairs and trade, having been Australia's Ambassador to the World Trade Organisation (1998-2001), Australia's APEC Ambassador (2003-05), Head of DFAT's Office of Trade Negotiations and Head of the Trade Policy Issues Division at the OECD, Paris. Between 1986 and 1991 he was Head of the Economic Section at the Australian Embassy, Beijing. He has been the Chair of DFAT's Audit Committee and served as an ex officio member of the Boards of Austrade and EFIC (Export Finance and Insurance Corporation).

Other current directorships

Dr Raby is also a non-executive director of ASX listed companies Fortescue Metals Group, Oceana Gold and SmartTrans.

Gregory Fletcher

Independent Non-Executive Director (currently Independent Non-Executive Director of Gloucester Coal Limited)

Experience and expertise

Gregory Fletcher has been a Director of Gloucester since 30 June 2009.

Previously, Mr Fletcher was a senior partner of Deloitte for 16 years, specialising in external and internal audits and risk management. He has provided professional services to some of Australia's largest listed corporations. Additionally, he served as a Director of Railcorp up until the Railcorp Board was wound up on 30 June 2010 in line with the NSW Transport Administration Act.

Other current directorships and committee positions

Chairman, SMEG Australia Pty Ltd; Independent Non-Executive Director, WDS Limited; Chair, Board Audit and Risk Committee, WDS Limited; Member, Board Human Resources Nominations Committee, WDS Limited; Member, Health Safety Environment Community Committee, WDS Limited; Chair, Audit and Risk Committee, Railcorp; Chair, Audit and Risk Committee, Sydney Ferries; Chair, Audit and Risk Committee, Roads & Maritime Services (formerly Roads and Traffic Authority); Chair, Audit and Risk Committee, City of Sydney Council; Member, NSW Auditor General's Audit and Risk Committee and Member, Audit, Risk and Compliance Committee, Sydney Olympic Park Authority.

8.4 Management of the Merged Group

Details of the key proposed members of the Executive Committee of the Merged Group following implementation of the Scheme are set out below.

Cunliang Lai

Chair of the Executive Committee

Mr Lai has been appointed Chair of the Executive Committee. His biography is set out above in the preceding Section 8.3.

Murray Bailey

Chief Executive Officer

Mr Bailey was appointed Managing Director of Yancoal Australia in September 2010, having previously been in the role of Chief Operations Officer (since 2007) for New Hope Corporation, a mid-cap ASX listed company with coal mining operations in Queensland. Over his 32 year career he has held a variety of management and executive roles in the mining industry, both nationally within Australia and internationally in London, UK. Prior to his role at New Hope, he was the Executive General Manager of the Wesfarmers Curragh Mine in Queensland, responsible for one of the largest open-cut coal mining enterprises in the State. He managed the A\$390 million expansion of Curragh to incorporate the Curragh North deposit and was an active member of the local community. He was an inaugural Director of Blackwater International Coal Centre Ltd, a not-for-profit organisation set up in 2006 to finance, build and operate the A\$9.5 million BICC to showcase the coal mining industry. Prior to his role with Wesfarmers, he was employed in executive roles with P&H MinePro Services, a US based international mining equipment manufacturer and distributor; and prior to that with Shell Coal International in London and Shell Australia in Australia.

Mr Bailey has a Bachelor's Degree in Civil Engineering from the University of Newcastle, NSW Australia, conferred in 1980, and is a Member of the Australian Institute of Company Directors. In addition to his role as the current Managing Director of Yancoal Australia and its various subsidiary companies, he is also a Director of Newcastle Coal Infrastructure Group (NCIG), an Alternate Director of Wiggins Island Coal Export Terminal (WICET Holdings), Chairman of the Project Management sub-committee of WICET and a member of the Executive Committee of the NSW Minerals Council.

Brendan McPherson

Senior Adviser to the Merged Group (currently Managing Director and Chief Executive Officer of Gloucester)

Brendan McPherson was previously the Senior Vice President – Asset Development & Operations of Noble Resources Australia Pty Ltd. He was also Chief Executive Officer and Director of Donaldson Coal, and a Director of Newcastle Coal Infrastructure Group.

As CEO of Donaldson Coal, Mr McPherson has overseen the approval and development of three mines within the Donaldson Mining Complex. Prior to joining Donaldson Coal in 1999, Mr McPherson was the Chief Finance Officer to Multinet Gas, and Ikon Energy. He has also worked for the Gas & Fuel Corporation of Victoria, the State Bank of Victoria and the Electricity Trust of South Australia.

Mr McPherson holds a Bachelor of Economics degree from Adelaide University, and completed the Program for Management Development at the Harvard Business School in 1996.

8.5 Intentions in relation to Gloucester and the Merged Group

(a) Introduction

The statements of intention in this Section 8.5 are based on the information concerning the Gloucester Group, its business and the general business environment which is known to Yancoal Australia at the date of this Explanatory Booklet. Final decisions will only be reached by Yancoal Australia in light of increased knowledge through full access to the Gloucester Group, its business and material information and circumstances at the relevant time. Accordingly, the statements set out in this Section are statements of current intentions only which may change as new information becomes available or circumstances change.

(b) Corporate matters in relation to Gloucester

Except for the changes and intentions set out elsewhere in this Explanatory Booklet, it is the intention of Yancoal Australia to continue to operate the businesses of Yancoal Australia (other than the Excluded Assets as defined in Section 8.9) and Gloucester in substantially the same manner as they are currently operated.

Following implementation of the Scheme, Yancoal Australia will review the key policies and standards of Gloucester as quickly as possible and look to integrate them into the Yancoal Australia processes. Yancoal Australia will conduct a strategic review of the combined portfolio of the Yancoal Australia and Gloucester assets with a view to maximising value for shareholders in the Merged Group. This will include ensuring appropriate priorities for the operation of the sites, allocation of capital and the focus of exploration spending. Further, Yancoal Australia will review and integrate the various technical and commercial functional teams that support the exploration, operations, projects and corporate processes and initiatives.

In time, Yancoal Australia is expected to develop the assets of the merged businesses and to pursue further growth opportunities, as determined by its board.

(c) Continuation of Gloucester and Yancoal Australia's businesses

Subject to the review identified in paragraph (b) above, Yancoal Australia's current intention is to continue to operate the Gloucester Basin Coal Operations, Donaldson Coal Operations and Middlemount mine, and to maintain existing development and exploration programs.

(d) Name of the listed entity

The name of the parent company of the Merged Group will be Yancoal Australia Limited.

(e) Dividend policy

The Merged Group proposes to adopt a dividend policy under which 25% to 40% of net profit after tax (pre-Abnormal Items) is distributed to shareholders each financial year, subject to the ongoing cash needs of the business and the legal obligations of directors to the company.

This dividend policy is subject to the requirements of the applicable law and the duties of Yancoal Australia's directors. Yancoal Australia's constitution reflects this dividend policy.

It is expected that Yancoal Australia will frank its dividends to the maximum extent that its franking balance allows.

(f) Management and employees

Yancoal Australia intends to integrate Gloucester's corporate head office functions (such as treasury, group accounting, finance, taxation, company secretarial and legal) with those of Yancoal Australia. This may lead to the closure or consolidation of offices where the services or support can be provided more efficiently.

It is expected that the existing Gloucester mine sites will continue to operate with substantially the same workforce. Overall employment levels of the Merged Group will be reviewed as part of the strategic review of the Merged Group's portfolio of assets, as described in Section 8.5(b) above.

It is expected that the growth profile of the Merged Group will provide employees of the Merged Group with enhanced career opportunities. Employees will be able to develop their skills across more mine sites, with a greater choice of mining disciplines and technical processes.

The first choice for addressing duplication issues will be partly through natural turnover, but there may be redundancies of employees who cannot be placed elsewhere within the Merged Group. Any redundancies will be in accordance with the terms of existing employment contracts.

(g) Other intentions

Other than as set out in this Section 8 and elsewhere in this Explanatory Booklet, it is the present intention of Yancoal Australia:

- to continue the business of Gloucester;
- not to make any major changes to the business of Gloucester or the deployment of its asset; and
- to continue the employment of Gloucester's employees.

8.6 Capital structure of the Merged Group

As described in Section 6.7(a), as at 20 April 2012 Gloucester had three substantial shareholders, the largest of which (Noble) had a relevant interest in 64.5% of the Gloucester Shares. As at that date, the top three shareholders in Gloucester had relevant interests in 77.7% (in aggregate) of the ordinary share capital of Gloucester (based on their most recent substantial holder notices).

Yancoal Australia is 100% owned by Yanzhou Coal which is listed on the Shanghai, Hong Kong and New York stock exchanges. Yanzhou Coal is in turn 52.9% owned by Yankuang Group Corporation Limited, a Chinese State Owned Entity (SOE).

Immediately after the Scheme is implemented, Yancoal Australia will have 994,216,659 Yancoal Australia Ordinary Shares on issue⁶¹. These Yancoal Australia Ordinary Shares will be held by Yanzhou Coal (78%) and Gloucester Shareholders as at the Scheme Record Date (22%). Aside from Yanzhou Coal, Noble will be the largest shareholder of Yancoal Australia immediately after the Scheme is implemented, and will hold approximately 13.2% of the Yancoal Australia Ordinary Shares. Further details about the ownership structure of Yancoal Australia Ordinary Shares following implementation of the Merger Proposal are set out in Section 8.8.

61 Assuming all Gloucester Optionholders accept cash consideration for the cancellation of their Gloucester Options rather than exercising them.

SECTION 8 – PROFILE OF THE MERGED GROUP (CONTINUED)

	As at 20 April 2012		Immediately before implementation of the Scheme		After implementation of the Scheme	
	No. of shares	% ownership	No. of shares	% ownership	No. of shares	% ownership
Yanzhou Coal	–	–	–	–	775,488,994	78.0
Noble	130,791,755 ¹	64.5	130,791,755	59.8	130,791,755	13.2
Other Gloucester Shareholders	72,114,212	35.5	87,935,910 ^{2,3}	40.2	87,935,910	8.8

1 Based on Noble's most recent substantial shareholder notice lodged with the ASX.

2 Includes conversion of the 1,000 Converting Preference Shares into 1,000 ordinary shares and the issue of 15,820,698 Gloucester Shares to holders of Converting Preference Share.

3 Assumes all Gloucester Optionholders accept cash consideration for the cancellation of their Gloucester Options rather than exercising them.

In addition to Yancoal Australia Ordinary Shares, Gloucester Shareholders will also receive CVR Shares under the Scheme (unless they make an 'All Ordinary Shares' Election or unless they are a Foreign Scheme Shareholder or an Electing Small Shareholder). The CVR Shares are shares in the capital of Yancoal Australia, which will ultimately be Repurchased for cash or the transfer of existing Yancoal Australia Ordinary Shares from Yanzhou Coal (or another Yanzhou CVR Shareholder). The number of Yancoal Australia Ordinary Shares on issue will therefore not change as a result of the Repurchase of some or all CVR Shares. However, to the extent that a Repurchase of CVR Shares is undertaken by way of a transfer of existing Yancoal Australia Ordinary Shares, the proportionate ownership levels of holders of Yancoal Australia Ordinary Shares may change. Yancoal Australia and Yanzhou Coal will enter into the CVR Shares Agreement, that sets out Yanzhou Coal's obligations in relation to the Repurchase of CVR Shares. Further details about the CVR Shares are contained in Section 8.13 and the Terms of Issue of the CVR Shares are set out in Appendix 8. A summary of the CVR Shares Agreement is set out in Section 13.7.

Yancoal Australia also presently has one Enforcement Share on issue, which is held by Gloucester and protects Gloucester's interests under the Merger Proposal Deed. This share will be redeemed in or after July 2012. For further details about the Enforcement Share see Section 12.9.

There will be no options over unissued Yancoal Australia Ordinary Shares or over unissued CVR Shares in existence immediately following implementation of the Scheme.

8.7 Pro forma debt position of the Merged Group

If the Merger Proposal is approved and implemented, the Merged Group will have pro forma net debt of A\$3.6 billion (based on figures as at 22 February 2012 – primarily US\$ denominated debt converted at US\$ = A\$1.0724) after adjusting for the Capital Return, down from the pro forma net debt position as at 31 December 2011 of A\$3.86bn.

Under the terms of the Merger Proposal Deed, the Merged Group will reorganise its existing debt facilities in the following ways:

(a) Felix Acquisition Facility and Ancillary Felix Facility

As part of its acquisition of Felix Resources in 2009, Yancoal Australia arranged US\$3.04 billion in acquisition debt, comprising a US\$2.9 billion term loan facility (**Felix Acquisition Facility**), and a US\$140 million ancillary term loan facility (**Ancillary Felix Facility**). The lenders under these facilities are Bank of China Limited Sydney Branch with respect to both facilities and China Development Bank Corporation Hong Kong Branch and China Construction Bank Corporation Hong Kong Branch with respect to the Felix Acquisition Facility only. Both facilities are fully drawn as at the date of this Explanatory Booklet.

The existing terms of the Felix Acquisition Facility and the Ancillary Felix Facility require repayment of a total of US\$1.015 billion on 16 December 2012, US\$1.015 billion on 16 December 2013, and the remaining balance of US\$1.01 billion on the earlier of 16 December 2014 and 10 business days before the expiry date of the letters of credit granted by Bank of China Limited Shandong Branch that support these facilities. The letters of credit each expire on 14 January 2015 and are irrevocable.

The interest rate with respect to the Felix Acquisition Facility is US\$ LIBOR plus 0.75% per annum, and the facility has an annual fee of 0.10% and underwriting fees of US\$1.45 million payable in each of 2012 and 2013. The interest rate with respect to the Ancillary Felix Facility is US\$ LIBOR plus 0.80% per annum, and the facility has an annual fee of 0.10%.

Each facility is subject to a suite of covenants customary for a facility of this nature, including with respect to information undertakings, a negative pledge, restriction on disposals, assignment of rights, merger, demerger, amalgamation, corporate reconstruction and changes of business, and undertakings with respect to compliance with laws and authorisation. The facilities do not include financial covenants such as debt service cover ratio, gearing ratio, interest cover ratio or total leverage ratio. Each facility also contains events of default including change of control and material adverse change events of default.

Under the terms of the Merger Proposal Deed, it is a condition precedent to the Merger Proposal that Yancoal Australia confirms in writing to Gloucester by 8.00am on the Second Court Hearing Date that Yancoal Australia has obtained an extension of the repayments on these facilities that are due in 2012 (US\$1.015bn) and 2013 (US\$1.015bn) until at least 2017 and 2018 respectively.

Yancoal Australia has received non-binding term sheets from the relevant financiers in relation to both the Felix Acquisition Facility and the Felix Ancillary Facility. The term sheets contemplate extension of the repayment due in 2012 to 2017 (US\$1.015bn), extension of the repayment due in 2013 to 2018 (US\$1.015bn) and extension of the repayment due in 2014 to 2019 (US\$1.01bn). The interest rate under the facilities in relation to each repayment amount is proposed to rise to US\$ LIBOR plus 2.80% per annum on and from the original due date for that repayment amount (with an additional annual extension fee of 0.20%). In addition, financial undertakings (gearing ratio, interest cover ratio and minimum net worth) are proposed to be included in each of the facilities. It is likely that Yanzhou Coal will either give a corporate guarantee of these facilities or seek to extend or replace the letters of credit securing these facilities commensurately.

The extensions of these facilities (together with any changes to their key terms in connection with those extensions) have not been formally agreed as at the date of this Explanatory Booklet.

Gloucester will inform Gloucester Shareholders about the extensions (and any changes to material key terms) as soon as these are agreed and notified to Gloucester, by making an announcement to the ASX (which will be available on ASX's website, asx.com.au) and placing a copy of this announcement on Gloucester's website at www.gloucestercoal.com.au.

Once these extensions are in place, the Merged Group will not have any material debt repayment obligations under the Felix Acquisition Facility or the Ancillary Felix Facility until the end of 2017.

(b) Capital Return Facility

Under the terms of the Merger Proposal Deed, it is a condition precedent to the Merger Proposal that Yancoal Australia confirms in writing to Gloucester by 8.00am on the Second Court Hearing Date that Yancoal Australia has in place a new A\$700 million debt facility to allow Gloucester to, among other things, pay on presentation by the independent Trustee the Promissory Notes delivered by Gloucester to satisfy Gloucester's obligations under the Capital Return (**Capital Return Facility**).

The key terms of this Capital Return Facility, including the maturity date, interest rate and covenants, have not been formally agreed as at the date of this Explanatory Booklet. However, Yancoal Australia has received an indicative offer from Commonwealth Bank of Australia to provide a A\$1 billion facility, comprising a A\$700 million credit facility and a A\$300 million contingent liability facility. The interest rate under the credit facility remains to be agreed. Credit support documents issued under the contingent liability facility are proposed to incur an issuance fee of 1.20% per annum on the amount of the credit support document. The facility is proposed to be repayable on the day falling 12 months from the commencement date of the facility. The facility is proposed to be secured by security over certain assets of Yancoal Australia. Gloucester will inform Gloucester Shareholders of Yancoal Australia's acceptance of this facility and the agreed maturity date, interest rate and covenants, and any other key terms as soon as this occurs and is notified to Gloucester, by making an announcement to the ASX (which will be available on ASX's website, asx.com.au) and placing a copy of this announcement on Gloucester's website at www.gloucestercoal.com.au.

It is important to note that the pro forma net debt position for the Merged Group reflects this additional A\$700 million facility.

(c) Capital Expenditure Facility

Under the terms of the Merger Proposal Deed, Yancoal Australia is required to use all reasonable endeavours to procure a A\$1 billion facility for the Merged Group to utilise as and when required for its business expansion after the Implementation Date (**Capital Expenditure Facility**).

The key terms of this Capital Expenditure Facility, including the maturity date, interest rate and covenants, have not been agreed as at the date of this Explanatory Booklet. If these are agreed and notified to Gloucester before the Scheme is Implemented, Gloucester will inform Gloucester Shareholders about these and any other key terms by making an announcement to the ASX (which will be available on ASX's website, asx.com.au) and placing a copy of this announcement on Gloucester's website at www.gloucestercoal.com.au.

It is important to note that the pro forma net debt position for the Merged Group **does not** reflect this additional A\$1 billion facility given there is no certainty as to when this facility will be drawn down.

It is expected that the Capital Expenditure Facility will provide substantial funding headroom for the Merged Group post Scheme Implementation.

(d) Noble facility

On 14 July 2011, Gloucester entered into a A\$400m debt facility with Noble that matures on 1 July 2015 (**Noble Facility**).

The interest rate payable under the Noble Facility is the BBSY plus 3.00% per annum. An undrawn commitment fee of 1.50% per annum of the undrawn facility is payable monthly in arrears.

The Noble Facility includes a suite of standard covenants for a facility of this nature, including with respect to information undertakings, a negative pledge and a restriction on the disposal of assets.

The Noble Facility includes financial covenants that are to be tested each 30 June and 31 December during the term of the Noble Facility. The financial covenants tested are a gearing ratio, interest cover ratio and tangible net worth ratio.

The Noble Facility also contains events of default including cessation of business, material adverse change and the removal of Gloucester from the official list of the ASX. Noble has waived any event of default that may arise if and when the Merger Proposal is implemented and Gloucester is delisted from ASX.

(e) Multicurrency contingent liability and revolving loan facility

Certain subsidiaries of Yancoal Australia have entered into a A\$300 million multicurrency contingent liability and revolving cash advance facility with Commonwealth Bank of Australia and Westpac Banking Corporation. The contingent liability facility has a facility limit of A\$250 million and is for the issue of credit support documents (such as bank guarantees or letters of credit) in support of obligations of the corporate group. The revolving cash advance facility has a facility limit of A\$50 million. As at the date of this Explanatory Booklet, approximately A\$140 million of credit support had been utilised under the contingent liability facility and the credit advance facility remained wholly undrawn.

An issuance fee applicable to each credit support document issued under the facility is 1.20% per annum of the amount of the credit support document. As the cash advance facility is undrawn, no interest is currently payable under it and Yancoal Australia is not intending to make use of the cash advance facility in the short term. The facility is secured by all assets fixed and floating charges granted by certain subsidiaries of Yancoal Australia.

As maturity of this facility is on 2 July 2012, Yancoal Australia intends that it be replaced by the proposed A\$1 billion Commonwealth Bank of Australia facility discussed in Section 8.7(b) above.

The facility contains typical covenants for a facility of this nature including financial covenants, information undertakings, restrictions on granting security, disposals, financial indebtedness, giving financial accommodation, declaring dividends and granting guarantees, and maintenance of guarantor coverage covenants. The facility also contains events of default including change of control and material adverse change events of default.

In addition to the facilities outlined above, the Merged Group will also have access to A\$62 million in undrawn facilities of Gloucester, as well as a pro forma cash balance of A\$248 million (as at 31 December 2011).

SECTION 8 – PROFILE OF THE MERGED GROUP (CONTINUED)

(f) Interest rate sensitivity analysis

As discussed in Section 5.4, the Merged Group will have pro forma net debt of as at 31 December 2011 of A\$3.86 billion, comprising A\$4.10 billion in interest bearing liabilities and A\$248 million in cash.

Further, as discussed above in this Section 8.7, Yancoal Australia is in the course of negotiating extension of the existing maturities of repayments under the Felix Acquisition Facility and the Ancillary Felix Facility and procuring an additional Capital Return Facility of A\$700 million.

As indicated above and in note 1 in Section 8.14(h), as part of the extension process referred to above, the interest rates on the Felix Acquisition Facility and the Ancillary Felix Facility will be renegotiated. The current Felix Acquisition Facility is at a rate of US\$ LIBOR + 0.75% per annum, or an indicative interest expense of 1.22% per annum as at 30 March 2012 and the current Ancillary Felix Facility is at a rate of US\$ LIBOR + 0.80% per annum, or an indicative interest expense of 1.27% per annum as at 30 March 2012.

As outlined above, Yancoal Australia has received non-binding term sheets from the relevant financiers in relation to both the Felix Acquisition Facility and the Felix Ancillary Facility. The proposed extensions contemplate repayments due in 2017 (US\$1.015bn), 2018 (US\$1.015bn) and 2019 (US\$1.01bn).

However, the non-binding term sheets in relation to the Felix Acquisition Facility and the Ancillary Felix Facility contemplate that the interest rate applicable to these facilities will be US\$ LIBOR plus 2.80% per annum (with an additional annual extension fee of 0.20%), which will be higher than the current rate of US\$ LIBOR + 0.75% per annum. The non-binding terms sheets also contemplate that this higher interest rate will apply to periods beyond the original maturity dates (that is, after 16 December 2012 in the case of the US\$1,015 million to be extended to at least 2017, after 16 December 2013 in the case of the US\$1,015 million to be extended to at least 2018 and after 16 December 2014 in the case of the US\$1,01 million to be extended to at least 2019).

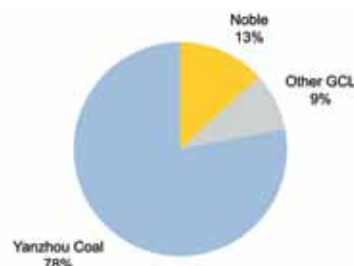
For illustrative purposes, on a debt face value of A\$4.10 billion (being the Merged Group's *total* pro forma debt), the impact of a 25 basis points (0.25%) increase in the interest rate payable would equate to an increase of A\$10.26 million per annum (on a pre-tax basis). The relationship between the Merged Group's interest expense and the interest rate payable by the Merged Group is linear; for example, an increase in the Merged Group's interest rate payable of 50 basis points (0.5%) would result in an increase in the Merged Group's interest expense of A\$20.52 million (on a pre-tax basis).

It is important to note that the above analysis is for illustrative purposes only, and does not represent any expectation on the part of the board or management of Gloucester, Yancoal Australia or the Merged Group of future interest rates payable by the Merged Group.

8.8 Ownership of the Merged Group

If the Merger Proposal proceeds, the following will be the ownership structure in relation to Yancoal Australia Ordinary Shares immediately following implementation of the Scheme:

Figure 34 – Pro forma ownership of Merged Group



The free-float of Yancoal Australia Ordinary Shares of approximately 9% immediately following implementation of the Scheme is expected to increase over time, including as a result of Yanzhou Coal reducing its ownership interest in Yancoal Australia in line with the conditions imposed by the Commonwealth Treasurer in its approval of the Merger Proposal. This reduction might be effected through means including a sale of Yancoal Australia Ordinary Shares, dilution as a result of an equity issue by Yancoal Australia in which Yanzhou Coal does not fully participate or the delivery by Yanzhou Coal of Yancoal Australia Ordinary Shares pursuant to a Repurchase of CVR Shares.

The Commonwealth Treasurer has approved the Merger Proposal on conditions including that Yanzhou Coal reduce its interest in Yancoal Australia Ordinary Shares to less than 70% and its economic ownership of the underlying assets of Felix Resources (as at the time of the acquisition of Felix Resources in 2009) to less than 50%, in each case by 31 December 2013. In addition, after 31 December 2012, Yanzhou Coal must cast the votes attaching to any shares in Yancoal Australia that it holds above this 70% threshold consistently with the votes cast by minority Yancoal Australia Shareholders on any member resolution in respect of which Yanzhou Coal is entitled to vote. Further details of the Commonwealth Treasurer's conditional approval of the Merger Proposal are set out in Section 14.15.

As the diagram in this Section 8.8 illustrates, immediately following the implementation of the Merger Proposal, Yanzhou Coal will own 78% of the Yancoal Australia Shares and will thereby control Yancoal Australia. Yanzhou Coal is a joint stock limited company incorporated under the laws of the People's Republic of China, and is majority owned and controlled by Yankuang Group Company Limited (**Yankuang**). Yankuang is a Chinese state-owned enterprise. As a result, the Merged Group will be a 'foreign person' for the purposes of the *Foreign Acquisitions and Takeovers Act 1975* (Cth) and a 'related person' of a 'foreign government' for the purposes of Australia's Foreign Investment Policy. Please refer to Section 14.16 for a discussion of the restrictions and other implications of this under:

- the *Foreign Acquisitions and Takeovers Act 1975* (Cth) and Australia's Foreign Investment Policy; and
- certain laws, policies and other measures of the People's Republic of China relating to the supervision and management of State-owned assets and outbound investment

Please also refer to Section 8.12 which identifies certain provisions of Yancoal Australia's constitution that specify matters requiring the

approval of Yancoal Australia Shareholders under the laws and regulations of the People's Republic of China.

8.9 Excluded Assets and arrangements between Yancoal Australia and Yanzhou Coal

Certain assets of Yancoal Australia will be excluded and therefore will not form part of the asset portfolio of the Merged Group.

Before the Effective Date, Yancoal Australia will transfer these Excluded Assets to Yanzhou Coal or one or more of its related bodies corporate that is not a member of the Yancoal Australia Group. The transfer of these Excluded Assets will be effected in accordance with the Restructure Agreement. Further details of the Restructure Agreement are set out in Section 13.2.

(a) Right of first refusal

Yanzhou Coal has granted a right of first refusal (**ROFR**) over certain of the Excluded Assets in favour of Yancoal Australia. Under the ROFR, the Merged Group will have a right to acquire each of those Excluded Assets if it is proposed to be sold by Yanzhou Coal in the future.

The Excluded Assets that are subject to the ROFR (the **ROFR Assets**) are:

- all of the issued shares in Tonford Pty Limited and as a result a 100% interest in the Harrybrandt Project tenements near Nebo in Queensland's Bowen Basin;
- all of the issued shares in Athena Coal Pty Limited and as a result a 51% interest in the Athena Coal Project joint venture in Queensland;
- 100% interest in certain Wilpeena tenements held by Yarrabee Coal Company Pty Limited ACN 010 849 402 in Queensland (Wilpeena);
- all of the issued shares in each of Syntech Holdings Pty Limited and Syntech Holdings II Pty Limited and as a result a 100% interest in the Cameby Downs open-cut mine located approximately 30 kilometres from the town of Chinchilla in the Surat Basin, Queensland (Syntech); and
- all of the issued shares in Premier Coal Limited ACN 008 672 599 and Premier Char Pty Limited ACN 009 379 597 and thereby, among other things, a 100% interest in the Premier coal mine.

Under the terms of the ROFR, before Yanzhou Coal (or a related body corporate that is not a member of the Yancoal Australia Group) sells a ROFR Asset, Yanzhou Coal will procure that Yancoal Australia is first offered that ROFR Asset for a specified cash price. Yancoal Australia will have the right to conduct due diligence on that ROFR Asset and will be entitled to purchase that ROFR Asset at any time up to 60 Business Days from the date of the offer. If Yancoal Australia does not accept the offer, the ROFR Asset may be sold to a third party within six months of the offer on terms no less favourable (taken as a whole) than those in the offer to Yancoal Australia under the ROFR.

(b) Restructure Agreement

If as at 30 June 2014, Yanzhou Coal has not reduced its interest in Premier Coal and Syntech to less than 70%, Yanzhou Coal and Yancoal Australia (under the direction of a committee of its independent directors) must negotiate in good faith and use their best endeavours to agree, before 30 September 2014, the price and further terms to apply to a sale back to the Yancoal Australia Group of Premier Coal and Syntech (with any such sale to occur only if Yanzhou Coal has not otherwise reduced its interest in Premier Coal

and Syntech to less than 70% by 27 December 2014). Failing agreement on price, price will be determined by an independent expert. Any sale back will be subject to all applicable regulatory approvals and the approval of shareholders of the Merged Group. Any sale back that is to occur must be completed by no later than 31 December 2014. The ROFR will apply to any disposal by Yanzhou Coal of an interest in Premier Coal and Syntech, such that Yancoal Australia will have a right of first refusal under the ROFR with respect to any disposal by Yanzhou Coal of an interest in Premier Coal or Syntech before 31 December 2014.

Further details of the Restructure Agreement are set out in Section 13.2.

(c) Other Excluded Assets

The shares in the following two companies are also Excluded Assets, but are not ROFR Assets (that is, they are not subject to the ROFR described above):

- Yancoal Technology Development Pty Limited (which holds certain proprietary know how relating to the LTCC technology); and
- UCC Energy Pty Limited (which holds patented clean coal technology).

These companies are holding vehicles in relation to intellectual property, rather than Australian mining or development assets.

Under the LTCC Licence Agreement, Yancoal Australia has access to patents, services and certain know-how relating to the LTCC technology through Yanzhou Coal and Yancoal Technology Development Pty Limited. Under the LTCC Licence Agreement, this intellectual property will be provided without charge for the mines operated by the Merged Group on implementation of the Scheme. Further details of the LTCC Licence Agreement are set out in Section 13.3.

(d) Management, transitional services and separation arrangements

Under the Management and Transitional Services Agreement, Yancoal Australia will provide specified services to Yanzhou Coal (and certain of its subsidiaries holding the Excluded Assets).

The services may be terminated by Yancoal Australia on 12 months notice (such notice not to be provided earlier than 31 December 2016) or by Yanzhou Coal (or the relevant recipient) on 30 days notice. On termination of a 'management' service, certain transitional service provisions which provide for the orderly handover of service provision from Yancoal Australia to another provider are triggered.

Further details of the Management and Transitional Services Agreement are set out in Section 13.5.

Under the Separation Agreement, Yancoal Australia has agreed (among other things) to provide information to Yanzhou Coal (subject to confidentiality and other protections) for certain purposes, including allowing it to comply with its own regulatory and listing obligations. Further details of the Separation Agreement are set out in Section 13.4.

8.10 Corporate governance of the Merged Group

It is intended that the Merged Group will adopt an approach to corporate governance based on Australian law requirements. The main policies and practices adopted by Yancoal Australia, which will apply to the Merged Group from implementation of the Share Scheme, are summarised below.

SECTION 8 – PROFILE OF THE MERGED GROUP (CONTINUED)

(a) Responsibilities of the Board

The responsibilities of the Yancoal Australia Board and those responsibilities delegated by the Board to Board Committees and management are set out in the Board Charter.

The Yancoal Australia Board will be responsible for the overall corporate governance of the Merged Group, including adopting appropriate policies and procedures and seeking to ensure that Yancoal Australia directors, management and employees fulfil their functions effectively, responsibly and in accordance with Australian regulatory requirements.

The Yancoal Australia Board has created a framework for managing Yancoal Australia, including adopting relevant internal controls and risk management procedures which it believes are appropriate for Yancoal Australia's businesses. These policies and procedures in relation to corporate governance will apply to the Merged Group and the Yancoal Australia Board will continually review and monitor their appropriateness.

Copies of the Board Charter and the Constitution will be available on Yancoal Australia's website.

(b) Delegation to management

The Board will delegate responsibility for the day to day management of Yancoal Australia's affairs, and implementation of the strategy and policy initiatives set by the Board, to the CEO, the Chair of the Executive Committee (CEC) and other senior executives. The Executive Committee is a management committee comprising the CEC, the CEO and a number of other senior executives.

(c) Delegation to Board committees

The Yancoal Australia Board may from time to time establish appropriate committees to assist in the discharge of its responsibilities. The Yancoal Australia Board has established the following standing Board committees:

- Audit and Risk Management Committee;
- Health, Safety and Environment Committee;
- Nomination and Remuneration Committee; and
- Strategy Committee.

These Board committees review matters on behalf of the Board and, as determined by the relevant Charter:

- refer matters to the Board for a decision, with a recommendation from the committee; or
- determine matters (where the committee acts with delegated authority), which the committee then reports to the Board.

Other committees may be established by the Yancoal Australia Board as and when required.

Membership of the Yancoal Australia standing Board committees will be based on the needs of Yancoal Australia and the Merged Group, relevant regulatory requirements, and the skills and experience of individual Yancoal Australia directors. The Charter of each standing Board committee will be available on Yancoal Australia's website.

Audit and Risk Management Committee

Under its charter, this committee will have at least three members, a majority of whom will be independent and all of whom will be non-executive directors. The Chairperson of the Audit and Risk Management Committee will be an independent non-executive director who is not the chairperson of the Yancoal Australia Board.

The primary role of this committee is to assist the Board in overseeing financial reporting, internal control structure, risk management systems and the internal and external audit functions.

Nomination and Remuneration Committee

Under its charter, this committee will have at least three members, all of whom will be non-executive directors.

The primary role of this committee is to assist the Board in overseeing:

- remuneration and performance of non-executive directors;
- remuneration and performance of members of Yancoal Australia's Executive Committee;
- remuneration disclosures by Yancoal Australia;
- Board composition and succession; and
- succession planning for Yancoal Australia's Executive Committee.

Health, Safety and Environment Committee

The primary role of this committee will be to assist the Yancoal Australia Board in overseeing the Merged Group's health, safety and environmental responsibilities.

Strategy Committee

The primary role of this committee will be to assist the Yancoal Australia Board in its oversight and review of the Merged Group's strategic initiatives.

(d) Auditor

ShineWing Hall Chadwick has been appointed as the auditor for the Merged Group.

(e) Corporate governance policies

Yancoal Australia is in the process of adopting a number of corporate governance policies which will apply to the Merged Group.

Conduct and ethics

The Yancoal Australia Board's policy is that Merged Group companies, directors and employees must observe both the letter and spirit of the law, and adhere to high standards of business conduct. In addition, Yancoal Australia will adopt a Code of Conduct and other guidelines and policies which set out legal and ethical standards for Directors and employees, including in relation to conflicts of interests and related party transactions.

The Code of Conduct and these other guidelines and policies will guide the Directors, the CEO, senior management, and employees generally as to the practices necessary to maintain confidence in the Merged Group's integrity and as to the responsibility and accountability of individuals for reporting, and investigating reports of, unethical practices. The Code of Conduct and these other guidelines and policies will also guide compliance with legal and other obligations to stakeholders.

A copy of Yancoal Australia's Code of Conduct will be available on the Yancoal Australia website.

Dealings in Yancoal Securities

By law, and under Yancoal Australia's policy for dealing in securities, dealing in Yancoal Australia securities will be subject to the overriding prohibition on trading while in possession of inside information.

In addition, Yancoal Australia's policy for dealing in securities will prohibit dealing in Yancoal Australia securities by directors, senior executives and other employees during specified blackout periods each year. General employees will be permitted to deal in Yancoal

Australia securities outside these blackout periods, however additional approval requirements will apply to Directors and senior executives.

The policy will preclude executives from entering into any hedge or derivative transactions relating to options or share rights granted to them as long term incentives, regardless of whether or not the options or share rights have vested.

Breaches of the policy will be treated seriously and may lead to disciplinary action, including dismissal.

A copy of Yancoal Australia's policy for dealing in securities will be available on Yancoal Australia's website.

Disclosure

Yancoal Australia appreciates the importance of timely and adequate disclosure to the market, and is committed to, once listed on the ASX, making timely and balanced disclosure of all material matters and to effective communication with its shareholders and investors so as to give them ready access to balanced and understandable information. Yancoal Australia will also work together with Yanzhou Coal to ensure that Yanzhou Coal can comply with its filing obligations in relation to Yancoal Australia information, and vice versa, Yanzhou Coal will seek to ensure that Yancoal Australia can comply with its filing obligations in relation to Yanzhou Coal information.

Yancoal Australia complies with all relevant disclosure laws and, once listed, will comply with ASX Listing Rule requirements. It will have in place mechanisms designed to ensure compliance with those requirements, including a Disclosure Policy which will be adopted by the Yancoal Australia Board. These mechanisms will also ensure accountability at a senior executive level for that compliance.

A copy of Yancoal Australia's Disclosure Policy will be available on the Yancoal Australia website.

Diversity

Yancoal Australia recognises that people are its most important asset and is committed to the maintenance and promotion of workplace diversity. The Yancoal Australia Board will adopt a Board Diversity Policy to actively facilitate a more diverse and representative management and leadership structure. With the assistance of the Nomination and Remuneration Committee, the Board will establish measurable objectives relating to gender at all senior management and leadership levels and periodically assess these objectives and the Merged Group's progress towards meeting these objectives. Yancoal Australia will disclose these objectives, and progress towards these objectives in its Annual Report each year.

8.11 ASX listing of Yancoal Australia

Yancoal Australia has made a conditional application to be admitted to the official list of ASX and for all of the Yancoal Shares currently on issue (excluding the Enforcement Share issued to Gloucester on 21 March 2012), as well as the new Yancoal Shares and the new CVR Shares to be issued under the Scheme, to be officially quoted on the financial market conducted by ASX.

Yancoal Australia has no reason to believe that the Yancoal Australia Ordinary Shares and the CVR Shares will not be admitted to quotation by ASX, subject only to the approval of the Scheme by the Court, the implementation of the Scheme as approved by the Court and usual and customary conditions of ASX of a procedural or administrative nature.

8.12 Rights attaching to Yancoal Australia Ordinary Shares

The rights and liabilities attaching to ownership of Yancoal Australia Ordinary Shares arise from a combination of the constitution of Yancoal Australia, statute, ASX Listing Rules and general law.

A summary of the significant rights attaching to the Yancoal Australia Ordinary Shares and a description of other material provisions of the Yancoal Australia constitution is set out below. This summary is not exhaustive – nor does it constitute a definitive statement of the rights and liabilities of shareholders in Yancoal Australia. The summary assumes that Yancoal Australia is admitted to the official list of ASX. A copy of the Yancoal Australia constitution will be available on the Yancoal Australia website.

- **Voting at a general meeting:** At a general meeting of Yancoal Australia, every Yancoal Australia Shareholder present in person or by proxy, representative or attorney has one vote on a show of hands and, on a poll, one vote for each Yancoal Australia Ordinary Share held. The constitution contains provisions to facilitate Yanzhou Coal giving of a proxy which will enable the votes attaching to any Yancoal Australia Ordinary Shares that it holds over 70% to be cast consistently with the votes cast by minority Yancoal Australia Shareholders, as referred to in Section 8.8.
- **Meetings of members:** Each Yancoal Australia shareholder is entitled to receive notice of, attend and vote at general meetings of Yancoal Australia and to receive all notices, accounts and other documents required to be sent to Yancoal Australia shareholders under the constitution, Corporations Act and ASX Listing Rules.
- **Dividends:** Subject in each case to applicable laws, the ongoing cash needs of the business and the directors' duties under law and to any shareholder approval required under the constitution (described below in this Section 8.12), the directors must pay dividends of no less than 40% of Yancoal Australia's net profit after tax (pre-Abnormal Items) each financial year, unless the directors decide to pay dividends of no less than 25% in order to prudently manage the company's financial position.
- **Transfer of shares:** Subject to the constitution, Yancoal Australia Ordinary Shares may be transferred by a proper transfer effected in accordance with ASX Settlement Operating Rules, by a written instrument of transfer which complies with the constitution or by any other method permitted by the Corporations Act, ASX Listing Rules or ASX Settlement Operating Rules. The Board may refuse to register a transfer of Yancoal Australia Ordinary Shares where permitted to do so under the Corporations Act, ASX Listing Rules or ASX Settlement Operating Rules. The Board must refuse to register a transfer of Shares when required by the Corporations Act, ASX Listing Rules or ASX Settlement Operating Rules.
- **Issue of further shares:** Subject to the Corporations Act, ASX Listing Rules and ASX Settlement Operating Rules and any rights and restrictions attached to a class of shares, Yancoal Australia may issue, or grant options in respect of, further Yancoal Australia Ordinary Shares and other classes of shares in Yancoal Australia on such terms and conditions as the Yancoal Australia Board resolves.
- **Winding up:** If Yancoal Australia is wound up, then subject to any rights or restrictions attached to a class of shares, any surplus must be divided amongst Yancoal Australia's members in proportion to the number of shares held by them. The amount unpaid on shares held by a member is to be deducted from the amount that would otherwise be distributed to that member.
- **Unmarketable parcels:** Subject to the Corporations Act, ASX Listing Rules and ASX Settlement Operating Rules, Yancoal

SECTION 8 – PROFILE OF THE MERGED GROUP (CONTINUED)

Australia may sell the shares of a member of Yancoal Australia who holds less than a marketable parcel of shares.

- **Share buy-backs:** Subject to the Corporations Act, ASX Listing Rules and ASX Settlement Operating Rules and to any shareholder approval required under the constitution (described below in this Section 8.12), Yancoal Australia may buy back shares in itself on terms and at times determined by the Yancoal Australia Board.
- **Proportional takeover provisions:** The constitution contains provisions for member approval to be required in relation to any proportional takeover bid for Yancoal Australia. These provisions will cease to apply unless renewed by special resolution of the members by the third anniversary of the date of the Constitution's adoption.
- **Variation of class rights:** At present, Yancoal Australia's only classes of shares on issue are Yancoal Australia Ordinary Shares and the Enforcement Share. It is proposed that CVR Shares be issued pursuant to the Merger Proposal. Subject to the Corporations Act and the terms of issue of a class of shares, the rights attaching to any class of shares may be varied or cancelled:
 - with the consent in writing of the holders of three quarters of the issued shares included in that class; or
 - by a special resolution passed at a separate meeting of the holders of those shares.

In either case, the holders of not less than 10% of the votes in the class of shares, the rights of which have been varied or cancelled, may apply to a court of competent jurisdiction to exercise its discretion to set aside such a variation or cancellation.

- **Dividend reinvestment plan:** The constitution authorises the Yancoal Australia Board, on any terms and at its discretion, to establish a dividend reinvestment plan (under which any member may elect that the dividends payable by Yancoal Australia be reinvested by a subscription for securities).
- **Directors – appointment and removal:** Under the constitution, the minimum number of directors that may comprise the Yancoal Australia Board is four and the maximum is fixed by the directors but may not be more than 11 unless varied by a resolution of members. Directors are elected at annual general meetings of Yancoal Australia. Retirement will occur on a rotational basis so that no director (excluding any Managing Director) holds office without re-election beyond the third annual general meeting following the meeting at which the director was last elected or re-elected. The appointment of directors requires shareholder approval in accordance with the constitution. However, the directors may appoint a director to fill a casual vacancy on the Board where the number of directors falls below the minimum number provided for in the constitution and in order to comply with any applicable laws, regulations or the Listing Rules (including the Listing Rules in relation to the composition of the Board and any Board committees). Directors may be removed by ordinary resolution of the Company or by written notice to Yancoal Australia from shareholder(s) holding a majority of shares conferring the right to vote.
- **Directors – voting:** Questions arising at a meeting of the Yancoal Australia Board will be decided by a majority of votes of the directors present at the meeting and entitled to vote on the matter. In the case of an equality of votes on a resolution, the chairperson of the meeting has a casting vote.
- **Directors – remuneration:** The constitution provides that non-executive directors are entitled to such remuneration as approved by shareholders as required under the constitution

(described below in this Section 8.12) but which must not exceed in aggregate the maximum amount determined by members in a general meeting. Non-executive director remuneration is described in detail in Section 14.8.

- **Indemnities:** Yancoal Australia, to the extent permitted by law, indemnifies each director against any liability incurred by that person as an officer of Yancoal Australia or its related bodies corporate. Yancoal Australia, to the extent permitted by law, may pay, or agree to pay, a premium for a contract insuring a director against any liability incurred by that person as an officer of Yancoal Australia or its related bodies corporate and legal costs incurred by that person in defending an action for a liability of that person.

Yancoal Australia, to the extent permitted by law, may enter into an agreement or deed with a director or a person who is, or has been, an officer of Yancoal Australia or its related bodies corporate, under which Yancoal Australia must do all of the following:

 - keep books of Yancoal Australia and allow either or both that person and that person's advisers access to those books on the terms agreed;
 - indemnify that person against any liability incurred by that person as an officer of Yancoal Australia or its related bodies corporate and legal costs incurred by that person in defending an action for a liability of that person;
 - make a payment (whether by way of advance, loan or otherwise) to that person in respect of legal costs incurred by that person in defending an action for a liability of that person; and
 - keep that person insured in respect of any act or omission by that person while a director or an officer of Yancoal Australia or its related bodies corporate, on the terms agreed (including as to payment of all or part of the premium for the contract for insurance).
- **Amendment:** The constitution can only be amended by special resolution passed by at least three-quarters of members present (in person or by proxy) and entitled to vote on the resolution at a general meeting of Yancoal Australia. Yancoal Australia must give at least 28 days written notice of a general meeting of Yancoal Australia.
- **Shareholder approval:** Subject to all applicable laws, regulations and the Listing Rules, member approval is required under the constitution for a number of matters (either by way of a resolution of the company or by notice from member(s) holding a majority of shares). This is necessary to ensure compliance with the laws and regulations of the People's Republic of China. The matters which require member approval include the following:
 - the appointment, removal and remuneration of directors (subject to directors appointing other directors in the circumstances outlined above);
 - reductions in the company's issued capital;
 - the annual financial statements of the company;
 - the payment of dividends, and any decision by the directors of the company to rescind the payment of a dividend prior to payment;
 - loss recovery plans;
 - the terms of any employee incentive schemes;
 - the withdrawing of any forfeiture of shares taken by the company over unpaid or partly paid shares;

- the appointment and removal of the auditor and the auditor’s remuneration for the annual audit;
 - the creation or cancellation (unless required by applicable laws, regulations or accounting standards) of any reserve from the revaluation of assets;
 - investments or disposals of assets by Yancoal with a value above specified thresholds;
 - issuing debentures and any borrowing or other means of financing by the company above specified thresholds;
 - entering into mortgages over company assets or providing guarantees above specified thresholds.
- **Financial matters:** Yancoal Australia must comply with its obligations under the Separation Agreement in relation to access to financial and other information and sharing of the Enterprise Resource Planning platform, subject to the confidentiality obligations set out in that agreement.

8.13 Rights attaching to CVR Shares

Gloucester Shareholders who participate in the Scheme and who do not make an ‘All Ordinary Shares’ Election will receive CVR Shares as part of their Scheme Consideration (assuming they are not Foreign Scheme Shareholders or Electing Small Shareholders). CVR Shares may provide downside protection against a fall in the share price of Yancoal Australia Ordinary Shares for up to 18 months following implementation of the Scheme. An explanation of the rights attaching to CVR Shares, including hypothetical examples of how CVR Shares operate, is set out in Section 3. The Terms of Issue of the CVR Shares are set out in Appendix 8.

8.14 Financial profile of the Merged Group

Set out in this Section is the Unaudited Pro Forma Financial Information for the Merged Group comprising:

- an Unaudited Pro Forma Balance Sheet for the Merged Group (**Merged Group Pro Forma Balance Sheet**) which has been prepared based on the reviewed and restated balance sheet of Gloucester as at 31 December 2011 and the audited balance sheet of Yancoal Australia as at 31 December 2011 together with a number of pro forma adjustments; and
 - an Unaudited Pro Forma Income Statement for the Merged Group (**Merged Group Pro Forma Income Statement**) which has been prepared based on the income statement of Gloucester for the year ended 31 December 2011 (derived from the audited income statement of Gloucester for the year ended 30 June 2011 and the reviewed income statements of Gloucester for the half-years ended 31 December 2010 and 31 December 2011) and the audited income statement of Yancoal Australia for the year ended 31 December 2011 together with a number of pro forma adjustments,
- (together the **Merged Group Pro Forma Financial Information**).

The Merged Group Pro Forma Financial Information is presented in an abbreviated form and does not contain all the disclosures provided in an annual report prepared in accordance with the Australian Corporations Act. Historically Gloucester has prepared its income statement on a by function basis and Yancoal Australia

has prepared its income statement on a by nature basis. For the purposes of comparability the income statements in this section have been prepared at a summary level. It is expected that the income statement of the Merged Group will be reported on a by nature basis.

The compilation of the Merged Group Pro Forma Financial Information has been reviewed by ShineWing Hall Chadwick whose Investigating Accountant’s Report is contained in Appendix 2 to this Explanatory Booklet. Gloucester Shareholders should note the scope and limitations of the Investigating Accountant’s Report.

(a) Basis of preparation

The basis on which the Merged Group Pro Forma Financial Information has been compiled is set out below:

- the Merged Group Pro Forma Financial Information has been prepared by the management of Yancoal Australia, in accordance with the recognition and measurement principles of IFRS, for illustrative purposes only to show the effect of the acquisition of Gloucester by Yancoal Australia pursuant to the Scheme;
- the Merged Group Pro Forma Balance Sheet has been prepared on the assumption that the Scheme was implemented on 31 December 2011; and
- the Merged Group Pro Forma Financial Information has been prepared using the historical financial information of Gloucester and Yancoal Australia, adjusted for certain items as detailed in Sections 8.14(f) and 8.14(g) below.

Gloucester has historically prepared financial statements for years ended 30 June. For the purposes of this Explanatory Booklet, financial information has been prepared for the year ended 31 December 2011.

Following a review by Gloucester and Yancoal Australia of the accounting policies disclosed in the financial statements of Gloucester for the year ended 30 June 2011 and those used in the preparation of the Yancoal Australia financial information for the year ended 31 December 2011 and preliminary due diligence, the accounting policies are not considered to be materially different. Therefore, at this time, no adjustments have been made in the Merged Group Pro Forma Financial Information to reflect the alignment of accounting policies; other than those pro forma reclassifications xi, xii and xiii.

SECTION 8 – PROFILE OF THE MERGED GROUP (CONTINUED)

(b) Merged Group Pro Forma Balance Sheet

Figure 35 – Merged Group Pro Forma Balance Sheet as at 31 December 2011

A\$'m	Gloucester Pro forma Reviewed (A)	Yancoal Australia Pro forma Reviewed (B)	Pro forma adjustments (C)	Note	Merged Group Pro forma Reviewed (D)
Current assets					
Cash and cash equivalents	30.9	282.8	(66.0)	iii	247.7
Restricted cash	–	60.4	–		60.4
Trade and other receivables	59.1	202.1	–		261.2
Waste in advance	83.1	–	33.8	xii	116.9
Inventories	52.3	117.2	–		169.5
Derivative financial instruments	2.2	16.4	–		18.6
Royalty receivable	15.9	–	–		15.9
Other assets	–	57.7	(33.8)	xii	23.9
Promissory note	–	648.0	(648.0)	ix	–
Total current assets	243.5	1,384.6	(714.0)		914.1
Non-current assets					
Restricted cash	0.7	–	–		0.7
Trade and other receivables	–	77.8	–		77.8
Equity accounted investments	–	3.0	–		3.0
Other financial assets	–	25.0	–		25.0
Property, plant and equipment	1,692.7	973.9	(1,027.0)	xi	1,639.6
Mining tenements	–	2,250.2	2,041.1	iii, vi, vii, viii, xi	4,291.3
Deferred tax assets	13.9	15.9	–		29.8
Intangible assets	57.4	99.6	–		157.0
Exploration and evaluation assets	217.9	527.2	–		745.1
Royalty receivable	177.1	–	–		177.1
Investments	19.3	–	–		19.3
Total non-current assets	2,179.0	3,972.6	1,014.1		7,165.7
Total assets	2,422.5	5,357.2	300.1		8,079.8
Current liabilities					
Trade and other payables	74.9	159.0	9.2	xiii	243.1
Customer contracts	55.6	–	–		55.6
Interest bearing liabilities	111.3	999.4	(406.6)	iv, x	704.1
Promissory note	592.8	–	(592.8)	iv	–
Derivative financial instruments	–	6.6	–		6.6
Provisions – take or pay	21.2	–	–		21.2
Provisions – other	1.7	0.9	–		2.6
Income tax liability	0.2	9.3	–		9.5
Employee benefits	9.2	–	(9.2)	xiii	–
Total current liabilities	866.9	1,175.2	(999.4)		1,042.7
Non-current liabilities					
Trade and other payables	14.8	1.3	0.8	xiii	16.9
Customer contracts	77.5	–	–		77.5
Interest bearing liabilities	406.5	1,993.9	999.4	x	3,399.8
Deferred consideration	–	–	–		–
Contingent consideration	–	–	90.5	viii	90.5
Deferred tax liabilities	257.4	401.4	272.4	vi	931.2
Provisions – take or pay	98.6	–	–		98.6
Provisions – other	15.7	22.9	–		38.6
Employee benefits	0.8	–	(0.8)	xiii	–
Total non-current liabilities	871.3	2,419.5	1,362.3		4,653.1
Total liabilities	1,738.2	3,594.7	362.9		5,695.8
Net assets	684.3	1,762.5	(62.8)		2,384.0
Contributed equity	715.4	973.0	(43.4)	v, vii, ix	1,645.0
Reserves	10.4	6.3	(10.4)	v	6.3
Retained earnings/(accumulated losses)	(41.5)	783.2	(9.0)	iii, v	732.7
Total equity	684.3	1,762.5	(62.8)		2,384.0

Notes:

The Merged Group Pro Forma Balance Sheet (column D) has been compiled by combining:

- the pro forma balance sheet of Gloucester as at 31 December 2011 (column A), see Section 8.14(f);
- the pro forma balance sheet of Yancoal Australia as at 31 December 2011 (column B), see Section 8.14(g); and
- the pro forma adjustments applicable to the Merged Group (column C), see Section 8.14(c).

(c) Pro forma assumptions and adjustments for the Merged Group Pro Forma Balance Sheet

The Merged Group Pro Forma Balance Sheet assumes the completion of a business combination whereby 218.7 million of Gloucester Shares are acquired for an estimated total consideration of A\$1,320.0 million (based on management's current expectations), comprising 218.7 million Yancoal Australia Ordinary Shares and 87.9 million CVR Shares. Whilst the Merged Group Pro Forma Balance Sheet discloses an excess of current liabilities over current assets of A\$128.6 million this is due to the fact that the Merged Group Pro Forma Balance Sheet also assumes that A\$700.0 million of funding is in place and used for the payment of A\$96.2 million for the Gloucester Special Dividend, A\$11.0 million for the cancellation of Gloucester Options and A\$592.8 million for Promissory Notes delivered in discharging Gloucester's obligations under the Capital Reduction. As the terms of this facility are not yet known the A\$700.0 million has been classified as an interest bearing liability within current liabilities. The terms are proposed to be arranged prior to the Second Court Hearing Date and it is expected that some or all of the facility will be due for repayment after 12 months and be classified as a non-current liability.

Based on high level due diligence conducted to date, Yancoal Australia has formed a preliminary assessment of the fair value of all identifiable assets and liabilities to be acquired and the impact of applying purchase accounting. A detailed assessment of fair value will be performed after the Implementation Date and it is likely that values will be assigned to other identifiable assets and liabilities, including Goodwill.

The tax bases of Gloucester's assets and liabilities assumed as part of the implementation of the Scheme do not reflect fair value. A preliminary deferred tax liability has been recognised by applying a rate of 30% to the difference between the purchase consideration and the book value of Gloucester's pro forma net assets. A detailed deferred tax calculation will be performed after the Implementation Date. Any change in the preliminary deferred tax liability will be offset by an equal change in Mining Tenements.

The Merged Group Pro Forma Balance Sheet reflects the following adjustments as if the acquisition of Gloucester by Yancoal Australia had occurred on 31 December 2011:

- i The pro forma adjustments to the reviewed balance sheet of Gloucester as at 31 December 2011 (see Section 8.14(f)).
- ii The pro forma adjustments to the audited balance sheet of Yancoal Australia as at 31 December 2011 (see Section 8.14(g)).
- iii A decrease in cash of A\$66.0 million to reflect the current estimate of costs associated with the Merger Proposal. Transactions costs of A\$50.5m will be expensed and have been allocated to retained earnings. The remaining A\$15.5 million has been allocated to Mining Tenements and relates to capitalised stamp duty. The stamp duty calculation assumes that Yancoal Australia acquires the Gloucester Shares while they are listed on the ASX.
- iv A decrease in the current liability Promissory Notes and an increase in interest bearing liabilities of A\$592.8 million to reflect the payment to the Trustee in relation to the Promissory Notes delivered to the Trustee in discharge of Gloucester's obligations under the Capital Reduction (payable six months after the Implementation Date).
- v Elimination of Gloucester's pre-acquisition issued capital of A\$715.4 million, accumulated losses of A\$41.5 million and reserves of A\$10.4 million.
- vi An increase of A\$272.4 million to the preliminary deferred tax liability to reflect the difference between the purchase consideration and the book value of Gloucester's pro forma net assets.
- vii An increase in Contributed Equity of A\$1,320.0 million to record the assumed value of Yancoal Australia Ordinary Shares issued in respect of the assumed share consideration under the offer.
- viii An increase in Contingent Consideration of A\$90.5 million to record the assumed value of the CVR Shares issued in respect of the assumed share consideration under the offer. For the purposes of this adjustment the CVR Shares have been provisionally valued using an option pricing model, any actual future value of the contingent consideration will change as Yancoal Australia's share price changes. The CVR Shares can be Repurchased by cash or transfer of existing equity, see Appendix 8 for the CVR Shares Terms of Issue. Regardless of the Repurchase method Yanzhou Coal will fund the Repurchase, so that the Repurchase is economically neutral to Yancoal Australia.
- ix A decrease in current asset Promissory Note and decrease in Contributed Equity of A\$648.0 million to reflect the settlement, via a capital reduction, of the amount receivable from Yanzhou Coal in respect of the Excluded Assets.
- x A decrease in current interest bearing liabilities and an increase in non-current interest bearing liabilities of A\$999.4 million reflecting the expected amendment of Yancoal Australia's debt facilities which forms part of the conditions precedent for the Scheme (refer Section 11.5(c)).
- xi Reclassification of A\$1,027 million of assets classified in Property, Plant & Equipment in Gloucester to Mining Tenements in the Merged Group balance sheet for consistent presentation.
- xii Reclassification of A\$33.8 million of other assets to waste in advance in the Merged Group balance sheet for consistent presentation.
- xiii Reclassification of A\$9.2 million and A\$0.8 million of current and non-current employee benefit liabilities to current and non-current trade and other payables respectively in the Merged Group balance sheet for consistent presentation.

SECTION 8 – PROFILE OF THE MERGED GROUP (CONTINUED)

(d) Merged Group Pro Forma Income Statement

Figure 36 – Merged Group Pro Forma Income Statement for the year ended 31 December 2011

A\$'m	Gloucester Pro forma Reviewed (A)	Yancoal Australia Pro forma Reviewed (B)	Pro forma adjustments (C)	Merged Group Pro forma Reviewed (D)
Revenue	396.0	1,461.7	–	1,857.7
Earnings before interest, tax, depreciation and amortisation	84.8	602.0	–	686.8
Depreciation and amortisation expense	(37.1)	(127.1)	–	(164.2)
Earnings before interest and tax	47.7	474.9	–	522.6
Finance costs	(13.1)	(55.3)	*	*
Profit/(loss) before income tax	34.6	419.6	*	*
Income tax	(7.7)	(131.3)	*	*
Net profit/(loss) after tax	26.9	288.3	*	*

Notes:

The Merged Group Pro Forma Income Statement (column D above) has been compiled by combining:

- the pro forma income statement of Gloucester for the year ended 31 December 2011 (column A), see Section 8.14(f);
- the pro forma income statement of Yancoal Australia for the year ended 31 December 2011 (column B), see Section 8.14(g); and
- the pro forma adjustments applicable to the Merged Group (column C), see Section 8.14(e).

(e) Pro forma assumptions and adjustments for the Merged Group Pro Forma Income Statement

The Merged Group Pro Forma Income Statement reflects the following adjustments as if the acquisition of Gloucester by Yancoal Australia had occurred on 1 January 2011:

- The pro forma adjustments to the reviewed income statement of Gloucester for the year ended 31 December 2011 – see Section 8.14(f) below for further details.
- The pro forma adjustments to the audited income statement of Yancoal Australia for the year ended 31 December 2011 – see Section 8.14(g) below for further details.
- Yancoal Australia and Gloucester have given careful consideration as to whether a reasonable basis exists to produce reliable and meaningful pro forma adjustments for Finance Costs and Income Tax. Yancoal Australia and Gloucester have concluded that, as at the date of this Explanatory Booklet, a reasonable basis does not exist that would be sufficiently meaningful and reliable as required by applicable law, policy and market practice.

The Merged Group Pro Forma Income Statement has not been adjusted to reflect any pre-acquisition revenue and earnings of Gloucester's acquisition of Donaldson and Monash (as detailed in Section 8.14(f)) and Yancoal Australia's acquisition of an additional 30% of Ashton (as detailed in Section 8.14(g)).

(f) Gloucester pro forma assumptions and adjustments

The Gloucester pro forma historical balance sheet has been prepared based on the reviewed and restated balance sheet of Gloucester as at 31 December 2011 together with a number of pro forma adjustments. The Gloucester pro forma historical income statement has been prepared based on the income statement of Gloucester for the year ended 31 December 2011 (derived from the audited income statement of Gloucester for the year ended 30 June 2011 and the reviewed income statements of Gloucester for the half-years ended 31 December 2010 and 31 December 2011) together with pro forma adjustments. The tables below show the reviewed Gloucester historical financial information and the pro forma adjustments applied. Each adjustment is described in detail in the notes.

Figure 37 – Gloucester Reviewed Pro Forma Balance Sheet as at 31 December 2011

A\$'m	Gloucester Reviewed	Accounting adjustment (Note 1)	Gloucester Restated	Special Dividend (Note 2)	Gloucester Option Amount (Note 3)	Capital Reduction (Note 4)	Pro forma adjustments	Gloucester Pro forma Reviewed
Current assets								
Cash and cash equivalents	30.9	-	30.9	-	-	-	-	30.9
Trade and other receivables	59.1	-	59.1	-	-	-	-	59.1
Waste in advance	83.1	-	83.1	-	-	-	-	83.1
Inventories	52.3	-	52.3	-	-	-	-	52.3
Derivative financial instruments	2.2	-	2.2	-	-	-	-	2.2
Royalty receivable	15.9	-	15.9	-	-	-	-	15.9
Total current assets	243.5	-	243.5	-	-	-	-	243.5
Non-current assets								
Restricted cash	0.7	-	0.7	-	-	-	-	0.7
Property, plant and equipment	1,692.7	-	1,692.7	-	-	-	-	1,692.7
Deferred tax assets	13.9	-	13.9	-	-	-	-	13.9
Intangible assets	57.4	-	57.4	-	-	-	-	57.4
Exploration and evaluation assets	217.9	-	217.9	-	-	-	-	217.9
Royalty receivable	177.1	-	177.1	-	-	-	-	177.1
Investments	19.3	-	19.3	-	-	-	-	19.3
Total non-current assets	2,179.0	-	2,179.0	-	-	-	-	2,179.0
Total assets	2,422.5	-	2,422.5	-	-	-	-	2,422.5
Current liabilities								
Trade and other payables	74.9	-	74.9	-	-	-	-	74.9
Customer contracts	55.6	-	55.6	-	-	-	-	55.6
Interest bearing liabilities	4.1	-	4.1	96.2	11.0	-	107.2	111.3
Promissory note	-	-	-	-	-	592.8	592.8	592.8
Provisions – take or pay	21.2	-	21.2	-	-	-	-	21.2
Provisions – other	1.7	-	1.7	-	-	-	-	1.7
Income tax liability	0.2	-	0.2	-	-	-	-	0.2
Employee benefits	9.2	-	9.2	-	-	-	-	9.2
Total current liabilities	166.9	-	166.9	96.2	11.0	592.8	700.0	866.9
Non-current liabilities								
Trade and other payables	14.8	-	14.8	-	-	-	-	14.8
Customer contracts	77.5	-	77.5	-	-	-	-	77.5
Interest bearing liabilities	406.5	-	406.5	-	-	-	-	406.5
Deferred consideration	89.0	(89.0)	-	-	-	-	-	-
Deferred tax liabilities	257.4	-	257.4	-	-	-	-	257.4
Provisions – take or pay	98.6	-	98.6	-	-	-	-	98.6
Provisions – other	15.7	-	15.7	-	-	-	-	15.7
Employee benefits	0.8	-	0.8	-	-	-	-	0.8
Total non-current liabilities	960.3	(89.0)	871.3	-	-	-	-	871.3
Total liabilities	1,127.2	(89.0)	1,038.2	96.2	11.0	592.8	700.0	1,738.2
Net assets	1,295.3	89.0	1,384.3	(96.2)	(11.0)	(592.8)	(700.0)	684.3
Contributed equity	1,219.2	89.0	1,308.2	-	-	(592.8)	(592.8)	715.4
Reserves	10.4	-	10.4	-	-	-	-	10.4
Retained earnings/(accumulated losses)	65.7	-	65.7	(96.2)	(11.0)	-	(107.2)	(41.5)
Total equity	1,295.3	89.0	1,384.3	(96.2)	(11.0)	(592.8)	(700.0)	684.3

Notes:

- Correction to the accounting for Monash deferred consideration:
This amount was accounted for as a liability in the Gloucester 31 December 2011 Half Yearly Report as 'deferred consideration' in respect of an asset acquisition pursuant to AASB 132: *Financial Instruments, Presentation*. Gloucester, in conjunction with its auditors, has now determined that this payment should more appropriately be accounted for in equity as a share based payment pursuant to AASB 2: *Share based payments* with no subsequent re-measure of the original amount recognised at the time the obligation is settled by way of the share issuance. This adjustment reflects the impact of the revised accounting treatment.
- This adjustment reflects the payment of the Special Dividend of A\$0.44 per Gloucester Share which will be funded out of borrowings from Yancoal Australia, under the terms of the Merger Proposal Deed.
- This adjustment reflects the payment of the Gloucester Option Amount which will be funded out of borrowings from Yancoal Australia, under the terms of the Merger Proposal Deed.
- This adjustment reflects the issue of Promissory Notes to the Trustee in respect of the Capital Reduction Amount, being an amount equal to A\$700 million less the sum of the Gloucester Special Dividend and Gloucester Option Amount, equivalent to A\$2.71 per Gloucester Share. The amount shown above has not been discounted to reflect the time value of money between issue of the Promissory Notes and expected settlement six months after the Implementation Date.

SECTION 8 – PROFILE OF THE MERGED GROUP (CONTINUED)

Figure 38 – Gloucester Reviewed Pro Forma Income Statement for the year ended 31 December 2011

A\$m	Gloucester Reviewed	Transaction costs (Note 1)	Gloucester Pro forma Reviewed
Revenue	396.0		396.0
Earnings before interest, tax, depreciation and amortisation	38.5	46.3	84.8
Depreciation and amortisation expense	(37.1)		(37.1)
Earnings before interest and tax	1.4	46.3	47.7
Finance costs	(13.1)		(13.1)
Profit/(loss) before income tax	(11.7)	46.3	34.6
Income tax	6.2	(13.9)	(7.7)
Net profit/(loss) after tax	(5.5)	32.4	26.9

Notes:

- 1 The adjustment reflects the removal of one-off transaction costs incurred in relation to mergers and acquisitions.
- 2 On 14 July 2011, Gloucester acquired Donaldson and Monash. The above income statement includes revenue of A\$101.9 million and a loss before interest and tax of A\$6.5 million incurred since 14 July 2011 in relation to these acquisitions.

(g) Yancoal Australia pro forma assumptions and adjustments

The Yancoal Australia pro forma historical financial information has been prepared based on the audited financial information of Yancoal Australia at 31 December 2011 together with a number of pro forma adjustments. The tables below show the audited Yancoal Australia historical financial information and the pro forma adjustments applied. Each adjustment is described in detail in the notes.

Figure 39 – Yancoal Australia Reviewed Pro Forma Balance Sheet as at 31 December 2011

A\$'m	Yancoal Australia Audited	Transfer of excluded assets (Note 1)	Yancoal Australia Pro forma Reviewed (Note 2)
Current assets			
Cash and cash equivalents	291.0	(8.2)	282.8
Restricted cash	60.4	–	60.4
Trade and other receivables	254.5	(52.4)	202.1
Inventories	137.3	(20.1)	117.2
Derivative financial instruments	16.4	–	16.4
Other assets	65.0	(7.3)	57.7
Promissory note	–	648.0	648.0
Total current assets	824.6	560.0	1,384.6
Non-current assets			
Trade and other receivables	77.8	–	77.8
Equity accounted investments	3.0	–	3.0
Other financial assets	25.0	–	25.0
Property, plant and equipment	1,400.5	(426.6)	973.9
Mining tenements	2,325.0	(74.8)	2,250.2
Deferred tax assets	59.4	(43.5)	15.9
Intangible assets	132.5	(32.9)	99.6
Exploration and evaluation assets	661.7	(134.5)	527.2
Total non-current assets	4,684.9	(712.3)	3,972.6
Total assets	5,509.5	(152.3)	5,357.2
Current liabilities			
Trade and other payables	206.5	(47.5)	159.0
Interest bearing liabilities	999.4	–	999.4
Derivative financial instruments	6.6	–	6.6
Provisions – other	0.9	–	0.9
Income tax liability	9.3	–	9.3
Total current liabilities	1,222.7	(47.5)	1,175.2
Non-current liabilities			
Trade and other payables	1.3	–	1.3
Interest bearing liabilities	1,993.9	–	1,993.9
Deferred tax liabilities	471.0	(69.6)	401.4
Provisions – other	58.1	(35.2)	22.9
Total non-current liabilities	2,524.3	(104.8)	2,419.5
Total liabilities	3,747.0	(152.3)	3,594.7
Net assets	1,762.5	–	1,762.5
Contributed equity	973.0	–	973.0
Reserves	6.3	–	6.3
Retained earnings	783.2	–	783.2
Total equity	1,762.5	–	1,762.5

Notes:

- 1 This adjustment reflects a decrease in assets and liabilities resulting from the transfer of the Excluded Assets at book value to Yanzhou Coal, or one or more of its related bodies corporate, together with the impact of the extinguishment of all intercompany balances owing to the Merged Group and the recognition of a Promissory Note of equal value.
- 2 The Yancoal Australia pro forma balance sheet does not include any tax liability which may arise on the transfer of Excluded Assets as no reliable estimate can be made as at the date of this Explanatory Booklet. Under the terms of the Merger Proposal Deed, Yanzhou Coal will ensure that Yancoal Australia is in the same economic position as if the transfer of Excluded Assets had not given rise to any tax liability.

SECTION 8 – PROFILE OF THE MERGED GROUP (CONTINUED)

Figure 40 – Yancoal Australia Reviewed Pro Forma Income Statement for the year ended 31 December 2011

A\$'m	Yancoal Australia Audited	Transfer of excluded assets ¹	Yancoal Australia Pro forma Reviewed
Revenue	1,523.7	(62.0)	1,461.7
Earnings before interest, tax, depreciation and amortisation	619.8	(17.8)	602.0
Depreciation and amortisation expense	(131.2)	4.1	(127.1)
Earnings before interest and tax	488.6	(13.7)	474.9
Finance costs	(55.4)	0.1	(55.3)
Profit before income tax	433.2	(13.6)	419.6
Income tax	(131.7)	0.4	(131.3)
Net profit after tax	301.5	(13.2)	288.3

Notes:

1 An adjustment to reflect the Excluded Assets as though they had been transferred on 1 January 2011.

2 On 13 May 2011, Yancoal Australia increased its holding in the Ashton Mine Project by 30% (to 90%). The above income statement includes revenue of A\$38.6 million and EBIT of A\$0.8 million earned from this additional investment since 13 May 2011.

(h) Financing

The Merged Group will have pro forma net debt of A\$3,856.3 million as at 31 December 2011. The table below provides details of the Merged Group's pro forma debt facilities at 31 December 2011.

Figure 41 – Merged Group net debt position at 31 December 2011 (A\$'m)

	Facility Size	Balance	Interest Rate
Yancoal Australia existing debt			
– Bank of China Loan (Note 1)	2,855.5	2,855.5	Libor + 0.75%
– Bank of China Loan (Note 1)	137.8	137.8	Libor + 0.80%
Gloucester existing debt			
– ANZ Chattel Mortgage	n/a	23.1	5.68%
– Noble Debt Facility	400.0	338.0	7.48%
– Middlemount shareholders loan	n/a	43.7	8.39%
– Various lease facilities	n/a	5.9	12.24%
Merged Group new debt (Note 2)	700.0	700.0	n/a
Pro Forma Merged Group Debt	4,093.3	4,104.0	
Pro Forma Merged Group Cash		247.7	
Pro Forma Merged Group Net Debt		3,856.3	

Notes:

1 These are US\$ denominated facilities with an aggregate commitment of US\$3,040 million which was fully drawn at 31 December 2011 and equates to A\$2,993.3 million translated at the year end exchange rate. Prior to the Second Court Hearing Date, Yancoal Australia must confirm that the terms of repayment have been amended so that:

- US\$ 1,015 million repayable on 16 December 2012 will be due for repayment no earlier than 16 December 2017; and
- US\$ 1,015 million repayable on 16 December 2013 will be due for repayment no earlier than 16 December 2018.

As part of the amendment process the interest rate will be renegotiated, it is likely that the new interest rate will increase to a rate higher than the current rates of US\$LIBOR + 0.75% and US\$LIBOR + 0.80% (as appropriate). The US\$1,010 million is repayable on 16 December 2014 may also be extended.

2 Prior to the Second Court Hearing Date, Yancoal Australia will procure A\$700 million of funding to enable Gloucester to pay the Special Dividend, the Gloucester Option Amount and Promissory Notes for an amount in aggregate equal to the Capital Reduction Amount delivered to the Trustee in discharge Gloucester's obligations under the Capital Return. The interest rate on this facility is not yet known.

8.15 Potential synergies

The Directors and the directors of Yancoal Australia believe a number of synergy benefits arise as a result of the creation of the Merged Group. These benefits are expected to arise largely due to enhanced scale, removal of duplicate systems and functions, and corporate benefits.

The most readily quantifiable of the benefits relate to logistics and supply chain efficiencies, opportunities to accelerate projects due to readily available port capacity, reduction in corporate overheads and operational costs, tax benefits and coal blending.

The Directors and the directors of Yancoal Australia estimate that the net present value of the quantifiable synergies that may be able to be achieved by the Merged Group is in the range of A\$220 to A\$380 million.

The Directors and the directors of Yancoal Australia consider there is potential for additional synergy benefits and have identified a number of areas as having substantial benefits to the Merged Group that have not been able to be quantified in this Explanatory Booklet. The Independent Expert has also considered these potential additional synergy benefits in assessing the value of the Merged Group; see page 11 of the Independent Expert's Report in Appendix 1. These areas of further synergy potential include:

- marketing benefits arising from the Merged Group being a larger and more diversified producer with a broader suite of coal products and customers;
- opportunities from equipment and knowledge sharing;
- improved buying power on capital equipment, including mobile fleet and fixed plant, and full range of consumables and support services;
- maintenance efficiencies;
- enhanced negotiating position with infrastructure providers;
- greater flexibility in managing supply to customers;
- potential to reduce duplicate holdings of mining consumables and other inventories currently held in respective warehouses of Gloucester and Yancoal Australia by establishing a centralised inventory management and warehousing model;
- benefits from lower borrowing costs than are available to Gloucester on a stand-alone basis due to the increased size and diversity of the Merged Group's operations and the potential for access to Yanzhou Coal's banking relationships;
- an enhanced ability to attract and retain employees across the full spectrum of the Merged Group's human resource requirements; and
- leveraging off scale to create functional excellence to further drive improved project delivery, operational, cost and safety performance.

The synergy estimates included in this Section have been prepared by Gloucester and Yancoal Australia management teams based primarily on the stand-alone operations of Gloucester and Yancoal Australia (as disclosed in Sections 6 and 7 of this Explanatory Booklet), adjusted for scale benefits, optimisation opportunities and cost savings benefits that may in the future arise across the combined portfolio. The synergies also reflect expected savings in future corporate costs, as well as potential future tax benefits.

The net present value estimate of the future annual synergies has been calculated assuming a nominal WACC of 11%, and is based on market consensus assumptions in relation to coal prices and exchange rates.

Estimates of future annual synergies vary materially from year to year depending on, among other things, production timing and production/sales volumes of individual mines, timing of infrastructure developments and assumed coal prices. For these reasons, the Directors and the directors of Yancoal Australia believe it is appropriate to express the synergy estimates as an indicative net present value.

The net present value of the synergies expected to be achieved are statements of future matters which involve risks and uncertainties. Accordingly, no assurance can be given that the actual value of the synergies achieved will not materially differ from those expected.

SECTION 8 – PROFILE OF THE MERGED GROUP (CONTINUED)

The quantifiable synergies, as assessed by the Directors and the directors of Yancoal Australia have been aggregated into three key areas as outlined below:

Synergies	Indicative NPV impact (\$)
Infrastructure optimisation	100m-205m
<p>The Merged Group is expected to realise substantial synergies from optimisation of its infrastructure position and logistics efficiencies through opportunities created from a larger and more diverse portfolio of assets.</p> <p>Gloucester currently has (through its wholly-owned subsidiaries) unutilised port capacity at NCIG and is currently incurring take-or-pay charges on this capacity. The Merged Group is expected to realise substantial benefits over the next five to 10 years from utilising this capacity to meet capacity shortfalls and realising opportunities to accelerate project development.</p> <p>Additional benefits are expected from reduction in peak railings due to access to a greater number of load points and a larger stockpile capacity and savings from combining the two companies' logistics operations.</p>	
Coal blending	10m-30m
<p>The Merged Group is expected to have a larger and broader suite of both thermal and metallurgical coal products available and is thus expected to have opportunities to generate ongoing coal blending synergies. Benefits are expected to be realised primarily through the Merged Group having greater access to coal with complementary qualities for blending⁶².</p>	
Corporate saving, tax and procurement savings	110m-145m
<p>The Merger Proposal is expected to generate ongoing corporate cost savings relating to the elimination of duplicated corporate costs across the Gloucester and Yancoal Australia businesses, including some senior management costs, head office rent, project management resources and general office and administration costs.</p> <p>As part of the transaction, the tax base of certain assets of Gloucester will be reset, broadly, by reference to the value paid by Yancoal Australia to acquire Gloucester. This resetting of the tax base is expected to enable the Merged Group to claim additional tax depreciation each year against its assessable income.</p> <p>Ongoing cost savings are expected to be generated from the utilisation of the Merged Group's stronger bargaining position and larger buying power and the re-pricing of contracts in line with the optimal contracted rates currently evident within the Merged Group. With Gloucester's current purchasing decisions to be performed within the larger Merged Group, benefits are expected to be derived from the renegotiation of a number of key consumable contracts.</p>	

⁶² Realisation of blending synergies may vary depending on, among other things, prevailing coal prices and availability of port capacity and stockpile space to undertake the blending of coal.

The expected synergies (both those that are quantifiable and described in the table above and those that are unquantifiable and described elsewhere in this Section 8.15) are matters of future expectation. Therefore, the realisation of all, some or any of these synergies (and the quantum of their actual impact) is subject to a number of known and unknown risks and uncertainties. The actual synergies realised and their quantum is likely to be determined by, among other things, the success of the management of the Merged Group in integrating the businesses of Yancoal Australia and Gloucester, the strength of that management team and potentially, the impact of one or more of the risks described in Section 9. No guarantee can be given that the businesses of Yancoal Australia and Gloucester will be able to be integrated successfully or over the expected time period or at the cost estimated. The risk exists that any integration may take longer than expected, cost more than estimated or deliver less or different efficiencies and benefits than expected – further details of the potential integration risk faced by the Merged Group are set out in Section 9.5(a).

8.16 No earnings or profit forecasts

Yancoal Australia and Gloucester have given careful consideration as to whether a reasonable basis exists to produce reliable and meaningful information on expected future earnings or profit of the Merged Group. Yancoal Australia and Gloucester have concluded that, as at the date of this Explanatory Booklet, a reasonable basis does not exist for providing earnings or profit forecasts that would be sufficiently meaningful and reliable as required by applicable law, policy and market practice.

The financial performance of the Merged Group in any period will be influenced by various factors that are outside the control of the directors of Yancoal Australia and that cannot, at this time, be predicted with a high level of confidence. The financial performance of the Merged Group may be materially affected by the risk factors identified in Section 9, including world coal prices, grades of coal recovered, exchange rates, recovery rates, weather conditions and political stability. In particular, as noted in Section 9.3.2(b), over the period February 2011 to April 2012, demand for semi hard coking coal has declined considerably. Demand for other metallurgical coals, including semi soft coking coal, also declined towards the end of 2011. Global seaborne metallurgical coal prices, particularly for lower quality metallurgical coals, are currently expected to remain weak for the balance of this financial year (in the absence of any supply disruptions due to natural disasters and/or industrial action related events). The subdued demand has adversely affected market prices and the prices achieved by Gloucester and Yancoal Australia. In the absence of offsetting factors, this would adversely impact the Merged Group's earnings for the calendar year ending 31 December 2012 relative to the prior period and would continue to adversely impact the Merged Group's earnings for as long as these depressed market conditions continue.

8.17 Agreements or arrangements with Yancoal Australia directors in connection with proposal

Other than as stated elsewhere in this Explanatory Booklet, no agreements or arrangements have been entered into with the proposed directors of Yancoal Australia following implementation of the Scheme in connection with the Merger Proposal.

8.18 Payments or other benefits to Yancoal Australia directors, secretaries or executive officers

Other than as stated elsewhere in this Explanatory Booklet, including in Section 14.8, no amount has been paid or agreed to be paid and no benefit has been given or agreed to be given to the proposed directors of Yancoal Australia following implementation of the Scheme to induce them to become or qualify as a director.

Other than as stated elsewhere in this Explanatory Booklet, no proposed director, secretary or executive officer of Yancoal Australia following implementation of the Scheme holds or has held at any time in the two years before the lodgement of this document an interest in:

- the formation or promotion of Yancoal Australia; or
- the implementation of the Merger Proposal; or
- property acquired or proposed to be acquired by Yancoal Australia in connection with the implementation of the Merger Proposal.

8.19 Yancoal Securities held by proposed Yancoal Australia directors

No proposed director of Yancoal Australia following implementation of the Scheme has any interest in Yancoal Securities.

8.20 Risks related to the Merged Group and an investment in Yancoal Securities

Risk factors relating to the Merged Group and an investment in Yancoal Securities (including risks relating to the integration of Gloucester and Yancoal Australia) are discussed in Section 9.

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SECTION 9

RISK FACTORS



SECTION 9 – RISK FACTORS

9.1 Introduction

If the Merger Proposal proceeds, there will be a change in the risk profile to which Gloucester Shareholders are exposed.

Gloucester Shareholders are currently exposed to various risks as a result of their investment in Gloucester. If the Merger Proposal proceeds, Gloucester will merge its business with that of Yancoal Australia⁶³ and eligible Gloucester Shareholders will receive Yancoal Securities. As a consequence, those Gloucester Shareholders will be exposed to risks relating to Yancoal Australia, and to certain additional risks relating to the Merged Group and the integration of Gloucester, Yancoal Australia and their respective corporate groups. These include risks relating to the operation of a broader suite of assets than Gloucester currently operates. In a number of cases, those risks are different from, additional to or greater than, those faced by Gloucester Shareholders currently. As set out in Section 5.3, the greater diversification of assets that would arise from the Merger Proposal is one of the expected advantages of that proposal. Nevertheless, this change in risk profile may be perceived as a disadvantage by some Gloucester Shareholders.

This Section 9 discusses the risk factors relating to Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group. These risks include:

- risks relating to the existing Gloucester and Yancoal Australia businesses that affect them both (and that will affect the Merged Group if the Merger Proposal proceeds);
- risks relating only to the existing Gloucester business (and that will affect the Merged Group if the Merger Proposal proceeds);
- risks if the Merger Proposal proceeds;
- risks relating to holding Yancoal Securities; and
- risks if the Merger Proposal does not proceed.

Gloucester Shareholders are encouraged to read this Section in its entirety.

9.2 Qualifications and limitations

The risks identified in this Section 9 are not exhaustive, and no assurances or guarantees of future performance of, profitability of, or payment of dividends by, Gloucester, Yancoal Australia or the Merged Group are given.

This Explanatory Booklet does not take into account the investment objectives, financial situation, particular needs or risk profiles of individual Gloucester Shareholders. It is important that Gloucester Shareholders carefully read this Explanatory Booklet in its entirety, consider their personal circumstances (including financial and taxation issues and their own risk profiles) and seek independent professional advice before deciding whether to vote in favour of the Scheme.

9.3 Risk factors relating to the businesses of Gloucester and Yancoal Australia, and which will therefore relate to the businesses of the Merged Group

9.3.1 Operating risks

The following risk factors are relevant to each of Gloucester and Yancoal Australia as stand-alone entities. Accordingly, they will also be relevant to the Merged Group if the Merger Proposal proceeds.

(a) Exploration and development risks

There are several risks relating to coal mining exploration and development which are common to the industry and which, if realised, have the capacity to affect operations, production, cash flow and financial performance. The majority of these risks are risks which are common to both Gloucester and Yancoal Australia and, if the Merger Proposal proceeds, will continue to be faced by the Merged Group.

Development and exploration activities may be affected by factors beyond the control of Gloucester, Yancoal Australia or the Merged Group, including geological conditions, seismic activity, mineralisation, consistency and predictability of coal grades, changes to law, changes to the regulatory framework applying to mining, overlapping resources tenure, and the rights of indigenous people on whose land exploration activities are undertaken.

Any discovery of a mineral deposit does not guarantee that the mining of that deposit would be commercially viable, with the size of the deposit, development and operating costs, land ownership, coal prices and recovery rates all being key factors in determining commercial viability.

Although Gloucester and Yancoal Australia have established coal production, development and exploration businesses, their future value and that of the Merged Group is materially dependent on their ability to bring development and expansion projects into production on a timely and economic basis. Issues that arise during development, construction and mine start-up may result in increased costs, delayed commencement of coal production, delayed receipt of coal revenue or coal production not commencing at all. These problems may include delays in obtaining approvals (including land use approvals) or in the construction of mine infrastructure. There are many milestones which need to be met in a timely fashion for production to commence at any projects currently in the pre-development or development stages.

Gloucester, Yancoal Australia or the Merged Group may also be exposed to risks associated with managing contractual relationships with participants in any of the development or exploration joint ventures or other contractual relationships to which it is, or may become, a party, including risks of default.

In recent years, State governments in New South Wales and Queensland have introduced new policies aimed at protecting agricultural and urban land from the effects of mining. In some cases this may mean that mining may be restricted or precluded in certain areas if the land affected is agricultural or urban land. The New South Wales Government has recently released new policies (Strategic Regional Land Use Plans and Aquifer Interference Policy) of this type for public comment. When these are finalised and become effective, they will operate in regions in which Gloucester and Yancoal Australia have mining operations and, if the Merger Proposal proceeds, the Merged Group will have mining operations.

Accordingly, there is no assurance that the future development and exploration activities of Gloucester, Yancoal Australia or the Merged Group will result in profitable or commercially viable mining operations.

⁶³ References in this Section to the risks arising from a merger of Gloucester and Yancoal Australia and to the risks relating to Yancoal Australia's business should be read on the assumption and taking into account that the Excluded Assets will not form part of the Merged Group.

New South Wales surface mining lease restrictions

Mining for coal in NSW is unlawful unless carried out under a mining lease granted under the *Mining Act 1992* (NSW) (**Mining Act**). Under the Mining Act a surface mining lease cannot be granted over the following land, without landholder consent (**Surface Mining Lease Restrictions**):

- surface land within 200 metres of a dwelling house;
- surface land within 50 metres of a garden or orchard;
- surface land on which a significant improvement (such as fences, stock yards and dams) are situated; and
- land declared under the Mining Act to be agricultural land.

If landholder consent is obtained and surface mining leases are granted, compensation is payable to the landholder. If the amount of compensation cannot be agreed with the landholder, the Land and Environment Court can determine it.

Protection of urban areas in Queensland

The former Queensland Labor Government declared (as an interim measure) a restricted area (**RA384**) under the *Mineral Resources Act 1989* (Qld) around all Queensland regional centres and towns with a population of over 1,000 (based on a two kilometre buffer zone), and the entire region of South-East Queensland. The town of Middlemount located near the Middlemount Mine was one of the towns declared an urban area. RA384 prohibited the grant of new mining tenements in those urban areas but does not affect existing rights. Consequently, although there is a small overlap of one of Gloucester's mining leases at the Middlemount Mine with the urban restricted area, Gloucester's current mining tenements at the Middlemount Mine are currently unaffected by RA384.

Legislation had been introduced into the Queensland Parliament to effect a permanent regime regulating mining in urban areas which was intended to replace RA384. However, that legislation was not passed before the calling of the Queensland state election on 25 January 2012.

While it is not presently clear how the new Queensland Liberal National Government (elected on 24 March 2012) will proceed in relation to RA384 and mining in urban areas generally, Gloucester already holds a mining lease over the area of overlap with RA384.

Strategic Cropping Land in Queensland

In Queensland, the impact of activities (including mining) on land that is highly suitable for cropping (known as Strategic Cropping Land or **SCL**) is regulated under the *Strategic Cropping Land Act 2011* (Qld). A determination that land is SCL may prevent future mining activity on that land where that mining activity will permanently alienate the land from use for cropping.

If a new mining development is proposed on land that is included within the SCL 'protection zone' then that mining development will be prohibited except in exceptional circumstances. If a new mining development is proposed on land that is within the 'management zone' and potential SCL in that area will be affected by mining an assessment and conditioning process applies to the environmental approvals for the mining lease. Further, development must avoid and minimise any temporary or permanent impact on SCL and mitigate any permanent impact.

The Yarrabee and Middlemount tenements are located in the management zone and three of the Yarrabee exploration permits currently contain areas of 'potential' SCL (in accordance with trigger maps released by the Government). Consequently, if Gloucester or (if the merger proceeds) the Merged Group proposes to carry out activities in those areas that may impact on SCL that application will be subject to the SCL assessment process and compliance with the SCL regime may mean that obtaining approvals may take longer or approvals may be adversely conditioned or mining more costly than anticipated.

Yancoal Australia operations

The ability of Yancoal Australia to meet its long term production target profile depends on (amongst other things) Yancoal Australia being able to obtain all necessary regulatory approvals (including any approvals arising under applicable mining laws, environmental regulations and other laws), obtain land access and addressing any native title issues, impacts on the environment and objections from people and entities with interests located close to the respective project assets. The requirement to obtain approvals and address potential and actual issues for future mining projects is common to most companies in the coal sector. However, there is no assurance or guarantee that Yancoal Australia will be in a position to secure any or all of the required consents, approvals and rights necessary to develop its assets in a manner which will result in profitable mining operations and the achievement of its long term production targets. If these approvals (or other approvals required for the planned production increases) are not obtained, if conditional or limited approvals are obtained, the economic viability of the relevant project may be adversely affected, which may in turn result in the value of the relevant assets being impaired.

Moolarben coal mine

The development of open-cuts 2 and 3 of Stage 1 and open-cut 4 of Stage 2 of the Moolarben coal mine presently face a number of regulatory and landholder issues which could materially affect the development of this project. These issues include the requirement to reach agreement with private landholders for the grant of surface mining leases for the project. These lands are primarily owned by a competitor (who has previously initiated Court proceedings), as well as other private landholders. Negotiations have commenced with the landholders but agreement has not yet been reached. Unless the parties are able to reach a commercial agreement, there is a risk that the leases required for the expansion will be delayed for an extended period of time, reduced in size or refused entirely.

Ashton coal mine

On 19 December 2011, the Planning Assessment Commission (**PAC**) refused an application for approval of the South East Open Cut (**SEOC**) project. The application sought planning approval for an additional open-cut mine in the south of the Ashton mine complex to remove 16.5 million tonnes of ROM coal over a 7 year period at 3.6Mtpa (with an increase in production to 8.6Mtpa within the combined Ashton mine complex). In addition, the application sought a modification to the existing Ashton consent, so as to permit the integration of the Ashton mine complex and increase the production limit of the underground mine to 5Mtpa. Production in the underground mine is currently limited to 3.2Mtpa until 2023.

SECTION 9 – RISK FACTORS (CONTINUED)

Yancoal Australia has successfully appealed the decision and, as a result, the PAC will review its decision. This may result in: (i) an approval on similar terms to the SEOC project application; (ii) an approval subject to conditions which alter the project; or (iii) the PAC once again refusing to grant approval.

The modification of the existing consent (to increase the production limit of the underground mine to 5Mtpa) was not expressly refused by the PAC. This application remains with the Department of Planning and is yet to be determined.

There are various lands over which surface mining leases may not be able to be obtained (because of the Surface Mining Lease Restrictions) but which are required to permit the SEOC project as planned. Negotiations with the relevant landholders have commenced but have been unsuccessful to date. Unless the parties are able to reach a commercial agreement, there is a risk that the leases required for the development of the SEOC project will be delayed for an extended period of time, reduced in size or refused entirely.

Gloucester operations

The ability of Gloucester to meet its long term production target profile depends on (amongst other things) Gloucester being able to obtain all necessary regulatory approvals (including any approvals arising under applicable mining laws, environmental regulations and other laws), obtain land access and address any native title issues, impacts on the environment and objections from people and entities with interests located close to the respective project assets.

In addition to the Monash approvals required which are canvassed below, a number of additional approvals are required for mine expansions and new mining areas. These include (but are not limited to), the Stratford Extension Project, Stratford North Project, Grant & Chainey Project, Duralie East Project, Abel Longwall Project (section 75W), Abel Longwall Extension Project (including new mining lease), Tasman Extension Project and Tasman Longwall Extension Project (including new mining lease). Some of these mine expansions involve an extension to the term for mining (or an increase in mining production), whereas other expansions involve a change in the mining method (for example, a change from a bord and pillar operation to a longwall operation).

The requirement to obtain approvals and address potential and actual issues for future mining projects is common to most companies in the coal sector. However, there is no assurance or guarantee that Gloucester will be in a position to secure any or all of the required consents, approvals and rights necessary to develop its assets in a manner which will result in profitable mining operations and the achievement of its long term production targets. If these approvals (or other approvals required for the planned production increases) are not obtained, or if conditional or limited approvals are obtained, the economic viability of the relevant project may be adversely affected, which may in turn result in the value of the relevant assets (or any goodwill recognised in connection with the Merger Proposal) being impaired.

Monash

Monash is an early stage exploration project and still subject to further exploration and appraisal programs. There can be no guarantee that future exploration of the Monash assets will lead to a commercial discovery, or if there is such discovery, that it will be capable of being developed economically. The ability for the Monash

assets to reach production depends on Gloucester being able to obtain all necessary regulatory approvals (including any approvals arising under applicable mining laws, environmental regulations and other laws), and addressing any native title issues, impacts on the environment and objections from people and entities with interests located close to the Monash assets.

In addition there is no assurance or guarantee that Gloucester will be in a position to secure any or all of the required consents, approvals and rights necessary to develop the Monash assets in a manner which will result in a profitable mining operation or at all.

(b) Transport and infrastructure

Coal produced from Gloucester's and Yancoal Australia's respective mining operations is transported to customers by a combination of road, rail and sea.

A number of factors could disrupt or restrict access to essential coal transportation and handling services, including (but not limited to):

- weather related problems;
- key equipment and infrastructure failures;
- rail or port capacity constraints;
- congestions and inter-system losses;
- industrial action;
- failure or delay in the construction of new rail or port capacity;
- failure to meet contractual requirements;
- access is removed or not granted by regulatory authority;
- breach of regulatory framework; and
- mismatch of below rail capacity, above rail capacity and port capacity,

all or any of which could impair Gloucester's and Yancoal Australia's respective ability to supply coal to customers and increase costs.

This may have a material adverse effect on Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group.

Port and rail (above rail and below rail) capacity is generally contracted via long-term Take-or-Pay contracts. Gloucester or Yancoal Australia will generally be required to pay for its contracted rail or port tonnage irrespective of whether it is utilised. Unused port or rail capacity can arise as a result of circumstances including insufficient production from a given mine, a mismatch between port and rail capacity for a mine, or an inability to transfer the used capacity due to contractual limitations such as required consent of the provider of the port or rail services, or because the coal must emanate from specified source mines or be loaded onto trains at specified load points. To the extent that some or all of the contracted rail and port tonnage is not utilised, it may have a material adverse effect on Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group.

Future brownfield and greenfield expansion will require additional contracted port and rail capacity and infrastructure. There is a possibility that this capacity cannot be obtained and could restrict the future export of coal. This may have a material adverse effect on Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group.

Port capacity

PWCS, APCT (T4-T9) and Dudgeon Point are currently seeking approvals for their respective proposed developments or expansions. Furthermore, expansions at NCIG and WICET are currently under construction. Construction of a new port facility or expansion of existing port facilities requires a number of regulatory approvals (including development approvals and environmental approvals). There is a risk that any new or expanded port facility may be delayed, that they may vary from the facility as initially planned or that they may not be constructed at all. Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group are relying on these expansions being completed in the timeframes and for the capacity currently scheduled, to obtain the port capacity that has been provisionally allocated to it. There is a risk that any one or more of the following: (a) changes to or delays in these projects, (b) a failure to construct one or more of the projects not yet commenced, or (c) changes to the provisional allocations of Gloucester's or Yancoal Australia's port capacity through these facilities, will adversely affect the entitlements to port capacity of Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group, and in turn their financial performance. There is also the risk that any cost overruns in the construction of these facilities will be passed on to or otherwise borne by users including Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group.

At Barney Point and RG Tanna, additional capacity has been made available to Yancoal Australia on a best endeavours basis. Accordingly, there is the risk that this capacity may not be available to Yancoal Australia when required.

The new owners of the APCT, Mundra Port Pty Ltd has proposed an increase in the charges for loading/handling all coal of coal producers utilising that port facility, including Middlemount. There is a risk that this increase in charges could impact the economics of exporting Middlemount coal through the APCT.

Middlemount (in which Gloucester has a near 50% interest) is a shareholder of North Queensland Coal Terminal Pty Ltd (**NQCT**) which has secured Preferred Respondent Status for the development of T4-T9 coal terminals at Abbot Point. Through NQCT, Middlemount is seeking an additional 1Mtpa (100% basis) of port capacity which is in addition to the port capacity depicted in the above figure. Additionally, Middlemount is in advanced discussions with other users of Abbot Point regarding entering into arrangements to utilise part of their excess port capacity during the period 2015 to 2017. Whilst Gloucester expects Middlemount to obtain additional port capacity to support its forecast production through these or other means, there is a risk that Middlemount may not be able to obtain such additional port capacity which may have an adverse impact on its operations and financial performance.

Rail Capacity

Yancoal Australia intends to seek additional below rail capacity for Moolarben post 2016. As a result of the existing high utilisation of the Ulan rail line and the high dependence of infrastructure upgrades, there is a risk of Yancoal Australia being unable to contract sufficient contracted capacity restricting the export of sales coal from the Moolarben mine. This may have an adverse effect on Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group.

Gloucester Basin operations use the Inter-State Rail Network to access the Hunter Valley Rail Network and the Port of Newcastle. A significant growth in inter-state freight trains could restrict the export of sales coal from these mines, which may have a material adverse effect on Gloucester and, if the Merger Proposal proceeds, the Merged Group.

Along with additional port capacity Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group expect to seek and obtain in Queensland, a corresponding amount of additional above and below rail capacity in Queensland for Middlemount and Yancoal Australia. Whilst it is expected that such rail capacity can be obtained, there is a risk that it may not be obtained which may have an adverse impact on their operations and financial performance.

(c) Estimates of Resources and Reserves and geology

The volume and quality of the coal that Gloucester, Yancoal Australia or, if the Merger Proposal proceeds, the Merged Group recovers may be less than the estimates included in this Explanatory Booklet. Resources and Reserves estimates (including those contained in this Explanatory Booklet) are stated to the JORC Code and are expressions of judgment based on knowledge, experience and industry practice. There are risks associated with such estimates, including that coal mined may be of a different quality or grade, tonnage or strip ratio from those in the estimates and the ability to economically extract and process the coal may not eventuate. Resources and Reserves estimates are necessarily imprecise and depend to some extent on interpretations and geological assumptions, coal prices, cost assumptions, and statistical inferences which may ultimately prove to have been unreliable.

Consequently, Resources and Reserves estimates are regularly revised based on actual production experience or new information and could therefore be expected to change. Furthermore, should Gloucester, Yancoal Australia or the Merged Group encounter mineralisation or formations different from those predicted by past drilling, sampling and similar examinations, Resources and Reserves estimates may have to be adjusted and mining plans, coal processing and infrastructure may have to be altered in a way that might adversely affect their operations. Moreover, a decline in the price of coal, stabilisation at a price lower than recent levels, increases in production costs, decreases in recovery rates or changes in applicable laws and regulations, including environment, permitting, title or tax regulations, that are adverse to Gloucester, Yancoal Australia or the Merged Group, may mean the volumes of coal that any of them can feasibly extract may be significantly lower than the Resources and Reserves estimates indicated in this Explanatory Booklet. If it is determined that mining of certain of their Reserves has become uneconomic, this may ultimately lead to a reduction in their aggregate Reserves.

Material changes in Reserves, grades, strip ratios or recovery rates may affect the economic viability of projects. Reserves should not be interpreted as assurances of mine life or of the profitability of current or future operations.

If the Merged Group's actual Resources and Reserves are less than current estimates, the Merged Group's prospects, value, business, results of operations and financial condition may be materially adversely affected.

SECTION 9 – RISK FACTORS (CONTINUED)

Certain projects of Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group will focus on exploration activities. The exploration potential of these projects currently has insufficient sampling at this time to define Resources and it is uncertain how much of the potential will be converted to Resources with further drilling. The potential quantity and quality of the Exploration Targets for these projects is conceptual in nature since there has been insufficient work completed to define them beyond Exploration Targets and it is uncertain if further exploration will result in the determination of a Resource.

(d) Operating risks

Gloucester's, Yancoal Australia's and, if the Merger Proposal proceeds, the Merged Group's coal mining operations will be subject to operating risks that could result in decreased coal production which could reduce their respective revenues. Operational difficulties may impact the amount of coal produced, delay coal deliveries or increase the cost of mining for a varying length of time. These operating risks include (but are not limited to) industrial accidents, mine collapse, cave-ins or other failures relating to mine infrastructure, including tailings dams, interruptions due to inclement or hazardous weather conditions, power interruption, critical equipment failure, fires, and explosions from methane gas or coal dust, accidental mine water discharges, flooding and variations in or unusual or unexpected geological or mining conditions. Such risks could result in damage to applicable mines, personal injury, environmental damage, delays in coal production, decreased coal production, loss of revenue, monetary losses and possible legal liability. Although Gloucester's and Yancoal Australia's insurance policies provide coverage for some of these risks, the amount and scope of insurance cover is limited by market and economic factors and there can be no assurance that these risks would be fully covered by insurances maintained by Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group.

Gloucester and Yancoal Australia have significant and ongoing requirements for new equipment (including excavators, shovels, haul trucks and rolling stock) and consumables (including fuel, tyres, ammonia nitrate, explosives and other materials required for explosives). If an adequate and reliable supply of critical equipment or consumables is unavailable, this may adversely affect the timing of projects and mining activities and/or result in reduced production rates and/or increased costs, which in turn could have material adverse financial consequences for Gloucester, Yancoal Australia or, if the Merger Proposal proceeds, the Merged Group.

The business operations and financial condition of Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group may vary with fluctuations in production and capital costs. Changes in the costs of the Merged Group's mining and processing operations as well as its capital costs could occur, including as a result of unforeseen events, such as international and local economic and political events (including movement in exchange rates), and could have material adverse financial consequences for Gloucester, Yancoal Australia or the Merged Group. Many of these factors may be, and will in future remain, beyond the control of Gloucester, Yancoal Australia and the Merged Group (as applicable). In addition, some capital cost estimates are based on conceptual engineering design and there may be a material change to the estimates once final engineering has been completed. In past resource cycles, operating and capital costs have tended to increase

as commodity prices have increased. Thus, Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group may be faced with higher than currently expected operating and capital costs in the future. A significant increase in one or more of these cost items could have an adverse effect on financial performance.

(e) Water and power

Water is used in coal mining operations for various purposes, the main uses being dust suppression on mine sites and for coal washing. Water and power for existing operations is critical to Gloucester's and Yancoal Australia's mining operations. Presently, all of Gloucester's and Yancoal Australia's operations have access to adequate sources of water and power for existing operations. However, in the future, due to factors such as climate (including drought), changes in allocations, elections by contract counterparties to cease current arrangements regarding water or government policy, continuing access to water cannot be guaranteed for Gloucester, Yancoal Australia or, if the Merger Proposal proceeds, the Merged Group, and there is also a risk that any of them could have excess water at times (including due to flooding) which may result in dam overflow and discharge and potentially breach the terms of their environmental consents.

If the Merger Proposal proceeds, the Merged Group will require access to sources of power and water and infrastructure to transport power and water to and from mines sufficient to permit the conduct of the existing mining activities of Gloucester and Yancoal Australia, together with any new projects developed by the Merged Group. Any failure to procure such supplies of power and water or access to infrastructure could limit the Merged Group's ability to carry out its business in accordance with the mine plan and thereby may adversely impact the Merged Group's financial performance.

(f) Mine closure

Closure of any of the mines or other operations of Gloucester, Yancoal Australia or, if the Merger Proposal proceeds, the Merged Group, before the end of their mine life (e.g. due to environmental and/or health and safety issues), could trigger significant employee redundancy costs, closure and rehabilitation expense and other costs or loss of revenues. Many of these costs will also be incurred where mines are closed at the end of their planned mine life.

If one or more of the relevant sites are closed earlier than anticipated, Gloucester, Yancoal Australia or the Merged Group (as applicable) will be required to fund the closure costs on an expedited basis and potentially lose revenues, which could have an adverse financial effect. In addition, there is a risk that claims may be made arising from environmental remediation upon closure of one or more of their sites.

(g) Coal supply agreements

Gloucester's and Yancoal Australia's coal supply agreements typically require the delivery of a fixed or minimum quantity of coal at a location, at a time and over a period stipulated in the agreement. To the extent that any contracted volumes cannot be delivered as agreed, Gloucester, Yancoal Australia or, if the Merger Proposal proceeds, the Merged Group may be liable to pay substantial compensation for the resulting losses, costs and charges (including demurrage) incurred by the buyer.

Most of Gloucester's and Yancoal Australia's coal supply agreements also require the delivery of coal meeting specified quality thresholds

for characteristics such as calorific value/thermal content, moisture content, sulphur content, ash content and ash fusion temperature. There is a risk that failure to meet these specifications could have adverse consequences for Gloucester, Yancoal Australia or, if the Merger Proposal proceeds, the Merged Group, including liability in damages or under indemnities, adverse price adjustments, the rejection of deliveries or termination of the contracts. This risk is greater under longer term contracts, as the characteristics of coal can change as mining activities are relocated to new seams and locations. Quality thresholds under long terms contracts can also result in the selection of sub-optimal mining locations and methods, which could have a material adverse effect on the Merged Group.

Under longer term coal supply contracts, a price is generally agreed for deliveries within the first quarter or year and the price is then renegotiated quarterly or annually. The outcome of price negotiations will depend on circumstances prevailing at the time. If prices are reset at materially lower levels, if these contracts expire and are not renewed, or if customers default and replacement customers are not found that will purchase the coal on substantively the same terms (either on contract or in the spot market), or if the parties to a contract fail to agree on a new price and the contract does not include an effective mechanism for determining a price absent such agreement, the financial results of Gloucester, Yancoal Australia or (if the Merger proceeds) the Merged Group may be adversely affected.

(h) Joint ventures and reliance on third parties

Gloucester holds its interest in the Middlemount mine and Yancoal Australia holds its interests in the Moolarben and Ashton mines and in the rail-load out facility through which coal is transported from the Yarrabee mine in joint ventures with other parties. Decision making, management, marketing and other key aspects of each joint venture are regulated by agreements between the relevant joint venture participants. Under these agreements, certain decisions require the endorsement of third party joint venture participants in addition to (as applicable) Gloucester or Yancoal Australia, and they rely on the co-operation of those third parties for the success of their current operations and for the development of their growth projects and the transportation of increased production. The Merged Group cannot control the actions of third party joint venture participants, and therefore, cannot guarantee that joint ventures will be operated or managed in accordance with the preferred direction or strategy of Gloucester, Yancoal Australia or, if the Merger Proposal proceeds, the Merged Group (as applicable). There is a risk that joint venture party veto rights or consent requirements will prevent the business and assets of a joint venture from being developed, operated and managed in accordance with that preferred direction or strategy.

Gloucester and Yancoal Australia also use contractors and other third parties for exploration, mining and other services generally, and they are reliant on a number of third parties for the success of their current operations and for the development of their growth projects. While this is normal for the mining and exploration industry, problems caused by third parties may arise which may have an impact on the performance and operations of Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group. Any failure by counterparties to perform their obligations may have a material adverse effect on Gloucester, Yancoal Australia and the Merged Group and there can be no assurance that any of them would be successful in attempting to enforce any of their respective contractual rights through legal action.

(i) Key personnel and skilled labour

A number of key management and personnel are important to attaining the business goals of Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group. One or more of these key employees could leave their employment or cease to actively participate in the management of the Merged Group, and this may adversely affect the ability of Gloucester, Yancoal Australia or the Merged Group to conduct its business and, accordingly, affect its financial performance and its share price. There may be a limited number of persons with the requisite experience and skills to serve in the Merged Group's senior management positions if existing management leave the Merged Group. If the Merged Group cannot attract, train and retain qualified managers, the Merged Group may be unable to successfully manage its growth or otherwise compete effectively in the Australian coal industry.

Similarly, Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group may be materially adversely affected by any shortage of key employees required for the operation of its mines including statutory officials (including mine managers, deputies and undermanagers) or other staff with specialised skills or qualifications, or the departure of these employees from their positions.

Gloucester and Yancoal Australia are also highly exposed to the negative impact of any increases in labour costs (including increases arising from changes to laws such as those relating to superannuation contributions), as a substantial portion of their operating costs comprises labour costs in the form of wages, salaries and commissions to full-time employees or contractors. Where projects are being developed or expanded, large numbers of new employees may be required. There is currently a significant shortage of skilled workers in coal mining regions in Australia which could result in the Merged Group having insufficient employees or contractors to operate its business. Accordingly, there is a risk that Gloucester, Yancoal Australia and, if the Merger proceeds, the Merged Group may not be able to either procure the required numbers of skilled workers or procure them on terms that are not financially prohibitive, for any of its future operations. This could have a material adverse impact on their financial performance.

(j) Industrial actions

Industrial action taken by the employees of Gloucester, Yancoal Australia or, if the Merger Proposal Proceeds, the Merged Group or the employees of their respective mining contractors could disrupt operations. For example, employees covered by industrial agreements may take protected industrial action (e.g. strike) once these agreements pass their nominal expiry date. Some of the current Gloucester or Yancoal Australia industrial agreements have passed their nominal expiry dates which could have a material adverse effect on Gloucester, Yancoal Australia or the Merged Group (as applicable) to the extent that any employees covered by those industrial agreements take protected industrial action.

(k) Financing risks

The Merged Group will have a pro forma net debt position (as at 31 December 2011) of A\$3.86bn following the implementation of the Merger Proposal and after adjusting for the Capital Return. Further details of the Merged Group's debt profile are provided in Section 8.7. If the Merger Proposal is approved and implemented, Gloucester will become part of the Merged Group and will therefore be impacted by compliance with its existing and future financing arrangements (including the existing Gloucester debt facilities).

SECTION 9 – RISK FACTORS (CONTINUED)

This will include continuing compliance by the Merged Group with its covenants, including negative covenants – see Section 8.7 for an overview of the covenants that apply to these facilities. A breach of any of the above obligations by the Merged Group may lead to the termination of its finance facilities which could have a material adverse impact on the Merged Group to the extent it relies on those facilities for its funding requirements.

Under the terms of the Merger Proposal Deed, Yanzhou Coal is required to use reasonable endeavours to extend the repayments under the Felix Acquisition Facility and the Ancillary Felix Facility that are due in 2012 and 2013 until at least 2017 and 2018, respectively, and finalising these extensions by the Second Court Hearing Date is a condition precedent to the Merger Proposal. Negotiations regarding the terms of the extension are ongoing and the finalisation of the extension arrangements and the ultimate terms and conditions of those arrangements are not certain. In addition, it is likely that as part of the extension, one or more of the terms of these facilities, other than their repayment dates, will be amended – this may include the interest rate payable by Yancoal Australia, which is likely to be higher than the current rates. Other terms may also be less favourable than those of the financing arrangements currently in place.

It follows that it is possible that the terms and conditions of the debt applicable to the Merged Group as reflected in the Merged Group's pro forma net debt position including as set out in this Explanatory Booklet may be less favourable to the Merged Group than the terms and conditions assumed for the purposes of the disclosures in this Explanatory Booklet and the Independent Expert's Report.

In addition, Yancoal Australia's existing facilities with Bank of China Limited Sydney Branch (including the Felix Acquisition Facility and the Ancillary Felix Facility) are supported by and dependent upon letters of credit issued by Bank of China Limited Shandong Branch. The extension of the repayments referred to above may require that these letters of credit are also extended commensurately.

As a result of the Merger Proposal, the Merged Group will absorb Yancoal Australia's existing US\$3.04 billion facilities with its banks (the Felix Acquisition Facility and the Ancillary Felix Facility) and Gloucester's existing A\$400 million facility with Noble, as well as raising an additional A\$700 million facility to enable Gloucester to pay the Special Dividend, the Gloucester Option Amount and Promissory Notes for an aggregate face value equal to the Capital Reduction Amount delivered to discharge Gloucester's obligations under the Capital Return. Assuming the extension of the Felix Acquisition Facility and the Ancillary Felix Facility as described in Section 8.7(a) is completed, US\$1.015 billion of this debt will be due to be repaid in each of 2017 and 2018, with the remaining US\$1.01 billion due to be repaid in each of 2019⁶⁴. In addition, the full amount of the A\$400 million Noble facility is repayable when it matures on 1 July 2015. Each of the tranches under the US\$3.04 billion facilities, as well as the Noble facility and the new A\$700 million facility, will either need to be refinanced or repaid by the relevant due dates. Also, to the extent debt is US\$ denominated, the A\$ amounts required to be refinanced may vary depending on US\$/A\$ exchange rate movements. If the Merged Group is unable to refinance this debt (or other debt it incurs) at all or refinance it terms broadly similar to those that currently apply, this debt level may place financial pressure on the Merged Group.

The ability of Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group to service these debts will depend on future performance and cash flows, which will be affected by many factors, certain of which are beyond the control of Gloucester, Yancoal Australia or the Merged Group. In particular, the ability of the Merged Group to service its debt may be materially impacted by the interest rates applying to that debt from time to time. Please refer to Section 8.7(f) for an analysis of the sensitivities of the Merged Group to movements in interest rates. Any inability of Gloucester, Yancoal Australia or the Merged Group to service its existing debt (and, in the case of the Merged Group, the debt of Gloucester and Yancoal Australia) may have a material adverse effect on Gloucester, Yancoal Australia and the Merged Group.

(l) Other financing considerations

Existing credit facilities and internally-generated funds may not be sufficient for expenditure that might be required for acquisitions, new projects, capital expenditure on existing projects, further exploration or expansion and feasibility studies. Gloucester, Yancoal Australia or, if the Merger Proposal proceeds, the Merged Group may need to raise additional debt or equity in the future. No assurance can be given that any refinancing or additional financing (whether debt or equity) required from time to time will be available at all or on terms favourable to Gloucester, Yancoal Australia or the Merged Group. Securing funding for projects or other forms of financing for operations may depend on a number of factors, including commodity prices, interest rates, economic conditions, debt market conditions, equity market conditions and country risk issues. Inability to obtain financing or refinancing could cause delays in development projects or could result in higher financing costs and may materially adversely affect the financial condition and performance of Gloucester, Yancoal Australia or the Merged Group. In addition, some forms of new financing, such as equity capital raisings may be potentially dilutive or otherwise materially disadvantageous for existing shareholders.

(m) Dividends

Although the dividend policy of Yancoal Australia will be set so that 25% to 40% of net profit after tax (pre-Abnormal Items) is distributed to shareholders each financial year, the payment of future dividends is subject to the ongoing cash needs of the business and the directors' duties under law. Yancoal Australia's constitution, which will be the constitution of the Merged Group if the Merger Proposal proceeds, requires its directors, subject in each case to applicable laws and the directors' duties under law, to pay dividends of no less than 40% of Yancoal Australia's net profit after tax (pre-Abnormal Items) each financial year, unless the directors decide to pay dividends of no less than 25% in order to prudently manage the company's financial position. Because the obligations under the constitution are subject to applicable laws and the directors' duties under law, future dividends will be assessed subject to profits, cash flow, capital and operating requirements, the terms and conditions of the financing arrangements governing the Merged Group's net debt position, and other relevant factors. There can be no guarantee as to the likelihood, timing, franking or quantum of future dividends from Gloucester or, if the Merger proceeds, the Merged Group. This is the case despite the provisions in the Merger Proposal Deed and Yancoal Australia's constitution noted above relating to dividend policy. To the extent dividends are paid by the Merged Group within

64 Alternatively, if only those extensions which are required by the Merger Proposal Deed are effected, US\$1.01 billion of this debt will remain repayable in 2014, with US\$1.015 billion due to be repaid in each of 2017 and 2018.

the first two years, there is a risk that they would have to be funded by debt, which may or may not be available to the Merged Group. Dividends may be paid out of existing cash reserves or borrowings. For any dividends paid out of borrowings, the risk factors associated with financing and debt detailed in this Section 9 will apply.

(n) Insurance risks

Each of Gloucester and Yancoal Australia currently has insurance coverage for certain operating risks. However, either of them and, if the Merger Proposal proceeds, the Merged Group may become subject to liability (including in relation to pollution, occupational illnesses or other hazards) against which it has not insured or cannot insure, including a liability in respect of past activities. Should a major uninsured loss be suffered, future earnings could be materially adversely affected. In addition, insurance may not continue to be available at economically acceptable premiums. As a result, the insurance coverage may not cover the full scope and extent of claims against Gloucester, Yancoal Australia or, if the Merger Proposal proceeds, the Merged Group or losses that they incur, including, but not limited to, claims for environmental or industrial accidents, occupational illnesses, pollution and product liability, war, terrorism and business interruption. To the extent a successful claim against Gloucester, Yancoal Australia or, if the Merger Proposal proceeds, the Merged Group is not covered by insurance, it may have a material adverse effect on their financial position.

(o) Risks associated with future growth initiatives

Historically, Gloucester and Yancoal Australia have each sought to grow both organically and through mergers and acquisitions. At any time each may be evaluating one or more potential new investments. In addition, from time to time each may be presented with the potential to increase or decrease its investment in existing assets pursuant to the pre-emptive rights or change of control provisions in respect of the joint ventures to which they are parties. In addition, new investments may not necessarily take the form of investment in further coal mining assets, but rather may involve diversification into complementary activities or potentially new areas of operation. This will continue to be a strategic objective for the Merged Group if the Merger Proposal proceeds.

There are always risks that the benefits, synergies or efficiencies expected from such investments or growth opportunities may take longer than expected to be achieved or may not be achieved at all. Any investments pursued could, for a variety of reasons, have a material adverse effect on the value of the Merged Group. Growth also brings substantial demands on management. The applicable directors from time to time apply their experience to the evaluation and financing of new opportunities to determine whether the expected risks and rewards of these opportunities meet their requirements and their strategies for diversification of risk and capital return. Operating results largely depend on the ability of those directors to make sound investment decisions.

(p) Environmental activism

Environmental lobby groups in both Queensland and New South Wales have recently objected to approvals for and initiated litigation against coal miners in an attempt to prevent new mine developments on the basis of environmental concerns, particularly the greenhouse gas emissions expected from the proposed projects or the coal produced from those mines. Increased community concern and adverse actions taken by community and environmental groups may

delay or prevent Gloucester, Yancoal Australia or, if the Merger Proposal proceeds, the Merged Group, from progressing new mine developments or may mean that those mine developments are subject to conditions that adversely affect their profitability and consequently the financial performance of Gloucester, Yancoal Australia or the Merged Group (as applicable).

9.3.2 Market and economic risks

(a) General risk factors

The operating and financial performance of Gloucester, Yancoal Australia and the Merged Group is (or will be) influenced by a variety of general business cycles and economic conditions. Changes in business and economic factors, such as interest rates, exchange rates, inflation, changes in national demographics, changes in government fiscal, monetary and regulatory policy in Australia or overseas and changes to accounting or financial reporting standards, can be expected to impact on the businesses of Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group. Deterioration in general economic conditions may adversely affect the operating and financial performance of Gloucester, Yancoal Australia and the Merged Group.

In addition, the price at which applicable shares trade on the ASX may be affected by a range of external factors over which Gloucester, Yancoal Australia and the Merged Group have no control. These risk factors include but are not limited to:

- the risk factors described in the paragraph above; and
- variations in the local and global market for listed companies and for mining and resources companies in particular.

These factors may cause the price of Yancoal Securities to fluctuate.

Some of these risks are discussed in more detail below:

Economic conditions

Economic conditions, both domestic and global, may affect the performance of Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group. Adverse changes in such things as:

- global and country-by-country economic growth and general economic conditions;
- the level of inflation (including expectations regarding inflation);
- interest rates (both domestic and international);
- foreign exchange rates;
- government policies (including fiscal, monetary and regulatory policies); and
- general consumption and consumer spending,

amongst others, are outside the control of Gloucester, Yancoal Australia and the Merged Group and may result in material adverse impacts on their business and operating results.

Share market conditions

There are risks associated with an investment in shares quoted on any financial market. Share price movements can affect the value of any investment in Gloucester and the Merged Group. The value of the Yancoal Securities and Gloucester Securities can be expected to fluctuate depending on a number of factors including movements in international and local stock markets, changes in the outlook for coal demand and coal prices, inflation, interest rates, foreign

SECTION 9 – RISK FACTORS (CONTINUED)

exchange rates, general economic conditions, changes in government fiscal, monetary and regulatory policies, investor perceptions as well as the operating and financial performance of Gloucester, Yancoal Australia or the Merged Group, including variations in revenues and operating costs.

General legal, accounting and taxation matters

Future earnings, asset values, and the relative attractiveness of Gloucester Shares and the Yancoal Securities may be affected by changes in law, taxation, government policy and accounting standards in the jurisdictions in which Gloucester, Yancoal Australia or the Merged Group operate. The approach taken by Gloucester, Yancoal Australia or the Merged Group to compliance with or the application of these laws, taxes, policies and standards may result in adverse impacts on their business or operating results if successfully challenged by the relevant regulatory body.

The Australian Taxation Office (**ATO**), as part of its ordinary processes in reviewing large business taxpayers, takes into account their size and complexity. The Merged Group, as a large and complex group, can be expected to be reviewed by the ATO in respect of ongoing taxation compliance.

Interest rate risk

If the Merger Proposal proceeds, the Merged Group will have a substantial level of debt (refer to Section 8.7 which sets out the Merged Group's debt profile). Businesses that borrow money are exposed to adverse interest rate movements that may affect the cost of borrowing, which in turn may have an adverse impact on earnings, and increase the financial risk inherent in those businesses. Given the likely level of the Merged Group's debt, any increase in interest rates applying to the Merged Group's debt may have a significant adverse impact on the financial position and profitability of the Merged Group. Please refer to Section 8.7(f) for an analysis of the sensitivities of the Merged Group to movements in interest rates. Whilst this risk may be reduced through interest rate hedging, there is sometimes residual exposure (neither Gloucester nor Yancoal Australia have had a practice of hedging interest rates). Alternatively, a substantial program of interest rate hedging may result in the lack of access to benefits of an interest rate reduction, impacting on the relative competitiveness of the business.

(b) Coal price and coal demand risk

Gloucester and Yancoal Australia generate and, if the Merger Proposal proceeds, the Merged Group will generate revenue from the sale of coal. In developing their mine plans, Gloucester and Yancoal Australia have made certain assumptions regarding coal prices and demand for coal. The price which Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group will receive for their coal depends on numerous factors and accordingly, some of their underlying assumptions may materially change and actual coal prices and demand may differ materially to those expected by them.

Historically, demand for coal and coal prices have been cyclical and volatile. The price for coal is determined predominantly by world markets, which are affected by numerous factors, including the outcome of future sale contract negotiations, general economic activity, industrial production levels, changes in foreign exchange rates, changes in energy demand and demand for steel, changes in the supply of seaborne coal, changes in technology, changes in production levels and events interfering with supply, changes in

international freight rates or other transportation infrastructure and costs, the cost of other commodities and substitutes for coal, market changes in coal quality requirements, government regulation which restrict use of coal, and tax impositions on the resources industry, all of which are outside the control of Gloucester, Yancoal Australia or the Merged Group and may have a material adverse impact on coal prices and demand.

Absent offsetting factors, significant and sustained adverse movements in demand for coal and coal prices (both generally and in relation to particular types and classes of coal) may have a material adverse impact on the ongoing financial performance and financial position of Gloucester, Yancoal Australia or the Merged Group or may result in any of them not proceeding with the development of new mines and projects due to such development not being economically viable.

Over the period February 2011 to April 2012, demand for semi hard coking coal declined considerably and demand for semi soft coking coal also declined. The export coal market, particularly this segment of the metallurgical market, is expected to remain weak for the balance of the current financial year. The decline in demand has adversely affected market prices and the prices achieved by Gloucester and Yancoal Australia under coal sales contracts (since prices under these contracts are renegotiated at regular intervals). In addition, this recent demand weakness has resulted in Gloucester changing the washing parameters at its Donaldson mine to produce a greater proportion of thermal coal than coking coal than it otherwise would have. If weak market conditions continue, the financial performance of Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group may be adversely affected. Furthermore, depending on the growth in the metallurgical coal market over time and or/changes in the price differential between metallurgical coal and high grade thermal coal, Gloucester, Yancoal Australia or, if the Merger Proposal proceeds, the Merged Group may market a higher proportion of export thermal coal than is currently intended.

(c) Exchange rate and currency risk

The liabilities, earnings and cash flows of Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group are (or will be) influenced by movements in exchange rates, especially movements in the Australian dollar/US dollar exchange rate.

Foreign currency exposure arises, particularly in relation to coal supply contracts, which generally are priced and payable in US dollars, procurement of imported plant and equipment, which can be priced in US dollars or other foreign currencies, and debt denominated in currencies other than Australian dollars. The Merged Group will have a substantial level of debt (refer to Section 8.7 which sets out the Merged Group's debt) which will primarily be denominated in US dollars.

The impact of exchange rate movements will vary depending on factors such as the nature, magnitude and duration of the movement, the extent to which currency risk is hedged under forward exchange contracts, and the terms of those contracts. Both Gloucester and Yancoal Australia enter into forward exchange contracts to hedge part of their exposure to adverse movements in the Australian dollar relative to the US dollar. Not all foreign currency exposure is hedged in this way and forward exchange contracts do not hedge against the effects of movements in

exchange rates beyond the period(s) to which they relate. Forward exchange contracts can also have adverse consequences, including by reducing the ability to benefit from advantageous movements in exchange rates and creating an unhedged exposure to exchange rate movements (positive or negative) where the foreign denominated revenues or liabilities intended to be hedged do not materialize at the time or in the amount expected when the contract was made.

The impact of movements in exchange rates combined with or in the absence of forward exchange contracts may be negative, and the risks described above may have material adverse financial consequences for Gloucester, Yancoal Australia or the Merged Group (as applicable).

(d) Competition and substitution

Competition in the coal industry is based on many factors, including price, production capacity, coal quality and characteristics, transportation capability and costs, and brand name. Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group each face competition from other Australian and international producers of coal (which may include Yanzhou Coal). The coal industry is highly competitive, and an increase in production or reduction in price of competing coals from both Australia and overseas may adversely impact their respective ability to sell its coal products and the price attained for sales. Increased competition in the future, including from new competitors, may emerge. This competition may relate not only to coal produced and sold, but also to competition for the acquisition of new projects, which may adversely affect the ability of Gloucester, Yancoal Australia or the Merged Group to acquire new interests on acceptable terms should they desire to seek to make such acquisitions.

In the future, the development of new steel making technologies or practices may also lead to greater use of lower quality coals or other carbon sources in substitution for the metallurgical coals produced by the Merged Group. This could lower demand for, and the price of, the metallurgical coals produced by the Merged Group.

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

Events may occur within or outside Australia that could adversely impact the world economy, the market for coal, the operations of Gloucester, Yancoal Australia or, if the Merger Proposal proceeds, the Merged Group or any of their suppliers, service providers and customers, including 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.

9.3.3 Legal, regulatory and tax risks

(a) Title risks (including Native title)

Exploring or mining for coal is generally illegal without a tenement granted by the State. The grant and renewal of tenements is subject to a regulatory regime and each tenement is subject to certain conditions. There is no certainty that an application for grant or renewal of a tenement will be granted at all or on satisfactory terms or within expected timeframes. Further, the conditions attached to tenements may change. The permitting rules are complex and may change over time, making the title holder's ability to comply with the applicable requirements more onerous, more costly or even impossible, thereby precluding or impairing continuing or future mining operations. There is a risk that Gloucester, Yancoal Australia

or the Merged Group may lose title to any of their granted titles if they are unable to comply with conditions or, if the land subject to the title is required for public purposes. There is also a risk that a tenement may not be granted from any applications for renewals of tenements or for new tenements.

Obtaining mining tenements often involves having to obtain consents from landholders and other third parties, some of which may in certain circumstances have a right of veto, as well as approvals (such as environmental approvals). There is a risk that the requisite consents and approvals may not be able to be obtained on time or on acceptable commercial terms, or may not be able to be obtained at all, and of which could have an adverse effect on Gloucester, Yancoal Australia or the Merged Group (as applicable). Please see Section 9.3.1(a) (Exploration and Development Risks) for more information.

Some of Gloucester's and Yancoal Australia's mines and associated tenements adjoin or are overlapped by petroleum exploration licences and adjoin other exploration interests held by third parties. Overlapping tenements could potentially prevent, delay or increase the cost of the future development of Gloucester's, Yancoal Australia's or the Merged Group's projects (as applicable) because they and the relevant petroleum exploration licence or other exploration licence holders could potentially seek to undertake their respective activities on the overlapping area or the same resource seams and in some cases the overlapping petroleum tenure holder's consent may be required. There is no guarantee that agreement will be reached with the overlapping petroleum tenure holder or that agreement will not be delayed or will be reached on terms which provide a satisfactory outcome for Gloucester, Yancoal Australia or the Merged Group (as appropriate). There is also a risk that if agreement cannot be reached with overlapping tenement holders the matter may be referred to the Minister or a Court who may make a decision which adversely impacts upon or prevents the project proposed by Gloucester, Yancoal Australia or the Merged Group.

Gloucester and Yancoal Australia's properties and mining and exploration tenements (whether held by or on behalf of Gloucester or Yancoal Australia or by joint venturers) may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects. Accordingly, other parties could possibly dispute the title of Gloucester, Yancoal Australia or, if the Merger Proposal proceeds, the Merged Group to its mining rights and other interests.

Where a new mining lease is required and the relevant land is land in relation to which native title may still exist, the *Native Title Act 1993* (Cth) (**NTA**) will need to be complied with in order for the tenement to be validly granted. Compliance with the NTA (right to negotiate procedure) may be prolonged or delayed, and substantial compensation may be payable as part of any agreement reached, including for the extinguishment or impairment of native title. The existence or declaration of native title may affect the existing or future activities of Gloucester, Yancoal Australia or, if the Merger Proposal proceeds, the Merged Group and impact on their ability to develop projects and their operational and financial performance. Although there are no current native title claims, the Merged Group will still need to comply with the NTA in order for new tenements to be validly granted in relation to land over which native title may continue to exist and to protect Aboriginal cultural heritage in accordance with the applicable legislation.

SECTION 9 – RISK FACTORS (CONTINUED)

Crown land subject to a mining tenement can be the subject of a land rights claim under the Aboriginal Land Rights Act 1983 (NSW) unless it is subject to a mining lease. If successful such a claim can result in such lands ownership being transferred from the Crown and the ownership of any minerals in such land being transferred to the claimant.

(b) Enforcement of legal rights and insolvency risk

Gloucester and Yancoal Australia have entered into contracts which are important to the future of their businesses including (but not limited to) for the provision of coal handling services, long term sales contracts, debt facilities, long term leases, contract mining and the provision of certain guarantees, indemnities and sureties.

Any failure by counterparties to perform those contracts may have a material adverse effect on Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group and there can be no assurance that it would be successful in enforcing any of its contractual rights through legal action.

In addition, any insolvency of a counterparty to any of these contracts may have a material adverse effect on Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group and there can be no assurance that it would be successful in enforcing any of its contractual rights through legal action or recovering all monies owned by that counterparty (including under any claim for damages).

(c) Litigation

As with any company, each of Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group is (or in the case of the Merged Group, will be) exposed to the risks of litigation (either as the complainant or as the defendant), which may have a material adverse effect on the financial position of the relevant entity. Gloucester, Yancoal Australia or the Merged Group could become exposed to claims or litigation by persons alleging they are owed fees for services, employees, regulators, competitors or other third parties. As at the date of this Explanatory Booklet, there are a number of existing claims by such parties, but there are no current litigation matters that are considered material to the Merged Group's business. To the extent that such claims or litigation are not covered by insurance, an adverse outcome in litigation or the cost of initiating or responding to potential or actual claims or litigation may have a material adverse impact on financial performance.

(d) Minerals Resource Rent Tax (MRRT)

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, reducing the effective tax rate to 22.5% of profits earned above a particular threshold. Since the MRRT regime includes a number of allowances and deductions for mining companies (including deduction of state royalties), the actual amount of MRRT payable by mining companies is likely to be less than 22.5%.

The MRRT legislation has been enacted and will have a start date of 1 July 2012. As the MRRT has only recently become law, the extent to which the MRRT may impact on Gloucester, Yancoal Australia or,

if the Merger Proposal proceeds, the Merged Group, and their respective operations is yet to be determined. However, the introduction of the MRRT has the potential to increase each of their overall tax liability.

(e) Health, safety and hazardous materials

Each of Gloucester's, Yancoal Australia's and, if the Merger Proposal proceeds, the Merged Group's operations may substantially impact the environment or cause exposure to hazardous materials. They will each use hazardous materials and will generate hazardous waste, and may be subject to common law claims, damages due to natural disasters, and other damages, as well as the investigation and clean-up of soil, surface water, groundwater, and other media. Such claims may arise, for example, out of current or former activities at sites that they own or operate.

Mining operations can also impact flows and water quality in surface water bodies and remedial measures may be required, such as lining of stream beds, to prevent or minimise such impacts. These and other impacts that Gloucester's, Yancoal Australia's or, if the Merger Proposal proceeds, the Merged Group's operations may have on the environment, as well as exposures to hazardous substances or wastes associated with their operations and environmental conditions at their properties, could result in costs and liabilities that would have a material adverse impact on their financial position and operating results. There is also a risk that actions could be brought against Gloucester, Yancoal Australia or, if the Merger Proposal proceeds, the Merged Group alleging adverse effects of various substances on personal health.

If any injuries or accidents occur in a mine, this could have adverse financial implications including legal claims for personal injury, wrongful death, amendments to approvals, potential production delays or stoppages, any of which may have a material adverse effect on the financial performance and/or financial position of Gloucester, Yancoal Australia or, if the Merger Proposal proceeds, the Merged Group.

In addition, health guideline standards for certain products and by-products produced (or to be produced) by Gloucester, Yancoal Australia and the Merged Group are generally becoming more onerous. Any increase in the level of health and safety regulation may require standards in addition to those now in effect, and a heightened degree of responsibility for companies and their directors.

There is a risk that past, present or future operations have not met, or will not meet, health and safety requirements and/or that the approvals or modifications Yancoal Australia or Gloucester are currently seeking, or that the Merged Group may need to seek in the future, will not be granted at all or on terms that are unduly onerous. If Yancoal Australia, Gloucester or the Merged Group is unsuccessful in these efforts or otherwise breaches these health and safety requirements, it may incur fines or penalties, be required to curtail or cease operations and/or be subject to significantly increased compliance costs or significant costs for rehabilitation or rectification works, which have not been previously planned at one or more of its sites.

(f) Environmental regulation

Due to the hazardous nature of coal mining processes, and the associated by-products, residues and tailings generated from these processes, all of the operations of Gloucester, Yancoal Australia and, if the Merger Proposal proceeds, the Merged Group are subject to stringent environmental laws and regulations.

Environmental regulation of mining activities in New South Wales and Queensland imposes significant obligations on mining companies in relation to pollution control during mining operations and rehabilitation on completion of them. Changes to the environmental regulation or circumstances beyond the control of the Gloucester, Yancoal Australia or the Merged Group, such as drought or flood, may impact on the cost of meeting the Merged Group's environmental obligations.

There is a risk that actions could be brought against Gloucester, Yancoal Australia or, if the Merger Proposal proceeds, the Merged Group alleging adverse effects of various substances on the environment in areas surrounding their sites.

Environmental legislation may change in a manner that may require standards in addition to those now in effect, and a heightened degree of responsibility for companies and their directors and employees. There may also be unforeseen environmental liabilities resulting from coal related activities, which may be costly to remedy. In particular, the acceptable level of pollution and the potential abandonment costs and obligations for which Gloucester, Yancoal Australia or the Merged Group may become liable as a result of its activities may be impossible to assess against the current legal framework.

There is a risk that past, present or future operations have not met or will not meet environmental or related regulatory requirements and/or that the approvals or modifications Yancoal Australia or Gloucester are currently seeking, or that the Merged Group may need to seek in the future, will not be granted. If Yancoal Australia, Gloucester or the Merged Group is unsuccessful in these efforts or otherwise breaches these environmental requirements, it may incur fines or penalties, be required to curtail or cease operations and/or be subject to significantly increased compliance costs or significant costs for rehabilitation or rectification works, which have not been previously planned at one or more of its sites.

(g) Global warming/carbon risks

The regulatory response to the risk of global warming, including unilateral action by Australia, may affect demand for coal, coal prices and the competitiveness of Gloucester's, Yancoal Australia's and, if the Merger Proposal proceeds, the Merged Group'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 non-participating coal exporters. Extensive government regulations relating to global warming impose costs on the mining operations of Gloucester and Yancoal Australia, and future regulations could increase those costs (including corresponding costs of the Merged Group, if the Merger Proposal proceeds) or limit their and the Merged Group's ability to produce and sell coal.

The Clean Energy Act 2011 (Cth) implements the Commonwealth Government's Clean Energy Scheme, including the carbon pricing mechanism which takes effect from 1 July 2012. At this stage, the

extent to which a carbon pricing mechanism and the other aspects of the Clean Energy Scheme, including a reduction in fuel tax credits, may impact Gloucester, Yancoal Australia or, if the Merger Proposal proceeds, the Merged Group and their respective operations is yet to be determined. However, the introduction of the Clean Energy Scheme has the potential to adversely affect each of their financial performance.

A number of nations, including Australia have ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change signed in December 1999 in Kyoto, Japan. It is the current policy of the Federal Government to attempt to meet the emissions target set for Australia in the Kyoto Protocol, which, combined with efforts by other nations to reduce greenhouse gas emissions, could affect the usage of and, accordingly, the demand for and price of coal. Please refer to Section 9.3.2(b) (Coal price and coal demand risk) for more information.

There have been recent cases in both New South Wales and Queensland in relation to or considering the environmental effects of greenhouse gas emissions produced as a result of coal mining. Defending actions can be financially burdensome and can potentially delay projects. As the case law develops, there maybe more onerous environmental obligations imposed on proponents of projects, particularly in relation to greenhouse gas emissions.

(h) Coal royalties

Royalties are payable to the State on coal produced in Queensland and New South Wales. In both States, the royalty payable is an ad valorem royalty meaning it is calculated as a percentage of the value for which the coal is sold.

The relevant State Governments might increase these royalties or their method of calculation. Any new tax impost or increase in royalty may have an adverse effect on Gloucester's, Yancoal Australia's and, if the Merger Proposal proceeds, the Merged Group's financial performance and/or financial position.

9.4 Risks specifically related only to Gloucester

The following risks are specifically related to Gloucester. They will therefore also apply to the Merged Group if the Merger Proposal proceeds, but the relative degree of exposure should be proportionately less than that applicable to Gloucester as a stand-alone entity. They apply in addition to the risks described in Section 9.3 above.

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

Gloucester has an agreement with the Bloomfield Group (**Bloomfield**) for the provision by Bloomfield of coal handling services up until the end of 2018 at its CHPP (including the making available of access rights over Bloomfield's rail loop between the CHPP and public railway). Gloucester 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, as well as the continued access rights. As a result, there is a risk that Gloucester will not be in a position to haul coal from its Abel, Tasman and Donaldson mines if access to the loadpoint at the Bloomfield Colliery is not available.

(b) Ashtonfield lease

Gloucester 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

SECTION 9 – RISK FACTORS (CONTINUED)

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 Gloucester's coal) and tailing emplacement activities.

Since the leasehold interest is held as joint tenants, all lease liabilities are joint and several liabilities of Gloucester and Bloomfield. As a result, there is a risk that Gloucester 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.

(c) Land access arrangements

The Bloomfield CHPP is adjacent to a rail loop not owned by Gloucester. Gloucester 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 Gloucester 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 Gloucester will be able to obtain that lease and all necessary mining approvals. If Bloomfield does not own the rail loop Gloucester could not obtain a mining lease over it without the approval of the owner of the rail loop. However, Gloucester 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.

(d) Duralie s75W Modification

Gloucester received environmental and planning approvals for the Duralie Extension Project in December 2010, followed by the receipt of Mining lease ML 1646 in January 2011. After the issue of ML 1646, an objector commenced a Merits Appeal challenge in the NSW Land and Environment Court against the NSW Planning Minister's grant of the environmental approvals for the Duralie Extension.

A recent decision handed down as part of the Duralie Merits Appeal restricts the ability for Gloucester to transport coal from Duralie to the Stratford CHPP to an average of four laden trains daily between the hours of 7.00am to 10.00pm. Gloucester has submitted a section 75W modification to extend the train shuttle hours from 6:00am on one day to 1:00am on the following day with no change to average trains per annum or peak trains per day. If this modification is not granted, production at Duralie may be consequently constrained, resulting in an adverse impact on Gloucester.

(e) 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.

(f) Middlemount expansion

If the Middlemount mine is to be further developed or expanded, key environmental approvals are required. An application for expansion for stage 2 of the Middlemount mine has been lodged with DERM and is subject to approval. If the application is refused it may have serious implications for the development of the Middlemount project and a material adverse impact on Gloucester.

9.5 Risks if the Merger Proposal proceeds

The following risk factors will apply to the Merged Group if the Merger Proposal proceeds. As they are related to the Merger Proposal, they are less relevant to Gloucester or Yancoal Australia as stand-alone entities.

(a) Integration risk

The long term success of the Merged Group will depend, amongst other things, on the success of management in integrating the respective businesses and the strength of management of the Merged Group. There is no guarantee that the businesses of the Merged Group will be able to be integrated successfully, or over the expected time period or at the implementation cost estimated in this Explanatory Booklet.

There are risks that any integration of the businesses of Gloucester and Yancoal Australia may take longer and/or cost more than expected and that anticipated efficiencies and benefits of that integration may be less than estimated. These risks include possible differences in the management culture of the two groups, inability to achieve synergy benefits and cost savings, and the potential loss of key personnel.

Any failure by the Merged Group to ensure implementation costs remain below those anticipated may have a material adverse effect on the financial performance and position, and future prospects, of the Merged Group.

(b) Contract risk

The Merger Proposal may be deemed under contracts to which members of the Gloucester and Yancoal Australia corporate groups are parties to result in a change of control in respect of Gloucester or Yancoal Australia that allows the counterparty to review or terminate the relevant contract. If the counterparty to any such contract were to validly seek to renegotiate or terminate the contract on that basis, this may have a material adverse effect on the financial performance of the Merged Group, depending on the relevant contracts.

(c) Accounting risk

In accounting for the Merger, the Merged Group will need to perform a fair value assessment of all of Gloucester's assets, liabilities and contingent liabilities, which will include the identification and valuation of mineral rights and intangible assets. As a result of this fair value assessment, the Merged Group's depreciation and amortisation charges will be substantially greater than the depreciation and amortisation charges of Gloucester and Yancoal Australia as separate businesses, and to that extent will significantly reduce the future earnings of the Merged Group.

To the extent goodwill is recognised in respect of accounting for the acquisition of Gloucester by Yancoal Australia, it will be subject to annual impairment testing. In the event that the recoverable amount of goodwill is impaired, this will result in a charge against future earnings.

The Merged Group will be subject to the usual business risk that there may be changes in accounting policies which may have an adverse impact on the Merged Group.

(d) A Superior Proposal for Gloucester may yet emerge

It is possible that a Superior Proposal for Gloucester, which is more attractive for Gloucester Shareholders than the Merger Proposal, may materialise in the future (if the Merger Proposal does not take place). The implementation of the Merger Proposal would mean that Gloucester Shareholders would not obtain the benefit of any such proposal.

The Gloucester Board is not currently aware of any such proposal and notes that since Gloucester announced the Merger Proposal, there has been a significant period of time and ample opportunity for an alternative proposal for Gloucester which provides a different outcome for Gloucester Shareholders to emerge.

Gloucester did not formally consider any alternative proposals prior to entering into the Merger Proposal Deed. Since the Merger Proposal was announced on 23 December 2011, no alternative proposal has emerged and the Gloucester Directors have since decided that the Merger Proposal is the best option available at the date of this Explanatory Booklet. In addition, shareholders in the Merged Group will still have an opportunity to realise a full premium in the event of any future change of control transaction for the Merged Group (noting that any such transaction is only likely to proceed if it is supported by Yanzhou Coal as the majority shareholder).

(e) Other risks

Additional risks and uncertainties not currently known to Gloucester or Yancoal Australia may also have a material adverse effect on Gloucester or Yancoal Australia's business and that of the Merged Group and the information set out above does not purport to be, nor should it be construed as representing, an exhaustive list of the risks affecting Gloucester, Yancoal Australia or, if the Merger Proposal proceeds, the Merged Group.

9.6 Risks associated with holding Yancoal Securities

(a) Market price

There is presently no public market for Yancoal Securities (and none has previously existed). There can be no assurance as to the price at which Yancoal Securities will trade on ASX on implementation of the Merger Proposal, or that an active market for Yancoal Securities will develop or, if developed, that such a market will be sustained.

There may be interest from institutional and retail investors in acquiring Yancoal Securities in the secondary market once Yancoal Australia is admitted to ASX, given recent consolidation of a number of coal companies in Australia. However, there remains volatility in global markets in the face of economic circumstances and emerging environmental issues such as climate change that may affect investor appetite for a pure-play coal company.

(b) Liquidity

If the Merger Proposal proceeds, Yanzhou Coal would hold approximately 78% of Yancoal Australia ordinary shares, Noble approximately 13% and other current Gloucester Shareholders approximately 9%. Accordingly, there would only be a limited 'free float' of shares that may be available for trading, which in turn may adversely impact the liquidity of Yancoal Australia Ordinary Shares and CVR Shares, and contribute to the market prices of these securities being volatile. The liquidity of these securities on ASX cannot be predicted with any degree of certainty. The low free float of the Merged Group is also likely to impact the ability of the Merged Group to be included in equity indices.

FIRB has approved the Merger Proposal on condition that Yanzhou Coal reduce its economic ownership of Yancoal Australia to below 70% and of Felix Resources' underlying assets as the time of acquisition of Felix Resources by Yancoal Australia (other than Excluded Felix Assets) to no more than 50% by the end of 2013. See Section 14.15 for further details.

Yanzhou Coal has also informed Gloucester that, if the Merger Proposal proceeds, Yanzhou Coal would, in any event, be committed to increasing the free float and liquidity of Yancoal Australia over time to attract major institutional investors. However, there is no assurance that major institutional shareholder support for the Merged Group will be forthcoming or that Yanzhou Coal will otherwise succeed in its stated intention of seeking to increase the free float and liquidity of Yancoal Australia over time.

(c) CVR Shares

Subject to certain conditions, on the CVR Shares End Date, Yancoal Australia must Repurchase the CVR Shares for a specific price by causing them to be purchased by Yanzhou Coal or another Yanzhou CVR shareholder. This price may be settled by cash or by the transfer of Yancoal Australia Ordinary Shares from Yanzhou Coal or another Yanzhou CVR Shareholder. Scheme Shareholders who receive CVR Shares as part of their Scheme Consideration will have no choice as to whether their CVR Shares are Repurchased for cash or by the transfer to them of Yancoal Australia Ordinary Shares.

9.7 Risks if the Merger Proposal does not proceed

Gloucester Shareholders should be aware that if the Merger Proposal does not proceed, they will retain their Gloucester Shares and will not receive any form of Scheme Consideration. Also, the Gloucester Board may not declare or authorise any Special Dividend and does not intend to proceed with the Capital Return.

If the Merger Proposal does not proceed, and no Superior Proposal for Gloucester is received, Gloucester Directors will consider a number of alternative strategies for the operation and ownership of the Gloucester business, as well as other growth initiatives. These alternatives would take time to implement. As noted in Section 5.3(a), Gloucester has plans for over A\$500 million of capital expenditure, but has limited further debt capacity in its

SECTION 9 – RISK FACTORS (CONTINUED)

own right (Gloucester's net debt as at 22 February 2012 was A\$391 million). Accordingly, if the Merger Proposal does not proceed and Gloucester remains a stand-alone listed company, its ability to fund future capital expenditure through debt is expected to be constrained. In these circumstances, Gloucester may need to consider an equity capital raising which may have a dilutive impact for Shareholders. As an alternative to funding future capital expenditure through additional debt or by a capital raising, it is possible that Gloucester may explore a sell down or partial sell down of assets. In this regard, Gloucester announced on 28 February 2012 that, following interest from Asian investors, Gloucester had commenced a process to identify opportunities to undertake a partial sell down of one or more of its assets but that this process was put on hold following the signing of the Merger Proposal Deed. If the Merger Proposal does not proceed, there can be no assurance that any sell down of assets to fund capital expenditure requirements will be achieved on terms acceptable to Gloucester or within a timeframe that coincides with Gloucester's planned capital expenditure. In addition, if the Merger Proposal does not proceed, Gloucester Shareholders will continue to be exposed to the risk factors relating specifically to Gloucester described in Sections 9.3 and 9.4 above.

The Gloucester Directors believe that the Merger Proposal is likely to deliver benefits to Gloucester Shareholders greater than other alternatives which have been considered, including Gloucester continuing as a stand-alone entity and using its existing financial resources to pursue its growth and diversification strategies.



SECTION 10

TAXATION IMPLICATIONS



SECTION 10 – TAXATION IMPLICATIONS

10.1 Introduction

This Section provides a summary of the Australian income tax, goods and services tax (**GST**) and stamp duty implications for Australian resident Gloucester Shareholders who:

- receive the Special Dividend and the Capital Return; and
- participate in the Scheme resulting in the disposal of their Gloucester Shares to Yancoal Australia.

This Section is relevant for Australian resident Gloucester Shareholders who hold their Gloucester Shares on capital account. This Section does not consider the Australian tax consequences for Gloucester Shareholders:

- who hold their Gloucester Shares as trading stock or as revenue assets;
- who acquired their Gloucester Shares through an employee share scheme;
- that may be subject to special tax rules, such as financial institutions, insurance companies, partnership, (except where expressly stated), tax exempt organisations, trusts (except where expressly stated), superannuation funds (except where expressly stated) or temporary residents; or
- who are subject to the taxation of financial arrangements rules in Division 230 of the *Income Tax Assessment Act* in relation to gains and losses on their Gloucester Shares.

The information contained in this Section is based on the taxation law at the date of this Explanatory Booklet. The taxation consequences outlined in this Section may alter if there is a change in the taxation law after the date of this Explanatory Booklet.

The information contained in this Section is general in nature and should not be relied on by Gloucester Shareholders as tax advice. This Section is not intended to be an authoritative or complete statement of the taxation law applicable to the particular circumstances of every Gloucester Shareholder. Gloucester Shareholders should obtain their own professional advice on the taxation consequences of receiving the Special Dividend and the Capital Return and disposing of their Gloucester Shares under the Scheme.

10.2 Class Ruling Requests

Gloucester has lodged two Class Ruling Requests with the Australian Taxation Office (**ATO**) seeking the Commissioner of Taxation's views on specific income tax issues for Gloucester Shareholders. The specific income tax issues on which the Commissioner of Taxation's views are sought include whether Gloucester Shareholders will be able to obtain the benefit of franking credits attached to the Special Dividend, the taxation implications of the Capital Return and whether scrip for scrip roll-over is available on the disposal of Gloucester Shares.

Statements in this Section 10 that are the subject of the Class Ruling Requests are noted where relevant.

The ATO has not issued the Class Rulings as at the date of this Explanatory Booklet. Gloucester will make an ASX announcement when the Class Rulings are published. The Class Rulings will also be available on the ATO website at www.ato.gov.au.

It is anticipated that the Commissioner's views to be expressed in the Class Rulings will be generally consistent with the information in this Section 10. However, it is possible that the Commissioner may reach different conclusions. Accordingly, it is important that Section 10 be read in conjunction with the Class Rulings issued by the ATO. Gloucester proposes to seek the adjournment of the Scheme Meeting and General Meeting if it has not received from the ATO a positive indication that the Class Rulings will be received in a form and on terms contemplated by the Class Ruling Requests.

10.3 Taxation consequences of receiving the Special Dividend

(a) Assessability of the Special Dividend

The Gloucester Special Dividend will be assessed as dividend income in the income year in which the Special Dividend is paid by Gloucester. The Class Ruling should confirm this.

Gloucester Shareholders that satisfy the 'holding period rule' must also include the attached franking credit in their assessable income in the income year in which the Special Dividend is paid.

A Gloucester Shareholder will satisfy the 'holding period rule' where they hold their Gloucester Shares 'at risk' for a continuous period of at least 45 days during a prescribed period.

The 'holding period rule' does not apply to Gloucester Shareholders that are individuals where their total franking credit tax offset entitlement does not exceed A\$5,000 for the year of income in which the Special Dividend is paid.

The Class Ruling Request will confirm:

- the relevant qualification period for the purposes of Gloucester Shareholders satisfying the 'holding period rule' in relation to the Special Dividend; and
- that the Commissioner will not seek to apply any specific integrity provisions so as to prevent Gloucester Shareholders from receiving the benefit of the franking credits.

Gloucester Shareholders will satisfy the relevant 'holding period rule' with respect to the Special Dividend if they hold their Gloucester Shares at risk for a period of 45 days (not including the date of acquisition or the date of disposal) during the period commencing the day after the acquisition of their Gloucester Shares until 28 June 2012 [assuming the Scheme Record Date is 29 June 2012] (being one day before the Scheme Record Date, which is the last day the Gloucester Shares should be held 'at risk' if the Scheme proceeds). If Gloucester Shareholders dispose of their Gloucester Shares before the Scheme Record Date, the period ends on the day before this earlier date of disposal.

If the Commissioner of Taxation considers that Gloucester Shareholders are taken to make a 'related payment' in relation to the Special Dividend, Gloucester Shareholders will satisfy the relevant 'holding period rule' with respect to the Special Dividend if Gloucester Shareholders held their Gloucester Shares 'at risk' for a continuous period of at least 45 days (not including the date of acquisition or the date of disposal) during the period commencing 7 May 2012⁶⁵ and ending 28 June 2012 [assuming the Scheme Record Date is 29 June 2012] (being one day before the Scheme Record Date, which is the last day the Gloucester Shares should be held 'at risk' if the Scheme proceeds). If Gloucester Shareholders dispose of their Gloucester Shares before the Scheme Record Date, the period ends on the day before this earlier date of disposal.

65 This date is based on an assumed transaction timetable with a Special Dividend record date of 20 June 2012 and may be subject to change.

(b) Entitlement to franking tax offset

Gloucester Shareholders will be able to access the franking credit tax offset depending on their status and specific circumstances. The following comments are on the basis that Gloucester Shareholders satisfy the 'holding period rule' as outlined above. If the 'holding period rule' is not satisfied there will be no franking credit tax offset.

Gloucester Shareholders that are individuals and complying superannuation funds will be entitled to a tax offset equal to the amount of the franking credits attached to the Special Dividend. Where these Gloucester Shareholders have franking credits in excess of their income tax liability they may be entitled to a refund equal to the excess.

Gloucester Shareholders that are companies will be entitled to a tax offset equal to the amount of the franking credits and accordingly, should not pay any additional tax on the Special Dividend. A credit will arise in the franking account of these Gloucester Shareholders equal to the amount of the franking credits attached to the Special Dividend.

Where Gloucester Shares are held by Australian resident trusts or partnerships, and the Special Dividend is passed through to Australian resident beneficiaries or partners, the benefit of the franking credit attached to the Special Dividend may also pass through to those Australian resident beneficiaries or partners. The income tax treatment of the Special Dividends and any franking credits in the hands of those beneficiaries or partners will depend on the tax status of the beneficiaries or partners.

10.4 Taxation consequences of receiving the Capital Return

Payment of the Capital Return should not be assessed as a dividend in the hands of Gloucester Shareholders. This should be confirmed by the Class Ruling.

Gloucester Shareholders who hold their Gloucester Shares on the Capital Return Record Date will be entitled to receive the Capital Return. The payment of the Capital Return by Gloucester will give rise to a capital gains tax (CGT) event. The Class Ruling should confirm that the relevant CGT event will occur when the Capital Reduction Amount is applied to acquire the Promissory Note.

(a) Gloucester Shares continue to be held when the Capital Return is paid by Gloucester

Where the Capital Return is paid to a Gloucester Shareholder who holds their Gloucester Shares on the Capital Return Record Date and continues to hold their Gloucester Shares when the Capital Return is paid, the Gloucester Shareholder will:

- reduce their cost base or reduced cost base in each of their Gloucester Shares by the amount of the Capital Return. The cost base and reduced cost base will be reduced to nil where the amount of the Capital Return exceeds the Gloucester Shareholder's cost base and reduced cost base respectively; and
- make a capital gain if the Capital Return exceeds the Gloucester Shareholder's cost base in the Gloucester Share. The amount of the capital gain for a particular Gloucester Shareholder should be the excess of the Capital Reduction Amount over the cost base of the Gloucester Share. This capital gain is expected to arise in the 30 June 2012 year.

(b) Gloucester Shares no longer held when the Capital Return is paid by Gloucester

Where the Capital Return is paid to a Gloucester Shareholder who holds their Gloucester Shares on the Capital Return Record Date and has ceased to own those shares when the Capital Return is paid, the former Gloucester Shareholder will make a capital gain equal to the amount of the Capital Return.

The capital gain or loss of the former Gloucester Shareholder from a disposal of their Gloucester Shares before the payment of the Capital Return will be based on the original cost base or reduced cost base of the Gloucester Shares (i.e. without reduction to the cost base or reduced cost base as set out in Section 10.4(a) (above)).

(c) CGT Discount

Where a Gloucester Shareholder makes a capital gain when the Capital Return is paid, in the circumstances described in Sections 10.4(a) or 10.4(b), the CGT discount should be available to Gloucester Shareholders who are individuals, trusts or complying superannuation funds and have held their Gloucester Shares for at least 12 months before the payment of the Capital Return. This should be confirmed by the Class Ruling.

Broadly, the CGT discount rules enable the Gloucester Shareholders to reduce their capital gain (after the application of any current year or prior year capital losses) by 50% for individuals and trusts and 33 $\frac{1}{3}$ % for complying superannuation funds.

The CGT discount is not available to Gloucester Shareholders that are companies or for Gloucester Shareholders who have chosen to apply the indexation method to the cost base of their Gloucester Shares.

(d) Integrity Measures

The Class Ruling will confirm whether the Commissioner will seek to apply any integrity measures to treat some or all of the Capital Return as an unfranked dividend.

(e) Taxation consequences for Gloucester Shareholders when the Promissory Note is presented for payment

There should be no taxable gain or loss for Gloucester Shareholders when the Promissory Note is presented for payment. The Class Ruling should confirm this.

10.5 Taxation consequences for Australian resident Gloucester Shareholders who do not participate in the Scheme

The income tax consequences for Gloucester Shareholders who receive the Special Dividend and Capital Return are outlined above. If an Australian resident Gloucester Shareholder sells their Gloucester Shares before the Scheme Record Date, any gain or loss will be subject to the CGT rules. Those Gloucester Shareholders should seek their own legal advice.

SECTION 10 – TAXATION IMPLICATIONS (CONTINUED)

10.6 Taxation consequences for Australian resident Gloucester Shareholders who participate in the Scheme

The income tax consequences relevant for Australian resident Gloucester Shareholders who dispose of their Gloucester Shares under the Scheme are outlined as follows. References to 'Gloucester Shareholders' below are to those persons registered as Gloucester Shareholders as at the Scheme Record Date (that is, Scheme Shareholders).

Under the Scheme, Gloucester Shareholders will dispose of their Gloucester Shares to Yancoal Australia in exchange for the Scheme Consideration.

The disposal of Gloucester Shares to Yancoal Australia under the Scheme will give rise to a CGT event for Gloucester Shareholders. The CGT event should happen at the time Gloucester Shareholders transfer their Gloucester Shares to Yancoal Australia under the Scheme (i.e. at the Implementation Date). The Class Ruling should confirm this.

Subject to the comments in Section 10.6(b) below regarding scrip for scrip roll-over relief, Gloucester Shareholders will:

- make a capital gain if the capital proceeds received on the disposal of their Gloucester Shares are greater than the cost base of those shares; or
- make a capital loss if the capital proceeds received on the disposal of their Gloucester Shares is less than the reduced cost base of those shares.

Capital proceeds

The capital proceeds on the disposal of the Gloucester Shares should be the Scheme Consideration received by Gloucester Shareholders, being either Yancoal Australia Ordinary Shares or a combination of Yancoal Australia Ordinary Shares and CVR Shares.

The Class Ruling should confirm that the capital proceeds for the disposal of Gloucester Shares to Yancoal Australia do not include either the amount of the Special Dividend or the Capital Return.

The capital proceeds will be the market value on the Implementation Date of either:

- the Yancoal Australia Ordinary Shares; or
- where no 'All Ordinary Share' Election is made, the Yancoal Australia Ordinary Shares and CVR Shares received.

Yancoal Australia will provide the relevant market value as soon as practicable after that day to Gloucester Shareholders.

Cost base

The cost base (or reduced cost base) of the Gloucester Shares will broadly be the original amount paid to acquire the Gloucester Shares plus any incidental costs plus any non-capital costs not claimed as an income tax deduction, less the Capital Return Amount and any other previous capital returns made by Gloucester. If the Gloucester Shares were acquired before 21 September 1999, the cost base may also include indexation up to 30 September 1999. However, the cost base cannot include indexation where the CGT discount outlined below applies.

(a) Shares acquired (or deemed to be acquired) on or after 20 September 1985

Gloucester Shareholders who acquired (or are deemed to have acquired) their Gloucester Shares on or after 20 September 1985 may be entitled to reduce any capital gain on the disposal of their Gloucester Shares by either indexing their cost base or applying the CGT discount (discussed below).

CGT Discount

The CGT discount should be available to Gloucester Shareholders who are individuals, trusts or complying superannuation funds and have held their Gloucester Shares for at least 12 months before the disposal under the Scheme.

Broadly, the CGT discount rules enable the Gloucester Shareholders to reduce their capital gain (after the application of any current year or prior year capital losses) by 50% for individuals and trusts and 33 $\frac{1}{3}$ % for complying superannuation funds.

The CGT discount is not available to Gloucester Shareholders that are companies or for Gloucester Shareholders who have chosen to apply the indexation method to the cost base of their Gloucester Shares.

Capital losses

A capital loss will arise where the capital proceeds received by the Gloucester Shareholders on the disposal of their Gloucester Shares are less than the reduced cost base of those shares.

A capital loss may be used to offset any other capital gains derived by the Gloucester Shareholders for the relevant year of income or may be carried forward to offset capital gains in future income years. Specific capital loss recoupment rules apply to companies to restrict their ability to utilise capital losses in future years in some circumstances. Gloucester Shareholders should seek their own tax advice in relation to the operation of these rules.

Shares acquired before 20 September 1985

Gloucester Shareholders that acquired their Gloucester Shares before 20 September 1985 should seek their own legal advice.

(b) Availability of scrip for scrip roll-over relief

Gloucester Shareholders who would make a capital gain on the disposal of their Gloucester Shares for the Scheme Consideration should be eligible to make a choice whether or not to apply CGT roll-over relief. The Gloucester Shareholders will be eligible to make such choice where they receive either Yancoal Australia Ordinary Shares or Yancoal Australia Ordinary Shares and CVR Shares.

Where a Gloucester Shareholder elects to apply CGT roll-over relief, the capital gain that they would otherwise make on the disposal of their Gloucester Shares will be disregarded.

A Gloucester Shareholder must make a choice to apply CGT roll-over relief before lodging an income tax return for the income year in which the Implementation Date occurs. A Gloucester Shareholder evidences the choice by the way they prepare the income tax return, i.e. by excluding the disregarded capital gain from assessable income. There is no need to lodge a separate notice with the ATO.

Where the Gloucester Shareholders choose CGT roll-over relief, the cost base (or reduced cost base) of the Yancoal Australia Ordinary Shares or Yancoal Australia Ordinary Shares and CVR Shares will be the cost base (or reduced cost base) of the Gloucester Shares. Where a Gloucester Shareholder receives both Yancoal Australia Ordinary Shares and CVR Shares, the cost base (or reduced cost base) of the Yancoal Australia Ordinary Shares and the CVR Shares

will be a reasonable apportionment of the cost base (or reduced cost base) of the Gloucester Shares.

The following formulas describe apportionment of the cost base (or reduced cost base) of the Gloucester Shares:

$$G \times \frac{A}{A+B} = \text{Cost base (or reduced cost base) of Yancoal Australia Ordinary Shares}$$

$$G \times \frac{B}{A+B} = \text{Cost base (or reduced cost base) of CVR Shares}$$

Where:

G is the cost base (or reduced cost base) of the Gloucester Shares exchanged under the Scheme

A is the market value of the Yancoal Australia Ordinary Shares received

B is the market value of the CVR Shares received

The Gloucester Shareholders will be taken to have acquired the Yancoal Australia Ordinary Shares and CVR Shares acquired under the Scheme on the date they acquired their Gloucester Shares, for the purposes of any subsequent application of the CGT discount.

Gloucester Shareholders who are entitled to choose CGT roll-over relief should consider their specific circumstances before making an election. Gloucester Shareholders are advised to obtain professional tax advice that takes into account their specific circumstances before deciding whether to choose CGT roll-over relief.

(c) If scrip for scrip roll-over relief is not chosen

If a Gloucester Shareholder does not choose to obtain the CGT roll-over relief, the Gloucester Shareholder will make a capital gain or loss as discussed above. The cost base (or reduced cost base) of Yancoal Australia Ordinary Shares or Yancoal Australia Ordinary Shares and CVR Shares received under the Scheme will be the market value of the Gloucester Shares exchanged on the Implementation Date.

The following formulas describe apportionment of the market value of the Gloucester Shares, in determining the cost base (or reduced cost base), where the Gloucester Shareholder receives Yancoal Australia Ordinary Shares and CVR Shares:

$$GMV \times \frac{A}{A+B} = \text{Cost base (or reduced cost base) of Yancoal Australia Ordinary Shares}$$

$$GMV \times \frac{B}{A+B} = \text{Cost base (or reduced cost base) of CVR Shares}$$

Where:

GMV is the market value of the Gloucester Shares exchanged under the Scheme

A is the market value of the Yancoal Australia Ordinary Shares received

B is the market value of the CVR Shares received

The date of acquisition of Yancoal Australia Ordinary Shares or Yancoal Australia Ordinary Shares and CVR Shares for CGT purposes will be the Implementation Date. This date will be relevant for any future qualification for the CGT discount with respect to CGT events happening to the Yancoal Australia Ordinary Shares or the CVR Shares.

10.7 Taxation consequences of holding Yancoal Australia Ordinary Shares or Yancoal Australia Ordinary Shares and CVR Shares

(a) Subsequent disposal of Yancoal Australia Ordinary Shares

If an Australian resident Gloucester Shareholder sells their Yancoal Australia Ordinary Shares after the Implementation Date, any gain or loss will be subject to CGT.

(b) CVR Shares

Gloucester intends to lodge a Class Ruling request with the ATO seeking the Commissioner of Taxation's views on specific income tax issues for Gloucester Shareholders in respect of holding CVR Shares. The Class Ruling request has not been lodged with the ATO as at the date of this Explanatory Booklet. If and when published, the Class Ruling will be available on the ATO website at www.ato.gov.au and Gloucester will make an ASX announcement.

The Class Ruling request is expected to ask the Commissioner of Taxation to confirm:

- whether the CVR Shares are held on capital or revenue account;
- the taxation treatment on the Repurchase of the CVR Shares by Yancoal Australia; and
- the relevance of holding CVR Shares in determining whether a former Gloucester Shareholder who holds CVR Shares satisfies the 'holding period rule' in respect of a dividend paid by Yancoal Australia.

Capital or revenue account

The Class Ruling request will seek confirmation from the Commissioner of Taxation that the CVR Shares will be held on capital account. The following comments in relation to the CVR Shares are based on this view being confirmed by the ATO.

Sale of CVR Shares before the CVR Shares End Date

A gain or loss on the sale of an Australian resident's CVR Shares after the Implementation Date but before the CVR Shares End Date should be subject to the CGT rules.

Repurchase of CVR Shares

Under the terms of the CVR Shares, Yancoal Australia must Repurchase CVR Shares by causing them to be purchased by Yanzhou Coal (or another Yanzhou CVR Shareholder) for the Repurchase Price.

The disposal of the CVR Shares would constitute a CGT event for the holder and a capital gain or loss may arise depending upon the cost base (or reduced cost base) and the capital proceeds received.

(c) Receipt of dividends on Yancoal Australia Ordinary Shares

Australian resident Gloucester Shareholders that, following the Scheme, hold Yancoal Australia Ordinary Shares, must include any dividends received on their Yancoal Australia Ordinary Shares in their assessable income. These former Gloucester Shareholders that satisfy the 'holding period rule' in relation to these dividends must also include any attached franking credit in their assessable income in the income year in which the dividend is paid.

Where the former Gloucester Shareholder holds both Yancoal Australia Ordinary Shares and CVR Shares, the CVR Shares may be taken into account in determining whether the 'holding period rule' is satisfied.

SECTION 10 – TAXATION IMPLICATIONS (CONTINUED)

The Class Ruling request is intended to ask the Commissioner of Taxation to confirm the relevance of the CVR Shares in determining whether a former Gloucester Shareholder who holds CVR Shares satisfies the 'holding period rule' in respect of a dividend paid by Yancoal Australia.

10.8 Stamp Duty

No stamp duty should be payable by Gloucester Shareholders on the disposal of Gloucester Shares to Yancoal Australia under the Scheme.

10.9 GST

No GST will be payable by Gloucester Shareholders in respect of the disposal of their Gloucester Shares to Yancoal Australia under the Scheme.

Gloucester Shareholders may however be charged GST on costs (such as advisor fees) that relate to their participation in the Scheme. Gloucester Shareholders may be entitled to full or partial input tax credits for any GST payable on such costs, but this will depend on each Gloucester Shareholder's individual circumstances. Gloucester Shareholders should seek independent advice in this regard.

10.10 Minter Ellison disclaimer

Minter Ellison has prepared this Section 10. To the extent anything in this Section 10 constitutes financial product advice to a retail client (each within the meaning of the Corporations Act), the following statement applies:

- Minter Ellison is not licensed to provide financial product advice under the Corporations Act;
- taxation is only one of a number of the matters that must be considered when making a decision on a financial product; and
- the client should consider taking advice from the holder of an Australian Financial Services Licence before making a decision on a financial product.



SECTION 11

**THE SCHEME AND THE CAPITAL
REDUCTION IN FURTHER DETAIL**



SECTION 11 – THE SCHEME AND THE CAPITAL REDUCTION IN FURTHER DETAIL

11.1 Introduction

This Section 11:

- discusses the purpose and effect of the Scheme;
- provides a summary of the conditions and approvals required for the Scheme to proceed;
- provides a summary of the rights of Gloucester and Yancoal Australia to withdraw from the Scheme;
- discusses the purpose and effect of the Capital Reduction Resolution to be considered at the General Meeting; and
- provides a summary of the conditions required for the Capital Return to proceed.

If the conditions for the Scheme and the Capital Return are satisfied or waived (as applicable), the manner in which the Scheme and the Capital Return will be implemented respectively is described in Section 12.

11.2 Scheme of Arrangement

(a) Purpose

The purpose of the Scheme is to give effect to the Merger Proposal. The Scheme is a proposed arrangement between Gloucester and Scheme Shareholders to deliver 100% ownership and control of Gloucester to Yancoal Australia, in exchange for provision of the Scheme Consideration by Yancoal Australia. If the Scheme becomes Effective, Gloucester will become a wholly owned subsidiary of Yancoal Australia and will be delisted from ASX. The terms of the Scheme are set out in full in Appendix 3.

(b) Legal effect

If the Scheme becomes Effective, it will constitute a binding arrangement between Gloucester and each Scheme Shareholder under which:

- all Gloucester Shares held by each Scheme Shareholder (including those who do not vote on the Scheme and those who vote against it) will be transferred to Yancoal Australia free of any security interest (in accordance with, without limitation, section 32(1) of the *Personal Property Securities Act 2009* (Cth) and Regulation 7.1 of the *Personal Property Securities Act Regulations 2010* (Cth)), without the need for any action on the part of the Scheme Shareholders; and
- each Scheme Shareholder (including those who do not vote on the Scheme and those who vote against it) will receive the Scheme Consideration, subject to any security interest which attaches to the Scheme Consideration in accordance with section 32(1) of the *Personal Property Securities Act 2009* (Cth), as consideration in full for the transfer of all of their Gloucester Shares to Yancoal Australia.

(c) Classes of members affected by the Scheme

Gloucester has two classes of shares on issue – Gloucester Shares (being fully paid ordinary shares) and Converting Shares. The Scheme is between Gloucester and the holders of Gloucester Shares. If the arrangements described in Section 11.8 are implemented, the holders of Converting Shares would be eligible to participate in the Scheme in their then new capacity as holders of Gloucester Shares, to the extent those Gloucester Shares are held by them on the Scheme Record Date.

For the purpose of voting at the Scheme Meeting, all holders of Gloucester Shares, including Noble, will vote on the Scheme as a single class.

(d) Scheme Meeting

At the First Court Hearing on Friday, 27 April 2012, the Court ordered Gloucester to convene a meeting of Gloucester Shareholders to consider and vote on the Scheme.

The notice convening the Scheme Meeting is set out in Appendix 4. The fact that the Court has ordered that the Scheme Meeting be convened is no indication that the Court has a view as to the merits of the Scheme or as to how Gloucester Shareholders should vote. On these matters, Shareholders must reach their own decision.

(e) Eligibility to vote at the Scheme Meeting

Each person who is registered on the Gloucester Share Register as a Gloucester Shareholder as at the Voting Entitlement Time (12.00pm on Saturday, 4 June 2012) is entitled to attend and vote at the Scheme Meeting, either in person, by proxy or attorney or, in the case of a corporate Gloucester Shareholder or proxy, by a representative.

Section 4 provides full details of how to vote at the Scheme Meeting. A single proxy form for the Scheme Meeting and the General Meeting is enclosed with this Explanatory Booklet.

(f) Voting majority required

The resolution to approve the Scheme is subject to approval by the majorities required under section 411(4)(a)(ii) of the Corporations Act. The Scheme Resolution must be approved by:

- (unless the Court orders otherwise) a majority in number (more than 50%) of Gloucester Shareholders present and voting at the Scheme Meeting (whether in person, by proxy, attorney or, in the case of corporate Gloucester Shareholders or proxies, by corporate representative) (**Headcount Test**); and
- Gloucester Shareholders whose Gloucester Shares in aggregate account for at least 75% of the votes cast on the resolution.

The Court has the power to approve the Scheme even if the Headcount Test has not been satisfied. For example, the Court may do so if there is evidence that the result of the vote has been unfairly influenced by activities such as share splitting.

(g) Your warranties under the Scheme

To the extent permitted by law, the Scheme Shares transferred under the Scheme will be transferred free from all mortgages, charges, liens, encumbrances, pledges, security interests, and interests of third parties of any kind, whether legal or otherwise.

Each Scheme Shareholder is deemed to have warranted to Gloucester, and appointed and authorised Gloucester as its attorney and agent to warrant to Yancoal Australia, that all their Gloucester Shares (including any rights and entitlements attaching to those shares) transferred to Yancoal Australia under the Scheme will, at the date of transfer, be fully paid and free from mortgages, charges, liens, encumbrances, pledges, security interests and other interests of third parties of any kind, whether legal or otherwise, and restrictions of transfer of any kind and that they have full power and capacity to sell and transfer their Gloucester Shares (including any rights and entitlements attaching to those shares) to Yancoal Australia under the Scheme.

11.3 Deed Poll

Yancoal Australia has executed a Deed Poll in favour of the Scheme Shareholders and promises to acquire and provide consideration for all of the Gloucester Shares under the Scheme subject to the satisfaction of certain conditions precedent. A copy of the Deed Poll is set out in Appendix 7.

11.4 'All Ordinary Shares' Election and Small Shareholder Cash Election – procedure, timing and other matters

(a) General

If, despite the unanimous recommendation of your Directors, a Gloucester Shareholder (other than Noble) wishes to receive 100% of their Scheme Consideration in the form of Yancoal Australia Ordinary Shares (and therefore not receive any CVR Shares), they must:

- complete the 'All Ordinary Shares' Election Form enclosed with this Explanatory Booklet ('All Ordinary Shares' Election Forms may also be obtained from the Gloucester Share Registry);
- sign the 'All Ordinary Shares' Election Form; and
- return the completed and signed 'All Ordinary Shares' Election Form to the Gloucester Share Registry, by any of the methods referred to in paragraph (b) below, by the Election Date (5.00pm on Thursday, 7 June 2012 or such other date as Gloucester and Yancoal Australia agree in writing and notify to Gloucester Shareholders).

Any 'All Ordinary Shares' Election made otherwise than in accordance with the procedure set out above will not, subject to the discretion of Gloucester and Yancoal Australia, be a valid 'All Ordinary Shares' Election.

If a Gloucester Shareholder who qualifies as a Small Shareholder wishes to receive the net proceeds of sale of the Yancoal Securities to which they would otherwise be entitled under the Scheme rather than receiving those Yancoal Securities, they must:

- complete the Small Shareholder Cash Election Form enclosed with this Explanatory Booklet (Small Shareholder Cash Election Forms may also be obtained from the Gloucester Share Registry);
- sign the Small Shareholder Cash Election Form; and
- return the completed and signed Small Shareholder Cash Election Form to the Gloucester Share Registry, by any of the methods referred to in paragraph (b) below, by the Election Date (5.00pm on Thursday, 7 June 2012 or such other date as Gloucester and Yancoal Australia agree in writing and notify to Gloucester Shareholders).

(b) Returning 'All Ordinary Shares' Election Forms and Small Shareholder Cash Election Forms (together, 'Election Forms')

Completed and signed Election Forms may be returned to the Gloucester Share Registry in any of the following ways

By post in the reply paid envelope provided to the Gloucester Share Registry:

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne Victoria Australia 3001

A reply paid envelope is enclosed with this Explanatory Booklet for this purpose.

By hand delivery to the Gloucester Share Registry at:

Computershare Investor Services Pty Limited
Level 4, 60 Carrington Street
Sydney New South Wales Australia

By fax to the Gloucester Share Registry on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia)

For Intermediary Online subscribers only (custodians)
www.intermediaryonline.com

Note: Election Forms may not be returned by email.

(c) Other important matters

A valid 'All Ordinary Shares' Election or Small Shareholder Cash Election may be withdrawn or revoked at any time prior to the Election Date. However, any Election made by a Gloucester Shareholder will cease to apply to any Gloucester Shares transferred by that Shareholder.

SECTION 11 – THE SCHEME AND THE CAPITAL REDUCTION IN FURTHER DETAIL (CONTINUED)

A valid 'All Ordinary Shares' Election or Small Shareholder Cash Election made by a Gloucester Shareholder will be taken to have been made in respect of all of the Gloucester Shares held by that Gloucester Shareholder as at the Scheme Record Date. This applies whether or not at the Election Date the number of Gloucester Shares held by the Gloucester Shareholder is more or less than the number of shares held by the Gloucester Shareholder at the time of submitting the Election Form.

Scheme Shareholders (other than Foreign Scheme Shareholders) who do not lodge a valid 'All Ordinary Shares' Election Form will receive one Yancoal Australia Ordinary Share and less than one CVR Share on a pro rata basis if no such Elections are made. Your Directors note the steps that have been taken to maximise the opportunity for Shareholders other than Noble to receive (in addition to Yancoal Australia Ordinary Shares), should they wish, up to one CVR Share for each of their Gloucester Shares.

11.5 Scheme conditions

The Scheme is subject to the conditions noted in paragraphs (a), (b) and (c), all of which must be satisfied or waived (as applicable) by 8.00am on the Second Court Hearing Date.

(a) Joint Scheme conditions

The following conditions apply for the mutual benefit of Yanzhou Coal, Yancoal Australia and Gloucester (noting that those relating to regulatory approvals, Gloucester Shareholder approval and Court approval are not capable of waiver).

- **(Regulatory approvals)** Receipt of regulatory approvals including from ASIC, ASX, FIRB and from various Chinese regulatory authorities. (FIRB approval of the Merger Proposal was received on 8 March 2012, subject to certain conditions. See further Section 11.7.)
- **(Independent Expert)** The Independent Expert opines that Scheme is in the best interests of Gloucester Shareholders and maintains that opinion at all times up to 8.00am on the Second Court Hearing Date.
- **(Scheme approval)** The Scheme is approved by Gloucester Shareholders and the Court.
- **(Capital reduction approval)** Gloucester shareholders approve the Capital Reduction.
- **(Yanzhou Coal shareholder approval)** To the extent required by law or applicable regulatory requirements, the Merger Proposal is approved by Yanzhou Coal shareholders in accordance with all applicable requirements in the jurisdictions where Yanzhou Coal's securities are listed (namely, Shanghai, Hong Kong and New York). Gloucester has been informed by Yanzhou Coal that, as at the date of this Explanatory Booklet, it is not expected that Yanzhou shareholders will be required to approve the Merger Proposal.
- **(Admission of Yancoal Australia to ASX)** ASX approves the admission of Yancoal Australia to the official list of ASX and grants quotation of all of its issued shares (including the CVR shares), subject only to the approval of the Scheme by the Court, the implementation of the Scheme as approved by the Court and usual and customary conditions of ASX of a procedural or administrative nature.

- **(Hong Kong Stock Exchange approval)** The Hong Kong Stock Exchange confirms that Yanzhou Coal may proceed with the separate listing of Yancoal Australia on the ASX or grants a waiver to Yanzhou Coal from strict compliance with applicable Hong Kong Stock Exchange approval requirements, in either case subject to any conditions the Hong Kong Stock Exchange may impose.
- **(Elections not to receive CVR shares)** Both of the following occur:
 - Gloucester Shareholders holding in aggregate at least 130 million Gloucester Shares (equivalent to approximately 64% of the total number of Gloucester ordinary Shares on issue as at the date of this Explanatory Booklet) elect under the Scheme to receive 100% of their Scheme Consideration in the form of Yancoal Australia Ordinary Shares (rather than receiving any portion of their scheme consideration in the form of CVR Shares); and
 - arrangements are in place to the satisfaction of Gloucester and Yancoal Australia to ensure that such elections are not rendered ineffective either by revocation or by transfer of any of the relevant Gloucester Shares on or before the Scheme Record Date.

(b) Scheme conditions that apply for the benefit of Yancoal Australia

The following conditions apply for the sole benefit of Yancoal Australia and can only be waived by Yancoal Australia in its absolute discretion.

- **(No Gloucester Material Adverse Change)** No Gloucester Material Adverse Change occurs between 22 December 2011 and 8.00am on the Second Court Hearing Date.
- **(No Gloucester Prescribed Occurrence)** No Gloucester Prescribed Occurrence occurs between 22 December 2011 and 8.00am on the Second Court Hearing Date.
- **(No breach of Gloucester warranties)** Gloucester provides various warranties relating to contractual capacity/authority, the compliant preparation of the Explanatory Booklet, the accuracy of information supplied to Yancoal Australia during due diligence, together with a number of specific business/operational warranties. These warranties must remain true and correct in all material respects up to 8.00am on the Second Court Hearing Date.
- **(Amendment of terms of issue)** Prior to the Capital Return Record Date, the terms of issue applying to the Converting Shares are amended so that the Converting Shares convert into Gloucester Shares on a 1-for-1 basis and an agreed number of additional shares in Gloucester are provided (by way of issue) to the holders of the Converting Shares.
- **(Gloucester finance debt cap)** By 8.00am on the Second Court Hearing Date, Gloucester confirms to Yancoal Australia that the aggregate finance debt cap of the Gloucester Group does not exceed A\$527,606,000 (other than increases arising in the ordinary course of operations that do not result in a breach of Gloucester's banking covenants).

(c) Scheme conditions that apply for the benefit of Gloucester

The following conditions apply for the sole benefit of Gloucester and can only be waived by Gloucester in its absolute discretion.

- **(No Yancooal Material Adverse Change)** No Yancooal Material Adverse Change occurs between 22 December 2011 and 8.00am on the Second Court Hearing Date.
- **(No Yancooal Prescribed Occurrence)** No Yancooal Prescribed Occurrence occurs between 22 December 2011 and 8.00am on the Second Court Hearing Date.
- **(No breach of Yancooal Australia warranties)** Yancooal Australia provides various warranties relating to contractual capacity/authority, the accuracy of information supplied to Gloucester during due diligence, the accuracy of Yancooal Australia information for inclusion in the Explanatory Booklet and other matters. These warranties must remain true and correct in all material respects up to 8.00am on the Second Court Hearing Date.
- **(Yancooal Australia Finance debt cap)** By 8.00am on the Second Court Hearing Date, Yancooal Australia confirms to Gloucester that the aggregate finance debt cap of the Yancooal Australia group does not exceed A\$2,372,965,944.11 (other than increases arising in the ordinary course of operations that do not result in a breach of Gloucester's banking covenants).
- **(Extension of due debt)** By 8.00am on the Second Court Hearing Date, Yancooal Australia confirms to Gloucester that the repayment terms for various debt facilities are amended so that their due dates for repayment are extended until 16 December 2017 in some cases or until 16 December 2018 in other cases.
- **(\$700 million funding)** Before 8.00am on the Second Court Hearing Date, Yancooal Australia confirms to Gloucester that it has in place A\$700 million of funding to enable Gloucester to pay the following amounts: the Gloucester Special Dividend on or immediately after the Capital Return Record Date, the Promissory Note immediately on the presentation of the Promissory Note for payment and the Gloucester Option Amount in accordance with the Option cancellation arrangements described in Section 11.9.

11.6 Termination rights

(a) Mutual termination rights

Either Gloucester or Yancooal Australia may terminate the Merger Proposal Deed in any of the following circumstances:

- a condition precedent for the benefit of the relevant party is not fulfilled; or
 - after consultation with Yancooal Australia, if Gloucester does not receive a favourable class ruling from the ATO in relation to the tax treatment of the Gloucester Special Dividend, the Capital Reduction and the Scheme Consideration, after failure of any subsequent negotiations to restructure the Merger Proposal; or
- any material breach of the Merger Proposal Deed is not remedied within 10 Business Days of the breach being notified in writing to the relevant party.

(b) Yancooal Australia termination rights

Yancooal Australia may terminate the Merger Proposal Deed immediately if:

- the Gloucester Board changes or withdraws its recommendation to Shareholders to vote in favour of the Merger Proposal, including because the Gloucester Board publicly states that it supports a Competing Proposal; or
- Gloucester breaches its exclusivity obligations (see Section 5.5(e)) or permits a Gloucester Prescribed Occurrence to occur.

(c) Gloucester termination rights

Gloucester may terminate the Merger Proposal Deed immediately if Yancooal Australia breaches its exclusivity obligations (see Section 5.5(f)) or permits a Yancooal Australia Prescribed Occurrence to occur.

11.7 Status of conditions and termination rights

Yancooal Australia has applied to FIRB for approval of Yancooal Australia's proposed acquisition of Gloucester under the Scheme. FIRB approval was received on 8 March 2012 (after the close of ASX trading that day) and an ASX announcement to this effect was made by Gloucester on 9 March 2012. Two key conditions attached to FIRB's approval are that by no later than 31 December 2013:

- Yanzhou Coal reduce its economic ownership of certain operating assets of Felix Resources (which assets were acquired by a subsidiary of Yancooal Australia as part of its acquisition of Felix Resources as at the time of that acquisition) to a maximum of 50% (and from 31 December 2013, Yanzhou Coal's economic interest cannot exceed 50%); and
- Yanzhou Coal reduce its economic ownership in the Merged Group to less than 70% (and from 31 December 2013, Yanzhou Coal's economic interest cannot exceed 70%).

The key conditions attached to FIRB's approval are summarised in Section 14.15, with the full conditions set out in the attachment to Gloucester's ASX announcement of 9 March 2012 entitled 'FIRB approval of merger proposal – further details'.

As at the date of this Explanatory Booklet, neither Gloucester nor Yancooal Australia is aware of any circumstances which would cause any of the conditions summarised in Section 11.4(a) or (b) not to be satisfied or which could result in termination of the Merger Proposal Deed.

Gloucester will make a statement regarding the status of the conditions to the Merger Proposal Deed at the commencement of the Scheme Meeting.

SECTION 11 – THE SCHEME AND THE CAPITAL REDUCTION IN FURTHER DETAIL (CONTINUED)

11.8 Converting Shares

On or about 15 July 2011, Gloucester issued 1,000 Converting Shares to the CPS Holders noted in Section 6.7(b). On or about 22 February 2012, Gloucester and the CPS Holders agreed to amend the terms of issue of the Converting Shares. The key effect of those amendments is as follows.

If the Court approves the Scheme at the Second Court Hearing, then four Business Days after the Court Approval Date:

- the CPS Holders will be issued with 15,820,698 Gloucester Shares; and
- the 1,000 Converting Shares will convert into 1,000 Gloucester Shares,

with the result that, within four Business Days after the Court Approval Date, there will be 15,821,698 new Gloucester Shares on issue held by the current CPS Holders.

Those 15,821,698 new Gloucester Shares will be eligible to participate in the Special Dividend, the Capital Return and the Scheme on the same basis as all Gloucester Shares on issue as at the date of this Explanatory Booklet. Therefore, if as at the Capital Return Record Date and the Scheme Record Date, the CPS Holders

continue to be registered as the holders of the new Gloucester Shares issued to them under the amended terms of issue described above, the CPS Holders will be eligible to participate in the Special Dividend, the Capital Return and the Scheme.

11.9 Cancellation arrangements in respect of Gloucester Options

Gloucester has on issue 3,618,574 Options to acquire, by way of issue, Gloucester Shares. These options are held by 16 senior management executives within the Gloucester group, including the Managing Director, Mr Brendan McPherson. The exercise prices are either A\$7.30, A\$10.95 and A\$11.89 per Option, depending on the tranche. The Gloucester Options are not quoted on any financial market.

Prior to the date of this Explanatory Booklet, Gloucester entered into an option cancellation deed with each executive employee who is a holder of Gloucester Options. Under the terms of the option cancellation deeds, each executive employee holding Gloucester Options has agreed to have their Gloucester Options cancelled with effect on or from 10.00am on the Implementation Date for the cash amounts set out in the following table:

Number of Options	Exercise Price	Vesting Date	Maturity date	Aggregate consideration payable
80,045	\$10.95	1 Sep 2013	7 Jan 2018	\$186,505
40,023	\$10.95	1 Sep 2014	7 Jan 2018	\$93,254
40,023	\$10.95	1 Sep 2015	7 Jan 2018	\$93,254
1,000,000	\$11.89	23 Feb 2014	23 Feb 2018	\$2,120,000
1,000,000	\$11.89	23 Feb 2016	23 Feb 2018	\$2,120,000
486,161	\$7.30	1 Dec 2013	1 Dec 2018	\$1,871,720
486,161	\$7.30	1 Dec 2014	1 Dec 2018	\$1,871,720
486,161	\$7.30	1 Dec 2015	1 Dec 2018	\$1,871,720

These cash amounts have been determined by an independent consultant engaged by Gloucester to prepare a report on the fair value of the Options. The independent consultant applied the Binomial Tree valuation methodology for some tranches of Options and the Monte-Carlo simulation valuation methodology for others. Both valuation methodologies apply the Black Scholes formula and incorporate a 'risk neutral' probability framework that disregards the different exercises prices and vesting dates of the different tranches of Options.

The option cancellation deeds have no effect unless the Scheme becomes Effective on or before the Merger Proposal End Date. The option cancellation deeds preserve the right of each Option holder to exercise some or all of their Options in accordance with their terms prior to the Capital Return Record Date or Scheme Record Date. Any Gloucester Shares issued on such exercise of Options would be eligible to participate in the Special Dividend, the Capital

Return and the Scheme on the same basis as all other Gloucester Shares on issue.

If the Gloucester Options are cancelled under the option cancellation deeds, each executive employee releases and discharges Gloucester from all claims that the employee may have against Gloucester, including without limitation any obligation for Gloucester to issue Gloucester Shares on the exercise of Gloucester Options.

11.10 Capital Return

(a) Introduction

Separately to the Scheme, Gloucester proposes to undertake the Capital Return under which eligible Shareholders would receive a cash payment of approximately A\$2.71 per Share⁶⁶. The Capital Return will be implemented by Gloucester undertaking the Capital Reduction.

The Capital Reduction is subject to the satisfaction of the following conditions:

- the Capital Reduction Resolution being passed at the General Meeting; and
- Gloucester making an announcement to ASX by no later than two Business Days after the Court Approval Date setting the Capital Return Record Date.

If the conditions outlined above are satisfied, Gloucester's issued share capital will be reduced by approximately A\$593 million and eligible Shareholders will receive approximately A\$2.71 cash per Share six months after the Implementation Date. Please refer to Section 12.8 for further information on the process and timing for implementing the Capital Return.

(b) General Meeting

The purpose of the General Meeting is to seek approval from Gloucester Shareholders to implement the Capital Reduction and effect the Capital Return.

The General Meeting will be held on Monday, 4 June 2012 commencing at 11.00am (Sydney time) or as soon as reasonably practicable after the Scheme Meeting concludes or is adjourned (whichever time is later).

The notice convening the General Meeting is set out in Appendix 5.

(c) Eligibility to vote at the General Meeting

Each person who is registered on the Gloucester Share Register as a Gloucester Shareholder as at the Voting Entitlement Time (12.00pm (Sydney time) on Saturday, 2 June 2012) is entitled to attend and vote at the General Meeting, either in person, by proxy or attorney or, in the case of a corporate Gloucester Shareholder or proxy, by a representative.

Section 4 of this Explanatory Booklet sets out the instructions for how to vote at the General Meeting. A single proxy form for the Scheme Meeting and the General Meeting is enclosed with this Explanatory Booklet.

(d) Voting majority required

The Capital Reduction Resolution requires the approval of a simple majority (more than 50%) of the votes cast by Gloucester Shareholders present and voting at the General Meeting, whether in person, by proxy or attorney or, in the case of a corporate Gloucester Shareholder or proxy, by a representative.

(e) Other statutory requirements

In addition to Shareholder approval as described above, the Corporations Act requires that the Capital Reduction:

- be fair and reasonable to Gloucester's Shareholders as a whole; and
- not materially prejudice Gloucester's ability to pay its creditors.

Fair and reasonable

As the Capital Reduction would:

- apply to each holder of Gloucester Shares in proportion to the number of Shares they hold at the Capital Return Record Date;
- have the same terms and conditions for each person who holds Gloucester Shares as at the Capital Return Record Date;
- not involve the cancellation of any Gloucester Shares; and
- not create or increase any unpaid amount on any Gloucester Shares,

the Directors consider that that the Capital Reduction is fair and reasonable to Gloucester's Shareholders as a whole.

No material prejudice for Gloucester's creditors

The Directors consider that the Capital Return will not materially prejudice Gloucester's ability to pay its creditors. The Directors have had regard to the following matters (among others) in forming this view:

- although the Capital Reduction is not conditional on the Scheme the Directors do not intend to proceed with the Capital Return unless the Scheme is approved by Gloucester Shareholders and the Court;
- Gloucester's obligations under the Capital Return will be discharged by the delivery to an independent Trustee of Promissory Notes for an amount equal to the Capital Return Amount. The Promissory Notes will not be due for payment until six months after the implementation of the Scheme, at which time Gloucester will be a wholly owned subsidiary of Yancoal Australia;
- the Merger Proposal Deed provides that it is a condition precedent to the Merger Proposal that, before the Second Court Hearing Date, Yancoal Australia provides objective written confirmation to Gloucester, including from the relevant financiers and otherwise in a form acceptable to Gloucester acting reasonably, that Yancoal Australia has in place A\$700 million of funding which will enable Gloucester to pay in full and on time the Gloucester Special Dividend on or immediately after the Capital Reduction Record Date, the Promissory Notes immediately on the presentation of the Promissory Notes for payment and the Gloucester Option Amount; and

⁶⁶ As foreshadowed in Gloucester's 23 December 2011 announcement, the amount can vary and reflects the intended cancellation of all of the Gloucester Options for cash (see Section 11.9 for details of these intended cancellation arrangements). The Capital Return is subject to the Gloucester Directors announcing a Capital Return Record Date. See Sections 10 and 11 for further details.

SECTION 11 – THE SCHEME AND THE CAPITAL REDUCTION IN FURTHER DETAIL (CONTINUED)

- the Merger Proposal Deed further provides a guarantee by Yancoal Australia of all of Gloucester’s obligations contained in or implied under the Promissory Notes (**Guaranteed Obligations**). The Guaranteed Obligations are expressed to be for the benefit of all persons registered as Gloucester Shareholders as at the Capital Reduction Record Date.

Your Directors consider that these arrangements appropriately protect the interests of Gloucester Shareholders registered as such on the Capital Return Record Date. However, they do not provide complete protection or an absolute assurance that the Promissory Notes will be honoured when they are presented for payment on what is expected to be six months after the Merger Proposal is implemented, as this relies on the financial capacity at that time of Gloucester, in the first instance, and of Yancoal Australia as guarantor, in the second instance.



SECTION 12

IMPLEMENTATION



SECTION 12 – IMPLEMENTATION

12.1 Introduction

If:

- (a) the Scheme is approved by Gloucester Shareholders at the Scheme Meeting;
- (b) the Capital Reduction Resolution is duly passed by Gloucester Shareholders at the General Meeting; and
- (c) all other conditions to the Merger Proposal and Capital Return as described in Section 11 (other than Court approval of the Scheme) have been satisfied or waived (as applicable),

the further general steps required to implement the Merger Proposal and the Capital Return are as described in the remainder of this Section 12.

The description of these general steps is based on the obligations that Gloucester and Yancoal Australia have under the Merger Proposal Deed. Yancoal Australia has also signed a Deed Poll in which it covenants in favour of Scheme Shareholders to perform the actions attributed to it under the Scheme and to provide the Scheme Consideration in accordance with the Scheme. The Merger Proposal Deed is contained in Appendix 6. The Deed Poll is contained in Appendix 7.

12.2 Apply to Court for approval of Scheme

At the Second Court Hearing, Gloucester will apply to the Court for orders approving the Scheme. It is expected that the Second Court Hearing Date will be held on or about Friday, 8 June 2012. Any change to this date will be announced through ASX and will be available on ASX's website, asx.com.au.

The Court has a wide, overriding discretion whether or not to approve the Scheme under section 411(4)(b) of the Corporations Act.

12.3 Opposing the Scheme

If you wish to oppose approval of the Scheme by the Court at the Second Court Hearing you must file with the Court, and serve on Gloucester, a notice of appearance in the form prescribed under the *Supreme Court (Corporations) Rules 2003 (Vic)*, together with any affidavit on which you wish to rely at the hearing. The notice of appearance and affidavit must be served on Gloucester at its address for service at least one day before the Second Court Hearing Date. The address for service is:
c/o Minter Ellison, 525 Collins Street, Melbourne VIC 3000.
Attention: Thomas Read and Alberto Colla.

12.4 Receipt of Court order

If the Court approves the Scheme:

- (a) Gloucester will make an announcement to ASX notifying the market of the receipt of Court approval, with that announcement to be made on the Court Approval Date;
- (b) in that same announcement, Gloucester's Directors intend to declare the Special Dividend and set the Capital Return Record Date, with that record date also applying to the Special Dividend; and
- (c) approximately 13 days after the Court approves the Scheme, Gloucester will lodge an office copy of the Court's orders with ASIC under section 411(10) of the Corporations Act. On that date (which is expected to be Friday, 22 June 2012), the Scheme will become Effective.

Shareholders who participate in the Capital Return and the Special Dividend will not necessarily be the same Shareholders who participate in the Scheme.

If the Scheme becomes Effective, Gloucester and Yancoal Australia will become bound to implement the Scheme in accordance with the terms of the Merger Proposal Deed, the Deed Poll and the Scheme. Only Gloucester Shareholders who qualify as Scheme Shareholders will be bound by and have the benefit of the Scheme. Section 12.6 of this Explanatory Booklet describes the principles in the Scheme for determining the identity of Scheme Shareholders.

If the Scheme does not become Effective before the Merger Proposal End Date, the Scheme will lapse.

12.5 Implementation of Scheme

(a) Suspension of trading of Gloucester Shares

During the period of approximately 13 days between the Court Approval Date and the Effective Date, Gloucester Shares will continue to trade on ASX, noting that it is expected that Gloucester Shares will trade 'ex' entitlement to the Special Dividend and the Capital Return from the commencement of trading on Thursday, 14 June 2012.

It is expected that suspension of trading on ASX in Gloucester Shares will occur from the close of business on the Effective Date. On the current timetable, the Effective Date is expected to be Friday, 22 June 2012.

(b) Transfer and registration of Scheme Shares

Under the Scheme, Scheme Shareholders irrevocably authorise Gloucester to Convert (within the meaning of the ASX Settlement Operating Rules) all Scheme Shares held in CHESS Holdings into Issuer Sponsored Holdings (each as defined in the ASX Settlement Operating Rules). On the Implementation Date, the Scheme Shares held by Scheme Shareholders, together with all rights and entitlements attaching to those shares as at the Implementation Date, will be transferred to Yancoal Australia without the need for any further act by any Scheme Shareholder, by Gloucester executing and delivering a valid transfer or transfers of the Scheme Shares to Yancoal Australia under the Corporations Act. In consideration of the transfer of the Scheme Shares to Yancoal Australia, Yancoal Australia will provide the Scheme Consideration to each Scheme Shareholder, in accordance with the provisions of the Scheme. See Sections 12.5(c) to (g) inclusive for further details on the provision of the Scheme Consideration.

(c) Issue of Yancoal Securities

The obligation of Yancoal Australia to issue Yancoal Securities to Scheme Shareholders will be satisfied by Yancoal Australia taking the following steps:

- on or before the Implementation Date, Yancoal Australia will issue the applicable number of Yancoal Securities to each Scheme Shareholder and, in the case of Foreign Scheme Shareholders and Electing Small Shareholders, to the Sale Agent; and
- within five Business Days after the Implementation Date, Yancoal Australia will procure the dispatch to Scheme Shareholders and to the Sale Agent of an allotment advice or holding statement (or equivalent document) reflecting the number of Yancoal Securities issued to them under the Scheme.

Each Scheme Shareholder to whom Yancoal Securities are issued under the Scheme agrees:

- to become a member of Yancoal Australia for the purposes of section 231 of the Corporations Act;
- to have their name and address entered in the Yancoal Australia Register; and
- to be bound by the constitution of Yancoal Australia as in force from time to time in respect of the Yancoal Australia Ordinary Shares.

Each Scheme Shareholder, without the need for any further act, irrevocably appoints Gloucester and each of its directors and officers, jointly and severally, as that Scheme Shareholder's attorney and agent for the purpose of executing any form of application required for Yancoal Securities to be issued to that Scheme Shareholder pursuant to the Scheme.

(d) Explanation of scale back mechanism for CVR Shares

Gloucester Shareholders who do not make an 'All Ordinary Shares' Election will be subject to a scale back mechanism on a pro rata basis if (following Court approval of the Scheme and the Scheme becoming Effective) the number of Gloucester Shares held by such Shareholders exceeds the total number of Scheme Shares on the Scheme Record Date less 130 million.

As stated in the letter from Gloucester's Chairman at pages 8–10, if the Minimum Election Condition is satisfied (thus facilitating Gloucester seeking Court Approval of the Scheme), the scale back of CVR Shares under the Scheme would only occur if, after Court approval, Noble acts inconsistently with its stated intention to make an All Ordinary Shares Election including acting inconsistently, after Court Approval of the Scheme, with the arrangements that are to be put in place to satisfy the second ingredient of the Minimum Election Condition.

If the scale back mechanism applies, each Gloucester Shareholder who has not made an 'All Ordinary Shares' Election will receive⁶⁷:

- (a) One Yancoal Australia Ordinary Share and one CVR Share per Scheme Share in respect of a number of Gloucester Shares calculated in accordance with the following formula:

$$B/A \times C$$

where

A = the number of Scheme Shares not the subject of an 'All Ordinary Shares' Election

B = the total number of Scheme Shares on issue on the Scheme Record Date less 130 million and

C = the number of Scheme Shares held by the relevant Gloucester Shareholder; and

- (b) One Yancoal Australia Ordinary Share per Scheme Share in respect of the remaining Scheme Shares held by the relevant Scheme Shareholder.

In terms of the likely application of the scale back mechanism, it is relevant to note that Noble has stated to Gloucester that, in the absence of a Superior Proposal, Noble will make an 'All Ordinary Shares' Election. The Directors believe that principles of 'Truth in Takeovers' will make it difficult for Noble as a practical matter to act inconsistently with its statements. Provided Noble makes such an election and elections continue to be effective in respect of at least 130 million Gloucester Shares as at the Scheme Record Date, Gloucester Shareholders who do not make an 'All Ordinary Shares' election should not have their entitlements to CVR Shares scaled back. Your Directors note the steps that have been taken to maximise the opportunity for Shareholders other than Noble to receive (in addition to Yancoal Australia Ordinary Shares), should they wish, up to one CVR Share for each of their Gloucester Shares.

(e) Joint holders

In the case of Scheme Shares held in joint names, any uncertificated holding statements for Yancoal Securities to be issued to Scheme Shareholders will be issued in the names of the joint holders, and forwarded to the holder whose name appears first in the Gloucester Register as at the Scheme Record Date.

(f) Foreign Scheme Shareholders

Yancoal Australia will be under no obligation to issue, and will not issue, any Yancoal Securities to Foreign Scheme Shareholders. For the purpose of the definition of 'Foreign Scheme Shareholder', Gloucester and Yancoal Australia have determined that it is not unlawful, unduly onerous or impractical to issue Yancoal Securities to Scheme Shareholders whose address in the Gloucester Register is in any of the following jurisdictions:

- New Zealand;
- United Kingdom (only to Exempted Persons – see Important Notices section at page 4);
- United States of America;
- Singapore (subject to there being less than 50 Gloucester Shareholders with addresses in Singapore); and
- Hong Kong (subject to there being less than 50 Gloucester Shareholders with addresses in Hong Kong).

If a Scheme Shareholder's address in the Gloucester Register is not in Australia, its external territories, New Zealand or any of the jurisdictions noted above, the Scheme Shareholder will be regarded as a Foreign Scheme Shareholder (unless Yancoal Australia and Gloucester otherwise agree).

The Yancoal Securities which would otherwise be required to be issued to Foreign Scheme Shareholders under the Scheme will be issued instead to the Sale Agent on the Implementation Date. Yancoal Australia will procure that, as soon as reasonably practicable and, in any event, not more than 15 Business Days after the Implementation Date, the Sale Agent:

- sells all of the Yancoal Securities issued to it under the Scheme in such manner, at such price or prices and on such other terms as the Sale Agent determines in good faith (and at the risk of Foreign Scheme Shareholders); and
- remits to Gloucester the proceeds of sale (after deduction of any applicable brokerage and other selling costs, taxes and charges) (the **Proceeds**).

67 Subject to special arrangements applying to Foreign Scheme Shareholders or Electing Small Shareholders.

SECTION 12 – IMPLEMENTATION (CONTINUED)

Promptly after the last sale of Yancoal Securities by the Sale Agent, Gloucester will pay to the Foreign Scheme Shareholder a proportional part of the Proceeds reflecting the number of Yancoal Securities which would have been issued to the Foreign Scheme Shareholder but for the application of this process.

(g) Small Scheme Shareholders

A Small Shareholder may elect to receive the net proceeds of the sale of the Yancoal Securities to which they would otherwise be entitled under the Scheme. To do so, they must comply with the procedure set out in Section 11.4(a).

The Yancoal Securities which would otherwise be required to be issued to the Electing Small Shareholder under the Scheme will be issued instead to the Sale Agent on the Implementation Date.

Yancoal Australia will procure that, as soon as reasonably practicable and, in any event, not more than 15 Business Days after the Implementation Date, the Sale Agent:

- sells all of the Yancoal Securities issued to it under the Scheme in such manner, at such price or prices and on such other terms as the Sale Agent determines in good faith (and at the risk of Electing Small Shareholders); and
- remits to Gloucester the proceeds of sale (after deduction of any applicable brokerage and other selling costs, taxes and charges) (the **Proceeds**).

Promptly after the last sale of Yancoal Securities by the Sale Agent, Gloucester will pay to the Electing Small Shareholder a proportional part of the Proceeds reflecting the number of Yancoal Securities which would have been issued to the Electing Small Shareholder but for the application of this process.

(h) Delisting of Gloucester

At a time determined by Yancoal Australia following the implementation of the Scheme, Yancoal Australia will cause Gloucester to apply for the termination of the official quotation of Gloucester Shares on ASX and to have itself removed from the official list of ASX. It is expected that this will occur shortly after the Implementation Date.

12.6 Determination of Scheme Shareholders

To establish the identity of the Scheme Shareholders, dealings in Gloucester Shares will only be recognised if:

- in the case of dealings of the type to be effected using CHES, the transferee is registered in the Gloucester Register as the holder of the relevant Gloucester Shares on or before the Scheme Record Date; and
- in all other cases, registrable transmission applications or transfers in respect of those dealings are received on or before the Scheme Record Date at the place where the Gloucester Register is kept.

Gloucester must register any non-CHES registrable transmission applications or transfers of Gloucester Shares by, or as soon as practicable after, the Scheme Record Date.

Gloucester will not accept for registration or recognise for any purpose any transmission application or transfer in respect of Gloucester Shares received after the Scheme Record Date, other than a transfer to Yancoal Australia in accordance with the Scheme.

Under the terms of the proposed Scheme:

- Gloucester Shareholders may not dispose of or otherwise deal with any Gloucester Shares or any interest therein after the Scheme Record Date; and
- any dealings in Gloucester Shares after the Scheme Record Date will not be recognised by the Gloucester Registry.

For the purpose of determining entitlements to the Scheme Consideration, Gloucester must maintain (or cause the Gloucester Registry to maintain) the Gloucester Register until the Scheme Consideration has been provided to the Scheme Shareholders. The Gloucester Register in this form will solely determine entitlements to the Scheme Consideration.

Any statements of holding for Gloucester Shares will cease to have effect from the Scheme Record Date as documents or evidence of title in respect of those shares (other than statements of holding in favour of Yancoal Australia and its successors in title). After the Scheme Record Date, each entry current at that date on the Gloucester Register will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the Gloucester Shares relating to that entry.

As soon as practicable after the Scheme Record Date and in any event at least one Business Day before the Implementation Date, Gloucester will ensure that details of the names, registered addresses and holdings of Gloucester Shares for each Scheme Shareholder are available to Yancoal Australia in the form Yancoal Australia reasonably requires.

12.7 Trading Yancoal Securities on ASX

(a) ASX listing of Yancoal Australia

Yancoal Australia has made a conditional application to ASX for admission to the Official List of ASX and for official quotation of the Yancoal Securities on ASX. Yancoal Australia is not aware of any reason why that application would not be approved, subject only to the approval of the Scheme by the Court, the implementation of the Scheme as approved by the Court and usual and customary conditions of ASX of a procedural or administrative nature.

(b) Deferred settlement market

Trading on ASX of Yancoal Securities issued as Scheme Consideration is expected to commence on a deferred settlement basis on or about Monday, 25 June 2012 (being the first Business Day after the Effective Date). Deferred settlement trading will continue until the dispatch of holding statements, which is expected to occur on or about Tuesday, 10 July 2012. These dates are indicative only and are subject to change without notice.

Details of the basis of allocations of Yancoal Securities will be announced to ASX and published in certain newspapers on or about Monday, 25 June 2012. From that date, Gloucester Shareholders may call the Gloucester Shareholder Information Line on 1300 368 646 (within Australia) or on +61 3 9415 4161 (outside Australia) between 9.00am and 5.00pm (Sydney time) to confirm their allocation of CVR Shares. It is the responsibility of each Scheme Shareholder to confirm their allocation of Yancoal Securities before trading in those securities, to avoid selling Yancoal Securities they do not own. Any Gloucester Shareholder who sells Yancoal Securities before receiving confirmation of their allocation does so at their own risk.

Yancoal Australia and Gloucester disclaim all liability, whether in negligence or otherwise, to any Scheme Shareholder who trades Yancoal Securities before receiving their holding statement, whether on the basis of a confirmation of allocation provided by Yancoal Australia or otherwise.

(c) CHESS and holding statements

Shortly following the issue of Yancoal Securities to Scheme Shareholders, they will receive an initial statement of holding (similar to a bank account statement) that sets out the number of Yancoal Securities which have been allocated to them under the Scheme. This statement will also provide details of a shareholder's HIN in the case of a holding on the CHESS subregister or SRN in the case of holding on the issuer-sponsored subregister. Scheme Shareholders receiving Yancoal Securities under the Scheme will be required to quote their HIN or SRN, as applicable, in all dealings with a stockbroker or the Yancoal Australia share registry.

Scheme Shareholders receiving Yancoal Securities under the Scheme will receive subsequent statements at the end of any month in which there has been a change to their holding on the Yancoal Australia share register and as otherwise required under the Listing Rules.

12.8 Implementation of Capital Return

Subject to the satisfaction of the conditions noted in Section 11.10, Gloucester will implement the Capital Return as follows:

- on the Capital Return Record Date, Gloucester will owe a debt equal to the Capital Reduction Amount to Gloucester Shareholders registered as such on the Capital Return Record Date;
- on or about the date of payment of the Special Dividend, Gloucester will discharge that debt by issuing to the Trustee for each Gloucester Shareholder registered as such on the Capital Return Record Date one Promissory Note each for an amount equal to that Gloucester Shareholder's proportional share of the Capital Reduction Amount;
- each of the Promissory Notes will be payable in full by Gloucester on the date on what is expected to be six months after the Implementation Date (**Payment Date**);
- the Trustee will hold each Promissory Note on trust for the Gloucester Shareholders in accordance with the Trust Deed;

- on the Payment Date, it is proposed that the Trustee will present each Promissory Note to Gloucester for payment and Gloucester must pay the Promissory Note in full and in cleared funds to the former Gloucester Shareholder beneficially entitled to that Promissory Note on that date, with payment to be made by electronic funds transfer if the former Shareholder has previously notified Gloucester of an account with any Australian ADI in Australia or otherwise by cheque sent by pre-paid post to their registered address; and
- following the receipt of payment of each Promissory Note by Gloucester, it is proposed that the Trustee will in accordance with the Trust Deed arrange for the distribution of the proceeds to the person registered as the Gloucester Shareholder as at the Capital Return Record Date beneficially entitled to the Promissory Note.

Please see Section 13.6 for a summary of the material provisions of the Promissory Note Trust Deed.

Yancoal Australia guarantees the due and punctual performance and observance by Gloucester of all of Gloucester's obligations contained in or implied under the Promissory Note (**Guaranteed Obligations**). The Guaranteed Obligations are for the benefit of all persons registered as Gloucester Shareholders as at the Capital Return Record Date.

12.9 Enforcement Share

Yancoal Australia has issued to Gloucester a redeemable cumulative preference share at an issue price of A\$1.00 (**Enforcement Share**). The Enforcement Share secures the performance by Yancoal Australia of its obligations under the Merger Proposal Deed, by providing that any breach by Yancoal Australia of its obligations under that deed will be a variation or cancellation of rights attached to the Enforcement Share. Such a cancellation or variation requires the approval of Gloucester to be effective, and without that approval, Gloucester would be entitled to seek a court order enforcing, or restraining breach of, the Merger Proposal Deed terms (by seeking an order to restrain the variation or cancellation of rights).

The Enforcement Share will be redeemed by Yancoal Australia on the earliest of:

- termination of the Merger Proposal Deed;
- Gloucester requesting such redemption;
- Yancoal Australia giving notice of such redemption after the Merger Proposal End Date (which is 31 July 2012, subject to any extension of this date which may be agreed to by Gloucester and Yancoal Australia); and
- the mandatory redemption date of 31 December 2012.

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SECTION 13

KEY AGREEMENTS



SECTION 13 – KEY AGREEMENTS

13.1 Introduction

To give effect to the Merger Proposal, a number of supporting agreements will be entered into prior to 5.00pm on the day before the Second Court Hearing Date, being the Restructure Agreement, the LTCC Licence Agreement, the Separation Agreement, the Management and Transitional Services Agreement, the CVR Shares Agreement and the Promissory Note Trust Deed. The material terms of these agreements are summarised below. In addition, certain key material agreements of the Merged Group are summarised below.

13.2 Restructure Agreement

(a) Sale and purchase

Under the Restructure Agreement, Yancoal Australia and certain of its subsidiaries (**Sellers**) agree to sell, and certain subsidiaries of Yanzhou Coal (**Buyers**) agree to purchase, the Excluded Assets at the net book value of those assets as at 30 April 2012. It is intended that completion of the transfers will occur before the Effective Date, although the transfer of certain Excluded Assets which require regulatory approvals may not occur until after the Effective Date, once relevant approvals have been obtained.

The purchase consideration will be paid at completion by way of the Buyers endorsing in favour of the Sellers promissory notes issued by Yanzhou Coal. The promissory notes will then be transferred up the corporate ownership chain of the Merged Group, and then ultimately distributed in specie by Yancoal Australia to Yanzhou Coal either by way of equal share capital reductions and/or the payment of dividends. The practical effect of this mechanism is that the Sellers will not receive any cash consideration for their transfer of the Excluded Assets to the Buyers.

The Buyers indemnify the Sellers for tax and duty payable by the Sellers to the extent resulting from (among other things) the sale of the Excluded Assets, the distribution of the promissory notes and acts and omissions of the Excluded Assets.

As part of the transfer arrangements, relevant Wilpeena tenement sub-blocks which form part of the Excluded Assets and which are not capable of separate transfer to the Buyers will be the subject of a 'Sub-Exploration Deed'. The Sub-Exploration Deed will allow a Yanzhou Coal subsidiary to exploit and obtain the economic benefit of these sub-blocks on an ongoing basis.

(b) Sale-back

The Restructure Agreement includes provisions which may result in the transfer of Syntech and Premier Coal back to the Merged Group if Yanzhou Coal has not (despite using its best endeavours) otherwise reduced its interest in Syntech or Premier Coal to less than 70% by 27 December 2014.

If Yanzhou Coal has not reduced its interest in Syntech and Premier Coal to less than 70% by 30 June 2014, Yancoal Australia will be required to negotiate in good faith and use its best endeavours to agree with Yanzhou Coal the price and other terms on which Yanzhou Coal will sell back its entire interest in Syntech and Premier Coal to Yancoal Australia.

Yancoal Australia will establish a committee of its independent directors to undertake due diligence on Syntech and Premier Coal and to negotiate the terms of the possible purchase. Yancoal Australia will not be obliged to buy back Syntech or Premier Coal if Yancoal Australia and Yanzhou Coal cannot agree on all terms of sale

(other than price). If Yancoal Australia and Yanzhou Coal reach agreement on all terms of sale other than price, then the purchase price shall be 'fair value' as determined by an independent expert.

If:

- all terms of sale (including price) are agreed (or, in respect of price, determined by the independent expert in the absence of agreement); and
- Yanzhou Coal has not (despite its best endeavours) otherwise reduced its interest in Syntech or Premier Coal to less than 70% by 27 December 2014,

then Yancoal Australia must buy back from Yanzhou Coal each of Syntech and Premier Coal on those terms of sale by no later than 31 December 2014.

Yancoal Australia must pay all stamp duty in respect of the transfer of Syntech and Premier Coal under this sale-back arrangement. Yancoal Australia's obligation to purchase will be conditional on any required shareholder and regulatory authority approvals and on the existence of sufficient cash and financing resources.

13.3 LTCC Licence Agreement

Under the LTCC Licence Agreement, Yancoal Australia will have non-exclusive access to certain patents, services and know-how relating to LTCC technology through Yanzhou Coal and Yancoal Technology Development Pty Ltd. These patents, services and know-how will be provided free of charge (except in relation to travel and accommodation costs) for coal mines operated by Yancoal Australia and its related bodies corporate as at the Implementation Date.

Following the Implementation Date, Yancoal Australia may request provision of these LTCC patents, services and know-how for a new mine, in which case the parties will negotiate in good faith their provision on commercial terms and subject to any applicable laws (including the ASX Listing Rules).

13.4 Separation Agreement

Under the Separation Agreement, Yancoal Australia and Yanzhou Coal agree that:

- each will procure the release of parent⁶⁸ and subsidiary guarantees given for the benefit of the other;
- Yancoal Australia will, prior to 8.00am on the Second Court Hearing Date, reconstruct its share capital in the manner set out in clause 5.3(j) of the Merger Proposal Deed;
- Yancoal Australia will provide certain financial and other information (subject to confidentiality and other protections) to Yanzhou Coal, including for the purpose of allowing it to comply with its own regulatory and listing obligations; and
- where assets used predominantly by Yancoal Australia or Yanzhou Coal are held by the other party, that those assets will be transferred to (or held on trust for) the predominant user.

Under the Separation Agreement, Yancoal Australia and Yanzhou Coal acknowledge that there may be benefits to Yancoal Australia in adopting similar management and other policies to those implemented by Yanzhou Coal where do to so is in accordance with applicable laws, including in relation to: corporate governance and reporting; adoption of consistent information technology and

68 If requested by Yanzhou.

systems; optimisation of treasury management functions and processes and banking relationships; and utilisation of Yanzhou Coal 'buying power' for the benefit of Yancoal Australia.

In this regard, and without limiting the scope of what additional arrangements may in future be implemented between Yanzhou Coal and the Yancoal Australia Group, the parties agree in the Separation Agreement that:

- Yancoal Australia will consider purchasing directors and officers insurance jointly with Yanzhou Coal;
- Yancoal Australia will adopt and implement throughout the Yancoal Australia Group common financial and management reporting information technology systems and platforms as those systems and platforms are implemented throughout the Yanzhou Coal Group, including as necessary to ensure that the Yancoal Australia Group's systems and platforms operate efficiently and on an integrated basis with those of Yanzhou Coal; and
- Yancoal Australia will adopt and implement throughout the Yancoal Australia Group consistent treasury and cash management processes with Yanzhou Coal, which may include in appropriate circumstances sourcing finance from Yanzhou Coal relationship banks and arm's length lending between the Yancoal Australia Group and Yanzhou Coal where in accordance with applicable laws. As part of these arrangements, if determined by Yancoal Australia's board of directors, Yancoal Australia will establish offshore accounts outside Australia at Yanzhou Coal relationship banks.

13.5 Management and Transitional Services Agreement

Under the Management and Transitional Services Agreement, Yancoal Australia will provide services to Yanzhou Coal (and certain other of its subsidiaries holding the Excluded Assets) in relation to the Excluded Assets. The services to be provided include:

- corporate support (such as human resources services, treasury services, payroll services, financial and reporting services, compliance services and government related services and other head office services);
- information technology; and
- management of operations (such as management of mining and exploration operations, development of business plans and budgets, maintenance operations and monitoring and reporting of environmental issues),

substantially similar in nature to those currently provided to Yanzhou Coal and the Excluded Assets.

The services may be terminated by Yancoal Australia on 12 months notice (such notice to be given no earlier than 31 December 2016) or by Yanzhou Coal (or the relevant recipient) on 30 days notice.

On termination of a 'management' service, certain transitional service provisions which provide for the orderly handover of service provision from Yancoal Australia to another provider are triggered.

Yancoal Australia will charge Yanzhou Coal (or the relevant recipient) for the cost of providing the services plus a 5% margin. Any third party charges incurred by Yancoal Australia in the provision of the services will be paid by Yanzhou Coal (or the relevant recipient).

13.6 Promissory Note Trust Deed

The Promissory Note Trust Deed is a deed between Gloucester and the Trustee. This deed facilitates the arrangements relating to the Capital Return proposed to be made by Gloucester to Gloucester Shareholders registered as such on the Capital Return Record Date.

Under the relevant provisions of Gloucester's constitution and the terms of the resolution approving the Capital Return, Gloucester proposes to satisfy its obligations under the Capital Return to eligible Gloucester Shareholders participating in the Capital Return, by issuing to the Trustee on behalf of each such Shareholder one Promissory Note for an amount equal to that Shareholder's share of the Capital Return.

Under the terms of the Promissory Note Trust Deed, the Trustee will hold all Promissory Notes and all resulting property on trust for the Gloucester Shareholders registered as such on the Capital Reduction Record Date. Each of those persons is characterised as the beneficial owner of their respective Promissory Note and as a Beneficiary under the Promissory Note Trust Deed.

The Promissory Note Trust Deed will have no effect until Gloucester delivers all the Promissory Notes to the Trustee.

The Promissory Note Trust Deed contains provisions dealing with joint holders, the death or insolvency of beneficiaries and other related matters. It also contains standard provisions relating to the powers of the Trustee on matters such as delegation, enforcement and the process governing the change of a trustee.

13.7 CVR Shares Agreement

Yanzhou Coal and Yancoal Australia have entered into the CVR Shares Agreement. Under that agreement:

- Yanzhou Coal agrees to Repurchase (or procure that another Yanzhou CVR Shareholder will Repurchase) the CVR Shares in accordance with their Terms of Issue (the **Yanzhou Obligation**);
- Yancoal Australia agrees not to vary, modify or abrogate the CVR Terms of Issue and to exercise certain of its rights under those Terms of Issue that impact on Yanzhou Coal (by virtue of its Repurchase obligation) as directed by Yanzhou Coal; and
- Yancoal Australia and Yanzhou Coal agree to use reasonable endeavours, as soon as reasonably practicable after Repurchase by a Yanzhou CVR Shareholder has occurred, to arrange for the buy-back or cancellation of the CVR Shares from that Yanzhou CVR Shareholder for a nominal price (less than A\$1 for all of the CVR Shares on issue).

Under the CVR Terms of Issue, Yancoal Australia must enforce the Yanzhou Obligation and may not vary or waive it where to do so would be adverse to the rights of CVR Shareholders.

SECTION 13 – KEY AGREEMENTS (CONTINUED)

13.8 Ashton – joint venture arrangements

The Ashton Coal Joint Venture Agreement Restatement (**Ashton JVA**) is dated 18 August 2005 and restates the terms and conditions of an unincorporated joint venture arrangement (the **Ashton Coal Joint Venture**) established to jointly investigate and mine commercial coal deposits within the Ashton Coal Joint Venture area. Currently, Yancoal Australia holds a 90% interest in the Ashton Coal Joint Venture with the remaining 10% interest being held by Itochu Corporation (**Itochu**).

Ashton Coal Operations Pty Limited, a subsidiary of Yancoal Australia is appointed as the operator and manager in relation to the Ashton Coal Joint Venture.

Each venturer meets the operator's calls for capital in proportion to its respective percentage interests in the Ashton Coal Joint Venture.

Transfers of an interest under the Ashton JVA require consent of the other venturer(s) and are subject to pre-emptive rights. A transfer to a third party is also subject to a tag-along right, whereby the continuing venturer is able to sell its interest on the same terms and conditions as the selling venturer has secured with the third party. In the event that the third party does not wish to purchase all of the interest of the venturer seeking to tag along, the venturers must sell their interests in proportion to their respective participating interests.

Changes of control of the venturers are also regulated under the Ashton JVA. Any venturer who is subject to a change of control must offer to sell its whole interest in the Ashton Coal Joint Venture to the other venturer, with the value of the interest being determined by the auditor appointed to audit the accounts and records of the Ashton Coal Joint Venture.

Ashton Coal Mines Limited (**ACM**) is a subsidiary of Yancoal Australia and is appointed as the exclusive marketing agent for coal produced under the Ashton Coal Joint Venture. Under the terms of a Market Representation Agreement between ACM and Itochu (restated on 1 February 2006), Itochu has exclusive marketing rights in Japan and non-exclusive rights in China in respect of all coal produced by the Ashton Coal Joint Venture.

13.9 Moolarben – joint venture arrangements

The Moolarben Joint Venture Agreement (**Moolarben JVA**) was entered into on 21 September 2007 and establishes an unincorporated joint venture (the **Moolarben Joint Venture**) with the purpose of jointly investigating and mining commercial coal deposits within the Moolarben Joint Venture area. Yancoal Australia currently holds an 80% interest in the Moolarben Joint Venture with the remaining 20% interest being held Sojitz (10%) and a consortium (10%) that includes Korea Resources Corporation, Hanwha Corporation Limited and Korea Electric Power Company.

Moolarben Coal Operations Pty Limited, a subsidiary of Yancoal Australia is appointed as the manager of the Moolarben Joint Venture.

Each venturer meets the operator's calls for capital in proportion to its respective percentage interests in the Moolarben Joint Venture.

Transfer of a venturer's interest in the Moolarben Joint Venture is subject to the exercise of the other venturers' pre-emptive rights to purchase that interest in priority to a third party. Changes of control of the venturers are also regulated under the Moolarben JVA. Any venturer who is subject to a change of control must immediately offer to transfer the whole of its interest to each of the other unaffected venturers, with the value of the interest being determined either by agreement or by an independent chartered accountant.

Under the:

- Moolarben Coal Marketing Agreement dated 21 September 2007, Moolarben Coal Sales (**MCS**) (a subsidiary of Yancoal Australia) is appointed as the exclusive marketing agent for coal produced by the Moolarben Joint Venture;
- Moolarben Japan Marketing Agency Agreement dated 21 September 2007 between the joint venturers, MCS and Sojitz, Sojitz has exclusive marketing rights in respect of all coal produced by the Moolarben Coal Joint Venture to certain entities in China, India and Taiwan; and
- Korean Marketing Representative Agreement dated 25 February 2008, between Hanwha Corporation Limited (**Hanwha**) and MCS, Hanwha has exclusive marketing rights in Korea and non-exclusive marketing rights in respect of all coal produced by the Moolarben Coal Joint Venture.

13.10 Middlemount Coal – joint venture arrangements

Gloucester (through a wholly owned subsidiary) is party to an Interim Shareholder's Agreement regulating the rights and obligations of Middlemount Coal and its shareholders.

The Interim Shareholder's Agreement confers rights and obligations on each of the parties that are customary for an incorporated joint venture of this nature and includes provisions such as procedures for the calling of capital or other funding, governance and financial reporting of the joint venture, decision making, pre-emptive rights and similar rights in relation to the transfer of existing joint venture interests and the issue of new equity.



SECTION 14
ADDITIONAL INFORMATION



SECTION 14 – ADDITIONAL INFORMATION

14.1 Introduction

This Section 14 sets out the statutory information required by section 412(1)(a) of the Corporations Act and Part 3 of Schedule 8 to the *Corporations Regulations 2001* (Cth) to be included in the Explanatory Booklet, but only to the extent that this information is not otherwise disclosed in other Sections. This Section also includes additional information that your Directors consider material to a decision on how to vote on the resolution to be considered at the Scheme Meeting.

In this Section, the terms 'associate', 'marketable securities', 'related body corporate' and 'subsidiary' have the meanings given to them in the Corporations Act. The term 'executive officer' is used to mean 'senior manager' as defined in the Corporations Act, including the company secretary.

14.2 Relevant interests in marketable securities of Yancoal Australia

No Director or any of his associates has acquired or disposed of a relevant interest in any marketable security issued by Yancoal Australia or any related body corporate of Yancoal Australia.

14.3 Directors' interests in any contracts with Yancoal Australia

No Director nor any of his associates has entered into, or otherwise has any interest in, any contract entered into by Yancoal Australia or any of its associates.

14.4 Directors' interests in agreements connected with or conditional on the Merger Proposal

No Director has an interest in any agreement connected with or conditional on the Merger Proposal, other than as set out below.

(a) Appointment of Gloucester Directors to the board of Yancoal Australia

Yancoal Australia has agreed to invite the following three existing Gloucester Directors to become non-executive directors of Yancoal Australia, subject to the Merger Proposal being approved and implemented: Messrs James MacKenzie, Gregory Fletcher and William Randall. It is anticipated that a Gloucester Director who is appointed as a Yancoal Australia non-executive director would be entitled to receive fees for his or her services as a director, travel allowances and reimbursement of incidental expenses from Yancoal Australia in connection with the performance of their duties for Yancoal Australia. As at the date of this Explanatory Booklet, no specific arrangements in this regard have been agreed between Yancoal Australia and any Gloucester Coal Director.

(b) Arrangements involving Mr McPherson

It is anticipated that Brendan McPherson, the current Managing Director and Chief Executive Officer of Gloucester Coal, will provide consultancy services to Yancoal Australia if the Merger Proposal is approved and implemented. If the Merger Proposal does not proceed, Mr McPherson's employment with Gloucester will continue to be governed by his existing employment contract.

A private company controlled by Mr McPherson is the registered holder of 250 Converting Shares. Accordingly, Mr McPherson will benefit from the arrangements noted in Section 11.8 regarding the conversion of Converting Shares into Gloucester Shares if the Court approves the Scheme.

Mr McPherson has entered into an option cancellation deed, the purpose and effect of which are described in Section 11.9. As noted in that Section, the option cancellation arrangements for Gloucester's senior executives, including Mr McPherson, have no effect unless the Scheme becomes Effective on or before the Merger Proposal End Date.

In December 2011, the Board agreed to pay Mr McPherson, in addition to his remuneration under his existing employment contract, a payment to retain his services following the receipt of the Merger Proposal. Similar retention payment arrangements have also been entered into with 14 other members of the senior management of Gloucester. The purpose of these retention payment arrangements is to encourage the senior management to remain with the Company to manage and oversee its on-going business, during the potential instability of a possible change in control.

50% of Mr McPherson's retention amount (and 50% of that applicable to other relevant members of the Company's senior management) is payable irrespective of the outcome of the Merger Proposal (subject to certain conditions regarding, among other matters, continuing satisfactory employment with Gloucester). If the Merger Proposal proceeds, 50% of Mr McPherson's retention amount (and 50% of that applicable to other relevant members of the Company's senior management) is payable on the date that is three months after the Implementation Date. The maximum total of the retention amount payable to Mr McPherson is a cash sum equivalent to 50% of his annual base salary and all superannuation guarantee contributions made by Gloucester on his behalf.

14.5 Noble's interests in agreements with Gloucester

Gloucester has entered into a cost reimbursement deed with Noble in connection with the Merger Proposal. The key terms of the cost reimbursement deed are noted in Section 5.5(h).

As disclosed in Section 8.7(d), Gloucester has entered into a A\$400 million debt facility with Noble that matures on 1 July 2015 (**Noble Facility**). As noted in Section 8.7(d), Noble has waived any event of default that may arise under the Noble Facility if the Merger Proposal is implemented and Gloucester is delisted from ASX. In all other respects, the terms of the Noble Facility are not impacted by the Merger Proposal.

On 15 May 2011, Gloucester and Noble entered into a Marketing Services Agreement in connection with Gloucester's acquisition of 100% of Noble's interest in the Donaldson coal mine. The Marketing Services Agreement entitles Noble to an annual fee for the provision of marketing services, advice and information as and when required by Gloucester in relation to the sale of certain coal products. A detailed summary of the key terms of the Marketing Services Agreement was disclosed by Gloucester in its explanatory statement dated 7 June 2011 (as released to ASX on that date and subsequently sent to Gloucester Shareholders) in connection with the Donaldson acquisition. Section 7.1 of that explanatory statement includes full details of the annual marketing fee to which Noble is entitled and the potential for Noble to require prepayment of that fee on a change of control of Gloucester. Specifically, the previously disclosed summary notes that if a party other than Noble acquires over 50% of Gloucester:

- 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;
- the prepayment will be based on a volume of 8.25Mtpa;
- the parties are to agree forecast coal prices for the purposes of the NPV calculation;
- if Gloucester requests the prepayment, then the NPV is payable in cash; and
- if Noble requests the prepayment, Gloucester can pay in cash or Gloucester Shares (issued at then prevailing 20 trading day VWAP) at Gloucester's election.

On 8 July 2011, Gloucester Shareholders in general meeting approved (among other matters) the financial benefits that Gloucester agreed to provide to Noble under the Marketing Services Agreement, including the potential prepayment of the marketing fee on a change of control of Gloucester. That approval was given for the purpose of and in accordance with the requirements of Part 2E.1 of the Corporations Act.

The Gloucester Directors do not intend to request the prepayment of the NPV of the marketing fee as a result of or in connection with the Merger Proposal. Noble has irrevocably and unconditionally confirmed to Gloucester that Noble will not require the prepayment of the marketing fee as a result of the Merger Proposal. Gloucester considers that the effect of this confirmation is that there is no scope for Noble to otherwise renegotiate the terms of the Marketing Services Agreement, as a result of or in connection with the Merger Proposal. In any case, your Directors note that Gloucester Shareholders have already approved all aspects of the Marketing Services Agreement under Part 2E.1 of the Corporations Act, including any prepayment of that fee that may arise as a result of a change in control of Gloucester.

Other than the cost reimbursement arrangements described in Section 5.5(h), there are no agreements, arrangements or understanding between Gloucester and Noble that are connected with or conditional on the Merger Proposal.

14.6 Noble's interests in agreements with Yanzhou Coal and Yancoal Australia

There are no agreements, arrangements or understanding between Noble, on the one hand, and Yancoal Australia and Yanzhou, on the other, that are connected with or conditional on the Merger Proposal.

As disclosed in Section 8.3, if the Merger Proposal proceeds, it is proposed that Mr William Randall, a non-executive director of Gloucester and a director of Noble, will be invited to join the board of the Merged Group.

14.7 Retirement benefits

(a) Non-executive directors

No payment or other benefit is proposed to be made or given in connection with the Merger Proposal to any non-executive Director of Gloucester as compensation for loss of, or as consideration for, or in connection with, his or her retirement from office in Gloucester or in a related body corporate.

(b) Executive directors

Under the terms of the contract of employment between Gloucester and Mr Brendan McPherson, the Company may terminate Mr McPherson's employment by giving him six months written notice or payment in lieu of notice, or a combination of notice and payment in lieu of notice, plus a payment in respect of his pro rata short-term incentive entitlement to the termination date as determined entirely at the discretion of the Gloucester Board. If the Merger Proposal is approved and implemented, the Gloucester Board will be reconstituted in accordance with the directions of Yancoal Australia. Following implementation, the reconstituted Gloucester Board may terminate Mr McPherson's employment in accordance with the arrangements summarised above.

(c) Deputy Chief Executive Officer

Under the terms of the contract of employment between Gloucester and Mr Tim Crossley, the Deputy Chief Executive Officer of Gloucester, Mr Crossley is entitled to a termination payment if, without his consent, his duties are materially and adversely altered or varied substantially, resulting in (among other things) his status or responsibilities being materially diminished. In these circumstances, Mr Crossley would be entitled to a termination payment equal to six months of his total fixed remuneration plus a payment in respect of his pro rata short-term incentive entitlement to the termination date as determined entirely at the discretion of the Gloucester Board. As at the date of this Explanatory Booklet, the Gloucester Directors do not know whether Yancoal Australia will offer Mr Crossley a substantially equivalent position within the Merged Group. This is a matter for Yancoal Australia to be determined by it as part of the post-implementation review referred to in Section 8.5(f). If Mr Crossley is not offered a position within the Merged Group that is substantially equivalent to his current position, the termination payment referred to above would be payable.

(d) Other executive officers

No payment or other benefit is proposed to be made or given in connection with the Merger Proposal to any other executive officer of Gloucester Coal, or of any related body corporate of Gloucester Coal, as compensation for loss of, or as consideration for, or in connection with, his or her retirement from office in Gloucester or in a related body corporate, other than any payments or benefits arising from any applicable redundancy entitlements. Redundancy entitlements may arise under the terms of the relevant executive officer's contract of employment, applicable statutory entitlements or a combination of both. As at the date of this Explanatory Booklet, the Gloucester Directors do not know which (if any) executive officers within Gloucester may be made redundant as a consequence of or in connection with the Scheme. This is a matter for Yancoal Australia to be determined by it as part of the post-implementation review referred to in Section 8.5(f).

(e) Company secretary

No payment or other benefit is proposed to be made or given in connection with the Merger Proposal to any secretary of Gloucester, or of any related body corporate of Gloucester, as compensation for loss of, or as consideration for, or in connection with, his or her retirement from office in Gloucester. Gloucester's current secretary, Mr Hemang Shah, is also an executive officer of Gloucester, meaning that the arrangements in Section 14.7(c) potentially apply to him in that separate capacity.

SECTION 14 – ADDITIONAL INFORMATION (CONTINUED)

14.8 Remuneration of Yancoal Australia non-executive directors

The Yancoal Australia constitution provides that the Yancoal Australia non-executive Directors are entitled to such remuneration as approved by shareholders in accordance with the constitution (as described in Section 8.12), which must not exceed the maximum aggregate annual amount determined by Yancoal Australia in a general meeting, which is currently set as A\$3.5 million.

Yancoal Australia non-executive directors may be paid such additional or special remuneration as the Yancoal Australia Directors decide is appropriate where a non-executive Director performs extra services or makes special exertions for the benefit of Yancoal Australia.

14.9 Material changes in the financial position of Gloucester

So far as is known to any Director, except as disclosed in this Explanatory Booklet, the financial position of Gloucester has not materially changed since the date of its final report for the year ended 30 June 2011, as lodged with ASX on 24 August 2011.

Gloucester's interim financial report for the six months ended 31 December 2011 was lodged with ASX on 28 February 2012, and is available from the ASX website (www.asx.com.au). Gloucester will provide a copy of its interim financial report for the six months ended 31 December 2011 free of charge to any one who asks for it before the Scheme is approved by order of the Court and will publish and maintain a copy of this document on its website until after the Scheme Meeting. For a copy of this document, please call the Gloucester Shareholder Information Line on 1300 368 646 (within Australia) or + 61 3 9415 4161 (outside Australia) Monday to Friday between 9.00am and 5.00pm (Sydney time) or visit www.gloucestercoal.com.au

Other than the Scheme and the Capital Reduction, there are no significant changes to the nature of Gloucester's activities as at the date of this Explanatory Booklet.

14.10 Directors' intentions regarding the business, assets and employees of Gloucester

If the Merger Proposal is approved and implemented, the existing Gloucester Board will be reconstituted in accordance with the instructions of Yancoal Australia as the only shareholder in Gloucester. Accordingly, it is not possible for your Directors to provide a statement of their intentions regarding:

- the continuation of the business of Gloucester or how Gloucester's existing business will be conducted after the Merger Proposal is implemented;
- any major changes to be made to the business of Gloucester, including any redeployment of the fixed assets of Gloucester; or
- the future employment of the present employees of Gloucester, in each case, after the Scheme is implemented.

If the Merger Proposal is approved and implemented, Yancoal Australia will have 100% ownership of Gloucester's issued Shares and will control of Gloucester, and your Directors have been advised that the intentions of Yancoal Australia are as set out in Section 8.

14.11 Recent Gloucester share price trading

Please refer to section 8.2.2 of the Independent Expert's Report for information regarding the prices at which Gloucester Shares traded on ASX in the 30 days prior to the announcement of the Merger Proposal on 23 December 2011.

14.12 Formula for share entitlements under the Scheme

The principles and scale back formula to be applied with respect to the Yancoal Securities to be issued to Scheme Shareholders are set out in Appendix 3. Those principles and the scale back formula were agreed through arm's length negotiations between Gloucester and Yancoal Australia.

14.13 No unacceptable circumstances

The Gloucester Board believes that the Scheme does not involve any circumstances in relation to the affairs of Gloucester that could reasonably be characterised as constituting unacceptable circumstances for the purposes of section 657A of the Corporations Act.

14.14 Disclosure of fees and other benefits

Except for directors' fees as referred to in Section 14.4(a), no person has paid or agreed to pay any amount, or provided or agreed to provide any benefit to a director or proposed director of Yancoal Australia:

- to induce them to become or to qualify as a director of Yancoal Australia; or
- for services provided by that person in connection with the formation or promotion of Yancoal Australia or the issue of Yancoal Australia Ordinary Shares under the Scheme.

14.15 FIRB approval

The Commonwealth Treasurer (through FIRB) has given Yanzhou Coal foreign investment approval with respect to the Merger Proposal subject to a number of conditions. These include that Yanzhou Coal:

- by no later than 31 December 2012 quarantine any Yancoal Australia Ordinary Shares that it holds that comprise an interest in Yancoal Australia in excess of 70% and procure that those quarantined Yancoal Australia Ordinary Shares are voted (where Yanzhou Coal is entitled to vote) in proportions corresponding to the votes cast on that resolution by Yancoal Australia shareholders other than Yanzhou Coal;
- reduce its economic ownership of Yancoal Australia by 31 December 2013 to less than 70% and subsequently not increase that interest to more than 70%;
- procure that Yancoal Australia operate and manage Syntech and Premier Coal – this will be achieved under the Management and Transitional Services Agreement;
- procure that Yancoal Australia be given a right of first refusal over certain exploration assets obtained as part of the acquisition of Felix Resources in 2009 and which are Excluded Assets to be held by subsidiaries of Yanzhou Coal – this is contained in the Merger Proposal Deed;

- reduce its interest in Premier Coal and Syntech by 31 December 2014 to less than 70%, which can be achieved by arranging for their transfer to Yancoal Australia or otherwise – this is provided for in the Restructure Agreement and will occur at the end of 2014 (subject to the conditions of that agreement which are summarised in Section 13.2) if Yancoal Australia has not by that time reduced its interest in Premier Coal and Syntech through other means; and
- reduce its economic ownership of the underlying assets of Felix Resources (as at the time that it was acquired) by 31 December 2013 to no more than 50% and subsequently not increase that interest to more than 50% (subject to certain exclusions) – this is to be calculated by dividing Yanzhou Coal’s aggregate equity ownership of annual saleable production from each of Felix Resources’ current operational assets (at the time of the Felix Resources acquisition) by the total annual saleable production from those assets, in each case assuming that all assets were operating at full capacity. In this context, aggregate equity ownership means Yanzhou’s percentage interest in Yancoal Australia multiplied by Yancoal Australia’s ownership of the asset multiplied by the annual saleable production of that asset. Yancoal Australia has already taken steps towards satisfaction of this condition – for example, through the sale of Minerva.

The Commonwealth Treasurer’s conditions also include that:

- Yancoal Australia remain headquartered and managed in Australia by a predominantly Australian management and sales team, with Yancoal Australia and its operating subsidiaries each having two directors whose principal place of residence is in Australia and one of whom is independent of Yanzhou Coal and its related entities, the chief executive officer and chief financial officer having their principal place of residence in Australia, and the majority of board meetings of Yancoal Australia in any calendar year being held in Australia;
- Yancoal Australia continuing to be operated according to commercial objectives, including the maximisation of product prices and long-term profitability and value, with production sold on an arms-length and non-discriminatory basis to all customers at prices determined by reference to international benchmarks in line with market practice; and
- Gloucester, Felix Resources (other than the Excluded Assets) and Austar Coal Mine Pty Limited continue to be owned and publicly acknowledged as being owned by Yancoal Australia.

14.16 Relationship between Yancoal Australia and Chinese parent entities

Immediately following the implementation of the Merger Proposal, Yanzhou Coal will own 78% of the Yancoal Australia Shares and will thereby control Yancoal Australia. Yanzhou Coal is a joint stock limited company incorporated under the laws of the People’s Republic of China, and is majority owned and controlled by Yankuang Group Company Limited (**Yankuang**). Yankuang is a Chinese state-owned enterprise.

As a result, the Merged Group will be a ‘foreign person’ for the purposes of the *Foreign Acquisitions and Takeovers Act 1975* (Cth) and a ‘related person’ of a ‘foreign government’ for the purposes of Australia’s Foreign Investment Policy (**Policy**). Yancoal Australia will therefore be required by the Policy to notify FIRB and obtain prior approval before:

- making any direct investment (generally an investment of 10% or more) in an Australian company, regardless of its value;
- starting a new business; or
- acquiring an interest in land, including any interest in a prospecting, exploration, mining or production tenement.

The Policy sets out the matters that FIRB will take into account in considering any such application for approval by Yancoal Australia including whether the investment is commercial in nature, whether broader political or strategic objectives may be being pursued, whether governance arrangements could facilitate actual or potential control by a foreign government and the size, nature and composition of any non-government interests (which in Yancoal Australia’s case will take the form of listed minority shareholdings in each of Yancoal Australia and Yanzhou Coal).

Also, since the Merged Group will be an indirect subsidiary of Yankuang, the Merged Group will be directly or indirectly affected by certain laws, policies and other measures of the People’s Republic of China relating to the supervision and management of State-owned assets and outbound investment. These measures include an effective requirement for the approval of the National Development and Reform Commission and the State-owned Assets Supervision and Administration Commission (or their respective provincial branches), and the approval of the China Securities Regulatory Commission, to be sought for certain transactions that the Merged Group might wish to undertake in the future including:

- acquisitions of, and mergers with, listed companies and other substantial investments;
- any transfer of assets that would result in Yankuang ceasing to indirectly control the Merged Group; or
- any sale or purchase of assets that represent 50% or more of the total assets or net assets, or generate 50% or more of the business income, of Yanzhou Coal.

These regulatory approvals may need to be sought by Yanzhou Coal and/or Yankuang.

Under the constitution of Yancoal Australia (which will be the constitution of the Merged Group after the Merger Proposal is implemented), some of these transactions that would require Chinese regulatory approval will need to be approved by shareholders of the Merged Group (see Section 8.12 for further details of the type of transactions for which shareholder approval will need to be obtained). Yanzhou Coal (while it holds sufficient Yancoal Australia Shares to control the Merged Group) could cast its votes against the transaction and, by doing so, prevent Yancoal Australia from proceeding with it, due to regulatory disapproval or any other reasons. In some other instances, the transactions that would require Chinese regulatory approval will need to be approved by the Merged Group’s board. In those cases, Yanzhou Coal (while it holds sufficient Yancoal Australia Shares to control the composition

SECTION 14 – ADDITIONAL INFORMATION (CONTINUED)

of the board) could, subject to the duties of those directors, encourage the directors to cast their votes against the transaction due to regulatory disapproval or any other reasons, and, by doing so, prevent Yancoal Australia from proceeding with it.

The applicability of these Australian and Chinese laws, policies and other measures to Yancoal Australia may change in the future.

14.17 ASIC relief and exemptions

(a) Change in financial position

Clause 8302(h) of Part 3 of Schedule 8 to the Corporations Regulations requires the Explanatory Statement to set out whether, within the knowledge of the Gloucester Directors, the financial position of Gloucester has materially changed since the date of the last balance sheet laid before a Gloucester annual general meeting or sent to Gloucester Shareholders in accordance with section 314 or 317 of the Corporations Act, and if so, full particulars of any change.

ASIC has granted Gloucester relief from this requirement on the condition that Gloucester:

- sets out in this Explanatory Booklet whether, within the knowledge of the directors of Gloucester, the financial position of Gloucester has materially changed since the financial report for the half year ended 31 December 2011 – in this respect, please refer to the statement in Section 6.6(d);
- will provide, free of charge, copies of the documents referred to in the preceding bullet point to anyone who requests them prior to the Scheme being approved by the Court;
- has disclosed in this Explanatory Booklet, and in announcements to the ASX, all material changes to Gloucester's financial position occurring after the balance date of Gloucester's financial report for the period ending 31 December 2011;
- discloses all material changes to Gloucester's financial position that occur after the date of this Explanatory Booklet but prior to the Scheme being approved by the Court in announcements to ASX.

(b) ASIC declaration as to secondary sales of Yancoal Australia Ordinary Shares

Section 707 of the Corporations Act provides for circumstances where an offer of securities for sale requires disclosure to investors, including where there is a resale of securities within 12 months of their issue (section 707(3)) or their sale by a controller (section 707(5)) if the purpose of the original issue or sale (as the case may be) was to enable the resale.

Class order 04/671 (as amended by class order 07/42) provides relief from the resale provisions in section 707(3) of the Corporations Act in the case where the securities were issued through a scheme of arrangement, and consequently, without disclosure to investors as allowed for in section 708(17), and will apply in respect of resales of Yancoal Securities issued under the Scheme.

ASIC has also agreed to provide in-principle relief from the offer and resale provisions in section 707 of the Corporations Act in the case where Yancoal Australia Ordinary Shares are sold which were transferred to the vendor by a Yanzhou CVR Shareholder pursuant to the Repurchase of CVR Shares without disclosure to investors.

(c) ASIC exemption as to Sale Facility

ASIC has agreed to provide in-principle relief providing an exemption from certain requirements that Gloucester and Yancoal Australia may otherwise be required to comply with in order to operate the Sale Facility, including:

- section 601ED of the Corporations Act in relation to the Sale Facility;
- Divisions 2 to 5 of Part 7.9 of the Corporations Act in relation to an interest in the Sale Facility; and
- the requirement to hold an Australian financial services licence for the provision of the following financial services:
 - dealing in an interest in the Sale Facility; and
 - the provision of general advice in relation to an interest in the Sale Facility.

ASIC has also confirmed that Gloucester and Yancoal Australia do not have to comply with Division 5A of Part 7.9 of the Corporations Act to the extent that Gloucester or Yancoal Australia invites a person to make an offer to sell Yancoal Australia Ordinary Shares through the Sale Facility.

14.18 ASX waivers

(a) ASX waiver from Listing Rule 6.23.2

ASX Listing Rule 6.23.2 requires that a change which has the effect of cancelling an option for consideration can only be made if shareholders approve the change. ASX has granted Gloucester waiver from ASX Listing Rule 6.23.2 to allow for the cancellation of any Options in accordance with the Option Cancellation Deed arrangements outlined in Section 11.9 without the need to obtain specific Shareholder approval. The waiver is conditional on the Scheme becoming Effective.

(b) Admission of Yancoal Australia to ASX

Yancoal Australia has sought the following waivers and confirmations from ASX:

- confirmation that the Merged Group's structure and operations are appropriate for a listed entity for the purposes of ASX Listing Rule 1.1, condition 1;
- confirmation that Yancoal Australia's constitution is consistent with the ASX Listing Rules for the purposes of ASX Listing Rule 1.1, condition 2;
- confirmation for the purposes of ASX Listing Rule 1.1, condition 3 that Yancoal Australia may issue an information memorandum (**Information Memorandum**), which complies (subject to any waivers, confirmations and approvals) with the information requirements of Appendix 1A and which incorporates by reference this Explanatory Booklet rather than a prospectus for the purpose of its admission to ASX and that the Information Memorandum does not need to be sent to Gloucester Shareholders;

- in respect of the information requirements of Appendix 1A:
 - confirmation that paragraph 107, which requires details of all securities issued by Yancoal Australia (in all classes) in the last five years, will be satisfied by cross-referencing the relevant sections of the Information Memorandum setting out its current capital structure;
 - confirmation that the Information Memorandum does not need to include a statement (which is required by paragraph 108 of Appendix 1A) that all information required by section 710 of the Corporations Act has been included;
 - confirmation that it will be taken to comply with the requirements of paragraph 109 concerning signing of the Information Memorandum if it is signed by a director, secretary or local agent, on condition that every director and proposed director of Yancoal Australia has consented to the Information Memorandum being signed on their behalf;
 - waiver of paragraph 115 of Appendix 1A regarding the inclusion of consent for statements made by an expert in the Information Memorandum, on condition that the Information Memorandum contains a clear statement indicating the report is with reference to the Explanatory Booklet only;
 - waiver of paragraph 117 of Appendix 1A, to the extent necessary to permit Yancoal Australia to not include a statement in the Information Memorandum that a supplementary information memorandum will be issued if Yancoal Australia becomes aware of certain matters occurring between the issue of the Information Memorandum and the date the Yancoal Australia Ordinary Shares and CVR Shares are quoted, on condition that any such matters are provided to Gloucester and announced to the market by Gloucester;
- confirmation that the Merged Group satisfies the requirements of ASX Listing Rule 1.1, condition 8; and
- confirmation that the terms of the CVR Shares are appropriate and equitable for the purposes of ASX Listing Rule 6.1 and if ASX thinks necessary, confirmation that the CVR Shares are suitable for listing as a second class of ordinary shares pursuant to ASX Listing Rule 6.2.

(c) ASX waiver from Listing Rule 15.7

Yancoal Australia has sought a waiver of ASX Listing Rule 15.7 to permit Yanzhou Coal to provide announcements simultaneously to the ASX and the Hong Kong, New York and Shanghai stock exchanges.

14.19 Additional tax considerations

Gloucester is currently subject of an ATO audit in relation to Donaldson for the period prior to Gloucester's acquisition of Donaldson in July 2011. Gloucester has the benefit of an indemnity in respect of certain aspects of Donaldson's operations prior to Gloucester's acquisition of Donaldson. The costs incurred by Gloucester in respect of the administration of this audit may be material, however Noble has agreed to reimburse Gloucester in respect of these costs.

14.20 Consents and disclaimers

The following parties have given and have not, before the time of registration of this Explanatory Booklet by ASIC, withdrawn their written consent to be named in this Explanatory Booklet in the form and context in which they are named:

- Minter Ellison as legal adviser to Gloucester;
- Lazard as financial adviser to Gloucester;
- Deloitte as the Independent Expert;
- ShineWing Hall Chadwick as the Investigating Accountant; and
- Computershare Investor Services Pty Limited as the Gloucester Share Registry.

Minter Ellison has given, and has not, before the time of registration of this Explanatory Booklet by ASIC, withdrawn its consent, to the inclusion of Section 10 ('Taxation implications') of this Explanatory Booklet and the references to that Section in the form and context in which they are included.

Deloitte has given, and has not, before the time of registration of this Explanatory Booklet by ASIC, withdrawn its consent, to the inclusion of statements attributed to Deloitte in this Explanatory Booklet and to the inclusion of the Independent Expert's Report set out in Appendix 1 to this Explanatory Booklet in the form and context in which they are included.

ShineWing Hall Chadwick has given, and has not, before the time of registration of this Explanatory Booklet by ASIC, withdrawn its consent, to the inclusion of statements attributed to ShineWing Hall Chadwick in this Explanatory Booklet and to the inclusion of the Investigating Accountant's Report set out in Appendix 2 to this Explanatory Booklet in the form and context in which they are included.

Yancoal Australia has given, and has not, before the time of registration of this Explanatory Booklet by ASIC, withdrawn its consent, to the inclusion of the Yancoal Australia Information and the Joint Information in the form and context in which it is included.

Each of the above persons:

- has not authorised or caused the issue of this Explanatory Booklet;
- does not make, or purport to make, any statement in this Explanatory Booklet or any statement on which a statement in this Explanatory Booklet is based other than a statement or report included in this Explanatory Booklet with the consent of that party;
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Explanatory Booklet, other than as described in this Explanatory Booklet with the consent of that party; and
- except for Yancoal Australia, does not assume any responsibility for the accuracy or completeness of the Yancoal Australia Information. The Yancoal Australia Information has been prepared by and is the responsibility of Yancoal Australia.

SECTION 14 – ADDITIONAL INFORMATION (CONTINUED)

14.21 Independent advice

Gloucester Shareholders should consult their financial, legal or other professional adviser if they have any queries regarding:

- the Merger Proposal, the Special Dividend and the Capital Return;
- the taxation implications for them if the Merger Proposal, the Special Dividend and/or the Capital Return are implemented;
- your Directors' recommendations and intentions in relation to the Merger Proposal and the Capital Return, as set out in Sections 1.17 and 5.2 of this Explanatory Booklet; or
- any other aspects of this Explanatory Booklet.

Gloucester Shareholders may also call the Gloucester Shareholder Information Line on 1300 368 646 (within Australia) or +61 3 9415 4161 (outside Australia) Monday to Friday between 9.00am and 5.00pm (Sydney time) with any queries they may have on the Merger Proposal.

14.22 Other material information

Except as set out in this Explanatory Booklet, in the opinion of the Gloucester Board, there is no other information material to the making of a decision in relation to the Scheme and the Capital Reduction Resolution, being information that is within the knowledge of any Director or of any related body corporate of Gloucester, which has not been previously disclosed to Gloucester Shareholders.

Gloucester will issue a supplementary document to this Explanatory Booklet if it becomes aware of any of the following between the date of lodgement of this Explanatory Booklet for registration by ASIC and the Effective Date:

- a material statement in this Explanatory Booklet that is false or misleading in a material respect;
- a material omission from this Explanatory Booklet;
- a significant change affecting a matter included in this Explanatory Booklet; or
- a significant new matter that has arisen and that would have been required to be included in this Explanatory Booklet if it had arisen before the date of lodgement of this Explanatory Booklet for registration by ASIC.

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 any one or more of the following methods:

- making an announcement to ASX;
- placing an advertisement in a prominently published newspaper which is circulated generally throughout Australia;
- posting the supplementary document to Gloucester Shareholders at their registered address as shown in the Gloucester Share Register; and/or
- posting a statement on the Gloucester corporate website,

as Gloucester in its absolute discretion considers appropriate, subject to any approval that may be required from the Court. In particular, where the matter is not materially adverse to Gloucester Shareholders such circulation and publication may be only by an announcement to ASX.



SECTION 15

RESERVES AND RESOURCES



SECTION 15 – RESERVES AND RESOURCES

In this Section 15:

- Coal Resources and Reserves have been reported in accordance with the JORC Code.
- Coal Resources are reported inclusive of Coal Reserves (i.e. Coal Reserves are not additional to Coal Resources).
- All references to the JORC Code are to 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.

15.1 Gloucester Reserves and Resources

Set out in the following table are summaries of Gloucester's Reserves and Resources as at the dates specified below in this Section 15.1.

(Mt)	Gloucester Basin	Middlemount (100% basis)	Donaldson	Monash	Combined (100% basis)	Combined (equity basis)
Reserves (proved and probable)	84	96	161	–	341	293
Measured, Indicated and Inferred Resources	316	123	885	577	1,901	1,840

Gloucester Basin

The following table summarises the Gloucester Basin Coal Reserves as at 31 March 2012.

Region	Area	Seam(s)	Coal Reserves (Mt)		
			Proved Reserves	Probable Reserves	Proved & Probable Reserves
Duralie	Duralie Main and North West (A)		9.2	4.8	14.0
	Railway Pit (A)		0.9	–	0.9
	North East (A)		–	6.5	6.5
Stratford	Avon North (A)		–	2.5	2.5
	Bowens Road North (A)		0.9	0.2	1.1
	Co-disposal Area (A)		–	1.9	1.9
	Grant & Chainey (B)		–	15.0	15.0
	Stratford East (A)		–	2.9	2.9
	Stratford South (B)		–	6.5	6.5
	Roseville West & South/Wenham Cox Road (A)		–	32.3	32.3
Total	Open Cut Reserves		11.0	72.6	83.6

The information that relates to the Gloucester Basin Coal Reserves in this table is based on information compiled by:

A Mr Robert Mackenzie, a full-time employee of Runge Ltd trading as Minarco-MineConsult, and

B Mr Sam Reich, a full-time employee of Ellemby Consulting Pty Ltd.

Mr Robert Mackenzie is a Member of the Australasian Institute of Mining and Metallurgy. Mr Sam Reich is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Robert Mackenzie and Mr Sam Reich have sufficient experience relevant to the activity which they are undertaking to qualify as Competent Persons as defined in the JORC Code.

Mr Robert Mackenzie and Mr Sam Reich consent to the inclusion in this Statement of the matters based on their information in the form and context in which it appears.

Reserves have been rounded to appropriate levels of accuracy in accordance with 2004 JORC Code.

The following table summarises the Gloucester Basin Coal Resources as at 30 June 2010 and in respect to Wenham Cox Road as at February 2012.

Region	Area	Seam(s)	Coal Resources (Mt)			
			Measured	Indicated	Measured & Indicated	Inferred
Stratford (A)	Bowens Road North	Marker & Bowens Rd	2.7	0.6	3.3	–
	Avon North	Marker, Avon & Triple	–	3.0	3.0	–
	Roseville West	Linden to Roseville	–	35.5	35.5	5
	Wenham Cox Road	Marker 7 to Bowens Rd	4.0	20.1	24.1	13
	Co-disposal Area	–	–	2.3	2.3	–
	Stratford East	Weismantel & Clareval	–	5.8	5.8	4
Grant & Chainey (B)	Grant & Chainey	Marker, Bowens Rd, Glen View, Avon & Rombo	–	56.8	56.8	25
Duralie (A)	Duralie Main Pit	Weismantel & Clareval	0.7	8.3	9.0	–
	Duralie North West	Weismantel & Clareval	9.9	4.5	14.4	1
	Duralie East	Weismantel & Clareval	–	9.2	9.2	3
	Railway Pit	Weismantel	1.2	0.5	1.7	–
Total	Open Cut		18.5	147	165	51
Duralie (A)	Duralie Underground	Weismantel	0.9	39.9	40.8	59
Total	Open Cut & Underground		19.4	187	206	110

Notes:

1 During the period 1 July 2010 to 31 March 2012, coal was mined at Bowens Road North (0.9Mt), Co-disposal Area (0.4Mt), Roseville West (0.7Mt), Duralie Main Pit (2.4Mt), Duralie North West (1.2Mt). This equates to a reduction of approximately 5.6Mt of Measured and Indicated Resources.

2 Although the Reserves and Resources are reported to different dates, the same geological models have been used with the Reserve estimates based on as mined topography at 31 March 2012.

The information that relates to the Gloucester Basin Coal Resources in this table 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 Statement of the matters based on their information in the form and context in which it appears.

Resources have been rounded to appropriate levels of accuracy in accordance with the JORC Code.

SECTION 15 – RESERVES AND RESOURCES (CONTINUED)

Middlemount Coal

The following table summarises the Middlemount Coal Resources and Reserves as at 17 March 2011. This information has been presented on a 100% basis.

Region	Area	Coal Resources (Mt)				Coal Reserves (Mt)		
		Measured	Indicated	Measured & Indicated	Inferred	Proved Reserves	Probable Reserves	Proved & Probable Reserves
Bowen Basin	Middlemount	89.3	31.5	120.8	1.8	69	27	96

JORC Resources

The information that relates to the Middlemount Coal Resources in this table is based on information compiled by Mr Greg Jones, a full-time member 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 Statement of the matters based on his information in the form and context in which it appears.

JORC Reserves

The information that relates to the Middlemount Coal Reserves in this table is based on information compiled by Mr Mark Bryant, 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 Statement of the matters based on his information in the form and context in which it appears.

Monash

The following table summarises the Monash Coal Resources as at November 2011.

JORC Resources – Monash Project Area (Mt)

	Measured	Indicated	Measured & Indicated	Inferred
Fassifern	–	2.83	2.83	13.07
Borehole	3.08	6.94	10.03	50.50
Redbank Creek	2.54	5.72	8.25	30.64
Wambo	2.44	5.61	8.05	42.59
Whynot	5.08	11.68	16.76	78.55
Blakefield	2.30	5.48	7.78	40.96
Woodlands Hill	5.58	12.26	17.84	81.89
Arrowfield	5.15	11.61	16.76	81.61
Bowfield	3.52	8.10	11.62	57.46
All Seams	29.69	70.23	99.92	477.27

The information in this announcement 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 47 001 256 248. Ian Blayden is a Member of the Mineral Industry Consultants Association, the Australasian 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 JORC Code.

Dr Blayden consents to the inclusion in this announcement of the matters based on their information in the form and context in which it appears.

Donaldson

The following table summarises the Donaldson Coal Resources as at February 2012.

Resources (million tonnes)

Seam	Measured	Indicated	Inferred
Great Northern	0.4	0.6	0.0
Fassifern	32.1	7.8	2.6
West Borehole	61.3	53.3	6.9
Sandgate	61.9	31.8	0.0
Upper Donaldson	96.0	9.5	0.0
Lower Donaldson	167.9	30.6	27.1
Upper Big Ben	154.7	16.7	0.0
Lower Big Ben	21.5	8.1	4.7
Ashtonfield	53.4	14.4	1.4
Rathluba	10.1	10.2	0.0
TOTAL (Rounded)	659.4	182.9	42.7

Note: Resources were estimated from seam intersection data in 600 drill holes and from measurement and coal testing carried out in current and closed mining operations. Resources associated with Donaldson Open Cut are not included.

The following table summarises the Donaldson Reserves as at 1 July 2011.

Reserves (million tonnes)

Region	Area	Proved	Probable	Total
Tasman	Fassifern	2.3	0.7	3.0
Tasman Extension	Fassifern	9.2	2.6	11.8
	West Borehole	16.7	13.4	30.1
Abel	Upper Donaldson	20.1	6.7	26.8
	Lower Donaldson	30.0	3.5	33.5
Abel Extension	Lower Donaldson	22.5	6.1	28.6
	Ashtonfield	14.9	11.7	26.6
	Sandgate	0.2	0.1	0.3
TOTAL (Rounded)		115.9	44.8	160.7

JORC Resources

The information in this statement relating to coal Resources at the Tasman Underground Mine and Able 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 Australasian Institute of Geoscientists and AusIMM.

JORC Reserves

The information in this statement relating to coal Reserves at the Tasman Underground Mine and Able 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.

Dr Blayden and Mr Thomas each 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 JORC Code.

Dr Blayden and Mr Thomas consent to the inclusion in this Statement of the matters based on their information in the form and context in which it appears.

SECTION 15 – RESERVES AND RESOURCES (CONTINUED)

15.2 Yancoala Australia Reserves and Resources

Set out in the following table are the summary details of Yancoala Australia's Reserves and Resources as at the date of this Explanatory Booklet.

Statement of Resources

Mine/Project	Ownership	Measured (Mt)	Indicated (Mt)	Inferred (Mt)	Total (Mt)	Competent Person
Moolarben	80%	376.4	598.4	208.4	1,183.2	(3)
Austar	100%	81.1	69.9	70.0	221.0	(1)
Ashton	90%	152.0	146.1	35.3	333.5	(2)
Yarrabee	100%	65.0	84.3	20.5	169.7	(3)
Total coal resources (100%)		674.8	898.7	334.2	1,907.4	
Total coal resources (Equity basis)		584.0	764.4	289.0	1,637.4	

Statement of Reserves

Mine/Project	Ownership	Recoverable Reserves (Mt)			Competent Person
		Proved (Mt)	Probable (Mt)	Total (Mt)	
Moolarben	80%	82.8	232.2	315.0	(3, 5)
Austar	100%	12.7	31.5	44.2	(3, 5)
Ashton	90%	42.7	14.6	57.2	(3, 4, 5)
Yarrabee	100%	38.1	19.1	57.2	(3)
Total coal reserves (100%)		176.3	297.3	473.7	
Total coal reserves (equity basis)		155.5	249.5	404.9	

The information in this Section 15.2 and in Sections 7.5(a) and 7.5(c) is based on and accurately reflects reports prepared by the Competent Persons noted beside the respective information. All of these persons are consultants working for Yancoala Australia:

In this Section 15.2:

- (1) Robert Dyson, Member of Australasian Institute of Mining and Metallurgy (**MAusIMM**) is a full-time employee of McElroy Bryan Geological Services Pty Limited.
- (2) Brad Willis, MAusIMM is a full-time employee of Palaris Mining Pty Limited.
- (3) Jonathan Barber, MAusIMM is the Principal Consultant with Jon Barber Consulting Pty Limited.
- (4) Ben Smedley, MAusIMM is a full-time employee of Palaris Mining Limited.
- (5) Greg Mattila, MAusIMM is the Principal Consultant employed by Mattila Pty Limited.

In Section 7.5(a):

- (6) Richard Hoskings, MAusIMM is the Principal Consultant employed by Hoskings Resource Management Pty Limited.

In Section 7.5(c):

- (9) with respect to Harrybrandt: Michael Johnstone, MAusIMM is a full-time employee of Minerva Geoloical Services Pty Ltd.
- (10) with respect to Athena and Wilpeena: Jonathan Barber, MAusIMM is the Principal Consultant with Jon Barber Consulting Pty Limited.

Each of Robert Dyson, Brad Willis, Jonathan Barber, Ben Smedley, Greg Mattila, Richard Hoskings and Michael Johnstone have provided their consent to the inclusion of material in the form and context in which it appears.

Each of Robert Dyson, Brad Willis, Jonathan Barber, Ben Smedley, Greg Mattila, Richard Hoskings and Michael Johnstone have the relevant experience in relation to the mineralisation being reported on by them to qualify as Competent Persons as defined in the JORC Code.

JORC Reserves

The estimates of Coal Reserves have been carried out in accordance with the JORC Code.

JORC Resources

The estimates of Coal Resources have been carried out in accordance with the JORC Code.

SECTION 16

GLOSSARY

SECTION 16 – GLOSSARY

The following terms used in this Explanatory Booklet (including the notices of meeting in Appendices 4 and 5) have the meanings given to them below, unless the context otherwise requires.

Abnormal Items	includes, but is not limited to, unrealised foreign exchange gains or losses on foreign currency denominated borrowings
APCT	Abbot Point Coal Terminal
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited ACN 008 624 691 or, as the context requires, the financial market conducted by it
'All Ordinary Shares' Election	an election made by a Gloucester Shareholder to receive 100% of their Scheme Consideration in the form of Yancoal Australia Ordinary Shares, on the basis of one Yancoal Australia Ordinary Share for each Gloucester Share held as at the Scheme Record Date
'All Ordinary Shares' Election Form	the form of election coloured pink accompanying this Explanatory Booklet to enable Gloucester Shareholders who qualify as Scheme Shareholders to make an 'All Ordinary Shares' Election
Ashton Coal Joint Venture	the unincorporated joint venture established to investigate and mine commercial coal deposits within the area surrounding the Ashton coal mine. Particulars of the Ashton Coal Joint Venture are provided in Section 13.8
Bt	billion tonnes
Business Day	a weekday on which Australian banks are open for business in Melbourne, Australia
CGT	capital gains tax
CHESS	the clearing house electronic sub-register system of securities transfers operated by ASX Settlement Pty Ltd ACN 008 504 532
CHPP	coal handling and preparation plant
Class Rulings	Class Rulings which Gloucester expects to be issued by the ATO pursuant to the Class Ruling Requests
Class Ruling Requests	A request for Class Rulings lodged by Gloucester with the Australian Tax Office seeking the Commissioner of Taxations views on specific matters pertaining to the Special Dividend, Capital Return and the Scheme (see Section 10)
Capital Reduction	a proposed equal reduction of the share capital of Gloucester under Part 2J.1 of the Corporations Act in the aggregate amount of the Capital Reduction Amount and not involving the cancellation of any Gloucester Shares
Capital Reduction Amount	subject to the Gloucester Board making an announcement to ASX by no later than two Business Days after the Court Approval Date setting the Capital Return Record Date, an amount equal to A\$700 million less the sum of the Gloucester Special Dividend and the Gloucester Option Amount
Capital Reduction Resolution	the ordinary resolution in the form set out in the notice convening the General Meeting in Appendix 5 to approve the Capital Reduction
Capital Return	subject to the Gloucester Board making an announcement to ASX by no later than two Business Days after the Court Approval Date setting the Capital Return Record Date, the amount per Gloucester Share equal to the Capital Reduction Amount divided by the number of Gloucester Shares on issue as at the Capital Return Record Date
Capital Return Record Date	the date for determining entitlements to the Capital Return, expected to be 7.00pm on Wednesday, 20 June 2012
Company or Gloucester	Gloucester Coal Ltd ACN 008 881 712
Competing Proposal	has the meaning given to that term in the Merger Proposal Deed (see Appendix 6)
Converting Share	a non-cumulative, non-redeemable preference share in the capital of Gloucester issued on or about 15 July 2011
Corporations Act	the <i>Corporations Act 2001</i> (Cth)
Court	the Supreme Court of Victoria
Court Approval Date	the date that the Court approves the Scheme for the purposes of Section 411(4)(b) of the Corporations Act
CPS Holder	the holder of one or more Converting Shares
CVR Share	a fully paid share in the capital of Yancoal Australia having the rights set out in Appendix 8
CVR Shareholder	a holder of CVR Shares

CVR Shares Agreement	the agreement between Yancoal Australia and Yanzhou Coal dated on or about 26 April 2012, the material provisions of which are summarised in Section 13.7
CVR Shares End Date	the date which is 18 months from the Implementation Date
CVR Terms of Issue or Terms of Issue	the terms of issue applying to CVR Shares, as set out in Appendix 8 to this Explanatory Booklet
DBCT	Dalrymple Bay Coal Terminal
Deed Poll	the deed poll executed by Yancoal Australia on 26 April 2012 for the benefit of Scheme Shareholders in which Yancoal Australia acknowledges and confirms certain of its obligations under the Scheme for the benefit of Scheme Shareholders. A copy of the executed Deed Poll is reproduced in Appendix 7
DERM	the Queensland Department of Environment and Resource Management
Director	a director of Gloucester (the Directors as at the date of this Explanatory Booklet are the persons specified in Section 5.2)
Dollar or \$ or A\$ or AUD	the lawful currency for the time being of the Commonwealth of Australia
EBIT	earnings before interest and tax
EBITDA	earnings before interest tax depreciation and amortisation
Effective or Effect	when used in relation to the Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the Court order made under section 411(4)(b) of the Corporations Act approving the Scheme
Effective Date	the date that the Scheme becomes Effective. The Effective Date is expected to be on or about Friday, 22 June 2012
Election	an 'All Ordinary Shares' Election or a Small Shareholder Cash Election, as the context requires or permits
Election Date	5.00pm (Sydney time) on the day before the Second Court Hearing Date (or such other date as Gloucester and Yancoal Australia agree in writing), being the last time and date by which an 'All Ordinary Shares' Election Form or a Small Shareholder Cash Election Form may be lodged
Electing Small Shareholder	a Small Shareholder who validly elects to have the Yancoal Australia Ordinary Shares and any CVR Shares to which he or she is otherwise entitled under the Scheme sold in the manner set out in Section 12.5(g)
Enforcement Share	the share in the capital of Yancoal Australia issued to Gloucester, the key particulars of which are summarised in Section 12.9
equity basis	where references are made in this Explanatory Booklet to actual or estimated levels of Resources, Reserves or production as being on an 'equity basis', this means that the actual figure or estimate is referable to the level of equity ownership of Gloucester, Yancoal Australia or the Merged Group (as the context requires) in the relevant Resources or Reserves (e.g. 100%, 80%, 50%)
Excluded Assets	the assets identified in Section 7.5 which will be transferred by Yancoal Australia to other Yanzhou Coal controlled entities before the Merger Proposal is implemented and will therefore not be assets of the Merged Group after the Merger Proposal is implemented
Explanatory Booklet	this explanatory booklet dated 27 April 2012 in relation to the Merger Proposal and Capital Return
Felix Resources	Felix Resources Limited ACN 000 754 174
FIRB	Australia's Foreign Investment Review Board
FOB	Free on Board
First Court Hearing	the Court hearing on Friday, 27 April 2012, at which Gloucester applied to the Court for orders under section 411(1) of the Corporations Act convening the Scheme Meeting
Foreign Scheme Shareholder	<p>a Scheme Shareholder whose address in the Gloucester Register is a place outside Australia and its external territories or New Zealand unless Gloucester and Yancoal Australia agree in writing that it is lawful and not unduly onerous or impractical to issue that Scheme Shareholder with Yancoal Securities under the Scheme</p> <p>Section 12.5(f) lists those jurisdictions outside Australia and its external territories or New Zealand which Gloucester and Yancoal Australia have agreed in writing that it is lawful and not unduly onerous or impractical to issue Yancoal Securities under the Scheme</p>
General Meeting	the general meeting of Gloucester Shareholders to be held on Monday, 4 June 2012 to consider and vote on the Capital Reduction Resolution. The notice convening the General Meeting is set out in Appendix 5

SECTION 16 – GLOSSARY (CONTINUED)

Gloucester or Company	Gloucester Coal Ltd ABN 66 008 881 712
Gloucester Board or Board	the Board of Directors of Gloucester as at the date of this Explanatory Booklet
Gloucester Group	Gloucester and its subsidiaries and the Middlemount Coal Joint Venture
Gloucester Material Adverse Change	has the meaning given to that term in the Merger Proposal Deed (see Appendix 6)
Gloucester Option or Option	an option to acquire by way of issue a Gloucester Share issued under the Gloucester Share Plan
Gloucester Option Amount	the amount (which may be a negative amount) equal to the amount paid for the cancellation of Gloucester Options less the amount paid to Gloucester on any exercise of Gloucester Options resulting in the issue of Gloucester Shares prior to the Capital Return Record Date
Gloucester Prescribed Occurrence	has the meaning given to that term in the Merger Proposal Deed (see Appendix 6)
Gloucester Shareholder	a person registered on the Gloucester Share Register as a member of Gloucester (or if two or more persons are registered on the Gloucester Share Register as a member of Gloucester in respect of the same Shares, those persons together)
Gloucester Share or Share	a fully paid issued ordinary share in the share capital of Gloucester
Gloucester Share Plan	the Gloucester Long Term Incentive Plan dated 20 November 2009
Gloucester Share Register	the register of members of Gloucester maintained by or on behalf of Gloucester in accordance with section 168(1) of the Corporations Act
Gloucester Share Registry	Computershare Investor Services Pty Limited Level 4, 60 Carrington Street, Sydney NSW 2000
Gloucester Special Dividend or aggregate) Special Dividend	a fully franked dividend of approximately A\$0.44 per Share (or approximately A\$125 million in which may be paid by Gloucester in its absolute discretion to Gloucester Shareholders registered as such as at the Capital Return Record Date
HVCCC	Hunter Valley Coal Chain Coordinator Limited
Implementation Date	the date that the Merger Proposal is to be implemented according to its terms. The Implementation Date is expected to be on or about Tuesday, 3 July 2012
Income Tax Assessment Act	the <i>Income Tax Assessment Act 1997</i> (Cth)
Independent Expert or Deloitte	Deloitte Corporate Finance Pty Limited ACN 003 833 127
Independent Expert's Report	the report of the Independent Expert expressing an opinion on whether the Merger Proposal is in the best interests of Scheme Shareholders. The Independent Expert's Report is set out in Appendix 1 to this Explanatory Booklet
Investigating Accountant or ShineWing Hall Chadwick	ShineWing Hall Chadwick
Investigating Accountant's Report	the report of the Investigating Account set out in Appendix 2 to this Explanatory Booklet in relation to the pro forma financial information of the Merged Group, as included in 8.14
JORC	Australasian Joint Ore Reserves Committee, which is sponsored by the Australian Mining Industry and its professional organisations
JORC Code	the 2004 Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
Joint Information	the information in this Explanatory Booklet jointly prepared by Yancoal Australia and Gloucester (and for which they share responsibility), being the information contained in Section 1.14, Part D of Section 2, Section 3, Section 8 (other than Section 8.5, Sections 8.7(a) – (d) inclusive, Section 8.10, Section 8.11, Section 8.12 and Section 8.17), Section 9, Section 12.7(b), Section 14.14 and Section 4.16(c) of this Explanatory Booklet
KORES	Korea Resource Corporation
LTCC	longwall top coal caving
LTCC Licence Agreement	the agreement between Yancoal Australia and Yanzhou Coal to be executed before the Second Court Hearing Date, the material provisions of which are summarised in Section 13.3
Listing Rules	the listing rules of the ASX
Lapse Notice	a notice to be provided (or which will be deemed provided) by Yancoal Australia to holders of CVR Shares for the purposes of repurchasing the CVR Shares
Mt	million tonnes

Management and Transitional Services Agreement	the agreement between Yancoal Australia, Yanzhou Coal and certain of its subsidiaries to be executed before the Second Court Hearing Date, the material provisions of which are summarised in Section 13.5
Meetings	the Scheme Meeting and the General Meeting collectively
Merged Group	the Yancoal Australia Group following implementation of the Merger Proposal, when the Gloucester Group will become wholly owned subsidiaries of Yancoal Australia. References to the Merged Group include all joint venture interests (incorporated or unincorporated) held by a member of the Merged Group
Merger Proposal	the proposed acquisition of Gloucester by Yancoal Australia through the Scheme of Arrangement
Merger Proposal Deed	the deed between Yanzhou Coal, Yancoal Australia and Gloucester dated 22 December 2011 (as amended) under which each party undertakes specific obligations to give effect to the Merger Proposal. The Merger Proposal Deed is contained in Appendix 6
Merger Proposal End Date	31 July 2012, subject to any extension of this date agreed to by Gloucester and Yancoal Australia
Middlemount Coal	Middlemount Coal Pty Ltd ACN 122 348 412
Middlemount Coal Joint Venture	the incorporated joint venture conducted by Middlemount Coal being the joint venture entity with ownership (through its wholly own subsidiaries) of the tenements and project assets of the Middlemount mine. Some particulars of the Middlemount Joint Venture are provided in Section 13.10
4% Middlemount Coal Royalty	the royalty of 4% of FOBT sales which the Gloucester Group is entitled to receive under a Royalty Deed with Middlemount Coal (as amended). For this purpose, FOBT means Free on Board Trimmed, excluding ocean freight and insurance but including trimming of cargo after loading
Minimum Election Condition	the condition in clause 3.1(l) of the Merger Proposal Deed (refer Appendix 6) to the effect that (i) 'All Ordinary Shares' Elections are required to be made in respect of at least 130 million Gloucester Shares and (ii) that arrangements are in place (as at the date that approval of the Scheme is sought from the Court) to the satisfaction of Gloucester and Yancoal Australia to ensure that elections in respect of that minimum number of Gloucester Shares remain effective from the date of Court approval to the Scheme Record Date
Monash Assets	the assets owned by Monash Coal Holdings Pty Ltd ACN 089 542 987 and its subsidiaries
Moolarben Joint Venture	the unincorporated joint venture established to investigate and mine commercial coal deposits within the area surrounding the Moolarben coal mine. Particulars of the Moolarben Joint Venture are provided in Section 13.9
NCIG	the Newcastle Coal Infrastructure Group, consisting of NCIG Holdings Pty Ltd and Newcastle Coal Infrastructure Group Pty Ltd
Noble	Noble Group Limited, incorporated in Bermuda and listed on the Singapore Stock Exchange, and its subsidiaries
Promissory Notes	promissory notes to be issued by Gloucester to the Trustee on behalf of each Gloucester Shareholder participating in the Capital Return, for an amount equal to that Shareholder's share of the Capital Return Amount, and otherwise in accordance with the terms of the Promissory Note Trust Deed
Promissory Note Trust Deed	the deed dated on or about the date of this Explanatory Booklet between Gloucester and the Trustee, the material provisions of which are summarised in Section 13.6
PWCS	Port Warratah Coal Services Limited
Recoverable Reserves or Reserves	economically mineable part of a Measured or Indicated Resource of coal at the time of reporting, as defined in the JORC Code
Registered Address	in relation to a Gloucester Shareholder, the address of the Gloucester Shareholder as shown in the Gloucester Share Register
Repurchase	the purchase of a CVR Share from a CVR Shareholder for the Repurchase Price by Yanzhou Coal (or another Yanzhou CVR Shareholder), with the Repurchase Price to be satisfied either in cash or in Yancoal Australia Ordinary Shares, in accordance with the CVR Share terms of issue
Repurchase Price	has the meaning given in the CVR Share terms of issue
Resource	a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. Resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories, as defined in the JORC Code
Restructure Agreement	the agreement between Yancoal Australia, Yanzhou Coal and certain of their respective subsidiaries, to be executed before the Second Court Hearing Date, the material provisions of which are summarised in Section 13.2

SECTION 16 – GLOSSARY (CONTINUED)

ROFR	the right of first refusal granted by Yanzhou Coal to the Merged Group with respect to the ROFR Assets under the Merger Proposal Deed
ROFR Assets	the Excluded Assets identified in Section 7.5, which will be the subject of the ROFR
ROM	run of mine
Sale Agent	the person nominated by Yancoal Australia to sell the Yancoal Securities that are attributable to Foreign Scheme Shareholders and Electing Small Shareholders under the Scheme
Sale Facility	the facility contemplated by the Scheme and described in Sections 12.5(f) and (g) under which the Sale Agent will sell the Yancoal Securities attributable to Foreign Scheme Shareholders and Electing Small Shareholders
Scheme or Scheme of Arrangement	the proposed scheme of arrangement between Gloucester and its shareholders to give effect to the merger of Gloucester with and into Yancoal Australia, as set out in Appendix 3, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act (and agreed to by Gloucester and Yancoal Australia)
Scheme Consideration	the consideration to be provided by Yancoal Australia to each Scheme Shareholder in accordance with the Scheme, being either all Yancoal Australia Ordinary Shares or a combination of Yancoal Australia Ordinary Shares and CVR Shares (other than in the case of Foreign Scheme Shareholders and Electing Small Shareholders)
Scheme Meeting	the meeting of Gloucester Shareholders to be held on Monday, 4 June 2012 to consider and vote on the Scheme. The notice convening the Scheme Meeting is contained in Appendix 4
Scheme Record Date	the date for determining entitlements to the Scheme Consideration, being 7.00pm Melbourne time on the fifth Business Day (or such other Business Day as Gloucester and Yancoal Australia agree) following the date on which the Scheme becomes Effective. The Scheme Record Date is expected to be 7.00pm on Friday, 29 June 2012
Scheme Shareholder	a Gloucester Shareholder as at the Scheme Record Date
Scheme Share	a Gloucester Share on issue as at the Scheme Record Date
Scheme Transfer	for each Scheme Shareholder, a duly completed and executed instrument of transfer of the Gloucester Shares for the purposes of section 1071B of the Corporations Act, which may be a master transfer of all the Gloucester Shares held by Scheme Shareholders
Second Court Hearing	the first hearing of the application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving this Scheme
Second Court Hearing Date	the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is heard by the Court. This date is expected to be on or about 8 June 2011
Section	a section of this Explanatory Booklet
Separation Agreement	the agreement between Yancoal Australia and Yanzhou Coal to be entered into before the Second Court Hearing Date, the material provisions of which are summarised in Section 13.4
Small Shareholder	a Scheme Shareholder who is shown on the Gloucester Share Register on the Scheme Record Date as holding 200 Scheme Shares or less
Small Shareholder Cash Election	an election made by a Small Shareholder to have the Yancoal Securities to which they are otherwise entitled sold in the manner set out in Section 12.5(g) of this Explanatory Booklet
Small Shareholder Cash Election Form	the form of election coloured blue accompanying this Explanatory Booklet to enable Electing Small Shareholders to make a Small Shareholder Cash Election
Special Dividend	a fully franked dividend of approximately A\$125 million in aggregate which may be paid by Gloucester (in its absolute discretion) to Gloucester Shareholders registered as such as at the Capital Return Record Date
Superior Proposal	has the meaning given to that term in the Merger Proposal Deed (see Appendix 6)
Trustee	The Trust Company Limited ABN 59 004 027 749
US Dollar or US\$	the lawful currency for the time being of the United States of America
VWAP	volume weighted average price
Voting Entitlement Time	the time for determining eligibility of Gloucester Shareholders to vote on the Scheme at the Scheme Meeting and on the Capital Reduction Resolution at the General Meeting, being 12.00pm (Sydney time) on Saturday, 2 June 2012
WACC	weighted average cost of capital

WICET	the Wiggins Island Coal Export Terminal, which is being developed by a subsidiary of WICET Holdings Pty Ltd
WICET Holdings	WICET Holdings Pty Ltd ABN 26 131 210 001
Yancoal Australia	Yancoal Australia Limited ABN 82 111 859 119
Yancoal Australia Group	Yancoal Australia and each of its subsidiaries
Yancoal Australia Information	the information prepared by Yancoal Australia for inclusion in this Explanatory Booklet and for which Yancoal Australia is responsible, being the letter from the Chairman of the Board of Yanzhou Coal and Yancoal Australia, Section 1.13, Section 7, Section 8.5, Sections 8.7(a) – (c) inclusive, Sections 8.10 to 8.12 inclusive, Section 8.17, Section 12.7(a), Sections 13.2 to 13.5 inclusive, Sections 13.7 to 13.9 inclusive, Section 14.6, Section 14.8, Section 14.15, Section 14.16, Section 14.17(b), Section 14.18(b), Section 14.18(c) and Section 15.2
Yancoal Australia Register	the share register of members of Yancoal Australia maintained by or on behalf of Yancoal Australia in accordance with section 168(1) of the Corporations Act
Yancoal Australia Ordinary Share	a fully paid ordinary share in the capital of Yancoal Australia
Yancoal Material Adverse Change	has the meaning given to that term in the Merger Proposal Deed (see Appendix 6)
Yancoal Prescribed Occurrence	has the meaning given to that term in the Merger Proposal Deed (see Appendix 6)
Yancoal Securities	Yancoal Australia Ordinary Shares and/or CVR Shares, as the context requires or permits
Yanzhou Coal	Yanzhou Coal Mining Company Limited, the parent company of Yancoal Australia
Yanzhou CVR Shareholder	Yanzhou Coal, or any related body corporate or other person nominated by Yanzhou Coal (excluding in each case Yancoal Australia or any entity controlled by Yancoal Australia) as a Yanzhou CVR Shareholder with such related body corporate's or other person's consent
Yanzhou Obligation	has the meaning given in Section 13.7

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APPENDIX 1

INDEPENDENT EXPERT'S REPORT

APPENDIX 1

INDEPENDENT EXPERT'S REPORT

Deloitte.

Gloucester Coal Ltd

Independent expert's report and Financial Services Guide

April 2012

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 (AUD) 630,000 (excluding GST) in relation to the preparation of this report. This fee is not contingent upon the success or otherwise of the proposed merger between Gloucester Coal Ltd (Gloucester) and Yancoal Australia Limited (Yancoal), a wholly owned subsidiary of Yanzhou Coal Mining Company Limited (Yanzhou) to be effected through a scheme of arrangement (the Proposed Scheme).

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's reports and the valuation report were unrelated to the Proposed Scheme.

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
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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).

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

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26 April 2012

Member of Deloitte Touche Tohmatsu Limited

APPENDIX 1

INDEPENDENT EXPERT'S REPORT (CONTINUED)



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The Directors
Gloucester Coal Ltd
Level 7, 167 Macquarie Street
Sydney NSW 2000

26 April 2012

Dear Directors

Independent expert's report

Introduction

On 23 December 2011, Gloucester Coal Ltd (Gloucester or the Company) announced that it had entered into a merger proposal deed with Yanzhou Coal Mining Company Limited (Yanzhou) and its wholly owned Australian subsidiary, Yancoal Australia Limited (Yancoal), under which Gloucester's assets would be combined with certain Australian assets of Yancoal (the Merger Proposal). These assets, referred to as the Yancoal Assets, comprise the following:

- 100% interest in the Austar Coal Mine
- 90% interest in the Ashton Coal Joint Venture (JV)
- 80% interest in the Moolarben JV
- 100% interest in the Yarrabee Coal Mine
- 15.4% interest in the Newcastle Coal Infrastructure Group (NCIG)
- 5.6% interest in the Wiggins Island Coal Export Terminal (WICET).

On 6 March 2012 Gloucester announced its intention to proceed with the Merger Proposal (subject to minor revisions).

The proposed merged entity comprising Gloucester and the Yancoal Assets is referred to as the Proposed Merged Entity. The Merger Proposal will be effected by way of a scheme of arrangement between Gloucester and the shareholders of Gloucester (Shareholders) (Proposed Scheme) in accordance with Part 5.1 of the Corporations Act 2001 (Cth) (Corporations Act 2001).

Under the Proposed Scheme, Yancoal will acquire all of the issued shares of Gloucester. In consideration for each Gloucester share held, Shareholders will receive one ordinary share in the Proposed Merged Entity and one contingent value rights share (CVR Share), with the number of CVR Shares subject to potential scale back. Shareholders who wish to do so may elect to receive only one ordinary share in the Proposed Merged Entity in return for each Gloucester share held.

Under the terms of the CVR Shares, participating Shareholders will receive a payment equal to the amount by which the share price of the Proposed Merged Entity is less than AUD 6.96 per equivalent share in Gloucester (i.e. after the capital return and a special dividend which are explained in further detail below) based on the 90 day volume weighted average price (VWAP) during a relevant pricing period which could be up to 18 months after the merger implementation and after the capital return, subject to a cap of AUD 3.00 per share, early repurchase by Yancoal and other conditions.

Following the Proposed Scheme, Yanzhou is expected to hold 78% of the equity in the Proposed Merged Entity with Shareholders holding the remaining 22%.

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Separate to but conditional on the Proposed Scheme, eligible Shareholders will receive approximately AUD 3.15 per Gloucester share, comprising a special dividend of approximately AUD 0.44 per share under Section 254T of the Corporations Act 2001 (Special Dividend) and a capital return of approximately AUD 2.71 per share under Division 1 of Part 2J.1 of the Corporations Act 2001 (Capital Return). If the Proposed Scheme and Capital Return are approved, the Capital Return will be effected prior to the effective date of the Proposed Scheme and Gloucester will discharge its obligations under the Capital Return by delivering one or more promissory notes to an independent trustee to hold on trust for eligible Shareholders. Gloucester will then arrange for payment to Shareholders following presentation of the promissory note(s) six months after implementation of the Proposed Scheme. The Special Dividend will be payable after court approval of the Proposed Scheme but prior to the effective date of the Proposed Scheme and will be paid to the same Shareholders who are entitled to participate in the Capital Return.

Upon completion of the Proposed Scheme, Gloucester will become a wholly owned subsidiary of Yancoal and will subsequently be delisted from the Australian Securities Exchange (ASX). The Proposed Scheme is conditional on the Proposed Merged Entity obtaining a listing on the ASX.

The board of Gloucester has prepared an explanatory booklet containing the detailed terms of the Proposed Scheme, the Capital Return and the Special Dividend (the Explanatory Booklet). An overview of the Proposed Scheme is also provided in Section 1 of our detailed report.

Purpose of the report

Whilst an independent expert's report in respect of the Proposed Scheme is not required to meet any statutory obligations, the directors of Gloucester have requested that Deloitte Corporate Finance Pty Limited (Deloitte Corporate Finance) provide an independent expert's report advising whether, in our opinion, the Proposed Scheme is in the best interests of Shareholders.

This independent expert's report has been prepared in a manner consistent with Part 3 of Schedule 8 to the Corporations Regulations 2001 (Corporations Regulations) (Part 3) to assist Shareholders in their consideration of the Proposed Scheme. We have prepared this report having regard to Part 3 and the relevant Australian Securities and Investments Commission (ASIC) Regulatory Guides.

This report is to be included in the Explanatory Booklet to be sent to Shareholders and has been prepared for the exclusive purpose of assisting Shareholders in their consideration of the Proposed Scheme. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Shareholders and Gloucester, in respect of this report, including any errors or omissions however caused. This report does not extend to providing any separate or specific opinion on the Capital Return.

Basis of evaluation

Schemes of arrangement can include many different types of transactions, including being used as an alternative to a takeover bid in accordance with Chapter 6 of the Corporations Act 2001. The basis of evaluation selected by the expert must be appropriate for the nature of each specific transaction.

Section 640 of the Corporations Act 2001 (Section 640) requires an independent expert's report in connection with a takeover offer to state whether, in the expert's opinion, the takeover offer is fair and reasonable. Where the scheme of arrangement has the same effect as a takeover, the form of analysis used by the expert should be substantially the same as for a takeover bid, however, the opinion reached should be whether the proposed scheme is 'in the best interests of the members of the company'. Accordingly, if an expert were to conclude that a proposal was 'fair and reasonable' if it was in the form of a takeover bid, it will also be able to conclude that the proposed scheme is in the best interests of the members of the company.

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INDEPENDENT EXPERT'S REPORT (CONTINUED)

Under ASIC Regulatory Guide 111, which provides guidance in respect of the content of expert reports, a control transaction such as the Proposed Scheme is:

- fair, when the value of the consideration is equal to or greater than the value of the securities subject to the proposed scheme. The comparison must be made assuming 100% ownership of the target company
- reasonable, if it is fair, or despite not being fair, after considering other significant factors, securityholders should accept the offer under the proposed scheme, in the absence of any higher bids.

To assess whether the Proposed Scheme is in the best interests of Shareholders, we have adopted the test of whether the Proposed Scheme is either fair and reasonable, not fair but reasonable, or neither fair nor reasonable, as set out in ASIC Regulatory Guide 111.

Summary and conclusion

In our opinion, in the absence of a superior proposal, the Proposed Scheme is fair and reasonable and therefore is in the best interests of Shareholders. In arriving at this opinion, we have had regard to the following factors:

The Proposed Scheme is fair

The value of the consideration offered by Yancoal under the Proposed Scheme is within and above the midpoint of the range of our estimate of the fair market value of a share in Gloucester on a control basis¹.

Set out in the table below is a comparison of our assessment of the fair market value of a share in Gloucester with the consideration being offered by Yancoal under the Proposed Scheme, inclusive of the value of one CVR Share.

Table 1: Evaluation of fairness

	Low value (AUD)	High value (AUD)
Deloitte Corporate Finance selected value per share in Gloucester (on a control basis)	8.90	9.65
Consideration offered by Yancoal	9.35	9.48

Source: Deloitte Corporate Finance analysis

Note:

1. The value of the Capital Return and Special Dividend are included in our assessment of the fair market value of the consideration offered to Shareholders.

It is a condition precedent of the Proposed Scheme that Shareholders holding, in aggregate, at least 130 million Gloucester shares must elect not to receive CVR Shares as part of their consideration or the Proposed Scheme will not proceed. If the Proposed Scheme proceeds, each Shareholder will receive one share in the Proposed Merged Entity and one CVR Share in consideration for each share in Gloucester unless the Shareholder has elected not to receive CVR Shares as part of the consideration. **Our assessment of the fair market value of the consideration offered to Shareholders incorporates the value of the CVR Shares.**

¹ The value of the consideration to any Shareholder electing not to receive the CVR Shares will be lower than for Shareholders receiving ordinary shares and CVR Shares. For these Shareholders, the value of the consideration under the Proposed Scheme is below the range of our estimate of the fair market value of a share in Gloucester.

Eligible Shareholders will also receive approximately AUD 3.15 per Gloucester share, comprising the Capital Return and the Special Dividend. Whilst technically separate from the Proposed Scheme, the Capital Return and Special Dividend are dependent on the Proposed Scheme and we have therefore considered them for the purposes of this report to be part of the Proposed Scheme consideration. As a result, the value of the Capital Return and Special Dividend are included in our assessment of the fair market value of the consideration offered to Shareholders and the debt required to fund the Capital Return and Special Dividend is reflected in our valuation of the Proposed Merged Entity. If we were to assess the value of a share in Gloucester after the payment of the Capital Return and the Special Dividend, we would deduct the value of the Capital Return and Special Dividend payment from the value of a Gloucester share and also exclude these amounts from the consideration offered to eligible Shareholders. Consequently, there would be no impact on our opinion as to the fairness of the Proposed Scheme.

We have adopted a consistent approach to our valuation of both Gloucester and the Proposed Merged Entity, with similar inputs adopted for key assumptions including future coal prices, foreign exchange rates, discount rates, coal production profiles and resource conversion scenarios. Therefore, the impact of these assumptions is reflected consistently in our valuation of both Gloucester and the Proposed Merged Entity. We note however, that as the consideration includes the CVR Shares and cash payments (i.e. the Capital Return and the Special Dividend), the impact of assumptions in relation to foreign exchange rates, discount rates, coal production profiles and resource conversion scenarios is more pronounced on the value of a share in Gloucester than the value of the consideration offered to Shareholders.

Valuation of a share in Gloucester

Deloitte has estimated the fair market value of Gloucester using the sum-of-the-parts method which estimates the market value of a company by summing the value of each asset and liability of the company. To value Gloucester using the sum-of-the-parts method requires an estimate of the following:

- the value of the operating assets and development projects of Gloucester
- an appropriate premium to the discounted cash flow value
- the value of the exploration assets of Gloucester
- surplus assets (if any) based on the current balance of any surplus assets or liabilities
- current net debt position.

This analysis is discussed in summary below and set out in more detail in Sections 8.1.1 to 8.1.6.

Value of the operating assets and development projects of Gloucester

The value of Gloucester'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.

Premium to the discounted cash flow value

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 financial model for Gloucester prepared by Gloucester management (Gloucester Model). These items include:

- life of mine (LOM) greater than that captured in the Gloucester Model
- exploration and discovery of further resources from existing tenements
- potential strategic value
- taxation benefits.

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 of 10% in the value of the operating assets and development assets to reflect the combined value of these factors.

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INDEPENDENT EXPERT'S REPORT (CONTINUED)

Exploration assets

Deloitte has engaged Behre Dolbear Australia Pty Limited (BDA) to provide an assessment of the value of Gloucester's exploration assets.

BDA's valuation of the exploration assets of Gloucester allows only for resources which are not included in the discounted cash flow valuation of Gloucester.

BDA has estimated a most likely value for the exploration assets of Gloucester of AUD 465 million.

Surplus assets

Management has advised that there are no assets which do not contribute to the operations of Gloucester and we have not identified any material surplus assets during the course of our work. Consequently, no value has been placed on surplus assets.

Net debt

As at 22 February 2012, the net debt position of Gloucester was AUD 391.4 million.

Valuation summary

Our valuation of a share in Gloucester using the sum-of-the-parts method is set out in Section 8 and is summarised in the table below.

Table 2: Value of Gloucester based on sum-of-the-parts method

	Section	Unit	Low	High
Total value of Gloucester's operating and development assets	8.1.1	AUD million	1,700.0	1,850.0
Premium to discounted cash flow value	8.1.2	%	10.0%	10.0%
Total value of Gloucester's operating and development assets including premium		AUD million	1,870.0	2,035.0
Exploration assets	8.1.3	AUD million	465.0	465.0
Surplus assets	8.1.4	AUD million	-	-
Enterprise value (on a control basis)		AUD million	2,335.0	2,500.0
Net debt	8.1.5	AUD million	(391.4)	(391.4)
Equity value (on a control basis)		AUD million	1,943.6	2,108.6
<i>Number of Gloucester shares on issue</i>	3.6	<i>million</i>	218.7	218.7
Value of a share in Gloucester		AUD	8.89	9.64
Deloitte Corporate Finance assessed value of a share in Gloucester		AUD	8.90	9.65

Source: Deloitte Corporate Finance analysis

We have cross checked our valuation with reference to share trading in Gloucester prior to the announcement of the Proposed Scheme. Our valuation range of AUD 8.90 to AUD 9.65 per share implies a control premium of 19% to 29%, compared to the VWAP 30 days prior to the announcement of the Proposed Scheme of AUD 7.50. We have also compared the reserve and resource multiples implied by our valuation of Gloucester with the reserve and resource multiples observed for comparable listed companies and implied by comparable transactions, respectively. As set out in Section 8.2, these cross checks provide support for our valuation.

Deloitte Corporate Finance prepared an independent expert's report dated 30 May 2011 relating to Gloucester's acquisition of Donaldson Coal Holdings Limited (Donaldson) and Monash Coal Pty Limited (Monash) (the Previous Report). In the Previous Report we estimated the enterprise value of Gloucester on a control basis to be in the range of AUD 2,650 million to AUD 2,750 million. Our current valuation is lower than the valuation set out in the Previous Report due to changes in certain key parameters between the valuation dates. Since the date of the Previous Report, the long term outlook for coal prices has improved resulting in a corresponding increase in the overall value of Gloucester. This increase in value has been more than offset by factors which have led to a diminution in the value of Gloucester. The principal factors contributing to the decrease in our valuation of a share in Gloucester are:

- **carbon pricing** – our treatment of the impact of carbon pricing on the current valuation of Gloucester has had regard to more detailed information on the carbon pricing legislation compared to the valuation set out in the Previous Report
- **operating costs** – our current valuation of Gloucester has had regard to recent operating results of Gloucester and also increases in mining costs in the coal mining sector. Our valuation reflects higher operating costs than the valuation set out in the Previous Report
- **long term foreign exchange rates** – our long term USD/AUD exchange rate assumption has increased from United States dollars (USD) 0.78 per AUD to USD 0.80 per AUD.

Valuation of a share in the Proposed Merged Entity

Deloitte has estimated the fair market value of the Proposed Merged Entity using the sum-of-the-parts method. To value the Proposed Merged Entity using the sum-of-the-parts method requires an estimate of the following:

- the value of the operating assets and development projects of Gloucester
- the value of the Yancoal Operating Assets
- an appropriate premium to the discounted cash flow value
- the value of the exploration assets of the Proposed Merged Entity
- surplus assets (if any) based on the current balance of any surplus assets or liabilities
- current net debt position
- an appropriate discount for minority interest.

This analysis is set out in Section 9.1.1 to Section 9.1.7.

Value of the operating assets and development projects of the Proposed Merged Entity

The value of operating assets and development projects of the Proposed Merged Entity 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.

Premium to the discounted cash flow value

There are a number of items which may contribute to the future cash flows of the operating assets and development projects of the Proposed Merged Entity which are not included in the financial model for Yancoal prepared by Yancoal management (Yancoal Model) or the Gloucester Model (referred to collectively as the Models). These items include:

- LOM greater than that captured in the Models
- exploration and discovery of further resources from existing tenements
- potential strategic value, including synergies relating to infrastructure, product diversification, mine development and procurement
- taxation benefits.

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

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development projects.

Based on the above and on our professional judgment, we have included a premium of 10% in the value of the operating assets and development assets to reflect the combined value of these factors.

Exploration assets

Deloitte has engaged BDA to provide an assessment of the value of the exploration assets of the Proposed Merged Entity. BDA's valuation of the exploration assets of the Proposed Merged Entity allows only for resources which are not included in the discounted cash flow valuation of the Proposed Merged Entity.

BDA has estimated a most likely value for the exploration assets of Proposed Merged Entity of AUD 730 million.

Surplus assets

Management has advised that there are no assets which do not contribute to the operations of the Proposed Merged Entity and we have not identified any material surplus assets during the course of our work. Consequently, no value has been placed on surplus assets.

Net debt

As at 22 February 2012, the expected net debt position of the Proposed Merged Entity was AUD 3,530.4 million.

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%.

We consider a minority interest discount in the range of 15% to 20% to be reasonable.

Valuation summary

Our valuation of a share in the Proposed Merged Entity using the sum-of-the-parts method is set out in Section 9 and is summarised in the table below.

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

	Section	Unit	Low	High
Total value of the operating assets and development assets of the Proposed Merged Entity	9.1.1	AUD million	7,000.0	7,500.0
Premium to discounted cash flow value	9.1.2	%	10.0%	10.0%
Total value of the operating and development assets of the Proposed Merged Entity including premium		AUD million	7,700.00	8,250.00
Exploration assets	9.1.3	AUD million	730.0	730.0
Surplus assets	9.1.4	AUD million	-	-
Enterprise value (on a control basis)		AUD million	8,430.0	8,980.0
Net debt	9.1.5	AUD million	(3,530.4)	(3,530.4)
Equity value (on a control basis)		AUD million	4,899.6	5,449.6
Discount for minority interest	9.1.6	%	20%	15%
Equity value (on a minority interest basis)		AUD million	3,919.7	4,632.2
<i>Number of shares on issue</i>	5.3	<i>million</i>	<i>994.2</i>	<i>994.2</i>
Value of a share in the Proposed Merged Entity (on a minority interest basis)		AUD	3.94	4.66
Deloitte Corporate Finance assessed value of a share in the Proposed Merged Entity		AUD	3.95	4.65

Source: Deloitte Corporate Finance analysis

We have also compared the reserve and resource multiples implied by our valuation of a share in the Proposed Merged Entity with the reserve and resource multiples observed for comparable listed companies and implied by comparable transactions, respectively. As set out in Section 9.2, these cross checks provide support for our valuation.

Our valuations of a share in Gloucester and the Proposed Merged Entity are based on the discounted cash flow methodology. We have analysed the relationship between discounted cash flow valuations for comparable listed companies prepared by equity analysts and their share trading valuations. Our analysis indicates that Australian coal mining companies are presently trading at significant discounts to their share price targets which are based on discounted cash flow valuations.

As our valuation has been prepared using the discounted cash flow approach, given the relationship observed between share market trading and discounted cash flow valuations for coal companies discussed above, it is possible that shares in the Proposed Merged Entity will trade at lower prices than that implied by our valuation. In the absence of the Proposed Scheme we would also expect shares in Gloucester to also trade at a discount to analyst valuations, as they were prior to the announcement of the Proposed Scheme.

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INDEPENDENT EXPERT'S REPORT (CONTINUED)

Valuation of a CVR Share

The CVR Shares have the features set out in Section 1.1. The CVR Shares possess option-like characteristics as the entitlements of Shareholders will vary based on the share price performance (measured by the 90 day VWAP) of the Proposed Merged Entity following the merger implementation. Each CVR Share may be broadly characterised as representing a theoretical option position comprised of the following:

- **long barrier put option:** the payment per CVR Share increases as the share price falls below AUD 6.96. However, if the share price exceeds AUD 6.96, Yancoal may terminate the CVR Share for an immaterial cost. This, in effect, represents a long position in a barrier put option with an exercise price and barrier price of AUD 6.96
- **short barrier put option:** the payment per CVR Share is capped at AUD 3.00. The payment received by a holder of the long barrier put option described above will be capped at AUD 3.00 if they write (i.e. go short) a put option with an exercise price of AUD 3.96. However, when the share price exceeds AUD 6.96 this short position in the put option will no longer be required as the long barrier put option will terminate. Accordingly, the payment cap associated with a CVR Share may be replicated with a short position in a barrier put option with an exercise price of AUD 3.96 and a barrier price of AUD 6.96.

We have applied a modified Black-Scholes option pricing methodology to value each CVR Share by assuming an option position consisting of a long barrier put option and a short barrier put option.

The value range derived for a CVR Share by applying the Black-Scholes methodology is set out in the table below.

Table 4: Valuation of a CVR Share

	Unit	Low	High
Long barrier put option	AUD	2.82	2.12
Short barrier put option	AUD	(0.51)	(0.38)
Total value of combined option position	AUD	2.31	1.74

Source: Deloitte Corporate Finance analysis

Valuation of the consideration under the Proposed Scheme

As discussed above, Shareholders will be entitled to receive, as consideration for each share in Gloucester, the following:

- for eligible Shareholders² registered as such on the Scheme Record Date (as defined in the Merger Proposal Deed):
 - one share in the Proposed Merged Entity
 - one CVR Share (unless an election is made not to receive the CVR Shares)
- for Shareholders registered as such on the Capital Reduction Record Date (as defined in the Merger Proposal Deed):
 - the Capital Return
 - the Special Dividend.

The following table sets out our assessment of the total value of the money and securities offered to eligible Shareholders.

Table 5: Value of consideration

	Section	Low (AUD)	High (AUD)
Value of a share in the Proposed Merged Entity	9.1.7	3.95	4.65
Value of a CVR Share	10.2	2.31	1.74
Present value of the Capital Return ¹	10.3	2.65	2.65
Present value of the Special Dividend ¹	10.4	0.44	0.44
Value of consideration offered to eligible Shareholders		9.35	9.48

Source: Deloitte Corporate Finance analysis

Note:

1. The Capital Return and Special Dividend are separate to the Proposed Scheme and will only be paid to Shareholders registered as such on the Capital Reduction Record Date.

Our assessment of the total value of the consideration is not sensitive to the value of a share in the Proposed Merged Entity due to the impact of the CVR Share. The value of the CVR Share is higher at the low end of our valuation range for a share in the Proposed Merged Entity and vice versa, such that the sum of the value of a share in the Proposed Merged Entity and a CVR Share is in the range of AUD 6.26 to AUD 6.39, which is a narrower range than the range of the value of a share in the Proposed Merged Entity.

Share trading discounts to DCF valuations

It is possible that the market price of a share in Gloucester following the announcement of the Proposed Scheme provides evidence of the value the market attributes to the consideration offered to Shareholders and the price at which shares in the Proposed Merged Entity might trade immediately after completion of the Proposed Scheme.

The 10 day and 30 day VWAP of shares in Gloucester up to 26 March 2012 was AUD 8.20 and AUD 8.19, respectively. Assuming that the market has attributed the same value to the Capital Return and Special Dividend as set out above (of AUD 3.09 in total), the implied value of a share in the Proposed Merged Entity and the CVR

² Refers to Shareholders other than those who elect to receive all of their scheme consideration in the form of shares in the Proposed Merger Entity, certain ineligible foreign Shareholders and Shareholders with small parcels who elect to receive net cash proceeds

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INDEPENDENT EXPERT'S REPORT (CONTINUED)

Share is in the range of AUD 5.10 to AUD 5.11. After allowing for the time value of money, this implies further that the market is attributing a value for a share in the Proposed Merged Entity in the range of AUD 2.29 to AUD 2.30, which represents a discount to our discounted cash flow valuation of a share in the Proposed Merged Entity of 42% to 51%. If the market value of a share in the Proposed Merged Entity is 42% to 51% less than our discounted cash flow valuation, we would expect the market value of a share in Gloucester to be trading at a similar discount to our discounted cash flow valuation as we have adopted the same approach to our valuations of Gloucester and the Proposed Merged Entity. We note that the extent to which the market is pricing in the risk that the Proposed Scheme will not proceed may also be reflected in this discount. In the event that the share price of the Proposed Merged Entity continues to trade at a substantial discount to our discounted cash flow valuation Gloucester shareholders may not be able to access the entire underlying value of their shares in the Proposed Merged Entity. Notwithstanding this, our opinion on fairness is not affected by the implicit discount to fair market value the market has ascribed to a share in the Proposed Merged Entity, as implied by recent trading in Gloucester shares, given that we have adopted a consistent approach in our valuation of a share in Gloucester and a share in the Proposed Merged Entity.

Conclusion on fairness

All Shareholders registered as such on the Scheme Record Date will receive CVR Shares as part of the consideration for their shares in Gloucester, unless they elect not to receive CVR Shares. The value of the consideration available to any Shareholder electing not to receive the CVR Shares will be lower than for Shareholders receiving ordinary shares and CVR Shares. For these Shareholders, the value of the consideration under the Proposed Scheme is below the range of our estimate of the fair market value of a share in Gloucester.

As the right to elect not to receive CVR Shares is an election that Shareholders must make, with the default position being that Shareholders will receive ordinary shares in the Proposed Merged Entity and CVR Shares, we have assessed the fairness of the Proposed Scheme based on the consideration being inclusive of the CVR Shares.

The value of the consideration to be received by Gloucester Shareholders, including the CVR Shares, Capital Return and Special Dividend, is within the range of our estimate of the fair market value of a share in Gloucester. On this basis, we consider the Proposed Scheme is fair.

The Proposed Scheme is reasonable

In accordance with ASIC Regulatory Guide 111 an offer is reasonable if it is fair. On this basis, in our opinion the Proposed Scheme is reasonable.

We have also considered the following factors in assessing the reasonableness of the Proposed Scheme:

Advantages of the Proposed Scheme

The likely advantages to Shareholders if the Proposed Scheme 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 3.9 billion to AUD 4.6 billion (based on a valuation range for a share in the Proposed Merged Entity of AUD 3.95 to AUD 4.65), with a free float of approximately 8.8%. Upon completion of the Proposed Scheme, the Proposed Merged Entity will have interests in ten operating mines and development projects and a portfolio of exploration assets. The Proposed Merged Entity will also have net Proved and Probable Reserves of 697.2 million tonnes (Mt) and total Measured, Indicated and Inferred Resources of 3,476.3 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 Scheme, the market capitalisation of the Proposed Merged Entity will be significantly greater than that of Gloucester on a standalone basis. The increase in size 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 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.

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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 than would be possible for Gloucester on a standalone basis.

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 and the Hunter Valley in New South Wales (NSW) and owns a near 50% interest in the Middlemount Mine project located in the Bowen Basin in Queensland.

If the Proposed Scheme is approved and implemented, 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 and the Yancoal Assets including interests in the Austar Coal Mine, the Ashton Coal JV, the Moolarben JV, the Yarrabee Coal Mine and potential expansions of these projects
- significantly higher annual production than Gloucester currently produces on a standalone basis
- the potential for a longer and greater production profile due to the larger portfolio and larger resource base of the Proposed Merged Entity.

The Proposed Merged Entity may generate synergies

The combination of Gloucester and Yancoal assets could potentially generate a number of synergies including but not limited to coal blending opportunities, operational and cost efficiencies in respect of port and rail infrastructure, accelerated development of mines and improved negotiating power for with suppliers. In addition, taxation benefits may potentially be derived by the Proposed Merged Entity which would not be available to Gloucester on a standalone basis.

These synergies have been factored into our valuation of the Proposed Merged Entity. However, it is possible that there will be additional benefits which have not been included in our valuation.

Shareholders are receiving a significant premium to the share price of Gloucester prior to the announcement of the Proposed Scheme

The consideration offered under the Proposed Scheme includes a premium for control. We have assessed the value of the consideration per share in Gloucester under the Proposed Scheme to be in the range of AUD 9.35 to AUD 9.48 per share.

The one day VWAP of shares in Gloucester, prior to the announcement of the Proposed Scheme, was AUD 7.10, and the 30 day VWAP was AUD 7.50. The consideration represents a significant premium to the 30 day VWAP of shares in Gloucester prior to the announcement of the Proposed Scheme of between 25% and 26%.

In the absence of the Proposed Scheme Gloucester shares would likely trade below current levels

Since the announcement of the Proposed Scheme, Gloucester shares have traded at a premium to the prices at which shares were trading prior to the announcement. In the absence of the Proposed Scheme or an alternative transaction, shares in Gloucester would likely trade below the prices achieved since the announcement of the Proposed Scheme. In those circumstances, and having regard to the observed relationship between discounted cash flow valuations undertaken by equity analysts and share trading for companies comparable to Gloucester (which indicates that share trading is taking place at a discount to discounted cash flow valuation), we consider shares in Gloucester could trade at a price lower than our valuation of a share in Gloucester, even after adjusting our control value for an appropriate minority interest discount.

If the Proposed Scheme proceeds, for the same reason, it is also possible that shares in the Proposed Merged Entity will trade at lower prices than that implied by our valuation.

APPENDIX 1 INDEPENDENT EXPERT'S REPORT (CONTINUED)

Disadvantages of the Proposed Scheme

The likely disadvantages to Shareholders if the Proposed Scheme is approved include:

Shareholders may face difficulties realising full value for their investment in the short term

Our valuation of the consideration offered to Shareholders includes the value of a share in the Proposed Merged Entity based on the discounted cash flow methodology. We have analysed the relationship between discounted cash flow valuations for comparable listed companies prepared by equity analysts and their share trading valuations. Our analysis indicates that Australian coal mining companies are presently trading at significant discounts to their share price targets which are based on discounted cash flow valuations.

Consequently, Shareholders seeking to realise their investment in the Proposed Merged Entity shortly following the implementation of the Proposed Scheme may not be able to realise the full fair market value of their shares in the short term. In the longer term, the difference between share trading and discounted cash flow valuation of companies in the coal mining sector may reduce.

In addition, we note that Gloucester shares are currently trading below the valuation we have derived using the discounted cash flow method on a control basis. In the event that the Proposed Merger Proposal does not proceed and no other offer supported by Noble is made it may be difficult for Gloucester shareholders to realise the full value of their shares on a control basis.

The Proposed Merged Entity will have a substantially higher level of debt than Gloucester

The Proposed Merged Entity will have a significantly higher proportion of debt in its capital structure than Gloucester on a standalone basis. Furthermore, the gearing level of the Proposed Merged Entity will be substantially higher than gearing levels observed for comparable companies.

The capital structure of the Proposed Merged includes USD denominated debt of USD 3.04 billion which will likely require refinancing in the future. Given the significant level of gearing of the Proposed Merged Entity and the comparatively low borrowing cost associated with the debt finance and exposure to fluctuation in USD/AUD exchange rates, we consider it unlikely that the Proposed Merged Entity will be able to refinance its debt facilities on similar terms to those which currently prevail.

The Proposed Merged Entity faces greater currency risk than Gloucester on a standalone basis

We have undertaken an analysis of historical USD/AUD foreign exchange rates and coal prices which indicates a correlation between the two factors. An appreciation of the USD against the AUD would likely result in a higher AUD denominated coal price, however, our analysis indicates that the impact of the change in exchange rates would unlikely be fully offset by a change in coal prices, particularly in the short term, where prices are determined by contracted prices.

Due to the high level of USD denominated debt in the capital structure of the Proposed Merged Entity and the observed relationship between USD/AUD exchange rates and coal prices, if the USD were to appreciate against the AUD, the likely outcome for the Proposed Merged Entity would be higher debt service payments (in AUD terms) and lower revenues (in AUD terms) than for Gloucester on a standalone basis.

Potential overhang may affect the price of a share in the Proposed Merged Entity

As part of the conditions imposed on its acquisition of Felix Resources Limited (Felix) by the Foreign Investment Review Board (FIRB), Yanzhou is required to list Yancoal on the ASX by the end of 2012 and by that time, reduce its ownership in Yancoal to less than 70% by the end of 2013. Furthermore, following the listing of Yancoal on the ASX, Yanzhou must ensure that its economic interests in the operating and development assets of Yancoal acquired as part of the Felix acquisition are less than 50% by the end of 2013.

Following the implementation of the Proposed Scheme, the Proposed Merged Entity will be listed on the ASX and Yanzhou's ownership of the Proposed Merged Entity will be 78%. In order to discharge the obligations imposed by the FIRB, Yanzhou will be required to reduce its interest in the Proposed Merged Entity to 70% by the end of 2013.

Following the completion of the Proposed Scheme, the free float of the Proposed Merged Entity will be approximately 8.8% of the total issued capital, or approximately AUD 350 million to AUD 410 million (based on a valuation range for a share in the Proposed Merged Entity of AUD 3.95 to AUD 4.65). Once Yanzhou sells down its interest in the Proposed Merged Entity by 8%, the free float would increase to 16.8%.

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Whilst the sale of shares equivalent to an 8% interest in the Proposed Merged Entity may depress the price of a share in the Proposed Merged Entity in the short-term, this could be mitigated by an increase in liquidity in the shares of the Proposed Merged Entity.

Diluted participation in the future growth of the Gloucester asset portfolio

Following implementation of the Proposed Scheme, Shareholders (including Noble) will hold 22% of the total issued shares in the Proposed Merged Entity. Shareholders' exposure to the potential upside from Gloucester's asset portfolio will be significantly diluted, as that upside will be shared by all shareholders in the Proposed Merged Entity.

This dilution will be mitigated to the extent Shareholders are able to participate in any upside attributable to the Yancoal Assets, which have a significantly higher resource base and greater future development potential than that of Gloucester on a standalone basis.

Conclusion on reasonableness

As the Proposed Scheme is fair, it is also reasonable

Opinion

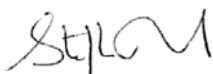
In our opinion, in the absence of a superior proposal, the Proposed Scheme is fair and reasonable and is therefore in the best interests of Shareholders.

An individual shareholder's decision in relation to the Proposed Scheme may be influenced by his or her particular circumstances. 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: All amounts stated in this report are AUD unless otherwise stated, and may be subject to rounding.

APPENDIX 1

INDEPENDENT EXPERT'S REPORT (CONTINUED)

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1 Terms of the Proposed Scheme

1.1 Summary

On 23 December 2011, Gloucester announced that it had entered into a merger proposal deed with Yanzhou and its wholly owned Australian subsidiary, Yancoal, under which Gloucester's assets would be combined with the Yancoal Assets, which comprise the following:

- 100% interest in the Austar Coal Mine
- 90% interest in the Ashton Coal JV
- 80% interest in the Moolarben JV
- 100% interest in the Yarrabee Coal Mine
- 15.4% interest in the NCIG
- 5.6% interest in the WICET.

Gloucester's announcement on 23 December 2011 noted that the Merger Proposal was subject to continuing due diligence. On 6 March 2012 Gloucester announced its intention to proceed with the Merger Proposal (subject to minor revisions).

The Merger Proposal will be effected by way of a scheme of arrangement between Gloucester and its Shareholders in accordance with Part 5.1 of the Corporations Act 2001.

Under the Proposed Scheme, Yancoal will acquire all of the issued shares of Gloucester. In consideration for each of their shares in Gloucester, shareholders who do not make an election to receive only ordinary shares will receive one ordinary share and one CVR Share, with the total number of CVR Shares available to Shareholders subject to potential scale back. Shareholders in the Proposed Merged Entity may elect to receive only one ordinary share in return for each Gloucester share they hold (i.e. elect not to receive a CVR Share).

Under the terms of the CVR Shares, participating Shareholders will receive a payment (the Repurchase Price)³ equal to the amount by which the share price of the Proposed Merged Entity is less than AUD 6.96 per equivalent share in Gloucester based on the 90 day VWAP during a relevant pricing period which could be up to 18 months after merger implementation (the End Date), subject to a cap of AUD 3.00 per share and other conditions which include:

- Yancoal can elect to repurchase the CVR Shares at any time prior to the End Date
- the Repurchase Price may be settled by cash or the transfer of existing shares in the Proposed Merged Entity equal in value to the Repurchase Price (with the number of shares to be delivered determined based on the VWAP used to calculate the Repurchase Price)
- if the VWAP over 20 of 25 consecutive trading days at any time prior to the date which is 90 days before the End Date is AUD 6.96 or more, Yancoal will be deemed to have given an early lapse notice, pursuant to which Yancoal may purchase the CVR Shares for consideration of AUD 0.00000001 per CVR Share.

Following the Proposed Scheme, Yanzhou will hold 78% of the equity in the Proposed Merged Entity with Shareholders holding the remaining 22%.

³ The payment will be made by Yanzhou or an entity nominated by it and not the Proposed Merged Entity

Separate to but conditional on the Proposed Scheme, eligible Shareholders will receive approximately AUD 3.15 per Gloucester share, comprising the Special Dividend of approximately AUD 0.44 per share under Section 254T of the Corporations Act 2001 and a Capital Return of approximately AUD 2.71 per share under Division 1 of Part 2J.1 of the Corporations Act 2001. If the Proposed Scheme and Capital Return are approved, the Capital Return will be effected prior to the effective date of the Proposed Scheme and Gloucester's obligations under the Capital Return will be discharged by Gloucester delivering one or more promissory notes to an independent trustee to hold on trust for Gloucester's obligations under the Capital Return to eligible Shareholders. Gloucester will then arrange for payment to eligible Shareholders following presentation of the promissory note(s) six months after implementation of the Proposed Scheme. The Special Dividend will be payable after court approval of the Proposed Scheme but prior to the effective date of the Proposed Scheme, and will be paid to the shareholders eligible to participate in the Capital Return.

The board of Gloucester has prepared the Explanatory Booklet containing the detailed terms of the Proposed Scheme, Capital Return and Special Dividend.

1.2 Yancoal's intentions

The Merger Proposal involves the acquisition by Yancoal through a wholly owned subsidiary of all Gloucester shares on issue, including any shares issued pursuant to the conversion of Gloucester converting shares currently on issue and the potential exercise of Gloucester options. Upon completion of the Proposed Scheme, Gloucester would become a wholly owned subsidiary of Yancoal and would subsequently be delisted from the ASX. The Proposed Scheme is conditional on the Proposed Merged Entity obtaining a listing on the ASX.

Immediately after the implementation of the Proposed Scheme, the Proposed Merged Entity will assume approximately AUD 2.7 billion in USD denominated debt with various maturity dates from Yancoal. In addition, the Proposed Merged Entity will assume debt currently held by Gloucester and AUD 700 million in respect of the proposed Special Dividend and proposed Capital Return. Yanzhou will also seek to procure an additional AUD 1 billion in new debt facilities to fund the capital expenditure requirements of the Proposed Merged Entity.

Under the conditions imposed on its acquisition of Felix Resources Limited, Yanzhou is required to list Yancoal on the ASX by the end of 2012 and by the end of 2013, reduce its ownership in Yancoal to less than 70%. Furthermore, Yanzhou must ensure that its economic interests in the underlying mining assets acquired as part of the Felix acquisition in 2009 are less than 50% following the listing of Yancoal on the ASX.

Following the implementation of the Proposed Scheme, the Proposed Merged Entity will be listed on the ASX and Yanzhou's ownership of the Proposed Merged Entity will be 78%. In order to meet its obligations, Yanzhou will be required to reduce its interest in the Proposed Merged Entity to 70% by the end of 2013.

Section 7.5 of the Explanatory Booklet contains information in relation to Yancoal's intentions with respect to the operation of Gloucester's business and related matters, following implementation of the Merger Proposal.

1.3 Noble's intentions

Noble currently holds (through wholly owned subsidiaries) approximately 64.5% of the ordinary shares in Gloucester. Noble has informed Gloucester that in the absence of a superior proposal, Noble will vote its shareholding in Gloucester in favour of the Proposed Scheme and will elect to receive only ordinary shares as consideration (i.e. the consideration alternative which does not include CVR Shares). If the Proposed Scheme is approved and implemented, Noble will hold approximately 13% of the shares in the Proposed Merged Entity.

1.4 Conditions precedent

As set out in the merger proposal deed as amended, the Proposed Scheme will not become effective and the obligations of Gloucester and Yancoal to implement the Proposed Scheme will not be binding unless various conditions are satisfied or waived, the most significant being:

- the receipt of relevant regulatory approvals including approvals from the Foreign Investment Review Board, ASIC, ASX and any other government agencies
- Shareholder approval of the Proposed Scheme by the requisite majorities under the Corporations Act 2001
- Shareholder approval of the capital reduction resolution in accordance with Section 256C(1) of the Corporations Act 2001

APPENDIX 1 INDEPENDENT EXPERT'S REPORT (CONTINUED)

- court approval of the Proposed Scheme under Section 411(4)(b) of the Corporations Act 2001
- approval by shareholders of Yanzhou to the extent required by law or applicable regulatory requirements
- approval for the Proposed Merged Entity to be listed on the ASX
- approval by the Hong Kong Stock Exchange for a separate listing of the Proposed Merged Entity on the ASX
- Shareholders holding, in aggregate, at least 130 million Gloucester shares electing to receive only ordinary shares in the Proposed Merged Entity (i.e. the consideration alternative that does not include CVR Shares)
- the issue of an independent expert's report and it concluding that the Proposed Scheme is in the best interests of Shareholders and that the conclusion does not change prior to the Second Court Date (as defined in the merger proposal deed)
- no Yancoal Prescribed Occurrences or Gloucester Prescribed Occurrences (as defined in the merger proposal deed) prior to the Second Court Date (as defined in the merger proposal deed)
- all Yancoal Warranties and Gloucester Warranties being true and correct in all material respects as at the Second Court Date (as defined in the merger proposal deed)
- no Yancoal Material Adverse Changes or Gloucester Material Adverse Changes prior to the Second Court Date (as defined in the merger proposal deed).

2 Scope of the report

2.1 Purpose of the report

Section 411 of the Corporation Act 2001 (Section 411) regulates schemes of arrangement between companies and their shareholders. Part 3 of Schedule 8 to the Corporations Regulations prescribes the information to be provided to shareholders in relation to members' schemes of arrangement.

Whilst an independent expert's report in respect of the Proposed Scheme is not required to meet any statutory obligations, the directors of Gloucester have requested that Deloitte Corporate Finance provide an independent expert's report advising whether, in our opinion, the Proposed Scheme is in the best interests of Shareholders. This independent expert's report has been prepared in a manner consistent with Part 3 of Schedule 8 to assist Shareholders in their consideration of the Proposed Scheme.

This report is to be included in the Explanatory Booklet to be sent to Shareholders and has been prepared for the exclusive purpose of assisting Shareholders in their consideration of the Proposed Scheme. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Shareholders and Gloucester, in respect of this report, including any errors or omissions however caused. This report does not extend to providing any separate or specific opinion on the Capital Return.

2.2 Basis of evaluation

2.2.1 Guidance

Schemes of arrangement can include many different types of transactions, including being used as an alternative to a takeover bid in accordance with Chapter 6 of the Corporations Act 2001. The basis of evaluation selected by the expert must be appropriate for the nature of each specific transaction.

Section 640 requires an independent expert's report in connection with a takeover bid to state whether, in the expert's opinion, the takeover offer is 'fair and reasonable'. Where a scheme of arrangement has the same effect as a takeover, the form of analysis used by the expert should be substantially the same as for a takeover bid, however, the opinion reached should be whether the proposed scheme is 'in the best interests of the members of the company'. Accordingly, if an expert were to conclude that a scheme proposal was 'fair and reasonable' if it was in the form of a takeover bid, it will also be able to conclude that the proposed scheme is in the best interests of the members of the company.

In our assessment as to whether the Proposed Scheme is fair and reasonable and therefore in the best interests of the members of the company, we have had regard to common market practice and to Regulatory Guide 111 issued by ASIC in relation to the content of independent expert's reports.

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 2001, 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 2001
- selective capital reductions
- related party transactions
- transactions with persons in a position of influence
- demergers and demutualisations of financial institutions
- buy-backs.

APPENDIX 1

INDEPENDENT EXPERT'S REPORT (CONTINUED)

ASIC Regulatory Guide 111 refers to a 'control transaction' as being the acquisition (or increase) of a controlling stake in a company that could be achieved, for example, by way of a takeover offer, scheme of arrangement, approval of an issue of shares using item 7 of Section 611 of the Corporations Act 2001, a selective capital reduction or selective buy back under Chapter 2J of the Corporations Act 2001.

In respect of control transactions, under ASIC Regulatory Guide 111 an offer is:

- fair, when the value of the consideration is equal to or greater than the value of the securities subject to the proposed scheme. The comparison must be made assuming 100% ownership of the target company (i.e. including a control premium if appropriate)
- reasonable, if it is fair, or, despite not being fair, after considering other significant factors, securityholders should accept the offer under the proposed scheme, in the absence of any higher bids before the close of the offer.

To assess whether the Proposed Scheme is in the best interests of Shareholders, we have adopted the tests of whether the Proposed Scheme is either fair and reasonable, not fair but reasonable, or neither fair nor reasonable, as set out in ASIC Regulatory Guide 111.

2.2.2 Fairness

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

Accordingly, we have assessed whether the Proposed Scheme is fair by comparing the consideration offered under the Proposed Scheme with the value of a share in Gloucester. The Gloucester shares have been valued at fair market value, which we have defined as the amount at which the 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 valuation of a share in Gloucester has not been premised on the existence of a special purchaser.

We have assessed the value of each share in Gloucester by estimating the current value of Gloucester on a control basis and dividing this value by the number of shares on issue. We have assessed the value of the consideration under the Proposed Scheme by estimating the current value of a share in the Proposed Merged Entity and a CVR Share.

2.2.3 Reasonableness

ASIC Regulatory Guide 111 considers an offer in respect of a control transaction, to be reasonable if either:

- the offer is fair
- despite not being fair, but considering other significant factors, securityholders should accept the offer in the absence of any higher bid before the close of the offer.

To assess the reasonableness of the Proposed Scheme we considered the following significant factors in addition to determining whether the Proposed Scheme is fair:

- any significant shareholdings in Gloucester
- the likely market price and liquidity of Gloucester shares in the absence of the Proposed Scheme
- carry forward tax losses, cash flows or other benefits available to Yancoal upon achieving 100% ownership of Gloucester
- any special value of Gloucester to Yancoal
- the value to an alternative bidder and the likelihood of an alternative offer being made
- the scale and diversification of the operations of the Proposed Merged Entity
- the level of debt held by the Proposed Merged Entity
- currency risk associated with the Proposed Merged Entity

- other implications associated with Gloucester shareholders rejecting the Proposed Scheme.

2.2.4 Individual circumstances

We have evaluated the Proposed Scheme for Shareholders as a whole and have not considered the effect of the Proposed Scheme on the particular circumstances of individual shareholders. Due to their particular circumstances, individual shareholders may place a different emphasis on various aspects of the Proposed Scheme from the one adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Proposed Scheme is fair and reasonable and therefore in the best interests of Shareholders. If in doubt shareholders should consult an independent adviser, who should have regard to their individual circumstances.

2.3 Limitations and reliance on information

The opinion of Deloitte Corporate Finance 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 9.

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.

APPENDIX 1

INDEPENDENT EXPERT'S REPORT (CONTINUED)

3 Profile of Gloucester

Gloucester is a mining company listed on the ASX involved in the exploration for, and production and sale of, coking and thermal coal. Gloucester has five main operating coal projects: the Stratford Coal Handling and Preparation Plant (CHPP) and nearby open cut coal mines (the Stratford Operation), the Duralie open cut coal mine (the Duralie Operation), the Donaldson open cut coal mine (the Donaldson Mine), the Tasman underground coal mine (the Tasman Mine) and the Abel underground coal mine (the Abel Mine). In addition, Gloucester has a near 50% interest in the Middlemount Mine project with its JV partner, Peabody Energy Corporation (Peabody) (through Macarthur Coal Limited (Macarthur)). The Middlemount Mine is a development asset located in central Queensland and has recently commenced commercial operations. Extensions have also been proposed for the Tasman Mine and the Abel Mine (the Tasman Extension Project and the Abel Extension Project, respectively).

Gloucester also holds several exploration assets. These include three coal exploration licences located in the Gloucester Basin approximately 100 kilometres (km) north of Newcastle in NSW, four coal exploration licences at Donaldson and the Monash exploration assets located in the lower Hunter Coalfield of NSW.

3.1 Gloucester history

An overview of Gloucester's corporate history is provided in the table below.

Figure 1: Company history of Gloucester

1985	<ul style="list-style-type: none"> listed on the ASX as Centenary International Mining (CIM) Resources Limited
1995	<ul style="list-style-type: none"> commenced development of the Stratford operation first coal production from the Stratford operation and commencement of processing at the Stratford CHPP
1999	<ul style="list-style-type: none"> UK Coal plc acquired 97% of the outstanding capital of CIM Resources Limited following a takeover offer
2002	<ul style="list-style-type: none"> renamed Gloucester Coal Ltd
2003	<ul style="list-style-type: none"> commenced operations at Bowens Road North and Duralie
2004	<ul style="list-style-type: none"> UK Coal plc sold its shareholding in Gloucester to a broad range of institutional investors
2005	<ul style="list-style-type: none"> Gloucester acquired the remaining 10% interest in the Stratford JV that it did not already own from ITOCHU Corporation expansion at the Duralie operation led to a significant increase in resources and reserves commenced processing at the Stratford CHPP
2006	<ul style="list-style-type: none"> the Clareval seam was discovered at East Duralie commenced operations on the Roseville pit
2007	<ul style="list-style-type: none"> Xstrata plc (Xstrata) launched an unsuccessful takeover offer for Gloucester
2008	<ul style="list-style-type: none"> Measured and Indicated resources increased significantly from 91 Mt as at 31 March 2007 to 99 Mt as at 31 May 2008 as a result of extensive exploration work completed the secondary flotation plant at the Stratford CHPP
2009	<ul style="list-style-type: none"> Gloucester announced a scrip-based takeover offer for Whitehaven Coal Limited (Whitehaven) Noble, a 21.7% shareholder in Gloucester, announced a cash-based takeover offer for Gloucester, conditional upon 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 of 0.84 Macarthur shares for each Gloucester share or AUD 8.00 for each Gloucester share (Macarthur Takeover Offer) ITOCHU sold its holding of 5.1% of Gloucester at a price of AUD 8.30 per share
2010	<ul style="list-style-type: none"> Noble announced its intention to make a takeover offer at AUD 12.60 per share for the shares in Gloucester it did not

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	<p>already own, conditional (among other things) on the Macarthur Takeover Offer not proceeding</p> <ul style="list-style-type: none"> • Gloucester announced a 28% increase in its Joint Ore Reserves Committee (JORC) Reserves and a 10% increase in its JORC Resources • Gloucester announced it had reached agreement in respect of pricing for its semi-hard coking coal (SHCC) for Japanese financial year (JFY) 2010 at prices 100% higher than prices achieved for 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 did not already own • the 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, and the acquisition of 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 27.52% interest 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 • environmental and planning approvals were granted 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	<ul style="list-style-type: none"> • 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 Chief Executive Officer (CEO) of Donaldson) as CEO and Mr Tim Crossley as Deputy CEO • on 17 March 2011, Gloucester announced a 68% increase in JORC 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 calendar year (CY) 2011 • on 16 May 2011, Gloucester announced a proposed acquisition of 100% of Noble's interest in Donaldson (the Donaldson Acquisition) and 100% of Ellembey Holdings Pty Limited (Ellembey), which holds the Monash exploration assets (together, these transactions are referred to as the Donaldson and Monash acquisitions) • on 17 May 2011 Gloucester completed a AUD 218 million institutional equity raising to help fund the Donaldson and Monash acquisitions • in June 2011, Gloucester undertook an equity capital raising from retail investors • on 15 July 2011 Gloucester announced the completion of the Donaldson and Monash acquisitions for consideration of 36.9 million shares in Gloucester and AUD 30 million in cash plus 1,000 converting shares which convert on certain events or milestones. • on 16 November 2011 Gloucester announced a substantial upgrade to its JORC Resources for the Monash Exploration Assets, with total JORC Resources (Measured, Indicated and Inferred) increasing to 577 Mt from the previously announced 287 Mt. Measured and Indicated resources increased to 100 Mt (Measured and Indicated) from the 13 Mt (Indicated only) previously announced • on 23 November 2011 Gloucester announced completion of a rail spur linking the Middlemount Mine to the Goonyella rail network, enabling exports through Dalrymple Bay Coal Terminal (DBCT) • on 23 December 2011 Gloucester announced the Merger Proposal
2012	<ul style="list-style-type: none"> • during February 2012 Gloucester announced upgrades to its JORC Reserves and JORC Resources for the Gloucester Basin assets and the Donaldson assets. Total JORC Reserves for the Gloucester Basin Assets and the Donaldson Assets increased by 12.1 Mt and 8.3 Mt, respectively

Source: ASX announcements

APPENDIX 1

INDEPENDENT EXPERT'S REPORT (CONTINUED)

3.2 Principal assets

The principal assets of Gloucester are as follows:

- 100% interests in the Stratford Operation (comprising the Bowens Road North pit and the Roseville West pit) and the Duralie Operation (comprising the Weismantel pit and the Clareval pit) located in the Gloucester Basin in NSW. This includes a 100% interest in an expansion project which involves the extension of the Roseville West pit and commencement of operations at two new open pits at Avon North and Stratford East (the Stratford Extension Project). Gloucester also holds a number of adjacent exploration permits in the Gloucester Basin, including Exploration Authorisation (EA) 311, EA315 and Exploration Licence (EL) 6904 (the Gloucester Basin Exploration Assets). Together, these assets are referred to as the Gloucester Basin Assets
- 100% interests in the Donaldson Mine, Tasman Mine and Abel Mine, acquired through the acquisition of Donaldson. Gloucester also holds 100% interests in the Tasman Extension Project (EL5337 and EL 5498) and Abel Extension project (EL5497 and EL6964). Together, these assets are referred to as the Donaldson Assets
- a near 50% interest in the Middlemount Mine project in central Queensland
- a 100% interest in the Monash Exploration Assets which are located in the lower Hunter Coalfield of NSW and consist of EL6123 and EL7579, which are contiguous and cover area of 22.3 square km approximately 6 km southeast of Broke (acquired through the acquisition of Ellemby)
- a 100% interest in a royalty stream representing 4% of free on board trimmed (FOBT)⁴ sales revenue derived from the Middlemount Mine project (the Middlemount Royalty Stream)
- an 11.6% interest in NCIG Holdings Pty Limited, the parent company of NCIG.

⁴ Excluding ocean freight and insurance (as for free on board) but including trimming of cargo after loading.

The current portfolio of assets held by Gloucester is summarised in the following table.

Table 6: Summary of the principal assets held by Gloucester

Asset	Ownership interest	Operator/manager	Type of mine	Type of coal
Gloucester Basin Assets				
<i>Stratford Operation</i>				
Bowens Road North	100%	Ditchfield Contracting Pty Limited	O/C ¹	Mostly thermal
Roseville West	100%	Ditchfield Contracting Pty Limited	O/C	Mostly SHCC
Co-disposal	100%	Ditchfield Contracting Pty Limited	n/a ²	Thermal/SHCC
<i>Duralie Operation</i>				
Weismantel	100%	Leighton Mining Pty Limited	O/C	Thermal/SHCC
Clareval	100%	Leighton Mining Pty Limited	O/C	Thermal/SHCC
<i>Development assets</i>				
Stratford Extension Project	100%	Gloucester	n/a	Thermal/SHCC
<i>Gloucester Basin Exploration Assets (Duralie, Grant & Chainey and Stratford)</i>				
A311	100%			
A315	100%			
EL6904	100%			
<i>Processing facilities</i>				
Stratford CHPP	100%	Gloucester		
Donaldson Assets				
<i>Operating assets</i>				
Donaldson Mine	100%	Gloucester	O/C	Thermal, SSCC ³
Tasman Mine	100%	Gloucester	U/G ⁴	Thermal
Abel Mine	100%	Gloucester	U/G	Thermal, SSCC
<i>Development assets</i>				
Tasman Extension Project		Gloucester	n/a	Thermal, SSCC
EL5337	100%			
EL5498	100%			
EL5497 ⁵	100%			
Abel Extension Project		Gloucester	n/a	Thermal, SSCC
EL5497 ⁴	100%			
EL6964	100%			
Middlemount Mine project	approx. 50%	Middlemount Coal Pty Limited⁷	O/C	PCI⁵/SHCC
Middlemount CHPP	approx. 50%	Middlemount Coal Pty Limited ⁸		
Monash Exploration Assets				
EL6123	100%			Thermal, SSCC
EL7579	100%			

Source: ASX announcements

Notes:

- O/C – open cut
- n/a – not applicable (remainder of the waste dump).
- SSCC – semi-soft coking coal
- U/G – underground
- PCI – pulverised injection coal
- EL 5497 relates to both the Tasman Extension Project and the Abel Extension Project
- Operated by NRW Pty Limited
- Operated by Sedgman Limited.

APPENDIX 1

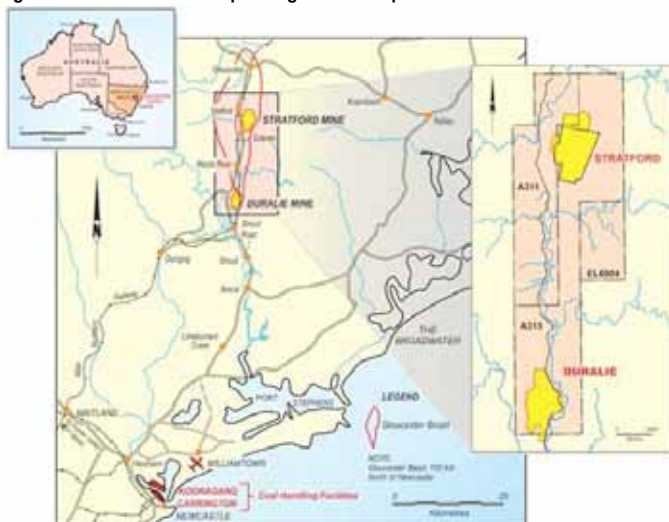
INDEPENDENT EXPERT'S REPORT (CONTINUED)

The principal assets of Gloucester are discussed in further detail below.

3.2.1 Gloucester Basin Assets

The following figure shows the locations of the principal operating, exploration and development assets of Gloucester in the Gloucester Basin.

Figure 2: Gloucester Basin operating and development assets



Source: ASX announcements

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 million tonne per annum (Mtpa). The Stratford Main Pit ceased production in 2003. The Stratford Operation contains the CHPP.

The current operational pits at the Stratford Operation have 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 through conventional strip mining using a truck and shovel/excavator removal method. In December 2010, Gloucester received consent to allow additional resource utilisation through a cut back into the highwall at the Bowens Road North Pit. Production for the financial year (FY) 2011 was approximately 0.7 Mtpa of run of mine (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 and washed to produce coking and thermal coals for the export market.

Current production at Bowens Road North is focused on the western highwall cutback. It will be mined out by June 2014 and replaced with production from the development of a new Stratford and Avon pit to the East.

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 and sulphur content in the final product. Production for FY2011 was 0.3 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 completed the expansion of the Stratford CHPP to a capacity of 4.6 Mtpa of ROM coal. A further expansion is planned by 2014 to increase capacity to 5.6 Mtpa. In November 2010, Gloucester received consent to increase production and extend 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.

Stratford Extension Project

The Stratford Extension Project involves the extension of the Stratford Operation by extending operations at the Roseville West pit and commencing operations at two new open pits at Avon North and Stratford East. A Preliminary Environmental Assessment for the project was lodged in mid-October 2011 with an Environmental Impact Statement (EIS) expected to be lodged in mid-2012.

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 Queensland Rail (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. Mining commenced at the Clareval seam in the second half of FY2011, with the coking coal produced successfully integrated into the Gloucester Basin coking coal blend.

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 was 1.8 Mt in FY2011 and is expected to increase to 3.0 Mtpa from FY2014 under the extension project. 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. A merit appeal was lodged by an objector in the NSW Land and Environmental Court. The Court upheld the appeal, but granted approval for the project in November 2011 with amended conditions.

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APPENDIX 1

INDEPENDENT EXPERT'S REPORT (CONTINUED)

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 2.3 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 both a high ash, mid sulphur thermal coal and a SHCC. These co-disposal dumps are expected to be fully reprocessed by 2021.

Development assets

The Gloucester Basin Assets under development consist of exploration permits adjacent to the Stratford and Duralie Operations. 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 includes the Avon, Triple and Bowens Road seams. The Grant & Chainey area is anticipated to comprise, on average, approximately 60% thermal coal and 40% coking coal
- Stratford East (estimated Measured and Indicated Resources of 5.8 Mt and estimated Inferred Resources of 4.0 Mt), which lies to the east of the Stratford Operation and is a similar style of deposit as the current Duralie Operation
- Stratford North, which comprises the Marker, Bindaboo, Deards, Roseville, Avon, Bowens Road, Wiesmantel and Clareval seams. On 5 February 2012 Gloucester announced JORC Reserves and Resources for the Wenham Cox Road area within Stratford North. The Wenham Cox Road area is located adjacent to the Stratford mining area, within A311, A315 and ML1528. JORC Reserves (Probable) of 12.2 Mt and JORC Resources (Measured, Indicated and Inferred) of 37.1 Mt were announced
- Roseville West area (estimated 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 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.

Gloucester Basin Exploration Assets

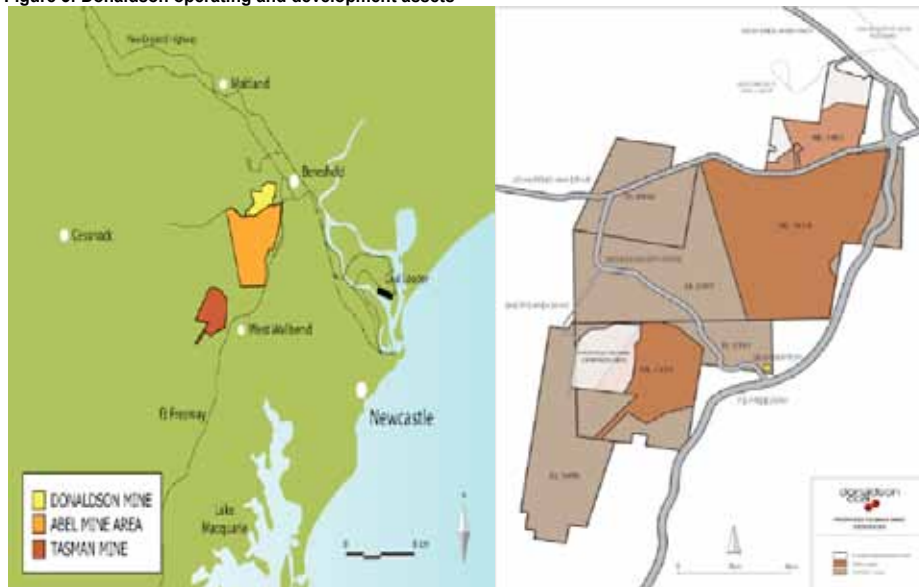
The focus of Gloucester's current exploration activities is the tenement area surrounding the Stratford and Duralie Operations. Gloucester holds coal EA311 and EA315 and EL6904 which collectively cover approximately 20 coal prospects including the Grant & Chainey area.

Gloucester commenced extensive exploration works over all their tenements from 2005 to upgrade the existing resources and reserves. 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%. In addition, initial reserves and resources were announced for Stratford North (Wenham Cox Road area) in February 2012 (discussed earlier).

3.2.2 Donaldson Assets

The following figure shows the locations of the principal operating and development Donaldson Assets.

Figure 3: Donaldson operating and development assets



Source: Gloucester

Donaldson Mine

The Donaldson Mine, encompassing ML1461, 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 four main coal seams. Operations at the west pit ceased in late 2010 and approximately 18 Mt of ROM coal was mined from 2001 to 2010. The Donaldson Mine recommenced open cut operations at the small square pit in early 2011. It is expected that approximately 2.0 Mt of ROM coal will be extracted in total over CY2011 and CY2012. On completion of mining activities in early 2013, the approved environmental rehabilitation program will be undertaken for mine closure.

Tasman Mine and Tasman Extension Project

The Tasman Mine, encompassing ML1555, 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 utilise the bord and pillar method with pillar extraction. Development mining commenced in June 2006 with pillar extraction commencing in March 2008. Continuous miners are used for both first workings and secondary extraction. The bord and pillar method accommodates irregular shaped deposits, allows adjustments to extraction to better manage subsidence and maximises 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.

APPENDIX 1 INDEPENDENT EXPERT'S REPORT (CONTINUED)

The Tasman Mine currently operates within the Fassifern seam with a staged progression to the West Borehole seam approximately 140 metres below the Fassifern seam anticipated in 2014. Access to the West Borehole seam will be achieved via cross measure drifts developed from a new pit top facility to the northwest of the existing pit top. Initially bord and pillar techniques will be used for coal production in the West Borehole seam with longwall techniques transferred from the Abel operation in the future.

Approximately 0.74 Mt of ROM coal was produced in CY2011. ROM production at Tasman is currently restricted to 0.975 Mtpa to comply with the Development consent that limits the transportation of coal on public roads.

The proposed Tasman extension relates to EL5337, EL5497 and EL5498 (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 mining leases. Approval is initially being sought to increase the ROM production to 1.5 Mtpa based on the completion of the Hunter Expressway. Once operations in the West Borehole seam are fully established ROM production will increase to 1.9 Mtpa through a consent modification.

A further approval will be sought in the future to obtain approval for Longwall Mining in the southern area of EL5498. The proposed Tasman extension project will access reserves in the West Borehole seam which lie to the West and South of the existing Mining Lease. There is also the Sandgate seam to the northeast of the Tasman extension area which is approximately 40m below the West Borehole seam. The Sandgate seam is amenable to bord and pillar mining methods.

Abel Mine and Abel Extension Project

The Abel Mine, encompassing ML1618 and ML1653, 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.

The Abel Mine operates in the upper Donaldson seam using the bord and pillar method. Following extraction of the Upper Donaldson seam, operations will move to the Lower Donaldson seam. Construction of mine infrastructure and portals and development of the first 950m of roadways was completed in June 2009. Pillar extraction commenced in July 2010. By early 2011, the Abel mine was operating two development super-sections (two continuous miners per section) and two pillar extraction sections with an installed capacity of up to 1.8 Mtpa of ROM production.

A 120 metre wide shortwall is projected to be commissioned during the second quarter of 2014 to increase underground production to a level where it maximises the contract washing capacity at the Bloomfield CHPP. The face will be widened to 225m in CY 2016. The Abel Mine is currently approved to produce 4.5 Mtpa of ROM coal. An approval is being sought within the existing mining lease to allow for longwall mining and to increase ROM production to 6.1 Mtpa.

Coal extracted from the Abel Mine is initially being 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.

The Abel Extension Project relates to EL5497 and EL6964 which lie to the west of ML1618 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 metres below the Lower Donaldson seam. It is proposed to utilise both the longwall method and the bord and pillar method in the Abel Extension area. Work relating to the Abel Extension Project approvals will commence in 2014. Coal produced from the Abel Extension Project will be transported by underground conveyor to the Abel Mine portal.

3.2.3 Middlemount Mine project (near 50% interest)

The following figure shows the location of the Middlemount Mine project.

Figure 4: Location of the Middlemount Mine project



Source: ASX announcements

Prior to the acquisition by Peabody of Macarthur (completed December 2011), Macarthur held a majority interest in the Middlemount Mine project. Macarthur acquired its original 72.66% interest in the Middlemount Mine project in central Queensland through its acquisition of Custom Mining Limited in early 2008. Following a number of transactions in 2010, Gloucester now holds a near 50% equity interest in the project, with Peabody (via 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 27.52% interest 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.

APPENDIX 1 INDEPENDENT EXPERT'S REPORT (CONTINUED)

The construction of a dedicated CHPP facility for the Middlemount Mine (under the management of Sedgman Limited) commenced in October 2009 following approval of the mining lease in September 2009. Commissioning testing was undertaken during the March 2011 quarter with 37 kt of product coal trucked and sold to the Coppabella and Moorvale JV (73.3% owned by Macarthur). Further commission testing of the CHPP was undertaken during the September 2011 quarter, with 110 kt of product coal trucked to a third party load out facility and then railed for export.

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.

The rail loop to join the Middlemount Mine to the Goonyella rail network and enable exports through the DBCT was completed in November 2011. In addition, on 12 December 2011, the Middlemount Mine project was granted a new mining lease, ML70417, to the east of the existing mine. The new lease provides an additional 1,080 hectares of space for overburden dumps and associated mine infrastructure.

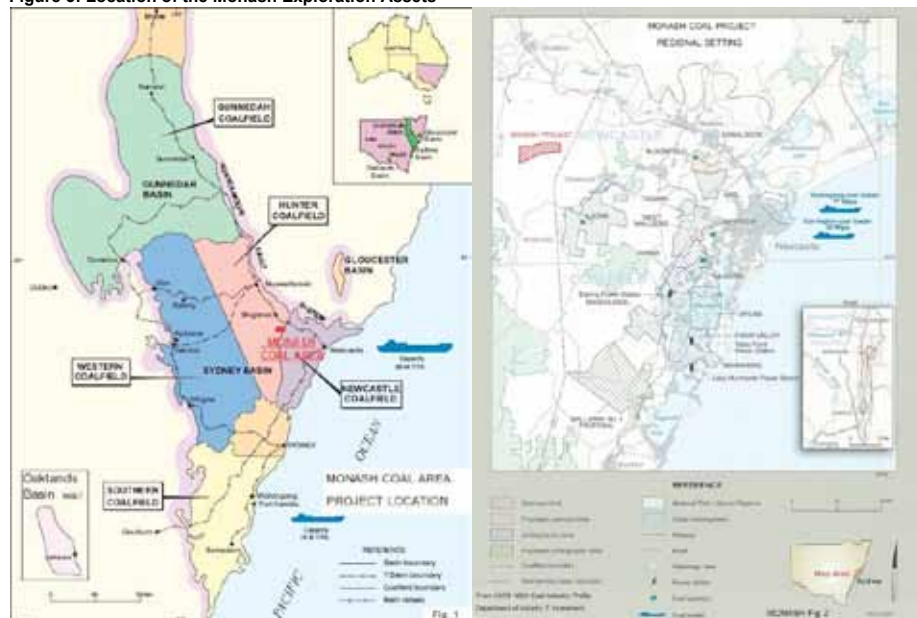
The Middlemount Mine project is currently operating under Stage 1 of its development plan, wherein Environmental Authority approval has been obtained permitting ROM production of up to 1.8 Mtpa of coal from the mine. In March 2011 Middlemount applied for Environmental Authority approval to commence Stage 2 development of the Middlemount Mine project, which would allow it to expand ROM production to 5.4 Mtpa of coal. Although approval has yet to be received, in October 2011 the Queensland Department of Environment and Resource Management (DERM) released an EIS recommending the proposal to proceed to the next stage of the approval process.

Coal production to date has primarily consisted of PCI, with coking coal expected to be produced in significant quantities in 2012.

3.2.4 Monash Exploration Assets

The following figure shows the location of the Monash Exploration Assets.

Figure 5: Location of the Monash Exploration Assets



Source: Ellembay

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Deloitte: Gloucester Coal Ltd – Independent expert's report

The Monash Exploration Assets are located in the lower Hunter Coalfield of NSW and consist of EL6123 and EL7579, which are contiguous and cover an east-west elongate area covering 22.3 square km approximately 6 km southeast of Broke. The township of Broke is located immediately south of the Xstrata 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.

Conceptual mine development plan

Ellembey 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 in the permit area are expected to be mined via the longwall method and there is a potential for up to 200 Mt of ROM coal and up to 145 Mt of product coal⁵. The product mix is expected to comprise both thermal and SSCC in roughly equal proportions
- 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.

Environmental assessment

Ellembey 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 Environmental 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.

Resource upgrade

On 16 November 2011 Gloucester announced a resource upgrade for the Monash Exploration Assets. JORC compliant coal Resources increased substantially from Indicated and Inferred resources of 13 Mt and 274 Mt, respectively, to Measured, Indicated and Inferred Resources of 29.69 Mt, 70.23 Mt and 477.27 Mt, respectively.

3.2.5 Other assets

As part of the acquisition of an interest in the Middlemount Mine project and other assets in September 2010, Gloucester also acquired from Noble a right to receive a royalty of 4% of the FOBT⁶ sales from the Middlemount Mine project or such amount as Noble receives under the deed governing the Middlemount Mine Royalty Stream.

3.2.6 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

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 up to 3.0 Mtpa.

⁵ Projected production figures are estimates only and are subject to the risks outlined in the Explanatory Booklet including but not limited to risks relating to port allocation and capacity, exploration and development, mining approvals, rail access, operational risks and reserve and resource 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.

⁶ Excluding ocean freight and insurance (as for free on board) but including trimming of cargo after loading

APPENDIX 1 INDEPENDENT EXPERT'S REPORT (CONTINUED)

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 2012 is 3.1 Mtpa of product coal, increasing to 3.4 Mtpa by 2014. Gloucester has yet to exercise a clause for additional tonnage in 2014.

The stockpiling, blending and ship loading facilities at the Port of Newcastle are operated by Port Waratah Coal Services Limited (PWCS). PWCS handles coal for Gloucester under a long-term contract, which provided for loading capacity for 2012 of 3.1 Mtpa of product coal which will increase to 3.5 Mtpa upon completion of Terminal 4 (T4) expansion in late 2015 or early 2016.

Donaldson Assets

Bloomfield CHPP

Gloucester 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 Gloucester 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 of up to 4.0 Mtpa on a seven day roster basis. 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 Gloucester, at the latter's cost. In addition, Bloomfield has also granted Gloucester 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 moving to seven day roster operations and that modified ROM coal handling facilities, product stockpile facilities and additional coarse fines processing capacity be constructed at the Bloomfield CHPP, which will increase the existing capacity from 4.0 Mtpa to 8.0 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. Donaldson production is railed 25 km to the Port of Newcastle by Pacific National Pty Limited (Pacific National) and QR National under two separate agreements with total capacity of approximately 3.0 Mtpa, 4.0 Mtpa and 5.0 Mtpa for FY2012, FY2013 and FY2014, respectively.

Port of Newcastle

Gloucester has 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. In the event of a shortfall or delay in the expansion of capacity at PWCS, PWCS will request parties including Gloucester to agree to voluntary reductions in port capacity allocated under their contracts. If this request is not satisfied, PWCS will apply a utilisation calculation across producers and terminals. Producers who are not utilising over 95% of their contracted capacity will have their contractual entitlement to port capacity at PWCS reduced by the difference between their utilisation and 95%.

Gloucester 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. Capacity at NCIG will be allocated to the shareholders of NCIG in line with their proportionate shareholding reduced by 12 Mtpa which will be allocated to third parties. Currently, this represents a port allocation of approximately 6.3 Mtpa from 2016 (in 2012 Gloucester has port allocation of 3.9 Mtpa).

Middlemount Mine project

The Middlemount Mine project has contracted port and rail infrastructure access at the Abbot Point Coal Terminal (APCT) which has a current capacity of 25 Mtpa, with a planned expansion project expected to double

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available capacity by 2017. On 2 December 2011 North Queensland Coal Terminal Pty Limited (NQCT), in which the Middlemount Mine project is a shareholder, secured preferred respondent status for the development of additional coal terminals at APCT. Through NQCT, the Middlemount Mine project is seeking an additional 1 Mtpa of port capacity to complement the existing 3 Mtpa capacity it has contracted at APCT.

This expansion coincides with the completion of QR National's Northern Missing Link rail project, which connects the Goonyella Coal System to the Newlands rail network. Construction of the Goonyella-APCT expansion project was completed in late CY2011 and first railings between the Middlemount Mine project and APCT commenced in December 2011.

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, Peabody has agreed to extend a portion of its DBCT port allocation to the Middlemount Mine project for a fee.

3.3 Products and historical production

3.3.1 Gloucester Basin Assets

Coal quality

The Gloucester Basin Assets produce coking and thermal coal for the export and domestic markets. The typical quality specifications of coal produced are summarised in the following table.

Table 7: Quality of coal¹

	Unit	Thermal coal	Coking coal
Specific energy	Kcal ² /kg ³	5,750 – 6,300 ⁴	7,550 ⁵
Volatile matter	% ad	24 – 32	33 – 34
Ash content	% ad	19 – 24	9.9
Total sulphur (maximum)	% ad	0.8 – 2.0	1.05
Inherent moisture	% ad	1.3	1.5
Crucible swelling number		n/a	8.5
Fixed carbon	% ad, by difference	46.4%	54.6%
Fluidity	ddpm ⁶	n/a	>5,000

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 (ad) basis
2. Kcal – kilocalorie
3. kg – kilogram
4. Gross as received
5. Gross air dried
6. Dial divisions per minute.

Marketable products currently comprise approximately 50% coking coal and 50% thermal coal, with marketable products comprising approximately 45% thermal coal and 55% coking coal forecast over the next ten years.

Thermal coal produced 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 benchmark standards.

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INDEPENDENT EXPERT'S REPORT (CONTINUED)

Coking coal produced typically has high fluidity and the principal customers for this coal are Japanese steel mills.

Historical production

The following table sets out the total historical ROM coal mined for FY2007 to FY2011 for each of the Gloucester Basin Assets.

Table 8: Total ROM coal mined for the Gloucester Basin Assets

	Unit	FY2007	FY2008	FY2009	FY2010	FY2011
Bowens Road North	Mt	0.86	0.93	0.94	0.93	0.65
Roseville West	Mt	0.12	0.23	0.13	0.17	0.31
Co-disposal	Mt	0.32	0.01	0.03	0.31	0.23
Stratford (total)	Mt	1.30	1.17	1.10	1.41	1.19
Duralie (total)	Mt	1.84	1.76	1.60	1.69	1.75
Total ROM coal delivered to CHPP	Mt	3.14	2.93	2.70	3.10	2.94
Total ROM coal processed	Mt	3.12	2.76	2.60	2.92	2.97

Source: ASX announcements

The following table sets out the key performance indicators for FY2007 to FY2011.

Table 9: Total production by product type and total sales of the Gloucester Basin Assets

	Unit	FY2007	FY2008	FY2009	FY2010	FY2011
Plant feed	Mt	3.14	2.76	2.60	2.92	2.97
Total final product produced	Mt	2.00	1.80	1.73	1.92	1.81
<i>Plant yield</i> ¹	%	64.1%	65.2%	66.5%	65.7%	60.9%
Sales						
Coking	Mt	0.71	0.74	0.50	0.75 ²	0.79
Thermal	Mt	1.46	1.16	1.49	1.22	1.35
Coal purchased	Mt	(0.14)	(0.12)	(0.10)	(0.18)	(0.09)
Total	Mt	2.03	1.78	1.89	1.79	2.05
Realised sales price	AUD/tonne	70.12	83.84	154.23	116.39	143.47

Source: ASX announcements; Deloitte Corporate Finance 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
- both the Duralie and Stratford Operations produce coking coal and thermal coal.

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3.3.2 Donaldson Assets

Coal quality

The Donaldson Assets primarily produce thermal coal consistent with the Newcastle benchmark specifications (refer Table 10), but also produce a high ash product as a by-product of processing operations. SSCC can be produced at 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 coal typically produced at the Donaldson Assets are set out in the table below.

Table 10: Quality of coal

Specification	Unit	SSCC	Newcastle specification thermal	High ash thermal
Specific energy	Kcal/kg	7,250	6,750	5,910 ¹
Volatile matter	% ad	35.0	30.3	26.8
Ash content	% ad	9.5	14.5	25.0
Total sulphur	% ad	0.9	0.76	0.75
Inherent moisture	% ad	2.5	2.7	2.5
Crucible Swelling Number		5.5 – 6.0	n/a	n/a
Fixed carbon	% ad, by difference	53.0	52.5	45.7
Fluidity	ddpm	300	n/a	n/a

Source: Gloucester, Behre Dolbear Australia Pty Limited (BDA)

Marketable products have historically comprised approximately 15% coking coal and 85% thermal coal, with a projected marketable product mix of approximately 30% coking coal and 70% thermal coal forecast over the next ten years.

Thermal coal at the Newcastle specification is primarily sold via long term contracts to Noble, 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.

SSCC is also produced and sold at a price equal to the Hunter Valley SSCC benchmark. Nippon Steel Corporation (through Noble) and Bluescope Steel Limited are currently the major customers of Donaldson's SSCC.

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INDEPENDENT EXPERT'S REPORT (CONTINUED)

Historical production

The following table sets out the total historical ROM coal mined for CY2008 to CY2011 for each of the Donaldson Assets:

Table 11: Total ROM coal mined for Donaldson (Mt)¹

	Unit	CY2008	CY2009	CY2010	CY2011
Donaldson Mine	Mt	1.82	1.42	1.19	0.65
Tasman Mine	Mt	0.53	0.60	0.63	0.74
Abel Mine	Mt	0.09	0.52	1.08	1.12
Total ROM coal delivered to Bloomfield CHPP	Mt	2.44	2.54	2.90	2.51

Source: Gloucester

Note:

1. The figures in the table above are subject to rounding.

Total ROM production for the Donaldson Assets decreased from 2.90 Mt in CY2010 to 2.51 Mt in CY2011 due to the lower contribution from the open cut mine as it transitioned into the west pit mining area.

The following table sets out the key performance indicators for CY2008 to CY2011:

Table 12: Total production by product type and total sales of Donaldson¹

	Unit	CY2008	CY2009	CY2010	CY2011
Plant feed	Mt	2.46	2.51	2.93	2.36
Total final product produced	Mt	1.61	1.55	2.00	1.61
<i>Plant yield</i>	%	65.5%	61.6%	68.1%	68.2%
Sales					
Coking	Mt	0.10	0.09	0.18	0.23
Thermal	Mt	1.51	1.43	2.00	1.44
Total sales	Mt	1.61	1.52	2.18	1.67
Realised sales price					
Low/mid ash thermal	USD/t	80.91	70.72	88.37	90.03
High ash thermal	USD/t	84.03	51.12	80.55	113.20
Coking	USD/t	249.96	216.07	155.19	168.91

Source: Gloucester

Note:

1. The figures in the table above are subject to rounding.

The realised sales price for high ash thermal coal exceeded that of low ash thermal coal by approximately 26% in CY2011. This was due to a large proportion of low ash thermal coal being sold at discounted prices and fixed prices under long term contracts, while the majority of high ash thermal coal was sold at prices linked to the floating benchmark price.

3.3.3 Middlemount Mine project

ROM production from the Middlemount Mine project for the year to December 2011 was approximately 0.3 Mt and constituted primarily of PCI. The mine will commence production of SHCC in the near future.

3.4 Sales and marketing

In the last three years, coal produced at the Donaldson Assets has been exported to Japan, China, Taiwan, South Korea and Europe. Donaldson outsourced its export marketing function to Noble Energy Incorporated (Noble Energy), a member of Noble.

As part of the Donaldson and Monash acquisitions, Donaldson's existing marketing arrangements with Noble Energy were replaced with a new arrangement with Noble Resources Pte Limited (Noble Resources), a member of Noble, which provides for a fee of 2% on exported volumes in excess of 3.5 Mtpa up to a maximum of 11.75 Mtpa (i.e. the fee will only apply to a maximum of 8.25 Mtpa) from the Port of Newcastle by Gloucester and any other entities in which Gloucester may acquire an equity interest in the future, multiplied by an agreed price⁷ (the Marketing Arrangement). The Marketing Arrangement will continue until 31 December 2040 unless terminated prior in accordance with its terms.

The Marketing Arrangement appoints Noble Resources to provide long term international marketing services, advice and information for Gloucester in relation to the sale and marketing of:

- coal mined from mines in NSW owned either solely, partly or through a joint venture by Gloucester (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 third parties whose ownership of the mine from which the coal was mined arose through Gloucester
- coal exported from the Port of Newcastle by third parties using facilities provided by Gloucester or third party coal purchased by Gloucester for the dominant purpose of blending and sale by way of export from the Port of Newcastle
- in all cases including such coal or third party coal sold to Noble.

In the current market Gloucester's coal sales predominantly consist of contracted sales to Noble, who in turn resell coal to end customers. However, Gloucester also markets and sells coal directly to end customers. Gloucester has a history of direct dealings with end customers including Bluescope Steel Limited and the major north Asian steel mills.

⁷ 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

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INDEPENDENT EXPERT'S REPORT (CONTINUED)

3.5 Reserves and resources

A summary of current JORC compliant reserves and resources estimates for the principal assets of Gloucester is set out in the table below.

Table 13: Coal reserves and resources of Gloucester¹

Region	Proved & Probable Reserves (Mt)	Resources ²		Total Resources	
		Measured (Mt)	Indicated (Mt)	Inferred (Mt)	(Mt)
Gloucester Basin Assets³					
<i>Open cut</i>					
Duralie	21.4	11.8	22.5	4.0	38.3
Stratford	35.0	2.7	47.2	9.0	58.9
Wenham Cox Road	12.2	4.0	20.1	13.0	37.1
Grant & Chainey	15.0	-	56.8	25.0	81.8
Total open cut	83.6	18.5	146.6	51.0	216.1
<i>Underground</i>					
Duralie	-	0.9	39.9	59.0	99.8
Total underground	-	0.9	39.9	59.0	99.8
Total – Gloucester Basin Assets	83.6	19.4	186.5	110.0	315.9
Donaldson Assets⁴					
Donaldson Mine ⁵	-				
Tasman Mine	3.0				
Tasman Extension Project	41.9				
Abel Mine	60.3				
Abel Extension Project	55.5				
Total – Donaldson Assets	160.7	659.4	182.9	42.7	885.0
Middlemount Mine project⁶					
<i>Middlemount Mine project –100%</i>	96.0	89.3	31.5	1.8	122.6
<i>Middlemount Mine project ≈ 50%⁷</i>	48.0	44.7	15.8	0.9	61.3
Monash Exploration Assets⁸					
Total resources – Gloucester	292.3	753.2	455.4	630.9	1,839.4

Source: ASX announcements

Notes:

- The figures in the table above are subject to rounding.
- Resources are inclusive of Proved and Probable Reserves
- Reserves and resources for the Gloucester Basin Assets are as at 30 June 2010, based on Gloucester's ASX announcements on 26 July 2010. Reserves and resources for Stratford have been updated to reflect the Wenham Cox Road reserve and resource announcement on 6 February 2012
- Resources for Donaldson are as at 1 December 2011. Reserves are as at 1 July 2011
- Two different competent persons prepared Donaldson's Proved and Probable Reserves and JORC Resource reports, respectively. Consequently, 2.2 Mt of Proved and Probable Reserves associated with the Donaldson Mine are not included in Donaldson's total resources
- Reserves and resources for the Middlemount Mine project are as at 17 March 2011, based on Macarthur's ASX announcement on that date
- Refers to Gloucester's near 50% share of the Middlemount Mine project's resources
- Resources for the Monash Exploration Assets are as at 16 November 2011.

3.6 Capital structure and shareholders

As at 29 February 2012, Gloucester's capital structure consisted of the following:

- 202.9 million ordinary shares on issue
- 3.6 million unlisted options
- 1,000 converting shares.

The following table lists the top ten shareholders of Gloucester as at 29 February 2012.

Table 14: Top ten fully paid ordinary shareholders of Gloucester as at 29 February 2012

Shareholder	Volume held	% outstanding
Noble	130,881,705	64.5%
National Nominees Limited	21,534,344	10.6%
JP Morgan Nominees Australia (Cash Income A/C)	13,599,142	6.7%
JP Morgan Nominees Australia	11,119,433	5.5%
HSBC Custody Nominees	9,258,269	4.6%
Citicorp Nominees Pty Limited	4,456,609	2.2%
Cogent Nominees Pty Limited	1,955,966	1.0%
Citicorp Nominees Pty Limited (Colonial First State Investment Account)	1,457,781	0.7%
AMP Life Limited	1,380,154	0.7%
Brispot Nominees Pty Limited	1,182,210	0.6%
Subtotal	196,825,613	97.0%
Other	6,080,354	3.0%
Total shares outstanding	202,905,967	100.0%

Source: Gloucester

Gloucester incentivises its employees through the Long Term Incentive Plan (LTIP). There are approximately 3.6 million options currently issued under the LTIP as at 19 January 2012. These are summarised in the following table.

Table 15: Gloucester share options on issue

Issue date	Number of options	Vesting date	Exercise price (AUD)	Expiry date
7-Jan-11	80,045	1-Sep-13	10.95	7-Jan-18
7-Jan-11	40,023	1-Sep-14	10.95	7-Jan-18
7-Jan-11	40,023	1-Sep-15	10.95	7-Jan-18
13-Apr-11	1,000,000	23-Feb-14	11.89	13-Apr-18
13-Apr-11	1,000,000	23-Feb-16	11.89	13-Apr-18
1-Dec-11	486,161	1-Dec-13	7.30	1-Dec-18
1-Dec-11	486,161	1-Dec-14	7.30	1-Dec-18
1-Dec-11	486,161	1-Dec-15	7.30	1-Dec-18
Total	3,618,574			

Source: Gloucester

Gloucester has entered into private treaty arrangements with each holder of options under which their options will be cancelled for a cash sum, subject to the Proposed Scheme proceeding. These arrangements are described in Section 10.9 of the Explanatory Booklet.

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The 1,000 converting shares were issued to Ellemby at a face value of AUD 1.00 per share (the Converting Shares) as part consideration for the sale of the Monash Exploration Assets and entitle the holders to receive additional Gloucester shares, to be provided (by way of issue or transfer at Gloucester's election) in stages according to the achievement of certain milestones relating the development of the Monash Exploration Assets.

The terms of issue governing the Converting Shares have been varied following the execution of the Merger Proposal Deed. For an explanation of the variation, refer to section 10.8 of the Explanatory Booklet.

The following table sets out the number of shares in Gloucester that are expected to be subject to the Proposed Scheme.

Table 16: Number of shares eligible to participate in the Proposed Scheme

	Number of shares
Number of Gloucester shares on issue	202,905,967
Number of shares issued pursuant to conversion of Converting Shares	15,821,698
Total	218,727,665

Source: Gloucester and Deloitte Corporate Finance analysis

3.7 Share price performance

A summary of the recent share price performance of Gloucester is provided in the table below.

Table 17: 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
31-Mar-11	10.48	13.71	11.00	17.5
30-Jun-11	7.94	11.11	8.49	23.5
30-Sep-11	6.30	9.61	6.75	26.4
31-Dec-11	6.17	9.04	8.60	32.0
26-Mar-11 ¹	7.85	8.85	8.20	37.7

Source: Capital IQ

Note:

1. Referring to the trading period from 1 January 2012 to 26 March 2012.

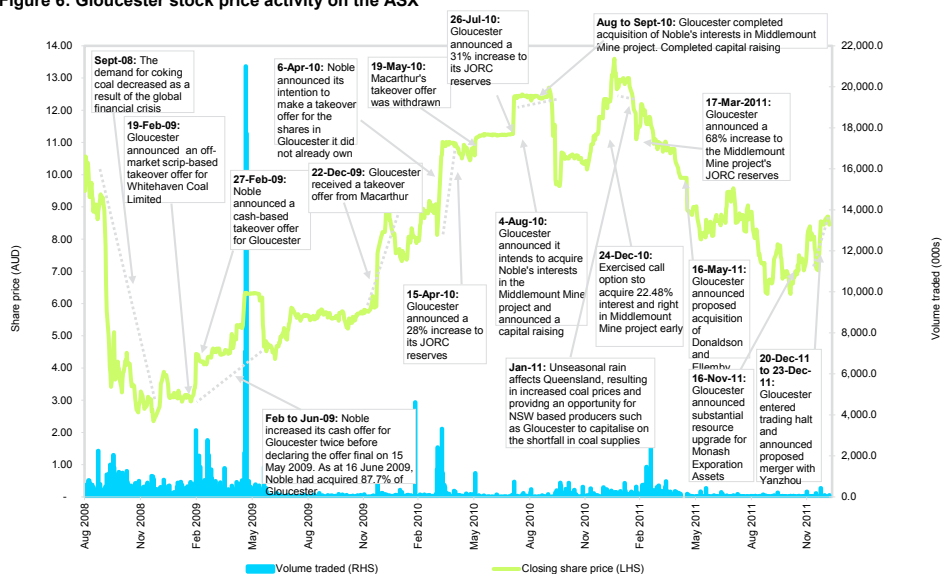
The volume of Gloucester shares traded reduced significantly after the initial takeover offer by Noble in February 2009, following which Noble increased its interest in Gloucester between May 2009 and June 2010. During the quarter ended 31 December 2011, the average volume of shares traded in Gloucester represented:

- 0.7% of the free float per day, or 44.4% for the entire period
- 0.2% of the total number of issued shares per day or 15.8% for the entire period.

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The share price movements and trading volumes are presented graphically in the figure below.

Figure 6: Gloucester stock price activity on the ASX¹



Source: Thomson Reuters; Gloucester; ASX announcements

Note:

1. RHS – right hand side; LHS – left hand side.

3.8 Financial performance

The audited income statements for Gloucester for FY2009, FY2010, FY2011 and six months ended 31 December 2011 (HY2012) are summarised in the table below.

Table 18: Financial performance of Gloucester

	Audited FY2009 (AUD'000)	Audited FY2010 (AUD'000)	Audited FY2011 (AUD'000)	Audited HY2012 (AUD'000)
Revenue	306,771	229,294	306,555	226,993
Cost of sales (excluding depreciation)	(166,053)	(161,373)	(204,645)	(188,023)
Gross profit (excluding depreciation)	140,718	67,921	101,910	38,970
<i>Gross margin (%)</i>	<i>45.9%</i>	<i>29.6%</i>	<i>33.2%</i>	<i>17.2%</i>
Other operating income/(expenses)	2,253	(839)	5,537	12,514
Administration expenses	(23,098)	(14,551)	(16,468)	(16,688)
Transaction costs	-	-	(9,225)	(41,315)
EBITDA¹	119,873	52,531	81,754	(6,519)
<i>EBITDA margin (%)</i>	<i>39.1%</i>	<i>22.9%</i>	<i>26.7%</i>	<i>(2.9%)</i>
<i>EBITDA margin (before transaction costs) (%)</i>	<i>39.1%</i>	<i>22.9%</i>	<i>29.7%</i>	<i>15.3%</i>
Depreciation and amortisation	(6,004)	(11,306)	(18,701)	(26,294)
EBIT²	113,869	41,225	63,053	(32,813)
<i>EBIT margin (%)</i>	<i>37.1%</i>	<i>18.0%</i>	<i>20.6%</i>	<i>(14.5%)</i>
Net interest income/(expense)	554	315	14,074	(24,090)
Profit before tax	114,423	41,540	77,127	(56,903)
Share of loss of an associate	-	-	(656)	-
Income tax expense	(32,683)	(8,810)	(21,909)	20,006
Net income	81,740	32,730	54,562	(36,897)

Source: Gloucester; ASX announcements

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 80% and 100% of revenue is generated from the sale of coal to Asia, with the residual relating to domestic sales and non-Asian exports
- gross margin and EBITDA margin (before transaction costs) decreased significantly from FY2011 to HY2012, primarily due to the following:
 - higher free on board (FOB) cash costs per tonne for the Gloucester Basin Assets due to production disruptions caused by weather conditions and advance stripping of waste
 - lower than expected production at the Donaldson operations due to difficult mining conditions and equipment reliability issues
 - substitution of lower-priced thermal coal for coking coal production due to decreased demand for coking coal.

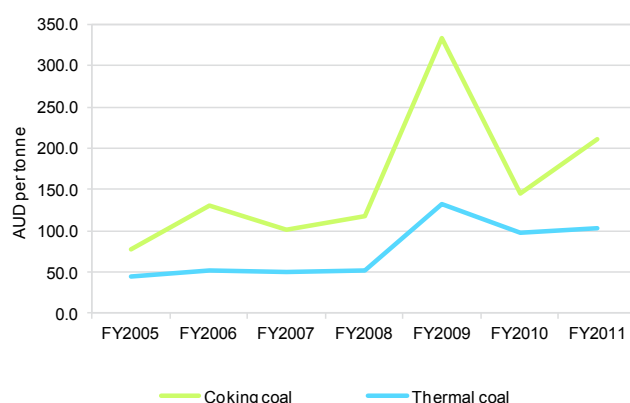
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- total revenue and total sales volume increased by 33.7% and 8.5%, respectively, between FY2010 and FY2011, notwithstanding a decline in total production volumes of 5.4% for the same period. Revenue increased by more than sales volume for the period due to an increase in coking coal and thermal coal prices. The average realised price in FY2011 was AUD 211 per tonne and AUD 104 per tonne for coking coal and thermal coal, respectively⁸. The average realised price in FY2010 were AUD 146 and AUD 98 per tonne for coking coal and thermal coal, respectively.

The average coal price achieved by product in AUD over the prior seven financial years is depicted in the chart below.

Figure 7: Realised price for FY2005 to FY2011 by product type (AUD per tonne)



Source: Gloucester; Deloitte Corporate Finance analysis

Notes:

- FY2005 to FY2009 prices sourced from Gloucester
- FY2010 and FY2011 prices calculated by Deloitte based on total volume sold and total sales for coking coal and thermal coal, respectively, as set out in Gloucester's FY2011 annual report.

- 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
- revenue decreased by 25% from FY2009 to FY2010 due to a decrease in coking coal and thermal coal prices
- cost of sales increased by 26.8% from FY2010 to FY2011. This was due to increased sales, as well as an increase in unit production costs resulting from higher strip ratios, increased contractor mining rates and the impact of wet weather on production
- administration expenses increased by 76.6% from FY2010 to FY2011 due to transaction costs relating to the acquisitions of the Middlemount Mine project, Donaldson and Monash and administration costs relating to the operation of the Middlemount Mine project prior to full production
- other operating income during FY2011 includes a gain of approximately AUD 7.4 million resulting from the cancellation of fixed AUD forward sales contracts with Noble and a net loss on foreign exchange of approximately AUD 4.0 million
- transaction costs of AUD 41.3 million were incurred in HY2012 in relation to the acquisition of Donaldson and the Proposed Scheme. Transaction costs of AUD 9.2 million were incurred in FY2011 in relation to

⁸ FY2011 prices calculated by Deloitte Corporate Finance based on total volume sold and total sales for coking coal and thermal coal, respectively, as set out in Gloucester's FY2011 annual report and FY2010 prior year comparative figures

Gloucester's acquisition of the Middlemount Mine project and the Middlemount Mine Royalty Stream and Donaldson

- depreciation and amortisation expense increased significantly from FY2011 to HY2012 as a result of the Donaldson and Monash acquisitions and the ramp up of production at the Middlemount Mine Project
- the net interest expenses increased significantly from interest income of AUD 14.1 million in FY2011 to interest expense of AUD 24.1 million in HY2012, primarily due to the following:
 - interest expense associated with an AUD 400 million debt facility with Noble entered into on 14 July 2011
 - unwinding of the discount on liabilities identified for the Middlemount, Donaldson and Monash acquisitions
- approximately AUD 0.7 million of Gloucester's share of losses from the Middlemount Mine project was recognised in FY2011.

APPENDIX 1

INDEPENDENT EXPERT'S REPORT (CONTINUED)

3.9 Financial position

The audited balance sheets of Gloucester as at 30 June 2009, 30 June 2010, 30 June 2011 and 31 December 2011 are summarised in the table below. We note that the balance sheet as at 31 December 2011 does not reflect the acquisition of Donaldson and the Monash Exploration Assets acquired on 14 July 2011.

Table 19: Financial position of Gloucester

	Audited 30-Jun-09 (AUD'000)	Audited 30-Jun-10 (AUD'000)	Audited 30-Jun-11 (AUD'000)	Audited 31-Dec-11 (AUD'000)
Cash	65,774	27,811	182,330	30,917
Trade and other receivables	21,497	16,588	29,450	58,252
Marketing services fee receivable	-	-	-	854
Royalty receivable	-	-	-	15,890
Derivative financial assets	16,591	-	4,614	2,224
Inventory	5,179	19,179	9,341	52,293
Waste in advance	-	29,459	57,736	83,109
Total current assets	109,041	93,037	283,471	243,539
Restricted cash	-	-	2,004	677
Property, plant and equipment	98,290	146,126	807,438	1,692,745
Exploration and evaluation	8,700	25,619	56,593	217,871
Intangibles (port allocation)	-	-	-	57,386
Financial asset (royalty receivable)	-	-	182,000	177,110
Waste in advance	28,265	-	-	-
Investments	60	83	999	19,287
Deferred tax asset	-	-	10,727	13,891
Total non-current assets	135,315	171,828	1,059,761	2,178,967
Total assets	244,356	264,865	1,343,232	2,422,506
Trade and other payables	25,273	20,372	56,777	74,922
Customer contracts	-	-	-	55,604
Derivative financial liabilities	-	9,670	-	-
Interest bearing liabilities	-	4,538	74,555	4,133
Income tax liability	28,716	2,886	2,647	173
Take of pay provisions	-	-	-	21,221
Provisions	200	200	1,125	1,731
Employee benefits	564	770	782	9,126
Total current liabilities	54,753	38,436	135,886	166,910
Marketing services fee payable	-	-	-	14,772
Customer contracts	-	-	-	77,522
Interest bearing liabilities	-	30,190	24,567	406,546
Deferred tax liabilities	15,898	7,175	152,099	257,393
Provisions	7,063	7,712	10,842	15,716
Employee benefits	95	156	281	763
Take or pay provisions	-	-	4,893	98,593
Contingent consideration	-	-	-	88,959
Total non-current liabilities	23,056	45,233	192,682	960,264
Total liabilities	77,809	83,669	328,568	1,127,174
Net assets	166,547	181,196	1,014,664	1,295,332

Source: Gloucester; ASX announcements

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Deloitte: Gloucester Coal Ltd – Independent expert's report

We note the following in relation to the balance sheets of Gloucester presented on the preceding page:

- net assets increased during FY2011 and HY2012 as a result of Gloucester's acquisition of the Middlemount Mine project interest and the Donaldson and Monash acquisitions. Gloucester accounted for its investment in the Middlemount Mine project using the proportionate consolidation method of accounting in FY2011 after gaining joint control on 24 December 2010
- cash balances increased to approximately AUD 182 million as at 30 June 2011, primarily due to the issue of 24.3 million shares on 24 May 2011 to raise funds for the Donaldson and Monash acquisitions. Cash balances decreased to AUD 30.9 million as at 31 December 2011 following completion of the Donaldson and Monash acquisitions
- the cash balance decreased from 30 June 2009 to 30 June 2010, due primarily to capital expenditure on CHPP upgrades, land acquisitions, payment of taxation liabilities and exploration
- inventories as at 30 June 2011 comprised AUD 8.2 million of coal stocks and approximately AUD 1.2 million of consumables. Total inventories decreased from AUD 19.2 million as at 30 June 2010 to AUD 9.3 million as at 30 June 2011 as a result of coal sales exceeding production during FY2011. Inventories increased to AUD 52.3 million as at 31 December 2011 primarily as a result of the Donaldson and Monash acquisitions and a buildup of coal stocks across all operations
- 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 were reclassified from non-current to current in FY2010 when mining of these coal deposits was expected to commence within 12 months
- investments of AUD 19.3 million as at 31 December 2011 primarily consist of fixed coupon bonds issued by NCIG and acquired during the Donaldson and Monash acquisitions
- restricted cash relates to cash collateral required for bank guarantees
- property, plant and equipment as at 31 December 2011 mainly consisted 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 increases during FY2011 and HY2012 reflects Gloucester's share of the property, plant and equipment held by the Middlemount Mine project and assets acquired as part of the Donaldson and Monash acquisitions
- exploration and evaluation assets increased to AUD 217.9 million as at 31 December 2011 primarily as a result of the Donaldson and Monash acquisitions. The Monash Exploration Assets comprise AUD 118.6 million of this amount
- intangible assets of AUD 57.4 million as at 31 December 2011 relate to the PWCS and NCIG port allocations acquired as part of the Donaldson and Monash acquisitions
- total royalty receivable of AUD 193 million as at 31 December 2011 relates to the Middlemount Mine project royalty rights 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 FOBT 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
- marketing services fees receivable and payable relate to the Marketing Arrangement (refer Section 3.4)
- the customer contract liability of AUD 133.1 million as at 31 December 2011 relates to out of the money coal sales contracts acquired as part of the Donaldson acquisition. This liability will be unwound over the life of the contracts as sales commitments are satisfied
- the interest bearing liabilities of AUD 410.7 million as at 31 December 2011 primarily relate to the following:
 - a mortgage facility in respect of the acquisition of 11 Caterpillar dump trucks in FY2010
 - Gloucester's share of the Middlemount Mine project's loans

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APPENDIX 1 INDEPENDENT EXPERT'S REPORT (CONTINUED)

- drawdown of an AUD 400 million debt facility with Noble entered into on 14 July 2011
- take or pay provisions of AUD 1,109.9 million as at 31 December 2011 relate to excess contracted port and rail capacity acquired as part of the Donaldson acquisitions
- the contingent consideration liability of AUD 89.0 million as at 31 December 2011 relates to the Converting Shares issued as part of the Monash acquisitions (refer Section 3.6)
- derivatives relate to foreign currency forward contracts. Gloucester's hedging policy is to hedge 85% of committed fixed price sales which are denominated in foreign currency
- deferred tax assets and deferred tax liabilities primarily relate to Gloucester's acquisition of its interest in the Middlemount Mine project and the Donaldson and Monash acquisitions. Deferred tax liabilities increased significantly from AUD 7.2 million at 30 June 2010 to AUD 257.4 million at 31 December 2011 and primarily relate to the tax treatment of the Middlemount Mine Project's reserves. Reserves are amortised for accounting purposes. However, as Gloucester owns its interest in the Middlemount Mine Project via equity and Gloucester is unable to deduct the amortisation expense from its taxable income
- Gloucester entered into a USD 80 million debt facility with Noble during HY2011, maturing on 1 July 2012. Gloucester drew down USD 35 million of the facility on 25 January 2011. Subsequent to 30 June 2011 Gloucester replaced this facility with an AUD 400 million facility maturing on 1 July 2015. Interest under the facility is payable at a rate of the Bank Bill Bid Swap Rate (BBSY) plus 3%.

4 Profile of the Yancoal Assets

The Yancoal Assets are owned by Yancoal, the wholly owned Australian subsidiary of Yanzhou, a China based company with a focus on coal production, development and exploration. The Yancoal Assets consist of interests in four operating coal mines, producing thermal, Low Volatile (LV) PCI, SSCC and SHCC for export consumption (collectively, the Yancoal Coal Operating Assets).

In addition, the Yancoal Assets also include a 15.4% interest in NCIG and a 5.6% interest in the Stage 1 WICET development (collectively, the Yancoal Infrastructure Development Assets).

4.1 Yancoal Assets history

Figure 8: History of the Yancoal Assets

1970	<ul style="list-style-type: none"> Felix Resources Limited (Felix) listed on the ASX in August 1970. Between 1970 and 2002 Felix built up a portfolio of coal assets
2001	<ul style="list-style-type: none"> Yancoal Australia Pty Limited was established as a subsidiary of Yanzhou Coal Mining Company
2003	<ul style="list-style-type: none"> the Southland Coal Mine was placed into receivership and operations were placed on care and maintenance following a fire in the underground workings in October 2003, Felix acquired Yarrabee Coal Company Pty Limited, which owned and operated the Yarrabee Coal Mine, an open cut coal operation
2004	<ul style="list-style-type: none"> the Ashton Coal JV commenced open cut mining in January 2004 Yanzhou acquired the Southland Coal Mine in December 2004 and renamed it the Austar Coal Mine
2005	<ul style="list-style-type: none"> Austar Coal Mine commenced mining operations Felix acquired White Mining Limited in April 2005, which owned an 80% interest in the Ashton open cut mine and Ashton underground project (Ashton Coal JV) and 100% of the Moolarben JV Felix sold a 20% interest in the Ashton Coal JV to IMC Group Felix submitted a development application for the Moolarben JV the Ashton Coal JV commenced underground mining in December 2005
2006	<ul style="list-style-type: none"> the Austar Coal Mine underwent an AUD 250 million upgrade, employing the Longwall Top Coal Caving technique for the first time in Australia the Ashton Coal JV commenced underground longwall extraction
2007	<ul style="list-style-type: none"> Felix sold a 10% interest in the Moolarben JV to Sojitz Corporation (Sojitz) Felix received approval for the Moolarben JV in September 2007
2008	<ul style="list-style-type: none"> Felix sold a 10% interest in the Moolarben JV to Korea Resources Corporation (KORES) construction of a new coal terminal commenced at the Hunter River at Newcastle by NCIG with an estimated project cost of AUD 1 billion in January 2008. Felix had a 15.4% interest in NCIG, which was established in 2004 to address fundamental capacity issues associated with coal handling for regional coal exporters Felix commenced the development of the Moolarben JV, an open cut project on mining leases of 21 years duration Felix announced that it was in discussion with third parties in relation to a potential change of control transaction
2009	<ul style="list-style-type: none"> in December 2009 Yanzhou acquired 100% of issued shares in Felix the construction of the Moolarben JV coal mine commenced in March 2009 the CHPP at the Yarrabee Coal Mine commissioned in June 2009
2010	<ul style="list-style-type: none"> mining management plans and mine operations plan approved for the Moolarben JV commissioning of the CHPP and commencement of coal mining at the Moolarben JV occurred in May 2010. The first shipment of coal from the Moolarben JV occurred in June 2010 Sojitz exercised its pre-emptive rights and purchased Yancoal's 5% interest in the Minerva JV

APPENDIX 1

INDEPENDENT EXPERT'S REPORT (CONTINUED)

2011



- Yanzhou acquired IMC Group's 30% interest in the Ashton Coal Mine, bringing Yanzhou's total ownership to 90%
- mining at the Ashton Coal JV's open cut mine ceased in September 2011 upon completion of mining at the North East open cut area
- in December 2011 construction of the Bowmans Creek diversions at the Ashton Coal JV commenced
- the Ashton Coal JV's South East Open Cut extension was rejected by the NSW Planning Assessment Commission
- on 23 December 2011 the Merger Proposal between Yancoal and Gloucester was announced

Source: ASX announcements, Felix and Yancoal

4.2 Principal assets

The following table provides an overview of the Yancoal Assets.

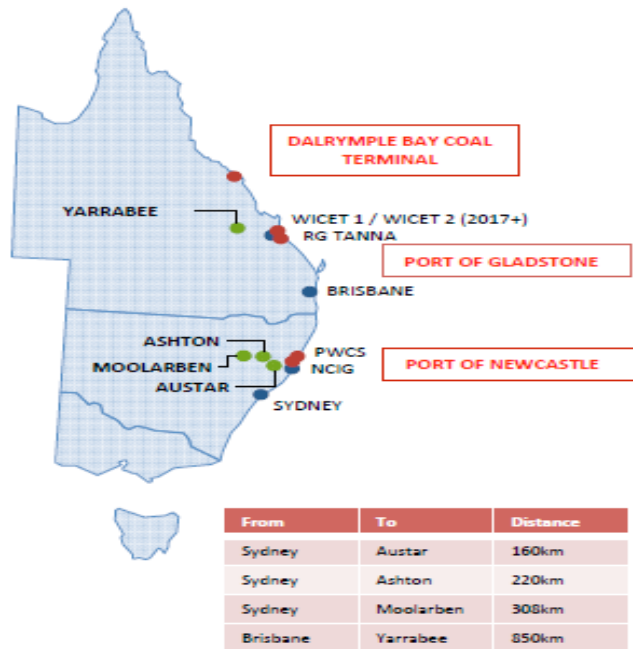
Table 20: Overview of the Yancoal Assets

Asset	Ownership interest	Operator/manager	Mine type ²	Type of coal
Yancoal Coal Operating Assets				
Austar Coal Mine	100.0%	Yancoal	UG	SHCC
Ashton Coal JV	90.0%	Yancoal	OC/UG	thermal/SSCC
Moolarben JV	80.0%	Yancoal	OC/UG	TC
Yarrabee Coal Mine	100.0%	Yancoal	OC	PCI
Yancoal Infrastructure Development Assets				
NCIG	15.4%	Newcastle Port Corporation	n/a	n/a
WICET	5.6%	Gladstone Ports Corporation	n/a	n/a

Source: Yancoal

The following figures show the location of the Yancoalo Assets.

Figure 9: Location of the Yancoalo Assets



Source: Yancoalo

Further information regarding each of the Yancoalo Assets is set out below.

The Yancoalo Coal Operating Assets consist of the Austar Coal Mine, Ashton Coal JV and Moolarben JV, which are located in NSW, and the Yarrabee Coal Mine, which is located in Queensland. These assets are discussed in further detail below.

4.2.1 Austar Coal Mine

The Austar Coal Mine is wholly owned and operated by Yancoalo, and is located in the lower Hunter Valley region, approximately 65 km west of Newcastle. Yancoalo purchased the Southland Coal Mine in December 2004 and renamed it the Austar Coal Mine. The Southland Coal Mine consisted of the former Ellalong Pelton and Southland Collieries, with mining operations dating back to 1916.

The Austar Coal Mine currently uses Longwall Top Coal Caving technology (LTCC), a mining method ideal for thick coal seams (from 5 metres (m) to 12 metres) as standard longwall equipment is only capable of mining in seams of up to 4.5 metres. The LTCC technology will enable the Austar Coal Mine to access and recover approximately 80% of the coal in the Greta coal seam which is typically around 5 metres to 7 metres thick in the mining areas.

For the year ended 31 December 2011, ROM production was approximately 1.9 Mt and saleable product was 1.6 Mt.

APPENDIX 1

INDEPENDENT EXPERT'S REPORT (CONTINUED)

The following table summarises the specification of coal produced from the Austar Coal Mine:

Table 21: Austar Coal Mine coal quality

	Unit	SHCC
Calorific value	Kcal/kg gad	7,900.0
Ash	% ad	5.5
Volatile matter	% ad	41.0
Fixed carbon	% ad	51.0
Sulphur	% ad	2.0
Crucible Swell Number	n/a	6.5

Source: Yancoal

Note:

1. kg – kilogram; gad – gross air dried.

Production has ceased from stage one of the mining area of the Austar Coal Mine and coal is currently being produced from stage two of the mining area. ROM production is processed at the onsite CHPP and then transported via rail to the Port of Newcastle.

Yancoal is currently conducting studies to evaluate the potential to increase the production of saleable coal to approximately 3.0 Mtpa by 2016 as stage three of the mining area is developed, which will match the Austar Coal Mine's port allocation at the Port of Newcastle. Development consent for stage three, which is expected to have a mine life of over 10 years, was granted in 2009. The development of stage three is well advanced and is expected to commence production in 2013 after mining of stage two is completed in early 2012.

Yancoal is currently implementing a number of projects across the Austar Coal Mine which are designed to enable an expansion of production from the mine, by reducing constraints on processing and transportation infrastructure. The projects being evaluated include increasing the capacity of surge bins and drift conveyers, and other initiatives that will improve the loading capacity of the mine conveyer system and coal handling facilities.

These expansion projects are currently at the planning and evaluation stage.

4.2.2 Ashton Coal JV

The Ashton Coal JV is an unincorporated JV between Yancoal (90%) and ITOCHU (10%), with Yancoal being the operator. The Ashton Coal JV is located approximately 12 km northwest of Singleton in the Hunter Valley.

Construction of the Ashton open cut mine commenced in September 2003 and mining in the North East open cut mine commenced in January 2004 with first coal shipped in May 2004. The development of the Ashton underground longwall operation commenced in late 2005 with first coal production in early 2007. Yancoal acquired its 60% interest in the Ashton Coal JV in December 2009 through its acquisition of Felix and a further 30% interest from IMC Group in 2011.

The project comprises four main mining areas, the North East open cut mine, the underground longwall operation and the proposed South East and West Pit open cut mines. ROM production from the Ashton Coal JV is processed at the onsite CHPP to produce SSCC before being railed to PWCS at Newcastle (allocated capacity of 3.0 Mtpa). For the year ended 31 December 2011, ROM production was approximately 2.2 Mt and saleable product was 1.2 Mt.

The following table summarises the specifications of coal produced from the Ashton Coal JV:

Table 22: Ashton Coal JV coal quality

	Unit	SSCC
Calorific value	Kcal/kg gad	7,250.0
Ash	% ad	9.5
Volatile matter	% ad	36.0
Fixed carbon	% ad	52.0
Sulphur	% ad	0.7
Crucible Swell Number	n/a	5.0 to 7.0

Source: Yancoal

Production at the North East open cut mine ceased in September 2011. On 19 December 2011, the Planning and Assessment Commission refused the major project application for the South East open cut development.

The rejection of the South East open cut application, together with delays in the Bowmans Creek diversion project reduced production from the Ashton Coal JV for CY2011. Work has now commenced on the Bowmans Creek diversion, and at present, Yancoal is evaluating its options in relation to the South East open cut.

The South East open cut project is planned to be developed in two stages with stage one resulting in ROM production of approximately 2.0 Mtpa to 2.6 Mtpa utilising existing equipment. Development of stage two will require access to EL5291 (currently held by Coal & Allied Limited) and is expected to enable ROM production expansion to up to 3.5 Mtpa via an expanded fleet of mobile equipment. Given the current status of the major project application in respect of the South East open cut development and the ownership status of EL5291, there is significant uncertainty as to whether this expansion project will proceed as envisaged.

In addition to the planned expansion project discussed above, a drilling/exploration program is underway to expand the existing open cut resource at the West Pit (which is expected to be mined sequentially after EL5291) and to confirm its future viability. The West Pit will be subject to a separate development application that will be lodged with the NSW government entities.

The longwall operation and underground mine design consists of nine long wall and mini-wall panels at depths varying from 60 metres to 300 metres, accessing four seams. The underground mine is expected to remain in production until 2024.

4.2.3 Moolarben JV

The Moolarben Project is an unincorporated JV between Yancoal (80%), Sojitz Corporation of Japan (10%) and a Korean consortium, KORES⁹ (10%), with Yancoal being the operator. The Moolarben open cut mine is located 40 km east of Mudgee in the upper Hunter Valley. ROM production is processed at the onsite CHPP to produce thermal coal which is predominantly railed to the Port of Newcastle for export to South East Asian customers.

⁹ KORES consists of Korea Electric Power Company (KEPCO), four of its generator subsidiaries and Hanwha Corporation Limited

APPENDIX 1

INDEPENDENT EXPERT'S REPORT (CONTINUED)

For the year end December 2011, ROM production was approximately 7.0 Mt and sales totalled 5.0 Mt. The following table summarises the specification of coal produced from the Moolarben Project:

Table 23: Moolarben JV coal quality

	Unit	High ash thermal	Standard thermal	Premium thermal
Calorific value	Kcal/kg gad	6,280.0	6,500.0	6,900.0
Ash	% ad	20.0	17.0	13.5
Volatile matter	% ad	30.0	30.0	30.0
Fixed carbon	% ad	47.5	50.5	53.0
Sulphur	% ad	0.6	0.6	0.6

Source: Yancoal

The NSW government granted ML1605 and ML1606 for a term of 21 years in December 2007 enabling the development of the open cut mine. Construction commenced in March 2009 whilst the commissioning of the CHPP and commencement of coal mining at the Moolarben JV was achieved in May 2010. The average strip ratio over the life of mine is projected to be 3:1 which makes the Moolarben JV one of the lowest cost operations in the Hunter Valley.

Production capacity of the mine is planned to be increased in stages as the new NCIG coal terminal in Newcastle progresses through its staged construction and the T4 expansion at PWCS is completed.

Approvals are currently being sought from the NSW government to expand ROM production capacity from the open cut mine from 8.0 Mtpa to 13.0 Mtpa by 2014 and to develop a new underground mine. Underground mining is scheduled to commence commercial production, subject to the required approvals and port allocation at T4, in late 2015. Initially, the underground mine will have ROM production capacity of 4.2 Mtpa.

The current expansion project contemplated for the Moolarben JV will require access to a tenement area currently held by numerous landowners. Yancoal is currently in negotiations with these landowners with a view to securing access to the required tenement.

Currently, coal reserves at the Moolarben JV (refer to Section 4.4) are sufficient to support a 25 year mine life at both the open cut and proposed underground mine.

4.2.4 Yarrabee Coal Mine

The Yarrabee Coal Mine is wholly owned and operated by Yancoal, and is located approximately 40 km northeast of Blackwater in Queensland's Bowen Basin. The Yarrabee Coal mine has conducted open cut mining of semi-anthracite coal since 1989, however, strong demand in the PCI market resulted in the construction of a washplant commissioned in 2009. Currently, it is an open cut coal mine with a capacity of 3.0 Mtpa. ROM production is processed at the onsite CHPP to produce LV PCI which is then transported via the Blackwater rail system to the Port of Gladstone.

For the year ended 31 December 2011, ROM production was approximately 3.1 Mt and saleable product was 2.4 Mt.

The following table summarises the specifications of coal produced from the Yarrabee Coal Mine:

Table 24: Yarrabee Coal Mine coal quality

	Unit	LV PCI
Calorific value	Kcal/kg gad	7,600.0
Ash	% ad	9.5
Volatile matter	% ad	10.0
Fixed carbon	% ad	79.0
Sulphur	% ad	0.8

Source: Yancoal

Yancoal is currently evaluating options to increase ROM production to approximately 4.0 Mtpa to coincide with the completion of Stage 1 of WICET in late 2014. A further expansion scenario contemplates ROM production expanding to 5.5 Mtpa after 2017, following completion of Stage 2 of WICET or the proposed Dudgeon Point coal terminal. In the short term, Yarrabee has capacity for up to 2.7 Mtpa of product coal by utilising current allocated port capacity in Gladstone (RG Tanna and Barney Point Coal Terminals) and a commitment deed with Adani Group to conditionally acquire 1.3 Mtpa of port capacity at Dudgeon Point from 2015.

Extensive drilling during the past two years has resulted in a substantial increase in certified resources which will support expansion plans at the Yarrabee Coal Mine. Exploration at the tenements surrounding the mine will continue over the next few years with a view to delineating additional reserves and resources.

4.2.5 Yancoal Infrastructure Development Assets

NCIG

Yancoal currently holds a 15.4% interest in, and is one of six companies involved in the construction of, the NCIG port terminal which is designed to have a final capacity of 66.0 Mtpa (refer Appendix 5 for a detailed discussion of the proposed development). Yancoal's interest in NCIG entitles it to an allocation of 8.3 Mtpa under ship-or-pay contracts¹⁰.

Moolarben JV currently exports most of its coal through the NCIG while coal from the Austar Coal Mine and the Ashton Coal JV utilise the PWCS facilities in Newcastle.

WICET

Yancoal currently holds a 5.6% interest in, and is part of the WICET Group currently involved in the construction of Stage 1 of WICET, which is designed to have a final capacity of 80.0 Mtpa (refer Appendix 5 for a detailed discussion of the proposed development).

Yancoal is one of eight participants¹¹ in Stage 1 of the project and upon completion will be entitled to 1.5 Mtpa of port capacity which will be utilised by Yarrabee Coal Mine.

¹⁰ The project owners of NCIG are not entitled to their full ownership percentage allocation as several other companies (American Plc, Rio Tinto Limited (Rio Tinto) and Xstrata) were given access to the terminal following a ruling by the Australian Competition and Consumer Commission

¹¹ The other participants are Aquila Resources Limited, Bandanna Energy Limited, Caledon Coal Limited, Cockatoo Coal Limited, Northern Energy Corporation (acquired by New Hope Corporation in October 2011), Wesfarmers Curragh Pty Limited and Xstrata.

APPENDIX 1

INDEPENDENT EXPERT'S REPORT (CONTINUED)

4.3 Historical production

The following table outlines the total ROM production and coal sales for CY2009, CY2010 and CY2011 for each of the Yancoal Coal Operating Assets.

Table 25: Total production and sales from CY2009 to CY2011 (on a 100% basis)

	CY2009	CY2010	CY2011
ROM production (kt)			
Austar	1,869.7	1,665.6	1,876.9
Ashton	4,708.0	4,522.2	2,154.1
Moolarben	-	4,906.5	7,007.3
Yarrabee	2,007.0	2,297.3	3,144.3
Total ROM production	8,584.7	13,391.7	14,182.6
Coal sales (AUD'000s)			
Austar	1,626.8	1,163.0	1,765.0
Ashton	3,251.0	2,131.7	1,467.6
Moolarben	-	2,763.7	5,311.7
Yarrabee	1,625.0	2,073.1	2,318.9
Total coal sales	6,502.8	8,131.5	10,863.2
Average realised sales price (AUD/t)			
Austar	102.8	142.3	155.3
Ashton	110.7	146.4	190.9
Moolarben	-	93.7	102.7
Yarrabee	129.8	144.3	196.4

Source: Yancoal

4.4 Reserves and resources

A summary of the JORC reserves and resources of the Yancoal Coal Operating Assets are set out in the following tables:

Table 26: Coal reserves of Yancoal

	Ownership	Proved Reserves (Mt)	Probable Reserves (Mt)	Total Reserves (Mt)
Austar Coal Mine	100.0%	12.7	31.5	44.2
Ashton Coal JV	90.0%	42.7	14.6	57.2
Moolarben JV	80.0%	82.8	232.2	315.0
Yarrabee Coal Mine	100.0%	38.1	19.1	57.2
Total (100% basis)		176.3	297.3	473.7
Total attributable to Yancoal		155.5	249.5	404.9

Source: Yancoal

Table 27: Coal resources of Yancoal

	Ownership (%)	Measured Resources (Mt)	Indicated Resources (Mt)	Inferred Resources (Mt)	Total Resources (Mt)
Austar Coal Mine	100.0%	81.1	69.9	70.0	221.0
Ashton Coal JV	90.0%	152.0	146.1	35.3	333.5
Moolarben JV	80.0%	376.4	598.4	208.4	1,183.2
Yarrabee Coal Mine	100.0%	65.0	84.3	20.5	169.7
Total (100% basis)		674.8	898.7	334.2	1,907.4
Total attributable to Yancoal		584.0	764.4	289.0	1,637.4

Source: Yancoal

Note:

- Resources stated in the above table include Proved and Probable Reserves.

APPENDIX 1

INDEPENDENT EXPERT'S REPORT (CONTINUED)

4.5 Financial performance

The pro forma unaudited income statement for the Yancoal Assets for FY2011 is summarised in the table below.

Table 28: Pro forma financial performance of the Yancoal Assets

	Unaudited pro forma FY2011 (AUD'000)
Revenue	1,461,700
EBITDA	602,000
<i>EBITDA margin (%)</i>	<i>41.2%</i>
Depreciation and amortisation	(127,100)
EBIT	474,900
<i>EBIT margin (%)</i>	<i>32.5%</i>
Net interest income/(expense)	(55,300)
Profit before tax	419,600
Income tax expense	(131,300)
Net income	288,300

Source: Explanatory Booklet

4.6 Financial position

The pro forma unaudited balance sheet of the Yancoal Assets as at 31 December 2011 is summarised in the table below.

Table 29: Pro forma balance sheet of Yancoal Assets

	Unaudited 31-Dec-11 (AUD'000)
Cash and cash equivalents	282,800
Restricted cash	60,400
Trade and other receivables	202,100
Inventory	117,200
Derivative financial assets	16,400
Other assets	57,700
Promissory note	648,000
Total current assets	1,384,600
Trade and other receivables	77,800
Equity accounted investments	3,000
Other financial assets	25,000
Property, plant and equipment	973,900
Deferred tax asset	15,900
Intangible assets	2,283,400
Exploration and evaluation assets	593,600
Total non-current assets	3,972,600
Total assets	5,357,200
Trade and other payables	159,000
Interest bearing liabilities	999,400
Derivative financial liabilities	6,600
Provisions	900
Income tax liability	9,300
Total current liabilities	1,175,200
Trade and other payables	1,300
Interest bearing liabilities	1,993,900
Deferred tax liabilities	401,400
Provisions	22,900
Total non-current liabilities	2,419,500
Total liabilities	3,594,700
Net assets	1,762,500

Source: Explanatory Booklet

We note the following in relation to the financial position of Yancoal presented above:

- financial assets consist primarily of bonds issued by NCIG
- intangible assets primarily relate to JORC Reserves and Resources
- interest bearing liabilities primarily consist of debt used to fund the acquisition of Felix.

5 Profile of the Proposed Merged Entity

Upon completion of the Proposed Scheme, the Proposed Merged Entity is expected to be an ASX-listed company comprising the current operating assets and development projects of Gloucester and the Yancoal 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.

5.1 Principal assets

The principal assets of the Proposed Merged Entity will include the following:

- operating assets and development projects comprising:
 - the Gloucester Basin Assets (refer to Section 3.2.1):
 - a 100% interest in the Stratford Operation
 - a 100% interest in the Duralie Operation
 - the operating assets and development projects of Donaldson (refer to Section 3.2.2):
 - a 100% interest in the Donaldson Mine
 - a 100% interest in the Tasman Mine and Tasman Extension Project
 - a 100% interest in the Abel Mine and Abel Extension Project
 - a near 50% interest in the Middlemount Mine project (refer to Section 3.2.3)
 - the Yancoal Coal Operating Assets:
 - a 100% interest in the Austar Coal Mine (refer to Section 4.2.1)
 - a 90% interest in the Ashton Coal JV (refer to Section 4.2.2)
 - a 80% interest in the Moolarben JV (refer to Section 4.2.3)
 - a 100% interest in the Yarrabee Coal Mine (refer to Section 4.2.4)
- a 100% interest in the Middlemount Mine Royalty Stream (refer to Section 3.2.3)
- interests in various evaluation and exploration properties including the Gloucester Basin Exploration Assets (refer to Section 3.2.1) and the Monash Exploration Assets (refer to Section 3.2.4)
- 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), Donaldson and the interests in the Yancoal Infrastructure Development Assets (refer to Sections 3.2.6 and 4.2.5)
- combined reserves and resources as set out in Section 5.2.

5.2 Reserves and resources

A summary of current reserves and resources estimates for the Proposed Merged Entity is set out in the table below.

Table 30: Coal reserves and resources of the Proposed Merged Entity (equity interest)¹

Region	Proved & Probable		Resources ²		Total resources (Mt)
	Reserves (Mt)	Measured (Mt)	Indicated (Mt)	Inferred (Mt)	
Gloucester Basin Assets	83.6	19.4	186.5	110.0	315.9
Donaldson Assets	160.7	659.4	182.9	42.7	885.0
Middlemount Mine Project	48.0	44.7	15.8	0.9	61.3
Monash Exploration Assets	-	29.7	70.2	477.3	577.2
Yancoal Coal Operating Assets ²	404.9	584.0	764.4	289.0	1,637.4
Total	697.4	1,337.1	1,219.6	919.6	3,476.3

Source: Gloucester and Yancoal

Notes:

1. Reserves and resources attributable to Yancoal
2. Resources are inclusive of Proved and Probable Reserves.

5.3 Capital structure and shareholders

Following completion of the Proposed Scheme, the Proposed Merged Entity is expected 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 Gloucester shareholders in the Proposed Merged Entity on a fully diluted basis, assuming the Proposed Scheme is completed.

Table 31: Pro-forma indicative capital structure of the Proposed Merged Entity¹

	Number of shares
Number of Gloucester shares on issue	202,905,967
Number of shares to be issued pursuant to conversion of Converting Shares	15,821,698
Total	218,727,665
Proportion of shares in the Proposed Merged Entity held by Gloucester shareholders	22.0%
Implied number of shares on issue in the Proposed Merged Entity	994,216,659

Source: Gloucester and Deloitte Corporate Finance analysis

APPENDIX 1

INDEPENDENT EXPERT'S REPORT (CONTINUED)

5.4 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 Scheme is completed.

Table 32: Potential share market capitalisation of the Proposed Merged Entity¹

	Proposed Merged Entity share price						
	3.50	3.75	4.00	4.25	4.50	4.75	5.00
Potential share market capitalisation (AUD million)	3,480	3,728	3,977	4,226	4,474	4,723	4,971

Source: Deloitte Corporate Finance analysis

Note:

1. The figures in the table are provided for illustrative purposes only and are subject to rounding.

5.5 Financial performance

The pro forma income statement for the Proposed Merged Entity for FY2011 is summarised in the table below.

Table 33: Pro forma financial performance of the Proposed Merged Entity

	Unaudited pro forma FY2011 (AUD'000)
Revenue	1,857,700
EBITDA¹	686,900
<i>EBITDA margin (%)</i>	<i>37.0%</i>
Depreciation and amortisation	(164,300)
EBIT²	522,600
<i>EBIT margin (%)</i>	<i>28.1%</i>

Source: Explanatory Booklet

APPENDIX 1

INDEPENDENT EXPERT'S REPORT (CONTINUED)

5.6 Financial position

The pro forma balance sheet of the Proposed Merged Entity as at 31 December 2011 is summarised in the table below.

Table 34: Pro forma balance sheet of the Proposed Merged Entity

	Unaudited 31-Dec-11 (AUD'000)
Cash and cash equivalents	247,700
Restricted cash	60,400
Trade and other receivables	261,200
Waste in advance	116,900
Inventory	169,500
Derivative financial assets	18,600
Royalty receivable	15,900
Other assets	23,900
Total current assets	914,100
Restricted cash	700
Trade and other receivables	77,800
Equity accounted investments	3,000
Other financial assets	25,000
Property, plant and equipment	1,639,500
Deferred tax asset	29,800
Intangible assets	4,381,900
Exploration and evaluation assets	811,500
Royalty receivable	177,100
Investments	19,300
Total non-current assets	7,165,600
Total assets	8,079,700
Trade and other payables	243,100
Customer contracts	55,600
Interest bearing liabilities	704,100
Derivative financial instruments	6,600
Provisions	23,800
Income tax liability	9,500
Total current liabilities	1,042,700
Trade and other payables	16,900
Customer contracts	77,500
Interest bearing liabilities	3,399,800
Contingent consideration	90,500
Deferred tax liabilities	931,200
Provisions	137,200
Total non-current liabilities	4,653,100
Total liabilities	5,695,800
Net assets	2,383,900

Source: Explanatory Booklet

We note the following in relation to the pro forma financial position of the Proposed Merged Entity:

- the current portion of interest bearing liabilities primarily relates to debt incurred to fund the Special Dividend and promissory notes issued on account of the Capital Return
- the non-current portion of interest bearing liabilities primarily relates to a USD 2.9 billion debt facility with Bank of China Limited which was used to fund Yancoal's acquisition of Felix. This incurs interest at a margin of 0.75% over the 3 month USD London Interbank Offered Rate (LIBOR).

6 Valuation methodology

6.1 Valuation methodologies

To estimate the fair market value of a share in Gloucester and in 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.

6.1.1 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. The future maintainable earnings may be derived by observing the historical earnings achieved by a company and the expected future earnings of a company. An appropriate earnings multiple may be derived by observing the trading multiples for comparable listed companies and applying a premium for control and observing the multiples implied by market transactions involving comparable companies. The selected future maintainable earnings and earnings multiples should be consistent in terms of the level of earnings considered (i.e. EBIT, EBITDA or net profit after tax) and the period for which the future maintainable earnings apply. The capitalisation of maintainable earnings method is most 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.

6.1.2 Discounted cash flow methods

Discounted cash flow methods estimate market value by discounting a company's future cash flows to a net present value. The discounted cash flow method is a commonly used valuation methodology in sectors such as the resources, infrastructure and life sciences sectors where the cash flows of a business are subject to variability over time. Discounted cash flow methods may also be used to value early stage companies, companies in a growth stage or companies that are the subject of restructuring (such that current cash flows may not be a reflection of future cash flows) or projects with a finite life. The discounted cash flow methodology can be dependent on a range of assumptions relating to business drivers such as sales volumes, prices and cost structures. The outputs of the discounted cash flow methodology can be compounded by the uncertainties of the inputs and consequently, where there is significant uncertainty associated with the cash flows of the asset under review, it may be difficult to estimate future cash flows with the requisite level of confidence for the discounted cash flow method to be used as a primary valuation methodology.

6.1.3 Asset based methods

Asset based methods estimate the market value of a company's shares 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.

6.2 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 a share in Gloucester and a share in the Proposed Merged Entity.

Gloucester

We have estimated the fair market value of Gloucester by aggregating the estimated fair market value of its underlying assets and projects on a sum-of-the-parts basis and deducting the net present value of corporate overheads and net debt as follows:

- operating assets and development projects of Gloucester – we have selected the discounted cash flow method to value the operating assets and development projects due to the following factors:
 - management has provided 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
- evaluation and exploration assets – we have engaged BDA to assess the value of Gloucester's evaluation and exploration assets. These assets have been valued based on a number of valuation methodologies including the planned future expenditure in respect of the exploration permits and historical expenditure to date on the permits
- 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 Gloucester, we have considered the following:

- reserve and resources multiples implied by our valuation of Gloucester compared with the resource multiples observed for comparable transactions and reserve and resource multiples implied by trading in comparable listed companies
- recent share market trading activity in Gloucester.

APPENDIX 1

INDEPENDENT EXPERT'S REPORT (CONTINUED)

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 and the Yancoal Assets have been valued based on the discounted cash flow methodology
- the Middlemount Mine Royalty Stream has been valued 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 to Sections 8.1.3 and 9.1.3 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 Scheme
- 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 listed companies and implied in comparable transactions.

6.3 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 Gloucester (including its near 50% interest in the Middlemount Mine project) and the Yancoal Assets.

The management of Gloucester prepared a financial model (the Gloucester Model) to estimate the future cash flows of the operating assets and development projects of Gloucester. The management of Yancoal prepared a financial model (the Yancoal Model) estimating the future cash flows of the Yancoal Assets. Together, the Gloucester Model and the Yancoal 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
- production 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 exploration assets within the Gloucester and Yancoal asset portfolios.

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 BDA's report is provided in Appendix 7.

7 Future cash flows

7.1 The Models

Gloucester and Yancoal management have prepared the Models which estimate the future cash flows to be generated by the operating assets and development projects of Gloucester and Yancoal. 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 JORC
- the life of mine plans for the operating assets and development projects of Gloucester and Yancoal
- access to road, rail and port infrastructure, consistent with contractual rights held by the 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 management of Gloucester and Yancoal 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 Gloucester and Yancoal, held discussions with the management of Gloucester and Yancoal and reviewed data, reports and other information that is either publicly available or made available to them by Gloucester or Yancoal. BDA has prepared a report setting out the findings of their technical review of the assets of each of Gloucester and Yancoal, which is attached as Appendix 7.

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 Gloucester and Yancoal 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.

7.2 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 the contracted prices and projected market prices for uncontracted volumes.

APPENDIX 1 INDEPENDENT EXPERT'S REPORT (CONTINUED)

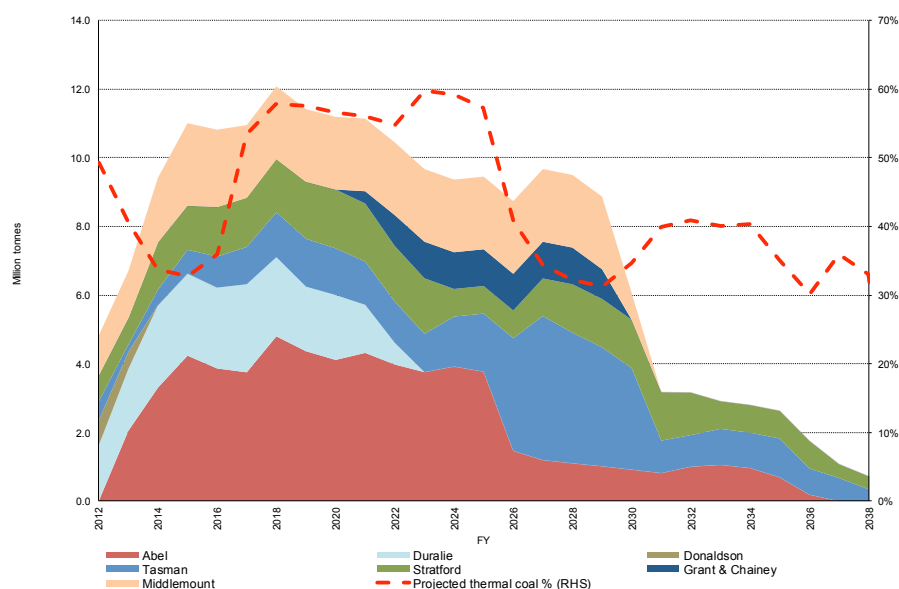
7.2.1 Saleable production volumes

Gloucester

The figure below outlines the projected saleable coal production volumes from the operating assets and development projects of Gloucester until 30 June 2038. Operations from all mines, except Stratford, Abel and Tasman, are projected to cease by FY2030. Stratford, Abel and Tasman are projected to continue operating until FY2042, FY2038 and FY2050, respectively, due to planned extension projects at these operations.

The figure below also shows the proportion of thermal coal projected to be mined, with the remainder of production being coking coal (SHCC, SSCC and PCI). For the majority of the projection period (FY2012 to FY2038) the proportion of thermal coal produced is projected to remain within a range of approximately 30% to 60% to FY2038, averaging approximately 41% throughout this period.

Figure 10: Projected saleable coal production by mine – Gloucester assets^{1,2}



Source: Gloucester Model

Notes:

1. Projections are on a financial year basis commencing 1 July
2. Production shown for the Middlemount Mine project represents Gloucester's near 50% interest in the JV.

We note the following in relation to the projected saleable production volumes:

- projected volumes for the Gloucester Basin Assets (being the Duralie, Stratford and Grant & Chainey operations) are based on mining all of the Proved and Probable Reserves. The Gloucester Basin assets produce SHCC and thermal coal (approximately 60% and 40% of total saleable coal production, respectively)
- projected volumes for the Middlemount Mine project are based on mining all of the Proved and Probable Reserves. The Middlemount Mine project commenced commercial operations in FY2012 and is currently only producing PCI. Over the longer term the mine is expected to produce a mix of SHCC and PCI (approximately 65% and 35% of total saleable coal production, respectively)
- projected volumes for the Donaldson Assets (being the Donaldson, Abel and Tasman operations) are based on mining all of the Proved and Probable Reserves. The Donaldson assets produce SSCC and thermal coal (approximately 32% and 68% of total saleable coal production, respectively)

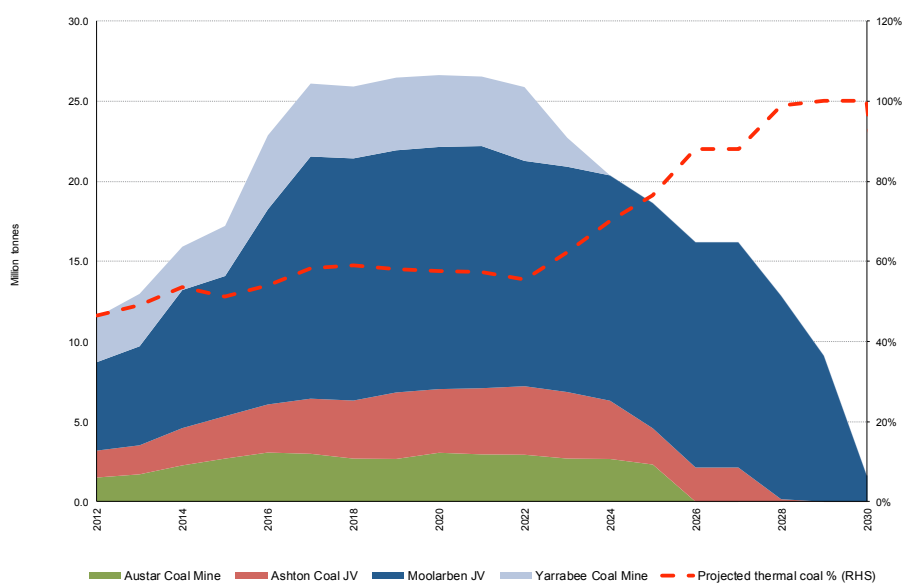
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- annual saleable production volumes take account of CHPP and other infrastructure capacity constraints.

Yancoal Operating Assets

The figure below outlines the projected saleable coal production volumes from the Yancoal Operating Assets until 31 December 2030.

Figure 11: Projected saleable coal production by mine – Yancoal Operating Assets



Source: Yancoal Model

Note:

1. Projections are on a CY basis.

We note the following in relation to the projected saleable production volumes:

- projected volumes for the Austar Coal Mine are based on mining all of the Proved and Probable Reserves. The Austar Coal Mine produces SHCC
- projected volumes for the Ashton Coal JV are based on mining all of the Proved and Probable Reserves. The Ashton Coal JV produces primarily SSCC and a small proportion of thermal coal. Production from the South East open cut is assumed to be delayed by two years to allow for the Ashton Coal JV to obtain approvals for development from the NSW government
- projected volumes for the Moolarben JV are based on mining all of the Proved and Probable Reserves. The Moolarben JV produces thermal coal
- projected volumes for the Yarrabee Coal Mine are based on mining all of the Proved and Probable Reserves. The Yarrabee Coal Mine produces LV PCI
- the Yancoal Model projects that the proportion of thermal coal produced will increase from approximately 55% in 2016 to 88% by 2026 and then to 100% from 2029
- annual saleable production volumes take account of CHPP and other infrastructure capacity constraints.

APPENDIX 1

INDEPENDENT EXPERT'S REPORT (CONTINUED)

7.2.2 Coal pricing assumptions

Coal produced by Gloucester and Yancoal 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, SHCC and SSCC:

- recent broker forecasts for Australian thermal coal, SSCC, PCI coal and hard coking coal (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 Gloucester and Yancoal 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 Appendix 5
- historical average discounts or premiums to benchmark prices realised by Gloucester and Yancoal. Historically the contract prices achieved for coal produced by Gloucester and Yancoal have been at a discount or premiums to the benchmark coal prices due to adjustments for:
 - differences between the actual and specified calorific value
 - ash content
 - sulphur content
- 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 and Yancoal 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.

Based on our analysis, we have adopted real export pricing assumptions as set out in the table below.

Table 35: Selected export pricing assumptions (in real CY2012 terms)

USD per tonne	2012	2013	2014	2015	Long term
Export thermal coal	125.0	120.0	110.0	105.0	95.0
SSCC	170.0	150.0	130.0	125.0	115.0
LV PCI	185.0	160.0	135.0	130.0	120.0
SHCC	205.0	180.0	162.5	147.5	137.5
HCC	240.0	210.0	195.0	170.0	160.0

Source: Deloitte Corporate Finance 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 Gloucester and Yancoal.

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.

7.2.3 Other revenue

As discussed in Section 3.2.6, Gloucester has access to approximately 5.3 Mtpa of port capacity at PWCS (expected to increase to 5.7 Mtpa by FY2016). In addition, Gloucester holds an 11.6% interest in NCIG, whilst the Proposed Merged Entity will hold a 27.0% interest in NCIG and a 5.6% interest in WICET.

The port allocation held by Gloucester and the Proposed Merged Entity is generally in excess of the production profile projected by the Models. We have considered how Gloucester 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 Gloucester and the Proposed Merged Entity.

7.3 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. Mining costs for the Duralie, Grant & Chainey and Stratford (Avon North, Stratford East and Parkers Road seams) operations are projected to decrease following a change to owner-mining in FY2015. The capital expenditure associated with purchasing the equipment required to change to owner-mining is discussed in Section 7.4.1
- costs associated with carbon pricing, based on a cost per tonne of product coal, varying depending on the emissions intensity of each mine including an allowance for government assistance as appropriate
- 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 Peabody for use of a portion of its DBCT port allocation in relation to the Middlemount Mine project
- other operating costs include 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 Queensland, the royalty payment is 7.0%, if average net revenue per tonne is less than AUD 100, and 10% if average net revenue per tonne is greater than AUD 100
- the Marketing Arrangement, which is a fee that applies to all exported volumes and blended third party coal of Gloucester 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 7.6). As appropriate, we have also adjusted operating costs in the long term based on advice from BDA and in order to ensure that they are consistent with our coal pricing assumptions.

7.4 Capital costs

7.4.1 Gloucester

The Gloucester Model incorporates capital costs (excluding maintenance capital costs) of approximately AUD 1.5 billion (in real terms) over the projection period (referring to Gloucester's share). The projected capital costs are mainly associated with the activities set out below.

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INDEPENDENT EXPERT'S REPORT (CONTINUED)

- **Gloucester Basin**
 - Duralie Mine Extension Project from FY2016 to FY2018
 - continuing expansion/upgrade of the Stratford CHPP in FY2012 and FY2016
 - 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 FY2029 in order to delineate further reserves and resources
 - land acquisitions from FY2011 to FY2026 to facilitate mining operations
 - the purchase of equipment at Duralie, Grant & Chainey and Stratford (Avon North, Stratford East and Parkers Road seams) in order to facilitate a shift to owner-mining in FY2015
- **Donaldson**
 - Tasman Mine from FY2012 to FY2020 and the Tasman Extension Project from FY2021 to FY2029
 - Abel Mine from FY2012 to FY2024 and the Abel Extension Project from FY2026 to FY2030
 - upgrading the Bloomfield CHPP in FY2013 and FY2015
- **Middlemount Mine project**
 - the CHPP in FY2011 to FY2012
 - creek diversion from FY2012 to FY2015.

The Gloucester Model also includes an allowance for ongoing maintenance capital expenditure associated with each of the operating assets and development projects.

7.4.2 Yancoal Operating Assets

The Yancoal Model incorporates capital costs (excluding maintenance capital costs) of approximately AUD 2.9 billion (in real terms) over the projection period (on a 100% basis). The projected capital costs are mainly associated with the following:

- **Austar Coal Mine**
 - development capital for stage three of the Austar Coal Mine from CY2012 to CY2013
 - costs associated with efficiency improvement initiatives including increasing the capacity of surge bins and drift conveyers, and other initiatives that will improve the loading capacity of the mine conveyer system and coal handling facilities in CY2012 and CY2013
- **Ashton Coal JV**
 - development capital for the South East open cut project
 - acquisition costs for EL5291 current held by Coal & Allied Limited. In determining the acquisition cost to Yancoal, we considered the following scenarios:
 - a payment from the Ashton Coal JV to Coal & Allied Limited to gain access to EL5291
 - the Ashton Coal JV not gaining access to EL 5291 and adopting an alternative mine development plan
 - the Ashton Coal JV entering into a joint venture with Coal & Allied Limited over the EL5291 area.
 - development capital for the West Pit expansion
- **Moolarben JV**
 - development capital for the open cut expansion from CY2012 to CY2013
 - development capital for the underground expansion between CY2013 and CY2016
 - longwall maintenance capital for the Moolarben JV underground project

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- a payment to various landowners to acquire land over which the Moolarben JV holds mining rights
- **Yarrabee Coal Mine**
 - capital for fleet expansion from 2012 to 2013
 - development capital for extension of life of mine from 2017.

The Yancoal Model also includes an allowance for ongoing maintenance capital expenditure and closure costs associated with each of the operating assets and development projects.

7.5 Corporate assumptions

The Models include projections of corporate cash flows in real terms, which are consistent with historical corporate overhead costs.

7.6 Economic assumptions

7.6.1 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 36: Selected inflation rate assumptions (calendar year basis)

	2012	2013	2014	2015	Long term
Australia	2.7%	3.2%	2.6%	2.7%	2.5%

Source: Deloitte Corporate Finance analysis

7.6.2 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 37: Selected exchange rates (AUD to USD) (calendar year basis)

	2012	2013	2014	2015	Long term
Deloitte selected	1.00	0.95	0.90	0.87	0.80

Source: Deloitte Corporate Finance analysis

7.7 Other assumptions

In addition to the above assumptions, the Models assume the following:

- Mineral Resources Rent Tax (MRRT) liabilities for each operation have been modelled in a manner consistent with the current legislation
- a corporate tax rate of 30% has been adopted for FY2012 and a rate of 29% adopted thereafter
- working capital has been calculated as inventory plus receivables less payables.

8 Valuation of Gloucester

8.1 Valuation of Gloucester

Deloitte has estimated the fair market value of Gloucester 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 Gloucester using the sum-of-the-parts method requires an estimate of the following:

- the value of the operating assets and development projects of Gloucester (including the Middlemount Mine Royalty Stream)
- an appropriate premium to the discounted cash flow value
- the value of the exploration assets of Gloucester
- 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 Gloucester being greater than those included in the Gloucester 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 Sections 8.1.1 to 8.1.6.

In addition, we also had regard to recent trading in Gloucester shares and the resource multiple implied by our valuation of Gloucester compared with the resource multiples observed for comparable transactions and comparable listed companies. This analysis is set out in Section 8.2.

8.1.1 Operating and development assets

The value of Gloucester'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 Gloucester 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 7.

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 11.5% to 12.5% to discount the future cash flows of Gloucester'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

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- specific risks associated with expansions proposed for the Stratford, Duralie and Grant & Chainey operations as well as plans to expand production from the Donaldson Assets through the Abel Extension Project and the Tasman Extension Project
- the specific risks associated with the construction of the Middlemount Mine Project's CHPP and the ramp up of ROM production at the Middlemount Mine Project
- the specific business and financing risks of Gloucester
- Gloucester's current cost of debt and an appropriate level of financial gearing.

A detailed consideration of these matters is provided in Appendix 2.

Terminal value

The Gloucester Model incorporates 100% of Gloucester's current Proved and Probable Reserves for the operating assets and development projects. However, significant Measured, Indicated and Inferred Resources associated with the operating assets and development projects of Gloucester have not been included in the Gloucester 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 8.1.2, 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 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 by applying the following:

- +/- 1.0% and 2.0% to the selected discount rate 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 FY2016 for each coal product
- a long term exchange rate in the range of USD 0.78 to USD 0.82.

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 (including the terminal value) based on the above long term coal price, exchange rate and discount rate.

Table 38: Discounted cash flow valuation (including terminal value) (AUD million)

	Discount rate				
	14.5%	13.5%	12.5%	11.5%	10.5%
Long term coal price (real per tonne)					
- USD 10.0	1,065.8	1,147.9	1,238.3	1,338.1	1,448.5
- USD 5.0	1,267.3	1,366.8	1,476.8	1,598.5	1,733.7
Selected long term export prices ¹	1,466.6	1,583.2	1,712.3	1,855.5	2,014.8
+ USD 5.0	1,666.0	1,799.8	1,948.0	2,112.6	2,296.1
+ USD 10.0	1,858.8	2,009.1	2,175.9	2,361.3	2,568.1
Long term exchange rate assumption					
USD 0.82	1,369.4	1,477.2	1,596.3	1,728.2	1,874.8
USD 0.80	1,466.6	1,583.2	1,712.3	1,855.5	2,014.8
USD 0.78	1,568.9	1,695.0	1,834.6	1,989.6	2,162.3

Source: Deloitte Corporate Finance analysis

Note:

1. Selected long term export prices based on the figures set out in Section 7.2.2.

The value of Gloucester is most sensitive to the long term real coal price assumptions. An increase in the long term price of USD 5.0 per tonne results in an increase of approximately 14% to the value of Gloucester.

The value of Gloucester is also sensitive to the discount rate assumption. A 1.0% increase to the discount rate assumption results in a decrease of approximately 8% to the value of Gloucester.

The value of Gloucester is also sensitive to the long term exchange rate assumption. A depreciation of the USD against the AUD in the long term from USD 0.80 to USD 0.82 decreases the value of Gloucester by approximately 7%.

Based on the above analysis, we have selected a fair market value of the operating assets and development projects in the range of AUD 1,700 million to AUD 1,850 million.

8.1.2 Premium to discounted cash flow value

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 Gloucester Model. These items include:

- **LOM greater than that captured in the Gloucester Model** – In addition to the 342.8 Mt of Proved and Probable Reserves of the operating assets and development projects (on a 100% project basis) which have already been incorporated in the Gloucester 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, CHPP capacity, 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 Gloucester which is not reflected in the discounted cash flows.

We have considered an upside production scenario which contemplates a further approximately 195 Mt being produced by Gloucester (on a 100% project basis). We have considered the value increment implied by this upside scenario in determining an appropriated premium to the discounted cash flow value

- **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

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- **potential strategic value** – a potential purchaser of Gloucester may also be willing to pay a premium in excess of the discounted cash flow value for the strategic value offered by Gloucester 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
- **taxation benefits** – a potential purchaser may be able to obtain taxation deductions in relation to the value of Gloucester's exploration licences, mining leases and fixed assets.

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 of 10% in the value of the operating assets and development assets to reflect the combined value of these factors.

8.1.3 Exploration assets

Deloitte has engaged BDA to provide an assessment of the value of Gloucester's exploration assets. These include the following:

- Gloucester Basin Exploration Assets
- Donaldson Exploration Assets
- Monash Exploration Assets.

BDA's valuation approach is to apply a resource multiple (AUD per tonne) to the Inferred Resource base of the exploration assets. In determining the size of the resource multiple applied, BDA considered the resource multiples implied by comparable transactions with predominantly Inferred Resources since 2008, which could be considered to have some similarity to the exploration assets.

The table below sets out BDA's estimated current fair market value of the exploration assets.

Table 39: BDA's valuation of Gloucester's exploration assets

	Most likely value AUD million
Gloucester Basin Exploration Assets	115.0
Donaldson Exploration Assets	175.0
Monash Exploration Assets	175.0
Total	465.0

Source: BDA

BDA's valuation of the exploration assets of Gloucester allows only for resources which are not included in the discounted cash flow valuation of Gloucester.

Further detail on the valuation of the exploration assets of Gloucester is set out in Section 6.3 of BDA's technical expert's report at Appendix 7.

8.1.4 Surplus assets

Management has advised that there are no assets which do not contribute to the operations of Gloucester and we have not identified any material surplus assets during the course of our work. Consequently, no value has been placed on surplus assets.

8.1.5 Net debt

The net debt position of Gloucester as at 22 February 2012 is set out in the following table.

Table 40: Net debt

	AUD million
Net debt ¹	(391.4)

Source: Gloucester

Note:

1. Excludes contingent consideration amount of AUD 136.2 million relating to the Monash Exploration Assets. We have separately adjusted the number of Gloucester shares on issue to reflect the issue of Gloucester shares as contingent consideration for the Monash Exploration Assets.

8.1.6 Valuation: sum-of-the-parts method

The value of Gloucester using the sum-of-the-parts method is summarised below.

Table 41: Value of Gloucester based on sum-of-the-parts method

	Section	Unit	Low	High
Total value of Gloucester's operating and development assets	8.1.1	AUD million	1,700.0	1,850.0
Premium to discounted cash flow value	8.1.2	%	10.0%	10.0%
Total value of Gloucester's operating and development assets including premium		AUD million	1,870.0	2,035.0
Exploration assets	8.1.3	AUD million	465.0	465.0
Surplus assets	8.1.4	AUD million	-	-
Enterprise value (on a control basis)		AUD million	2,335.0	2,500.0
Net debt	8.1.5	AUD million	(391.4)	(391.4)
Equity value (on a control basis)		AUD million	1,943.6	2,108.6
<i>Number of Gloucester shares on issue ¹</i>	3.6	<i>million</i>	218.7	218.7
Value of a share in Gloucester		AUD	8.89	9.64
Deloitte Corporate Finance assessed value of a share in Gloucester		AUD	8.90	9.65

Source: Deloitte Corporate Finance analysis

Note:

1. Includes shares issued pursuant to the conversion of Converting Shares.

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8.2 Valuation cross checks

8.2.1 Industry rules of thumb

We have cross checked the value of Gloucester with reference to the reserve and resource multiples implied by our valuation of Gloucester.

We note that reserve and resource multiples provide only a high level cross check for our valuation of Gloucester. The share trading reserve and resource multiples (the ratio of enterprise value, implied by the current company share price, to Proved and Probable Reserves and Measured and Indicated Resources, respectively) 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 Gloucester.

Table 42: Implied reserve and resource multiples

	Section	Unit	Low	High
Value per share in Gloucester	8.1.6	AUD	8.90	9.65
Number of Gloucester shares on issue	3.6	Million	218.7	218.7
Equity value		AUD million	1,946.7	2,110.7
Net debt	8.1.5	AUD million	391.4	391.4
Enterprise value of Gloucester (on a control basis)		AUD million	2,338.1	2,502.2
Gloucester reserves ¹	3.5	Mt	292.3	292.3
Reserve multiple (on a control basis)		AUD per tonne	8.0	8.6
Gloucester resources ²	3.5	Mt	1,209.1	1,209.1
Resource multiple (on a control basis)		AUD per tonne	1.9	2.1

Source: Deloitte Corporate Finance 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 (ratio of 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 and resource multiples of comparable companies

Entity	Domicile	Enterprise value (AUD million) ¹	EV Reserve multiple	EV Resource Multiple
Gloucester²	Australia	2,420.1	8.2	2.0
Australian coal producing companies				
New Hope Corporation Limited	Australia	3,004	4.2	1.9
Whitehaven	Australia	2,816	7.0	3.5
Gujarat NRE Coking Coal Limited	Australia	429	3.4	1.7
Average³			5.6	2.7
Australian coal developing companies				
Aston Resources Limited	Australia	1,770	5.7	4.7
Coal of Africa Limited	Australia/South Africa	636	1.7	0.5
Bandanna Energy Limited	Australia	290	1.1	0.6
Cockatoo Coal Limited	Australia	478	1.8	0.5
Carabella Resources Limited	Australia	113	n/a	1.5
Nucoal Resources NL	Australia	239	n/a	1.9
Metrocoal Limited	Australia	76	n/a	0.4
Average⁴			2.9	1.6
Average – Australian entities⁵			4.0	1.9
Median – Australian entities⁵			4.2	1.7

Source: Reuters, ASX and company announcements

Notes:

1. Enterprise values are as at 26 March 2012 and where required, have been converted to AUD using the relevant exchange rate as at 26 March 2012
2. Refers to midpoint of our valuation of Gloucester on a control basis (refer to Section 8.1.6)
3. Excludes Gujarat NRE Coking Coal Limited as it is considered illiquid
4. Excludes Coal of Africa Limited whose coal interests are located in southern Africa
5. Excludes Gujarat NRE Coking Coal Limited as it is considered illiquid and Coal of Africa Limited whose coal interests are located in southern Africa.

As outlined in the table above, the reserve and resource multiples implied by our valuation of Gloucester (on a control basis) are higher 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:

- the multiple implied by our valuation of a share in Gloucester is on a control basis. The multiples observed for the comparable listed companies are on a minority interest basis. We expect the reserve and resource multiples implied by our valuation of Gloucester to be higher than the multiples observed for comparable listed companies, reflecting a premium for control
- our valuation of a share in Gloucester is based on the discounted cash flow methodology. We have analysed the relationship between discounted cash flow valuations for comparable listed companies prepared by equity analysts and their share trading valuations. Our analysis indicates that Australian coal mining companies are presently trading at significant discounts to their share price targets which are based on discounted cash flow valuations. Consequently, we would expect the multiples implied by our valuation to be higher than those implied by share trading in comparable listed companies
- many of the above companies are considerably smaller than Gloucester. In general, smaller companies have lower multiples than larger companies. Gloucester has a higher reserve multiple than companies of comparable size. The average reserve multiple of the comparable companies with enterprise values greater than AUD 1 billion is 5.7 times, compared to the reserve multiple implied by our valuation of Gloucester of 8.3 times

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We note that the overall average resource multiples implied by the comparable transactions of AUD 4.2 times is higher than the resource multiples implied by our valuation of Gloucester (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 CY2010 and CY2011, nine of them consisted of control transactions. The average resource multiple for these transactions was 1.7 times.

The range of resource multiples implied by our valuation of Gloucester is lower than the resource multiples observed for the comparable transactions but broadly in line with those observed for transactions occurring in CY2010 and CY2011.

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 Gloucester on a control basis.

8.2.2 Recent share trading in Gloucester

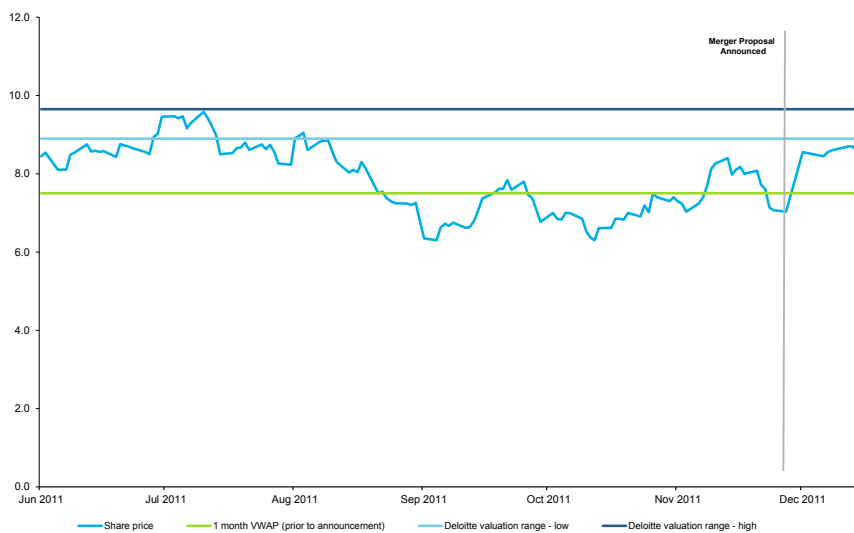
The market can be expected to provide an objective assessment of the fair market value of a listed entity, where the market is well informed and liquid. Market prices incorporate the influence of all publicly known information relevant to the value of an entity's securities. The majority of the shares in Gloucester, approximately 64.5%, are held by Noble through a wholly-owned subsidiary. The free float for Gloucester shares is therefore relatively small.

As the shares in Gloucester are relatively thinly traded, we consider that the share price provides limited evidence of the fair market value of a share in Gloucester. Notwithstanding this, we have included an analysis of recent share trading activity for the sake of completeness.

Share prices from market trading do not typically reflect the market value for control of a company as they are for portfolio holdings. Australian studies indicate the premiums required to obtain control of companies range between 20% and 40% of the portfolio holding values.

The following figure compares the daily share price of Gloucester and the VWAP of Gloucester's shares for the 30 days prior to the announcement of the Merger Proposal to our selected valuation range.

Figure 13: Comparison of share trading



Source: Deloitte Corporate Finance analysis, CapitalIQ

Note:

1. One month VWAP is prior to the announcement of the Proposed Scheme.

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The VWAP of shares in Gloucester for the day prior to the announcement of the Proposed Scheme was AUD 7.10, and the VWAP for the 30 day period prior to the announcement was AUD 7.50. Our valuation represents a premium to the share trading in Gloucester prior to the announcement of the Proposed Scheme (based on the 30 day VWAP) of between 19% and 29%. In our opinion, the pre-announcement trading price of a share in Gloucester provides support for our valuation of a share in Gloucester on a control basis.

9 Valuation of the Proposed Merged Entity

9.1 Valuation of the Proposed Merged Entity

Deloitte has estimated the fair market value of the Proposed Merged Entity using the sum-of-the-parts method.

To value the Proposed Merged Entity using the sum-of-the-parts method requires an estimate of the following:

- the value of the operating assets and development projects of Gloucester
- the value of the Yancoal Operating Assets
- the value of the exploration assets of the Proposed Merged Entity
- 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 Proposed Merged Entity being greater than those included in the Models
- surplus assets (if any) based on the current balance of any surplus assets or liabilities
- current net debt position
- an appropriate discount for minority interest.

This analysis is set out in Section 9.1.1 to Section 9.1.7.

In addition, we also had regard to the resource multiple implied by our valuation of the Proposed Merged Entity compared with the resource multiples observed for comparable transactions and comparable listed companies. This analysis is set out in Section 9.2.

9.1.1 Operating and development assets

The value of Gloucester's operating assets and development projects have been estimated using the discounted cash flow method.

Future cash flows

The future cash flows are described in Section 7.

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 11.0% to 12.0% to discount the future cash flows of the operating assets and development projects of the Proposed Merged Entity 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, as appropriate, associated with each of the projects of the Proposed Merged Entity
- the specific business and financing risks of the Proposed Merged Entity
- 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 all of the current Proved and Probable Reserves 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

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projects have not been included in the Models. The extent to which these resources can be converted into reserves depends on the outcome 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 9.1.2 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 by applying the following:

- +/- 1% and 2% to the discount rate selected for each of the operating assets and development projects
- +/- USD 5.0 and USD 10.0 per tonne to the selected long term export coal prices from FY2016 for each coal product
- a long term exchange rate in the range of USD 0.78 to USD 0.82.

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 (including the terminal value) based on the above long term coal price, exchange rate and discount rate.

Table 44: Discounted cash flow valuation (including terminal value) (AUD million)

	Discount rate				
	14.0%	13.0%	12.0%	11.0%	10.0%
Long term coal price (real per tonne)					
- USD 10.0	4,949.3	5,296.4	5,677.7	6,097.4	6,560.4
- USD 5.0	5,490.7	5,882.1	6,312.7	6,787.2	7,311.4
Selected long term export prices ¹	6,024.7	6,459.6	6,938.4	7,466.6	8,050.6
+ USD 5.0	6,55	7,036.0	7,563.1	8,144.9	8,788.8
+ USD 10.0	7,081.2	7,602.4	8,176.8	8,811.4	9,514.0
Long term exchange rate assumption					
USD 0.82	5,751.9	6,164.2	6,617.8	7,118.0	7,670.8
USD 0.80	6,024.7	6,459.6	6,938.4	7,466.6	8,050.6
USD 0.78	6,311.3	6,770.1	7,275.3	7,832.9	8,449.8

Source: Deloitte Corporate Finance analysis

Note:

1. Selected long term export prices based on the figures set out in Section 7.2.2.

The value of Proposed Merged Entity is most sensitive to the long term real coal price assumptions. A USD 5.0 per tonne increase to the long term coal pricing assumptions results in an increase of approximately 9% to the value of the Proposed Merged Entity.

The value of Proposed Merged Entity is also sensitive to the discount rate assumption. A 1.0% increase in the discount rate assumption results in a decrease of approximately 7% to the value of the Proposed Merged Entity.

The value of the Proposed Merged Entity is sensitive to the long term exchange rate assumption. A depreciation of the USD against the AUD in the long term from USD 0.80 to USD 0.82 decreases the value of the Proposed Merged Entity by approximately 5%.

Based on the above analysis, we have selected a fair market value of the operating assets and development projects in the range of AUD 7.0 billion to AUD 7.5 billion.

9.1.2 Premium to discounted cash flow value

There are a number of items which may contribute to the future cash flows of the operating assets and development projects of the Proposed Merged Entity which are not included in the Models. These items include:

- **LOM greater than that captured in the Models** – In addition to the 813.9 Mt of Proved and Probable Reserves of the operating assets and development projects (on a 100% project basis) which have already been incorporated in the Models, 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, CHPP capacity, 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 the Proposed Merged Entity which is not reflected in the discounted cash flows

We have considered an upside production scenario which contemplates approximately 460 Mt in further resources being produced by the Proposed Merged Entity (on a 100% project basis). We have considered the value increment implied by this upside scenario in determining an appropriated premium to the discounted cash flow value

- **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
- **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 Proposed Merged Entity and its assets. This strategic value may relate to the following:
 - potential to significantly increase the potential acquirer's resource base
 - increased access to port and rail infrastructure providing opportunities for operational and cost efficiencies
 - potential for accelerated development of production, driven by improved access to port and rail infrastructure
 - opportunities for coal blending and the ability to achieve improved coal pricing outcomes
 - improved negotiating power with suppliers leading to lower procurement costs
- **taxation benefits** – a potential purchaser may be able to obtain taxation deductions in relation to the value of the exploration licences, mining leases and fixed assets of the Proposed Merged Entity.

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 judgment, we consider a premium in the order of 10% on the value of the operating assets and development assets to be appropriate to reflect the combined value of these factors on the Proposed Merged Entity.

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INDEPENDENT EXPERT'S REPORT (CONTINUED)

9.1.3 Exploration assets

The table below sets out BDA's estimated current fair market value of the exploration assets of the Proposed Merged Entity.

Table 45: BDA's valuation of exploration assets of the Proposed Merged Entity

	Most likely value AUD million
Gloucester Basin exploration assets	115.0
Donaldson exploration assets	175.0
Monash exploration assets	175.0
Yancoal exploration assets	265.0
Total	730.0

Source: BDA

BDA's valuation of the exploration assets of the Proposed Merged Entity allows only for resources which are not included in the discounted cash flow valuation of the Proposed Merged Entity.

Further detail on the valuation of the exploration assets of the Proposed Merged Entity is set out in Sections 6.2 and 6.3 of BDA's technical expert's report at Appendix 7.

9.1.4 Surplus assets

Management has advised that there are no assets which do not contribute to the operations of the Proposed Merged Entity and we have not identified any material surplus assets during the course of our work. Consequently, no value has been placed on surplus assets.

9.1.5 Net debt

The net debt position of the Proposed Merged Entity as at 22 February 2012 is set out in the following table.

Table 46: Net debt

	AUD million
Gloucester net debt	(391.4)
Promissory notes ¹	(700.0)
Yancoal net debt	(2,373.0)
Transaction costs associated with the Proposed Scheme	(66.0)
Net debt position	(3,530.4)

Source: Gloucester and Yancoal

Note:

1. Relates to the funding for the Capital Return.

9.1.6 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* = $1/(1+\text{control premium})$) 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 Scheme approved, the consideration paid to Gloucester shareholders will be part cash and part scrip. The shareholders of Gloucester will remain minority holders of shares in the Proposed Merged Entity. Our valuation of a share in the Proposed Merged Entity 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 25% to 40%, and the median control premium is in the range of 20% to 40%
- 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 synergies that could be achieved by certain potential purchasers of the Proposed Merged Entity, such as cost and revenue synergies. 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.

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9.1.7 Valuation: sum-of-the-parts method

The value of the Proposed Merged Entity using the sum-of-the-parts method is summarised below.

Table 47: Value of the Proposed Merged Entity based on sum-of-the-parts method

	Section	Unit	Low	High
Total value of the operating and development assets of the Proposed Merged Entity	9.1.1	AUD million	7,000.0	7,500.0
Premium to discounted cash flow value	9.1.2	%	10.0%	10.0%
Total value of the operating and development assets of the Proposed Merged Entity including premium		AUD million	7,700.00	8,250.00
Exploration assets	9.1.3	AUD million	730.0	730.0
Surplus assets	9.1.4	AUD million	-	-
Enterprise value (on a control basis)		AUD million	8,430.0	8,980.0
Net debt	9.1.5	AUD million	(3,530.4)	(3,530.4)
Equity value (on a control basis)		AUD million	4,899.6	5,449.6
Discount for minority interest	9.1.6	%	20%	15%
Equity value (on a minority interest basis)		AUD million	3,919.7	4,632.2
<i>Number of shares on issue</i>	5.3	<i>million</i>	<i>994.2</i>	<i>994.2</i>
Value of a share in the Proposed Merged Entity (on a minority interest basis)		AUD	3.94	4.66
Deloitte Corporate Finance assessed value of a share in the Proposed Merged Entity		AUD	3.95	4.65

Source: Deloitte Corporate Finance analysis

9.2 Valuation cross check

9.2.1 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.

We note that reserve and resource multiples are only intended to provide a high level cross check for our valuation of the Proposed Merged Entity. The share trading reserve and resource multiples 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 the Proposed Merged Entity.

Table 48: Implied reserve and resource multiples

	Section	Unit	Low	High
Value per share in the Proposed Merged Entity	9.1.7	AUD	3.95	4.65
Number of shares on issue	5.3	Million	994.2	994.2
Equity value (on a minority interest basis)		AUD million	3,927.2	4,623.1
Net debt	9.1.5	AUD million	3,530.4	3,530.4
Enterprise value of the Proposed Merged Entity (on a minority interest basis)		AUD million	7,457.5	8,153.5
Proposed Merged Entity reserves ¹	5.2	Mt	697.2	697.2
Reserve multiple (on a minority interest basis)		AUD per tonne	10.7	11.7
Proposed Merged Entity resources ²	5.2	Mt	2,556.7	2,556.7
Resource multiple (on a minority interest basis)		AUD per tonne	2.9	3.2

Source: Deloitte Corporate Finance analysis

Notes:

1. Consists of Proved and Probable Reserves
2. Consists of Measured and Indicated Resources and is inclusive of Proved and Probable Reserves.

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The share trading reserve and resource multiples (ratio of enterprise value implied by the current company share price to Proved and Probable Reserves and Measured and Indicated resources, respectively) observed for Australian comparable companies is set out in Table 43 (refer to Appendix 3 for further details on the comparable companies).

The reserve and resource multiples implied by our valuation of the Proposed Merged Entity (on a minority interest basis) is higher than the share trading reserve and resource multiples for all comparable companies identified, which are also on a minority interest basis. We note the following in relation to the above:

- all of the comparable companies are considerably smaller than the Proposed Merged Entity. In general, smaller companies have lower multiples than larger companies
- the historical combined EBITDA margin achieved by the Proposed Merged Entity is higher than those observed for the comparable listed companies. In general, companies generating higher earnings margins have higher multiples than companies generating lower earnings margins
- the Proposed Merged Entity is a coal producer with both mining operations and exploration assets in the Gloucester Basin, Bowen Basin and the Hunter Valley region. Accordingly, we have considered companies that are in the production phase and are operating and developing coal projects in developed economies. The average reserve multiple and resource for comparable Australian coal producing companies is 5.6 times and 2.7 times (excluding outliers), respectively
- the most significant asset of the Proposed Merged Entity is its interest in the Moolarben JV. As discussed in Section 4.2.3, the Moolarben JV is one of the lowest cost operations in the Hunter Valley
- the reserve and resource multiples implied by our valuation of a share in the Proposed Merged Entity are on a minority interest basis which is consistent with the multiples observed for the comparable companies.

Having regard to the differences between the Proposed Merged Entity and the comparable listed companies, particularly with reference to the historical and projected EBITDA margins, we consider the share trading reserve and resource multiples provides some support for our valuation of the Proposed Merged Entity.

The resource multiples implied by transactions in comparable companies which have occurred since 2007 are set out in Figure 12 (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 the Proposed Merged Entity are on a minority interest basis.

We note that the overall average and median resource multiple implied by the comparable transactions involving control transactions is AUD 3.5 per tonne and AUD 1.5 per tonne, respectively. Our valuation of the Proposed Merged Entity is on a minority interest basis. The average and median resource multiple observed for transactions in minority interests is AUD 4.9 per tonne and AUD 5.4 per tonne, respectively. We consider the resource multiples implied by the comparable minority interest transactions to be broadly consistent with our valuation of a share in the Proposed Merged Entity.

Based on the above and noting 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.

10 Valuation of consideration under the Proposed Scheme

10.1 Introduction

Under the Proposed Scheme, Yancoal will acquire all of the issued shares of Gloucester. Shareholders who do not make an election to receive only ordinary shares will receive one ordinary share and one contingent value rights share (CVR Share), with the total number of CVR Shares available to Shareholders subject to potential scale back. It is a condition precedent of the Proposed Scheme that Shareholders holding, in aggregate, at least 130 million Gloucester shares must elect not to receive CVR Shares as part of their consideration or the Proposed Scheme will not proceed. If the Proposed Scheme proceeds, each Shareholder will receive one share in the Proposed Merged Entity and one CVR Share in consideration for each share in Gloucester unless the Shareholder has elected not to receive CVR Shares as part of the consideration.

Eligible Shareholders will also receive approximately AUD 3.15 per Gloucester share, comprising the Capital Return and the Special Dividend. Technically separate from the Proposed Scheme, the Capital Return and Special Dividend will not occur until after the Court's approval of the Scheme.

Eligible Shareholders will be entitled to receive the following in consideration for each share in Gloucester:

- for Shareholders registered as such on the Scheme Record Date (as defined in the Merger Proposal Deed):
 - a share in the Proposed Merged Entity
 - a CVR Share
- for Shareholders registered as such on the Capital Reduction Record Date (as defined in the Merger Proposal Deed):
 - the Capital Return
 - the Special Dividend.

Our valuation of these elements of the Proposed Scheme consideration is set out below.

If the Proposed Scheme is approved, the Capital Return will be implemented prior to the effective date of the Proposed Scheme and Gloucester will discharge its obligations under the Capital Return by delivering one or more promissory notes to an independent trustee to hold of trust for eligible Shareholders. Gloucester will then arrange for payment to Shareholders following presentation of the promissory note(s) six months after implementation of the Proposed Scheme. The promissory notes will fall due for payment six months after the merger is implemented. The Special Dividend will be payable after court approval of the Proposed Scheme but prior to the effective date of the Proposed Scheme. Shareholders eligible to participate in the Capital Return will be eligible to receive the Special Dividend.

Under the terms of the CVR Shares, participating Shareholders will receive a payment equal to the amount by which the share price of the Proposed Merged Entity is less than AUD 6.96 per equivalent share in Gloucester based on the 90 day VWAP during a relevant pricing period which could be up to 18 months after the implementation of the Proposed Scheme and after the Capital Return, subject to a cap of AUD 3.00 per share, early repurchase by Yancoal and other conditions.

10.2 Valuation of a CVR Share

The CVR Shares have the features set out in Section 1.1. The CVR Shares possess option-like characteristics as the entitlements of Shareholders will vary based on the share price performance of the Proposed Merged Entity following the merger implementation. Each CVR Share may be broadly characterised as representing a theoretical option position comprised of the following:

- **long barrier put option:** the payment per CVR Share increases as the share price falls below AUD 6.96. However, if the share price exceeds AUD 6.96, Yancoal may terminate the CVR Share for an immaterial cost. This, in effect, represents a long position in a barrier put option with an exercise price and barrier price of AUD 6.96
- **short barrier put option:** the payment per CVR Share is capped at AUD 3.00. The payment received by a holder of the long barrier put option described above will be capped at AUD 3.00 if they write (i.e. go short) a put option with an exercise price of AUD 3.96. However, when the share price exceeds AUD 6.96 this short position in the

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put option will no longer be required as the long barrier put option will terminate. Accordingly, the payment cap associated with a CVR Share may be replicated with a short position in a barrier put option with an exercise price of AUD 3.96 and a barrier price of AUD 6.96.

Based on the above, we have applied a modified Black-Scholes option pricing methodology to value each CVR Share by assuming an option position consisting of a long barrier put option and a short barrier put option. The key inputs used in applying the modified Black-Scholes methodology are set out in the table below.

Table 49: Black-Scholes inputs

Feature	Unit	Value
Spot share price¹	AUD	3.95 to 4.65
General assumptions		
Risk free rate	%	4.44
Dividend yield	%	5.00
Volatility	%	25.00
Long barrier put option		
Exercise price	AUD	6.96
Maturity period	Years	1.5
Barrier price	AUD	6.96
Short barrier put option		
Exercise price	AUD	3.96
Maturity period	Years	1.5
Barrier price	AUD	6.96

Source: Deloitte Corporate Finance analysis

Note:

1. Based on our valuation of a share in the Proposed Merged Entity.

The value range derived for a CVR Share by applying the Black-Scholes methodology is set out in the table below.

Table 50: Valuation of a CVR Share

	Unit	Low	High
Long barrier put option	AUD	2.82	2.12
Short barrier put option	AUD	(0.51)	(0.38)
Total value of combined option position	AUD	2.31	1.74

Source: Deloitte Corporate Finance analysis

10.3 Value of the Capital Return

The Capital Return is a payment of AUD 2.71 per share which will be payable 6 months after the effective date of the Proposed Scheme. We have included the Capital Return at AUD 2.65 per Gloucester share, being the present value of the payment.

10.4 Valuation of the Special Dividend

The Special Dividend of AUD 0.44 per Gloucester share will only be payable after court approval of the Proposed Scheme but prior to the effective date of the Proposed Scheme. We have included the Special Dividend at AUD 0.44 per Gloucester share.

10.5 Summary

The following table sets out the total value of the consideration offered to Shareholders, inclusive of the value of a CVR Share.

Table 51: Value of consideration

	Section	Low (AUD)	High (AUD)
Value of a share in the Proposed Merged Entity	9.1.7	3.95	4.65
Value of a CVR Share	10.2	2.31	1.74
Present value of the Capital Return	10.3	2.65	2.65
Present value of the Special Dividend	10.4	0.44	0.44
Value of consideration offered to Shareholders		9.35	9.48

Source: Deloitte Corporate Finance analysis

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Appendix 1: Glossary

Reference	Definition
α	Alpha, the specific company risk premium
β	Beta, the systematic risk of a stock
ABARES	Australian Bureau of Agricultural and Resource Economics and Sciences
Abel Extension Project	The proposed extension at the Abel Mine
Abel Mine	The Abel underground coal mine
ad	air dried
Additional Shares	Share entitlements as part of Gloucester's acquisition of the Monash Exploration Assets, issued at the achievement of milestones.
AFSL	Australian Financial Services Licence
AMCI	American Metals & Coal International
Anglo American	Anglo American Plc
APCT	Abbot Point Coal Terminal
APESB	Accounting Professional and Ethical Standards Board Limited
ARTC	Australian Rail Track Corporation
Ashton Coal JV	Ashton open cut mine and Ashton underground project
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
AUASB	Auditing and Assurance Standards Board
AUD	Australian dollars
Banpu	Banpu Minerals (Singapore) Pte Limited
BBSY	Bank bill bid swap rate
BDA	Behre Dolbear Australia Pty Limited, an independent mining expert
Bloomfield CHPP	Bloomfield Coal Handling and Preparation Plant
BMA	BHP Mitsubishi Alliance
BREE	Bureau of Resources and Energy Economics
Capital Return	A capital return of AUD 2.71 to eligible 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
Coal & Allied Industries Ltd	Coal & Allied
Company, the	Gloucester Coal Limited
Converting Shares	Shares issued to Ellemby as part consideration for Gloucester's acquisition of the Monash Exploration Assets
Corporations Act, the	Corporations Act 2001 (Cth)
CPI	Consumer price index
CSN	Crucible swell number
CVR Shares	Contingent value right shares

Reference	Definition
CY	Calendar year
D/V	Proportion of enterprise funded by debt
Damodaran	Aswath Damodaran
DBCT	Dalrymple Bay Coal Terminal
ddpm	dial diversions per minute
Deloitte Corporate Finance	Deloitte Corporate Finance Pty Limited
Deloitte Touche Tohmatsu	Deloitte member firm in Australia
DERM	Queensland Department of Environment and Resource Management
Ditchfield	Ditchfield Contracting Pty Limited
Donaldson	Donaldson Coal Holdings Limited
Donaldson Assets	Collectively refers to the Donaldson Mine, Tasman Mine, Abel Mine Tasman Extension Project and Abel Extension project
Donaldson Mine	The Donaldson open cut coal mine
Duralie Mine Extension Project	The long-term mine plan doe the Duralie Operation
Duralie Operation, the	The Duralie open cut coal mine
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
EIS	Environmental Impact Statement
EL	Exploration licence
Ellembay	Ellembay Holdings Pty Limited
EMRP	Equity market risk premium
End Date	18 months after the merger implementation
ETS	Emissions Trading Scheme
Explanatory Booklet, the	Explanatory Booklet containing the detailed terms of the Proposed Scheme
Felix	Felix Resources Limited
FOB	Free on board
FOBT	Free on board trimmed
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
FSI	Free Swelling Index
FY	Financial year ending 30 June
Gloucester	Gloucester Coal Ltd
Gloucester Basin Exploration Asset	Exploration assets in the Gloucester Basin including A311, A315 and EL6904
Gloucester Model, the	The financial model prepared by Gloucester management
GPC	Gladstone Port Authority
GST	Goods and Service Tax
HCC	Hard coking coal
Hunnu	Hunnu Coal Limited

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Reference	Definition
HVRN	Hunter Valley rail network
HY	Half year ending 31 December
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
K_e	Cost of equity capital
KEPCO	Korea Electric Power Corporation
Kg	Kilogram
KORES	Korea Resources Corporation
Kt	Kilotonnes
LHS	Left hand side
LIBOR	London Interbank Offered Rate
LOM	Life of mine
LTCC	Longwall Top Coal Caving technology
LTIP	Long term incentive plan
LV	Low volatile
Macarthur	Macarthur Coal Limited
Macarthur Takeover Offer	Macarthur Coal Limited's takeover offer for Gloucester in 2009
Marketing Arrangement, the	The existing marketing arrangement between Gloucester and Noble Resources
Merger Proposal, the	The proposed transaction whereby Gloucester Coal Ltd's assets would be combined with certain Australian assets of Yancoal Australia Limited
Middlemount Mine Royalty Stream	A royalty of 4% of the FOBT sales from the Middlemount Mine project or such amount as Noble receives under the deed governing the Noble Middlemount royalty arrangements
Mitsubishi Development	Mitsubishi Development Pty Limited
ML	Mining lease
Models, the	Collectively refers to the Gloucester Model and the Yancoal Model
Monash	Monash Coal Pty Limited
Morningstar	Morningstar, Incorporated
MRRT	Mineral Resources Rent Tax
MSCI Index	Morgan Stanley Capital International World Index
Mt	Million tonnes
Mtpa	Million tonnes per annum
n/a	Not available
n/m	Not meaningful
NCIG	Newcastle Coal Infrastructure Group
Noble	Noble Group Limited
Noble Energy	Noble Energy Incorporated
Noble Resources	Noble Resources Pte Limited

Reference	Definition
NPC	Newcastle Port Corporation
NQCT	North Queensland Coal Terminal Pty Limited
NSW	New South Wales
O/C	Open cut
Pacific National	Pacific National Pty Ltd
Part 3	Part 3 of Schedule 8 of the Corporations Regulations 2001 (Cth)
PCI	Pulverised injection coal
Peabody	Peabody Energy Corporation
PKCT	Port Kembla Coal Terminal Limited
POSCO	POSCO Company Limited
Previous Report	Independent expert's report prepared by Deloitte Corporate Finance and dated 30 May 2011 relating to Gloucester Coal Ltd's acquisition of the Donaldson and Monash interests
Proposed Merged Entity	The proposed entity consisting of the combined Gloucester Coal Ltd and certain Australian Yancoal Australia Limited assets
Proposed Scheme, the	The proposed scheme of arrangement under which certain Australian Yancoal Australia Limited coal assets and Gloucester Coal Ltd would merge
PWCS	Port Waratah Coal Services Limited
QR National	Queensland Rail National
Repurchase Price	A payment made to participating Shareholders, under the terms of the CVR Shares, equal to the amount that the share price of the Proposed Merged Entity is less than AUD 6.96
R_f	The risk free rate of return
RHS	Right hand side
Rio Tinto	Rio Tinto Limited
Riversdale	Riversdale Mining
R_m	The expected return on the market portfolio
ROM	Run of mine
Section 640	Section 640 of the Corporations Act
Section 411	Section 411 of the Corporation Act
Shareholders, the	Existing shareholders of Gloucester
SHCC	Semi-hard coking coal
Sojitz	Sojitz Corporation
Special Dividend	A special dividend of AUD 0.44 paid to eligible Shareholders
SSCC	Semi-soft coking coal
Stratford Operation, the	The Stratford CHPP and two open pits at Avon North and Stratford East
t	Tonnes
T4	Terminal 4 expansion of the PWCS terminal
Tasman Extension Area	The area comprising the West and North of the Tasman underground mining lease, encompassing EL 5337, EL 5497 and EL 5498
Tasman Extension Project	The proposed extension at the Tasman Mine
Tasman Mine	The Tasman underground coal mine
TC	Thermal coal

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Reference	Definition
tc	Corporate tax rate
U/G	Underground
US	United States of America
USD	United States dollars
VALMIN code, the	the code for Technical Assessment and Valuation of Minerals and Petroleum Assets and Securities for Independent Expert Reports
VWAP	Volume weighted average price
WACC	Weighted average cost of capital
Whitehaven Coal Limited	Whitehaven
WICET	Wiggins island Coal Export Terminal
Xstrata	Xstrata plc
Yancoal	Yancoal Australia Limited
Yancoal Coal Operating Assets	Collectively refers to the Aустar Coal Mine, Ashton Coal JV, Moolarben JV and Yarrabee Coal Mine.
Yancoal Infrastructure Development Assets	Collectively refers to Yancoal's interest in NCIG and WICET
Yancoal Model, the	The financial model prepared by Yancoal management
Yanzhou	Yanzhou Coal Mining Company Limited
Yarrabee Coal Mine	Yarrabee Coal Company Pty Limited

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.

Since our definition of fair market value is premised on the estimated value that a knowledgeable willing buyer would attribute to the asset or business, our selection of an appropriate discount rate needs to consider that buyers incorporate other alternatives to the typical CAPM approach in estimating the cost of capital.

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 Gloucester 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:

$$K_e = R_f + \beta(R_m - R_f) + \alpha$$

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

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Each of the components in the above equation is discussed below.

Risk free rate (R_f)

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 20 March 2012 to 26 March 2012 as shown in the table below.

Table 52: Five-day average of the 10-year zero-coupon Australian Government bond yield as at 26 March 2012

	Yield
20 March 12	4.48%
21 March 12	4.50%
22 March 12	4.43%
23 March 12	4.39%
26 March 12	4.39%
Five day average as at 26 March 2012	4.44%

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

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- 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 Securities Industry Research Centre of Asia-Pacific Limited, Morningstar, Incorporated, ABN AMRO/London Business School and Aswath 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%.

The recent decline in equity m worldwide and the difficulty companies are experiencing in raising equity capital may be indicative of investors demanding a greater risk premium. In addition, with particular regard to expected future cash flows and observed bond default spreads, current prospective measures appear to indicate an increase in the EMRP.

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 7% 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).

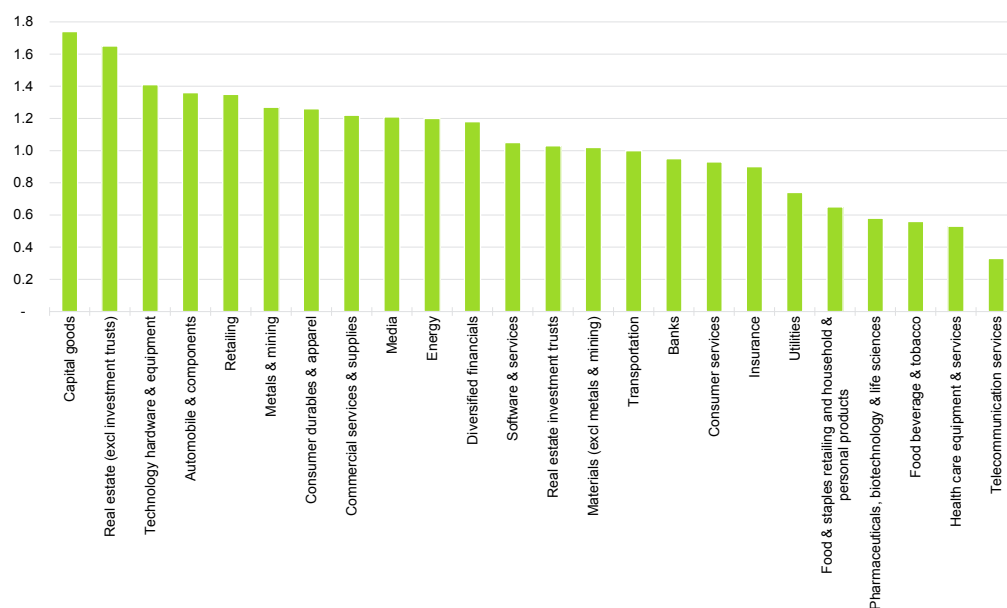
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INDEPENDENT EXPERT'S REPORT (CONTINUED)

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 14: Betas for various industries (as at 30 September 2011)



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 Gloucester and the Proposed Merged Entity we have considered the betas of listed companies that are comparable to Gloucester 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 Gloucester and the Proposed Merged Entity

Company	Domicile	Enterprise value (AUD million) ¹	Debt to enterprise value ²	Domestic index 2 years weekly Levered beta	Domestic index 2 years weekly Unlevered beta ³	MSCI Index 2 years weekly Levered beta	MSCI Index 2 years weekly Unlevered beta ³
Australian entities							
Coal producing companies							
New Hope Corp Limited	Australia	3,004	(58)%	0.7	0.7	0.5	0.5
Whitehaven ⁴	Australia	2,816	(1)%	1.3	1.3	1.0	0.9
Gloucester Coal Limited ⁴	Australia	2,031	3%	0.9	0.9	0.8	0.7
Gujarat NRE Coking Coal Limited ⁴	Australia	429	36%	0.6	0.4	0.5	0.3
Average - Australian coal producing companies⁵			(19)%	1.0	1.0	0.7	0.7
Coal developing companies							
Aston Resources Limited ⁶	Australia	1,770	(3)%	0.8	0.8	0.6	0.5
Coal of Africa Limited	Australia	636	(15)%	1.1	1.0	0.7	0.7
Cockatoo Coal Limited	Australia	478	(4)%	1.5	1.5	1.2	1.1
Bandanna Energy Limited ⁴	Australia	290	(28)%	2.4	2.4	2.1	2.1
Nucoal Resources NL	Australia	239	(7)%	1.0	1.0	0.6	0.6
Carabella Resources Limited ⁶	Australia	113	n/a	0.8	0.8	0.7	0.7
Metrocoal Limited	Australia	76	(6)%	0.9	0.9	0.8	0.8
Average - Australian coal developing companies⁷			(10)%	1.3	1.3	1.1	1.1

APPENDIX 1 INDEPENDENT EXPERT'S REPORT (CONTINUED)

Company	Domicile	Enterprise value (AUD million)	Debt to enterprise Value ²	Levered beta	Domestic index 2 years weekly Unlevered beta ³	Levered beta	MSCI Index 2 years weekly Unlevered beta ³
International entities							
Entities with domestic and export sales							
Yanzhou Coal Mining Co Limited	China	17,879	11%	1.8	1.7	0.0	0.0
Peabody Energy Corporation	US	13,448	16%	1.9	1.7	1.9	1.6
Adaro Energy Tbk PT	Indonesia	6,273	0%	1.3	1.3	0.2	0.2
Alpha Natural Resources, Incorporated	US	5,460	16%	2.5	2.3	2.4	2.2
Bumi Resources Tbk PT	Indonesia	5,120	0%	1.1	1.1	0.4	0.4
Patriot Coal Corporation	US	834	17%	2.6	2.4	2.5	2.2
Entities with export sales							
China Shenhua Energy Company Limited	China	83,147	(2)%	1.2	1.2	0.1	0.1
Consol Energy, Incorporated	US	9,963	19%	1.7	1.5	1.7	1.5
Arch Coal, Incorporated	US	6,017	39%	2.2	1.5	2.2	1.4
Average - international entities			13%	1.8	1.6	1.3	1.1
Average – overall⁸			0%	1.5	1.4	1.1	1.0
Median – overall⁸			0%	1.3	1.3	0.8	0.8

Source: Thomson Reuters

Notes:

1. Enterprise values are as at 26 March 2012 and where required, have been converted to AUD using the relevant exchange rate as at 26 March 2012
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 and an outlier
6. Companies that were listed during the analysis period (i.e. Aston Resources Limited and Carabella Resources Limited) have been regressed over the period from their listing date to 26 March 2012
7. The average calculation of the Australian coal developing companies excludes Nucoal Resources NL as it is considered illiquid and Coal of Africa Limited whose coal interests are located in Southern Africa
8. The overall average and median calculations exclude Gujarat NRE Coking Coal Limited and Nucoal Resources NL.

Deloitte: Gloucester Coal Ltd – Independent expert's report

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 Gloucester 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 Gloucester 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 the Proposed Merged Entity are coal producers, which together have mining operations and exploration assets in the Gloucester Basin, Bowen Basin and the Hunter Valley region.

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 1.0 and 0.7, respectively, whilst the average unlevered beta for comparable Australian coal developing companies, based on the domestic index and the MSCI Index, is 1.3 and 1.1, 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 Gloucester and the Proposed Merged Entity. Gloucester and the Proposed Merged Entity currently export the majority of their coal production to Asia
- 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 Gloucester and Proposed Merged Entity which mostly export to the Asian market. As a result, these international comparable companies are likely to achieve different prices compared to Gloucester and the Proposed Merged Entity
- of the Australian coal producing companies, one has two mines located in Queensland, being New Hope Corporation Limited, and three have mines located in NSW, being Whitehaven, Gujarat NRE Coking Coal Limited and Gloucester. Of these companies (excluding Gloucester), we consider the operations of Whitehaven to be the most comparable to those of Gloucester and the Proposed Merged Entity based on the following:
 - Whitehaven's overall product mix (thermal coal, SSCC and PCI) is most similar to Gloucester's (thermal coal, SHCC and PCI) and the Proposed Merged Entity (thermal coal, SSCC, SHCC and PCI). In addition, similar to Gloucester 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 coal and SSCC and it is developing its Narrabri project, which is an underground mine producing low ash, high energy, low sulphur thermal coal for the export market. Commissioning of the Narrabri project is expected in April 2012.

Gloucester operates both open cut and underground mines in the Gloucester Basin and currently has expansions proposed for its Stratford and Duralie mines as well as plans to expand the production of its Donaldson Assets through the Abel Extension Project and the Tasman Extension Project. Gloucester also holds a near 50% interest in the open cut Middlemount Mine project

In addition to the Gloucester assets, the Proposed Merged Entity includes the Yancoal Coal Operating Assets, which are a mix of open cut and underground mines. Currently, there are plans to expand production at each of the mines as well as a proposed underground greenfield development at the Moolarben JV

- Whitehaven owns an 11% interest in NCIG. Gloucester also holds an 11.6% interest in the NCIG whilst the Proposed Merged Entity will own a 27% interest. The Proposed Merged Entity will also hold a 5.6% interest in WICET
- notwithstanding the above, we note the betas observed for Whitehaven may be affected by a number of recent company specific events. In October 2010 Whitehaven management commenced a formal sale process to sell the

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APPENDIX 1 INDEPENDENT EXPERT'S REPORT (CONTINUED)

company in October 2010 which concluded in May 2011 due to a lack of attractive offers. In December 2011, Whitehaven and Aston Resources Limited announced their intention to merge via a scheme of arrangement. This transaction is ongoing

- the unlevered beta for Whitehaven, based on the domestic index and the MSCI Index, is 1.3 and 0.9, respectively
- the operations of Gloucester are less diversified than those of the Proposed Merged Entity, which comprise the operations of Gloucester and the Yancoal Assets. We note that the production profile (ROM and saleable coal) and current resource estimates for the Proposed Merged Entity are significantly higher than Gloucester on a standalone basis. Therefore, the operations of the Proposed Merged Entity will be on a significantly greater scale than Gloucester 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 1.30, a corporate tax rate of 30% and a debt to equity mix of 25% debt and 75% equity gives a levered beta of 1.24 to 1.40 for Gloucester on a standalone basis.

Assuming an unlevered beta in the range of 1.00 to 1.20, a corporate tax rate of 30% and a debt to equity mix of 35% debt and 65% equity gives a levered beta of 1.25 to 1.43 for the Proposed Merged Entity.

On this basis, and having regard for the mix of operating and developing assets and gearing levels of Gloucester and the Proposed Merged Entity, we have selected a levered beta in the range of 1.2 to 1.4 for both Gloucester on a standalone basis and 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).

Where we considered it appropriate, we have applied a specific company risk premium for certain the operating assets and developing assets of the Proposed Merged Entity which will allow for the specific risks associated with these assets. These risks and the selected specific risk premiums are discussed below.

Gloucester

In assessing the specific risks associated with Gloucester, we have had regard to the development risks associated with the Middlemount Mine Project and the Tasman Extension Project and the Abel Extension Project. We note the following:

- 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
- a 65 metre wide mini-wall or 125 metre short longwall is scheduled to be commissioned during the first quarter of 2014 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 currently holds approvals to produce up to 4.5 Mtpa ROM, however Government approval will be required in order to commence longwall operations at the Abel Mine
- the environmental approval study for the Middlemount Mine Project expansion was released for public comment in the December 2010 quarter. Approval is required to increase production at the project up to a maximum of 5.4 Mtpa from FY2014. This approval is expected to be obtained by mid to late CY2012.

Austar Coal Mine

In assessing the specific risks associated with the Austar Coal Mine, we have considered the following:

- Yancoal is currently evaluating a number of projects across the Austar Coal Mine which are designed to enable an expansion of production from the mine, by reducing constraints on processing and transportation infrastructure. The likelihood and extent of Yancoal achieving the anticipated efficiencies through these projects is uncertain
- in addition, Yancoal is planning to acquire the privately owned South Maitland Railway enabling greater flexibility to carry out upgrades to the railway infrastructure for the purpose of expanding transport capacity. The outcome and timing of these commercial negotiations between Yancoal and the owners of the South Maitland Railway is uncertain.

Ashton Coal JV

In assessing the specific risks associated with the Ashton Coal JV, we have considered the following:

- in December 2011 the Planning and Assessment Commission refused an application on environmental grounds citing air quality and noise pollution concerns. If approved, the application will allow 16.5 Mt ROM to be extracted over a seven year period from the mine. It is expected that if approvals are obtained, ROM production will return to approximately 3.5 Mtpa. There is significant uncertainty as to the likelihood and timing of Yancoal obtaining the required approvals
- the Ashton Coal JV South East open cut project is planned to be developed in two stages with stage one resulting in ROM production of approximately 2.0 Mtpa to 2.6 Mtpa. Development of stage two will require access to EL5291 (currently held by Coal & Allied Limited) and is expected to enable ROM production expansion to up to 3.5 Mtpa. There is significant uncertainty as to the potential outcomes from commercial negotiations between Yancoal and Coal & Allied Limited in respect of access to EL5291 Consequently, the Ashton Coal JV West Pit expansion project (which is expected to be mined sequentially after EL5291) is also subject to significant uncertainty
- the Ashton Coal JV's underground mine requires the construction of two channel diversions for Bowmans Creek to facilitate longwall mining at the site. This increases the development risks associated with this project.

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INDEPENDENT EXPERT'S REPORT (CONTINUED)

Moolarben JV

In assessing the specific risks associated with the Moolarben JV, we have considered the following:

- the Moolarben JV is undergoing planning a significant expansion its open cut operations. Subject to approvals, the expansion is expected to increase production from approximately 8.0 Mtpa to 12.5 Mtpa in 2016
- the current expansion project contemplated for the Moolarben JV will require access to a tenement area currently held by Xstrata. Yancoal is currently in negotiations with Xstrata with a view to securing access to the required tenement. The outcome of these negotiations is subject to significant uncertainty.

Having regarding to the foregoing, we have selected a specific company risk premium of 0.5% to apply to cash flows associated with Gloucester on a standalone basis and a specific company risk premium of 1.0% to apply to the cash flows of the Proposed Merged Entity.

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 cash flows 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 Gloucester on a standalone basis and the Proposed Merged Entity as follows:

Table 54: K_e applied to valuation of Gloucester on a standalone basis

Input	Gloucester	
	Low	High
Risk free rate (%)	4.44	4.44
EMRP (%)	7.00	7.00
Relevered beta	1.20	1.40
Specific company risk premium (%)	0.50	0.50
K_e – calculated (%)	13.34	14.74

Source: Deloitte Corporate Finance analysis

Table 55: K_e applied to valuation of the Proposed Merged Entity

Input	Proposed Merged Entity	
	Low	High
Risk free rate (%)	4.44	4.44
EMRP (%)	7.00	7.00
Relevered beta	1.20	1.40
Specific company risk premium (%)	1.00	1.00
K_e – calculated (%)	13.84	15.24

Source: Deloitte Corporate Finance analysis

Cost of debt capital (K_d)

We have selected a pre-tax cost of debt of 8.0% for Gloucester on a standalone basis and the Proposed Merged Entity as we consider a margin of approximately 400 basis points above the current risk free rate to be reasonable based on the rates currently payable by companies with comparable risk profiles to Gloucester and the Proposed Merged Entity. In selecting our pre-tax cost of debt assumption, we have had regard to the following:

- the level of gearing of Gloucester on a standalone basis and the Proposed Merged Entity
- the current yields on corporate bonds issued by companies in Australia. The average yield on AAA rated corporate bonds is approximately 5%, whilst the average yield of BBB rated corporate bonds is approximately 7%. The average yield on BBB rated corporate bonds over the past six months is approximately 8%
- the implied cost of debt for companies which are comparable to Gloucester and the Proposed Merged Entity.

Debt to enterprise value ratio

We have adopted a target debt to enterprise value ratio of 25% for Gloucester on a standalone basis and 35% for the Proposed Merged Entity. In selecting our gearing assumption, we have had regard to the following:

- the current level of gearing of Gloucester on a standalone basis and that of the Proposed Merged Entity
- the gearing levels of the comparable listed companies

We note that current gearing levels of Australian and international coal mining companies have been distorted compared to long-term historical trends due to the very strong cash flow positions driven by the recent high commodity prices.

APPENDIX 1

INDEPENDENT EXPERT'S REPORT (CONTINUED)

Calculation of WACC

Based on the above, we have assessed the nominal post-tax WACC for Gloucester on a standalone basis and the Proposed Merged Entity to be:

Table 56: Estimated WACC for Gloucester on a standalone basis

Input	Gloucester	
	Low	High
Cost of equity capital (%)	13.34	14.74
Cost of debt capital (%)	8.00	8.00
Debt to enterprise value ratio (%)	25.00	25.00
Tax rate (%)	30.00	30.00
WACC (%)	11.40	12.45
Selected WACC (%)	11.50	12.50

Source: Deloitte Corporate Finance analysis

Table 57: Estimated WACC for the Proposed Merged Entity

Input	Proposed Merged Entity	
	Low	High
Cost of equity capital (%)	13.84%	15.24%
Cost of debt capital (%)	8.00	8.00
Debt to enterprise value ratio (%)	35.00	35.00
Tax rate (%)	30.00	30.00
WACC (%)	10.95	11.86
Selected WACC (%)	11.00	12.00

Source: Deloitte Corporate Finance analysis

Appendix 3: Comparable companies

The following table provides analysis of the share trading multiples of companies with comparable activities to those of Gloucester 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
Gloucester	Australia	1,660	296	1,209	5.6	1.4
Australian entities						
Coal producing companies						
New Hope Corp Limited	Australia	3,004	711	1,566	4.2	1.9
Whitehaven Coal Limited	Australia	2,816	401	812	7.0	3.5
Gujarat NRE Coking Coal Limited	Australia	429	125	235	3.4	1.7
Average⁵					5.6	2.7
Coal developing companies						
Aston Resources Limited	Australia	1,770	308	375	5.7	4.7
Coal of Africa Limited	Australia	636	370	1,281	1.7	0.5
Bandanna Energy Limited	Australia	290	256	516	1.1	0.6
Cockatoo Coal Limited	Australia	478	261	993	1.8	0.5
Nucoal Resources NL	Australia	239	-	129	n/a	1.9
Carabella Resources Limited	Australia	113	-	78	n/a	1.5
Metrocoal Limited	Australia	76	-	175	n/a	0.4
Average⁶					2.9	1.6
Average - Australian entities⁵					4.0	1.9
Median - Australian entities⁵					4.2	1.7
International entities						
Entities with domestic and export sales						
Yanzhou Coal Mining Co Limited	China	17,879		4,472		4.0
Peabody Energy Corporation	USA	13,448		4,135		3.3
Adaro Energy Tbk PT	Indonesia	6,273		3,143		2.0
Alpha Natural Resources, Incorporated	USA	5,460		4,243		1.3
Bumi Resources Tbk PT	Indonesia	5,120		12,884		0.4
Patriot Coal Corporation	USA	834		1,931		0.4
Entities with export sales						
China Shenhua Energy Company Limited	China	83,147		15,368		5.4
Consol Energy, Incorporated	USA	9,953		4,046		2.5
Arch Coal, Incorporated	USA	6,017		4,840		1.2
Average - international entities					2.3	
Median - international entities					2.0	
Average – overall⁶					2.0	
Median – overall⁶					1.7	

Source: Thomson Reuters, ASX and company announcements

Notes:

- Enterprise values are as at 26 March 2012 and where required, have been converted to AUD using the relevant exchange rate as at 26 March 2012
- Total reserves consist of Proved and Probable Reserves
- Total resources consist of Measured and Indicated Resources and are inclusive of reserves
- Resources for some international comparable companies consist of marketable reserves
- Excludes Gujarat NRE Coking Coal Limited as it is considered illiquid and Coal of Africa Limited whose coal interests are located in southern Africa
- Excludes Gujarat NRE Coking Coal Limited.

APPENDIX 1 INDEPENDENT EXPERT'S REPORT (CONTINUED)

We provide the descriptions for each of the above comparable companies as follows:

Australian entities

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. In 2011, New Hope acquired Northern Energy Corporation adding seven coal projects in NSW and Queensland. The company sells its coal to a number of countries in the Asia-Pacific region and to the Australian 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. In December 2011, Whitehaven and Aston Resources Limited announced their intention to merge via a scheme of arrangement. This transaction is ongoing.

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.

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. In December 2011, Whitehaven and Aston Resources Limited announced their intention to merge via a scheme of arrangement. This transaction is ongoing.

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.

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 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 mines and markets coal in the USA 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. The company also trades coal and emission allowances. In July 2011, Peabody acquired Macarthur in an off-market takeover.

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.

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.

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 Proved 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.

APPENDIX 1 INDEPENDENT EXPERT'S REPORT (CONTINUED)

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.

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								
12-Sep-11	Hunnu Coal Limited	Banpu Minerals (Singapore) Pte Limited	339	Coking, Thermal	86.2	OC	No	0.6
26-Aug-11	Northern Energy Corporation Limited	New Hope Corporation Limited	50	HCC, TC, PCI	19.2	OC	No	1.0
14-Jul-11	Donaldson Coal Holdings Limited	Gloucester Coal Limited	596	SSCC, TC	100.0	UG/OC	Yes	0.8
11-Jul-11	Macarthur Coal Limited	Peabody Energy Corporation	4,114	PCI, TC, Coking	83.8	UG/OC	Yes	4.1
23-Dec-10	Riversdale Mining	Rto Tinto Limited	3,305	TC, Coking	84.6	OC	Yes	1.2
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	KEPCO	403	TC	100.0	U/G	No	2.7
05-Jul-10	Anglo American plc / Sutton Forest	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	Xsiraia	1,082	SSC, TC	100.0	U/G	Yes	7.0
17-Sep-07	Austral Coal Limited / Tahmoor mine	Xsiraia	557	HCC	100.0	U/G	Yes	3.1
17-Sep-07	Centennial Coal Company Limited / Anvil Hill project	Xsiraia	425	TC	100.0	O/C	No	2.9
Average								3.5
Median								1.5

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APPENDIX 1 INDEPENDENT EXPERT'S REPORT (CONTINUED)

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								
15-Dec-11	Coal & Allied Industries Ltd	Rio Tinto Limited and Mitsubishi Development Pty Limited	1,428	TC, SSCC	14.1	UG/OC	Yes	2.9
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	Iuka Resources Limited / Narama mine	Xstrata	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								4.9
Median								5.4
Overall average								4.2
Overall median								3.5

Source: Mergermarket, Capital IQ, ASX announcements, Deloitte Corporate Finance 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.

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We provide the descriptions for each of the above transactions as follows:

Control transactions

Hunnu Coal Limited / Banpu Minerals (Singapore) Pte Limited

Hunnu Coal Limited (Hunnu) was acquired by Banpu Minerals (Singapore) Pte Limited (Banpu) through an off-market cash offer of approximately AUD 339 for the 86.15% of shares outstanding that Banpu did not already own. Hunnu was an ASX listed coal development company with operations throughout Mongolia.

Northern Energy Corporation Limited / New Hope Corporation Limited

Northern Energy Corporation Limited was acquired by New Hope Corporation Limited through an off-market cash offer of approximately AUD 2.00 per share for the shares in Northern Energy Corporation Limited that it did not already own. Northern Energy Corporation held interests in seven coal projects in NSW and Queensland.

Donaldson / Gloucester

Donaldson was sold by Noble to Gloucester as part of a larger interdependent transaction whereby Gloucester acquired 100% of Donaldson and 100% of Ellembay Holdings Pty Limited. Donaldson was acquired for approximately 36.9 million shares in the merged entity in addition to AUD 225 million. The principal Donaldson assets included the Donaldson Mine, Tasman Mine and Tasman Extension Project and Abel Mine and Abel Extension Project.

Macarthur / Peabody

Peabody acquired Macarthur for an off-market cash offer of AUD 16.25 per share. 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.

Riversdale Mining / Rio Tinto

Rio Tinto acquired the 85% of shares it did not already own in Riversdale Mining Limited (Riversdale) in 2011 through an off-market cash offer of AUD 16.50 per share. At the time of the acquisition, Riversdale was a coal mining company with one operating site and two thermal and hard coking coal development projects. It had interests of 3.1 Mt and 0.3 Mt in resources and reserves, respectively.

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 also acquired a call option over a 30% interest in the Bylong asset, which was acquired by KEPCO from Anglo American plc in consideration for a 51% interest in the Ownaview asset held by Cockatoo Coal Limited.

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.

APPENDIX 1 INDEPENDENT EXPERT'S REPORT (CONTINUED)

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 Coal Limited later issued AUD 21.5 million of 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 / Yanzhou

Yanzhou, the dual listed Chinese coal mining group, merged with Felix, an Australian coal producer. The transaction was conducted via a scheme of arrangement with an offer of AUD 16.95 per Felix share in cash. The deal valued the entire share capital of Felix 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 at 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 (Baralaba 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 interests of Custom Mining Pty 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

Titan Holdings Finance Pty Limited, a subsidiary of Xstrata, 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

Centennial Coal Company Limited accepted an offer from Helios Australia Pty Limited (a subsidiary of Xstrata), with respect to Centennial Coal Company Limited's interest in Austral Coal Limited for a total consideration of

125

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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

Centennial Coal Company Limited sold its Anvil Hill project to Xstrata 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

Coal & Allied / Rio Tinto & Mitsubishi Development Pty Limited (Mitsubishi Development)

The remaining 14.1% in Coal & Allied shares not already owned by Rio Tinto and Mitsubishi Development was acquired in an off-market transaction of AUD 125 per share, less any special dividends paid. Coal & Allied is a producer of thermal coal and SSCC, with all assets located in Australia's Hunter Valley region. At the time of the transaction, Coal & Allied had interests in approximately 3,450 Mt of Measured and Indicated Resources (inclusive of Proved and Probable Reserves).

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 20 year mine plan and is expected to commence production in the second half of 2012, with saleable production exceeding 10 Mtpa from 2014.

Noble (Middlemount Mine project) / Gloucester

Gloucester paid Noble total consideration of AUD 398.7 million for Noble's 27.52% interest in the Middlemount Mine project (AUD 230.7 million) and the Middlemount Mine Royalty Stream 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 Narrabri 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 Narrabri coal project had 303.3 Mt of Measured and Indicated Resources at the time of the transaction.

APPENDIX 1 INDEPENDENT EXPERT'S REPORT (CONTINUED)

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 Narrabri 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 Narrabri coal project for AUD 67.5 million. The Narrabri coal project had Measured and Indicated Resources of 303.3 Mt.

Felix (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 in January 2008 to purchase a 10% equity shareholding in the Moolarben coal project. The consortium paid Felix 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

Iluka Resources Limited divested a 50% non-operating interest in the Narama thermal coal mine, located in the Hunter Valley, to Xstrata 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 (Moolarben coal project) / Sojitz

Sojitz acquired a 10% stake in the Moolarben coal project from Felix 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 / AMCI

AMCI acquired the interest of Resources Management and Mining Pty Limited in Felix, which represented 19.2% of the company in May 2007. At the time of the transaction, Felix had 524.4 Mt of Measured and Indicated Resources.

Appendix 5: Coal mining industry

Coal is Australia's largest commodity export, generating approximately AUD 44 billion of revenue for the country in FY2011¹². Australia produces both thermal coal and metallurgical (or coking) coal, which includes HCC, SHCC, SSCC and LV PCI.

The principal activity of Gloucester and Yancoal is the exploration for and the production of thermal and coking coal in New South Wales (NSW) and Queensland.

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. 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.

¹² Department of Foreign Affairs and Trade

Coal resources in Australia

Australia is rich in coal with Proved Reserves¹³ of approximately 76.4 billion tonnes as at 31 December 2010.¹⁴ 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 2011¹⁵. The location of coal resources in Queensland and in NSW is illustrated in the figures below.

Figure 15: 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.

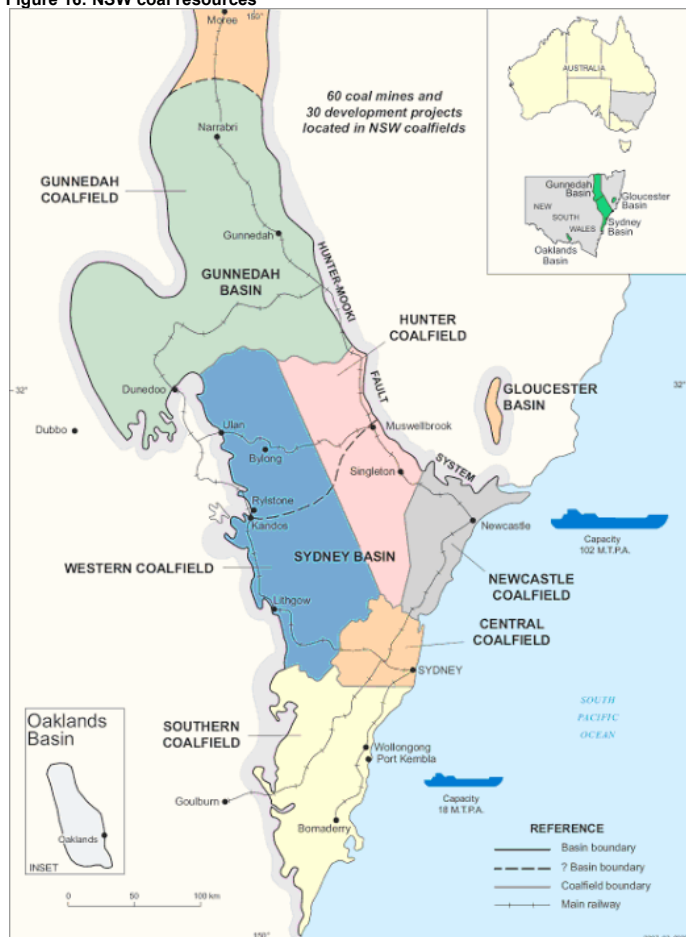
¹³ Proved Reserves are generally taken to be those quantities that geological and engineering information indicates with reasonable certainty can be recovered in the future from known deposits under existing economic and operating conditions

¹⁴ BP statistical review of world energy, June 2011

¹⁵ Bureau of Resources and Energy Economics (BREE), June 2011

APPENDIX 1 INDEPENDENT EXPERT'S REPORT (CONTINUED)

Figure 16: NSW coal resources



Source: Department of Primary Industries, NSW Government

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 is 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.

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.

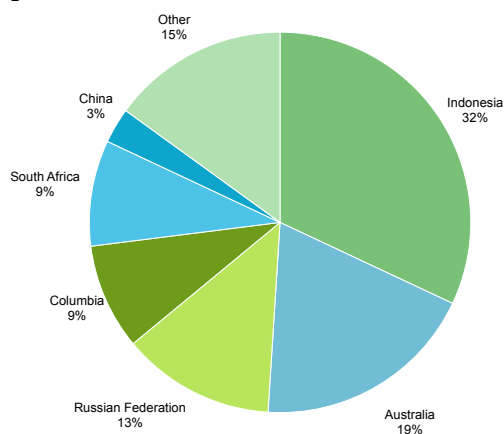
Demand for thermal coal has increased significantly in recent years as growth in the Chinese and Indian economies has resulted in increased energy needs, a growing share of which is required to be met by imports. There has also been increased demand for thermal coal by some European countries following 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 China are the largest importers of thermal coal worldwide¹⁶.

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.

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 larger 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 17: Global seaborne thermal coal trade



Source: Energy in Australia 2011, Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES)

A number of factors affected the global thermal coal export market in 2010 and 2011:

- 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 be required to import approximately 140 Mt of coal in 2011/2012 compared to 82 Mt in 2010/2011, despite rising thermal coal prices¹⁷
- European demand for thermal coal has recovered from the 2009 and early 2010 demand lows, following the restocking of utilities towards the end of 2010
- supply constraints as a result of port congestion in NSW and Queensland were reduced and the first stage of a major port expansion project at the Port of Newcastle 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 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 were damaged and/or are operating

¹⁶ World Coal Association

¹⁷ Thomson Reuters, 27 September 2011

APPENDIX 1

INDEPENDENT EXPERT'S REPORT (CONTINUED)

below capacity. Whilst NSW based coal miners are expected to capitalise on the export shortfalls arising from the effect of the floods in Queensland, ABARES estimates that coal exports declined by approximately 15 Mt in the December 2010 to March 2011 period, representing approximately 6% of Australia's total coal exports in 2009¹⁸

- continued flat coal production, and therefore supply, from South Africa, as a result of domestic infrastructure and power supply issues. In addition, South Africa also experienced unusually high rainfall in January 2011, which affected the delivery of coal shipments to Europe. Indonesia and Colombia 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, whose operations together consume approximately 15 Mtpa of coal, were reportedly damaged or impaired by the earthquake-tsunami event.

Australia's thermal coal exports from FY2005 to FY2010 are summarised in the following table:

Table 60: 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: ABARES

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.

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.¹⁹ 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.

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.

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 price relative to PCI and

¹⁸ Thomson Reuters, 21 January 2011

¹⁹ 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

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.

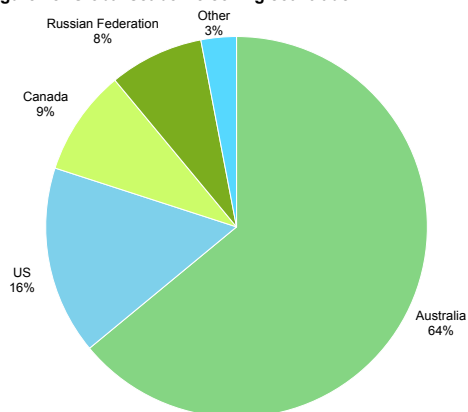
Global steel demand has increased substantially in recent years due mainly to the urbanisation and industrialisation of China and, to a lesser degree, India. Significant steel production growth is forecast in China, India, Brazil and South Korea, with potential increases in steel production in the Russian Federation. United States of America, 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.

Supply

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 and heavy rainfall (most recently resulting in severe flooding in Queensland), which have affected operations.

The figure below shows the breakdown of the global seaborne coking coal trade.

Figure 18: Global seaborne coking coal trade



Source: Energy in Australia 2011, ABARES

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 61: 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: ABARES

APPENDIX 1 INDEPENDENT EXPERT'S REPORT (CONTINUED)

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. However, over the past eight years coal prices have increased significantly above the marginal cost of production due to increased demand. 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.

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.

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 price²⁰ 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.

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 an annual basis during negotiations that generally take place in advance of the Japanese financial year (JFY), which commences on 1 April. 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. 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 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.

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 as they have been able to better exploit short term price increases. Reports in recent months reveal that Japanese power utilities have been opting to link contract prices to indexes due to the expectation of coal price declines²¹.

²⁰ Annual reference price consistent with the Japanese Financial Year which commences on 1 April

²¹ Platts, 28 December 2011

The following sets out a summary of coal price settlements in the latter months of 2011:

- 28 October 2011 – Whitehaven secured its December 2011 quarterly metallurgical coal (SSCC, PCI) prices at approximately USD 190 per tonne, reflecting softer Japanese demand following the earthquake and tsunami events in early 2011
- 30 September 2011 – following price negotiations with the majority of customers for its Curragh mine in the Bowen Basin, Queensland, Wesfarmers Limited announced it had secured its December 2011 quarterly prices at approximately 9% lower for metallurgical coal (HCC, SHCC and PCI) than the prices contracted for the September 2011 quarter. Contract prices secured for HCC were approximately USD 280 per tonne FOB
- 25 November 2011 – Anglo American Plc (Anglo American) reportedly settled its March 2012 coking coal and LV PCI coal contract with POSCO for USD 235 and USD 171 per tonne, respectively. These prices were agreed in line with spot coking coal prices
- 25 November 2011 - BMA reportedly settled its December 2011 Peak Downs high quality HCC contract at approximately USD 252 to USD 254 per tonne (FOB)
- 18 October 2011 – Xstrata settled annual October thermal coal contracts with its long-term Japanese customers at a price of USD 126.50 per tonne FOBT. This is compared with the annual April contract price which was at USD 129.85 per tonne, which reflected the ongoing tight supply after the flooding in Queensland and the expectation that demand could increase to replace lost nuclear power capacity in Japan following the earthquake-tsunami event.

In addition, supply disruptions in Colombia, Venezuela and South Africa increased thermal coal prices in the Australian market, with spot prices at the Port of Newcastle reportedly exceeding USD 140 per tonne in January 2011. Spot prices have since declined to USD 120 per tonne levels as at November 2011. Prices are expected to continue to soften due to concerns over Europe and the US, as well as expected global supply side expansions.

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 and the Yancoal Coal Operating Assets in NSW and Queensland.

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).

APPENDIX 1 INDEPENDENT EXPERT'S REPORT (CONTINUED)

The following figure provides an overview of the Hunter Valley coal chain²².

Figure 19: Overview of the Hunter Valley coal chain



Source: Hunter Valley Coal Chain Coordinator

There are currently two major coal haulage operators using the HVRN: Pacific National and 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 practical deliverable coal capacity of the Hunter Valley coal chain as an integrated operation is 143.0 Mtpa. Practical deliverable capacity is significantly lower than the theoretical capacity due to factors such as maintenance, surge volumes, system reliability and constraints imposed by the capacity of the Port of Newcastle.

The ARTC has released annual infrastructure enhancement strategies since 2005 to ensure that rail capacity stays ahead of demand. The most recent 2011 strategy update covers a ten-year horizon to 2020. 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 0.9 billion will be invested in infrastructure projects from FY2011 to FY2016.

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.

Port of Newcastle

There are currently three coal loading terminal operators serving the NSW coal export market: PWCS and NCIG operating at the Port of Newcastle, and Port Kembla Coal Terminal Limited (PKCT) operating at Port Kembla. Gloucester and Yancoal both export coal through the Port of Newcastle which is owned by the NSW Government-owned Newcastle Port Corporation (NPC).

PWCS was until recently the only coal loading terminal operator at the Port of Newcastle with two coal loading terminals (Carrington and Kooragang²³) with a current combined capacity of 133.0 Mtpa. NCIG completed the first stage of a 30 Mtpa terminal at Kooragang Island in May 2010.

²² 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

Infrastructure constraints in NSW are most evident at the Port of Newcastle which, together with the DBCT 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 was 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 was expanded or could be ensured.

To alleviate the infrastructure constraints in the long term, the following measures have been implemented:

- the long term capacity framework led to producers now nominating 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.
- expansion of the Kooragang coal loading terminal by PWCS to increase coal loading capacity in order to meet 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 to 145 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 complete Stage 1 in late 2015 or early 2016. The new terminal, which is anticipated to cost approximately AUD 5.0 billion and add approximately 120 Mt of additional yearly export capacity, will be the only new capacity that has not yet been totally allocated. In November 2011, PWCS completed its environmental assessment and is awaiting Government and community feedback before finalising the T4 proposal
- a new operator, NCIG²⁴, 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 operations in Q2 2012. In addition, NCIG has committed to a final expansion of the terminal to its maximum approved capacity of 66 Mtpa to be completed by 2014. Capacity at NCIG will be allocated to the shareholders of NCIG in line with their proportionate shareholding in addition to 12 Mtpa allocated to third parties.

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.

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.

Widespread and unseasonal rainfall across Queensland in December 2010 and January 2011 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 remain under assessment. Since this announcement, QR National has reopened the Blackwater line and all other systems in the Central Queensland coal network. Coal haulage volumes were reduced by 37 Mt against expectations during FY2011 as a result of the flooding of mines in Queensland.

²³ Kooragang can only accept coal deliveries by rail

²⁴ Shareholders in the NCIG project include BHP (35.5%), Centennial Coal Limited (8.8%), Gloucester (11.6%), Peabody (through Excel Coal Limited) (17.7%), Yancoal Australia Limited (15.3%) and Whitehaven (11.1%)

APPENDIX 1 INDEPENDENT EXPERT'S REPORT (CONTINUED)

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 20: Overview of the rail and port infrastructure in Queensland



Source: QR National

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 transports coal from mines in the Bowen Basin to the Port of Hay Point which has two major coal loading terminals (Dalrymple Bay and Hay Point²⁵). 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 and completed for the Goonyella rail system²⁶ are as follows:

- an expansion of the rail system capacity to 140.0 Mtpa from 130.0 Mtpa to support the proposed and current expansions at DBCT and Hay Point Coal Terminal. Work commenced in October 2011 with the project expected to complete in March 2014 with the commissioning of the Wotonga Feeder Station
- the opening of the Northern Missing Link project in December 2011. The Northern Missing Link project connects the existing Goonyella rail system to the Newlands system and allows coal trains originating in Central Queensland to be directed to the Port of Abbot Point, near Bowen. The line delivers an additional 30 Mtpa of rail infrastructure capacity to match the expected capacity of 50 Mtpa for APCT after its expansion. It is expected that final track upgrades in the Newlands system will continue until mid-2012 before it is fully operational.

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 19 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.

RG Tanna Coal Terminal

RG Tanna Coal Terminal is a port facility located in the Port of Gladstone. It has a capacity of approximately 70 Mtpa and receives export coal from 13 coal mines in the Central Queensland Basin. The terminal is owned and operated by the Gladstone Ports Corporation. In 2006 and 2007 the port underwent a AUD 128 million wharf extension, doubling the port capacity to its current level. There are no current plans to increase capacity.

Barney Point Terminal

Barney Point Terminal is a multi-user port facility for the export of coal and other bulk commodities. It is located in the Port of Gladstone with a capacity of approximately 8 Mtpa. In April 2010, the Australian Competition and Consumer Commission authorised arrangements to transfer coal handling capacity from the Barney Point Terminal to the proposed WICET due to dust pollution concerns for Gladstone residents. Details of the proposed WICET can be seen below. Following the transfer, Barney Point Terminal will remain open to the export of other goods. The terminal is owned and operated by the Gladstone Ports Corporation.

WICET

WICET is a AUD 2.5 billion port facility proposed to be constructed at Gladstone, Queensland, by the Gladstone Port Authority (GPC) and QR National. The project will be entirely financed by a consortium of 16 coal companies (WICET Group) which will be covered by take or pay contracts for their portion of the capacity.

Once all three stages are completed, it is expected to have a total capacity of 80.0 Mtpa. Construction of Stage 1 of the project (to achieve a capacity of 27.0 Mtpa) commenced in 2011 and is expected to be completed in 2013. Initially, only eight coal companies will participate in the development of Stage 1 with the remaining companies participating in the subsequent stages of the development.

Whilst the WICET Group will be the owners of the facility, the terminal will be operated by GPC which is currently operating the RG Tanna terminal at the Gladstone port.

²⁵ Owned and operated by BMA

²⁶ COALRail Infrastructure Program Progress Report 2008-2009

APPENDIX 1 INDEPENDENT EXPERT'S REPORT (CONTINUED)

Climate Change Plan

On 8 November 2011, the Federal Government passed the Climate Change Plan legislation, a fixed carbon price mechanism and emissions trading scheme, which is aimed at reducing greenhouse gas emissions to enable Australia to meet future emission targets.

The Federal Government has released information regarding the structure of the Climate Change Plan, whereby a fixed carbon tax per tonne will apply from 1 July 2012 for three years (the initial price will be AUD 23 per permit/tonne from 1 July 2012, increasing by 2.5% in real terms for subsequent years), before moving into a "cap-and-trade" Emissions Trading Scheme (ETS) with flexible pricing.

Mineral Resources Rent Tax (MRRT)

The Australian Government has announced the introduction of a MRRT of 30% on coal and iron ore resources from 1 July 2012. The legislation has been passed by the lower house with minor amendments and awaits Senate debate and approval before it can be enacted.

The proposed MRRT tax as at November 2011 has the following key characteristics:

- an entity is liable for MRRT to the extent it has a mining project interest in the output produced by a mining venture in which the entity participates
- MRRT liability is calculated as:
 - (Mining revenue at the valuation point – mining expenditure – MRRT allowances – starting base allowances – pre-mining expenditure) * MRRT effective rate of 22.5% (calculated as: Gross MRRT rate of 30% to 25% extraction factor)
- mining revenue at the valuation point is the value of the resource just before it leaves the ROM stockpile. One of two valuation options is available: the safe harbour method; or an alternative valuation method being akin to a netback valuation method;
- mining expenditure includes all the costs ordinarily incurred in extracting the resource and getting it to the valuation point, including construction of the mining operation, blasting and digging, infrastructure costs and the cost of capital assets. Excluded are financing costs, the cost of acquiring the mining interest, royalties to non-Government bodies and some tax payments;
- MRRT allowances include the grossed up value of royalties paid to State and Territory governments, indexed undeducted prior year MRRT losses and MRRT losses transferred from other project interests;
- undeducted royalties and undeducted mining losses are indexed by the long term bond rate (LTBR) plus 7% and can be carried to later years to be offset against mining revenue;
- starting base allowances will be the value of interests in coal tenements that existed on 1 May 2010 valued to 1 July 2012 using either the market value or book value method. Unutilised starting base allowance can be carried forward and is indexed by CPI where the market value method is used or LTBR + 7% where the book value method is used
- pre-mining expenditure includes costs incurred in the pursuit of resources and includes the cost of exploration tenements. Any undeducted pre-mining expenditure can be transferred and offset against other mining projects or carried forward to later years after being indexed at the LTBR +7% for up to ten years and at the LTBR thereafter
- the extraction factor recognises the cost of specialist skills used to extract the resource and bring it to the valuation point
- entities with MRRT assessable profits under AUD 75 million in any financial year will be granted a low profit offset resulting in a nil MRRT liability. The low profit offset is phased out for profits between AUD 75 million and AUD 125 million

Appendix 6: Control premium studies

Deloitte Corporate Finance study

We conducted a study of premiums paid in Australian transactions completed between 1 January 2000 and 31 December 2011. This study was conducted by Deloitte Corporate Finance staff for internal research purposes. Our merger and acquisition data was sourced from Bloomberg and Thomson Reuters and yielded 490 transactions that were completed during the period under review²⁷.

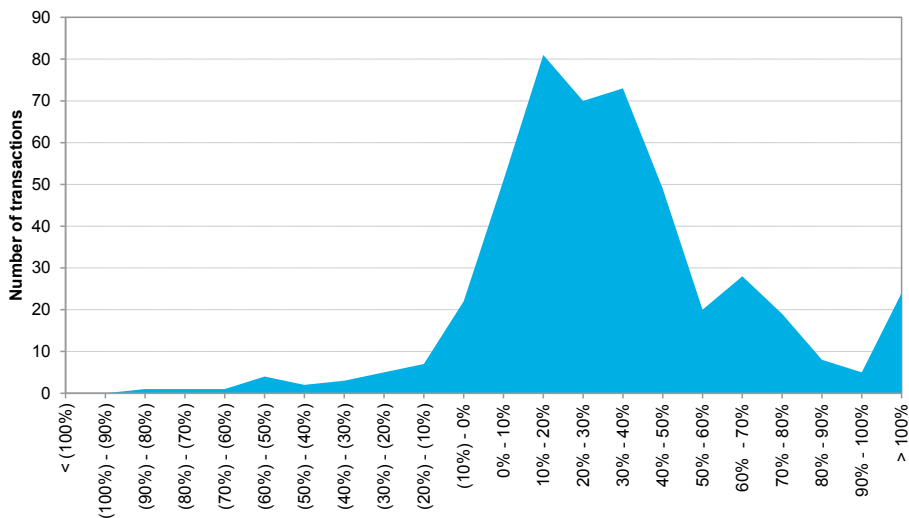
Our data set consisted of transactions where an acquiring company increased its shareholding in a target company from a minority interest to a majority stake or acquired a majority stake in the target company.

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 31 December 2011 are widely distributed with a long 'tail' of transactions with high premiums.

Figure 21: Distribution of data



Source: Deloitte Corporate Finance analysis

²⁷ Excluding transactions where inadequate data was available.

APPENDIX 1

INDEPENDENT EXPERT'S REPORT (CONTINUED)

The following table details our findings.

Table 62: Premium analysis - findings

	Control premium
Average	34%
Median	29%
Upper quartile	46%
Lower quartile	12%

Source: Deloitte Corporate Finance 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 7: BDA Technical Expert's Report

APPENDIX 1

INDEPENDENT EXPERT'S REPORT (CONTINUED)



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26 April 2012

Mr Stephen Reid
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Dear Sir,

REPORT FOR DELOITTE CORPORATE FINANCE PTY LIMITED INDEPENDENT TECHNICAL REVIEW

YANCOAL AUSTRALIA AND GLOUCESTER COAL LIMITED MINING PROJECTS

1.0 EXECUTIVE SUMMARY

1.1 Introduction

On 23 December 2011, Gloucester Coal Ltd ("Gloucester") announced that it had entered into a merger proposal deed with Yanzhou Coal Mining Company Limited and its wholly owned Australian subsidiary, Yancoal Australia Limited ("Yancoal"), under which Gloucester's assets would be combined with certain Australian assets of Yancoal. The merger proposal would be effected by way of a scheme of arrangement between Gloucester and the shareholders of Gloucester in accordance with Part 5.1 of the Corporations Act 2001 (Cth).

Deloitte Corporate Finance Pty Limited ("Deloitte") has been engaged by Gloucester Coal Limited ("Gloucester") to prepare an independent expert's report ("IER") in relation to a merger proposal. Pursuant to providing the IER, Deloitte has commissioned Behre Dolbear Australia Pty Limited ("BDA") to provide an independent specialist report and to provide an independent technical review of the Yancoal and Gloucester operations and certain assumptions that have been used in arriving at relative valuations of the Yancoal and the Gloucester coal assets. This report sets out the conclusions that BDA has reached in regard to the assessment of the following Yancoal mining assets:

Yancoal Assets

- Ashton open cut and underground mining and processing operations, Hunter Valley, NSW
- Austar underground longwall mining and processing operations, Hunter Valley, NSW
- Yarrabee open cut mining and processing operations, Blackwater, Central Queensland
- Moolarben open cut mining and processing operations and planned underground longwall project near Mudgee, NSW

Gloucester Coal Assets

- Donaldson open cut and underground mining and processing operations, Hunter Valley, NSW
- Monash planned underground longwall mining and processing operations, Hunter Valley, NSW
- Gloucester Basin open cut mining and processing operations, Gloucester, NSW
- Middlemount open cut mining and processing operations, Bowen Basin, Queensland

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 Yancoal and Gloucester data nor re-estimated the resources, but has reviewed the resource and reserve estimating methodology and comparative estimates carried out by Yancoal and Gloucester Coal personnel and/or consultants.

Denver New York Toronto London Guadalajara Santiago Sydney

This report has been prepared in accordance with the relevant requirements under the Listing Rules of the ASX and the regulatory guides 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 Yancoal and Gloucester. 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 Yancoal and Gloucester 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. BDA provides a range of technical advisory services to the mineral resource industry, to mining operators, investors and financiers. The parent company, Behre Dolbear Group Inc., has operated continuously as a mineral industry consultancy since 1911 and has offices or agencies in Beijing, Denver, Guadalajara, Hong Kong, London, New York, Santiago, Toronto, Ulaanbaatar and Vancouver, and as well as Sydney. 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 Yancoal operations as part of assignments for potential financiers, as well as conducting a comprehensive independent review on all of Yancoal’s mining assets as part of a previous sale process. BDA has previously independently reviewed the Gloucester operations as part of a comprehensive independent review on all of Gloucester’s mining assets as part of a previous sale process. BDA has considered the matter of potential conflict of interest concerning former reviews and have concluded that it 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 Yancoal or Gloucester 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:

- Gloucester Coal Limited, its subsidiaries, securities or companies associated with Gloucester; or
- Yancoal Australia, its subsidiaries, securities or any companies associated with Yancoal; or
- Austar Coal Mine Pty Limited, its subsidiaries, or any companies associated with it; or
- the Relevant Assets being considered; or
- the outcome of the acquisition.

BDA has independently assessed the Relevant Assets of Yancoal and Gloucester on the basis of both specific information provided via electronic data rooms set up by Yancoal and Gloucester 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.

1.3 Scope of Work/Materiality/Limitations and Exclusions

BDA has reviewed the Yancoal and Gloucester Relevant Assets in accordance with the Scope of Work provided and the limitations and exclusions specified and set out in Annexure C to this Report.

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INDEPENDENT EXPERT'S REPORT (CONTINUED)

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1.4 Methodology of Assessment

BDA has been provided with financial models which include forecasts and projections of Yancoal and Gloucester's plans for the mines and projects. 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 Yancoal and Gloucester mines and projects.

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 (in opencuts), development rates and longwall productivity (for underground operations), 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 and has provided valuation of those where appropriate and as specified.

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. It specifically excludes review of commodity price and exchange rate forecasts. In particular, the BDA review covered the following areas:

- **Operations:** BDA personnel have conducted site visits to the Yancoal and Gloucester operations and projects, held discussions with head office and site management personnel and carried out inspections of the mining, processing and transport operations in the opencuts and underground operations. BDA has inspected the sites for environmental compliance and has reviewed the plans for the development of mining activities.
- **Resources and Reserves:** BDA personnel conducted check calculations of the resource estimates and satisfied themselves that the statements were JORC compliant. The JORC-defined tonnages were checked against the sales tonnages in the financial model.
- **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 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 checked the projected annual and life of mine operating cost projections and capital expenditure allowances. Operating costs were checked on the basis of first principles estimates, contract conditions and quotations, as well as in comparison with historical performance, where applicable.
- **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.

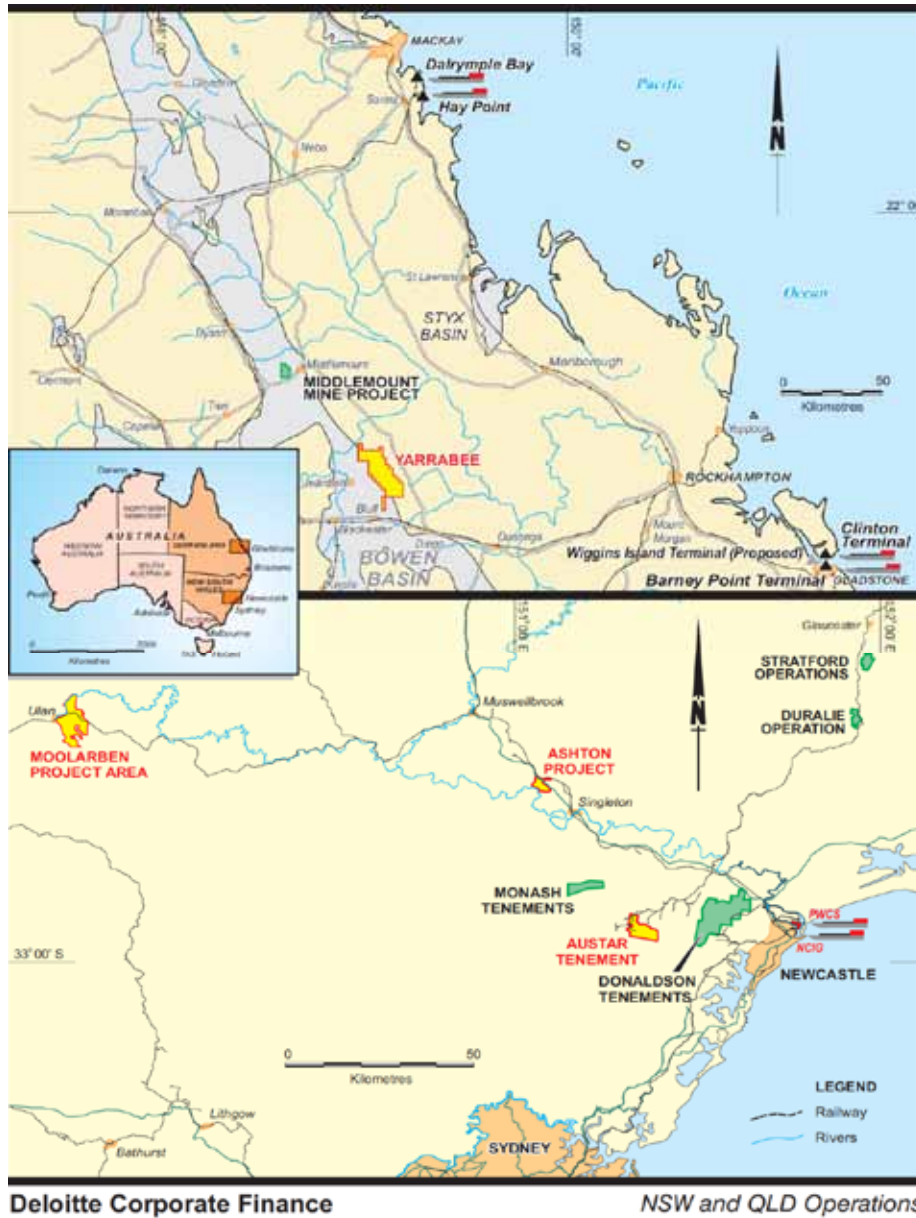
All material revisions that BDA considers should be applied in the financial model have been provided to Deloitte for incorporation in the valuation.

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, provide 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.

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Deloitte Corporate Finance NSW and QLD Operations

Figure 1
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LOCATION PLAN
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2.0 YANCOAL OPERATIONS OVERVIEW

2.1 Summary

BDA considers that Yancoal management team is 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. Yancoal management has

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adopted practical, realistic and not overly conservative assumptions and understands the operational and risk constraints that drive the projects. 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

Yancoal operations comprise three open cut and two underground longwall mines. Plans for the establishment of an underground operation at Moolarben are well advanced. The Ashton South-East Open Cut (“SEOC”) had been expected to commence operations in the near future, but has been delayed due development consent issues.

Table 2.1
Yancoal Mining Operations and Developments

Mine	Yancoal Equity %	Type	Method	Operator
<i>Existing Mines</i>				
Ashton UG *	90	Underground	Longwall	Owner
Austar	100	Underground	Longwall TCC	Owner
Moolarben OC *	80	Opencut	Truck & shovel	Owner
Yarrabee	100	Opencut	Truck & shovel	Owner
<i>Planned Mines</i>				
Moolarben UG	80	Underground	Longwall	Owner
Ashton SEOC	90	Opencut	Truck & shovel	Owner

* OC : Open-cut UG Underground

Section 4 of this report contains more detailed descriptions of each of the Yancoal projects.

2.3 Summary of Resources and Reserves

Yancoal has used Competent Persons for the preparation of JORC Code-compliant resources and reserves estimates 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.

Table 2.2
Yancoal Mines and Projects Summary Resources and Reserves* June 30 2011

Mine**	Resources				Reserves		
	Measured	Indicated	Inferred	Total	Proved	Probable	Total
Yarrabee OC	65	84	21	170	38	19	57
Ashton OC	36	19	6	61	14	3	17
Ashton UG	116	127	29	272	28	11	40
Austar UG	81	70	70	221	13	32	44
Moolarben OC	376	598	208	1,183	45	195	240
Moolarben UG					38	37	75
Total	674	899	334	1,906	177	298	474

* Source: Yancoal Statement of Resources and Reserves – all tonnages rounded ** Shown on 100% basis. Equity as per Table 2.1

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 and coal left in pillars, pit walls and ramps and around infrastructure. Inferred resources do not convert to reserves due to the lower level of confidence in the estimates.

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 reserves.

2.4 Coal Production

Yancoal has provided forecasts of run-of-mine (“ROM”) or raw coal before processing, and saleable coal tonnages for each operation and project, over the life-of mine (“LOM”). Yancoal is a well-

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established coal exporter, with current coal production from the Ashton, Austar, Moolarben opencut (“OC”) and Yarrabee mines and the planned new Moolarben underground (“UG”) mine.

In 2011, the Yancoal mines produced 13.5 million tonnes (“Mt”), of ROM coal, compared to 13.4Mt in 2010 and 9.6Mt in 2009. The Yancoal equity component was approximately 9.1Mt of thermal, semi-soft and PCI coal for export, compared to 9.9Mt in 2010 and 6.7Mt in 2009.

Over the next three years, the plan is to increase the equity saleable coal production from the Yancoal mines by 8Mtpa or 88% from 9.1Mtpa in 2011 to 17.1Mtpa in 2014. This is primarily to be achieved with the start-up of the Ashton SE Opencut and additional production from Austar and Moolarben OC. In the following four years, production is planned to increase by a further 9Mtpa (52 %) with further increases from Austar, Moolarben OC and Yarrabee and the start-up of the Moolarben UG mines.

For the financial model, the production forecast from each of the operations is considered reasonable and achievable and the estimates are set out in summary in Tables 2.3 and 2.4, and Figure 2.1.

Table 2.3
Annual Total ROM Coal Production (Mt)
Source: Yancoal Financial Model (30/11/11) and Accounts (2009, 2010, 2011)*

Mine	2009A	2010A	2011A	2012P	2013P	2014P	2015P	2016P	2017P	2018P	2019P
Ashton NE OC	1.9	1.7	0.5								
Ashton SE OC					0.9	2.0	2.6	2.6	2.6	3.5	3.5
Ashton UG	2.8	2.8	1.7	2.9	3.3	3.3	2.9	2.9	3.3	3.3	3.3
Austar UG	1.9	1.7	1.9	1.7	2.0	2.7	3.2	3.7	3.7	3.3	3.3
Moolarben OC	0.8	4.9	7.2	8.0	9.0	13.0	13.0	13.0	14.0	14.0	14.0
Moolarben UG						0.2	0.3	3.7	6.0	6.0	6.0
Yarrabee OC	2.1	2.3	3.1	3.4	4.1	3.4	3.9	5.8	5.7	5.7	5.8
Total ROM t	9.6	13.4	14.4	16.0	19.3	24.5	25.9	31.7	35.3	35.8	35.9

* A=Actual, F=Forecast, P=Projected

Table 2.4
Annual Yancoal Equity ROM Coal Production (Mt)*

Mine	2009A	2010A	2011A	2012P	2013P	2014P	2015P	2016P	2017P	2018P	2019P
Ashton NE OC	1.7	1.5	0.4								
Ashton SE OC					0.8	1.8	2.3	2.3	2.4	3.2	3.2
Ashton UG	2.6	2.6	1.5	2.6	3.0	3.0	2.6	2.6	3.0	3.0	3.0
Austar UG	1.9	1.7	1.8	1.7	2.0	2.7	3.2	3.7	3.7	3.3	3.3
Moolarben OC	0.6	3.9	5.8	6.4	7.2	10.4	10.4	10.4	11.2	11.2	11.2
Moolarben UG						0.1	0.2	3.0	4.8	4.8	4.8
Yarrabee OC	2.1	2.3	3.1	3.4	4.1	3.4	3.9	5.8	5.7	5.7	5.8
Equity ROM t	8.9	12.0	12.5	14.1	17.0	21.4	22.7	27.8	30.7	31.2	31.2

* Yancoal equity shares are Ashton 90%, Moolarben 80% Austar 100% and Yarrabee 100%

Table 2.5
Annual Yancoal Equity Saleable Coal Production (Mt)*
Source: Yancoal Financial Model (30/11/11) and Accounts

Mine	2009A	2010A	2011A	2012P	2013P	2014P	2015P	2016P	2017P	2018P	2019P
Ashton NE OC	1.1	0.9	0.3								
Ashton SE OC					0.5	1.0	1.3	1.3	1.3	1.9	1.9
Ashton UG	1.5	1.4	0.9	1.5	1.6	1.6	1.4	1.4	1.8	1.8	1.8
Austar UG	1.6	1.5	1.6	1.5	1.7	2.3	2.7	3.1	3.0	2.7	2.7
Moolarben OC	0.0	2.7	4.0	4.4	4.9	6.8	6.8	6.8	7.3	7.3	7.3
Moolarben Us						0.1	0.2	3.0	4.8	4.8	4.8
Yarrabee OC	2.0	1.9	2.4	2.8	3.3	2.7	3.1	4.6	4.6	4.5	4.5

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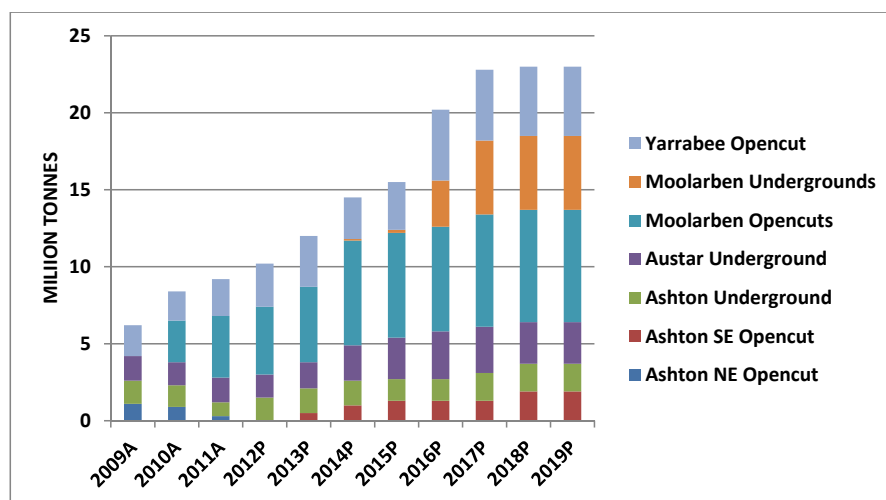
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Total Saleable	6.3	8.3	9.2	10.2	12.0	14.5	15.5	20.1	22.7	23.0	23.0
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* Yancoal equity shares are Ashton 90%, Moolarben 80%, Astar 100% and Yarrabee 100%

Figure 2.1

Yancoal Mines: Forecast Saleable Coal Production Ramp-Up (Equity component)



It is important to recognise that, while there are substantial resources available at some of the Yancoal operations and that further expansions could be considered, the major constraint on all operations at this stage is the limitation of the available off-site product coal transport infrastructure. Similar constraints apply to the ports of Newcastle in New South Wales and Gladstone and Dalrymple Bay in Queensland, as all are at or near their handling capacity as multi-user facilities. Yancoal is a participant in the recently completed Stage 1 of the Newcastle Coal Infrastructure Group (“NCIG”) loading facilities in Newcastle and, through that association, has secured export shipping and riling capacity for the Moolarben Project. Similarly in Queensland, Yancoal has secured additional export capacity for the proposed expansion of Yarrabee through the proposed Wiggins Island Coal Export Terminal (“WICET”), but such opportunities are limited. These circumstances will obviously change at some point in the future and additional capacity may become available through a variety of possible opportunities, but the current limitations have been applied in the financial model.

2.5 Operating Costs

BDA has reviewed the forecast operating costs for all Yancoal operations under consideration in comparison with historical figures and is satisfied that, subject to the comments in relation to variations in some areas that should be modelled, the estimates contained in the financial model are reasonable and realistic. BDA has provided Deloitte with its opinion with regard to the operating costs that should be applied to the various Yancoal projects in the financial model.

Over the past several years, the average cash cost of production for all coal produced by Yancoal ranged from A\$80-100/t free on board (“FOB”), excluding royalties, and averaged A\$91/t sold. Over the next three years, Yancoal’s stated objective is to reduce the average mine operating costs from around A\$90/t in FY12 to around A\$67/t FOB by FY15. In broad terms, this will be achieved primarily through economies of scale as the operations expand and through some planned efficiency improvements. BDA has reviewed these proposed measures and has advised Deloitte as to its opinion with regard to costs. For the financial model, operating cost estimates are considered representative of the anticipated conditions and accurate within $\pm 10\%$ over the long term, although there will be variances experienced as a result of encountering unexpected conditions from time to time.

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2.6 Capital Costs

Yancoal has provided capital cost estimates for all operations and planned developments. BDA has reviewed the estimates and considers that appropriate levels of study have been used to provide realistic estimates, including adequate contingency provisions of around 10-15% on the Moolarben capital (broken down by category). BDA has provided Deloitte with its opinion with regard to the capital costs that should be applied to the various Yancoal projects in the financial model.

BDA recognises that there will be variations in the forecast capital expenditures over time, but considers the estimates and allowances, as advised, to be reasonable for the projected developments. Given the Yancoal track record in the timely construction of the Moolarben and Yarrabee washeries and the construction and development of the Moolarben open cut operation, all completed within the past four years and within 10% of Budget estimates, 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 Yancoal operations and projects 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 Moolarben underground mine, delays or non-commencement of the Ashton SEOC and failure to achieve planned production levels at Aустar and in achieving the cost forecasts following expansion. These would have the effect of delaying revenue from export coal sales and increasing working capital until full production was achieved.

In the longer term, BDA considers that the development of the third and fourth underlying seams for longwall production at Ashton present progressively increasing risk to production from that operation and potential reserve loss. In terms of coal production, once the SEOC is in operation, any shortfall may be able to be supplemented by additional opencut production, but there may be a reduction in the currently estimated underground reserves as a consequence of increasingly difficult conditions with the successively lower mining horizons. While the projected coal recoveries appear to have been reasonably conservatively estimated, there is clearly an element of material uncertainty, as the planned approach involving the extraction of three underlying longwall horizons has not previously been attempted. BDA would suggest that this progressive risk profile should be reflected in the treatment of the Ashton underground revenues in the financial model.

Other than the foregoing identified risks, BDA considers the inherent risks associated with mining have been adequately addressed in the Yancoal operations plans and there is no evidence of any additional material risks to the ongoing operations. While underground operations (in particular) invariably pose some specific risks, BDA considers that Yancoal management has demonstrated its awareness of these potential issues and has taken or planned established measures of good mining practice to mitigate such potential conditions.

2.8 Financial Model Inputs

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 providing Deloitte with advice on the technical aspects of the valuation, BDA has reviewed all the technical physical inputs, as well as giving consideration to the impact of the more sensitive parameters. BDA has commented in the report on risk areas where appropriate and particularly on the Moolarben underground production plans and schedules, as summarised in Table 2.3.

BDA has held detailed discussions with Yancoal executive management and site operators and has reviewed the technical inputs to the financial model. In some cases, Yancoal has been convinced that some changes needed to be considered and, where that has occurred, the financial model has been adjusted to reflect those views. As a consequence, with the exception of the aspects specifically identified to Deloitte, BDA is satisfied that the technical inputs to the financial model are appropriate, realistic, reflective of historical experience and planned expansions and enhancements and accurate within the normal limits expected for resource projects. These levels of accuracy are reflected in the sensitivities suggested.

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2.9 Sensitivity Analysis

BDA has examined the potential risks and possible operational variations to the various 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 Ashton underground production forecasts, where the reserve risks may be addressed through discounting.

Table 2.6
Project Sensitivity Studies Recommendations

Item	Range	Comment
Production levels –OC	±7.5%	Low risk of not achieving forecast
Production levels –UG	±12.5%	Medium risk of not achieving Yancoal forecast
Operating costs	±10%	Test the sensitivity to operating costs.
Yield	±5%	Forecast CPP yields may be affected by sales mix changes
Capital costs	±10%	Test the sensitivity to capital forecasts.
Start ups	+12 months	For Ashton SEOC and Moolarben UG

* CPP=coal preparation plant

2.10 Residual Resources and Exploration Valuation - Yancoal

As part of the brief, BDA has been requested to estimate the value of the exploration potential of residual (not included in the mine plan) coal resources on each of the Yancoal mine properties. BDA has used a similar technique to that used for Gloucester to estimate these values. Table 2.7 summarizes the results.

Table 2.7
Valuation of Residual Resources at Yancoal Mines

Mine	Residual JORC Resources Mt	Main Coal Type	Resource Value \$/t	Resource Value \$M
Moolarben	700	T	0.20	140
Ashton	275	SSCC/T	0.30	80
Austar	120	SHCC/T	0.50	60
Yarrabee	70	PCI	0.30	20
Yancoal Total	1,165	Average	0.31	300

* T=thermal, SS=semisoft, SH=semi hard, CC=coking coal. PCI=pulverized coal injection

Based on this approach, BDA values the Yancoal residual resources in the range of A\$240-360M, with a most likely value of A\$300M.

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3.0 GLOUCESTER OPERATIONS OVERVIEW

3.1 Summary

BDA has visited the operations and projects and considers that both the Gloucester 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 Gloucester 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. 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.

3.2 Description of Assets

Gloucester operations comprise three open cut operations and two underground mines, plus a 50% interest in Middlemount opencut. Plans for the establishment of longwall operations in the existing mines and development of the Monash resources are under consideration. The mining operations that have been assessed as part of this assignment are summarised in Table 3.1.

Table 3.1

Mining Operations and Developments

Mine	Type	Method	Operator
Gloucester			
Duralie	Opencut	Truck & excavator	Contractor - Leighton
Stratford	Opencut	Truck & excavator	Contractor - Ditchfield
Donaldson	Opencut	Truck & excavator	Owner
Abel	Underground	CM*, shortwall and longwall	Owner
Tasman	Underground	CM and longwall	Owner
Monash	Planned Underground	Longwall	T.B.A.
Middlemount (50%)	Opencut	Truck & excavator	Contractor - NRW

* *CM = continuous miner*

Section 5 of this report contains more detailed descriptions of each of the projects.

3.3 Summary of Resources and Reserves

Table 3.2 summarises the resources and reserves for GCL mines and projects. GCL or the operating companies have used Competent Persons for the preparation of JORC Code-compliant resources and reserves estimates 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 Resource estimates comply with the JORC Code 2004.

BDA notes that Gloucester announced an update of resource and reserve estimates on 23 February 2012, following further drilling results and these are reflected in Table 2.3. BDA has not been provided with details to support the changes but has no reason to believe they are not appropriate. There have been significant upgrades in JORC categorisations (from Probable to Proved Reserves and from Inferred to Measured Resources etc.). BDA notes that while there is no change to the total resources, the Measured category has increased from 545Mt to 659Mt, Indicated has reduced from 218Mt to 183Mt and Inferred has reduced from 122Mt to 43Mt. Total reserves have increased by 9Mt to 152Mt, or 6%, with Proved increased to 116Mt from 95Mt previously and Probable reduced to 45Mt from 57Mt previously.

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Table 3.2
Gloucester Summary of Resources and Reserves by Region as at 31 March 2012

Area	Measure d	Resources (Mt)*			Reserves (Mt)*		
		Indicated	Inferred	Total	Proved	Probable	Total
Gloucester	19	187	110	316	11	73	84
Donaldson**	659	183	43	885	116	45	161
Monash	30	70	477	577	0	0	0
Middlemount (50%)	45	16	1	61	35	14	48
Total	753	456	631	1,839	162	132	292

* all tonnages rounded

** Released 23 February 2012

BDA notes that appropriate levels of mine planning and design layouts had previously been developed within the identified Measured and Indicated resources to allow a suitable basis for the estimation of reserves and Gloucester has stated that the latest estimates have been prepared by Competent Persons.

3.4 Saleable Coal Projections

Gloucester Coal Limited

Gloucester has provided forecasts of ROM and saleable coal tonnages for each operation and project. Gloucester is an established coal exporter, with existing coal production and sales from the Stratford and Duralie OC mines near Gloucester, the Donaldson OC, Tasman UG and Abel UG mines near Newcastle and the Middlemount OC mine in Central Queensland.

In 2011, the group produced 5.2Mt of ROM coal and 3.5Mt of product coal. Gloucester plans to increase ROM coal production to 12.8Mt in 2014, an increase of 160%, and then over the next five years, the target is to increase total ROM coal production progressively to 16Mt, an increase of 25%.

The equity production forecasts for Gloucester are set out in summary in Tables 3.3 and 3.4 and Figure 3.1.

Table 3.3
Gloucester Annual Total ROM Coal Production (Mt)*

Source: Gloucester Financial Model, Macarthur Coal Website and Gloucester Accounts (2010, 2011)

Mine	2010A	2011A	2012P	2013P	2014P	2015P	2016P	2017P	2018P	2019P
Gloucester	3.1	2.9	3.7	4.0	5.3	5.1	5.3	5.6	5.5	5.3
Donaldson	3.1	2.3	3.7	3.8	5.1	6.8	6.9	7.1	8.8	8.3
Monash										
Middlemount (50%)	0	0	1.3	2.0	2.4	2.9	2.7	2.6	2.8	2.8
Total ROM t	6.2	5.2	8.7	9.8	12.8	14.8	14.9	15.3	17.1	16.4

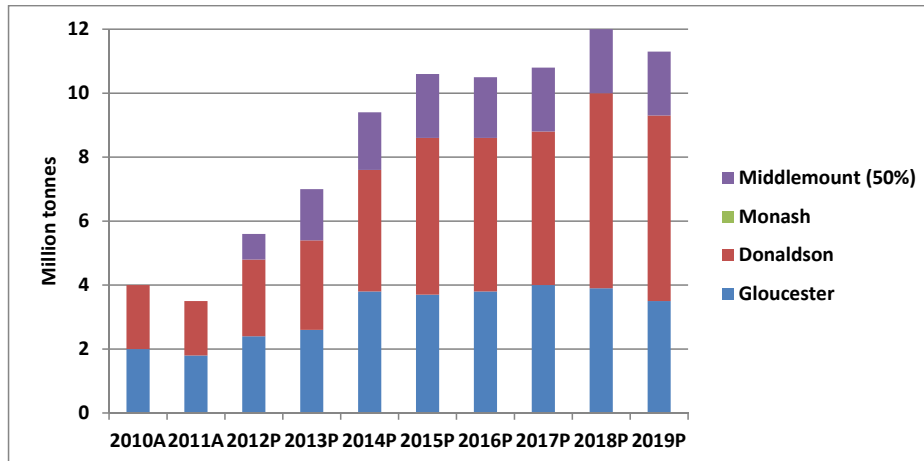
Table 3.4
Annual Gloucester Equity Saleable Coal Production (Mt)*

Source: Gloucester Financial Model, Gloucester and Donaldson Accounts (2010, 2011)

Mine	2010A	2011A	2012P	2013P	2014P	2015P	2016P	2017P	2018P	2019P
Gloucester	2.0	1.8	2.4	2.6	3.8	3.7	3.8	4.0	3.9	3.5
Donaldson	2.0	1.7	2.4	2.8	3.8	4.9	4.8	4.8	6.1	5.8
Monash										
Middlemount (50%)	0	0	0.8	1.6	1.8	2.0	1.9	2.0	2.0	2.0
Saleable Production	4.0	3.5	5.6	7.0	9.4	10.5	10.5	10.8	11.9	11.3

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Figure 3.1
Gloucester Mines: Forecast Saleable Coal Production Ramp-Up (Equity component) (Mtpa)



3.5 Operating Costs

BDA has reviewed the forecast operating costs for all Gloucester operations under consideration in comparison with historical figures and is satisfied that, subject to the comments in relation to variations in some areas that should be modelled, the estimates are reasonable and realistic. BDA has provided Deloitte with its opinion with regard to the operating costs that should be applied to the Gloucester projects in the financial model.

For Gloucester, over the past several years, the average cash cost of production for all coal produced ranged from A\$77-110/t free on board (“FOB”), excluding royalties, and averaged around A\$93/t FOB. This is consistent with but slightly higher than the historical long-term average. For the financial model, operating cost estimates are projected over the next four years to progressively reduce to around A\$78/t FOB average (excluding royalties). This will largely be achieved through improved efficiencies with the underground operations, some economies of scale as the operations expand and through lower cost operations in the Gloucester opencut mines. 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 due to encountering unexpected conditions from time to time.

Similarly for Middlemount, the average forecast cost of production for coal produced was projected in relation to similar operations elsewhere and BDA’s expectation for ongoing operations. Due to its strip ratio, it is a relatively high cost operation and its long-term average FOB cost will be in excess of \$100/t FOB, excluding royalties. 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.

3.6 Capital Costs

Gloucester has provided sustaining and development capital cost estimates for all mining operations and planned developments. BDA has reviewed the estimates and considers them realistic estimates, with adequate provisions for contingency. BDA has provided Deloitte with its opinion with regard to the capital costs that should be applied to the various Gloucester projects in the financial model.

BDA recognises that there will be variations in the forecast capital expenditures over time, but considers the allowances reasonable for the projected requirements. Similarly, BDA considers that the ongoing capital provisions are appropriate and compatible with industry trends, although there will be variations in the forecast capital expenditures over time, both within and beyond the control of Gloucester.

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For the Middlemount operation, the capital cost estimates in the Gloucester financial model include sustaining capital and estimates for the construction of the Middlemount expansion. Given the recent Middlemount track record in the timely construction of the Middlemount mine, washery and infrastructure, all completed within the past three years and reportedly close to Budget estimates, BDA considers the ongoing capital provisions in the financial model are appropriate and compatible with historical performance and industry trends. However, BDA notes that there will be variations in the forecast capital expenditures over time, both within and beyond the control of Middlemount.

3.7 Risks

BDA has reviewed the potential risks for the various Gloucester operations and considers that, in the short to medium term, the principal risk to projected cash flows would be the delays to the planned ramp-up in production and sales in the various proposed developments and in achieving the cost forecasts following expansions. This is considered a medium risk, with exposure to approval delays, development or production delays, or lack of rail or port capacity.

Similarly, BDA has reviewed the potential risks for the Middlemount operation and planned expansion. BDA notes that the initial development appears to be ramping up to design levels approximately on schedule and considers that, in the medium term, the principal risk to projected cash flows would be the slower than planned ramp up to full production in the expanded Middlemount operation.

Other than the foregoing identified risks, BDA considers the inherent risks associated with mining have been adequately addressed in the Gloucester operations plans and there is no evidence of any additional material risks to the ongoing operations. Rail and port constraints appear to have been addressed with the commissioning of the Abbot Point rail link and port allocation.

3.8 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 projects 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 3.5.

Table 3.5

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 (“CPP”) yields may be affected by factors such as <ul style="list-style-type: none"> • sales mix changes • mining dilution and losses • seam variability • mining sequencing and scheduling
Capital costs	±10%	Test the sensitivity to capital forecasts.
Start ups	+12 months	Donaldson UG mines

3.9 Residual Resources and Exploration Valuation - Gloucester

As part of the brief, BDA was requested to estimate the value of the exploration potential of residual (not in the current mine plan) coal resources on each of the mine properties. BDA has used a similar technique to that used for the Yancoal properties to estimate these values. Table 3.6 summarizes the results.

Table 3.6

Valuation of Residual Resources at Gloucester Mines

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Mine	Residual Resources Mt	Main Coal Type	Resource Value \$/t	Resource Value A\$M	Range
Gloucester Basin OC	200	SHCC/T	0.50	100	80 -120
Gloucester Basin UG	50	SHCC/T	0.50	15*	12 - 18
Donaldson	580	SSCC/T	0.30	175	150-200
Middlemount	0	PCI		0	0
Monash	580	SSCC/T	0.30	175	150-200
Gloucester Total	1,410	Average	0.41	465	392-538

* *Reduced due to thick seam resource only amenable to partial extraction in underground*

Based on this approach, BDA values the Gloucester exploration assets in the range of A\$392-538M, with a most likely value of A\$465M.

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4.0 YANCOAL MINES – OPEN CUTS AND UNDERGROUND

4.1 Ashton Mines – Open Cut and Underground Mines

Ashton Project Outline

The Ashton Coal operations comprise two main mining areas, the Ashton underground (“UG”) longwall operation and the proposed SE opencut (“SEOC”) mine, both located south of the New England Highway. The now exhausted NE opencut mine (“NEOC”) operated for over seven years and its reserves were fully mined out in by mid-2011. Delays to the approvals for the SEOC have led to a suspension of opencut operations until SEOC is approved. In late 2011, the Planning Assessment Commission engaged in assessing the SEOC recommended against the mine. Yancoal has appealed this decision, but whether that will succeed is currently unclear and a delay of 12 months has been assumed. Subsequent to the mining of the SEOC, opencut mining is planned to continue either on the adjacent Coal and Allied lease, if agreement can be reached, or in the West Opencut (“WOC”), where additional resources have been identified above Ashton UG.

The Ashton CPP can receive coal simultaneously from both the opencut and underground operations and has two modules with a combined capacity of up to 6.3Mtpa of ROM coal. At yields of 60-63%, this can produce up to 3.8Mtpa of product coal. Site facilities include ROM and product coal stockpiles, as well as a train-loading facility adjacent to the product stockpiles. The mine is 95kms by rail to the Port of Newcastle.

Ashton Tenements

The Ashton tenements, Mining Leases ML1533, ML1529 and ML1623 and Exploration Licences EL4918 and EL5860, contain the bulk of the Ashton economic seams.

Ashton Regional and Local Geology

The seams being mined within the Ashton leases are within the Singleton Super-Group, comprising the Late Permian Wollombi Coal Measures and Wittingham Coal Measures. The Ashton Coal Project is mining within the Wittingham Coal Measures, which include, in ascending order, the Barrett, Liddell, Arties and Pikes Gully seams.

Ashton Coal Resource and Reserve Estimates

JORC-compliant Resource and Reserve estimates have been signed off by Competent Persons and are summarised as shown in Table 4.1.

Table 4.1
Ashton Open Cut and Underground Resources and Reserves Estimates**

June 2011				
Seams	M & I Resources* (Mt)	Proven Reserves (Mt)	Probable Reserves (Mt)	Total Reserves Mt
Open Cut	55	14	3	17
Underground				
Pikes Gully		1	1	2
Upper Liddell		10	3	13
Upper Lower Liddell		9	3	12
Lower Barrett		8	5	13
Total Underground	243	28	11	40
TOTAL	298	42	14	57

* M & I: Measured & Indicated ** all tonnages rounded

BDA considers the methodology used for preparation of the Resource and Reserve estimates appropriate and the open cut reserves in the various pits are considered reasonable estimates of the mining recoverable coal. The underground reserve estimate of 40Mt includes estimates of all in-situ “reserves” of the Pikes Gully, Upper Liddell, Upper Lower Liddell and Lower Barrett Seams and includes allowances for losses and dilution. BDA has reservations about the quantum of the underground reserves that will be recoverable, given the uncertainties around the ability to extract full projected tonnages from the lower seams.

Recoverable underground reserves are based on longwall mining in each of four seams, sequentially and in descending order. The inter-seam interval is of the order of 30-40m which, from a stress and displacement perspective, may allow considerable interaction between seams. Development in the

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second seam has progressed to the SE and under mined-out areas without noticeable interaction. However BDA considers there remain some material risks regarding longwall operations and coal recovery from the lower (underlying) seams; there are uncertainties as to whether the progressive underlying longwall panels can be successfully and economically extracted and the extent to which the production estimates over the life of the operation can be relied upon. As a result of these factors, BDA considers that there is a risk of loss of reserves in the lower seams and a reasonable likelihood that the longwall will perform less well than projected in the lower seams.

Ashton Opencut Mining

Mining from the SEOC has been delayed due to failure to gain mining consents. The planned mining approach is consistent with the established practices at NEOC and productivities can be expected to be similar. In the longer term, Yancoal plans to mine south of SEOC on leases yet to be secured, and in the West Pit, which overlies the Ashton UG longwall mine, once the longwall mining is completed. Opencut mining is forecast at 2.0 to 3.5Mtpa, with coal sales ranging from 1.4Mtpa in 2015, increasing to 2.1Mtpa from 2018 to 2021. Subject to receiving timely approval for development of SEOC, BDA considers these estimates reasonable.

Ashton Underground Mining

The Ashton Underground area is in production and the initial longwall panels have been successfully extracted at rates consistent with and in some cases in excess of projections. The Pikes Gully (“PG”) seam roof is generally competent, blocky well-jointed sandstone. Immediate roof and floor in the PG seam is a fairly weak, fissile shale/mudstone, so roof and rib bolting techniques have been used fairly extensively. In exposures to date, the Upper Liddell (“UL”) seam roof is similarly competent, blocky well-jointed sandstone. In descending order, the seams conceptually designed to be longwall-mined from the Arties pit portal construction are:

<i>Pikes Gully Seam:</i>	2.1m to 2.7m thick; 19% to 31% raw ash
<i>Upper Liddell Seam:</i>	1.8m to 2.8m thick; 25% to 33% raw ash
<i>Upper Lower Liddell Seam:</i>	2.0m to 2.4m thick; 17% to 32% raw ash
<i>Lower Barrett Seam:</i>	2.2m to 2.8m thick; 19% to 25% raw ash

Plans for the underground mine are based on 40Mt of remaining reserves as at June 2011 and a nominal annual mining rate of 3.3Mtpa ROM, giving a mine life of around fourteen years to 2025. Production rates since the start of operations have averaged approximately 3Mtpa ROM and forward projections generally range from 2.9-3.5Mtpa for the life of mine (“LOM”). Subject to the earlier comments about issues with mining the lower seams, BDA considers these estimates reasonable.

Ashton Coal Preparation and Handling

The Ashton CPP is designed to process all UG and OC mine production. It has achieved 95% availability and a combined (module 1 and 2) feed rate of 1,070 tonnes per hour (“tph”), with utilisation of 75% to 82%. To achieve the throughputs required when the SEOC is operating at 3.5Mtpa and the underground at 3.3Mtpa, the CPP will need to be operated on six or seven days per week.

Site infrastructure includes established ROM and product coal stockpiles and facilities for the disposal of plant coarse rejects, tailings and overburden, as well as a train loader and bin adjacent to the product stockpiles.

Ashton Capital and Operating Costs

Planned capital expenditure (“capex”) for Ashton OC operations over the next four years totals \$162M, and over the full LOM is \$326M. Detailed capital cost estimates have been prepared for sustaining capital for the existing operations and development of the SEOC.

Capex at Ashton UG over the last three years has totalled \$94M, or approximately \$31Mpa. Planned capex for Ashton UG over the next four years totals \$95M, and over the full LOM is \$172M.

The major forecast expenditures relate to land purchases, mobile equipment, infrastructure, dump station and conveyors, and include a contingency provision. BDA considers these estimates reasonable and, at this stage, accurate within $\pm 10\%$ for sustaining capital and $\pm 15\%$ for the SEOC Project.

Operating costs (“opex”) in the NEOC over the last 12 months have been well above the LOM average as mining was completed, with the declining production resulting in rapidly increasing unit costs. For surface mining in SEOC, operating costs are forecast to reduce from above the average NEOC cost

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initially to around the NEOC LOM average thereafter, consistent with NEOC operating costs at full production rates.

Operating costs for the last three years in Ashton UG have been reasonably consistent on a free on rail (“FOR”) and free on board (“FOB”) basis, although some mining problems last year pushed them outside their normal range. They are forecast to reduce from current levels initially in 2012 to around the historic UG average operating costs to date at full production rates. Long-term cash costs for combined OC/UG coal operations are forecast to be slightly less than historical levels on FOB basis. BDA has reviewed the opex and capex projections and has advised Deloitte of its opinion with regard to the projected operating costs.

Ashton Environmental Approvals and Compliance

From the approvals information provided by Ashton, and with exception of the SEOC, BDA is of the opinion that all the necessary development consent and licensing requirements under NSW planning legislation have been obtained or are in the process of being obtained. Based on the Mining Operations Plan, associated EMPs and Annual Environmental Management Report, the environmental risks associated with operating the current operating mines appear acceptable, provided that all proposed environmental management strategies are applied diligently and commitments implemented.

The main environmental risk to the project is the issue of environmental impacts, particularly noise and dust on the nearby Camberwell village resulting from Ashton mining operations. Ashton appears to be managing these impacts diligently, but it will remain a significant challenge, particularly as the SEOC mine is developed. The risk of further delays in seeking regulatory approvals, both primary and secondary approvals is significant, as evidenced by the Bowmans Creek Diversion and SEOC approvals.

The Project Approval for the SEOC remains outstanding. The Planning Assessment Commission (“PAC”) rejected the SEOC proposal in late 2011. Significant changes had been made to the original SEOC mine plan to meet the concerns raised by the DP&I and others. The SEOC is planned to produce up to 2.4Mtpa of product coal from the proposed 3.6Mtpa of ROM coal to be extracted. The Project Approval also seeks to increase throughput of the CPP and rail loading facilities to cater for 8.6Mtpa of ROM coal (or an additional 2.3Mtpa of product coal) and increased coal extraction rate from 2.95Mtpa ROM coal in the existing underground coal mine. Yancoal has appealed against the decision.

Ashton holds and operates under an Environmental Protection Licence (EPL) No. 11879 which was granted in March 2003. Ashton currently operates under a Mining Operations Plan (“MOP”) approved by the Department of Primary Industries on 1 September 2008 and covers the period from April 2007 to 31 December 2012.

As required under the Development Consent, an independent Environmental Compliance Audit for the Ashton operations period 2007 to August 2010 was conducted in August 2010.

Ashton Infrastructure - Rail to Port of Newcastle Capacity

The Ashton Mine is located adjacent to the main Hunter Valley rail line and has a purpose built rail siding for loading coal trains. ARTC, the rail-track company, has plans to continue to increase capacity of the Hunter Valley rail system to levels well above the current capacity. It is reasonably expected that there will sufficient capacity in the rail system to meet the future requirements of the Ashton Mine Project.

Ashton Shiploading Capacity

The Port of Newcastle currently has two export terminal operators. PWCS currently has capacity for about 133Mtpa, and is in the process of expanding to 145Mtpa. A new 30Mtpa coal export terminal has been constructed by NCIG, a consortium of which Yancoal is a member. This terminal commenced operations in 2010 and is now fully operational. NCIG is currently near completion of an expansion to 53Mtpa, and has begun expansion to 66Mtpa. Ashton product coal has historically been exported through PWCS, and this is considered likely to continue.

Ashton Coal Marketability

Ashton coal is typical of Hunter Valley coals, and is readily marketable, especially in the current market. The typical product coal specifications have good quality thermal and semi-soft coking coal properties. The seams being mined are well known in the market and sales of the coal qualities

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planned to be produced have already commenced. Key semi-soft coking specification is 9.5% ash, and total sulphur 0.65%, while the export thermal coal is 12% ash and 0.6% total sulphur.

4.2 Astar Mine – Underground Longwall Top Coal Caving

Astar Project Outline

Astar Coal Mine Pty Ltd (“Astar”), a wholly-owned subsidiary of Yancoal Australia Pty Limited, operates the Astar underground coal mine located in the Hunter Valley in New South Wales, 10km south west of Cessnock in the Newcastle coal fields. The mine comprises the former Ellalong, Southland and Bellbird South Collieries and has been worked under various names since 1916. Yancoal also has exploration rights for a large area adjacent to the existing mine.

In December 2003 a fire in the underground workings resulted in Southland Coal being placed in financial receivership, and then on care and maintenance. Yancoal Australia Pty Limited purchased the mine in December 2004 and renamed it Astar Coal Mine.

Mining operations commenced in the Stage 1 mining area in April 2005 and introduced the longwall top coal caving (“LTCC”) mining method and technology in 2006. Currently underground mining is occurring in the Stage 2 area, within Consolidated Mining Lease 2 (“CML2”) under Development Consent 29/95.

Astar Tenements

Yancoal is the holder of numerous mining leases covering the Pelton CPP, previous underground collieries and the Astar longwall mining areas (Stages 1, 2 and 3) through its wholly owned subsidiary, Astar Pty Ltd. The Astar held tenement, CML2 contains the bulk of the Astar economic seams and the majority of Stage 3 LTCC development is located within the lease, with the remainder being located within pending mining lease application areas. Mining Lease application MLA332 is to cover the extension of Stage 3 LTCC developments A11-A17 in an easterly direction.

Astar Regional and Local Geology

The Greta coal measures in the Cessnock area are of Early to Middle Permian age and overlie the sediments and volcanics of the Dalwood Group at the base of the Permian succession. Overlying the Greta measures are the Tomago coal measures (separated by up to 2,000m of barren Maitland Group sediments), which are in turn overlain by the Newcastle Coal Measures.

The Greta Seam has been mined in the district for well over 100 years and the surrounding mines and accumulated geological knowledge provide a useful database to supplement exploration data. Depth of cover to the Greta Seam at Astar is up to 700m, with current workings at about 400m and essentially progressing down dip. In-situ stress has caused roof control issues in past mining, but Astar has continued and improved the monitoring techniques to address this issue.

Seam thickness ranges from 4-5m in the current workings to over 7m down dip. The basal 3m is reported as low-medium in raw ash (<10%), but increases up to 20% ash in the full seam, as the top 3m contains claystone bands. Sulphur content in the basal section is 0.8-1.2%, but increases to >3% in the full seam. Its thickness range is suited to LTCC mining techniques, with the caveats noted above of roof control,

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spontaneous combustion/ventilation control and caving control. Greta Seam coal is well known in the market as a low ash, high fluidity, semi-hard coking blend coal.

BDA has undertaken an underground inspection as part of this review. The headings and cut-throughs examined were adjacent to the Quorrobolong Fault Zone and showed good mining conditions, with little observed insitu stress damage. The current LTCC supports and operating system appeared appropriate to the ground conditions and the wall was operating as expected with an estimated 80% recovery of top coal.

Austar Coal Resources and Reserves

The Austar area has been actively explored and mined for well over 100 years. Austar has continued exploration progress with active drilling programmes, geotechnical analyses and washability analyses. The continuing exploration programme proposed in the mine plan is adequate if carried out as indicated.

The most recent JORC-compliant estimate of Greta Seam resources within the Austar leases as at June 30 2011 totals 221Mt, comprising 81Mt Measured, 70Mt Indicated and 70Mt Inferred (*McElroy Bryan Report 242/1*), as shown in Table 4.2.

Table 4.2

Austar JORC Resources and Reserves at June 2011

Mining Areas	Resources*			Total Mt	Reserves**		Total
	Measured Mt	Indicated Mt	Inferred Mt		Proved	Probable	
Ellalong	21	9	0	30			
Bellbird	13	0	0	13	}	}	}
Stage 3	47	61	20	128	}13	}32	}44
Far East	0	0	50	50			
Total	81	70	70	221	13	32	44

* tonnages rounded

** Reserves include Bellbird & Stage 3

These Resource estimates are for the full geological section of the Greta Seam and account for known complex fault zones that cross-cut through the ELs. The Greta Seam splits in the far eastern area of EL6598 and only the lower split is included in the estimate.

BDA has examined the McElroy Bryan Report 242/1 and is satisfied that the data and analyses used to compile the Report comply industry standards, and when combined with the geological modelling and tonnage estimates, provide a JORC-compliant Resource estimate. A mine plan for longwall mining layouts was generated from the Resource estimate and a JORC-compliant Reserve estimate was prepared in November 2011 relating to the Resource estimate as at June 2011 (*Barber Consulting, JORC Reserve Statement for underground operations*).

The Reserve estimate is based on the mine plan as at 14 November 2011 and totals approximately 13Mt Proved and 31Mt Probable, for a total of 44Mt of Reserves. It is noted that Austar utilises LTCC when mining conditions allow, to maximise the full seam recovery and minimise goaf-heating risk (a major consideration). The Reserve estimate accounts for this within known recovery probability with a 10% allowance for loss of coal. Similarly, CPP recovery to achieve Marketable estimates is accounted for from both known washability and historical data.

BDA has examined the mine plan of November 2011 and the Reserve estimate compiled from this plan and is satisfied that the data and analyses used are of high industry standard. As such, the tonnage estimates provide a JORC-compliant Reserve estimate.

Austar Mining Operations

Austar recommenced mining operations in mid-2005 and introduced the LTCC mining method and technology in late 2006. LTCC mining combines a conventional retreat longwall unit, with a shearer and an armoured face conveyor ("AFC"), but adds a second AFC located behind the shield to recover coal that falls into the goaf. The longwall shield supports are also of a modified design, incorporating an additional system of hydraulically operated tail canopies at the rear of the support. Currently, underground mining is occurring in the Stage 2 area, with development having recently started opening up the Stage 3 area to the east. This will be the key mining area over the next ten years.

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Austar is a longwall mine using LTCC to maximise coal extraction from the thick Greta Seam, which varies in thickness from 4.5 to 7.0m. Depth of cover in the working areas has ranged from 400m to 550m, and will increase to 700m and higher as mining progresses to the south. Austar is the only mine in Australia using LTCC, but it is used widely in China, where Yancoal has experience with the technique. The longwall supports are DBT 1,000t shields with LTCC additions and the shearer is a DBT Electra 1000. Development for the longwall is carried out using continuous miner units, comprising two ABM25s and one Joy 12CM30.

Mining in the Stage 2 area has been constrained by short length longwall blocks, due to major fault systems in the area. The Stage 3 area is expected to allow longer E-W oriented blocks between two regional faults. Beyond this, Yancoal is planning to continue longwall operations down dip, or following exploration, move the operations in an easterly direction through the next major fault to the east.

Problems with self-heating and spontaneous combustion have been known in the Greta Seam from the old Cessnock No. 1 and Southland workings. Following a serious heating event in 2003, there have been numerous improvements made to the mine ventilation system and operating practice. A nitrogen inertisation plant is on site to minimise the potential for spontaneous combustion, which will require ongoing strict management during all future operations. Detailed Spontaneous Combustion Management plans and procedures have been prepared in consultation with the NSW Department of Primary Industries Minerals Branch.

Based on drillhole results, gas levels in the coal in Stage 3 area are forecast to be low to moderate, but gas levels will increase with depth and may require gas drainage. To date, gas levels have been controlled by normal ventilation practices.

The underground mining results in varying levels of subsidence on the surface above the workings. Yancoal has prepared subsidence forecasts and developed a mine layout plan which aims to minimise subsidence effects on overlying properties and watercourses.

Austar Coal Preparation and Handling

The Austar CPP is an old plant with a long history of upgrades and modifications. Recent upgrades have improved throughput, availability and efficiency and it is operating four days/week on current tonnage. It has sufficient capacity for the planned increase in mine output. Availability has been increased and the plant is now running at 18,000t per day, although the throughput is currently limited by yield because of limited product conveyor capacity. At present, the plant processes all mine output operating four days per week, and has sufficient capacity to process the projected 3.8Mtpa projected as the maximum mine output.

The mine has had a significant issue with sulphur and acid generation; the coal is treated by a purpose-built plant that is now running above design capacity and this problem is under control.

The raw coal stockpile has a live capacity of 50,000t and an overall capacity of 500,000t. All coal stored in excess of the live storage capacity of the system is handled using dozers. The washed coal stockpile has a maximum capacity of 350,000t, but is normally maintained under 100,000t. Trains are loaded via an underground feeder/conveyor system from the product stockpile through a rail loading bin next to the CPP.

Austar Mine Production

Austar has averaged 1.8Mtpa ROM, peaking at 1.9Mtpa over the past three years and yields have ranged from 84-88%, with sales averaging 1.5Mtpa. The Austar forecast shows production ramping up from 1.7Mtpa ROM in Stage 2 to 3.7Mtpa ROM over the next five years, with production scheduled to increase as the more productive Stage 3 area is accessed, in conjunction with coal transport chain improvements through capital investment over the same period. BDA considers that, subject to making the forecast capital commitments, the production estimates are reasonable and achievable.

Austar Capital and Operating Costs

Capex at Austar over the last three years has totalled \$94M, or around \$31Mpa. Planned capex over the next four years totals \$228M and over the full 30 years is \$676M.

Operating costs forecasts from the Austar plans are for costs higher than the historical average in 2012 and 2013, reducing to around the LOM average thereafter. Mining costs are forecast to be high for the next two years due to the high development component in opening up the new Stage 3 Area. Costs are then forecast to fall as the mine is expected to be on a more balanced development basis. BDA has

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reviewed the opex and capex projections and has advised Deloitte of its opinion with regard to the projected operating costs.

Austar Infrastructure Capacity

Austar coal is carried by rail via the South Maitland Railway, a private railway owned by SMR Ltd, that runs from site to Maitland. From Maitland, trains run on the main Hunter Valley rail system to Newcastle. The SMR has a low axle capacity constraint which enables only 2,100t trains on the line. Austar is planning to lengthen the rail loading siding at the CPP to enable longer, but same axle load trains, which will carry 3,300t.

The Port of Newcastle currently has two coal export terminal companies. PWCS has existing capacity for about 133Mtpa, and is in the process of expanding to 145Mtpa. A new 30Mtpa coal export terminal has been constructed by NCIG, a consortium of which Yancoal is a member. This terminal commenced shiploading in 2010 and is fully operational. NCIG is currently near completion of an expansion to 53Mtpa, and has commenced expansion to 66Mtpa. Historically Austar coal has been exported through the PWCS facility.

Austar Environmental Approvals and Compliance

From the approvals information provided by Austar, BDA is of the opinion that all the necessary development consent and licensing requirements under NSW planning legislation have been obtained or are in the process of being obtained. Based on the Mining Operations Plan and associated EMPs, the environmental risks associated with operating the underground mine appear acceptable, provided that all proposed environmental management strategies are applied diligently and commitments implemented.

The main environmental risk to the project is the issue of impacts on the nearby towns of Cessnock and Bellbird and the numerous rural residences in the vicinity of the Austar operations, areas of which are potentially impacted by subsidence. Austar appears to be managing these impacts diligently, but it will remain an ongoing challenge as underground mining progresses eastward into the Stage 3 area.

Austar holds an Environmental Protection Licence No. 416, granted in May 2002. There have been three variations made to the licence in November 2009. Austar currently operates under a Mining Operations Plan ("MOP") approved by the DPI in June 2008 and covers the period 2008 to 2015.

Austar Coal Marketability

Coal produced at Austar is typically high volatile, low ash, high specific energy, high fluidity coal which can be utilised in a range of blends for the coking and thermal markets. The coal has a medium to high sulphur content, with the sulphur generally occurring in the top sections of the seam. Both organic and pyritic sulphur are present in the seam. The total sulphur in the product coal is typically marketed at less than 1.5% by controlling the working section and by screening and washing of the raw coal delivered to the CPP. The relatively high sulphur causes some market acceptability issues.

4.3 Yarrabee Mine – Open Cut Mining

Yarrabee Project Outline

The Yarrabee coal mine is located in Central Queensland's Bowen Basin approximately 39km north-east of Blackwater, 150km west of Rockhampton and 280km north-west of the Port of Gladstone. Yarrabee Coal Company Pty Ltd ("YCC"), a wholly-owned subsidiary of Yancoal, has conducted open-cut coal mining on the leases since 1989 and has been owned 100% by Yancoal since July 2003. YCC produces a direct shipping low volatile, high energy PCI product and small tonnage of export thermal coal. From site, coal travels around 45km by road to a rail siding at Boonal, then is railed to the Port of Gladstone and shipped to steel makers in Asia.

Strong demand for YCC coal in the PCI market prompted an expansion in 2008, with construction of a new 2.5Mtpa CPP that was commissioned in July 2009. The introduction of additional mining equipment in 2012 will facilitate an increase in PCI coal production.

Yarrabee Tenements

Yancoal is the holder of six mining leases and six exploration permits covering the Yarrabee coalfield through YCC. An application to convert the northern portion of EPC717, one block of EPC1429 and the northern part of MDL160 to a mining lease is in progress (MLA80172).

Yarrabee Geological Description

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The target seams at Yarrabee lie within the Rangal Coal measures within the Jellinbah/Yarrabee thrust zones off the Mimosa syncline. The core structural geology is a series of thrust faults and overfolds which limit strike length for individual pits but yield strip ratios enhanced by doubling and tripling of seams in many areas. Seams within the Yarrabee area, in descending order, are:

- Cancer
- Aries
- Castor
- Pollux
- Orion
- Pisces

Mining and exploration activities have identified the Pollux seam as the primary economic coal measure that comprises the bulk of the resource, with a mean thickness of 3.6m, although in some areas the Pollux seam has recorded thicknesses of up to 30m. Exploration carried out to date is reasonably extensive and primarily comprises both open hole and part-core drilling, as seam splitting and faulting is common and seam correlation can be problematic, even with a full record of geophysical logging.

Yarrabee Coal Resources and Reserves

Following a comprehensive drilling programme conducted over recent years, YCC has provided JORC compliant resource and reserve estimates, signed off by Competent Persons, as at November 2011. The Resource estimate totals approximately 170Mt, comprising Measured resources of 65Mt, Indicated of 84Mt and Inferred of 21Mt. With mining plans applied to some of the resources, the Reserves estimate totals 57Mt, made up of 38Mt of Proved and 19Mt of Probable Reserves.

Table 4.3

Yarrabee JORC Resources and Reserves at 30 November 2011*

Area	Resources				Reserves		
	Measured Mt	Indicated Mt	Inferred Mt	Total Mt	Proved Mt	Probable Mt	Total Mt
Opencut	65	84	21	170	38	19	57

* tonnages rounded

BDA has examined the drillhole data, geological mapping and pit mine records from which these estimates were prepared and considers that the methodology adopted and the interpretations used are appropriate and in accordance with industry and JORC compliance standards. BDA is satisfied that the estimate is a reasonable approximation of the identified coal resources and, with the application of appropriate mine designs and operating parameters, the estimation of mineable reserves.

Yarrabee Mining Operations

YCC uses open cut mining methods, with conventional truck and shovel operations. Production has increased from 180,000t in 1983 up to 3.1Mtpa ROM in 2011. Overburden removal is carried out with excavators and a fleet of 200t capacity trucks, as well as dozer push. New loaders and trucks are due on site in 2012 and 2013. Coal mining is carried out with a fleet of loaders, excavators and trucks.

YCC plans to replace the full mining fleet within twelve months and to further expand in 2016 to 5.5Mtpa ROM capacity. Provision has been made in the capital budget for half-life rebuild of the fleet in 2017.

Yarrabee Mine Production

YCC coal production and coal sales were reasonably steady from 2005 to 2009, then increasing from 1.7Mt ROM in 2009 to 3.1Mtpa ROM and 2.3Mtpa of product coal in 2011. YCC is a relatively high strip ratio operation, averaging around 12:1 bcm of waste per ROM tonne over the LOM. Yancoal planning includes highwall mining to recover additional coal from final pit walls in future years.

Yarrabee Coal Preparation and Handling

Until the commissioning of the CPP at Yarrabee in 2009, there were no washing facilities on site and historically, YCC toll-treated limited tonnages of high ash ROM coal in campaigns at the neighbouring Jellinbah washery to produce a saleable export PCI product, blended with PCI by-pass. The YCC 2.5Mtpa CPP was completed and commissioned in July 2009, with a process that involves desliming on multi-slope screens, primary/secondary dense medium washing, spirals and a Jameson Cell to

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upgrade fines. This provides the capacity to produce up to 95% of product as a 9.5% ash PCI coal and the mine has produced only PCI coal since 2011, with some sales in the spot market where there were contract shortfalls.

The CPP requires upgrades to the feed and product handling systems to provide long-term stable operation at the increased capacity. Current coal preparation plant yield estimates are 74% and with some 25% bypass of unwashed coal, a total yield of >80% is expected.

Yarrabee Capital and Operating Costs

YCC has a significant capital expansion programme running over the next five years, involving an estimated A\$501M spent on replacement and additions to the equipment fleet for 5.5Mtpa ROM capacity, refurbishment of the Boonal coal handling and loading facilities, installation of a rail loop, expansion of the CPP to 5.5Mtpa ROM capacity and expenditure commitments to the WICET Stage 1 port development. There is provision in the financial model for annual sustaining capital expenditure of approximately \$2 per tonne. Total capex over the life of mine is estimated at \$912M. BDA considers the accuracy of the short-term estimates to be of the order of $\pm 10\%$, whereas the accuracy of the long-term capex estimates is considered to be of the order of $\pm 15\%$.

Yarrabee cash operating costs show a progressive reduction as waste removal costs as the mine moves to fully owner operated and some limited economies of scale as production is ramped up with larger equipment. The site cash operating costs adopted in the financial model are projected at around 15% above the average historical levels in 2012, to account for increasing the overburden inventory for the expanded production plans, and thereafter progressively reducing over four years to the LOM average, based on savings in mining and reductions in washery and materials handling costs. BDA has reviewed the projections and has advised Deloitte of its opinion with regard to the projected operating costs.

Yarrabee Environmental Approvals and Compliance

BDA considers that YCC has all the necessary development consent and licensing requirements under Queensland environmental protection legislation. Based on the Plan of Operations and Environmental Management Plan, the environmental risks associated with operating this open cut coal mine are acceptable, provided that all environmental management strategies are applied diligently and commitments implemented. The EPA audit conducted in May 2007 raised a number of issues, which YCC dealt with promptly and the rehabilitation of mined areas progresses on an ongoing basis.

Yarrabee Product Coal Transport

Yarrabee product coal is transported by 180t road-trains approximately 45km south by road to the Boonal railway siding where it is loaded into rail wagons for the 280km journey to the Port of Gladstone. Yarrabee currently has an allocation of 1.8Mtpa through the RG Tanna Terminal and 1.0Mtpa through Barney Point Terminal both at Gladstone. From 2014 Yarrabee has an allocation of 1.5Mtpa through the new WICET Coal Terminal at Gladstone, which recently commenced construction. Yarrabee has applied for an additional 1.3Mtpa capacity at the proposed Dudgeon Point terminal.

Yarrabee Coal Marketability

Yarrabee coal from the Bowen Basin is readily marketable with an established product specification and demand, particularly in the current market. Coal quality is expected to remain consistent with historical coal specifications. The seams being mined are well known in the market, and sales of the coal qualities planned to be produced are already accepted. Indicative PCI specification is 9.5% ash, 9% volatile matter and sulphur 0.6%

4.4 Moolarben Operations – Open Cut and Underground Longwall Mining

Moolarben Project Outline

The Moolarben coal exploration area is located approximately 40km northeast of the town of Mudgee in New South Wales, immediately to the east of the Ulan Coal Mine and to the west of the Wilpinjong Coal Mine. Moolarben Coal Mines ("MCM") is a joint venture managed by and 80% owned by Yancoal. Sojitz holds 10%, whilst a Korean consortium, including Hanwha Corporation Limited, Korea Resource Corporation (KORES), Korea Electric Power Company (KEPCO) and four of its generator subsidiaries (Kosep, Komipo, Kowepo and Kospo) hold the remaining 10%. MCM proposes to develop four open cut mines extracting up to 14Mtpa ROM coal, and a series of underground mines

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extracting up to 6Mtpa ROM coal (collectively Stages 1 and 2). The project is based on coal reserves of approximately 315Mt.

Stage 1 comprises three open cut mines, OC1, OC2 and OC3 and mining related infrastructure including coal processing and transport facilities. Stage 2 comprises one open cut mine OC4, two underground mines and associated infrastructure.

Favourable overburdens to coal ratios exist in the licence areas and the opencuts have JORC Reserves at stripping ratios less than 3:1. Significant underground resources have also been identified and JORC Reserves are estimated at 75Mt.

Raw coal from the open cuts requires beneficiation to produce a suitable feed for power generation. The open cut and underground targets a 17.5% ash export product.

Due to the combination of low stripping ratios for the open pits and longwall mining underground, Moolarben will be a relatively low cost operation, with FOB cash costs (excluding royalties, management and marketing fees) estimated to average less than \$50/t product for the life of the operations. Mining will be from the Ulan Seam, which ranges from approximately 11m to 13m thick, with the full seam recovered in the open cut mines and a partial high quality section in the underground mines. The Ulan seam has been mined in the adjoining north and northwestern tenements by Ulan Coal using open cut and underground bord and pillar and longwall operations for over more than 20 years. Reliable geological and operational criteria and characteristics are available.

Moolarben Tenements

MCM holds three Mining Leases; ML1605, ML1606, and ML1628. ML1605 covers the UG4 and CPP infrastructure area, ML1606 covers OC1 and associated infrastructure.

MCM holds three Exploration Licenses, EL6288, EL7074 and EL7073. EL6288 covers Stage 1 OC and UG4 areas.

Moolarben Geological Description

The Moolarben site is located in the Western Coalfield, which occupies the northwest margin of the Sydney-Gunnedah Basin in NSW and contains coal measures of mid to late Permian age known as the Illawarra Coal measures.

The Illawarra measures contain a number of seams, of which the Ulan seam is a major coal unit. It occurs at the base of the coal measures and is between 5 and 13m thick. The structural setting of the area is relatively simple. A gently (1.5 to 2°) northeast inclined surface, with some superimposed rolling dips and undulations, defines the roof of the Ulan seam. Structure contours reveal a uniformity of dip and continuity of strike throughout most of the license area.

The Ulan seam is present throughout the license area at depths ranging from 0-120m in the south and 70-250m in the north, ranging in thickness from around 6m to about 15m. It has an in-situ ash content of between 34 and 35%, and can be washed to produce export (14-18% ash) quality medium to high volatile thermal coal with low sulphur and phosphorus levels.

Moolarben Coal Resources and Reserves

MCM has provided JORC-compliant Resources and Reserves Statements for the Moolarben deposit as at 30 June 2011 and shown in Table 4.4. The resources have been estimated to total 1.18Bt, comprising 376Mt of Measured, 598Mt of Indicated and 208Mt of Inferred Resources.

Table 4.4
Moolarben JORC Resources and Reserves at June 30 2011

Area	Resources*				Reserves*		
	Measured Mt	Indicated Mt	Inferred Mt	Total Mt	Proved ROM Mt	Probable ROM Mt	Total ROM Mt
Opencut					45	195	240
Underground					38	37	75
Total	376	598	208	1,182	83	232	315

* Tonnages rounded

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The Reserves estimates total 315Mt, being 83Mt of Proved and 232Mt of Probable reserves, with both detailed and conceptual mine plans, developed to take account of the known geological conditions. These include varied seam thicknesses, coal qualities, working seam sections, geological structures, faulting and/or intrusions, depth of cover, topographical factors, in-situ stress and groundwater. Consideration has been given to estimating the extent of coal losses and dilution that would be expected in both opencut and underground mining. BDA considers the estimates JORC-compliant, including an appropriate Competent Person sign-off.

Moolarben Open Cut Mine Plans

The opencut mining operation will comprise four opencut operations (OCs 1, 2, 3 and 4) with overlap between them to ensure continuity of production. For the overburden stripping, MCM has purchased and operates a fleet of rear-dump trucks matched to hydraulic excavators, with support and service units for maintenance. Mine plans include initial out-of-pit dumping and waste contouring for all box cuts and to establish the mining benches, with a haul-back system for the overburden and coarse rejects co-disposal to maximise in-pit backfill of waste when appropriate. Mining methods use conventional bench waste stripping and coal mining, with throw blasting and dozer push being used as and where practical to reduce costs. BDA considers these methods are appropriate to the deposits.

The opencut mines operate 24 hours per day, 5 days per week. The opencut limits are based on a nominal strip ratio cut-off of 3:1, with consideration given to surface constraints. Geotechnical conditions to date appear good and BDA considers the pit designs reasonable and practical.

Mining parameters assume that each mining section has a loss of coal at its upper boundary and a dilution gain at its floor. Because of the shallow dip of the coal seam, there have been coal losses along the line of oxidation, particularly for OC1 and possibly OC2. This has increased early overburden volumes and reduced initial ROM coal production for a period.

Production from the Moolarben OC operations is scheduled to progressively increase over three years from the current level of around 7Mtpa ROM to 13Mtpa in 2014 and then to 14Mtpa by 2017. Over the currently projected LOM, the operation will produce approximately 325Mt ROM, with sales of around 211Mt over the same period.

For rehabilitation purposes, the out of pit dumps serve as screening between mining operations and public areas and are being shaped to provide a self-draining stable landform. The final height of the emplacements generally ranges from 10-15m in height and the majority of the open cut excavations will be filled, with overburden being pushed up to the level of cut providing continuity with the existing hill side.

Moolarben Underground Mine Plans

The Moolarben underground area contains resource blocks where the cover generally exceeds 70m and that are therefore considered suitable as underground mining areas. The first underground mine, designated UG1 and scheduled to be commissioned in 2016, has been identified as the area most suitable for initial development, as early access is available from the open cut highwall and part of the open cut coal clearance system can be utilised to transport the coal to the CPP. It is currently proposed to mine the 3.0m D section of the Ulan seam in this mining block by conventional longwall, but it is possible LTCC may be introduced, subject to further study. In that case, significantly more coal would be recovered from the underground sections, but it is likely that all coal from underground would then need to be washed, rather than by-passed, as currently planned.

A second underground block is scheduled for development as UG4 from 2015 and commissioning in 2017 and it is proposed to mine a 4.2m composite section of the Ulan seam in this mining block. Other underground blocks have been included as conceptual plans and will be the subject of the Stage 2 Major Project Application.

The conceptual underground mine plans have taken into consideration ventilation and identified mining hazards, including spontaneous combustion, gas and ground water inflows. Access to the underground operations will be from the exposed seam in the highwalls of OCs 1 & 2, with the longwall panels oriented in an approximate north east-south west direction and the direction of extraction towards a rising grade. It is understood that each mine will have alternate egress development as an integral part of the layout.

Fully cored holes have been drilled in each underground mine area to provide a suite of rock mechanics data suitable for roof characterisation and subsidence studies. Test results indicate good strata properties and low potential for periodic loading. BDA recognises the potential risk of unidentified

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intrusions due to igneous activity in the new underground domains and considers extensive in-seam drilling will be required to limit the risk to underground longwall planning.

Gas composition and yield results have been reported to indicate relatively low levels of gas, with carbon dioxide and methane being the principal constituents. The Ulan seam has a history of spontaneous combustion events, with closures at the adjacent Ulan Mine following significant fires at the longwall goaf edge. The upper section of the Ulan seam will collapse within the goaf following longwall extraction, creating a fuel source for heating. The mine design has taken into consideration the risk that a heating can develop within the longwall goaf. BDA was advised that a comprehensive goaf atmospheric monitoring system and a detailed Spontaneous Combustion Management Plan will be incorporated in the mine operating and management controls. Provided all appropriate remedial and precautionary measures are undertaken from commencement of development, BDA considers the spontaneous combustion risk rating to be within the medium risk category.

Moolarben Coal Handling and Processing

The CPP is a modern dense medium cyclone, spirals and flotation plant. It has two modules with a nameplate capacity of 800tph each, although performance to date indicates a throughput rate of 1,000tph per module is achievable if the primary DMC is run at full capacity, and with attention to debottlenecking and efficiency, the plant could be run above this rate.

For a nominal 7,300 hours per year operating at around 2,000tph, the CPP has a capacity in excess of 14Mtpa, which is the rate the opencut is predicted to run at from 2017 in the financial model. The highest daily production achieved to date is slightly over 48,000t, which again indicates that the plant is already at a rate sufficient for the projected open cut production. The plant availability is reported to be running at 93% over the last year, which is good for a recently commissioned plant, and indicates that it should be able to achieve 7,300 hours/year. The CPP will operate twenty four hours per day, seven days per week and the plant control systems are the latest technology available.

The ROM coal handling system is currently designed to handle 16Mtpa of raw coal feed, which will need to be expanded to 20Mtpa before 2017, when both open cut and underground mines are scheduled to be in full operation. Raw coal is trucked to the dual dump hoppers using rear dump trucks and coal from the ROM stockpile is rehandled into the hoppers using a front end loader. There is provision for raw coal, particularly from underground, to be by-passed directly to the product coal stockpile. The dual streams will allow coal from both opencut sections and underground to be processed simultaneously.

The product coal stockpile has a nominal capacity of 400,000t, with provision for push-out for additional capacity if required. The storage area is divided into different product coal type stockpiles. The coal is reclaimed using feeders discharging to the reclaim conveyor feeding the train loadout bin. Dozers are used to push the coal into the feeders and the 4,500tph train loading system is fully automatic.

Coal from the underground operations will come on line in 2014 and will build to 6.0Mtpa by 2017. All underground coal is currently allocated to bypass and will substantially increase the activity in the materials handling section, but should not affect the plant operations. Construction of the materials handling plant for the bypass is ongoing and will initially be required in 2014, ramping up to full design rate from 2016.

The rail loop has sufficient rail to hold two full-sized trains and there is a 12-year contract with QR in place for coal haulage. There are currently some constraints caused by the rail system but these are budgeted to be resolved later in 2013.

Moolarben Environmental Approvals and Compliance

From the approvals information provided by MCM, BDA is of the opinion that all the necessary development consent and licensing requirements under NSW planning legislation have been obtained or are in the process of being obtained. The EA for Stage 2 including the OC expansion and UG mining is currently on public display, with approval scheduled for later in 2012. Based on the Mining Operations Plan, associated EMPs and Annual Environmental Management Report, the environmental risks associated with operating the current OC1 mine and future OC and UG mines appear acceptable, provided that all proposed environmental management strategies are applied diligently and commitments implemented.

The main environmental risk to the project is the issue of environmental impacts, particularly noise and dust on the nearby Ulan village and the various rural residences in the vicinity of the mining operations.

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MCM appears to be managing these impacts diligently, but it will remain a significant challenge, particularly as open cut mining is progressed southwards to OC2 and OC3.

MCM holds an Environmental Protection Licence EPL12932, granted in August 2008. There have been two reportable water discharge incidents (June 2009 and December 2010) which occurred during significant rainfall events and which have been subject to ongoing investigation and prosecution by the Office of Environment and Heritage, with fines recently imposed for the breaches.

MCM currently operates under a Mining Operations Plan approved by the Department of Primary Industries in November 2009 and covers the period to April 2012.

Moolarben Capital and Operating Costs

Planned capex for Moolarben OC operations over the next two years totals \$321M, and over the full LOM is \$651M, with significant expenditure committed to plant expansions, land acquisition and equipment fleet expansions and replacements. For the proposed Moolarben UG operations, planned capex over the next six years totals \$627M, and over the full LOM is \$1.0B. Significant expenditures include the development of the underground operations and associated infrastructure, the purchase and replacement of longwall units and coal handling and transport systems and purchase and replacement of mobile equipment.

Opex cost projections for the Moolarben OC operations are consistent with historical rates and will increase marginally on a product tonne basis due to projected lower recoveries and effectively slightly higher strip ratios, leading to higher mining costs per product tonne. Mining costs for all OC operations are forecast to remain consistent on a long-term basis.

For the Moolarben UG operations, long-term operating costs are projected to be similar but slightly lower than Ashton historical rates and consistent with other comparable similar operations, and lower than Austar on an opex per product tonne basis.

In terms of achieving target unit operating costs, the ramp-up for each additional development should be achieved within the forecast schedule and BDA considers that the projected total annual expenditure on opex to be accurate within $\pm 10\%$. The greatest risks, as far as unit operating costs are concerned, will be in achieving planned longwall production rates and in relation to the yield achieved through the CPP, and this has been taken into account in the forecasts.

Moolarben Transport Infrastructure

Rail to Port of Newcastle

The Moolarben CPP is located adjacent to the Ulan-Sandy Hollow railway line that connects to the Port of Newcastle, 270km by rail to the east. The Moolarben rail loading loop, adjacent to the main line can accommodate two trains up to 1,600m in length, with one train on either side of the loading bin.

The Hunter Valley rail network is now leased by ARTC, which is implementing a strategy to upgrade the capacity of the network, including the Muswellbrook to Ulan section. Demand on this section will increase rapidly due to the Wilpinjong mine coming on line, as well as the proposed Mangoola mine and Moolarben. The capacity will initially be increased by the installation of enhanced signalling and train control systems, modifications to the Muswellbrook yard and the provision of two additional passing loops.

The capacity of the track between Muswellbrook and Newcastle is also being increased to meet the projected demand and further improvements in the future would increase the capacity to 36Mt with an additional four passing loops. The rail network will have sufficient capacity to transport the MCP production when it comes on line.

Port of Newcastle

Port Waratah Coal Services ("PWCS") operates two coal export terminals at Newcastle providing a common user service to the entire Hunter Valley Coal industry. Ownership is spread over a mixture of coal exporters, end users and Japanese trading companies. A management agreement is in place with Rio Tinto to manage the facilities on behalf of the owners. The port operates on a cargo assembly basis with loading sequence being determined by turn of arrival of vessels. PWCS has a shiploading capacity of 133Mtpa and is expanding its operations to 145Mtpa. It is also seeking development consent for a new terminal, T4, with capacity of approximately 100Mtpa.

Newcastle Coal Infrastructure Group ("NCIG") has constructed a coal export terminal in Newcastle with the initial stage capacity of 30Mtpa. Construction was completed in 2010 and the facility was

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commissioned to the full 30Mtpa capacity in 2011. Additional expansion stages will take the capacity to 53Mtpa in 2013 and 66Mtpa in 2014. Yancoal Australia's share in NCIG is 15.4%. Yancoal's share of the capacity will be 4.6Mtpa from the initial stage, 6.3Mtpa from 2013 and 8.3Mtpa from 2014.

Moolarben Coal Quality and Marketability

The Ulan seam contains medium to high volatile bituminous coal, with low moisture, low sulphur, moderate Hardgrove Grindability Index and high ash fusion temperatures. The target ash for export coal is 17.5% air dried ("ad"), with a calorific value of 6,500 to 6,700kcal/kg (ad). Moolarben coal has established itself in the export market over the last two years, with over 9Mt of coal having been exported.

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5.0 GLOUCESTER COAL LIMITED – OPEN CUTS AND UNDERGROUND

5.1 *Donaldson, Tasman and Abel Mines*

Donaldson, Tasman and Abel Mines Outline

Donaldson open cut commenced open cut mining in February 2001 on ML1461, with all raw coal from the operation hauled to the Bloomfield CPP. The Central Pit was completed in the fourth quarter of 2010 having extracted approximately 18Mt of ROM coal at a strip ratio of 2.6 bcm per ROM tonne and produced 12Mt of saleable coal. The small West Pit is scheduled to extract coal over the next two years.

Abel Underground Mine is situated 26km from Newcastle, with the portal access from the high wall of the Donaldson open cut mine. The mine uses existing surface infrastructure and the Bloomfield CPP (which currently has Environmental Approval for 6.5Mtpa), rail loader and rail loop for coal processing and loading. The mine commenced in 2008 and produced 1.1Mt of ROM coal in each of 2010 and 2011 and is budgeted to produce 1.6Mt in FY2012. The mine is extracting coal from the Upper Donaldson seam within the Newcastle Coalfield. 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 CPP for processing and loading on the rail. The current Development Consent limit for the Abel underground is 4.5Mtpa. 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.

The Tasman underground mine (Mining Lease No. 1555) 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; pillar extraction subsequently commenced in March 2008. The mine produced 600,000t, 629,000t and 745,000t of ROM coal in 2009, 2010 and 2011 respectively. The operation is permitted to produce 975,000tpa. The mine 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 CPP 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 Mining Lease and lie within the exploration tenements, EL 5337, EL 5497 and EL 5498. 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 present Mining Lease; full scale production from these areas is not planned until 2019.

The proposed Tasman extension 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 area is subject to the grant of necessary approvals and Mining Leases. Approval is initially being sought to increase the ROM production to 1.5Mtpa on the completion of the Hunter Expressway. Once operations in the West Borehole seam are fully established, it is planned that ROM production will increase to 1.9Mtpa through a consent modification.

A further approval will be sought in the future to obtain approval for longwall mining in the southern area of EL 5498. The proposed Tasman extension project will access reserves in the West Borehole seam which lie to the west and south of the existing Mining Lease.

Donaldson Open Cut

The Donaldson open cut mine is located 23km from the Port of Newcastle on ML1461, contained within both Maitland and Cessnock Council areas. The tenement covers an area of 533ha and expires 20 December 2020.

The Closure Plan is included in the current MOP, which includes an estimated closure cost of \$1.6M. The statutory bond held by Government authorities is \$1.7M.

The Mine operates under a current Environment Protection Licence EPL11080, issued in 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 Licenses (Nos. 20BL168123 and 20BL168124) issued in November 2001 and 2002 respectively, relating to groundwater extraction from the active mining area and groundwater monitoring requirements.

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Abel Underground Mine

ML1618 (covering 2,755ha) was granted in May 2008 for a 21-year term and mining commenced in March 2008. The Company holds Exploration Licenses EL5497 (Abel and Tasman Extension covering 4,990ha and expiring July 2012) and EL6964 (Abel Extension covering 1,255ha and expiring December 2012). EPL12856 was issued July 2005 and is valid until cancelled; it is renewed annually.

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 north east area of the ML under land owned by Coal & Allied and the Catholic Church. This approval expires in 2028.

Gloucester Coal proposes to lodge a section 75W modification in Q3 2012 for shortwall and longwall mining within its existing mining lease to facilitate increased production from 4.5 Mtpa to 6.1 Mtpa. A separate Part 3A development application for the extension of Abel Mine, which will maintain production for in excess of 20 years and includes an approval to mine under the new Hunter Expressway-Newcastle Link Road, is planned to be lodged by the end of 2015. Abel longwall operations are scheduled to start production in 2014. However, no longwall activity is planned to occur under residences or transmission lines, in order to minimize community and Government concerns. Certain creeks will also be protected from longwall impact by exclusion zones. These areas will instead be mined by bord and pillar methods to minimize potential subsidence impacts.

A 120m wide shortwall is scheduled to be commissioned during the second quarter of 2014 to increase underground production to a level where it maximises the contract washing capacity at the Bloomfield CPP. The face will be widened to 225m in CY 2016. The Abel mine is currently approved to produce 4.5Mtpa of ROM coal. A Section 75W modification approval is being sought in 2012 within the existing ML to allow for longwall mining and to increase annual ROM production initially to 6.1Mtpa.

The Abel extension Project relates to EL5497 and EL6964 which lie to the west of ML1618 and will involve mining in the Lower Donaldson seam, the Ashtonfield seam and the Sandgate seam. The Ashtonfield seam is located approximately 35m below the Lower Donaldson seam and it is proposed to utilise both longwall and the bord and pillar methods in the Abel extension area. Work relating to the Abel Extension Project approvals will commence in 2012

Tasman Underground Mine

ML1555 was granted September 2004 for a term of 21 years, 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 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 CPP. 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 communication towers (NBN, Transgrid and Broadcast Australia). An application for a SMP to cover panels 10-15 was lodged in November 2010 and approved in March 2011. The mine operates under a current Environmental Protection Licence (EPL12483) issued in May 2006 and which is renewed annually.

Production at the Tasman Mine Extension is planned to commence in 2014 and extension of the mine life to 2029, following the grant of a further ML and obtaining the necessary Development Consent. A Project Application is required due to inclusion of new surface facilities in the proposed 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 Q1 2013. This may include an application to increase the throughput at the Bloomfield CPP to 9Mtpa (from the currently approved 6.5Mtpa), but this will be included in the Abel Mine Extension Development application. The Tasman Extension area is covered by EL337 (1,1418ha), granted August 1997, and EL5498 (1,475ha). BDA has been advised that the tenements are all in good standing, but has not conducted legal due diligence.

Donaldson Area Geology

The Donaldson mines are operating within the Newcastle Coal Measures and the underlying Tomago Coal Measures. The upper seams of the operations are on the western margins of the Newcastle

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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 MLs and ELs is up to 500m thick. Regional dip in the area is about 4° 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 material impacts on economic mining.

Coal seams, in descending sequence, intersected within the area are:

- Newcastle Measures: Fassifern, Great Northern, West Borehole
- Tomago Measures: Sandgate, Upper and Lower Donaldson, Upper and Lower Big Ben, Ashtonfield and Rathluba

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. 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 650m, with interburden thicknesses remaining reasonably constant across the area.

Laboratory analyses of coal cores and bulk washing in the Bloomfield CPP for the Donaldson seams have been tabulated for the various seams in a series of spreadsheets supplied by Donaldson and independently verified in the Geological and Management Services Pty Limited ("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.

Donaldson Resources and Reserves

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. Table 5.1 shows the Resources estimates to JORC compliance as at February 2012 from the independent report prepared by GMS.

Table 5.1
Abel and Tasman Resources at February 2012

Seam	Resources			Total (Mt adb)
	Measured (Mt adb)	Indicated (Mt adb)	Inferred (Mt adb)	
Great Northern	0.4	0.6	0.0	1.0
Fassifern	32.1	7.8	2.6	42.5
West Borehole	61.3	53.3	6.9	121.5
Sandgate	61.9	31.8	0.0	93.7
Upper Donaldson	96.0	9.5	0.0	105.5
Lower Donaldson	167.9	30.6	27.1	225.6
Upper Big Ben	154.7	16.7	0.0	171.4
Lower Big Ben	21.5	8.1	4.7	34.3
Ashtonfield	53.4	14.4	1.4	69.2
Rathluba	10.1	10.2	0.0	20.3
	659.4	182.9	42.7	885.0

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Table 5.2
Abel and Tasman Reserves at February 2012

Mine Area	Proven (Mt ar)	Reserves Probable (Mt ar)	Total (Mt ar)
Tasman	2.3	0.7	3.0
Tasman Extension	25.9	16.0	41.9
Abel	50.1	10.2	60.3
Abel Extension	37.6	17.9	55.5
Total	115.9	44.8	160.7

Table 5.2 shows the Reserves estimates to JORC compliance as at February 2012 from the independent report prepared by IMC. In addition there is 10.8Mt of Proven open cut Reserves, giving total Reserves of 161Mt. BDA has noted that there has been a further mine plan development as of February 2012 but to date, detailed analyses for Resources and Reserves estimates have not been completed.

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 programmes 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 Resource estimate tabulated above.

Subsidence modelling and monitoring is being carried out on the current bord and pillar mining and is also assessing the effects of future longwall mining which is planned as 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.

Seam gas issues have been considered through several independent reports, which show that to a depth of around 250m, methane content ranges from 2-4m³/tonne, but with increasing depth to around 350m, this increases to 7-8m³/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.

Exploration drillholes and current mining conditions show that groundwater 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 Fassifer seams respectively) in 2011, with observations confirming this, and that rib and roof conditions were typical for mining these seams within the district. Standardised roof bolting and occasional rib mesh in heavily cleated zones were noted.

Donaldson commissioned an assessment of spontaneous combustion propensity in 2010 which concluded that propensity for self-heating for these seams is at the lower end of the medium range.

Donaldson 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. Mining recommenced in the smaller Western Pit in 2011, with 600,000 tonnes of production at a strip ratio of 2.8 bcm per tonne in 2011. Scheduled extraction in 2012 and 2013, to the closure of the pit, is shown in Table 5.3.

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Table 5.3
Donaldson Open Cut Mine Annual ROM and Saleable Coal Production

Mine	Unit	FY 2012	FY 2013	Total
ROM Production	Mt	1.3	0.8	2.1
Waste	Mbcm	3.0	1.9	4.9
Strip Ratio (waste: coal)	(bcm:t)	2.4	2.4	2.4
Yield	%	56	62	58
Saleable Coal	Mt	0.7	0.5	1.2

Note: bcm = bank cubic meter; Saleable coal comprises of Global Thermal and High Ash Thermal

As the open cut operation within the Western Pit will be in similar coal seams and waste rocks to those mined in the main Central Pit, there will be relatively low level of risk in the mining activity. The equipment, including hydraulic excavators and trucks, was used to complete the western pit in 2010 and recommenced mining in 2011; all equipment is hired from a third party.

Abel Mine Plan

Donaldson management and IMC have 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 and then leading initially to short longwall and then full longwall extraction. 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, and will be subject to ongoing design changes and refinements. The current reserves total 54Mt at Abel and a further 21Mt within the Abel Extension; the LOM plan has scheduled a total of 99Mt of ROM coal to be extracted over 25years. Table 5.4 shows the twelve year forecast of production from Abel mine.

Table 5.4
Abel Forecast Annual ROM and Saleable Coal Production

Mine	FY	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	LOM
ROM Prod	Mt	1.6	2.7	4.5	5.8	5.7	5.7	7.0	6.4	6.4	6.9	99
Yield	%	70	75	73	72	68	66	68	68	64	63	61%
Product Coal	Mt	1.1	2.0	3.3	4.2	3.9	3.8	4.8	4.4	4.1	4.3	61

The performance of the continuous miner (“CM”) units in the first workings in 2010 was approximately 8km per machine per year. Donaldson is anticipating an increase in productivity to approximately 11km per CM per year (average 15m/shift). 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.

Tasman Mine Plan

Donaldson management and IMC have developed a mine layout and plan for the Tasman Mine based initially on the bord and pillar extraction in the Fassifern seam within the ML1555. 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 longer term. 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 intermediate stage, 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 54Mt of ROM coal to be extracted over 27years. Table 5.5 shows the forecast of production from Tasman Mine.

Table 5.5
Tasman Forecast Annual ROM and Saleable Coal Production

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Mine	FY	2012	2013	2014	2015	2016	2017	2018	2019	2020	LOM
ROM Production	Mt	0.8	0.3	0.6	1.0	1.2	1.4	1.9	1.9	1.9	54
Yield	%	71%	78%	79%	73%	78%	76%	72%	73%	72%	72%
Saleable Coal	Mt	0.6	0.2	0.5	0.7	0.9	1.1	1.4	1.4	1.4	39

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. The planned surface box cut will provide men and materials 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 CPP.

Bloomfield 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. Bloomfield CPP is generally old and has been upgraded and modified many times during its life, often using second hand equipment, and is now in a state best described as functioning satisfactorily but in some areas in need of repair and in others there would be a good case for modernisation.

Over the last few years the feed section of the plant has been upgraded to 1,400tph capacity with a view to upgrading the plant. The feed section includes one 1,000t surge bin and two dump hoppers, to service the separate raw coal stockpiles of Bloomfield and Donaldson and it is reported to be performing well. A conveyor fed from the underground reclaim conveyor and by truck via an inline dump hopper delivers the coal to the train loading station.

Capital and Operating Costs

Planned capex at the Donaldson Mines over the next five years totals \$575M and over the full 25 years is \$1.07B. The early expenditure is on underground mining equipment including longwall units, and for expansions to the Bloomfield CPP.

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 \$4M. Given that the equipment is hired from a third party, there is no requirement for equipment capital.

There is an allowance over six years to allow upgrading of the Bloomfield CPP before the expected mine output increase in 2014 from the longwall start-up. The plant is currently nominally a 1,000tph, five-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, prior to planned expansion of the CPP.

The Donaldson open cut, which is planned to cease production in 2013, has forecast operating costs generally consistent with historical costs. The underground mines, Abel and Tasman, have had high costs over recent years, but these are forecast to decline materially over the next 2-4 years as higher productivity mining systems and equipment and longwall mining systems are introduced. The future forecast operating costs are generally consistent with mines using similar mining techniques and under similar mining conditions elsewhere. BDA has reviewed the opex and capex projections and has advised Deloitte of its opinion with regard to the projected operating costs.

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Donaldson Infrastructure Capacity

The Bloomfield CPP is adjacent to a rail loop and coal can be directly loaded onto rail cars from the CPP. All products are railed 25km to the Port of Newcastle by Pacific National under an agreement expiring in June 2014.

At the Port of Newcastle, PWCS operates two terminals, Kooragang and Carrington, and has recently completed expansion works at the Kooragang terminal to increase total capacity to 133Mtpa. Donaldson has a ten year (rolling) “ship or pay” agreement with PWCS for a port allocation of 2.2Mtpa. PWCS is currently seeking development approval for a new coal terminal, T4.

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 August 2010 secured finance for a 23Mtpa expansion of the new terminal to be fully operation in 2013. Further, NCIG has recently commenced another expansion that will take total NCIG capacity to 66Mtpa in 2015.

Donaldson owns 11.6% of NCIG. It has entered into a 10-year evergreen “ship or pay” agreement with 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. Donaldson capacity allocations are 3.9Mtpa from 2012, 4.7Mtpa from 2013, 6.1Mtpa from 2014 and 6.3Mtpa from 2016. The other NCIG shareholders are BHP Billiton, Centennial Coal, Peabody Energy Australia, Felix Resources and Whitehaven Coal.

Donaldson Coal Marketability

Donaldson is scheduling production from various seams 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 that 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 produced by Donaldson are shown in Table 5.6.

Table 5.6

Specifications of Coals Shipped by Donaldson

Item	Coking Coal	Newcastle Spec Thermal	High Ash Thermal
Calorific Value (kcal/kg) (ad)	7,250	6,750	5,900
Inherent Moisture (% ad)	2.4	2.7	2.5
Ash Content (% ad)	9.5	14.5	25
Volatile Matter (% ad)	35	30	27
Fixed Carbon (% ad, by difference)	55	53	46
Total Sulphur (% ad)	0.9	0.76	0.75
Crucible Swell Number (“CSN”)	5.5 - 6.0	n/a	n/a
Fluidity (ddpm)	500	n/a	n/a

Note: Air dried basis (“ad”); dial division per minute (“dpm”)

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5.2 Gloucester Basin Mines

Gloucester Basin Mines Outline

Gloucester has two Gloucester Basin mining operations, Duralie and Stratford. The company also holds coal exploration licenses A311, A315 and EL6904 that cover a large proportion of the Basin and include a number of known coal deposits. The principal assets are:

- Duralie open cut mine, located 20km south of Stratford; the coal production was 1.6Mt ROM in FY09, 1.8 Mt ROM in FY10 and 1.8Mt in FY11.
- Stratford open cut mine complex located 15km south of Gloucester. The two operating mines, Bowens Road North and Roseville, produced 1.2Mt of ROM coal in FY09, 1.1Mt in FY10 and 1.0Mt in FY11.
- Stratford CPP, which has a capacity of 600tph. The CPP receives feed from the Bowens Road North, Roseville and Duralie mines, as well as a small tonnage recovered from earlier co-disposal dumps. In FY11, CPP feed was 2.9Mt for 1.8Mt product.

BDA has prepared a summary overview of each operation and project in the Gloucester portfolio, to review the key technical aspects of each.

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, 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 include the Roseville, Bowens Road, Avon, Weismantel and Clareval seams. Gloucester proposes to or is extracting coal from all the principal coal bearing formations.

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.

There is no comprehensive review of seam quality parameters particularly in relation to washery yields and the production schedule. Table 5.7 is compiled from comments and tables in the various resource and reserve reports compiled for Gloucester Coal by Minarco-MineConsult, McElroy Bryan 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.

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Table 5.7
Seam Parameters

Pit	Seam	Split	Raw Coal			Coking			Product Coal		
			Thick (m)	Ash (%)	S (%)	Yield (%)	Ash (%)	S (%)	Yield (%)	Ash (%)	S (%)
Bowens Nth	Bowens Rd	BR1-2	3.5	45-50	0.8				48	23	0.75
		BR2-3	5	30	0.8			70	22		
		BR4-5	4	28	0.8	20	11	0.85	65	22	0.75
Roseville West	Cloverdale Roseville		0.2-2.0	35-50	0.8-1.1	45	8.5	0.9	10	30	0.8
Stratford Sth	Bowens Road	Upper	6-12	17-34	0.5-0.9	40	7-10		25-30	22	
		Lower	10	20-30	0.8	40	10	0.8	40	24-30	0.75
Grant & Chainey	Bowens Road	Upper	20-26								
		Lower	7-8								
Duralie NW	Clareval	Upper	2 - 4	20 -30	2.5 -8.5	47	9-11	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				62-65	19	2.6
		Lower	7	26-30	1.4	58	10.0	1.25	17	26	1.2
Duralie East	Weismantel	Upper	3						17	3	
		Lower	7				9.8	1.4	22	1.45	
	Clareval	Upper							NA	15 -20	3
		Lower	10-12			NA			NA	15 -22	1-1.3
Stratford East	Clareval	Main	8-19	20-35	0.6 -1.2	30	7-9	<0.9	35	19-23	0.7-1.1

Table 5.8 is a summary of yield values used in the Gloucester production schedule. Based on the values shown in Table 5.7 and allowing for the lack of some data, the modelled yields in Table 5.8 are considered by BDA to be reasonable.

Table 5.8
Summary of Gloucester Washery Yields used in Financial Model

Seam	Yield		
	Coking	Thermal	Total
Duralie - Weismantel	25%	42%	67%
Duralie - Clareval	49%	31%	80%
Bowens Road	8%	50%	58%
Roseville	49%	5%	54%
Avon	34%	28%	62%
Stratford East	35%	39%	74%
Parkers Road	31%	31%	62%
Wenham Cox Road	49%	5%	54%
Codam	6%	31%	37%

Gloucester Basin Coal Resources and Reserve Estimates

Table 5.9 provides a summary of the JORC-compliant Resource and Reserve estimates for Gloucester that have each been signed off by Competent Persons (McElroy Bryan Geological Services, Minarco-MineConsult Pty Ltd (“Minarco-MineConsult”) and Tamplin Resources Pty Ltd (“Tamplin”).

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Table 5.9
Gloucester Resources and Reserves Estimates, December 2008

	Resources (Mt)				Reserves (Mt)		
	Measured	Indicated	Inferred	Total	Proven	Probable	Total
Duralie open cut	11.8	22.5	4	38	10.1	11.3	21.4
Duralie underground	0.9	39.9	59	100			
Stratford	6.7	67.3	22	96	0.9	46.3	47.2
Grant & Chainey	0	56.8	25	82	0	15.0	15.0
Total	19.4	186.5	110	316	11.0	72.6	83.6

5.2.1 Duralie Mine

Duralie Mine Outline

Duralie coal mine is located in the southern part of the NSW Gloucester Basin, 20km south of Gloucester's Stratford Operation and approximately 80km north of Newcastle, between the villages of Stroud and Wards River. The mine is owned and operated by Duralie Coal Pty Ltd ("Duralie"), a 100% owned subsidiary of Gloucester, and is integrated with Gloucester's Stratford mine, maximising the use of the existing Stratford infrastructure and facilities, with ROM coal transported to Stratford by shuttle train on the existing line.

Tenements

Coal in the Duralie area was first identified through an extensive drilling programme in 1970-71 and ultimately ML 1427 was granted April 1998 for a term of 21 years. Mining commenced at Duralie in February 2003 and the Mining Operations Plan ("MOP") was approved in February 2003. It had several updates, including those approved July 2007 and August 2008 relating to eastern highwall and drainage realignments. Duralie 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. The principal seam in the open cut is the Weismantel, but to the north, the underlying Clareval Seam will also be mined. 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.

Opencut Mining

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. Gloucester also commenced mining in the Clareval West seam in 2010. Mining operations are undertaken by mining contractor.

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. 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.

Due to the swell of the waste this method requires some out of pit dumping. Gloucester has purchased Caterpillar CXQ type haul trucks, customized by the factory for noise reduction, to haul the waste. This allows the trucks to haul to the higher levels out of pit during night shift and with minimal noise disturbance to property in the vicinity of the operation.

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Duralie Environmental Approvals

DCPL advises that all its Duralie environmental and other requisite approvals are in place. Project Approval for the mine was granted in August 1997. Development of the mine has been in accordance with DA168/99 and subsequent modifications, and a Consolidated Consent was issued December 2008.

Part 3A application was lodged November 2009 to enable expansion of development of the Clareval Seam to 3Mtpa. Project Approval was granted in November 2010 and by the Federal Government in December 2010. An appeal was lodged regarding issues of water quality, noise, endangered species, biodiversity offsets, dust and the public interest. The appeal was finalized November 2011 by the decision of the Court granting approval for the Duralie Extension Project.

Environmental Management Plans submitted to and subsequently approved by the Department of Planning include a Noise Monitoring Plan, Air Quality Management Plan, Blast Management Plan, Environmental Management Strategy and Environmental Monitoring Plan.

5.2.2 Stratford Open Cut Mine

Mine Outline

The Stratford Mine is located in an area of 1,500ha of cleared former grazing land to the east of Bucketts Way, between the villages of Stratford and Craven. The Stratford mining operation was the first mining operation for Gloucester. Originally developed by mining company CIM Resources Ltd, 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, Gloucester discovered further 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 ML1360, issued for a term of 21 years December 1994, followed by an Approval to Carry out Open Cut Coal Mining within ML1360 June 1995.

An Amendment to this Approval was granted November 1996 permitting the mining of Roseville Pit within the existing ML1360. The balance of the Roseville Pit area could not be mined until a mining lease over that area had been granted, hence ML1409 was granted for a 21 year term January 1997 to achieve this. A further Amendment to the Approval to Carry out Open Cut Coal Mining April 1997 permitted the extended mining of the Main Deposit within the existing ML1360.

Gloucester advises that all its Stratford tenements are in good standing.

Local Geology

The open cut is located on the eastern flank of the Gloucester Basin and the strata dip steeply to the west. Parasitic folds locally result in a reversal of dip. The pit is developed in seams of the Woods Road and Bucketts Way Formations, including the Deards, Cloverdale and Roseville Seams, all of which are developed over a stratigraphic interval of about 500m

Opencut Mining

Currently Stratford operations are focused on two pits:

- Bowen Road North Open Cut (ML1528, ML1577)
- Roseville West Open Cut (ML 1447, ML1409, ML1360)

The mine uses conventional small-scale excavator and truck fleets, operated by a local mining contractor, which 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 larger degree of flexibility to meet the deposit configuration, where seams intersections as thin as 150mm are selectively mined.

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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 articulated buckets. This allows for coal clean-up to maximise coal extraction in 4m benches with limited continuity in places.

The overburden is free dug or ripped by dozers prior to removal, with only 55% blasted. The multi seam coaling operation does not lend itself to blasting. Each pit operates a haul back mining system, whereby the overburden is placed back into the mined out void area as the operation allows, to reduce the surface footprint of mining operations and reduce cost by minimizing the distance for waste haulage. The mining operates day shift only with a production of 1.15Mt, excluding 250,000t from the co-disposal recovery.

Environmental Approvals

Gloucester advises that all its Stratford environmental and other requisite approvals are in place.

The project was approved on December 1994, limited to a period of 14 years from the date of grant of the ML, which was amended 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 and the BR North pit.

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 EPL5161 issued October 1995. EPL 5161 (covering the Stratford Coal Mine but not including BR North) was varied June 2005, effectively reducing the licensed scale of activity of the pit from 2-3Mtpa production to 0-0.5Mtpa. EPL 11745 was issued December 2002 to cover the BR North operations, with variations granted January 2004 and November 2005. A further variation was granted June 2005 increasing the allowed annual ROM production from BR North to 0.5 – 2.0Mtpa.

5.2.3 Stratford Coal Handling and Preparation Plant

Plant Description

Gloucester holds the majority of its ROM coal stocks "in pit", which includes both the Stratford and the Duralie operations. The amount of coal held uncovered and ready to deliver to the CPP 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 2,500t train. The train is a private operation using the main Northern Line to Stratford, where it is unloaded and conveyed to the plant.

The CPP 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.

This plant is 15 years old and has been modified many times mainly to increase capacity, but is still in good order. Currently it runs satisfactorily at approximately 600tph. Once the ROM modifications planned for this year are completed, it should be in a state to process the planned 5.1Mtpa.

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. These changes provide a larger live pile capacity and allow better separation between different quality products.

This plant was erected in 1995 and originally designed for 300tph. The upgrades undertaken so far are currently allowing the plant to run at 600tph and 85% availability. The ROM upgrades are expected to lift this to at least 700tph, which would require 7,300 hours operation to process the projected 5.1Mtpa ROM production. Small increases in throughput and/or availability will allow the plant to manage the expected tonnage at 7,000 hours, which is regularly achieved in the industry.

The processing equipment in the plant, including the recent changes, are adequate and generally fit for purpose.

Forecast Production

Forecast Gloucester Basin coal production is shown in Table 5.10.

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Table 5.10
Annual ROM and Saleable Coal Production

Operation	FY	2012	2013	2014	2015	2016	2017	2018	2019	2020	LOM
Duralie	Mt	2.5	2.6	3.1	3.0	3.0	3.3	3.0	2.6	2.7	29
Grant & Chainey	Mt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15
Stratford	Mt	1.2	1.5	2.3	2.1	2.3	2.3	2.5	2.7	2.7	54
Total	Mt	3.7	4.1	5.4	5.1	5.3	5.6	5.5	5.3	5.4	98
CPP Yield	%	64	63	71	72	76	71	71	67	66	62
Saleable Coal	Mt	2.4	2.6	3.8	3.7	3.8	4.0	3.9	3.6	3.6	60.8

Capital and Operating Cost

Forecast capital expenditure at the Gloucester Basin mines over the next two years is \$253M, and over the life of all the mines is \$545M. Expenditure is on mining fleet, CPP expansions, land and exploration.

Waste and coal mining costs at Stratford are high, at least in part due to the steeply dipping this seams being mined. Gloucester forecasts that these costs can be reduced and is moving to achieve this.

Duralie mining costs are also high, in this case due in part to the mining contract in place. Gloucester is undertaking a feasibility to transition the mine to an owner operated mine.

The future forecast operating costs are generally consistent with mines using similar mining techniques and under similar mining conditions elsewhere. BDA has reviewed the opex and capex projections and has advised Deloitte of its opinion with regard to the projected operating costs.

Infrastructure Capacity

Gloucester rails coal 20km from the Duralie mining operation to Stratford for processing before railing product coal from the Stratford CPP to the Port of Newcastle for export. The annual haulage capacity from Duralie to Stratford is approximately 2.4Mtpa. With the planned production build up from Duralie it will be necessary for Gloucester to rail up to 2.75Mtpa, increasing to 3Mtpa FY13-20 to Stratford from Duralie. Gloucester current consent allows a maximum of five trips per day and an annual average of four trains per day. The company has also sought a 75W approval to extend train operating hours to allow 3Mtpa to be railed. Gloucester currently has a contract with PN to rail 2.9Mtpa in 2012, 3.3Mtpa on 2013 and 3.4Mtpa from 2014.

Currently exports of around 2Mtpa coal are through the port of Newcastle coal terminal operated by PWCS, where Gloucester has a contracted capacity of 3.12Mt in 2012 increasing to 3.52Mtpa from 2015.

Coal Marketability

The primary Gloucester product is a semi-hard coking coal (10% ash, 1% sulphur and 5,000 dppm) 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 (S) content. The coking product is blended, when required, to meet a specification of less than 1% S. Gloucester 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.

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5.3 Middlemount (Gloucester 50%)

Middlemount Project Outline

Middlemount Mine is located 10km south-west of the township of Middlemount in central Queensland. The mining lease was granted in September 2009, proven and probable reserves are 48.0Mt, and the operation commenced in H2 2011. The mine is owned and operated by Middlemount Coal Pty Ltd, a 50:50 incorporated Joint Venture between Peabody Energy Australia and Gloucester. BDA has visited the site and reviewed the information and reports provided on Middlemount.

Coal mining commenced in mid 2011 and recently the initial target production rate of 1.8Mtpa ROM coal has been achieved. An EIS for the approval of Stage 2 project expansion to 5.4Mtpa ROM coal has been submitted and approval is expected in Q2 2012.

Mining operations are conducted under contract with NRW Pty Ltd, a mining contractor from Western Australia. Coal handling, preparation and train loading are conducted under contract by Sedgman Ltd. Mining and coal preparation activities are carried out 24 hours per day, seven days a week.

Tenure of the Middlemount deposit is held under CML70379 granted in September 2009 for a term of 22 years. Surrounding the mining leases tenure is held under EPC1225, while MDL282 remains in place and active. ML70417, which immediately adjoins ML70379 to the north-east, was granted in December 2011 to accommodate future out-of-pit waste rock dumps.

Middlemount Regional Geology

Middlemount is in the eastern part of the Queensland Bowen Basin, 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. Permo-Triassic strata enveloping the economic coal measures of the Burngrove and Rangal Coal Measures dip north-east at 3 to 7 degrees. The surface is flat to gently undulating.

The Burngrove Coal Measures are about 350m thick and comprise tuffaceous sediments with thick, high ash coal seams, not regarded as economic within current market conditions. Overlying the Burngrove Coal Measures are the Upper Permian Rangal Coal Measures up to 150m thick, containing low to medium ash coal seams. The principal Rangal Measures seams within the Middlemount district are the Pisces and Middlemount Seams and both are considered economic.

Middlemount Mine Geology

Seam Stratigraphy

The Middlemount Seam is split in the mining lease, with the Middlemount Upper and the Pisces Upper Seams having sufficient exploration data and information from the trial pit for economic modelling and reserve estimates. Geological modelling of drillhole data strongly suggests that both the Middlemount Upper (M1 - mean thickness 4.0m) and the Pisces Upper have areas where they are thickened by overthrusting from the Fault Zone.

The underlying Pisces Upper (P1) has a mean thickness across MDL282 of 4.8m, again with areas of thickening and thinning as a result of overthrusting.

Structure

Although the north-east dip of the strata is relatively gentle, thrust faulting is clearly evident from both the exploration data and trial pit observation. It is expected that as mining moves west to east downdip towards the Jellinbah Fault Zone, such structural deformation will remain.

Table 5.11
Middlemount Resources and Reserves Estimates*, August 2011

Mine	Resources (Mt)			Total	Reserves (Mt)		Total
	Measured	Indicated	Inferred		Proven	Probable	
Middlemount	89.3	31.5	1.8	122.6	69.0	27.0	96.0

* Resources and Reserves at 100% basis

Both the JORC-compliant Resource and Reserve estimates have each been signed off by Competent Persons and are summarised as shown in Table 5.11. BDA considers the methodology used for preparation of the Resource and Reserve estimates appropriate and that the open cut reserves in the various pits are reasonable estimates of the mining recoverable coal.

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Middlemount Opencut Mining

Open cut mining activities involves conventional excavator and truck operations on both coal and overburden, with the latter being placed on external dumps in the early years of operation, but ultimately will back-dump into the mined out sections of the opencut. A mining contractor has been appointed and operating costs, on a unit material moved basis, are expected to be comparable with the similar operations in Central Queensland. Current mining equipment includes 550t, 400t and 2000t excavators and 220t, 180t and 140t haul-trucks, as well as dozers, drills and support equipment. A bulk sample pit was opened up initially. Currently the mine is being opened up on the Pisces Seam, with mining of the Middlemount Seam planned to commence in 2013 as the highwall progresses in an easterly direction.

Middlemount Coal Preparation and Handling

The Middlemount CPP was constructed by Sedgman, and comprises a conventional washery design that is similar to others in the area, with a good operational record; BDA would expect it to perform well and achieve design throughput.

The Stage 1 CPP construction was completed in 2010, with a nominal initial 3Mtpa ROM capacity (400tph) and a screening plant upgrade in 2011/12. In Stage 2, planned to be commissioned in 2012, the plant will operate at 5.4Mtpa of ROM coal, being processed at 700tph through the CPP. The plant design includes provision for the Stage 2 upgrade and, when complete, will operate at 7 days per week.

The forecast yields for this operation are in the range 67% to 80% and averaging 76% for the PCI and coking coal products. It may also be possible to increase the yields by producing a thermal coal by-product. Test work by Middlemount management indicates total yield could improve by approximately 8% producing a 22% ash thermal product. Early mining has been in the initial strips of the Pisces seam and has yields and product qualities not considered indicative of the deposit overall.

Middlemount Capital and Operating Costs

The Gloucester financial model developed for Middlemount provides forecast mining costs for Middlemount based on a mining contract. The costs are comparable with the historical costs for similar operations in Central Queensland and are considered reasonable and within the expected range. The mining operations will involve conventional excavator and truck fleets on both coal and overburden and it is assumed, based on the similar operations in the area, that operations will include throw blasting and dozer push where applicable to reduce the overall costs. The mine will be a contracting operation and BDA considers the projections provide a reasonable estimate of the ongoing costs of the operation.

Capital expenditure forecasts include the forecast costs to complete the construction of the washery expansion from the current 1.8Mtpa ROM capacity to 5.1Mtpa ROM in FY2013. Also allowed for is expenditure on creek diversions and mine levee wall construction. Thereafter sustaining capital has been allocated to maintain the output capacity of the mine through progressive replacement of equipment items.

Middlemount Environmental Aspects

Middlemount Mine operates under a single current Environmental Authority MIN100646307 which took effect from November 2009. EA requirements include a restriction on water contaminant release during flow events, including the water release flow rates during periods of natural flow events.

The Environment Management Plan (February 2009) covers activities on CML70379 and an approved Plan of Operation is in accordance with MIN100646307 and its license conditions. Land rehabilitation is planned to include profiling, contouring, and top soiling of completed waste rock dumps, conducted progressively in conjunction with overburden mining operations.

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Middlemount Infrastructure Capacity

Middlemount rail and port capacity was initially through Dalrymple Bay and subsequently Abbot Point, now that the “missing rail link” is complete. Up until 2014 this will give Middlemount the flexibility to ship out of either DBCT or APCT.

Middlemount Forecast Production

Coal production from the Middlemount mine is currently ramping up to 1.8Mtpa product (3Mtpa ROM), with plans to expand to 4Mtpa product coal (5.4Mtpa ROM) by 2014. The 50% equity interest in production is shown in Table 5.12.

Table 5.12
Middlemount Annual Production (50%)

Mine	Unit	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	LOM
ROM Production	Mt	1.3	2.0	2.4	2.9	2.7	2.6	2.8	2.8	2.3	2.7	51
Washing Yield	%	68	68	70	77	77	79	78	77	77	80	76
Product Coal	Mt	0.8	1.6	1.8	2.0	1.9	2.0	2.0	2.0	2.0	2.0	40

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6.0 VALUATION OF EXPLORATION AREAS

6.1 Monash Exploration Project

Background

The Monash tenements comprise an exploration project currently owned by Gloucester Coal. BDA has conducted a site visit and reviewed the exploration results and drill-hole information, as well as the stratigraphic and structural interpretations. BDA has also reviewed conceptual mine planning for the area, and the planned exploration work.

The Monash Project lies approximately 6km southeast of Broke and covers an area of approximately 22.3km² of the densely wooded hills of the Pokolbin State Forest. The project comprises two adjacent and contiguous Exploration Licenses, EL6123 and EL7579, held by Gloucester, purchased from Ellembey Resources in 2011 and situated within the well-known lower Hunter Coalfield. Gloucester has a significant exploration drilling programme planned, with the aim of defining potential underground mining resource.

Since acquisition, Gloucester has completed four drillholes of the proposed exploration programme. Although deeper drillhole data remains sparse across the ELs both east and south, the strata dip gently across the area to the south at about 4°, with sub-crop of the underlying Wittingham Coal Measures known in the north-eastern area from reasonably extensive exploration drilling.

Monash Geological Setting - Hunter Coalfield

Stratigraphy within the area is 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.

Although deeper drillhole data is sparse across the ELs, the strata dip gently across the area to the South at about 4 degrees, with sub-crop of the underlying Wittingham Coal Measures known in the north-eastern area from early but reasonably extensive exploration drilling. EL6123 and EL7579 are in the Hunter Coalfield approximately 10km west of the town of Cessnock, with a total area of about 22km².

Monash 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 2004 guidelines in the northern area of the ELs to the status of Measured, Indicated and Inferred. Table 6.1 shows the GMS Resource estimate. BDA has examined the modeling parameters and resource estimates reported by GMS within JORC guidelines and is of the view that the results are to industry standards, subject to the caveats listed below.

Table 6.1
Monash Resources

Seam	Resource Category			Total
	Measured	Indicated	Inferred	
Fassifern	0	2.8	13.1	16
Borehole	3.1	6.9	50.5	61
Redbank Creek	2.5	5.7	30.6	39
Wambo	2.4	5.6	42.6	51
Whynot	5.1	11.7	78.6	95
Blakefield	2.2	5.5	41.0	49
Woodlands Hill	5.6	12.3	81.9	100
Arrowfield	5.2	11.6	81.6	98
Bowfield	3.5	8.1	57.5	69
Total	29.6	70.2	477	577

Over 20 distinct seams are recognised in the Wittingham Coal Measures but all or part of each seam is subject to lateral convergence/divergence from adjacent plies so that the number of coal seams varies across the region. This is the reason behind several seams that are now listed in the 2011 Resource Statement being considered absent in the 2010 Resource Statement – the two further Gloucester drillholes have added the Wambo, Arrowfield and Bowfield seams.

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In consideration of the Resource categories in Table 6.1 above, BDA is of the view that the listed seams have been accurately identified and correlated, with both Measured and Indicated categories compliant with JORC guidelines. The GMS 2011 Resources Statement uses a 4km radius from accepted data point for estimation of the Inferred category, rather than the more usual 2km radius. Within JORC guidelines, this is justified on the grounds that existing data on the western and southern surrounds of the ELs and stratigraphic markers within the drillholes are sufficient to allow this category of estimation (*page 9, GMS Report November 2011*). BDA notes, however, that at distances of up to 8km from an accepted data point, unpredictable variations of seam thicknesses and qualities are almost certain to occur (the GMS Report also states this page 9), so consequently the Inferred Resource estimate of 477Mt should not be relied upon.

Gloucester has outlined an exploration drillhole programme, to be carried out over the next three years, designed to measure the resource and mining potential of the coal within the ELs. A total of twenty-three drillholes are proposed. Gloucester has informed BDA that these exploration holes have been budgeted and an initial drill rig is working onsite, with a second rig added 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 industry standard, especially given the consideration that some of the more southern drillholes may be required to reach depths in excess of 750m.

Mine Planning

IMC, in conjunction with other consultants, has completed a conceptual mine development plan of the EL6123 and EL7579 coal tenements, the Monash Project. Conclusions from this study are given below.

Within the tenement there are at least six coal seams of potentially minable thickness, being 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 310Mt of coal averaging 2.2m in thickness

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 may be 14-15% ash, 0.5% sulphur and 6,700kcal/kg adb, while the semi-soft coal would contain around 9% ash with a CSN of 6-8.

A conceptual mine plan has been developed that envisages all six 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 sub-crop 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. The conceptual mine-plan contains 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 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 mining cost from this schedule ranges from A\$25-A\$32/t ROM and FOR is A\$36-A\$46/t product, with an average cost of A\$29/t ROM and A\$40/t product, respectively.

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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 CPP 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. The capital schedule provides an indicative development expenditure of A\$1.4B over eight years to reach full production, and an additional \$900M over the following 24 years to maintain this production.

BDA has reviewed this work and highlights that it is early conceptual planning based on limited actual site data. More drilling and interpretative work is required before any mine plans start to become reliable. BDA considers there may be restrictions applied to undermining the cliff faces in the Monash area that may reduce mineable coal, complicate the mine layout and add to costs.

Monash Exploration Property Valuation

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 Gloucester. 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. Annexure D to this report explains the valuation options available for this type of project.

The Monash underground resource contains 577Mt of predominately Inferred Resource. Coal quality is a mix of semi-soft coking coal, PCI and thermal. The planned mining method is underground.

Table 6.2 shows comparable transactions that are considered appropriate to use to assess the value of Monash. The average of these is \$0.33 per tonne of total Resource.

Table 6.2

Comparable Transactions

Date	Target	Buyer	Value \$M	Coal Type	% Sold	UG/OC	Mine Operating	EV/M+I+I \$/t
Aug 10	Linc Energy	Adani Mining	1,500	TC	100%	OC	No	0.2
April 10	Vickery South	Coalworks	22	TC/SSC	49%	OC	No	0.5
Feb 10	Doyles Creek	NuCoal	106	TC/SSC	10%	UG	No	0.4
May08	Bandanna	EntEnergy	235	TC/PCI	100%	OC/UG	No	0.2
Average								0.33

Source: Deloitte's IER on Cascade Coal acquisition by White Energy dated February 2011.

Table 6.3 shows calculated value per JORC Resource tonne for a number of ASX listed coal companies which are comparable in terms of stage of development and coal type.

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Table 6.3
Comparable Resource Values for ASX Listed Coal Companies

* HCC=hard coking coal; SHCC=semi-hard CC; SSCC=semi-soft CC; PCI=pulverised fuel injection;
T=thermal

Company	Main Coal Type	Operating Mine	EV/M+I+I \$/t
Nucoal	SSCC	No	0.31
Guildford		No	0.29
Stanmore		No	0.24
Endocoal	T	No	0.21
Cockatoo	PCI	Yes	0.20
Bandanna	T	No	0.16
Average			0.24

Based on an assessment of these values, BDA's valuation of Monash is in the range \$150M to \$200M, with likely value at \$175M.

6.2 Residual Resources Valuation on Yancoal Mines

As part of the brief, BDA has been requested to estimate the value of the exploration potential of residual (not included in the mine plan) coal resources on each of the mine properties. BDA has used a similar technique to that used for Monash to estimate these values. Table 6.4 summarizes the results.

Table 6.4
Valuation of Residual Resources at Yancoal Mines

Mine	Residual JORC Resources Mt	Main Coal type	Resource Value \$/t	Resource Value \$M
Moolarben	550	T	0.20	110
Ashton	250	SSCC/T	0.30	75
Austar	120	SHCC/T	0.50	60
Yarrabee	70	PCI	0.30	20
Yancoal Total	990	Average	0.33	265

Based on this approach, BDA values the Yancoal residual resources in the range of A\$200-320M, with a most likely value of A\$265M.

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6.3 Exploration and Residual Resources Valuation on Gloucester Mines

As part of the brief, BDA has been requested to estimate the value of the exploration potential of residual (not included in the current mine plan) coal resources on each of the mine properties. BDA has used a similar technique to that used for Monash to estimate these values. Table 6.5 summarizes the results.

**Table 6.5
Valuation of Residual Resources at Gloucester Mines**

Mine	Residual JORC Resources Mt	Main Coal type	Resource Value \$/t	Resource Value \$M
Gloucester Basin OC	100	SHCC/T	0.50	50
Gloucester Basin UG	50	SHCC/T	0.50	15*
Donaldson	580	SSCC/T	0.30	175
Monash	580	SSCC/T	0.30	175
Middlemount	0	PCI		0
Gloucester Total	1,310	Average	0.31	415

* Reduced due to thick seam resource only amenable to partial extraction in underground

Based on this approach, BDA values the Gloucester residual resources in the range of AS\$340-480M, with a most likely value of AS\$415M.

Yours faithfully
BEHRE DOLBEAR AUSTRALIA PTY LIMITED



John McIntyre - Managing Director – BDA
BEHRE BOLBEAR AUSTRALIA PTY LIMITED

BEHRE DOLBEAR

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 firm specialises in mineral evaluations, due diligence assessments, independent expert reports, strategic planning and 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 CP (Mining)) is Managing Director of BDA. He is a qualified mining engineer, with over 40 years of 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 CEO and General Manager of Operations and has been a professional consultant for 25 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 of 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 currently CEO for the NCIG terminal in Newcastle.

Mr Ian Poppitt (DipTech. (Geology), MAppSc. (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. 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 has held senior management positions, including Group General Manager of Cyprus Australia Coal. He is familiar with ore reserve terminology under the JORC Code, as at December 2004.

Mr Adrian Brett (BSc Hons (Geology), MSc (Geotech), M.Envir.Law, MAusIMM) is a Senior Associate of BDA with more than 25 years of 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.

Mr Dick Dunstone (BSc 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 40 years 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 acts as Marketing Consultant for a number of coal producers and has reviewed the washery operations, costs and product coal specifications of the Queensland operations.

Mr Peter Newling (BE (Chemical) Hons, MACPS) is an Associate of BDA. He is a qualified Chemical Engineer, with more than 20 years of experience in managing coal processing plants (CPPs) and 10 years as a consultant in coal processing. He has held senior management positions in coal processing at Hunter Valley, Wollondilly, Stratford and Catherine Hill Bay collieries and has served on the board and/or committees of the Australian Coal Processing Society, the Australian Standards Association and several committees at the University of Newcastle. He has published several conference papers and has completed an Editorial upgrade of the Operations volume in the ACPs Monograph series of CPP text books. He has reviewed the washery operations, costs and product coal specifications of the NSW operations.

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APPENDIX 1

INDEPENDENT EXPERT'S REPORT (CONTINUED)

ANNEXURE B

Report to Deloitte – Yancoal and Gloucester Mining Review
Behre Dolbear Australia Pty Limited

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ANNEXURE B SCOPE OF WORK

With regard to the proposed transaction and independent advice to Deloitte, Deloitte would like to engage BDA to assist with the technical assessment of the assets and to provide assistance in preparing financial models to reflect the cash flow contributions of various assets. BDA's scope of work in assisting Deloitte with the review comprises the following:

- technical overview of the Yancoal and Gloucester Coal Projects including:
 - approvals and licenses to develop the mines
 - geology and exploration, including reserve and resource estimates
 - progress and status of the coal projects
 - reviewing the feasibility studies and life of mine plans for the coal projects
- identifying and assessing the reasonableness of the following technical assumptions contained in the financial models in relation to the Yancoal & Gloucester 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 Yancoal and Gloucester Coal Projects and exploration assets
- provide views on:
 - potential mineralisation outside of what is considered to be reserves (as reflected in the financial 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 exploration assets (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 a summary independent technical review summarising the key findings of the Services. BDA will provide a draft to Deloitte, subject to various review activities. BDA would undertake to provide Deloitte with their advice to be finalised subject to the availability of data and timely presentations from Yancoal and Gloucester.

BDA will provide its findings in the form of a report summarising the key findings of the Services. To the extent that BDA identifies alternative assumptions to those contained in the Model, BDA will also provide Excel spreadsheets containing revised technical assumptions.

BDA understands that Deloitte will refer to BDA in the IER and the report may be reproduced as an appendix to the IER. Subject to review of the form and context of the use of the document, BDA consents to Deloitte re producing the report and referring to BDA and the Services in the IER. Deloitte will obtain BDA's consent to the manner in which Deloitte refers to BDA within the IER.

BDA confirms that it is able to act independently in regard to the Services and is competent in the areas covered by the scope of the Services.

BEHRE DOLBEAR

ANNEXURE C

Report to Gloucester – Yancoal Mining Operations Review
Behre Dolbear Australia Pty Limited

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ANNEXURE C LIMITATIONS AND CONSENT

BDA consents to making the Report available to the Directors of Gloucester Coal Limited (“Gloucester”) on the understanding that Deloitte is aware of and understands the scope of BDA’s engagement as set out. Neither the whole nor any part of this report nor any reference thereto may be included in or with or attached to any document or used for any other purpose without written consent from BDA as to the form and context in which it appears.

This report does not constitute a technical or legal audit. This assessment in this report has been based on data, reports and other information made available to BDA by Gloucester, Yancoal and their advisors and referred to in this report. Yancoal and Gloucester have advised BDA that all relevant documentation relating to the projects has been provided, that the information is complete as to material details and is not misleading.

BDA has reviewed the data, reports and information provided and has used consultants with appropriate experience and expertise relevant to the various aspects of the project. The opinions stated herein are given in good faith. BDA believes that the basic assumptions are factual and correct and the interpretations are reasonable. This BDA report contains forecasts and projections based on information provided by Yancoal and Gloucester. BDA’s assessment of the mine plans, 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 Yancoal and Gloucester could cause the actual results to be materially different from the assessments and projections contained in this report.

BDA has independently analysed data provided by Yancoal and Gloucester, but the accuracy of the conclusions of the review largely relies on the accuracy of the supplied data. BDA does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from third party use of it. BDA reserves the right to change its opinions on the Yancoal and Gloucester coal mining studies expressed in this report should any of the fundamental information provided by Yancoal Gloucester be significantly or materially revised.

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APPENDIX 1

INDEPENDENT EXPERT'S REPORT (CONTINUED)

ANNEXURE D

Report to Deloitte – Yancoal and Gloucester Mining Review
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ANNEXURE D VALUATION METHODOLOGIES FOR EXPLORATION AREAS

As part of the brief, BDA has been requested to estimate the value of the Yancoal and Gloucester Coal residual resources and exploration tenements and the 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 the tenements 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 26 April 2012.

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 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 matters 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. BDA considers neither the NPV nor the stockmarket methods are not appropriate for valuing the exploration tenements, as there are insufficient technical details to derive reliable projections and the listed entities have other assets.

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 that can be used as a basis for estimation of value of the mining assets assessed herein.

BEHRE DOLBEAR

ANNEXURE D

Report to Deloitte – Yancoal and Gloucester Mining Review
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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 the Yancoal and Gloucester Coal exploration tenements are part of several assets owned by the companies and that their market capitalisation is thus not appropriate as a guide to the value of the 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. BDA provided a valuation of Monash in May 2011 of \$0.33/t of M+H+I Resources, which is comparable to the current BDA valuation. We have inquired whether any other recent valuations of the Yancoal and Gloucester Coal exploration tenements have been undertaken and have been advised that the most recent transaction was the purchase of Monash by Gloucester, which was also completed a comparable resource tonnage value.

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 valuations do not include any adjustment for the potential future impact of any Carbon Pollution Reduction Scheme.

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APPENDIX 1 INDEPENDENT EXPERT'S REPORT (CONTINUED)

ANNEXURE E

Report to Deloitte – Yancoala and Gloucester Mining Review
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Appendix 8: Sources of information

In preparing this report we have had access to the following principal sources of information:

- transaction documents relating to the Proposed Scheme
- audited and unaudited financial statements for Gloucester for the years ended 30 June 2008 to 30 June 2011 and half year ended 31 December 2011
- audited and unaudited financial statements for Gloucester for the years ended 30 June 2008 to 30 June 2011 and half year ended 31 December 2011
- annual reports for Gloucester for the year ended 30 June 2008 to 30 June 2011
- Project Little Bourke Data Room
- Project Bolt Data Room
- company websites for Gloucester and comparable companies
- annual reports and company announcements for comparable companies
- publicly available information on comparable companies and market transactions published by ASIC, Thomson Reuters, Capital IQ, Factiva and Mergermarket
- IBISWorld Pty Limited company and industry reports
- other publicly available information, media releases and brokers reports on comparable companies and the medical diagnostic sector.

In addition, we have had discussions and correspondence with certain directors and executives, including Chris Woodward, Chief Financial Officer, Gloucester; Tim Crossley, Deputy Chief Executive Officer, Gloucester; Murray Bailey, Chief Executive Officer, Yancoal; Peter Barton, Chief Operating Officer, Yancoal; John McIntyre, Managing Director, BDA and Rob Yeates, Senior Consultant; BDA in relation to the above information and to current operations and prospects.

Appendix 9: Qualifications, declarations and consents

The report has been prepared at the request of the Independent Directors of Gloucester and is to be included in the Explanatory Booklet to be given to Shareholders for approval of the Proposed Scheme. Accordingly, it has been prepared only for the benefit of the Independent Directors and those persons entitled to receive the Explanatory Booklet in their assessment of the Proposed Scheme 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 Scheme. 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 Corporate Finance of its opinion as to whether the Proposed Scheme is in the best interests of the Shareholders as a whole in relation to Section 411. Deloitte Corporate Finance consents to this report being included in the Explanatory Booklet in the form and context in which it is to be included in the Explanatory Booklet.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte Corporate Finance has relied upon the completeness of the information provided by Gloucester and Yancoal and their officers, employees, agents or advisors which Deloitte Corporate Finance believes, on reasonable grounds, to be reliable, complete and not misleading. Deloitte Corporate Finance 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 for confirmation of factual accuracy.

In recognition that Deloitte Corporate Finance may rely on information provided by Gloucester and Yancoal and their officers, employees, agents or advisors, Gloucester has agreed that it will not make any claim against Deloitte Corporate Finance to recover any loss or damage which Gloucester may suffer as a result of that reliance and that it will indemnify Deloitte Corporate Finance against any liability that arises out of either Deloitte Corporate Finance's reliance on the information provided by Gloucester and its officers, employees, agents or advisors or the failure by Gloucester and its officers, employees, agents or advisors to provide Deloitte Corporate Finance with any material information relating to the Proposed Scheme.

Deloitte Corporate Finance also relies on the valuation reports prepared by BDA. Deloitte Corporate Finance 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 Corporate Finance's consideration of this information consisted of enquiries of Gloucester and Yancoal 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 Corporate Finance considers that there are reasonable grounds to believe that the prospective financial information for Gloucester and Yancoal 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 Yancoal 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 Corporate Finance 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 Corporate Finance 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, Thimendra Karawdeniya, BCom, BSc. (Hons) and Kanishka Dayawansa, BCom, LLB (Hons). Stephen, Rachel and Nicole are Directors of Deloitte Corporate Finance. Each have many years of 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 Corporate Finance, Deloitte Touche Tohmatsu, nor any partner or executive or employee thereof has any financial interest in the outcome of the Proposed Scheme which could be considered to affect our ability to render an unbiased opinion in this report. Deloitte Corporate Finance will receive a fee of AUD 630,000 exclusive of GST in relation to the preparation of this report. This fee is based upon time spent at our normal hourly rates and is not contingent upon the success or otherwise of the Proposed Scheme.

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 an Explanatory Booklet in respect of the Proposed Scheme between Gloucester and the holders of Gloucester shares
- the Explanatory Booklet will be issued in hard copy and be available in electronic format
- it has previously received a copy of the draft Explanatory Booklet for review
- it is named in the Explanatory Booklet as the ‘independent expert’ and the Explanatory Booklet includes its independent expert’s report in Appendix 1 of the Explanatory Booklet.

On the basis that the Explanatory Booklet is consistent in all material respects with the draft Explanatory Booklet received, Deloitte Corporate Finance Pty Limited consents to it being named in the Explanatory Booklet in the form and context in which it is so named, to the inclusion of its independent expert’s report in Appendix 1 of the Explanatory Booklet and to all references to its independent expert’s report in the form and context in which they are included, whether the Explanatory Booklet is issued in hard copy or electronic format or both.

Deloitte Corporate Finance Pty Limited has not authorised or caused the issue of the Explanatory Booklet and takes no responsibility for any part of the Explanatory Booklet, other than any references to its name and the independent expert’s report as included in Appendix 1 of the Explanatory Booklet.

APPENDIX 1

INDEPENDENT EXPERT'S REPORT (CONTINUED)

About Deloitte

In Australia, Deloitte has 12 offices and over 4,700 people and provides audit, tax, consulting, and financial advisory services to public and private clients across the country. Known as an employer of choice for innovative human resources programs, we are committed to helping our clients and our people excel. Deloitte's professionals are dedicated to strengthening corporate responsibility, building public trust, and making a positive impact in their communities.

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APPENDIX 2

INVESTIGATING ACCOUNTANT'S REPORT

APPENDIX 2

INVESTIGATING ACCOUNTANT'S REPORT



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27 April 2012

Investigating Accountant's Report on Historical Financial Information and Pro Forma Financial Information

Dear Directors,

Introduction

We have prepared this Investigating Accountant's Report ('Report') on the historical and pro forma financial information of Yancoal Australia Limited and its controlled entities ('Yancoal') and Gloucester Coal Limited and its controlled entities ('Gloucester'), collectively the "Merged Group", for inclusion in a Explanatory Booklet dated on or about 27th April 2012 relating to the merger of Gloucester Coal Limited by Yancoal Australia Limited under a scheme of arrangement in accordance with Part 5.1 of the Corporations Act 2001 with the Merged Group pursuing a listing on the ASX.

Expressions defined in the Explanatory Booklet have the same meaning in this Report.

Scope

ShineWing Hall Chadwick has been requested to prepare this Report to cover the following financial information:

Historical Financial Information

The historical financial information, as set out in Section 8.14 of the Explanatory Booklet comprises the reviewed (and restated) and audited balance sheets of Gloucester and Yancoal, respectively, as at 31 December 2011, and the reviewed and audited income statements of Gloucester and Yancoal, respectively, for the year ended 31 December 2011.

(hereafter the 'Historical Financial Information')

The Historical Financial Information has been extracted from the following historical financial information:

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approved under Professional
Standards Legislation



- audited financial information of Yancoal which was previously audited by ShineWing Hall Chadwick, that issued a unqualified audit opinion in respect of the historical financial information for the year ended 31 December 2011;
- the reviewed 6 month financial statements for the periods ended 31 December 2010 and 31 December 2011 respectively and the audited 12 month financial statements for the period ended 30 June 2011 of Gloucester, previously reviewed and audited by Ernst & Young on which unqualified review and audit opinions were issued, to create a 12 month income statement for Gloucester for the year ended 31 December 2011; and the restated balance sheet of Gloucester as at 31 December 2011.

Pro Forma Financial Information

The pro forma financial information set out in Section 8.14 of the Explanatory Booklet comprises

- (a) the pro forma income statement of Gloucester for the year ended 31 December 2011;
- (b) the pro forma income statement of Yancoal for the year ended 31 December 2011;
- (c) the pro-forma income statement of the Merged Group for the year ended 31 December 2011;
- (d) the pro forma balance sheet of Gloucester as at 31 December 2011;
- (e) the pro forma balance sheet of Yancoal as at 31 December 2011; and
- (f) the pro forma balance sheet of the Merged Group as at 31 December 2011, which assumes completion of the contemplated transactions disclosed in Section 8.14 of the Explanatory Booklet (the 'Pro Forma Adjustments').

(hereafter the 'Pro Forma Financial Information')

The Historical Financial Information and the Pro Forma Financial Information are collectively referred to in this Report as the 'Financial Information'.

Directors Responsibility for the Financial Information

The Directors of Yancoal and Gloucester are responsible for the preparation of the Financial Information. The Directors are also responsible for the determination of the Pro Forma Adjustments.

Our Responsibility for the Financial Information

Our responsibility is to express a conclusion on the Financial Information based on our review. We have conducted an independent review of the Financial Information in order to state whether on the basis of the procedures described, anything has come to our attention that would cause us to believe that:

- a) the Historical Financial Information does not present fairly:
 - the audited historical income statement of Yancoal for the year ended 31 December 2011;
 - the reviewed historical income statement of Gloucester for the year ended 31 December 2011;
 - the audited historical balance sheet of Yancoal as at 31 December 2011;
 - the reviewed historical and restated balance sheets of Gloucester as at 31 December 2011;

APPENDIX 2 INVESTIGATING ACCOUNTANT'S REPORT (CONTINUED)



ShineWing Hall Chadwick
Corporate Advisors & Certified
Practising Accountants

in accordance with the recognition and measurement principles (but not all of the presentation and disclosure requirements) prescribed in Australian Accounting Standards and the basis of preparation adopted by the Merged Group disclosed in Section 8 of the Explanatory Booklet

- b) the Pro Forma Adjustments do not provide a reasonable basis for the Pro Forma Financial Information;
- c) the Pro Forma Financial Information has not been properly prepared on the basis of the Pro Forma Adjustments; or
- d) the Pro Forma Financial Information does not present fairly
 - the pro forma income statements of Yancoal, Gloucester and the Merged Group for the year ended 31 December 2011, which assumes completion of the contemplated transactions disclosed in Section 8.14 of the Explanatory Booklet (that is, the Pro Forma Adjustments); and
 - the pro forma balance sheets of Yancoal, Gloucester and the Merged Group as at 31 December 2011, which assumes completion of the contemplated transactions disclosed in Section 8.14 of the Explanatory Booklet (that is, the Pro Forma Adjustments),

in accordance with the recognition and measurement principles (but not all of the presentation and disclosure requirements) prescribed in Australian Accounting Standards and the basis of preparation adopted by the Merged Group disclosed in Section 8 of the Explanatory Booklet.

Our independent review of the Financial Information has been conducted in accordance with the Australian Auditing and Assurance Standards applicable to review engagements. We made such inquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- analytical procedures on the audited financial performance of Yancoal and Gloucester for the relevant historical period;
- a review of work papers, accounting records and other documents;
- a review of the assumptions used to compile the pro forma balance sheets and income statements;
- a review of the adjustments made to the Historical Financial Information and the Pro Forma Financial Information;
- a comparison of consistency in application of the recognition and measurement principles in Accounting Standards and other mandatory professional reporting requirements in Australia, and the basis of preparation adopted by the Merged Group disclosed in Section 8 of the Explanatory Booklet, and
- enquiry of Directors, management and others.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Historical Financial Information and the Pro Forma Financial Information.

Review conclusion on the Financial Information

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that:

- a) the Historical Financial Information does not present fairly:
- the audited historical income statement of Yancoal for the year ended 31 December 2011;
 - the reviewed historical income statement of Gloucester for the year ended 31 December 2011;
 - the audited historical balance sheet of Yancoal as at 31 December 2011;
 - the reviewed historical and restated balance sheets of Gloucester as at 31 December 2011;

in accordance with the recognition and measurement principles (but not all of the presentation and disclosure requirements) prescribed in Australian Accounting Standards [and the basis of preparation adopted by the Merged Group disclosed in Section 8 of the Explanatory Booklet]

- b) the Pro Forma Adjustments do not provide a reasonable basis for the Pro Forma Financial Information;
- c) the Pro Forma Financial Information have not been properly prepared on the basis of the Pro Forma Adjustments; or
- d) the Pro Forma Financial Information does not present fairly
- the pro forma income statements of Yancoal, Gloucester and the Merged Group for the year ended 31 December 2011, which assumes completion of the contemplated transactions disclosed in Section 8.14 of the Explanatory Booklet (that is, the Pro Forma Adjustments); and
 - the pro forma balance sheets of Yancoal, Gloucester and the Merged Group as at 31 December 2011, which assumes completion of the contemplated transactions disclosed in Section 8.14 of the Explanatory Booklet (that is, the Pro Forma Adjustments),

in accordance with the recognition and measurement principles (but not all of the presentation and disclosure requirements) prescribed in Australian Accounting Standards and the basis of preparation adopted by the Merged Group disclosed in Section 8 of the Explanatory Booklet.

We disclaim any assumption of responsibility for any reliance on this Report or on the Financial Information to which this Report relates for any purposes other than the purpose for which it was prepared. This Report should be read in conjunction with the Explanatory Booklet.

APPENDIX 2 INVESTIGATING ACCOUNTANT'S REPORT (CONTINUED)

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ShineWing

ShineWing Hall Chadwick
Corporate Advisors & Certified
Practising Accountants


Independence or Disclosure of Interest

ShineWing Hall Chadwick does not have any pecuniary interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased conclusion in this matter. ShineWing Hall Chadwick provides audit services to Yancoal and will receive normal professional fees for the preparation of this Report.

Yours faithfully



ShineWing Hall Chadwick



K W Glynn
Partner

APPENDIX 3

SCHEME OF ARRANGEMENT

APPENDIX 3
SCHEME OF ARRANGEMENT (CONTINUED)

Form of Scheme

Between

Gloucester

Gloucester Coal Ltd

ABN 66 008 881 712 of Level 7, 167 Macquarie Street Sydney NSW,
Australia

(Gloucester)

and

holders of ordinary shares in Gloucester at the Scheme Record Date
(other than Excluded Shareholders)

1 Definitions and interpretation

1.1 Definitions

The meanings of the terms used in this Scheme are set out below.

Term	Meaning
ASIC	the Australian Securities and Investments Commission.
ASX	ASX Limited (ABN 98 008 624 691) or, as the context requires, the financial market known as the Australian Securities Exchange operated by it.
'All Bidder Shares' Election	an election by a Gloucester Shareholder to receive 100% of their Scheme Consideration in the form of Bidder Shares, on the basis of one Bidder Share for each Gloucester Share held as at the Scheme Record Date.
Bidder	Yancoal Australia Limited (ABN 82 111 859 119), of Level 11, 68 York Street, Sydney, New South Wales, Australia.
Bidder Share	a fully paid ordinary share in the capital of Bidder.
Bidder Group	Bidder and each of its subsidiaries (excluding, at any time, Gloucester and its subsidiaries to the extent that Gloucester and its subsidiaries are subsidiaries of Bidder at that time). A reference to a member of the Bidder Group is a reference to Bidder or any such subsidiary
Business Day	a business day as defined in the ASX Listing Rules.
CHESS	the clearing house electronic subregister system of share transfers operated by ASX Settlement Pty Limited (ABN 49 008 504 532).
CHESS Holding	has the meaning given in the Settlement Rules
Capital Reduction	The proposed equal reduction of the share capital of Gloucester under Part 2J.1 of the Corporations Act, as contemplated by the Merger Proposal Deed.
Corporations Act	the <i>Corporations Act 2001</i> (Cth).

APPENDIX 3 SCHEME OF ARRANGEMENT (CONTINUED)

Term	Meaning
Court	the Supreme Court of Victoria or such other court of competent jurisdiction under the Corporation act agreed to in writing between Gloucester and Bidder.
CVR Share	a Contingent Value Right Share in the capital of Bidder, to be issued in accordance with this Scheme to Gloucester Shareholders who do not make an 'All Bidder Shares' Election, and on the terms set out in Appendix 8 to the Explanatory Booklet issued by Gloucester dated 27 April 2012 in relation to this Scheme and the Capital Reduction (or on such other terms agreed to in writing between Gloucester and Bidder).
Deed Poll	the deed poll dated 27 April 2012 executed by Bidder under which Bidder covenants in favour of the Scheme Shareholders to perform the actions attributed to it under this Scheme and the Merger Proposal Deed.
Effective	the coming into effect under section 411(10) of the Corporations Act of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this Scheme.
Effective Date	the date on which this Scheme becomes Effective.
Election	an 'All Bidder Shares' Election or a Small Shareholder Cash Election, as the context requires or permits
Election Date	5.00pm (Sydney time) on the day before the Second Court Date (or such other date as Gloucester and Bidder agree in writing), being the last time and date by which Election Forms may be lodged in respect of an 'All Bidder Shares' Election or a Small Shareholder Cash Election.
Election Form	the form made available by Gloucester to Gloucester Shareholders to make an 'All Bidder Shares' Election or a Small Shareholder Cash Election, or any other form which Gloucester and Bidder agree in writing to accept for that purpose.
Electing Small Shareholder	a Small Shareholder who validly elects to have the Bidder Shares and any CVR Shares to which he or she is otherwise entitled under this Scheme sold in accordance with clause 5.4.
End Date	the 'End Date' determined in accordance with the Merger Proposal Deed.

Term	Meaning
Excluded Shareholder	any Gloucester Shareholder who is a member of the Bidder Group or any other Gloucester Shareholder to the extent it holds Gloucester Shares on behalf of, or for the benefit of, any member of the Bidder Group.
Foreign Scheme Shareholder	a Scheme Shareholder who comes within the definition of 'Foreign Scheme Shareholder' in the Merger Proposal Deed.
Gloucester Registry	Computershare Investor Services Pty Ltd ACN 078 279 277 or any replacement provider of share registry services to Gloucester.
Gloucester Converting Share	a non-cumulative, non-redeemable preference share in the capital of Gloucester issued on or about 15 July 2011.
Gloucester Option	an option to acquire by way of issue a Gloucester Share issued under the Gloucester Long Term Incentive Plan dated 20 November 2009
Gloucester Share	a fully paid ordinary share in the capital of Gloucester.
Gloucester Shareholder	each person who is registered as the holder of Gloucester Shares from time to time.
Gloucester Share Register	the register of members of Gloucester maintained in accordance with the Corporations Act.
Implementation Date	the fifth Business Day after the Scheme Record Date or such other date agreed to in writing between Gloucester and Bidder.
Issuer Sponsored Holding	has the meaning given in the Settlement Rules.
Merger Proposal Deed	the Merger Proposal Deed dated 22 December 2011 between Bidder, Yanzhou Coal Mining Company Limited and Gloucester, as amended.
Registered Address	in relation to a Gloucester Shareholder, the address shown in the Gloucester Share Register as at the Scheme Record Date.

APPENDIX 3

SCHEME OF ARRANGEMENT (CONTINUED)

Term	Meaning
Regulatory Authority	<p>(a) any government or governmental, semi-governmental, administrative, monetary, fiscal or judicial body, tribunal, agency or entity;</p> <p>(b) a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; or</p> <p>(c) any regulatory organisation established under statute, in any part of the world, and whether foreign, federal, state, territorial or local.</p>
Sale Agent	a person appointed by Bidder, in consultation with Gloucester, to sell the Sale Securities pursuant to clauses 5.3(b) and 5.4.
Sale Proceeds	the gross proceeds of sale of the Sale Securities under clauses 5.3(b) and 5.4, less any applicable taxes and charges incurred by Bidder or the Sale Agent in connection with the sale.
Sale Securities	the Bidder Shares and CVR Shares or the Bidder Shares (as the case may be) to which Foreign Scheme Shareholders and Electing Small Shareholders would have been entitled under this Scheme but for the operation of clause 5.6.

Term	Meaning
Scheme Consideration	<p>in respect of a Scheme Shareholder, means:</p> <p>(a) if the Scheme Shareholder is not a Foreign Scheme Shareholder or an Electing Small Shareholder and has made a valid 'All Bidder Shares' Election on or before the Election Date - one Bidder Share per Scheme Share;</p> <p>(b) if the Scheme Shareholder is not a Foreign Scheme Shareholder or an Electing Small Shareholder and has not made a valid 'All Bidder Shares' Election on or before the Election Date:</p> <p>(i) if 'All Bidder Shares' Elections have been made in respect of 130,000,000 or more Scheme Shares - one Bidder Share and one CVR Share per Scheme Share; or</p> <p>(ii) if 'All Bidder Shares' Elections have been made in respect of less than 130,000,000 Scheme Shares:</p> <ul style="list-style-type: none"> • one Bidder Share and one CVR Share per Scheme Share, in respect of a number of Scheme Shares calculated as $(B/A) \times C$, where: <ul style="list-style-type: none"> • A = the number of Scheme Shares in respect of which an 'All Bidder Shares' Election has not been validly made, • B = the total number of Scheme Shares on issue on the Scheme Record Date less 130,000,000, and • C = the number of Scheme Shares held by the relevant Scheme Shareholder; plus • one Bidder Share per Scheme Share, in respect of the remaining Scheme Shares held by the relevant Scheme Shareholder; <p>(c) if the Scheme Shareholder is a Foreign Scheme Shareholder – the Bidder Shares and CVR Shares or the Bidder Shares (as the case may be) that would have been issued to the Scheme Shareholder had the Scheme Shareholder not been a Foreign Scheme Shareholder and was not an Electing Small Shareholder and which are issued to the Sale Agent as provided in clause 5.3(b)(1); or</p> <p>(d) if the Scheme Shareholder is an Electing Small Shareholder, – the Bidder Shares and CVR Shares or the Bidder Shares (as the case may be) that would have been issued to the Scheme Shareholder had the Scheme Shareholder not been an Electing Small Shareholder and was not a Foreign Shareholder and which are issued to the Sale Agent as provided in clause 5.4(b)(1),</p> <p>provided that for the purposes of the foregoing the total number of Bidder Shares and CVR Shares issued to a particular Scheme Shareholder in respect of its parcel of Scheme Shares shall be rounded down to the nearest whole Bidder Share and the nearest whole CVR and the total cash amount payable to an Electing Small Shareholder or a Foreign Scheme Shareholder in respect of its parcel of Scheme Shares shall be rounded down to the nearest whole cent,</p>

APPENDIX 3

SCHEME OF ARRANGEMENT

Term	Meaning
Scheme	this scheme of arrangement subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and agreed to in writing by Gloucester and Bidder.
Scheme Meeting	the meeting of Gloucester Shareholders (other than Excluded Shareholders) ordered by the Court to be convened under section 411(1) of the Corporations Act and includes any meeting convened following any adjournment or postponement of that meeting.
Scheme Record Date	7pm on the fifth Business Day after the Effective Date or such other time and date agreed to in writing between the Bidder and Gloucester.
Scheme Share	a Gloucester Share held by a Scheme Shareholder at the Scheme Record Date.
Scheme Shareholders	Gloucester Shareholders (other than Excluded Shareholders) at the Scheme Record Date.
Second Court Date	the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving this Scheme is heard or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard.
Settlement Rules	the ASX Settlement Operating Rules
Small Shareholder	a Scheme Shareholder who is shown on the Gloucester Share Register on the Scheme Record Date as holding 200 Scheme Shares or less.
Small Shareholder Cash Election	an election made by a Small Shareholder to have the Bidder Shares and CVR Shares or the Bidder Shares (as the case may be) that they would otherwise be entitled to receive under this Scheme sold in accordance with clause 5.4.
Trust Account	an Australian dollar denominated trust account operated by Gloucester as trustee for the benefit of Scheme Shareholders (including for the avoidance of doubt Foreign Scheme Shareholders and Electing Small Shareholders).

1.2 Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise.

- (a) The singular includes the plural, and the converse also applies.
- (b) A gender includes all genders.
- (c) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (d) A reference to a person, corporation, trust, partnership, unincorporated body or other entity includes any of them.
- (e) A reference to a clause or schedule is a reference to a clause of or schedule to this deed.
- (f) A reference to an *agreement* or *document* (including a reference to this Scheme) is to the agreement or document as amended, supplemented, novated or replaced, except to the extent prohibited by this deed or that other agreement or document, and includes the recitals, schedules and annexures to that agreement or document.
- (g) A reference to a party to this Scheme or another agreement or document includes the party's successors, permitted substitutes and permitted assigns (and, where applicable, the party's legal personal representatives).
- (h) A reference to legislation or to a provision of legislation includes a modification or re-enactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it.
- (i) A reference to conduct includes an omission, statement or undertaking, whether or not in writing.
- (j) A reference to an *agreement* includes any undertaking, deed, agreement and legally enforceable arrangement, whether or not in writing, and a reference to a *document* includes an agreement (as so defined) in writing and any certificate, notice, instrument and document of any kind.
- (k) A reference to *dollars* and *\$* is to Australian currency.
- (l) All references to time are to Sydney, Australia time.
- (m) Mentioning anything after *includes*, *including*, *for example*, or similar expressions, does not limit what else might be included.
- (n) A reference to, an *officer* or *subsidiary* is to that term as it is defined in the Corporations Act.

1.3 Business Day

Where the day on or by which any act, matter or thing under this Scheme is to be done is not a Business Day, that act, matter or thing must be done on or by the next Business Day.

1.4 Listing requirements included as law

A listing rule or business rule of a financial market will be regarded as a *law*, and a reference to such a rule is to be taken to be subject to any waiver or exemption granted to the compliance of those rules by a party.

APPENDIX 3

SCHEME OF ARRANGEMENT (CONTINUED)

2 Preliminary

2.1 Gloucester

- (a) Gloucester is a public company limited by shares, registered in Western Australia and admitted to the official list of ASX.
- (b) Gloucester Shares are officially quoted on ASX. As at 27 April 2012:
 - (1) 202,905,967 Gloucester Shares were on issue which are officially quoted on ASX;
 - (2) 1,000 Gloucester Converting Shares were on issue which are not quoted on any financial market; and
 - (3) 3,618,574 Gloucester Options were on issue which are not quoted on any financial market.

2.2 Bidder

Bidder is an unlisted public company limited by shares incorporated in Victoria.

2.3 Consequence of this Scheme becoming Effective

If this Scheme becomes Effective:

- (a) Bidder will apply (unless it has already applied) for admission to the official list of ASX and for all Bidder Shares and all CVR Shares to be quoted on ASX;
- (b) Bidder will provide or procure the provision of the Scheme Consideration to Scheme Shareholders in accordance with this Scheme and the Deed Poll; and
- (c) all the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares, will be transferred to Bidder, and Gloucester will enter Bidder in the Gloucester Share Register as the holder of the Scheme Shares with the result that Gloucester will become a wholly-owned subsidiary of Bidder.

2.4 General

- (a) Gloucester and Bidder have agreed, by executing and undertaking the subsequent steps provided in, the Merger Proposal Deed, to implement this Scheme.
- (b) This Scheme attributes actions to Bidder but does not itself impose an obligation on it to perform those actions. Bidder has agreed, by executing the Deed Poll, to perform the actions attributed to it under this Scheme, including the providing or procuring the provision of the Scheme Consideration to the Scheme Shareholders.

3 Conditions

- (a) This Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions precedent:
 - (1) all the conditions precedent in clause 3.1 of the Merger Proposal Deed (other than the condition in clause 3.1(j)) having been satisfied or waived in accordance with the terms of the Merger Proposal Deed by 8.00am on the Second Court Date;

- (2) neither the Merger Proposal Deed nor the Deed Poll having been terminated in accordance with their terms before 8.00am on the Second Court Date;
 - (3) approval of this Scheme by the Court under section 411(4)(b) of the Corporations Act, including with any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act as are agreed to in writing by Bidder and Gloucester; and
 - (4) such other conditions imposed by the Court under section 411(6) of the Corporations Act, as are acceptable to the parties, having been satisfied..
- (b) The satisfaction of the conditions referred to in clause 3(a) is a condition precedent to the operation of clauses 4 and 5.
 - (c) This Scheme will lapse and be of no further force or effect if:
 - (1) the Effective Date does not occur on or before the End Date or any later date as the Court, with the consent of the parties, may order; or
 - (2) the Merger Proposal Deed is terminated before implementation of this Scheme on the Implementation Date.

4 Implementation

4.1 Lodgement of Court orders

Gloucester must lodge with ASIC office copies of any Court orders under section 411 of the Corporations Act approving this Scheme no later than by 5pm on the tenth Business Day after the Court approves this Scheme.

4.2 Transfer of Scheme Shares

Subject to Bidder confirming in writing to Gloucester by no later than 12 noon (or such later time as Bidder and Gloucester may agree) on the Implementation Date that the Scheme Consideration has been provided to the Scheme Shareholders in the manner contemplated by clauses 5.3(b)(1), 5.4(b)(1) and 5.6(a)(1) (**Bidder Confirmation Certificate**), the following actions will occur on the Implementation Date:

- (a) the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares at the Implementation Date, will be transferred to Bidder, without the need for any further act by any Scheme Shareholder (other than acts performed by Gloucester or its officers as agent and attorney of the Scheme Shareholders under clause 8.5 or otherwise) by:
 - (1) Gloucester delivering to Bidder a duly completed and executed share transfer form to transfer all the Scheme Shares to Bidder; and
 - (2) Bidder duly executing such transfer form and delivering it to Gloucester for registration; and
- (b) immediately after receipt of the transfer form in accordance with paragraph 4.2(a)(2), Gloucester must enter, or procure the entry of, the name of Bidder in the Gloucester Share Register in respect of the Scheme Shares.

APPENDIX 3

SCHEME OF ARRANGEMENT (CONTINUED)

4.3 Gloucester Undertaking

Gloucester undertakes in favour of each Scheme Shareholder not to complete any of the actions required to be taken by Gloucester under clause 4.2 unless it has received the Bidder Confirmation Certificate.

5 Scheme Consideration

5.1 Amount of Scheme Consideration

Each Scheme Shareholder is entitled to receive the Scheme Consideration.

5.2 Election procedure

- (a) Each Gloucester Shareholder will be entitled to make an 'All Bidder Shares' Election or, in the case of a Small Shareholder, a Small Shareholder Cash Election (**Election**). All Elections will take effect in accordance with this Scheme to the extent that any Gloucester Shareholder who makes an Election qualifies as a Scheme Shareholder.
- (b) A Gloucester Shareholder which makes an Election may vary, withdraw or revoke that Election by lodging a replacement Election Form so that it is received on or before the Election Date.
- (c) An Election must be made in accordance with the terms and conditions of the Election Form and this clause 5.2, and an Election not so made will not be a valid election for the purpose of this Scheme and will not be recognised by Bidder or Gloucester for any purpose (provided that Bidder may, with the agreement of Gloucester, waive this requirement and may, with the agreement of Gloucester, settle as it thinks fit any difficulty, matter of interpretation or dispute which may arise in connection with determining the validity of any Election, and any such decision will be conclusive and binding on Bidder, Gloucester and the relevant Scheme Shareholder).
- (d) Clause 5.3 will apply to any Gloucester Shareholder who makes an Election but who qualifies as a Foreign Scheme Shareholder.
- (e) Subject to clause 5.2(f), if a Gloucester Shareholder makes an 'All Bidder Shares' Election, that Election will be deemed to apply in respect of the Gloucester Shareholder's entire registered holding of Gloucester Shares at the Scheme Record Date, regardless of whether the Gloucester Shareholder's holding of Gloucester Shares at the Scheme Record Date is greater or less than the Gloucester Shareholder's holding at the time it made its 'All Bidder Shares' Election.
- (f) A Gloucester Shareholder who is noted on the Gloucester Share Register as holding one or more parcels of Gloucester Shares as trustee or nominee for, or otherwise on account of, another person, may make separate Elections under this clause 5.2 in relation to each of those parcels of Gloucester Shares (subject to it providing to Bidder and Gloucester any substantiating information they reasonably require), and if it does so it will be treated as a separate Gloucester Shareholder in respect of each such parcel in respect of which a separate Election is made (and in respect of any balance of its holding), provided that if, at the Scheme Record Date, it holds fewer Gloucester Shares than it held at the time it made the Election, then, unless it has at the time of any sale of Gloucester Shares notified Gloucester whether the Gloucester Shares sold relate to any such separate Election (and if so which separate Election the Gloucester Shares sold relate to), it will be treated as not having made a valid

Election in respect of any of its Gloucester Shares (or will be treated in any other manner that Bidder and Gloucester agree is fair to the Gloucester Shareholder in all the circumstances acting reasonably and approved by the Court).

5.3 Foreign Scheme Shareholders

- (a) Bidder will be under no obligation to issue, and must not issue, any Bidder Shares or CVR Shares under this Scheme to Foreign Scheme Shareholders.
- (b) Instead, Bidder must procure that:
 - (1) the Sale Securities attributable to Foreign Scheme Shareholders are issued by Bidder to the Sale Agent on the Implementation Date (rounded down, if necessary, to the nearest whole number);
 - (2) as soon as practicable and, in any event, not more than 15 Business Days after the Implementation Date, the Sale Agent sells the Sale Securities in such manner, at such price or prices and on such other terms as the Sale Agent determines in good faith; and
 - (3) promptly after the last sale of Sale Securities in accordance with clause 5.3(b)(2) (and also clause 5.4(b)(2) below), the Sale Agent pays the Sale Proceeds into the Trust Account (for payment by Gloucester to the Foreign Scheme Shareholders and also to the Electing Small Shareholders, after deduction of any applicable taxes and charges incurred by the Bidder or the Sale Agent in connection with the sale, in accordance with sub-clauses 5.6(c) to (g) inclusive of this Scheme).
- (c) None of Bidder, Gloucester or the Sale Agent gives any assurance as to the price that will be achieved for the sale of Sale Securities by the Sale Agent. The sale of Sale Securities by the Sale Agent will be at the risk of the Foreign Scheme Shareholders.
- (d) Each Foreign Scheme Shareholder appoints Gloucester as its agent to receive on its behalf any financial services guide or other notices (including any updates of those documents) that the Sale Agent is required to provide to Foreign Scheme Shareholders under the Corporations Act.

5.4 Electing Small Shareholders

- (a) A Small Shareholder may, subject to the terms of this Scheme, elect to have the Bidder Shares and CVR Shares or the Bidder Shares (as the case may be) that they would otherwise receive under this Scheme sold in accordance with the provisions of this clause 5.4 by completing an Election Form so that it is received before the Election Date.
- (b) Bidder must not issue any Bidder Shares or CVR Shares to Electing Small Shareholders. Instead, Bidder must procure that:
 - (1) the Sale Securities attributable to Electing Small Shareholders are issued by Bidder to the Sale Agent on the Implementation Date (rounded down, if necessary, to the nearest whole number);
 - (2) as soon as practicable and, in any event, not more than 15 Business Days after the Implementation Date, the Sale Agent sells the Sale Securities in such manner, at such price or prices and on such other terms as the Sale Agent determines in good faith; and
 - (3) promptly after the last sale of Sale Securities in accordance with clause 5.4(b)(2) (and also clause 5.3(b)(2) above), the Sale Agent pays the Sale Proceeds into the Trust Account (for payment by

APPENDIX 3

SCHEME OF ARRANGEMENT (CONTINUED)

Gloucester to the Electing Small Shareholders and also to the Foreign Scheme Shareholders, after deduction of any applicable taxes and charges incurred by the Bidder or the Sale Agent in connection with the sale, in accordance with sub-clauses 5.6(c) to (g) inclusive of this Scheme).

- (c) None of Bidder, Gloucester or the Sale Agent gives any assurance as to the price that will be achieved for the sale of Sale Securities by the Sale Agent. The sale of Sale Securities by the Sale Agent will be at the risk of the Electing Small Shareholders.
- (d) Each Electing Small Shareholder appoints Gloucester as its agent to receive on its behalf any financial services guide or other notices (including any updates of those documents) that the Sale Agent is required to provide to Electing Small Shareholders under the Corporations Act.

5.5 Joint holders

In the case of Scheme Shares held in joint names:

- (a) any Bidder Shares and CVR Shares comprised in the Scheme Consideration are to be issued to and registered in the names of the joint holders;
- (b) any cheque required to be sent under this Scheme will be made payable to the joint holders and sent to the holder whose name appears first in the Gloucester Share Register as at the Scheme Record Date; and
- (c) any other document required to be sent under this Scheme, will be forwarded to the holder whose name appears first in the Gloucester Share Register as at the Scheme Record Date.

5.6 Provision of Scheme Consideration

- (a) Bidder must (pursuant to its obligations under the Deed Poll) before 12 noon (or such later time as Bidder and Gloucester may agree) on the Implementation Date:
 - (1) procure that the name of each Scheme Shareholder entitled to receive Bidder Shares and CVR Shares or Bidder Shares (as the case may be) under this Scheme is entered in Bidder's register of members as the holder of those Bidder Shares and CVR Shares or those Bidder Shares (as the case may be) (in holdings having the same holding name and address and other details as the holding of the relevant Scheme Shares, and in CHESS Holdings if the relevant Scheme Shares were held in the CHESS Holdings and in Issuer Sponsored Holdings if the relevant Scheme Shares were held in Issuer Sponsored Holdings); and
 - (2) procure that the name of the Sale Agent is entered in Bidder's register of members as the holder of the Sale Securities (with such holding details as the Sale Agent notifies).
- (b) On or before the date that is five Business Days after the Implementation Date, Bidder must send or procure the sending of an allotment advice or holding statement (or equivalent document) to each Scheme Shareholder entitled to receive Bidder Shares and CVR Shares or Bidder Shares (as the case may be) under this Scheme, reflecting the issue of such Bidder Shares and CVR Shares and to the Sale Agent entitled to receive Sale Securities reflecting the issue of such Sale Securities, in accordance with clauses 5.6(a)(1) and (2) respectively.
- (c) As soon as practicable following payment into the Trust Account of the Sale Proceeds and in any event no later than 10 Business days after the date of such payment, Gloucester must pay from the Trust Account to each Foreign

Scheme Shareholder and each Electing Small Shareholder such amount of cash as is due to that Scheme Shareholder as Scheme Consideration in respect of their Scheme Shares, being in the case of each such person the amount they would have received had they:

- (1) received the Bidder Shares and CVR Shares or the Bidder Shares (as the case may be) to which they would have been entitled under this Scheme but for the operation of clauses 5.3 and 5.4; and
- (2) sold them for:
 - (A) in the case of each Bidder Share, an amount per Bidder Share equal to that part of the Sale Proceeds which is attributable to the sale of Bidder Shares (after deduction of any applicable taxes and charges incurred by Bidder and the Sale Agent in connection with the sale) divided by the total number of Bidder Shares included in the Sale Securities; and
 - (b) in the case of CVR Shares, an amount per CVR Share equal to that part of the Sale Proceeds which is attributable to the sale of CVR Shares (after deduction of any applicable taxes and charges incurred by Bidder and the Sale Agent in connection with the sale) divided by the total number of CVR Shares included in the Sale Securities,

provided that for the purposes of the foregoing the total cash amount payable to an Electing Small Shareholder or a Foreign Scheme Shareholder in respect of its parcel of Scheme Shares shall be rounded down to the nearest whole cent.

- (d) The amount referred to in clause 5.6(c) must be paid by Gloucester doing any of the following at its election:
 - (1) sending (or procuring the Gloucester Registry to send) it to the Scheme Shareholder's Registered Address by cheque in Australian currency drawn out of the Trust Account; or
 - (2) depositing (or procuring the Gloucester Registry to deposit) it into an account with any Australian ADI (as defined in the Corporations Act) notified to Gloucester (or the Gloucester Registry) by an appropriate authority from the Scheme Shareholders.
- (e) If there is any surplus in the amount held by Gloucester in the Trust Account, that surplus must be paid by Gloucester to Bidder following the satisfaction of Gloucester's obligations under this clause. Any interest on the amounts deposited in the Trust Account (less bank fees and other charges) will be to Bidder's account.
- (f) If any amount is required under any Australian law or by any Australian Regulatory Authority to be:
 - (1) withheld from an amount payable under paragraph (c) or (e) and paid to that entity or authority; or
 - (2) retained by Gloucester out of an amount payable under paragraph (c) or (e),

its payment or retention by Gloucester (or the Gloucester Registry) will constitute the full discharge of Gloucester's obligations under this clause 5.4 with respect to the amount so paid or retained until, in the case of paragraph (f)(2), it is no longer required to be retained.

- (g) If:

APPENDIX 3

SCHEME OF ARRANGEMENT (CONTINUED)

- (1) written notice is given to Gloucester (or the Gloucester Registry) of an order made by a court of competent jurisdiction that requires payment to a third party of a sum in respect of Scheme Shares held by a particular Scheme Shareholder, which would otherwise be payable to that Scheme Shareholder by Gloucester in accordance with clause 5.6(c), then Gloucester shall be entitled to procure that payment is made in accordance with that order; or
- (2) written notice is given to Gloucester (or the Gloucester Registry) of an order made by a court of competent jurisdiction that prevents Gloucester from making a payment by Gloucester to any particular Scheme Shareholder in accordance with clause 5.6(c), or such payment is otherwise prohibited by applicable law, Gloucester shall be entitled to retain an amount, in Australian dollars, equal to the number of Scheme Shares held by that Scheme Shareholder multiplied by the Scheme Consideration until such time as payment in accordance with clause 5.6(c) is permitted by that order or otherwise by law.

5.7 Status of Bidder Shares and CVR Shares

Subject to this Scheme becoming Effective, Bidder must:

- (a) issue the Bidder Shares and CVR Shares required to be issued under this Scheme on terms such that each such Bidder Share will rank equally in all respects with each other Bidder Share and each such CVR Share will rank equally in all respects with each other CVR Share;
- (b) ensure that each Bidder Share and CVR Share required to be issued under this Scheme is duly issued and is fully paid and free from any mortgage, charge, lien, encumbrance or other security interest (except for any lien arising under the constitution of Bidder); and
- (c) use all reasonable endeavours to ensure that such Bidder Shares and CVR Shares are approved for listing on the ASX and that quotation of them on ASX commences as soon as practicable after the Effective Date, initially on a deferred settlement basis and thereafter on a ordinary (T+3) settlement basis.

6 Dealings in Gloucester Shares

6.1 Determination of Scheme Shareholders

To establish the identity of the Scheme Shareholders, dealings in Gloucester Shares will only be recognised if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Gloucester Share Register as the holder of the relevant Gloucester Shares on or before the Scheme Record Date; and
- (b) in all other cases, registrable transmission applications or transfers in respect of those dealings are received on or before the Scheme Record Date at the place where the Gloucester Share Register is kept,

and Gloucester will not accept for registration, nor recognise for any purpose (except a transfer to Bidder pursuant to this Scheme and any subsequent transfer by Bidder or its successors in title), any transfer or transmission application or other request received after such times, or received prior to such times but not in registrable or actionable form, as appropriate.

6.2 Register

- (a) **(Registration of transfers)** Gloucester must register registrable transmission applications or transfers of the kind referred to in clause 6.1(b) by or as soon as reasonably practicable after the Scheme Record Date (provided that for the avoidance of doubt nothing in this clause 6.2 requires Gloucester to register a transfer that would result in a Gloucester Shareholder holding a parcel of Gloucester Shares that is less than a 'marketable parcel' (as defined in the Settlement Rules).
- (b) **(No registration after Scheme Record Date)** Gloucester will not accept for registration or recognise for any purpose any transmission application or transfer in respect of Gloucester Shares received after the Scheme Record Date, other than to Bidder in accordance with this Scheme.
- (c) **(Maintenance of Gloucester Share Register)** For the purpose of determining entitlements to the Scheme Consideration, Gloucester must maintain the Gloucester Share Register in accordance with the provisions of this clause until the Scheme Consideration has been delivered to the Scheme Shareholders. The Gloucester Share Register in this form will solely determine entitlements to the Scheme Consideration.
- (d) **(No disposal after Scheme Record Date)** From the Scheme Record Date until registration of Bidder in respect of all Scheme Shares under clause 4, no Gloucester Shareholder may dispose or otherwise deal with Gloucester Shares in any way except as set out in this Scheme and any attempt to do so will have no effect and Gloucester shall be entitled to disregard any such disposal.
- (e) **(Statements of holding from Scheme Record Date)** All statements of holding for Gloucester Shares will cease to have effect from the Scheme Record Date as documents of title in respect of those shares (other than statements of holding in favour of any Excluded Shareholders). As from the Scheme Record Date, each entry current at that date on the Gloucester Share Register (other than entries in respect of any Excluded Shareholder) will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the Gloucester Shares relating to that entry.
- (f) **(Provision of Scheme Shareholder details)** As soon as practicable after the Scheme Record Date and in any event at least two Business Days before the Implementation Date, Gloucester will ensure that details of the names, Registered Addresses and holdings of Gloucester Shares for each Scheme Shareholder are available to Bidder in the form Bidder reasonably requires.

7 Quotation of Gloucester Shares

- (a) Gloucester will apply to ASX to suspend trading on the ASX in Gloucester Shares with effect from the close of trading on the Effective Date.
- (b) On a date after the Implementation Date to be determined by Bidder, and only after the transfer of the Scheme Shares has been registered in accordance with clause 4.2(b), Gloucester will apply:
 - (1) for termination of the official quotation of Gloucester Shares on ASX; and
 - (2) to have itself removed from the official list of ASX.

APPENDIX 3

SCHEME OF ARRANGEMENT (CONTINUED)

8 General Scheme Provisions

8.1 Consent

If the Court proposes to approve this Scheme subject to any alterations or conditions:

- (a) Gloucester may, by its counsel or solicitors, consent on behalf of all persons concerned to those alterations or conditions to which Bidder has consented in writing.
- (b) each Scheme Shareholder agrees to any such alterations or conditions to which counsel for Gloucester has consented.

8.2 Binding effect of Scheme

This Scheme binds Gloucester and all Scheme Shareholders (including those who did not attend the Scheme Meeting, those who did not vote at that meeting, or voted against this Scheme at that meeting) and, to the extent of any inconsistency, overrides the constitution of Gloucester.

8.3 Scheme Shareholders' agreements and acknowledgment

Each Scheme Shareholder:

- (a) agrees to the transfer of their Gloucester Shares together with all rights and entitlements attaching to those Gloucester Shares in accordance with this Scheme;
- (b) agrees to the variation, cancellation or modification of the rights attached to their Gloucester Shares constituted by or resulting from this Scheme or the Capital Reduction;
- (c) who holds their Gloucester Shares in a CHESS Holding agrees to the Conversion of those Gloucester Shares to an Issuer Sponsored Holding and irrevocably authorises Gloucester to do anything necessary or expedient (whether required by the Settlement Rules or otherwise) to effect or facilitate such Conversion;
- (d) agrees to become a shareholder in Bidder and to be bound by the constitution of Bidder; and
- (e) acknowledges that this Scheme binds Gloucester and all Scheme Shareholders (including those who do not attend the Scheme Meeting or do not vote at that meeting or vote against this Scheme at that Scheme Meeting).

8.4 Warranties by Scheme Shareholders

Each Scheme Shareholder is deemed to have warranted to Gloucester, in its own right and for the benefit of Bidder that:

- (a) all of its Gloucester Shares which are transferred to Bidder under this Scheme will, on the date on which they are transferred to Bidder, be free from all mortgages, charges, liens, encumbrances, pledges, security interests and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind;
- (b) all of its Gloucester Shares which are transferred to Bidder under this Scheme will, on the date on which they are transferred to Bidder, be fully paid; and
- (c) it has full power and capacity to transfer its Gloucester Shares to Bidder together with any rights attaching to those shares..

8.5 Title to and rights in Scheme Shares

- (a) To the extent permitted by law, the Scheme Shares transferred under this Scheme will be transferred free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise.
- (b) On and from the Implementation Date, Bidder will be beneficially entitled to the Scheme Shares transferred to it under this Scheme pending registration by Gloucester of Bidder in the Gloucester Share Register as the holder of the Scheme Shares.

8.6 Authority given to Gloucester

- (a) Scheme Shareholders will be deemed to have authorised Gloucester to do and execute all acts, matters, things and documents on the part of each Scheme Shareholder necessary for or incidental to the implementation of this Scheme, including executing, as agent and attorney of each Scheme Shareholder, a share transfer or transfers in relation to Scheme Shares as contemplated by clause 4.2.
- (b) Each Scheme Shareholder, without the need for any further act, irrevocably appoints Gloucester and all of its directors, secretaries and officers (jointly and severally) as its attorney and agent for the purpose of executing any document necessary to give effect to this Scheme including, a proper instrument of transfer of its Scheme Shares for the purposes of section 1071B of the Corporations Act which may be a master transfer of all the Scheme Shares.

8.7 Appointment of sole proxy

On and from the Implementation Date and until Gloucester registers Bidder as the holder of all Gloucester Shares in the Gloucester Share Register, each Scheme Shareholder:

- (a) is deemed to have irrevocably appointed Bidder as its attorney and agent (and directed Bidder in such capacity) to appoint an officer or agent nominated by Bidder as its sole proxy and, where applicable, corporate representative to attend shareholders' meetings of Gloucester, exercise the votes attaching to the Scheme Shares registered in its name and sign any Gloucester Shareholders' resolutions,
- (b) undertakes not to otherwise attend shareholders' meetings, exercise the votes attaching to Scheme Shares registered in their names or sign or vote on any resolutions (whether in person, by proxy or by corporate representative) other than as pursuant to clause 8.7(a);
- (c) must take all other actions in the capacity of a registered holder of Scheme Shares as Bidder reasonably directs; and
- (d) acknowledges and agrees that in exercising the powers referred to in clause 8.7(a), Bidder and any officer or agent nominated by Bidder under clause 8.7(a) may act in the best interests of Bidder as the intended registered holder of the Scheme Shares.

8.8 Instructions and elections

If not prohibited by law (and including where permitted or facilitated by relief granted by a Regulatory Authority), all instructions, notifications or elections by a Scheme Shareholder to Gloucester binding or deemed binding between the Scheme Shareholder and Gloucester relating to Gloucester or Gloucester Shares (including any email addresses, instructions relating to communications from Gloucester, whether dividends are to be paid by cheque or into a specific bank account, notices of meetings or other communications

APPENDIX 3

SCHEME OF ARRANGEMENT (CONTINUED)

from Gloucester) will be deemed from the Implementation Date (except to the extent determined otherwise by Bidder in its sole discretion), by reason of this Scheme, to be made by the Scheme Shareholder to Bidder and to be a binding instruction, notification or election to, and accepted by, Bidder in respect of the New Bidder Shares issued to that Scheme Shareholder until that instruction, notification or election is revoked or amended in writing addressed to Bidder at its registry.

9 General

9.1 Stamp duty

Bidder must (pursuant to its obligations under the Deed Poll) pay all stamp duty payable in connection with the transfer of the Scheme Shares to Bidder.

9.2 Definition of 'sending'

For the purposes of clause 5 the expressions 'sending' means, in relation to each Scheme Shareholder:

- (a) sending by ordinary pre-paid post or courier to the Registered Address of that Scheme Shareholder as at the Scheme Record Date; or
- (b) delivery to the Registered Address of that Scheme Shareholder as at the Scheme Record Date by any other means at no cost to the recipient.

9.3 Notices

- (a) If a notice, transfer, transmission application, direction or other communication referred to in this document is sent by post to Gloucester, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at Gloucester's registered office or at the office of the Gloucester Registry.
- (b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such a notice by any Shareholder may not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

9.4 Governing law and jurisdiction

- (a) This Scheme is governed by the laws of Victoria.
- (b) The parties irrevocably submit to the non-exclusive jurisdiction of courts exercising jurisdiction in Victoria and courts of appeal from them in respect of any proceedings arising out of or in connection with this Scheme.

9.5 Further assurances

Gloucester must do anything necessary (including executing agreements and documents) to give full effect to this Scheme and the transactions contemplated by it.

APPENDIX 4

NOTICE OF SCHEME MEETING

APPENDIX 4

NOTICE OF SCHEME MEETING

GLOUCESTER COAL LTD
ABN 66 008 881 712

NOTICE OF COURT ORDERED MEETING OF GLOUCESTER COAL LTD SHAREHOLDERS

Notice is given that, by an Order of the Supreme Court of Victoria (**Court**) made on Friday, 27 April 2012 under section 411(1) of the Corporations Act, the Court has directed that a meeting of the holders of fully paid ordinary shares in Gloucester Coal Ltd (**Gloucester**) be held at Minter Ellison Lawyers, Level 19, Aurora Place, 88 Phillip Street, Sydney New South Wales on Monday, 4 June 2012, commencing at 10.00am.

The Court has also directed that Mr James MacKenzie or, if he is unable or unwilling to attend, Mr Greg Fletcher act as Chairman of the meeting.

PURPOSE OF THE MEETING

The purpose of the meeting is to consider and, if thought fit, to agree (with or without any amendments or modifications made or required by the Court to which Gloucester and Yancoal Australia agree) to a scheme of arrangement proposed to be made between Gloucester and the holders of its ordinary shares (**Scheme**).

A copy of the Scheme and a copy of the Explanatory Statement required by section 412 of the Corporations Act in relation to the Scheme are contained in the Explanatory Booklet of which this notice forms part.

RESOLUTION

The meeting will be asked to consider and, if thought fit, pass the following resolution:

'THAT pursuant to and in accordance with the provisions of section 411 of the Corporations Act, the members approve the arrangement proposed between Gloucester Coal Ltd and the holders of its fully paid ordinary shares, designated the 'Scheme', as contained in and more particularly described in the Explanatory Booklet accompanying the notice convening this meeting (with or without any amendments or modifications made or required by the Court to which Gloucester Coal Ltd and Yancoal Australia agree) and, subject to approval of the Scheme by the Court, the Board of Directors of Gloucester Coal Ltd is authorised to implement the Scheme with any such modifications or conditions.'

DATED 27 April 2012

BY ORDER OF THE COURT



Mr Hemang Shah
Company Secretary

Explanatory notes for the Scheme Meeting

GENERAL

- Capitalised words and phrases contained in this Notice of Meeting (including the proposed resolution) have the same meaning as set out in the Glossary in Section 16 of this Explanatory Booklet, of which this notice forms part.
- This notice should be read in conjunction with the entire Explanatory Booklet of which this notice forms part. The Explanatory Booklet contains important information to assist you in determining how to vote on the proposed resolution. The Explanatory Booklet includes a copy of the Scheme (refer Appendix 3) and a copy of the Explanatory Statement required by section 412 of the Corporations Act in relation to the Scheme of Arrangement (the Explanatory Statement being all Sections of this Explanatory Booklet, other than Appendices 4 and 5).

VOTING ENTITLEMENTS

- For the purposes of the Scheme Meeting, each person registered in the Gloucester Share Register as the holder of Gloucester Shares at 12.00pm Sydney time on Saturday, 2 June 2012, is entitled to attend and vote at the Scheme Meeting, either in person, by proxy or attorney or, in the case of a corporate Gloucester Shareholder, by a personal representative.

REQUIRED VOTING MAJORITY

- The resolution to approve the Scheme is subject to approval by the majorities required under section 411(4)(a)(ii) of the Corporations Act. The resolution to approve the Scheme must be approved by:
 - (unless the Court orders otherwise) a majority in number (more than 50%) of eligible Gloucester Shareholders present and voting at the Scheme Meeting (whether in person, by proxy, attorney or, in the case of corporate Gloucester Shareholders, by corporate representative); and
 - eligible Gloucester Shareholders whose Gloucester Shares in aggregate account for at least 75% of the votes cast on the resolution.
- The vote will be conducted by poll.

COURT APPROVAL

In accordance with section 411(4)(b) of the Corporations Act, to become Effective, the Scheme (with or without any amendment or modification made or required by the Court to which Gloucester and Yancoal Australia agree) must also be approved by an order of the Court. If all conditions to the Scheme are satisfied or waived (as applicable), Gloucester intends to apply to the Court for orders to give effect to the Scheme.

HOW TO VOTE

Gloucester Shareholders entitled to vote at the Scheme Meeting may vote:

- by attending the meeting and voting in person; or
- by appointing a proxy to attend and vote on their behalf, using the proxy form accompanying this notice. A proxy may be an individual or a body corporate; or
- by appointing an attorney to attend the meeting and vote on their behalf or, in the case of corporate shareholders or proxies, a corporate representative to attend the meeting and vote on its behalf.

VOTING BY PROXY

Eligible Gloucester Shareholders wishing to vote by proxy at this meeting must:

- complete and sign or validly authenticate the proxy form, which is enclosed with this Explanatory Booklet; and
- deliver the signed and completed proxy form to Gloucester by 11.00am (Sydney time) on Saturday, 2 June 2012 in accordance with the instructions below.

Submitting proxy votes

- Eligible Gloucester Shareholders wishing to submit proxy votes for the Scheme Meeting must return the provided proxy form to Gloucester in any of the following ways:
 - **By post** in the provided reply paid envelope to the Gloucester Share Registry:
Computershare Investor Services Pty Limited
GPO Box 242
Melbourne Victoria 3001
 - **By hand delivery** during business hours to the Gloucester Share Registry at:
Computershare Investor Services Pty Limited
Level 4, 60 Carrington Street
Sydney, New South Wales Australia
 - **By fax** to the Gloucester Share Registry on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia).
 - For Intermediary Online subscribers only (custodians)
www.intermediaryonline.com
- As the cut-off date for receipt of proxies is 11.00am (Sydney time) on Saturday, 2 June 2012, if you intend to mail or hand deliver your proxy form, it must be received by the Gloucester Share Registry by close of business on Friday, 1 June 2012.

Notes for proxy appointments

- A Gloucester Shareholder entitled to attend and vote at the meeting is entitled to appoint not more than two proxies to attend and vote at the meeting on that Gloucester Shareholder's behalf.
- A proxy need not be a Gloucester Shareholder.
- If a Gloucester Shareholder appoints two proxies and the appointment does not specify the proportion or number of the Gloucester Shareholder's votes each proxy may exercise, each proxy may exercise half the votes.
- A proxy may vote or abstain as he or she chooses except where the appointment of the proxy directs the way the proxy is to vote on the Scheme Resolution. If an appointment directs the way the proxy is to vote on the Scheme Resolution:
 - if the proxy is the chair – the proxy must vote on the poll and must vote in the way directed; and
 - if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote in the way directed.
- If a Gloucester Shareholder nominates the chairman of the Scheme Meeting as the Gloucester Shareholder's proxy, the person acting as chairman of the Scheme Meeting must act as proxy under the appointment in respect of the resolution to be considered at the Scheme Meeting.
- If a proxy appointment is signed or validly authenticated by the Gloucester Shareholder but does not name the proxy or proxies in whose favour it is given, the chairman of the Scheme Meeting may at his election (a) act as proxy in respect of the resolution to be considered at the Scheme Meeting or (b) complete the proxy appointment by inserting the name or names of one or more Directors or the Company secretary to act as proxy under the appointment, in respect of the resolution to be considered at the Scheme Meeting.
- The Chairman intends to vote undirected proxy votes of which he is appointed as proxy in favour of the resolution to approve the Scheme (in the absence of a Superior Proposal from another party prior to the date of the Scheme Meeting).

APPENDIX 4

NOTICE OF SCHEME MEETING (CONTINUED)

VOTING IN PERSON (OR BY ATTORNEY)

- Eligible Gloucester Shareholders or their proxies, attorneys or representatives (including representatives of corporate proxies) wishing to vote in person should attend the Scheme Meeting and bring a form of personal identification (such as their driver's licence).
- To vote by attorney at this meeting, the original or a certified copy of the power of attorney or other authority (if any) under which the instrument is signed must be received by the Gloucester Share Registry before 11.00am (Sydney time) on Saturday, 2 June 2012 in any of the following ways:
 - **By post** in the provided reply paid envelope to the Gloucester Share Registry:
Computershare Investor Services Pty Limited
GPO Box 242
Melbourne Victoria 3001
 - **By hand delivery** during business hours to the Gloucester Share Registry at:
Computershare Investor Services Pty Limited
Level 4, 60 Carrington Street
Sydney, New South Wales Australia
 - **By fax** to the Gloucester Share Registry 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia).
 - For Intermediary Online subscribers only (custodians)
www.intermediaryonline.com
- To vote in person, you or your proxy, attorney, representative or corporate proxy representative must attend the Scheme Meeting to be held at Minter Ellison Lawyers, Level 19, Aurora Place, 88 Phillip Street, Sydney, New South Wales, on Monday, 4 June 2012, commencing at 10.00am.
- A vote cast in accordance with the appointment of a proxy or power of attorney is valid even if before the vote was cast the appointor:
 - died;
 - became mentally incapacitated;
 - revoked the proxy or power; or
 - transferred the Gloucester Shares in respect of which the vote was cast,

unless Gloucester received written notification of the death, mental incapacity, revocation or transfer at least 48 hours before the meeting or, if applicable, any adjourned meeting.

VOTING BY CORPORATE REPRESENTATIVES

- To vote in person at the Scheme Meeting, an eligible Gloucester Shareholder or proxy which is a body corporate may appoint an individual to act as its representative.
- To vote by corporate representative at the meeting, an eligible corporate Gloucester Shareholder or proxy should obtain an Appointment of Corporate Representative Form from the Gloucester Share Registry, complete and sign the form in accordance with the instructions on it. The completed appointment form should be lodged at the registration desk on the day of the meeting.
- The appointment of a representative may set out restrictions on the representative's powers.

The Appointment of Corporate Representative Form, a certified copy of the Appointment of Corporate Representative Form, or a certificate of the body corporate evidencing the appointment of a representative is prima facie evidence of a representative having been appointed.

APPENDIX 5

NOTICE OF GENERAL MEETING

APPENDIX 5

NOTICE OF GENERAL MEETING

GLOUCESTER COAL LTD
ABN 66 008 881 712

NOTICE OF GENERAL MEETING

Notice is given that, a general meeting of the members of Gloucester Coal Ltd (**Gloucester**) will be held at Minter Ellison Lawyers, Level 19, Aurora Place, 88 Phillip Street, Sydney New South Wales on 4 June 2012, commencing at 11.00am, or as soon as reasonably practicable after the Scheme Meeting has concluded or been adjourned (whichever time is later).

PURPOSE OF THE MEETING

The purpose of the meeting is to consider and, if thought fit, approve the Capital Return.

A copy of the Explanatory Statement required by section 256C(5) of the *Corporations Act* in relation to the Capital Return is contained in the Explanatory Booklet of which this notice forms part.

Terms not defined in this notice have the meanings given to them in the Explanatory Booklet.

RESOLUTION

The meeting will be asked to consider and, if thought fit, pass the following resolution:

THAT the following equal reduction of the share capital of the Company is approved for the purposes of sections 256B and 256C of the *Corporations Act* and for all other purposes:

Subject to Gloucester in its absolute discretion making an announcement to ASX not earlier than the Court Approval Date and not later than the date that is two Business Days after the Court Approval Date, which announcement sets the Capital Return Record Date, that the Company reduce its share capital without:

- (a) cancelling any shares; or
- (b) creating or increasing any unpaid amount on any of its shares, by an amount (**Capital Return Amount**) equal to A\$700 million less the sum of the aggregate amount of:

- (c) the Gloucester Special Dividend; and
- (d) the Gloucester Option Amount,

as follows:

- (e) creating with effect on the Capital Return Record Date a debt (**Eligible Shareholders Debt**) due to each Gloucester Shareholder as at the Capital Return Record Date (**Eligible Shareholder**) equal to the amount calculated by the following formula:

$$\text{Eligible Shareholders Debt} = (\text{ESH}/\text{TGS}) \times \text{Capital Return Amount}$$
where:

ESH means the total number of Gloucester Shares held by the Eligible Shareholder as at the Capital Return Record Date; and

TGS means the total number of Gloucester Shares on issue as at the Capital Return Record Date; and

- (f) in respect of each Eligible Shareholder, discharging that Eligible Shareholder's Debt in full by delivering to the Trustee no later than one Business Day before the Effective Date one promissory note drawn by the Company for an amount equal to that Eligible Shareholder's Debt payable on presentation on 3 January 2013 or such other date (being no earlier than 3 January 2013 and no later than 31 January 2013) determined by Gloucester in accordance with the Merger Proposal Deed, such promissory note to be held by the Trustee in accordance with the Promissory Note Trust Deed on trust for that Eligible Shareholder.'

BY ORDER OF THE BOARD

DATED 27 April 2012



Mr Hemang Shah
Company Secretary

Explanatory notes for the General Meeting

GENERAL

- Capitalised words and phrases contained in this Notice of Meeting (including the proposed resolution) have the same meaning as set out in the Glossary in Section 16 of this Explanatory Booklet, of which this notice forms part.
- This notice should be read in conjunction with the entire Explanatory Booklet of which this notice forms part. The Explanatory Booklet contains important information to assist you in determining how to vote on the proposed resolution. This Explanatory Booklet includes a copy of the explanatory statement required by section 256C(4) of the Corporations Act in relation to the Capital Return (the Explanatory Statement being all Sections of this Explanatory Booklet, other than Appendices 4 and 5).

VOTING ENTITLEMENTS

- For the purposes of the General Meeting, each person registered in the Gloucester Share Register as the holder of Gloucester Shares at 12.00pm on Saturday, 2 June 2012, is entitled to attend and vote at the General Meeting, either in person, by proxy or attorney or, in the case of a corporate Gloucester Shareholder, by a personal representative.

REQUIRED VOTING MAJORITY

- Shareholder approval for the Capital Return must be given by a resolution passed at the General Meeting of the Company by more than 50% of the votes cast by Gloucester Shareholders entitled to vote on the resolution.
- The vote will be conducted by poll.

HOW TO VOTE

Gloucester Shareholders entitled to vote at the General Meeting may vote:

- by attending the meeting and voting in person; or
- by appointing a proxy to attend and vote on their behalf, using the proxy form accompanying this notice. A proxy may be an individual or a body corporate; or
- by appointing an attorney to attend the meeting and vote on their behalf or, in the case of corporate shareholders or proxies, a corporate representative to attend the meeting and vote on its behalf.

VOTING BY PROXY

Eligible Gloucester Shareholders wishing to vote by proxy at this meeting must:

- complete and sign or validly authenticate the proxy form, which is enclosed with this Explanatory Booklet; and
- deliver the signed and completed proxy form to Gloucester by 11.00am (Sydney time) on Saturday, 2 June 2012 in accordance with the instructions that follow.

Submitting proxy votes

- Eligible Gloucester Shareholders wishing to submit proxy votes for the General Meeting must return the enclosed proxy form to Gloucester in any of the following ways:
 - **By post** in the provided reply paid envelope to the Gloucester Share Registry:
Computershare Investor Services Pty Limited
GPO Box 242
Melbourne Victoria 3001
 - **By hand delivery** during business hours to the Gloucester Share Registry at:
Computershare Investor Services Pty Limited
Level 4, 60 Carrington Street
Sydney, New South Wales Australia
 - **By fax** to the Gloucester Share Registry 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia).
 - For Intermediary Online subscribers only (custodians) www.intermediaryonline.com
- As the cut-off date for receipt of proxies is 11.00am (Sydney time) on Saturday, 2 June 2012, if you intend to mail or hand deliver your proxy form, it must be received by close of business on Friday, 1 June 2012.

Notes for proxy appointments

- A Gloucester Shareholder entitled to attend and vote at the meeting is entitled to appoint not more than two proxies to attend and vote at the meeting on that Gloucester Shareholder's behalf.
- A proxy need not be a Gloucester Shareholder.
- If an eligible Gloucester Shareholder appoints two proxies and the appointment does not specify the proportion or number of the Gloucester Shareholder's votes each proxy may exercise, each proxy may exercise half the votes.
- A proxy may vote or abstain as he or she chooses except where the appointment of the proxy directs the way the proxy is to vote on the Capital Reduction Resolution. If an appointment directs the way the proxy is to vote on the Capital Reduction Resolution:
 - if the proxy is the chair – the proxy must vote on the poll and must vote in the way directed; and
 - if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote in the way directed.
- If a Gloucester Shareholder nominates the chairman of the General Meeting as the Gloucester Shareholder's proxy, the person acting as chairman of the General Meeting must act as proxy under the appointment in respect of the resolution to be considered at the General Meeting.
- If a proxy appointment is signed or validly authenticated by the Gloucester Shareholder but does not name the proxy or proxies in whose favour it is given, the chairman of the General Meeting may at his election (a) act as proxy in respect of the resolution to be considered at the General Meeting or (b) complete the proxy appointment by inserting the name or names of one or more Directors or the Company secretary to act as proxy under the appointment, in respect of the resolution to be considered at the General Meeting.

APPENDIX 5

NOTICE OF GENERAL MEETING (CONTINUED)

- The Chairman intends to vote undirected proxy votes of which he is appointed as proxy in favour of the resolution to approve the Capital Return.

VOTING IN PERSON (OR BY ATTORNEY)

- Eligible Gloucester Shareholders or their proxies, attorneys or representatives (including representatives of corporate proxies) wishing to vote in person should attend the General Meeting and bring a form of personal identification (such as their driver's licence).
- To vote by attorney at this meeting, the original or a certified copy of the power of attorney or other authority (if any) under which the instrument is signed must be received by the Gloucester Share Registry before 11.00am (Sydney time) on Saturday, 2 June 2012 in any of the following ways:

- **By post** in the provided reply paid envelope to the Gloucester Share Registry:

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne VIC 3001

- **By hand delivery** during business hours to the Gloucester Share Registry at:

Computershare Investor Services Pty Limited
Level 4, 60 Carrington Street
Sydney, New South Wales Australia

- **By fax** to the Gloucester Share Registry on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia).

- For Intermediary Online subscribers only (custodians)
www.intermediaryonline.com

- To vote in person, you or your proxy, attorney, representative or corporate proxy representative must attend the General Meeting to be held at Minter Ellison Lawyers, Level 19, Aurora Place, 88 Phillip Street, Sydney, New South Wales, on Monday, 4 2012, commencing at 11.00am, or as soon as reasonably practicable after the Scheme Meeting has concluded or been adjourned (whichever time is later).

- A vote cast in accordance with the appointment of a proxy or power of attorney is valid even if before the vote was cast the appointor:

- died;
- became mentally incapacitated;
- revoked the proxy or power; or
- transferred the Gloucester Shares in respect of which the vote was cast,

unless Gloucester received written notification of the death, mental incapacity, revocation or transfer at least 48 hours before the meeting or, if applicable, any adjourned meeting.

VOTING BY CORPORATE REPRESENTATIVES

- To vote in person at the General Meeting, an eligible Gloucester Shareholder or proxy which is a body corporate may appoint an individual to act as its representative.
- To vote by corporate representative at the meeting, an eligible corporate Gloucester Shareholder or proxy should obtain an Appointment of Corporate Representative Form from the Gloucester Share Registry, complete and sign the form in accordance with the instructions on it. The completed appointment form should be lodged at the registration desk on the day of the meeting.
- The appointment of a representative may set out restrictions on the representative's powers.

The Appointment of Corporate Representative Form, a certified copy of the Appointment of Corporate Representative Form, or a certificate of the body corporate evidencing the appointment of a representative is prima facie evidence of a representative having been appointed.

APPENDIX 6

MERGER PROPOSAL DEED*

*The following is a consolidated version of the Merger Proposal Deed dated 22 December 2011 incorporating various amendments made after that date.

APPENDIX 6

MERGER PROPOSAL DEED

*As amended by the Amendment Deed – Merger
Proposal Deed*

Deed

Project Bolt

Merger Proposal Deed

Yancoal Australia Limited

Yanzhou Coal Mining Company Limited

Gloucester Coal Ltd

Freehills

101 Collins Street Melbourne Vic 3000 Australia
GPO Box 128A Melbourne Vic 3001 Australia

Sydney Melbourne Perth Brisbane Singapore

ME_97945566_1 (W2003x)

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MERGER PROPOSAL DEED (CONTINUED)**

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APPENDIX 6
MERGER PROPOSAL DEED (CONTINUED)

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1

Part B – Management and Transitional Services Agreement

2

Part C – LTCC Licence Agreement

3

Part D – Restructure Agreement

4

Merger Proposal Deed

Date ►

Between the parties

Yancoal Australia Limited

ABN 82 111 859 119 of Level 11, 68 York Street, Sydney, NSW,
Australia

(Bidder)

Yanzhou Coal Mining Company Limited

of 298 Fushan South Road, Zoucheng Shandong Province, Peoples'
Republic of China

(Yanzhou)

Gloucester Coal Ltd

ABN 66 008 881 712 of Level 7, 167 Macquarie Street Sydney NSW,
Australia

(Gloucester)

Recitals

- 1 Gloucester proposes to submit the Transactions to its shareholders for approval on and subject to the terms and conditions of this deed.
 - 2 Gloucester, Bidder and Yanzhou have agreed certain matters in connection with the Transactions as set out in this deed.
-

This deed witnesses as follows:

APPENDIX 6

MERGER PROPOSAL DEED (CONTINUED)

Freehills

1 Definitions and interpretation

1.1 Definitions

The meanings of the terms used in this deed are set out below.

Term	Meaning
Adviser	in relation to an entity: (a) a financier to the entity in connection with the Transactions; or (b) a financial, corporate, legal, technical or other expert adviser or consultant, who provides advisory or consultancy services in a professional capacity in the ordinary course of its business and has been engaged in that capacity in connection with the Transactions by the entity.
AIFRS	the International Financial Reporting Standards as adopted in Australia.
Amendment Date	6 March 2012.
ASIC	the Australian Securities and Investments Commission.
ASX	ASX Limited (ABN 98 008 624 691) or, as the context requires, the financial market known as the Australian Securities Exchange operated by it.
ATO	the Australian Taxation Office.
Athena Coal Pty Limited	Athena Coal Pty Limited, ABN 68 108 510 452.
Athena Joint Venture	the unincorporated joint venture between Athena Coal Pty Limited (51%), Sojitz (45%) and Kores Australia Athena Coal Pty Ltd (4%) as amended from time to time in respect of the prospective underground mine development to produce coal, known as the Athena coal project and currently covered by exploration permits for coal numbers 553 (EPC 553) 1116 (EPC 1116), 1393 (EPC 1393) and 1591 (EPC 1591) including all new or existing exploration permits, mineral development licences or mining leases and applications for the foregoing for the total area covered by the external boundaries of EPC 553 EPC 1116, EPC 1393 and EPC 1591 together with all related joint venture assets.

Term	Meaning
Bidder Board	the board of directors of Bidder.
Bidder Conditions	the conditions precedent set out in under the heading 'Bidder Conditions' in clause 3.1.
Bidder Disclosure Letter	the letter so entitled provided by Bidder to Gloucester on or before execution of this deed and countersigned by Gloucester.
Bidder Due Diligence Material	<ol style="list-style-type: none"> 1 all documents and information that were at any time during the period ending on and including 9 December 2011 contained in the electronic and physical data rooms established by Bidder and administered by Freehills and made available to Gloucester or its Representatives, the indices for which materials have been initialled for identification by Gloucester's solicitors on behalf of Gloucester and by Bidder's solicitors on behalf of Bidder; and 2 all written answers given to written questions submitted by Gloucester or its Representatives as part of the question and answer process on or by the day before the date of this deed.
Bidder Group	Bidder and each of its subsidiaries (excluding, at any time, Gloucester and its subsidiaries to the extent that Gloucester and its subsidiaries are subsidiaries of Bidder at that time). A reference to a member of the Bidder Group or a Bidder Group Member is a reference to Bidder or any such subsidiary. Except that, for the purpose of interpreting the definitions of and clauses, schedules or any other provision relating to Bidder Prescribed Occurrences, Bidder Material Adverse Change and Bidder Representations and Warranties, a reference to the Bidder Group, excludes the Excluded Assets.
Bidder Information	information about the Bidder Group provided or approved by Bidder or any of its Advisers to Gloucester in writing for inclusion in the Explanatory Booklet.
Bidder Material Adverse Change	<p>any event, occurrence or matter (or the disclosure or discovery of any event, occurrence or matter) that individually or when aggregated with all such events, occurrences or matters has, has had or would be reasonably likely to have the effect of:</p> <ol style="list-style-type: none"> (a) a diminution in the consolidated net assets of the Bidder Group (calculated on the basis of AIFRS as at the date of this deed), of at least \$80 million compared to the consolidated net assets of the Bidder Group as shown in the document 'Monthly Report – September 2011' with reference number 05.02.01.2915 in the Bidder Due Diligence Materials; or (b) a diminution in the consolidated net profit before tax of the Bidder Group (calculated on the basis of AIFRS as at the date of this deed) of at least \$20 million per annum on a recurring

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

Term	Meaning
	<p>basis over a period of at least 5 years; or</p> <p>(c) the Bidder Group being unable to carry on its business in substantially the same manner as carried on as at the date of this deed,</p> <p>other than changes, events, occurrences or matters:</p> <p>(d) required or permitted by this deed or another Transaction Document;</p> <p>(e) to the extent Fairly Disclosed on or before 9 December 2011 in the Bidder Due Diligence Material or Fairly Disclosed in the Bidder Disclosure Letter;</p> <p>(f) to the extent Fairly Disclosed in public announcements issued by Yanzhou on or by the day before the date of this deed on any of the securities exchanges where its securities are listed;</p> <p>(g) which do not relate specifically to the Bidder Group and which are beyond the control of the Bidder and which arise from:</p> <p style="padding-left: 20px;">(i) changes in coal or other commodity prices, exchange rates or interest rates; or</p> <p style="padding-left: 20px;">(ii) general economic or business conditions;</p> <p>(h) arising as a result of any changes of accounting standards or laws in Australia; or</p> <p>(i) to the extent any losses or liabilities arising from such change, event, occurrence or matter are covered by insurance which the Bidder Group's insurers have agreed to pay.</p>
Bidder Parties	Yanzhou, the members of the Bidder Group and their (or Yanzhou's) respective directors, officers, employees and Advisers.
Bidder Prescribed Occurrence	<p>any of the occurrences set out in Part B of Schedule 3, provided that none of the following will constitute a Bidder Prescribed Occurrence:</p> <p>(a) anything required or permitted to be done by any member of the Bidder Group by this deed or another Transaction Document;</p> <p>(b) anything approved in writing by Gloucester;</p> <p>(c) anything Fairly Disclosed on or before 9 December 2011 in the Bidder Due Diligence Material or Fairly Disclosed in the Bidder Disclosure Letter; or</p> <p>(d) anything Fairly Disclosed in public announcements issued by Yanzhou on or by the day before the date of this deed on any of the securities exchanges where its securities are listed,</p> <p>and provided further that the occurrences set out in Part 2 of Part B of Schedule 3 will not constitute Bidder Prescribed Occurrences if they occur in the ordinary course of Bidder Group's ordinary business.</p>
Bidder Representation	a representation and warranty of Bidder set out in Schedule 1.

Term	Meaning
and Warranty	
Bidder Shares	a fully paid ordinary share in the capital of Bidder.
Bidder Sub	a direct or indirect wholly owned subsidiary of Bidder, nominated in writing by Bidder to Gloucester, or if such a subsidiary is not nominated by Bidder then a reference to Bidder Sub is a reference to Bidder.
Break Fee	\$20,000,000 (inclusive of GST).
Business Day	a business day as defined in the ASX Listing Rules.
Cameby Downs mine	open cut mine located approximately 30km from the town of Chinchilla in the Surat Basin, Queensland in respect of the area covered by mining lease (ML 50233), exploration permits for coal numbers 562 (EPC 562), 732 (EPC 732), 873 (EPC 873), 1165 (EPC 1165), mineral development licences 246 (MDL 246) and 247 (MDL 247) including all new or existing exploration permits, mineral development licences or mining leases and applications for the foregoing for the total area covered by the external boundaries of EPC 562, EPC 732, EPC 873, EPC 1165, MDL 246, MDL 247 and ML 50233, together with all related assets and all interests in any assets owned or held by Syntech Holdings Pty Ltd or Syntech Holdings II Pty Limited and all issued shares in Syntech Holdings Pty Ltd and Syntech Holdings II Pty Limited.
Capital Reduction	a proposed equal reduction of the share capital of Gloucester under Part 2J.1 of the Corporations Act in the aggregate amount of the Capital Reduction Amount and not involving the cancellation of any Shares.
Capital Reduction Amount	subject to the Gloucester Board making the announcement referred to in clause 3.2, an amount equal to \$700 million less the sum of the Gloucester Special Dividend and the Gloucester Option Amount.
Capital Reduction Record Date	subject to the Gloucester Board making the announcement referred to in clause 3.2, 7.00pm on a date occurring after the Court Approval Date but at least two Business Days before the Effective Date, as determined by Gloucester acting reasonably.
Capital Reduction Resolution	the resolution to be considered at the General Meeting to consider and, if thought fit, approve the Capital Reduction.

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

Freehills

1 Definitions and interpretation

Term	Meaning
Capital Return	subject to the Gloucester Board making the announcement referred to in clause 3.2, an amount per Gloucester Share equal to the Capital Reduction Amount divided by the number of Gloucester Shares on issue as at the Capital Reduction Record Date, and effected in accordance with clause 4.5.
Claim	in relation to a person, a demand, claim, action or proceeding made or brought by or against the person, however arising and whether present, unascertained, immediate, future or contingent.
Competing Proposal	<p>any expression of interest, proposal, offer, transaction or arrangement (including any takeover bid, scheme of arrangement, shareholder approved acquisition, share or asset sale, recapitalisation or issue of securities, capital reduction, share buy back or repurchase, joint venture, reverse takeover, dual listed company structure or other synthetic merger) under which a Third Party will or may, if the expression of interest, proposal, offer, transaction or arrangement is entered into and completed:</p> <p>(a) acquire control of Gloucester;</p> <p>(b) acquire (whether directly or indirectly) or become the holder of, or otherwise acquire, have a right to acquire or have an economic interest in assets with an aggregate book value representing 20% or more of the total assets of the Gloucester Group as set out in Gloucester's consolidated balance sheet as at 30 June 2011;</p> <p>(c) otherwise (whether directly or indirectly) acquire or merge or amalgamate with Gloucester;</p> <p>(d) come to have voting power in Gloucester of more than 20%; or</p> <p>(e) enter into any agreement or understanding requiring Gloucester to abandon, or otherwise fail to proceed with, the Transactions.</p>
Confidentiality Agreement	the confidentiality agreement between Yanzhou and Gloucester dated 21 November 2011.
Consolidated Group	a Consolidated Group or a MEC group as those terms are defined in section 995-1 of the ITAA 1997.
Converting Share	a non-cumulative non-redeemable preference share in Gloucester so called and issued on or about 15 July 2011.
Corporations Act	the <i>Corporations Act 2001</i> (Cth).
Court	Supreme Court of Victoria or such other Court of competent jurisdiction agreed between Gloucester and Bidder.

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Merger Proposal Deed

page 6

Term	Meaning
Court Approval Date	the date the Court approves the Scheme for the purposes of section 411(4)(b) of the Corporations Act.
CPS Holder	the holder of one or more Converting Shares.
CVR Share	a fully paid non-cumulative preference share in the capital of Bidder having the rights set out in Schedule 7 or such other rights as Gloucester and Bidder agree, acting reasonably (it being acknowledged that the parties propose to work together to seek to simplify the Repurchase methods that apply to the CVR Shares, although without changing their economic features).
Deed Poll	a deed poll in favour of all Scheme Shareholders in the form of Attachment 2 (or such other form agreed in writing between the parties, acting reasonably).
Disclosure Cut-off Date	a date to be agreed by the parties which is approximately one week before the Due Diligence End Date, or failing agreement, the date which is the earlier of 22 February 2012 and the date one week before the date specified in the Timetable as the date on which the draft Explanatory Booklet is to be lodged with ASIC.
Dispose	includes sell, transfer, create a trust or option over, or alienate the right to exercise the vote attached to, or decrease any economic interest in, in any ROFR Asset.
Due Debt	<p>the amount of:</p> <p>(a) USD\$1,015 million, comprising:</p> <p>(1) USD\$970 million owed by Bidder under the USD \$2,900,000,000 Facility Agreement dated 19 October 2009 between Bidder and Bank of China Limited (as agent for a consortium of banks) (USD\$2,900m Facility Agreement); and</p> <p>(2) USD\$45 million owed by the Bidder under the USD\$140,000,000 Facility Agreement dated 9 December 2009 between Bidder and Bank of China Limited (USD\$140m Facility Agreement),</p> <p>which is repayable on 16 December 2012 (the 2012 Due Debt); and</p> <p>(b) USD\$1,015 million comprising:</p> <p>(1) USD\$970 million owed by Bidder under the USD\$2,900m Facility Agreement; and</p> <p>(2) USD\$45 million under the USD\$140m Facility Agreement,</p> <p>which is repayable on 16 December 2013 (the 2013 Due</p>

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

Freehills

1 Definitions and interpretation

Term	Meaning
	Debt).
Due Diligence End Date	7 March 2012.
Due Diligence Material	the Bidder Due Diligence Material or the Gloucester Due Diligence Material.
Effective	the coming into effect under section 411(10) of the Corporations Act of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to the Scheme.
Effective Date	the date on which the Scheme and becomes Effective.
End Date	31 July 2012, subject to any extension under clause 3.5.
Enforcement Share	has the meaning given to that term in clause 4.4.
Excluded Assets	<p>means the following assets of the Bidder Group as at the date of this deed:</p> <ul style="list-style-type: none"> (a) all of the issued shares in, and/or all assets, liabilities, obligations or interests of, Yancoal Technology Development Pty Limited; (b) 100% interest in Ultra Clean Coal together with all issued shares in, and/or all assets, liabilities, obligations, or interests of, UCC Energy Pty Ltd ABN 15 003 435 836); (c) 100% interest in Harrybrandt Project together with all issued shares in, and/or all assets, liabilities, obligations, or interests of, Tonford Pty Ltd (ABN 48 006 880 931); (d) all of the issued shares in, and/or all assets, liabilities, obligations or interests of, Athena Coal Pty Limited and thereby a 51% interest in the Athena Joint Venture; (e) 100% interest in Wilpeena; (f) all of the issued shares in, and/or all assets, liabilities, obligations or interests of, each of Syntech Holdings Pty Limited and Syntech Holdings II Pty Limited and thereby a 100% interest in the Cameby Downs mine; and (g) all of the issued shares in Wesfarmers Premier Coal Limited ABN 21 008 672 599 and Wesfarmers Char Pty Ltd ABN 77 009 379 597 and/or all assets, liabilities, obligations, or interests of those entities (including those detailed in the Share Sale Agreement dated on or about 27 September 2011 and entered into between Wesfarmers Coal Resources Pty Ltd, Wesfarmers Chemicals, Energy & Fertilisers Limited, Wesfarmers Resources Limited, and Austar Coal Mine Pty Ltd

Term	Meaning
	regarding the acquisition of relevant Wesfarmer entities mentioned above and any other connected assets, liabilities, obligations or interests including 100% interest in the Premier coal mine.
Excluded Shareholder	any Gloucester Shareholder who is a member of the Bidder Group or any other Gloucester Shareholder to the extent it holds Gloucester Shares on behalf of, or for the benefit of, any member of the Bidder Group.
Exclusivity Period	the period from and including the date of this deed to the earlier of: (a) the termination of this deed; and (a) the End Date.
Explanatory Booklet	the explanatory booklet to be prepared by Gloucester in respect of the Transactions in accordance with the terms of this deed and to be despatched to Gloucester Shareholders.
FATA	the <i>Foreign Acquisitions and Takeovers Act 1975</i> (Cth).
Finance Debt	indebtedness (whether actual or contingent) in respect of money borrowed or raised or other financial accommodation. It includes indebtedness under or in respect of: (a) a guarantee of Finance Debt or a guarantee given to a financier; (b) a finance lease; (c) a swap, option, hedge, forward, futures or similar transaction; (d) an acceptance, endorsement or discounting arrangement; (e) a redeemable share or redeemable stock; or (f) the deferred purchase price (for more than 90 days) of an asset or service, or an obligation to deliver assets or services paid for in advance by a financier or otherwise relating to a financing transaction.
First Court Date	the first day on which an application made to the Court for orders under section 411(1) of the Corporations Act that the Scheme Meeting be convened is heard or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard.
Foreign Scheme Shareholder	a Scheme Shareholder whose address in the Gloucester Share Register is a place outside Australia and its external territories or New Zealand unless Gloucester and Bidder agree in writing that it

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

Freehills

1 Definitions and interpretation

Term	Meaning
	is lawful and not unduly onerous or impracticable to issue that Scheme Shareholder with New Bidder Shares and (unless the relevant Scheme Shareholder has elected not to receive CVR Shares under the Scheme) CVR Shares under the Scheme.
General Meeting	a general meeting of Gloucester Shareholders to consider and, if thought fit, pass the Capital Reduction Resolution and any other resolutions required to give effect to the Transactions.
Gloucester Accounts	the audited individual and consolidated accounts (including the financial statements, notes forming part of or intended to be read with the financial statements, directors' report and declaration, and auditor's report) of Gloucester at and for the year ended 30 June 2011.
Gloucester Board	the board of directors of Gloucester.
Gloucester Conditions	the conditions precedent set out under the heading 'Gloucester Conditions' in clause 3.1.
Gloucester Consolidated Tax Group	the Consolidated Group of which Gloucester is the Head Company.
Gloucester Disclosure Letter	the letter so entitled provided by Gloucester to Bidder on or before execution of this deed and countersigned by Bidder.
Gloucester Due Diligence Material	<ol style="list-style-type: none"> 1 all documents and information that were at any time during the period ending on and including 9 December 2011 contained in the electronic and physical data rooms established by Gloucester and administered by Minter Ellison and made available to Bidder or its Representatives, the indices for which materials have been initialled for identification by Gloucester's solicitors on behalf of Gloucester and by Bidder's solicitors on behalf of Bidder; and 2 all written answers given to written questions submitted by Bidder or its Representatives as part of the question and answer process on or by the day before the date of this deed.
Gloucester Group	Gloucester and each of its subsidiaries. A reference to a member of the Gloucester Group or Gloucester Group Member is a reference to Gloucester or any such subsidiary.
Gloucester Material Adverse Change	any event, occurrence or matter (or the disclosure or discovery of any event, occurrence or matter) that individually or when aggregated with all such events, occurrences or matters has, has

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Merger Proposal Deed

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Term	Meaning
	<p>had or would be reasonably likely to have the effect of:</p> <p>(a) a diminution in the consolidated net assets of the Gloucester Group (calculated on the basis of AIFRS as at the date of this deed), of at least \$66 million compared to the consolidated net assets of the Gloucester Group as shown in the Gloucester Accounts; or</p> <p>(b) a diminution in the consolidated net profit before tax of the Gloucester Group (calculated on the basis of AIFRS as at the date of this deed) of at least \$15 million per annum on a recurring basis over a period of at least 5 years; or</p> <p>(c) the Gloucester Group being unable to carry on its business in substantially the same manner as carried on as at the date of this deed,</p> <p>other than changes, events, occurrences or matters:</p> <p>(d) required or permitted by this deed or another Transaction Document;</p> <p>(e) to the extent Fairly Disclosed in the Gloucester Due Diligence Material on or before 9 December 2011 or Fairly Disclosed in the Gloucester Disclosure Letter;</p> <p>(f) to the extent Fairly Disclosed in public announcements issued by Gloucester to ASX on or by the day before the date of this deed;</p> <p>(g) which do not relate specifically to the Gloucester Group and which are beyond the control of Gloucester and which arise from:</p> <p style="padding-left: 20px;">(iii) changes in coal or other commodity prices, exchange rates or interest rates; or</p> <p style="padding-left: 20px;">(iv) general economic or business conditions;</p> <p>(h) arising as a result of any changes to accounting standards or laws in Australia; or</p> <p>(i) to the extent any losses or liabilities arising from such change, event, occurrence or matter are covered by insurance which the Gloucester Group's insurers have agreed to pay.</p>
Gloucester Option	an option granted by Gloucester to acquire by way of issue one or more Gloucester Shares.
Gloucester Option Amount	the amount (which may be a negative amount) equal to the amount paid under clause 4.6 on account of the cancellation of the Gloucester Options less the amount paid to Gloucester on account of the exercise of Gloucester Options resulting in the issue of Gloucester Shares prior to the Capital Return Record Date.
Gloucester Parties	the members of the Gloucester Group and their respective directors, officers, employees and Advisers.

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

Term	Meaning
Gloucester Prescribed Occurrence	<p>any of the occurrences set out in Part A of Schedule 3, provided that none of the following will constitute a Gloucester Prescribed Occurrence:</p> <ul style="list-style-type: none"> (a) anything required or permitted to be done by any member of the Gloucester Group by this deed or another Transaction Document; (b) anything approved in writing by Bidder; (c) anything Fairly Disclosed on or before 9 December 2011 in the Gloucester Due Diligence Material or Fairly Disclosed in the Gloucester Disclosure Letter; or (d) anything Fairly Disclosed in public announcements issued by Gloucester to ASX on or before the day before the date of this deed, <p>and provided further that the occurrences set out in Part 2 of Part A of Schedule 3 will not constitute Gloucester Prescribed Occurrences if they occur in the ordinary course of Gloucester Group's ordinary business.</p>
Gloucester Registry	Computershare Investor Services Pty Limited (ABN 48 078 279 277) or any replacement provider of share registry services to Gloucester.
Gloucester Representation and Warranty	a representation and warranty of Gloucester set out in Schedule 2.
Gloucester Share	a fully paid ordinary share in the capital of Gloucester.
Gloucester Share Plan	the Gloucester Long Term Incentive Plan dated 20 November 2009.
Gloucester Shareholder	a person who is registered as the holder of Gloucester Shares from time to time.
Gloucester Share Register	the register of members of Gloucester maintained in accordance with the Corporations Act.
Gloucester Special Dividend	a fully franked dividend of up to \$125 million in aggregate which may be paid by Gloucester (in its absolute discretion) to Gloucester Shareholders registered as such as at the Capital Reduction Record Date.
Harrybrandt Project	the following tenements located near the town of Nebo in the

Term	Meaning
	Bowen Basin, Queensland: 1 EPC 1176; and 2 MDL 8, including all new or existing exploration permits, mineral development licences or mining leases and applications for the foregoing for the total area covered by the external boundaries of EPC 1176 and MDL8.
Head Company	has the same meaning as that term is defined in section 995-1 of the ITAA 1997.
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited.
Implementation Date	the fifth Business Day after the Scheme Record Date or such other date agreed to in writing between the parties.
Independent Expert	the independent expert in respect of the Scheme appointed by Gloucester.
Independent Expert's Report	a report (including any updates to such report) of the Independent Expert stating whether or not in its opinion the Scheme is in the best interest of Gloucester Shareholders, including the report of any technical specialist annexed thereto.
Insolvency Event	in the case of any entity: <ol style="list-style-type: none"> (a) it ceases, suspends, or threatens to cease or suspend the conduct of all or a substantial part of its business or disposes of or threatens to dispose of all or a substantial part of its assets; (b) it stops or suspends or threatens to stop or suspend payment of all or a class of its debts; (c) it is, or under legislation is presumed or taken to be, insolvent (other than as the result of a failure to pay a debt or Claim the subject of a good faith dispute); (d) it has an administrator, controller or similar officer appointed, or any step preliminary to the appointment of such an officer is taken; (e) an application or an order is made, proceedings are commenced, a resolution is passed or proposed in a notice of meeting, an application to a court or other steps are taken for: <ol style="list-style-type: none"> (i) its winding up, dissolution or administration; or (ii) it entering into an arrangement, compromise or composition with or assignment for the benefit of its creditors or a class of them,

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

Freehills

1 Definitions and interpretation

Term	Meaning
	<p>(other than frivolous or vexatious applications, orders, proceedings, notices or steps);</p> <p>(f) (i) a receiver, receiver and manager, administrative receiver or similar officer is appointed to;</p> <p>(ii) a security interest becomes enforceable or is enforced over; or</p> <p>(iii) a distress, attachment or other execution is levied or enforced or applied for over,</p> <p>all or a substantial part of its assets; or</p> <p>(g) anything analogous to anything referred to in the above paragraphs, or which has substantially similar effect, occurs with respect to it, including under any foreign law.</p>
ITAA 1997	the <i>Income Tax Assessment Act 1997</i> (Cth).
Joint Conditions	the conditions precedent set out under the heading 'Joint Conditions' in clause 3.1.
Joint Information	the information to be included in the Explanatory Booklet regarding the profile of the combined Gloucester Group/Bidder Group, assuming the Transactions are approved and implemented, and risk factors associated with the Transactions, being information that is to be prepared jointly by Gloucester and Bidder.
Liability	a debt, obligation, liability, loss, expense, cost or damage of any kind and however arising, including any penalty, fine or interest and including those which are prospective or contingent and those the amount of which for the time being is not ascertained or ascertainable.
Listing Rules	the official listing rules of ASX as amended from time to time.
LTCC Licence Agreement	A LTCC Agreement in the form set out in Part C of Attachment 5
Management and Transitional Services Agreement	A Management and Transitional Services Agreement in the form set out in Part B of Attachment 5.
Material Agreements	<p>the agreements specified in:</p> <p>(a) Part A of Schedule 4 for the purposes of the definition of Third Party Consents and Part A of Schedule 3; and</p> <p>(b) Part B of Schedule 4 (for the purposes of Part B of Schedule 3).</p>

Term	Meaning
Noble	Noble Group Limited.
New Bidder Shares	the new Bidder Shares to be issued under the terms of the Scheme as the Scheme Consideration.
Promissory Note	one or more promissory notes to be issued by Gloucester to the Trustee under clause 4.5(a).
Regulatory Approvals	<p>(a) any approval, consent, authorisation, registration, filing, lodgement, permit, franchise, agreement, notarisation, certificate, permission, licence, direction, declaration, authority or exemption from, by or with a Regulatory Authority; or</p> <p>(b) in relation to anything that would be fully or partly prohibited or restricted by law if a Regulatory Authority intervened or acted in any way within a specified period after lodgement, filing, registration or notification, the expiry of that period without notification.</p>
Regulatory Authority	<p>(a) any government or governmental, semi-governmental, administrative, monetary, fiscal or judicial body, tribunal, agency or entity;</p> <p>(b) a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; or</p> <p>(c) any regulatory organisation established under statute, in any part of the world, and whether foreign, federal, state, territorial or local.</p>
Relevant Date	in relation to a condition precedent, the date or time specified in this deed for its fulfilment (or where no such date or time is specified, the Business Day before the End Date), subject to extension under clause 3.5.
Restructure Agreement	A Restructure Agreement in the form set out in Part D of Attachment 5.
Representative	<p>in relation to Bidder or Gloucester:</p> <p>(a) each other member of the Bidder Group or Gloucester Group (as applicable);</p> <p>(b) an officer or employee of a member of the Bidder Group or Gloucester Group (as applicable); or</p> <p>(c) an Adviser to a member of the Bidder Group or Gloucester Group (as applicable).</p>

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

Freehills

1 Definitions and interpretation

Term	Meaning
ROFR Asset	<p>the Excluded Assets other than:</p> <p>(a) all of the issued shares in, and/or all assets, liabilities, obligations and interests of, Yanzhou Technology Development Pty Limited; and</p> <p>(b) 100% interest in Ultra Clean Coal together with all issued shares in, and/or all assets, liabilities, obligations, or interests of, UCC Energy Pty Ltd ABN 15 003 435 836).</p>
Scheme	<p>the scheme of arrangement under Part 5.1 of the Corporations Act between Gloucester and the Scheme Shareholders in the form of Attachment 1 (or such other form agreed to in writing between the parties).</p>
Scheme Consideration	<p>has the meaning set out in the Scheme.</p>
Scheme Meeting	<p>the meeting of Gloucester Shareholders (other than Excluded Shareholders) ordered by the Court to be convened under section 411(1) of the Corporations Act.</p>
Scheme Record Date	<p>7pm on the fifth Business Day after the Effective Date or such other time and date agreed to in writing between the parties.</p>
Scheme Share	<p>a Gloucester Share held by a Scheme Shareholder.</p>
Scheme Shareholder	<p>a Gloucester Shareholder (other than an Excluded Shareholder) at the Scheme Record Date.</p>
Second Court Date	<p>the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is heard or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard.</p>
Separation and Cooperation Agreement	<p>A Separation Agreement in the form set out in Part A of Attachment 5</p>
Shanghai Stock Exchange	<p>the financial market and membership institution known as the Shanghai Stock Exchange founded on 26 November 1990 and operational as of 19 December 1990 and directly governed by the China Securities Regulatory Commission.</p>
Superior Proposal	<p>a bona fide Competing Proposal received after the date of this deed (that has not been directly or indirectly solicited, invited,</p>

Term	Meaning
	<p>encouraged or initiated in breach of clauses 10.2, 10.3 or 10.4) that the Gloucester Board determines, acting in good faith in order to satisfy what the Gloucester Board considers to be its fiduciary or statutory duties (having taken advice from its external financial and legal advisers):</p> <p>(a) is reasonably capable of being valued and implemented, taking into account all aspects of the Competing Proposal, including any conditions and the likely availability of finance; and</p> <p>(b) would, if completed substantially in accordance with its terms, be likely to be more favourable to Gloucester Shareholders than the Scheme, taking into account all the terms and conditions of the Competing Proposal.</p>
Syntech Holdings Pty Limited	Syntech Holdings Pty Limited, ABN 21 123 782 445.
Syntech Holdings II Pty Limited	Syntech Holdings II Pty Limited, ABN 30 126 174 847.
Tax	all forms of taxes, duties, imposts, charges, withholdings, rates, levies or other governmental impositions of whatever nature and by whatever authority imposed, assessed or charged together with all costs, charges, interest, penalties, fines, expenses and other additional statutory charges, incidental or related to the imposition.
Tax Audit	any audit undertaken by the ATO or by any State or Territory revenue office or authority of the Gloucester Group.
Tax Law	any law in relation to any Tax.
Tax Relief	any relief, allowance, exemption, credit, exclusion set-off, deduction, loss, refund or rebate granted or available in respect of Tax under any Tax Law.
Terms of Issue	the terms of issue of the Converting Shares.
Third Party	any person or entity (including a Regulatory Authority) other than Yanzhou, a member of the Bidder Group, Yancoal or a member of the Gloucester Group.
Third Party Consent	the waiver or consent in writing in a form reasonably satisfactory to Bidder from the relevant counterparty to a Material Agreement (or any other agreement or arrangement to which a member of the Gloucester Group is party which Bidder considers material (acting

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

Freehills

1 Definitions and interpretation

Term	Meaning
	reasonably) in the context of the Gloucester Group) and which if not provided results or could result in such agreement or arrangement being terminated or varied or any action being taken or arising thereunder in each case as a result of the implementation of the Transactions.
Timetable	the indicative timetable for the implementation of the Transactions set out in Attachment 3, including any amendments to that Timetable agreed by the parties in writing and acting reasonably.
Transactions	<ul style="list-style-type: none"> (a) the proposed acquisition by Bidder Sub in accordance with the terms and conditions of this deed, of all of the Gloucester Shares (other than the Gloucester Shares held by an Excluded Shareholder) through the implementation of the Scheme; (b) the proposed payment of the Gloucester Special Dividend; (c) the proposed Capital Reduction; and (d) all associated transactions and steps contemplated by this deed, including the transfer of the Excluded Assets from the Bidder Group to or to another subsidiary of Yanzhou (and distribution to Yanzhou of any consideration paid for them), and entry into the LTCC Licence Agreement and the Separation and Cooperation Agreement referred to in clause 5.11.
Transaction Documents	<ul style="list-style-type: none"> (a) this deed; (b) the Confidentiality Agreement; (b) the LTCC Licence Agreement; (d) the Restructure Agreement; (e) the Separation and Cooperation Agreement; and (e) any other document which effects the Transactions, but only to the extent it effects the Transactions.
Transaction Resolutions	<ul style="list-style-type: none"> (a) the approval of the Scheme by Gloucester Shareholders at the Scheme Meeting by the majorities required under section 411(4)(a)(ii) of the Corporations Act; and (b) the Capital Reduction Resolution.
Trust Deed	the trust deed governing the trust of the Promissory Note.
Trustee	the trustee appointed by Gloucester under the Trust Deed.
Ultra Clean Coal	ultra clean coal technology patented in 2009 and owned by Yancoal through its subsidiary UCC Energy Pty Limited (ABN 15 003 435 836) together with all assets and liabilities owned by UCC

Term	Meaning
	Energy Pty Limited.
Updated Bidder Due Diligence Material	has the same meaning as 'Bidder Due Diligence Material' except replacing the reference to '9 December 2011' in paragraph 1 of that definition with reference to the Disclosure Cut-off Date and replacing the reference to 'the day before the date of this deed' in paragraph 2 of that definition with reference to the Disclosure Cut-off Date.
Updated Gloucester Due Diligence Materials	has the same meaning as 'Gloucester Due Diligence Material' except replacing the reference to '9 December 2011' in paragraph 1 of that definition with reference to the Disclosure Cut-off Date and replacing the reference to 'the day before the date of this deed' in paragraph 2 of that definition with reference to the Disclosure Cut-off Date.
Wilpeena	<p>the following tenements held by Yarrabee Coal Company Pty Limited (ABN 30 010 849 402):</p> <ol style="list-style-type: none"> 1 EPC 1117; 2 EPC 1668; 3 EPC 1177; and 4 the following sub-blocks of EPC 1429, Sub Blocks CLER2724 Z, CLER2796 F, CLER2795 P, CLER2796 L, CLER2796 Q, CLER2796 R, CLER2796 V, CLER2868A located on the northern side of the McKenzie river; and 5 the following sub-blocks of EPC 621, CLER2724 V, CLER2796 A, CLER2796 B, CLER2796 C, CLER2796 F, CLER2796 G, CLER2796 H, CLER2796 J, CLER2796 M, CLER2796 N located on the northern side of the McKenzie river, <p>including all new or existing exploration permits, mineral development licences or mining leases and applications for the foregoing for the total area covered by the external boundaries of EPC 1117, EPC 1168, EPC 1177 and the sub-blocks of EPC 621 and EPC 1429 located on the northern side of the McKenzie river.</p>

1.2 Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise.

- (a) The singular includes the plural, and the converse also applies.
- (b) A gender includes all genders.
- (c) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (d) A reference to a person, corporation, trust, partnership, unincorporated body or other entity includes any of them.

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

Freehills

1 Definitions and interpretation

- (e) A reference to a clause, schedule or attachment is a reference to a clause of, or schedule or attachment to, this deed.
- (f) A reference to an *agreement* or *document* (including a reference to this deed) is to the agreement or document as amended, supplemented, novated or replaced, except to the extent prohibited by this deed or that other agreement or document, and includes the recitals, schedules and attachments to that agreement or document.
- (g) A reference to a party to this deed or another agreement or document includes the party's successors, permitted substitutes and permitted assigns (and, where applicable, the party's legal personal representatives).
- (h) A reference to legislation or to a provision of legislation includes a modification or re-enactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it.
- (i) A reference to conduct includes an omission, statement or undertaking, whether or not in writing.
- (j) A reference to an *agreement* includes any undertaking, deed, agreement and legally enforceable arrangement, whether or not in writing, and a reference to a *document* includes an agreement (as so defined) in writing and any certificate, notice, instrument and document of any kind.
- (k) A reference to *dollars* and \$ is to Australian currency.
- (l) All references to time are to Sydney, Australia time.
- (m) Mentioning anything after *includes*, *including*, *for example*, or similar expressions, does not limit what else might be included.
- (n) Nothing in this deed is to be interpreted against a party solely on the ground that the party put forward this deed or a relevant part of it.
- (o) A reference to *associate*, *control* (by an entity of another entity), *officer*, *related body corporate*, *subsidiary*, *relevant interest* or *voting power* is to that term as it is defined in the Corporations Act.
- (p) A reference to **Fairly Disclosed** means disclosed in English to any of Bidder, Gloucester or Yanzhou, as the context requires, or any of their respective Representatives in sufficient detail so as to enable a reasonable and sophisticated recipient of the relevant information who is experienced in transactions similar to the Transactions in the coal industry to identify and understand the nature and scope of the relevant matter, event or circumstance.

1.3 Business Day

Where the day on or by which any thing is to be done is not a Business Day, that thing must be done on or by the next Business Day.

1.4 Consents or approvals

If the doing of any act, matter or thing under this deed is dependent on the consent or approval of a party or is within the discretion of a party, the consent or approval may be given or the discretion may be exercised conditionally or unconditionally or withheld by the party in its absolute discretion unless expressly provided otherwise.

1.5 Listing requirements included as law

A listing rule or business rule of a securities exchange will be regarded as a *law*, and a reference to such a rule is to be taken to be subject to any waiver or exemption granted to the compliance of those rules by a party.

1.6 Statements on the basis of knowledge

- (a) Any statement made by Gloucester on the basis of its knowledge is made on the basis that its knowledge is limited to the knowledge that any of Brendan McPherson, Tim Crossley and Will Randall has or would have if he had made all reasonable inquiries of the officers, managers, employees and other persons with responsibility for the matters to which the statement relates.
- (b) Any statement made by Bidder on the basis of its knowledge is made on the basis that its knowledge is limited to the knowledge that any of Murray Bailey, Terry Crawford, Peter Barton and Boyun Xu has or would have if he had made all reasonable inquiries of the officers, managers, employees and other persons with responsibility for the matters to which the statement relates.

1.7 Reasonable endeavours

Any provision of this deed which requires a party to use reasonable endeavours or best endeavours to procure that something is performed or occurs or does not occur does not include any obligation:

- (a) to pay any money or provide any financial compensation, valuable consideration or any other incentive to or for the benefit of any person except for payment of any applicable fee for the lodgement or filing of any relevant application with any Regulatory Authority; or
- (b) to commence any legal action or proceeding against any person, except where that provision expressly specifies otherwise.

2 Agreement to Proceed with Scheme

2.1 Gloucester to propose the Scheme

Gloucester agrees to propose and implement the Scheme and to propose the Capital Reduction Resolution on and subject to the terms of this deed.

2.2 Bidder to assist and procure Bidder Sub to assist

Bidder agrees to assist Gloucester to propose and implement the Scheme and to propose the Capital Reduction Resolution, and to procure Bidder Sub to assist Gloucester to propose and implement the Scheme and to propose the Capital Reduction Resolution, on and subject to the terms of this deed.

3 Conditions Precedent and Pre-implementation Steps

3.1 Conditions precedent

Subject to this clause 3, the Scheme will not become Effective, and the obligations of Bidder under clauses 4.2 and 4.3 are not binding, unless each of the following conditions precedent is satisfied or waived in accordance with clauses 3.3 and 3.4:

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

Joint Conditions

(Conditions precedent for the benefit of all parties)

- (a) **(ASIC or ASX consents)** before 8.00am on the Second Court Date, ASIC and ASX issue or provide such consents or approvals or have done such other acts which Gloucester and Bidder agree are reasonably necessary to implement the transactions contemplated by clause 4;
- (b) **(FIRB approval - Bidder)** before 8.00am on the Second Court Date, the Treasurer of the Commonwealth of Australia (or his delegate) either:
 - (1) gives Bidder written advice, which is unconditional or subject only to conditions that are acceptable to Bidder acting reasonably, that the Commonwealth Government does not object under FATA or its foreign investment policy to the Transactions; or
 - (2) is or, by passage of time, becomes precluded from making an order under FATA in respect of the Transactions, and remains so precluded until that time;
- (c) **(FIRB approval – Noble)** if Noble will acquire a substantial interest (as defined in FATA) in Bidder as a result of the acquisition referred to in paragraph (a) of the definition of Transactions, before 8.00am on the Second Court Date, the Treasurer of the Commonwealth of Australia (or his delegate) either:
 - (1) gives Noble written advice, which is unconditional or subject only to conditions that are acceptable to Noble, that the Commonwealth Government does not object under FATA or its foreign investment policy to Noble acquiring a substantial interest (as defined in FATA) in Bidder as a result of the Transactions; or
 - (2) is or, by passage of time, becomes precluded from making an order under FATA in respect of Noble acquiring a substantial interest (as so defined) in Bidder as a result of the Transactions, and remains so precluded until that time;
- (d) **(PRC regulatory approvals)** before 8.00am on the Second Court Date:
 - (1) the State-owned Assets Supervision and Administration Commission of Shangdong Provincial Government;
 - (2) the National Development and Reform Commission;
 - (3) the China Securities Regulatory Commission;
 - (4) the Ministry of Commerce of the People's Republic of China;
 - (5) the State Administration of Foreign Exchange of China; and
 - (6) any other relevant Regulatory Authority,grant (and do not withdraw, cancel or revoke) all approvals required to permit implementation of the Transactions;
- (e) **(Miscellaneous)** before 8.00am on the Second Court Date:
 - (1) all other approvals of a Regulatory Authority which Gloucester and Bidder agree are necessary to implement the Transactions are obtained and have not been withdrawn or revoked; and
 - (2) none of the following has been issued or made:
 - (A) a conditional or unconditional decision, determination or statement by any Regulatory Authority to the effect that it objects to the Transactions, and that decision, determination or statement would have the effect or likely effect of materially impeding the implementation of the Transactions;

- (B) a preliminary or final decision, determination, or order issued by any Regulatory Authority preventing the Transactions; or
 - (C) a temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or the Takeovers Panel or other legal restraint or prohibition preventing the Transactions;
- (f) **(ASX Admission and Quotation)** before 8.00am on the Second Court Date ASX approves the admission of Bidder to the official list of ASX and grants quotation of all of its issued Bidder Shares and CVR Shares, subject only to the approval of the Scheme by the Court, the implementation of the Scheme as approved by the Court and usual and customary conditions of ASX of a procedural or administrative nature;
- (g) **(Gloucester Shareholder approvals)** before 8.00 am on the Second Court Date:
- (1) the Scheme is approved by Gloucester Shareholders at the Scheme Meeting by the majorities required under section 411(4)(a)(ii) of the Corporations Act; and
 - (2) the Capital Reduction Resolution is approved by Gloucester Shareholders at the General Meeting in accordance with section 256C(1) of the Corporations Act;
- (h) **(Yanzhou Shareholder approval)** to the extent required by law or applicable regulatory requirements, before 8.00 am on the Second Court Date the Transactions are duly approved by Yanzhou shareholders in general meeting in accordance with all applicable requirements of the securities exchanges and the Regulatory Authorities where the securities of Yanzhou are listed;
- (i) **(Hong Kong Stock Exchange approval)** before 8.00am on the Second Court Date, the Hong Kong Stock Exchange confirms that Yanzhou may proceed with the separate listing of the Bidder on the ASX or grants a waiver to Yanzhou from strict compliance with the Hong Kong Stock Exchange's approval requirement under Practice Note 15 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange in respect of separate listing of the Bidder on the ASX subject to any conditions the Hong Kong Stock Exchange may impose;
- (j) **(Court approval)** the Scheme is approved by the Court in accordance with section 411(4)(b) of the Corporations Act either unconditionally or on conditions that do not impose unduly onerous obligations upon either party (acting reasonably);
- (k) **(Independent Expert's Report)** the Independent Expert's Report contains an opinion of the Independent Expert to the effect that the Scheme is in the best interest of Gloucester Shareholders and the Independent Expert maintains that opinion (including by not withdrawing or changing that opinion) at all times up to 8.00am on the Second Court Date;
- (l) both of the following have occurred on or before 8.00am on the Second Court Date:
- (1) Gloucester Shareholders holding in aggregate at least 130 million Gloucester Shares have elected on or before the Election Date (as defined in the Scheme) to receive the form of Scheme Consideration designated as 'All Bidder Shares'; and
 - (2) arrangements are in place to the satisfaction of Gloucester and Bidder to ensure that such elections are not rendered ineffective either by revocation or by transfer of any of the relevant Gloucester Shares on or before the Scheme Record Date;

APPENDIX 6

MERGER PROPOSAL DEED (CONTINUED)

Bidder Conditions

(Conditions precedent for the benefit of Bidder only)

- (m) **(No Gloucester Material Adverse Change)** no Gloucester Material Adverse Change occurs between the date of this deed and 8.00am on the Second Court Date;
- (n) **(No Gloucester Prescribed Occurrence)** no Gloucester Prescribed Occurrence occurs between the date of this deed and 8.00am on the Second Court Date;
- (o) **(Gloucester Warranties)** the Gloucester Representation and Warranties being true and correct in all material respects on the date of this deed and at 8.00am on the Second Court Date;
- (p) **(Amendment of Terms of Issue)** before 8.00am on the Second Court Date, Gloucester amends the Terms of Issue so that the Converting Shares convert into Gloucester Shares, and confer no further entitlements to be provided with Additional Shares (as defined in the Terms of Issue), in each case on the basis set out in clause 4.7, and in each case with effect prior to the Capital Reduction Record Date;
- (q) **(Finance Debt cap)** before 8.00am on the Second Court Date, Gloucester provides written confirmation to Bidder, including from the relevant financiers and otherwise in a form acceptable to Bidder acting reasonably, that its aggregate Finance Debt (net of cash) does not exceed the amount of its aggregate Finance Debt (net of cash) as at the Disclosure Cut-off Date, as advised to Bidder on or before the Disclosure Cut-off Date (other than increases arising in the ordinary course of operations that do not result in a breach of its banking covenants);

Gloucester Conditions

(Conditions precedent for the benefit of Gloucester only)

- (r) **(No Bidder Material Adverse Change)** no Bidder Material Adverse Change occurs between the date of this deed and 8.00am on the Second Court Date;
- (s) **(No Bidder Prescribed Occurrence)** no Bidder Prescribed Occurrence occurs between the date of this deed and 8.00am on the Second Court Date;
- (t) **(Bidder Warranties)** the Bidder Representation and Warranties being true and correct in all material respects on the date of this deed and at 8.00am on the Second Court Date;
- (u) **(Finance Debt cap)** before 8.00am on the Second Court Date, Bidder provides written confirmation to Gloucester, including from the relevant financiers and otherwise in a form acceptable to Gloucester acting reasonably, that its aggregate Finance Debt (net of cash) does not exceed the amount of its aggregate Finance Debt (net of cash) as at the Disclosure Cut-off Date, as advised to Gloucester on or before the Disclosure Cut-off Date (other than increases arising in the ordinary course of operations that do not result in a breach of its banking covenants);
- (v) **(Extension of Due Debt)** before 8.00am on the Second Court Date Bidder provides objective written confirmation to Gloucester, including from the relevant financiers and otherwise in a form acceptable to Gloucester acting reasonably, that:
 - (1) the terms of repayment of the 2012 Due Debt have been amended such that the due date for its repayment is not earlier than 16

- December 2017 (or the due date has otherwise been extended on that basis); and
- (2) the terms of repayment of the 2013 Due Debt have been amended such that the due date for its repayment is not earlier than 16 December 2018 (or the due date has otherwise been extended on that basis); and
- (w) **(\$700 million funding)** before 8.00am on the Second Court Date Bidder provides objective written confirmation to Gloucester, including from the relevant financiers and otherwise in a form acceptable to Gloucester acting reasonably, that it has in place \$700 million of funding which will enable Gloucester to pay in full and on time the Gloucester Special Dividend on or immediately after the Capital Reduction Record Date, the Promissory Note immediately on the presentation of the Promissory Note for payment and, as and when required by clause 4.6, the Gloucester Option Amount.

3.2 Condition to Capital Reduction

- (a) The Capital Reduction is conditional on the Gloucester Board making an announcement to ASX by no later than two Business Days after the Court Approval Date setting the Capital Reduction Record Date.
- (b) Despite any other provision of this deed, the Effective Date must not occur earlier than two Business Days after the Capital Reduction Record Date.

3.3 Satisfaction

- (a) Bidder and Gloucester must use reasonable endeavours to procure that the Joint Conditions (other than those in clauses 3.1(g) and 3.1(h)) are satisfied.
- (b) Bidder must use reasonable endeavours to procure that the Gloucester Conditions (and the condition precedent in clause 3.1(h)) are satisfied.
- (c) Gloucester must use reasonable endeavours to procure that the Bidder Conditions (and the condition precedent in clause 3.1(g)) are satisfied.
- (d) Bidder and Gloucester must provide reasonable assistance in satisfying the other conditions precedent in clause 3.1, and ensure that there is no occurrence within the control of a member of the Bidder Group or Gloucester Group (as the context requires) that would prevent any condition precedent in clause 3.1 being satisfied.
- (e) Gloucester must ensure that no Gloucester Prescribed Occurrence occurs, and that no occurrence within the control of a member of the Gloucester Group takes place which would cause a Gloucester Material Adverse Change to occur, in each case on or before the End Date.
- (f) Bidder must ensure that no Bidder Prescribed Occurrence occurs, and that no occurrence within the control of a member of the Bidder Group takes place which would cause a Bidder Material Adverse Change to occur, in each case on or before the End Date.
- (g) Bidder and Gloucester must:
- (1) consult and co-operate fully with the other party in relation to the satisfaction of the conditions precedent, including in relation to all material communications with Regulatory Authorities in relation to Regulatory Approvals;
 - (2) promptly provide to the other party all material communications with Australian and Chinese Regulatory Authorities in relation to Regulatory Approvals;

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

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3 Conditions Precedent and Pre-implementation Steps

- (3) promptly notify the other if it becomes aware that any condition precedent has been satisfied; and
- (4) promptly notify the other of any failure to satisfy a condition precedent or of any fact or circumstance that may result in a condition precedent becoming incapable of being satisfied or that may result in a condition precedent not being satisfied in accordance with its terms (having regard to the obligations of the parties under this clause).
- (h) Without limiting this clause:
 - (1) Gloucester must provide Bidder with all information reasonably requested in connection with Bidder's applications for each Regulatory Approval referred to in clauses 3.1(a), 3.1(b), 3.1(d), and 3.1(e); and
 - (2) Bidder must consult with Gloucester, and Gloucester must consult with Bidder, as applicable, in relation to the submission of and progress of obtaining each Regulatory Approval referred to in clause 3.1.
- (i) Bidder and Gloucester must:
 - (1) give the Court on the Second Court Date a certificate confirming (in respect of matters within its knowledge) whether or not the conditions precedent in clause 3.1 (other than 3.1(j)) have been satisfied or waived; and
 - (2) give the other a draft of its certificate by 5pm on the Business Day before the Second Court Date.

3.4 Waiver of conditions precedent

- (a) The conditions precedent in clauses 3.1(a), 3.1(b), 3.1(c), 3.1(d), 3.1(e), 3.1(g) and 3.1(j) cannot be waived.
- (b) The remaining Joint Conditions are for the benefit of Bidder and Gloucester and may only be waived by both of them in writing.
- (c) The Gloucester Conditions are for the sole benefit of Bidder and may only be waived by Bidder in writing.
- (d) The Bidder Conditions are for the sole benefit of Gloucester and may only be waived by Gloucester in writing.
- (e) A party entitled to waive a condition precedent may do so conditionally or unconditionally in its absolute discretion.
- (f) If a party waives the breach or non-fulfilment of a condition precedent, that waiver will not preclude it from suing the other party for any breach of this deed that resulted from the breach or non-fulfilment of the condition precedent that was waived or arising from the same event which gave rise to the breach or non-fulfilment of the condition precedent.
- (g) Waiver of a breach or non-fulfilment in respect of a condition precedent does not constitute:
 - (1) a waiver of the breach or non-fulfilment of any other condition precedent resulting from the same event; or
 - (2) a waiver of the breach or non-fulfilment of that condition precedent resulting from any other event.

3.5 If a condition precedent is not fulfilled or waived

If a condition precedent cannot be fulfilled (or has not been fulfilled or waived) by the Relevant Date, or the Scheme has not become Effective by the End Date, Gloucester and Bidder must, prior to any termination under clause 3.8, consult in good faith and act reasonably (and obtain appropriate advice) for a period of at least 10 Business Days to develop potential structures and approaches and to determine whether:

- (a) the Transactions may proceed by way of alternative means or methods and, if so, agree on the terms of such alternative means or methods (to avoid doubt, any such alternative means or methods must not involve any material additional economic cost (including increasing the amount of any Tax payable or reducing any Tax Relief available) to Bidder or Yanzhou or to Gloucester or any Gloucester Shareholder or be materially less advantageous to Bidder or Yanzhou or Gloucester Shareholders);
- (b) to extend the Relevant Date;
- (c) to adjourn or change the date of the Scheme Meeting; and/or
- (d) to extend the End Date.

Without limiting the foregoing, if a condition precedent is not satisfied by the date contemplated in the Timetable as the Second Court Date, Gloucester and Bidder agree (unless there is no reasonable prospect that the condition precedent will be satisfied) that the Second Court Date be deferred until such date (not later than the Business Day before the End Date) as reasonably required to enable more time to satisfy the condition precedent.

3.6 Appeal process

- (a) Without limiting clause 3.5, if the Court refuses to make any orders convening the Scheme Meeting or approving the Scheme, Gloucester must appeal the Court's decision to the fullest extent possible (except to the extent that the parties agree otherwise, or an independent barrister who is a Queens Counsel or Special Counsel with at least 15 years' experience advises in writing, a copy of which is provided to Bidder, that in their view an appeal would have no reasonable prospect of success).
- (b) Any costs incurred as a result of the operation of clause 3.6(a) are to be borne equally by Bidder and Gloucester.

3.7 Scheme voted down

Without limiting clause 3.5 or clause 3.6, if the Scheme is not approved by a majority in number of the Gloucester Shareholders (other than Excluded Shareholders) present and voting (in person or by proxy) at the Scheme Meeting (**headcount test**), that fact will not of itself be treated as preventing the condition precedent in clause 3.1(g) from being satisfied, and Gloucester must, if counsel for Bidder has certified that there are reasonable prospects of success on such an application, do everything it reasonably can to obtain Court approval of the Scheme in accordance with section 411(4)(b) of the Corporations Act, and an order of the Court in accordance with section 411(4)(a)(ii)(B) of the Corporations Act that the headcount test need not be satisfied, and must consult and co-operate fully with the Bidder in that regard.

3.8 Termination on failure of condition precedent

- (a) If:
 - (1) the Scheme has not become Effective by the End Date; or

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

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3 Conditions Precedent and Pre-implementation Steps

- (2) any event occurs which would, or in fact does, prevent a condition precedent being satisfied and that condition precedent is not waived by Gloucester or Bidder or both (as applicable) in accordance with clause 3.4,

then, subject to clause 3.8(b), Bidder or Gloucester party may terminate this deed without any liability to the other party because of that termination.

- (b) A party will not be entitled to terminate this deed pursuant to clause 3.8(a) if the relevant occurrence, or the failure of the satisfaction of a condition precedent, or of the Scheme becoming Effective, arises out of, or is substantially contributed to by:
- (1) a breach of this deed (including without limitation clause 3.2) by that party; or
- (2) a deliberate act or omission of that party.
- (c) Subject to any rights or obligations arising under or pursuant to clauses that are expressed to survive termination of this deed, on termination of this deed no party will have any rights against or obligations to any other party under this deed except for those rights and obligations which accrued before termination.

3.9 Due Diligence

- (a) The parties have specified in this deed the exchange ratio, under which Gloucester security holders will be entitled to receive 22% of Bidder, and Yanzhou will retain 78% of Bidder, after Implementation of the Scheme, and proposed payment of the Special Dividend and Capital Return, based on the Relative Values of Gloucester and Bidder implied by the exchange ratio specified above and after adjustment for the proposed payment of the Special Dividend and Capital Return and having regard to the value protection which Gloucester security holders will actually receive from CVR Shares respectively held by them.
- (b) During the period from the date of this deed until the date that Gloucester receives the Independent Expert's Report, each of Bidder and Gloucester (each a **Discloser**) must promptly supply such information to the other (**Recipient**) and continue to provide access to the Discloser's Due Diligence Material as the Recipient reasonably requests together with all of the information supplied to the Independent Expert to enable it to satisfy itself as to the Discloser's Relative Value.
- (c) At any time prior to the Due Diligence End Date, either Bidder or Gloucester (**Disputing Party**) may give a notice (**Merger Ratio Dispute Notice**) to the other (**Affected Party**) if there is a Merger Ratio Dispute. For this purpose there will be taken to have been a **Merger Ratio Dispute** if the Disputing Party's view of the Relative Value of Bidder and Gloucester is different such that if the exchange ratio had been struck based on the Disputing Party's view of Relative Value (and after adjustment for the proposed payment of the Special Dividend and Capital Return and having regard to the value protection which Gloucester security holders will actually receive from CVR Shares and other relevant factors), there would be a divergence in the percentage interests in Bidder of Gloucester security holders on the one hand and Yanzhou on the other hand from the percentage interests specified in this deed, and that divergence would have involved a reduction of 1% or more in the percentage interest in Bidder of the Affected Party (or where the Affected Party is Gloucester, of its security holders) from the exchange ratio specified in this deed.
- (d) Following the giving of a Merger Ratio Dispute Notice, the Disputing Party and the Affected Party must discuss in good faith for a period of 5 Business Days the reasons for the Disputing Party issuing the Merger Ratio Dispute Notice.

- (e) If the Disputing Party and the Affected Party do not reach agreement in that period as to whether there is a valid basis for the Merger Ratio Dispute, the Affected Party may refer the dispute to the Expert to determine in accordance with the following provisions:
- (1) The Expert must determine whether there is a valid basis for the Merger Ratio Dispute in accordance with the preceding provisions of this clause 3.9.
 - (2) The Expert must allow the parties 10 Business Days (or such longer time as the parties may agree) to make submissions on the dispute, and then must determine the dispute in writing within a further 10 Business Days (or such longer time as the parties may agree).
 - (3) The Expert's determination is, in the absence of manifest error, final for the purposes of this clause 3.9 and a party must not commence court proceedings or arbitration in relation to a dispute determined by the Expert.
 - (4) The Expert acts as an expert and not as an arbitrator. Dispute resolution proceedings under this clause 3.9 are not arbitration proceedings under the Commercial Arbitration Act 1984 (NSW) or any other relevant legislation.
 - (5) The Expert's costs and expenses in connection with dispute resolution proceedings under this clause 3.9 will be borne by the parties in a manner determined by the Expert (and any party may request that determination) and in the absence of such a determination will be borne by Bidder and Gloucester equally.
 - (6) The parties must provide such releases and indemnities as the Expert may reasonably request in connection with its engagement.
- (f) If in respect of a Merger Ratio Dispute Notice, either:
- (1) the Affected Party does not refer the Merger Ratio Dispute the subject of the Merger Ratio Dispute Notice to the Expert in accordance with paragraph (e) within 5 Business Days after receiving the Merger Ratio Dispute Notice; or
 - (2) the Expert has determined that there is a valid basis for the Merger Ratio Dispute,
- the Disputing Party and the Affected Party must consult in good faith, and act reasonably, over a further period of 10 Business Days as to whether the terms of the Transactions can be changed to address the Relative Value issues arising from the Merger Ratio Dispute.
- (g) If the Disputing Party and the Affected Party do not reach agreement on such a change to the terms in that 10 Business Day period, then either party may serve a notice on the other to the effect that agreement has not or cannot be reached, in which event the recipient of the notice may:
- (1) give a notice requiring the giver of the notice to continue to endeavour to reach agreement within a further period of 5 Business Days, in which event either party may terminate this deed with immediate effect by further notice to the other party if agreement is not reached in that further period; or
 - (2) accept the notice, in which event either party may terminate this deed with immediate effect by further notice to the other party.
- (h) To avoid doubt, nothing in this clause prevents an Affected Party also giving a Merger Ratio Dispute Notice (such that it would be the Disputing Party in respect of that Merger Ratio Dispute Notice).

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

- (i) In this clause 3.9:

Expert means a person agreed by the parties acting reasonably, or failing agreement another person nominated by the President of the Institute of Chartered Accountants in Australia.

Relative Value of either Bidder or Gloucester means the value of, respectively, the Bidder Group or the Gloucester Group relative to the other, calculated on a basis and with assumptions that the Expert considers appropriate, and having regard to any other factors as the Expert considers relevant, including net debt and after obtaining such input from Bidder and/or Gloucester as the Expert requires.

3.10 Adverse ATO ruling outcome

- (a) The parties agree that if before the Scheme Meeting the Commissioner of Taxation or his delegate states or indicates to Gloucester that the Commissioner of Taxation will not or does not intend to provide a class ruling (**Class Ruling**) given under Division 358 of Schedule 1 to the Taxation Administration Act 1953 (Cth) in form and substance satisfactory to Gloucester (acting reasonably) confirming, in relation to Gloucester Shareholders who would be entitled to participate in the Capital Reduction and the Scheme, that for the purposes of the Income Tax Assessment Act 1936 (Cth) (**1936 Act**) or Income Tax Assessment Act 1997 (Cth) (**1997 Act**):
- (1) no part of the Capital Reduction will be a dividend, or deemed dividend;
 - (2) the Commissioner will not make a determination under section 45A or section 45B of the 1936 Act that section 45C applies to any part of the Capital Reduction;
 - (3) no part of the Capital Reduction will be considered to be capital proceeds for a CGT event A1 happening, acknowledging that such confirmation may take the form of the inclusion of a statement in the class ruling or the omission from the class ruling of a statement to this effect;
 - (4) scrip for scrip rollover in accordance with Subdivision 124-M of the 1997 Act is available to Gloucester shareholders to disregard any capital gain which may otherwise arise in respect of the transfer of Gloucester shares to Bidder Sub under the Scheme;
 - (5) the Commissioner will not make a determination under paragraph 204-30(3)(c) of the 1997 Act to deny the whole, or any part, of the imputation benefit received in relation to the Gloucester Special Dividend;
 - (6) the Commissioner will not make a determination under paragraph 177EA(5)(b) of the 1936 Act to deny the whole, or any part, of the imputation benefit received in relation to the Gloucester Special Dividend; and
 - (7) the Commissioner accepts that the Capital Reduction will be paid after the Capital Reduction Record Date pursuant to section 104-135 of the 1997 Act,

Gloucester and Bidder must consult in good faith and act reasonably (and obtain appropriate expert advice) over a period of 10 Business Days to develop potential structures and approaches and to determine whether the Transactions may proceed by way of alternative means or methods and, if so, agree on the terms of such alternative means or methods that do not involve material additional economic cost (including increasing the amount of any Tax payable

or reducing any Tax Relief available) to Bidder or Yanzhou or to Gloucester or any Gloucester Shareholder.

- (b) If Gloucester and Bidder do not reach agreement on such alternative means or methods in that 10 Business Day period, then either party may serve a notice on the other to the effect that agreement has not or cannot be reached, in which event the recipient of the notice may:
- (1) give a notice requiring the giver of the notice to continue to endeavour to reach agreement within a further period of 5 Business Days, in which event either party may terminate this deed with immediate effect by further notice to the other party if agreement is not reached in that further period; or
 - (2) accept the notice, in which event either party may terminate this deed with immediate effect by further notice to the other party.

4 Transaction Steps

4.1 Scheme

Gloucester must propose the Scheme under which:

- (a) all of the Scheme Shares will be transferred to Bidder Sub; and
- (b) the Scheme Shareholders will be entitled to receive the Scheme Consideration.

4.2 Scheme Consideration

Bidder undertakes to Gloucester (in its own right and as trustee on behalf of the Scheme Shareholders) that, in consideration of the transfer to Bidder Sub of each Scheme Share under the terms of the Scheme, on the Implementation Date:

- (a) it will procure that Bidder Sub accepts that transfer; and
- (b) in exchange, Bidder will provide each Scheme Shareholder the Scheme Consideration.

4.3 Allotment and issue of New Bidder Shares and CVR Shares

- (a) Subject to the Scheme becoming Effective, Bidder must:
 - (1) allot and issue the New Bidder Shares and the CVR Shares to Scheme Shareholders in accordance with the Scheme on terms such that each New Bidder Share will rank equally in all respects with each existing Bidder Share and each CVR Share will have the rights set out in Schedule 7;
 - (2) do everything reasonably necessary to ensure that the New Bidder Shares and CVR Shares are approved for official quotation on ASX and that trading in the New Bidder Shares and CVR Shares commences on an ordinary (T+3) settlement basis by the first Business Day after the Implementation Date; and
 - (3) ensure that on issue, each New Bidder Share and each CVR Share will be fully paid and free from any mortgage, charge, lien, encumbrance or other security interest.
- (b) To facilitate the issue of the New Bidder Shares and the CVR Shares to Scheme Shareholders, Gloucester must provide to Bidder, or procure the

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

provision to Bidder of, a complete copy of the Gloucester Share Register as at the Scheme Record Date (which must include the name, address and registered holding of each Scheme Shareholder as at the Scheme Record Date), within two Business Days after the Scheme Record Date. The details and information to be provided under this clause must be provided in such form as Bidder, its Representatives or share registry may reasonably require.

- (c) Bidder will not issue any New Bidder Shares or CVR Shares to Foreign Scheme Shareholders, and instead will issue the New Bidder Shares and CVR Shares that would otherwise have been issued to the Foreign Scheme Shareholders to a nominee appointed by Bidder. Bidder will procure that the nominee sell those New Bidder Shares on-market and remit the proceeds from that sale (after deducting any selling costs and taxes) to Bidder. Bidder will then remit the proceeds it receives to the Foreign Scheme Shareholders in accordance with their entitlement.
- (d) Any fractional entitlement of a Scheme Shareholder to a part of a New Bidder Share or CVR Share will be rounded down to the nearest whole number of New Bidder Shares or CVR Shares, as applicable.

4.4 Enforcement Share

No later than 10 Business Days after the earlier of:

- (a) the Gloucester Board recommending the Transactions; and
- (b) the convening of the Scheme Meeting,

Bidder must issue to Gloucester one non-redeemable cumulative preference share at an issue price of \$1 having attached the rights set out in Schedule 5 (**Enforcement Share**).

4.5 Capital Reduction

- (a) Subject to the Capital Reduction Resolution being passed at the General Meeting and to Gloucester making the announcement to ASX referred to in clause 3.2, Gloucester will implement the Capital Reduction as follows:
 - (1) On the Capital Reduction Record Date, Gloucester will issue one or more promissory notes (**Promissory Note**) for the Capital Reduction Amount to a body corporate authorised to act as a trustee under section 283C of the Corporations Act or to an authorised trustee corporation (as defined in the Corporations Act) who is nominated by Gloucester (**Trustee**);
 - (2) the Promissory Note will be payable in full by Gloucester to the Trustee on the date that is 6 months after the Implementation Date (**Payment Date**);
 - (3) the Trustee will hold the Promissory Note on trust for all persons registered as Gloucester Shareholders as at the Capital Reduction Record Date in accordance with the Trust Deed;
 - (4) on the Payment Date, the Trustee will present the Promissory Note to Gloucester for payment and Gloucester must pay the Promissory Note in full and in cleared funds to Trustee on that date; and
 - (5) following the receipt of payment of the Promissory Note by Gloucester, the Trustee will in accordance with the Trust Deed distribute the proceeds to all persons registered as Gloucester Shareholders as at the Capital Reduction Record Date, in accordance with their Capital Return entitlements.

- (b) Bidder guarantees the due and punctual performance and observance by Gloucester of all of Gloucester's obligations contained in or implied under the Promissory Note (**Guaranteed Obligations**). The Guaranteed Obligations are for the benefit of all persons registered as Gloucester Shareholders as at the Capital Reduction Record Date.
- (c) The obligations of Bidder under paragraph (b) remain unaffected despite:
- (1) an amendment to this deed;
 - (2) a rule of law or equity to the contrary;
 - (3) an insolvency event affecting a person or the death of a person;
 - (4) a change in the constitution, membership, or partnership of a person;
 - (5) the Guaranteed Obligations not being enforceable at any time (whether by reason of a legal limitation, disability or incapacity on the part of Bidder and whether this deed is void ab initio or is subsequently avoided) against Bidder;
 - (6) Gloucester granting any time or other indulgence or concession to, compounding or compromising with, or wholly or partially releasing Bidder or an obligation; or
 - (7) another thing happening that might otherwise release, discharge or affect the obligations of Bidder under this deed.
- (d) Bidder must make all payments required of it under this clause 4.5 in full, without set off and free and clear of any withholding or deduction. If Bidder is required to withhold or deduct any tax, duty, impost, charge, withholding, rate, levies or other governmental imposition of any nature together with associated costs, charges, interest, penalties, fines or expenses (**Taxes**) so that Gloucester would not actually receive on the due date the full amount then Bidder must ensure that the amount payable is increased so that, after making that deduction and deductions applicable to additional amounts payable under this paragraph, Gloucester is entitled to receive, and does receive, the amount it would have received if no deductions had been required. Bidder must ensure any deductions required are made and pay the full amount deducted to the relevant governmental body in accordance with applicable law.
- (e) Bidder's obligations under this clause 4.5 are absolute, unconditional and irrevocable. The liability of Bidder under this clause 4.5 extends to and is not affected by any circumstance, act or omission which, but for this paragraph, might otherwise affect it at law or in equity. The guarantee in this clause 4.5 is a continuing security, and remains in full force until all of the Guaranteed Obligations have been fully paid and satisfied. This clause 4.5 survives any termination or full or partial discharge of this deed.
- (f) Bidder agrees that if a payment or other transaction relating to the Guaranteed Obligations is void, voidable, unenforceable or defective for any reason or a related claim is upheld, conceded or settled (each an **Avoidance**), then even though Gloucester knew or should have known of the Avoidance:
- (1) each right, power, discretion or remedy of Gloucester and Bidder's liability under this clause 4.5 will be what it would have been, and will continue, as if the payment or transaction the subject of the Avoidance had not occurred; and
 - (2) Bidder will immediately execute and do anything necessary or required by Gloucester to restore Gloucester to its position immediately before the Avoidance.
- (g) This clause 4.5 is:

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

- (1) a principal obligation and is not to be treated as ancillary or collateral to another right or obligation; and
 - (2) independent of and not in substitution for or affected by another security interest or guarantee or other document or agreement which Gloucester or another person may hold concerning the Guaranteed Obligations.
- (h) Gloucester may enforce this clause 4.5 against Bidder without first having to resort to another guarantee or security interest or other agreement relating to the Guaranteed Obligations.

4.6 Gloucester Options

- (a) As soon as reasonably practicable after the date of this deed but in any event within 20 Business Days of that date, Gloucester must use all reasonable endeavours to obtain the written agreement of each person who is a holder of Gloucester Options to have their options cancelled, with effect from the Effective Date, for consideration to be determined in accordance with Schedule 6 (and where there are alternative forms of consideration so set out, for the form elected by Bidder) and subject to all other holders of Gloucester Options agreeing to have their Gloucester Options cancelled. The form of agreement to be used for this purpose must be acceptable to Bidder acting reasonably.
- (b) If, within 20 Business Days of the date of this deed, Gloucester has not obtained the agreement of each person who is a holder of Gloucester Options to have their options cancelled in accordance with clause 4.6(a):
 - (1) Gloucester agrees, if directed to do so by Bidder, to propose a creditors' scheme of arrangement under Part 5.1 of the Corporations Act between Gloucester and all holders of Gloucester Options (including, for the avoidance of doubt, any holder of Gloucester Options who provides a written agreement within the terms contemplated by clause 4.6(a)), the purpose of which is to cancel all of the Gloucester Options on issue for the consideration to be determined in accordance with Schedule 6;
 - (2) the creditors' scheme of arrangement contemplated by clause 4.6(b)(1), if required, will be in a form to be agreed between the parties acting reasonably; and
 - (3) the approval and implementation of the Scheme will not be conditional on the approval and implementation of the creditors' scheme of arrangement contemplated by clause 4.6(b)(1), if that scheme is required.
- (c) Before Bidder gives Gloucester a direction under clause 4.6(b)(1), Bidder agrees to give due and reasonable consideration to the alternative of Bidder initiating after the Implementation Date the compulsory acquisition of any Gloucester Options that remain on issue as at that date, under Part 6A.2 (Div 2) of the Corporations Act.

4.7 Converting Shares

As soon as reasonably practicable after the date of this deed but in any event within 10 Business Days of that date, Gloucester must use all reasonable endeavours to obtain the written agreement of each CPS Holder to an amendment to the Terms of Issue with effect on and from the Court Approval Date and having the effect of:

- (a) Converting each Converting Share into one Gloucester Share; and

- (b) ensuring that all Additional Shares (but to a total of no more than the number of Additional Shares calculated by the formula below) are Provided under the Terms of Issue (terms in this paragraph have the meanings given in the Terms of Issue),

no later than the Business Day before the Capital Reduction Record Date.

The formula referred to is as follows:

$$\text{Number of Additional Shares} = \$120 \text{ million} / \text{VWAP}$$

where **VWAP** means 'CCVWAP' as defined in clause 4.4(a) of the Terms of Issue.

5 Implementation

5.1 Gloucester's obligations

Gloucester must take all necessary steps to propose and (subject to all of the conditions in clauses 3.1 and 3.2 being satisfied or waived in accordance with their terms) implement the Scheme as soon as is reasonably practicable and, without limiting the foregoing, must use reasonable endeavours to ensure that each step in the Timetable is met by the date set out beside that step (and must consult with Bidder on a regular basis about its progress in that regard), including by doing any acts it is authorised and able to do on behalf of Gloucester Shareholders and each of the following.

- (a) **(Preparation of Explanatory Booklet)** Prepare the Explanatory Booklet in accordance with clause 5.4.
- (b) **(Confirmation of Gloucester Information)** Before the Explanatory Booklet is provided to ASIC pursuant to section 411(2) of the Corporations Act, either:
- (1) confirm in writing to Bidder that the Gloucester Information in the form and context in which it appears in the Explanatory Booklet is not misleading or deceptive in any material respect and does not contain any material omission; or
 - (2) make the changes required to ensure that the Gloucester Information in the form and context in which it appears in the Explanatory Booklet is not misleading or deceptive in any material respect and does not contain any material omission.
- (c) **(Joint Information)** Promptly contribute to and assist with the preparation of the Joint Information.
- (d) **(Regulatory notifications)** In relation to the Regulatory Approvals, lodge with any Regulatory Authority within the relevant time periods all documentation and filings required by law to be so lodged by Gloucester in relation to the Transactions.
- (e) **(Independent Expert)** Appoint the Independent Expert and any technical specialist reasonably required by the Independent Expert, and provide all assistance and information reasonably requested by the Independent Expert and any technical specialist to enable the Independent Expert to prepare the Independent Expert's Report as soon as practicable (but ensuring that clause 5.1(cc) is complied with in briefing the Independent Expert and any technical specialist).

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- (f) **(Consult with Bidder on ancillary documents)** Consult with Bidder as to the content and presentation of all relevant originating process, affidavits, submissions and draft minutes of Court orders and other civil procedure documents to be filed with the Court in connection with the Scheme, such consultation to include allowing Bidder a reasonable opportunity to review and make comments on drafts of those documents, consider in good faith, for the purpose of amending those drafts, comments from Bidder and its Representatives on those drafts, and provide Bidder with copies of any correspondence with ASIC and ASX in connection with the Transactions (and an opportunity to comment on drafts of any substantive written communications to ASIC or ASX).
- (g) **(approval of draft for ASIC)** As soon as reasonably practicable after the preparation of an advanced draft of the Explanatory Booklet suitable for review by ASIC, procure that a meeting of the Gloucester Board, or of a committee of the Gloucester Board appointed for the purpose, is held to consider approving that draft as being in a form appropriate for provision to ASIC for its review and approval for the purposes of section 411(2) of the Corporations Act.
- (h) **(liaison with ASIC)** As soon as reasonably practicable after the date of this deed:
- (1) provide an advanced draft of the Explanatory Booklet, in a form approved in accordance with this deed to ASIC for its review and approval for the purposes of section 411(2) of the Corporations Act; and
 - (2) liaise with ASIC during the period of its consideration of that draft of the Explanatory Booklet and keep Bidder reasonably informed of any matters raised by ASIC in relation to the Explanatory Booklet and use reasonable endeavours, in consultation with Bidder, to resolve any such matters.
- (i) **(approval of Explanatory Booklet)** As soon as reasonably practicable after the conclusion of the review by ASIC of the Explanatory Booklet, procure that a meeting of the Gloucester Board, or of a committee of the Gloucester Board appointed for the purpose, is held to consider approving the Explanatory Booklet for despatch to the Gloucester Shareholders, subject to orders of the Court under section 411(1) of the Corporations Act.
- (j) **(Section 411(17)(b) statement)** Apply to ASIC for a statement under section 411(17)(b) of the Corporations Act that ASIC has no objection to the Scheme.
- (k) **(first Court hearing)** Apply to the Court under section 411(1) of the Corporations Act for orders directing Gloucester to convene the Scheme Meeting.
- (l) **(ASIC registration)** Request ASIC to register under section 412(6) of the Corporations Act the explanatory statement for the Scheme as contained in the Explanatory Booklet, in the form approved by the Court.
- (m) **(Scheme Meeting)** Use all reasonable endeavours necessary to comply with the orders of the Court including, as required, despatching the Explanatory Booklet to the Gloucester Shareholders and convening and holding the Scheme Meeting, and using reasonable endeavours to ensure that all Gloucester Shareholders can vote as a single class and with equal weight being given to their votes.
- (n) **(General Meeting)** Convene the General Meeting, in accordance with Gloucester's constitution and the Corporations Act, so that the General Meeting is held as soon as practicable after the conclusion or adjournment of the Scheme Meeting.

- (o) **(Proxy reports)** Cause the Gloucester Registry to report to it and Bidder on the status of proxy forms received by Gloucester Registry for the Scheme Meeting and General Meeting, at 15 Business Days before those meetings, at each subsequent Business Day up to the deadline for receipt of proxy forms and at such deadline, and provide such other information as it may receive concerning the voting intentions of Gloucester Shareholders to Bidder.
- (p) **(Court approval)** Subject to all conditions precedent in clause 3.1 (other than that in clause 3.1(i)) being satisfied or waived in accordance with this deed, apply to the Court for orders approving the Scheme, and consult with Bidder as to the content of all relevant affidavits, submissions and draft minutes of Court orders.
- (q) **(Court order)** Lodge with ASIC an office copy of any Court order approving the Scheme in accordance with the Timetable (or such later date as Bidder may agree in writing).
- (r) **(Cancellation of Gloucester Options and Gloucester Share Rights)** Procure the grant by ASX of a waiver from ASX Listing Rule 6.2 to allow for the cancellation of up to all Gloucester Options.
- (s) **(Third Party Consents)** Gloucester must consult with Bidder concerning Third Party Consents and use its best endeavours to obtain any Third Party Consents. Gloucester must involve Bidder in meetings or discussions with Third Parties relating to the obtaining of Third Party Consents and keep Bidder informed of progress in obtaining any such Third Party Consents (and must do everything it can to ensure that the relevant counterparties provide information promptly as to how they propose to exercise their rights and keep Bidder informed of all such information) and assist Bidder generally in relation to matters required for the implementation of the Transactions, and consult with Bidder in relation to the foregoing.
- (t) **(Implementation of Scheme)** If the Scheme is approved by the Court:
 - (1) subject to the Listing Rules and clause 3.2(b), lodge with ASIC an office copy of the orders approving the Scheme in accordance with section 411(10) of the Corporations Act, within the timeframe contemplated by the Timetable;
 - (2) procure ASX to suspend trading in Gloucester Shares from the close of trading on the Effective Date;
 - (3) with effect from the Scheme Record Date, determine the identity of Scheme Shareholders and their entitlements to the Scheme Consideration;
 - (4) subject to Bidder satisfying its obligations under clause 4.2, convert all Scheme Shares to Issuer Sponsored Holding (as defined in the ASX Settlement Operating Rules), in accordance with the Scheme and execute proper instruments of transfer of the Scheme Shares on behalf of the Scheme Shareholders and procure the registration in the Gloucester Share Register of all transfers of Scheme Shares to Bidder Sub under those instruments on the Implementation Date;
 - (5) use its best endeavours to ensure that such termination of official quotation and removal of Gloucester from the official list of the ASX does not occur until after the Implementation Date; and
 - (6) do all other things contemplated by or necessary to give effect to the Scheme and the orders of the Court approving the Scheme.
- (u) **(Implementation of Capital Reduction and payment of Special Dividend)** pay the Gloucester Special Dividend to the Gloucester Shareholders registered as such on the Capital Reduction Record Date as soon as reasonably practical

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

after that date and provided the Capital Reduction Resolution is approved and Gloucester makes to ASX the announcement contemplated by clauses 3.2 and 4.5, and subject to those two matters, effect the Capital Reduction and take the steps referred to in clause 4.5 to establish the Trust Deed, appoint the Trustee and issue the Promissory Note to the Trustee so that the Capital Reduction Amount is paid to the Gloucester Shareholders registered as such on or as soon as reasonably practicable after, the Capital Reduction Record Date.

- (v) **(Regulatory notifications)** In relation to the Regulatory Approvals, lodge with any Regulatory Authority within the relevant time periods all documentation and filings required by law to be so lodged by Gloucester in relation to the Transactions.
- (w) **(Bidder Information)** Without the prior written consent of Bidder, not use the Bidder Information or the Joint Information (to the extent any part of the latter is prepared or contributed solely by Bidder) for any purposes other than those expressly contemplated by the Transaction Documents or the Scheme.
- (x) **(Gloucester Share Plan)** Terminate the Gloucester Share Plan with effect from the Implementation Date.
- (y) **(Compliance with laws)** Do everything reasonably within its power to ensure that the Transactions are effected in accordance with all applicable laws and regulations.
- (z) **(Engagement with major Gloucester Shareholders)** In co-operation with Bidder, consult with major Gloucester Shareholders regarding the Transactions and, from the date (if any) that the Gloucester Board (or a majority of the Gloucester Board) recommends that Gloucester Shareholders vote in favour of the Transaction Resolutions, encourage the public support of the Transactions by major Gloucester Shareholders.
- (aa) **(No denigration)** Gloucester, from the date of this deed until the date the Independent Expert's Report is received, will adopt a neutral view in relation to the Transactions and ensure that Gloucester and its Representatives do not publicly (or otherwise to Third Parties) denigrate the Transactions or Bidder in any way (whether expressly or implied).
- (bb) **(Practical assistance)** Make its officers and employees available for any meetings with Gloucester shareholders which Bidder may seek, and permit Bidder to accompany them at such meetings and take such other steps as Bidder may require to facilitate an explanation by Bidder of the merits of the Transactions.
- (cc) **(Presentation of information to the Independent Expert)** Allow Bidder such opportunities as it reasonably requests (and equal opportunity with Gloucester) to present to the Independent Expert in relation to its business, to assist the Independent Expert's understanding of those matters, and, to the extent any parts of the Independent Expert's Report are made available for review, provide those to Bidder and convey Bidder's comments to the Independent Expert (and enable Bidder to meet with the Independent Expert), and ensure that the Independent Expert is briefed in a manner which is balanced and fair to Bidder. Gloucester must ensure that Bidder receives equal access with Gloucester in briefing the Independent Expert. Any correspondence with the Independent Expert must be copied to all parties. The foregoing principles will apply equally to any technical specialist appointed to assist the Independent Expert.
- (dd) **(Gloucester tax rulings)** seek any Tax ruling(s) which are reasonable and customary for the Transactions (including the Tax rulings referred to in clause 3.10), consult fully with Bidder in relation to such ruling(s) and/or any other ruling(s) which Gloucester proposes to seek in connection with the Transactions (together the **Rulings**), provide Bidder with advance drafts of any correspondence which Gloucester proposes to send in connection with the

Rulings (and with copies of any correspondence received in relation to the Rulings), adopt any reasonable comments of Bidder on such correspondence, adopt any reasonable comments of Bidder in connection with the process of seeking the Rulings generally, and provide Bidder (or its Representatives) with the reasonable opportunity to attend any meeting conducted with the ATO in regard to the Rulings.

- (ee) **(Assistance with Bidder tax rulings)** provide any assistance reasonably requested by Bidder in connection with any Tax rulings it may seek in connection with the Transactions.

5.2 Bidder' obligations

Bidder must take all necessary steps to facilitate the Scheme as soon as is reasonably practicable and, without limiting the foregoing, must use reasonable endeavours to ensure that each step in the Timetable is met by the date set out beside that step (and must consult with Gloucester on a regular basis about its progress in that regard), including by doing each of the following.

- (a) **(Bidder Information)** Prepare and provide to Gloucester the Bidder Information for inclusion in the Explanatory Booklet to comply with all applicable laws, including the Corporations Act, ASIC Regulatory Guide 60 and the ASX Listing Rules relevant to the Bidder Information and consult with Gloucester as to the content and presentation of the Bidder Information in the Explanatory Booklet, such consultation to include allowing Gloucester a reasonable opportunity to review and make comments on successive drafts of the Bidder Information before lodgement of the Explanatory Booklet with ASIC.
- (b) **(Joint Information)** Promptly contribute to and assist with the preparation of the Joint Information.
- (c) **(Regulatory notifications)** In relation to the Regulatory Approvals, lodge with any Regulatory Authority within the relevant time periods all documentation and filings required by law to be so lodged by Bidder in relation to the Transactions.
- (d) **(Assist Independent Expert)** Promptly provide all assistance and information reasonably requested by the Independent Expert to enable it to prepare the Independent Expert's Report as soon as practicable.
- (e) **(ASX admission and quotation)** Do everything reasonably necessary to ensure that:
- (1) Bidder is admitted to ASX; and
 - (2) all Bidder shares, including the New Bidder Shares and CVR Shares, are approved for official quotation on ASX and that trading in the New Bidder Shares and CVR Shares commences by the first Business Day after the Implementation Date.
- (f) **(Review drafts of Explanatory Booklet)** As soon as practicable after delivery, review drafts of the Explanatory Booklet prepared by Gloucester and provide any comments on those drafts, with this review to incorporate a review of any parts of the Independent Expert's Report that have been supplied for review.
- (g) **(Confirmation of Bidder Information)** Before the Explanatory Booklet is provided to ASIC pursuant to section 411(2) of the Corporations Act, either:
- (1) confirm in writing to Gloucester that the Bidder Information in the form and context in which it appears in the Explanatory Booklet is not misleading or deceptive in any material respect and does not contain any material omission; or
 - (2) provide to Gloucester the changes required to ensure that the Bidder Information in the form and context in which it appears in the

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Explanatory Booklet is not misleading or deceptive in any material respect and does not contain any material omission.

- (h) **(Deed Poll)** Before the First Court Date, enter into and procure Bidder Sub to enter into the Deed Poll and deliver it to Gloucester. If the Scheme becomes Effective, discharge its obligations under and in accordance with the Deed Poll.
- (i) **(Court representation)** If requested by Gloucester or if Bidder acting reasonably considers it necessary or appropriate, procure that it is represented by counsel at the Court hearings convened for the purpose of sections 411(1) and 411(4)(b) of the Corporations Act, at which, through its counsel or solicitors, Bidder will undertake (if requested by the Court) to do all such things and take all such steps within its power as may be reasonably necessary in order to ensure the fulfilment of its obligations under this deed, the Scheme and the Deed Poll.
- (j) **(Cancellation of Gloucester Options)** Promptly enter, and procure Bidder Sub to promptly enter, any written agreement arranged by Gloucester pursuant to clause 4.6(a) in the form agreed between Gloucester and Bidder (which will be conditional on the Scheme becoming Effective and on all holders of Gloucester Options entering into equivalent deeds before the Second Court Date).
- (k) **(Gloucester Information)** Without the prior written consent of Gloucester, not use Gloucester Information or the Joint Information (to the extent any part of the latter is prepared or contributed solely by Gloucester) for any purposes other than those expressly contemplated by this deed or the Scheme.
- (l) **(Scheme Consideration)** If the Scheme becomes Effective, provide the Scheme Consideration in the manner and amount contemplated by clause 4.2 on the Implementation Date and apply for the Bidder Shares and CVR Shares issued to Scheme Shareholders to be officially quoted on ASX.
- (m) **(Compliance with laws)** Do everything reasonably within its power to ensure that the Transactions are effected in accordance with all applicable laws and regulations.
- (n) **(No denigration)** From the date of this deed until the date the Independent Expert's Report is received, Bidder will ensure that Bidder and its Representatives do not publicly (or otherwise to Third Parties) denigrate the Transactions or Gloucester in any way (whether expressly or implied).
- (o) **(Assistance with Gloucester tax rulings)** Provide any assistance reasonably requested by Gloucester in connection with the tax ruling(s) referred to in clause 3.10.
- (p) **(Bidder Finance Debt)** prior to the date a draft of the Explanatory Booklet is given to ASIC in accordance with section 411(2) of the Corporations Act, update Gloucester and the Independent Expert on the status of the Bidder's progress in obtaining an additional \$1 billion of Finance Debt for the Bidder Group for it to utilise as and when required for its business expansion after the Implementation Date, and use all reasonable endeavours to ensure that this additional Finance Debt is available as and when required for its business expansion after the Implementation Date.

5.3 Yanzhou's obligations

Yanzhou must take all necessary steps to facilitate the Scheme as soon as is reasonably practicable and, without limiting the foregoing, must use reasonable endeavours to ensure that each step in the Timetable is met by the date set out beside that step (and must consult with Gloucester on a regular basis about its progress in that regard), including by doing each of the following.

- (a) **(assist Bidder)** Take all reasonable steps within its control to assist Bidder in discharging its obligations under this deed.
- (b) **(prepare shareholder disclosure document)** Prepare a disclosure document for its shareholders in relation to the Transactions in accordance with all applicable requirements of the securities exchanges and the Regulatory Authorities where the securities of Yanzhou are listed.
- (c) **(consult with Gloucester)** Consult with Gloucester as to the content and presentation of the shareholder disclosure document referred to in clause 5.3(b), such consultation to include allowing Gloucester a reasonable opportunity to review and make comments on drafts of that document, consider in good faith, for the purpose of amending those drafts, comments from Gloucester and its Representatives on those drafts.
- (d) **(convene shareholder meeting)** Despatch the disclosure document referred to in clause 5.3(b) to Yanzhou shareholders and convene and hold a meeting of Yanzhou shareholders in accordance with all applicable requirements of the securities exchanges and the Regulatory Authorities where the securities of Yanzhou are listed.
- (e) **(Shareholder support)** Promote to Yanzhou shareholders the merits of the Transactions, including soliciting proxy votes in favour of the Transaction Resolutions.
- (f) **(Proxy reports)** Cause the Yanzhou share registry to report to Yanzhou and Gloucester on the status of proxy forms received for the Yanzhou shareholder meeting, at 15 Business Days before that meeting, at each subsequent Business Day up to the deadline for receipt of proxy forms and at such deadline, and provide such other information as Yanzhou may receive concerning the voting intentions of Yanzhou shareholders to Gloucester.
- (g) **(Capital to redeem Enforcement Share and CVR Shares)** Promptly subscribe for Bidder Shares to provide Bidder with sufficient capital to enable Bidder to redeem the Enforcement Share and the CVR Shares in full, as and when required by the respective terms of issue of those shares.
- (h) **(No denigration)** From the date of this deed until the date the Independent Expert's Report is received, Yanzhou and its Representatives do not publicly (or otherwise to Third Parties) denigrate the Transactions or Gloucester in any way (whether expressly or implied).
- (i) **(Compliance with laws)** Do everything reasonably within its power to ensure that the Transactions are effected in accordance with all applicable laws and regulations.
- (j) **(Bidder Share Split)** Prior to 8.00am on the Second Court Date, pass a resolution under section 254H of the Corporations Act with effect on and from the Scheme Record Date converting all of the shares in Bidder into the larger number of shares equal to the number derived by the following formula:

$$\text{Number of shares} = \left[\frac{1}{1 - \text{ARV}} \right] \times (\text{NOGS} + \text{NONGS} + \text{NOGOS}) - (\text{NOGS} + \text{NONGS} + \text{NOGOS}),$$
 where:
ARV means the agreed Relative Value (as defined in clause 3.9) of Bidder after the conclusion of the operation of clause 3.9, expressed as a fraction of one;
NOGS means the number of Gloucester Shares as at the date of this deed; and
NONGS means the number of Converting Shares plus the number of Additional Shares to be Provided under the Terms of Issue amended as provided in this deed.

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NOGOS means the number of Gloucester Shares issued up to and including the Scheme Record Date as a result of exercise of Gloucester Options.

* Rounded down to the nearest whole number of Gloucester Shares

5.4 Explanatory Booklet – preparation principles

- (a) As soon as reasonably practicable after the date of this deed and substantially in accordance with the Timetable, Gloucester must prepare the Explanatory Booklet in compliance with:
- (1) all applicable laws, in particular with the Corporations Act, RG 60 and the Listing Rules; and
 - (2) this clause 5.4.
- (b) The Explanatory Booklet will include:
- (1) the terms of the Scheme;
 - (2) the notice of Scheme Meeting, the notice of General Meeting and any other notice of meeting in respect of any resolution that is necessary, expedient or incidental to give effect to the Scheme, together with proxy forms for the Scheme Meeting and the General Meeting;
 - (3) the Gloucester Information;
 - (4) the Bidder Information;
 - (5) the Joint Information;
 - (6) a copy of this deed (without the schedules or annexures) or a summary of it;
 - (7) a copy of the executed Deed Poll;
 - (8) a copy of the Independent's Expert Report; and
 - (9) a form allowing Gloucester Shareholders to make an election in respect of the form of their Scheme Consideration.
- (c) The Explanatory Booklet must include a statement that:
- (1) other than the Bidder Information and the Independent Expert's Report, the Explanatory Booklet has been prepared by Gloucester and is the responsibility of Gloucester, and that no Bidder Party assumes any responsibility for the accuracy or completeness of the Explanatory Booklet (other than the Bidder Information and the Joint Information);
 - (2) the Bidder Information has been provided by Bidder and is the responsibility of Bidder, and that no Gloucester Party assumes any responsibility for the accuracy or completeness of the Bidder Information; and
 - (3) the Joint Information has been provided by Bidder and Gloucester and is their joint responsibility.
- (d) The Explanatory Booklet must include information on the Gloucester Directors' recommendations in connection with the Scheme in compliance with paragraph 8301 of Schedule 8 to the Corporations Regulations. For the avoidance of doubt, if the Independent Expert concludes that the Scheme is in the best interest of Gloucester Shareholders, Gloucester must seek approval of the Transaction Resolutions by Gloucester Shareholders and the Court's approval of the Scheme even if the Gloucester Board (or a majority of the Gloucester Board) does not recommend the Shareholders vote in favour of the Transaction Resolutions.

- (e) Gloucester must make available to Bidder drafts of the Explanatory Booklet (including any part of the draft of the Independent Expert's Report that has been made available to Gloucester), consult with Bidder in relation to the content of those drafts, and consider in good faith, for the purpose of amending those drafts, comments from Bidder on those drafts, such consultation to include allowing Bidder a reasonable opportunity to review and make comments on successive drafts of the Gloucester Information before lodgement of the Explanatory Booklet with ASIC. Bidder acknowledges and agrees that Gloucester has ultimate discretion with respect to the preparation, form and content of the Explanatory Booklet, other than as expressly provided in this deed with respect to the Bidder Information.
- (f) Gloucester must seek approval from Bidder for the form and context in which the Bidder Information appears in the Explanatory Booklet, which approval Bidder must not unreasonably withhold or delay, and Gloucester must not lodge the Explanatory Booklet with ASIC until such approval is obtained from Bidder.
- (g) Gloucester must take all reasonable steps to ensure that the Explanatory Booklet (other than the Bidder Information) is not misleading or deceptive in any material respect (whether by omission or otherwise) as at the date it is despatched to Gloucester Shareholders.
- (h) Bidder must take all reasonable steps to ensure that the Bidder Information is not misleading or deceptive in any material respect (whether by omission or otherwise) as at the date on which the Explanatory Booklet is despatched to Gloucester Shareholders.
- (i) Gloucester must provide to Bidder all such further or new information of which Gloucester becomes aware that arises after the Explanatory Booklet has been despatched until the date of the Scheme Meeting where this is or may be necessary to ensure that the Explanatory Booklet continues to comply with the Corporations Act, RG 60 and the Listing Rules.
- (j) Bidder must provide to Gloucester all such further or new information of which Bidder becomes aware that arises after the Explanatory Booklet has been despatched until the date of the Scheme Meeting where this is or may be necessary to ensure that the Bidder Information continues to comply with the Corporations Act, RG 60 and the Listing Rules.
- (k) Gloucester and Bidder each agree that the efficient preparation of the Explanatory Booklet and the implementation of the Scheme are in the interests of Gloucester Shareholders and Bidder and that they will use all reasonable endeavours and utilise all necessary resources (including management resources and the resources of external advisers) to comply with their respective obligations under this clause 5.4 and to implement the Scheme as soon as reasonably practicable and substantially in accordance with the Timetable.

5.5 Conduct of Gloucester business

- (a) Subject to clause 5.7, from the date of this deed up until and including the Implementation Date, Gloucester must ensure that Gloucester and the other members of the Gloucester Group:
 - (1) conduct their businesses in the ordinary course and substantially (subject to any applicable laws, regulations and Regulatory Approvals) in the manner in which each such business and operation has been conducted in the period before the date of this deed and in compliance in all material respects with all applicable laws, regulations and Regulatory Approvals;
 - (2) make all reasonable efforts to:

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- (A) keep available the services of their officers and employees;
and
 - (B) preserve their relationships with Regulatory Authorities, ratings agencies, customers, suppliers, landlords, trade unions, licensors, licensees and others with whom they have business dealings;
 - (3) not enter any lines of business or other activities in which members of the Gloucester Group are not engaged at the date of this deed;
 - (4) respond to any reasonable request from Bidder and its Representatives (including in response to requests for information from stock exchanges and Regulatory Authorities) for information concerning the Gloucester Group and its business and operations;
and
 - (5) provide Bidder and its Representatives reasonable access to officers and employees, offices and other facilities, and books and records of members of the Gloucester Group, and otherwise provide reasonable co-operation to Bidder and its Representatives, for the purpose of doing all things necessary or desirable under this deed or in connection with the Transactions (including compliance with any regulatory or stock exchange reporting requirements), any financing undertaken by Bidder in connection with the Transactions and any plans for the integration of the Gloucester Group into the Bidder Group following the Implementation Date.
- (b) From the date of this deed up until and including the Implementation Date, Gloucester must:
- (1) keep Bidder informed of all material developments in relation to any Tax Audit which is instituted or on foot during that period, including any material matters raised by, or material arrangements proposed by, or to, the ATO, and keep Bidder informed of any other material correspondence, developments or audit involving the ATO or any other Commonwealth, State or Territory revenue office or authority;
 - (2) consult with Bidder, in advance, in relation to all material communications with the ATO in relation to any such Tax Audit;
 - (3) provide Bidder with copies of all documents received from the ATO in relation to any such Tax Audit; and
 - (4) provide Bidder with a copy of all documents to be supplied to the ATO under any such Tax Audit, and prior to submitting each such document:
 - (A) allow Bidder and its Representatives a reasonable opportunity to review and comment on them, provided that any comments are received as soon as reasonably practicable and no later than 2 Business Days after provision to Bidder of the draft documents; and
 - (B) consider in good faith any comments notified to it by Bidder or its Representatives following the review of such documents by them.
- (c) Nothing in this clause 5.5 requires Gloucester to provide Bidder with any information:
- (1) in breach of an obligation of confidentiality to any person;
 - (2) of a commercially sensitive nature, except under clause 5.5(b)5.5(a);
or

- (3) concerning the consideration of the Transactions by the Gloucester Board or Gloucester management,
- or to provide access or co-operation to the extent it would result in a disruption to any material aspects of the Gloucester Group's businesses and operations.

5.6 Conduct of Bidder business

- (a) Subject to clause 5.7, from the date of this deed up until and including the Implementation Date, Bidder must ensure that Bidder and the Bidder Group:
- (1) conduct their businesses in the ordinary course and substantially (subject to any applicable laws, regulations and Regulatory Approvals) in the manner in which each such business and operation has been conducted in the period before the date of this deed and in compliance in all material respects with all applicable laws, regulations and Regulatory Approvals;
 - (2) make all reasonable efforts to:
 - (A) keep available the services of their officers and employees; and
 - (B) preserve their relationships with Regulatory Authorities, ratings agencies, customers, suppliers, landlords, trade unions, licensors, licensees and others with whom they have business dealings;
 - (3) not enter any lines of business or other activities in which members of the Bidder Group are not engaged at the date of this deed;
 - (4) respond to any reasonable request from Gloucester and its Representatives (including in response to requests for information from stock exchanges and Regulatory Authorities) for information concerning the Bidder Group and its business and operations; and
 - (5) provide Gloucester and its Representatives reasonable access to officers and employees, offices and other facilities, and books and records of members of the Bidder Group, and otherwise provide reasonable co-operation to Gloucester and its Representatives, for the purpose of doing all things necessary or desirable under this deed or in connection with the Transactions (including compliance with any regulatory or stock exchange reporting requirements), and any plans for the integration of the Gloucester Group into the Bidder Group following the Implementation Date.
- (b) Nothing in this clause 5.6 requires Bidder to provide Gloucester with any information:
- (1) in breach of an obligation of confidentiality to any person;
 - (2) of a commercially sensitive nature, except under clause 5.6(a); or
 - (3) concerning the consideration of the Transactions by the Bidder board or Bidder management,
- or to provide access or co-operation to the extent it would result in a disruption to any material aspects of the Bidder Group's businesses and operations.

5.7 Permitted activities

- (a) The obligations of Gloucester or Bidder under clauses 5.5 and 5.6 respectively, do not apply in respect of any matter:

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- (1) undertaken by a member of the Gloucester Group or Bidder Group, as the case may be, in conducting its businesses in the usual and ordinary course and consistent with past practice;
 - (2) required to be done or procured by Gloucester or Bidder, as the case may be, pursuant to, or which is otherwise contemplated by, this deed or another Transaction Document, the Special Dividend, the Capital Reduction or the Scheme;
 - (3) subject to clause 5.7(b), Fairly Disclosed:
 - (A) in the case of Gloucester, either in the Gloucester Due Diligence Material on or before 9 December 2011 or in the Gloucester Disclosure Letter; and
 - (B) in the case of Bidder, either in the Bidder Due Diligence Material on or before 9 December 2011 or in the Bidder Disclosure Letter,as being actions that the Gloucester Group or the Bidder Group, as the case may be, may carry out between the date of this deed and the Implementation Date; or
 - (4) the undertaking of which:
 - (A) in the case of Gloucester, Bidder; and
 - (B) in the case of Bidder, Gloucesterhas approved in writing (which approval must not be unreasonably withheld or delayed).
- (b) Gloucester and Bidder must, in respect of any matter referred to in clause 5.7(a)(3) above that it proposes to undertake:
- (1) if the Gloucester Due Diligence Material, Gloucester Disclosure Letter, Bidder Due Diligence Material or Bidder Disclosure Letter, as the case may be, permits the carrying out of the action only in accordance with certain conditions, ensure those conditions are met;
 - (2) not undertake that matter (or commit to undertake that matter) without first consulting with:
 - (A) in the case of Gloucester, Bidder; and
 - (B) in the case of Bidder, Gloucester;
 - (3) promptly provide Bidder or Gloucester, as the case may be, with any information regarding the matter reasonably requested by the other party.
 - (4) For the avoidance of doubt, clause 5.7(b) does not operate to provide Bidder or Gloucester, as the case may be, with a veto right in respect of any matter referred to in clause 5.7(a)(3).

5.8 Intention of Gloucester Board to recommend

If:

- (a) the Independent Expert concludes that the Scheme is in the best interest of Gloucester Shareholders;
- (b)
- (c) there is no Superior Proposal; and
- (d) the Gloucester Board determines that doing so would not be likely to constitute a breach of the Gloucester Board's fiduciary or statutory duties,

the Gloucester Board intends to recommend (including in the Explanatory Booklet) that Gloucester Shareholders vote in favour of the Transaction Resolutions.

Such recommendation may be qualified by as being made:

- (e) in the absence of a Superior Proposal; and
- (f) subject to the Independent Expert continuing to conclude that the Scheme is in the best interest of Gloucester Shareholders or not withdrawing a previous conclusion to this effect.

5.8A Announcement

On the Amendment Date, Gloucester will issue an announcement in the form set out in Attachment 4.

5.9 Integration Committee

- (a) From the date (if any) that the Gloucester Board makes a determination under clause 5.8, the parties agree to form an operational integration committee (**Integration Committee**) to facilitate and plan for the Transactions and integration of the businesses of the Gloucester Group with the businesses of Bidder Group following the Implementation Date. The Integration Committee will comprise members of the management each of Gloucester and Bidder and such other persons as the managing directors may agree from time to time.
- (b) The Integration Committee will meet (in person or by telephone) as and when deemed necessary from the date of this deed until the Scheme is fully implemented.
- (c) The Integration Committee will consider all matters relevant to implementing the Scheme, including the following:
 - (1) the structure and timetable for accomplishing the Scheme;
 - (2) integration planning issues;
 - (3) Bidder's financing arrangements in respect of the Transactions, including any refinancing of existing financial indebtedness of the Gloucester Group;
 - (4) employee share options and superannuation funds;
 - (5) communication strategies, including with ASX, employees, shareholders and other stakeholders of each party and the media; and
 - (6) consultation with appropriate Regulatory Authority in relation to any Regulatory Approvals.
- (d) Without limiting clause 5.9(c), Gloucester must procure that its members of the Implementation Committee provide to Bidder's members of the Implementation Committee all such input and assistance as those members may reasonably require or reasonably request with respect to the development of Bidder's merger integration plan.

5.10 Financing

- (a) Gloucester must provide Bidder, Bidder's Representatives and Bidder's prospective financing sources with reasonable access to members of the Gloucester executive committee and to such other personnel as are reasonably approved by the Gloucester executive committee and, subject to any confidentiality obligations owed to third parties as at the date of this deed, permit Bidder to provide Bidder's prospective financing sources with information which Bidder has obtained from Gloucester under the terms of this deed that is

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

necessary to enter into or consummate the funding of the Scheme Consideration. If information regarding Gloucester cannot be disclosed because of existing confidentiality obligations owed to a Third Party, Gloucester must, if requested in writing by Bidder, use its reasonable endeavours to seek permission from the Third Party to disclose the information to Bidder, Bidder's Representatives and Bidder's prospective financing sources.

- (b) Gloucester must provide such cooperation as may be reasonably requested by Bidder for the purpose of providing the Scheme Consideration, including subject to receipt of reasonable notice and availability beyond duties of their roles in the ordinary or appropriate course of Gloucester Group activities, the Gloucester executive committee participating in such number of meetings, presentations, road shows, and sessions with prospective financing sources, investors and rating agencies as are reasonably necessary for the consummation of such financing.
- (c) The obligations under this clause 5.10 apply only from the date that the condition precedent in clause 3.1(k) is satisfied or waived.

5.11 Separation and Cooperation Agreement

Yancoal and Yanzhou will procure that the Separation Agreement, Management and Transitional Services Agreement, LTCC Licence Agreement, Restructure Agreement are executed on or before 5pm on the Business Day before the Second Court Date.

5.12 [Reserved]

5.13 [Reserved]

5.14 Transfer of Excluded Assets

- (a) Yanzhou must procure that prior to the Effective Date the Excluded Assets are transferred to one or more Related Bodies Corporate of Yanzhou that are not Bidder Group Members for consideration and distribute to Yanzhou so much of

that consideration, or otherwise procure, such that the Bidder Group is in the same economic position as it would have been had the transfer and distribution not given rise to any Tax for the Bidder Group.

- (b) A reference to Tax in this clause includes income tax which would accrue to the Bidder Group as a result of the transfer of the Excluded Assets, calculated assuming that the income year ended on the Implementation Date.
- (c) To the extent that the distribution is a 'frankable distribution' for the purposes of the ITAA 1997 then the Bidder Group may frank the distribution to the extent that the franking would not result in the franking account (or exempting account as the case may be) of Bidder being in a deficit position as at the Implementation Date, assuming:
 - (1) all income tax has been paid by Bidder prior to the Implementation Date in respect of the period up to 31 December 2011 and no income refunds are due in respect of this period; and
 - (2) any income tax resulting from the transfer of the Excluded Assets is paid prior to the Implementation Date, but only to the extent that this tax can be paid in a manner which gives rise to a franking credit prior to the end of the franking year in which the distribution is paid.

6 Actions on and following Implementation Date

6.1 Reconstitution of the board of Bidder

On the Implementation Date, subject to the receipt by Bidder of signed consents to act, Bidder must take all actions necessary (and in accordance with the constitution of Bidder, the Corporations Act and the Listing Rules) to reconstitute the board of Bidder so that it comprises:

- (a) six nominees of Yanzhou; and
- (b) five non-executive independent directors agreed between Gloucester and Yanzhou,

with the Chairman of the Board of directors of Bidder to be one of the nominees of Yanzhou.

6.2 Reconstitution of the board of each member of the Gloucester Group

- (a) On the Implementation Date, but subject to the Scheme Consideration having been provided in full to Scheme Shareholders and receipt by Gloucester of signed consents to act, Gloucester must take all actions necessary (and in accordance with the constitution of the Gloucester Group member, the Corporations Act and the Listing Rules) to reconstitute the Gloucester Board and the Board of each Subsidiary in accordance with the directions of Yanzhou.
- (b) Without limiting clause 6.2(a), on the Implementation Date, subject to receipt by Gloucester of written notices of resignation to the effect that the outgoing directors have no claim outstanding against any member of the Gloucester Group, Gloucester must procure that:
 - (1) all outgoing Gloucester Directors resign from the Gloucester Board; and
 - (2) all outgoing directors of each Subsidiary of Gloucester resigns from their office.

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

6.3 Right of first refusal – ROFR Assets

- (a) Yanzhou must procure that, before Yanzhou or a related body corporate of Yanzhou which is not a Bidder Group Member (in this clause 6.3 **Yanzhou Entity**) Disposes of any ROFR Asset after the Implementation Date, that entity first offers the relevant ROFR Asset in writing to Bidder. Following such a notice, Bidder may accept the offer at any time up to a day 25 Business Days from the date of the initial notice. Each individual ROFR Asset for which Yanzhou or a Yanzhou Entity proposes to Dispose must be subject to a separate offer made to Bidder in respect of only that ROFR Asset and any such offer:
- (1) must specify the relevant ROFR Asset to which the offer relates;
 - (2) must specify the price (which must be a cash price) sought for the relevant ROFR Asset; and
 - (3) must provide for Bidder to have a reasonable opportunity (and in any event not less than 40 Business Days) to undertake due diligence investigations in respect of the relevant ROFR Asset and in accordance with clause 6.3(c);
 - (4) must be in a form capable of acceptance by Bidder such that if so accepted by Bidder, a binding contract for the sale and purchase of the relevant ROFR Asset is immediately formed, subject to the satisfaction of any conditions of the kind referred to in clause 6.3(a)(5);
 - (5) may be accepted by Bidder subject to Bidder obtaining all consents and approvals required in order to acquire the relevant ROFR Asset, including under the FATA or from any Regulatory Authority; and
 - (6) must specify any other terms or conditions relevant to the proposed Disposal.
- (b) Following such a notice, Bidder may accept the offer at any time up to a day 60 Business Days from the date of the offer, subject to the satisfaction of any conditions of the kind referred to in clause 6.3(a)(5).
- (c) In respect of the due diligence investigations in relation to each relevant ROFR Asset the subject of an offer under clause 6.3(a), Yanzhou must procure that Bidder and its representatives and advisers are provided with all relevant documents and other information that are material for an intending prudent purchaser of each such ROFR Asset.
- (d) If Bidder accepts an offer under clause 6.3(a), Yanzhou must procure that Yanzhou or a Yanzhou Entity (as applicable) must complete the sale and purchase of the relevant ROFR Asset in accordance with the terms of the offer.
- (e) If Bidder does not elect to purchase a particular ROFR Asset that is offered to it pursuant to this clause 6.3 Yanzhou or the relevant Yanzhou Entity may Dispose of that particular ROFR Asset to a Third Party within 6 months of the offer under clause 6.3(a) and on terms no less more favourable (taken as a whole) than were offered to Bidder under that clause.

6.4 Dividend policy

- (a) From the Implementation Date, Yanzhou and Bidder must procure that the Bidder Board adopt a distribution policy that subject to applicable laws and the statutory and common law duties of the Bidder Directors that:

- (1) subject to clause 6.4(a)(2), not less than 40% of net profit after tax (pre-abnormal items) be distributed to Bidder Shareholders in each financial year; and
 - (2) if the Bidder Board determines that it is necessary in order to prudently manage Bidder's financial position, not less than 25% of net profit after tax (pre-abnormal items) be distributed to Bidder Shareholders in any given financial year.
- (b) Following Completion, Yanzhou and Bidder must procure that the constitution of Bidder is amended to incorporate the dividend policy set out in clause 6.4(a).

7 Representations and Warranties

7.1 Bidder Representations and Warranties

- (a) Bidder represents and warrants to Gloucester (in its own right and separately as trustee or nominee for each of the other Gloucester Parties) that each Bidder Representation and Warranty is true and correct.
- (b) Each Bidder Representation and Warranty is subject to matters required or permitted to be done by this deed or another Transaction Document and matters:
 - (1) Fairly Disclosed in the Bidder Disclosure Letter;
 - (2) Fairly Disclosed on or before 9 December 2011 in the Bidder Due Diligence Materials; or
 - (3) Fairly Disclosed in announcements issued by Yanzhou on any of the securities exchanges where its securities are listed up to and including the day before the date of this deed.

7.2 Gloucester Representations and Warranties

- (a) Gloucester represents and warrants to Bidder (in its own right and separately as trustee or nominee for each of the other Bidder Parties) that each Gloucester Representation and Warranty is true and correct.
- (b) Each Gloucester Representation and Warranty is subject to matters required or permitted to be done by this deed or another Transaction Document and matters:
 - (1) Fairly Disclosed in the Gloucester Disclosure Letter;
 - (2) Fairly Disclosed on or before 9 December 2011 in the Gloucester Due Diligence Materials; or
 - (3) Fairly Disclosed in announcements issued by Gloucester on ASX up to and including the day before the date of this deed.

7.3 Timing of representations and warranties

Unless expressed to be given at a particular time (in which case it is given at that time), each Bidder Representation and Warranty and each Gloucester Representation and Warranty is given:

- (a) at the date of this deed; and
- (b) at all times up until 8am on the Second Court Date.

7.4 Survival of representations

Each Bidder Representation and Warranty and Gloucester Representation and Warranty:

- (a) is severable; and
- (b) survives the termination of this deed (but does not survive, and will be taken to have no further force or effect following implementation of the Scheme).

8 Releases

8.1 Gloucester Parties

- (a) Without limiting Bidder's rights under clause 13, Bidder and Yanzhou (both for themselves and as agent of every member of the Bidder Group) jointly and severally release all rights against, and jointly and severally agree with Gloucester that neither of them will make a Claim against, any Gloucester Party (other than Gloucester) in connection with:
 - (1) Gloucester's execution or delivery of this deed or any other Transaction Document to which it is a party;
 - (2) any breach of any representation, covenant and warranty of Gloucester in this deed;
 - (3) the implementation of the Scheme; or
 - (4) any disclosure made by any Gloucester Party including in the Gloucester Due Diligence Material, the Updated Gloucester Due Diligence Material or the Gloucester Disclosure Letter that contains any statement which is false or misleading whether in content or by omission,except to the extent the relevant Gloucester Party has not acted in good faith or has engaged in wilful misconduct.
- (b) This clause is subject to any Corporations Act restriction and will (if and to the extent required) be read down accordingly. Gloucester receives and holds the benefit of this clause as trustee for each other Gloucester Party.

8.2 Bidder Parties

- (a) Without limiting Gloucester's rights under clause 13, Gloucester releases its rights against, and agrees with Bidder that it will not make a Claim against, any Bidder Party (other than Bidder) in connection with:
 - (1) Bidder's execution or delivery of this deed or any other Transaction Document to which it is a party;
 - (2) any breach of any representation, covenant and warranty of Bidder in this deed;
 - (3) the implementation of the Scheme; or
 - (4) any disclosure made by any Bidder Party including in the Bidder Due Diligence Material, the Updated Bidder Due Diligence Material or the Bidder Disclosure Letter that contains any statement which is false or misleading whether in content or by omission,except to the extent that the relevant Bidder Party has not acted in good faith or has engaged in wilful misconduct.

- (b) This clause is subject to any Corporations Act restriction and will (if and to the extent required) be read down accordingly. Bidder receives and holds the benefit of this clause as trustee for each other Bidder Party.

8.3 Directors' and officers' insurance

Bidder acknowledges that Gloucester will:

- (a) prior to the Effective Date, arrange for the cover currently provided under its directors' and officers' insurance policy which expires on 30 June 2012 (**Policy**) to be extended for a further period of 12 months; and
- (b) by no later than the Implementation Date, to the extent practicable at normal commercial rates, arrange for the cover provided under the Policy to be amended so as to provide run off cover in accordance with the terms of the Policy for a 7 year period from the end of the term of the Policy, and pay all premiums required so as to ensure that insurance cover is provided under the Policy on those terms until that date.

8.4 Obligations in relation to directors' and officers' insurance

From the Implementation Date, Gloucester must not:

- (a) vary or cancel the Policy; or
- (b) unless required under the Policy, commit any act or omission that may prejudice any claim by a director or officer of Gloucester under the Policy as extended pursuant to clause 8.3(b) above.

Nothing in clause 8.3 or clause 8.4 shall require Bidder or Gloucester to incur any additional premium after the Implementation Date or require Gloucester to not fulfil its contractual obligations under the Policy.

9 Public Announcements

9.1 Announcement of the Transactions

Immediately after the execution of this deed, the parties must issue public announcements in a form agreed by them prior to such execution (which forms will be consistent).

9.2 Other public announcements

Subject to clause 9.3, prior to making any public announcement or disclosure of or in relation to the Transactions or any other transaction the subject of this deed or the Scheme each party must use its reasonable endeavours to consult with the other party as to, and seek to agree with the other party (each party acting reasonably and in good faith), the timing, form and content of that announcement or disclosure. Subject to any applicable law or rules of a relevant stock exchange, the parties agree to make all public announcements in relation to the Transactions outside the trading hours of ASX, the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

9.3 Required announcement

Where a party is required by applicable law, the ASX Listing Rules or any other applicable stock exchange regulation to make any announcement or to make any disclosure in connection with the Transactions or any other transaction the subject of this

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

deed or the Scheme, it may do so but must use reasonable endeavours, to the extent practicable and lawful, to consult with the other party before making the relevant disclosure and must give the other party as much notice as reasonably practical.

9.4 Statements on termination

The parties must act in good faith and use all reasonable endeavours to issue agreed statements in respect of any termination of this deed and, to that end but without limitation, clauses 9.2 and 9.3 apply to any such statements or disclosures.

10 Gloucester Exclusivity

10.1 Termination of existing discussions

Gloucester warrants that, as at the time of execution of this deed, it is not, and must ensure that none of its Representatives are, in any negotiations or discussions, and that it has, and its Representatives are, ceased any existing negotiations or discussions, in respect of any Competing Proposal (or which may reasonably be expected to lead to a Competing Proposal) with any person.

10.2 No shop restriction

During the Exclusivity Period, except with the prior written consent of Bidder, Gloucester must not, and must ensure that none of its Representatives or agents, directly or indirectly solicit, invite, encourage or initiate any Competing Proposal or any enquiries, negotiations or discussions with any Third Party in relation to, or that may reasonably be expected to lead to, a Competing Proposal, or communicate any intention to do any of those things.

10.3 No talk restriction

During the Exclusivity Period, Gloucester must not, and must ensure that none of its Representatives or agents, (whether directly or indirectly) enter into, continue or participate in negotiations or discussions with, or enter into any agreement or understanding with, any Third Party in relation to, or that may reasonably be expected to lead to, a Competing Proposal, even if:

- (a) the Competing Proposal was not directly or indirectly solicited, invited, encouraged or initiated by Gloucester; or
 - (b) the Competing Proposal has been publicly announced,
- unless:
- (c) the Gloucester Board, acting in good faith, determines (after having taken written advice from its external financial and legal advisers) that, where there is a Competing Proposal, the Competing Proposal is or may reasonably be expected to lead to a Superior Proposal having regard to the steps which the Gloucester Board proposes to take; and
 - (d) the Gloucester Board, acting in good faith, determines (after having taken written advice from its external legal advisers) that failing to respond to that Competing Proposal would be likely to constitute a breach of the Gloucester Board's fiduciary or statutory duties,

but only if that Competing Proposal was not directly or indirectly solicited, invited, encouraged or initiated by Gloucester or any of its Representatives in a manner that would breach its obligations under this clause 10.3 or clauses 10.2 or 10.4.

10.4 No due diligence

Without limiting the general nature of clause 10.3, during the Exclusivity Period Gloucester must not, and must ensure that its Representatives and agents do not, make available to any Third Party, or permit any Third Party, to receive any non-public information relating to any member of the Gloucester Group in connection with such Third Party formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Proposal, unless:

- (a) the Competing Proposal has not been directly or indirectly solicited, invited, encouraged or initiated in breach of this clause or clauses 10.2 or 10.3;
- (b) the Gloucester Board, acting in good faith, determines (after having taken written advice from its external financial and legal advisers) that:
 - (1) the Competing Proposal is or may reasonably be expected to lead to a Superior Proposal having regard to the steps which the Gloucester Board proposes to take; and
 - (2) failing to provide any non-public information to a Third Party would be likely to constitute a breach of the Gloucester Board's fiduciary or statutory duties; and
- (c) if Gloucester proposes that any non-public information be provided to a Third Party, before Gloucester provides such information, the Third Party has entered into a written agreement in favour of Gloucester regarding the use and disclosure of the confidential information and that restricts the Third Party's ability to solicit the employees of any member of the Gloucester Group and that information has also been provided to Bidder.

10.5 Notification by Gloucester

- (a) Subject to paragraph (b) and to clause 10.7, during the Exclusivity Period, Gloucester must promptly notify Bidder if:
 - (1) Gloucester is approached, directly or indirectly, by any Third Party to take any action of a kind referred to in clauses 10.3 or 10.4; or
 - (2) Gloucester proposes to take any action of a kind referred to in clauses 10.3 or 10.4 (for the avoidance of doubt, such notice being given before the taking of the relevant action).
- (b) Paragraph (a) does not oblige Gloucester to provide any details of any approach or proposal from a Third Party, including the identity of the relevant Third Party or the term and conditions of the approach or proposal.

10.6 Response to Competing Proposal

- (a) Subject to clause 10.7, Gloucester must not, and must procure that its Representatives do not enter into any legally binding agreement, arrangement or understanding to give effect to or implement a Competing Proposal unless Gloucester has provided Bidder with full details of the Competing Proposal, including, without limitation, the identity of the relevant Third Party, and at least 5 Business Days to match the terms of the Competing Proposal. Gloucester's obligations under this clause 10.6 apply in respect of each new Competing Proposal and any material variation or amendment to a Competing Proposal.
- (b) Subject to clause 10.7, if the Gloucester Board determines that Bidder matches or exceeds the terms of a Competing Proposal (**Bidder Counter Proposal**), then Gloucester and Bidder and each of their respective Representatives must use their best endeavours to agree the amendments to this deed that are reasonably necessary to reflect the Bidder Counter Proposal and to enter into

an amended deed to give effect to those amendments and to implement the Bidder Counter Proposal, and Gloucester must use its best endeavours to procure that the Gloucester Board unanimously recommends the Bidder Counter Proposal to Gloucester's Shareholders and not recommend the applicable Competing Proposal.

10.7 Fiduciary carve out to notification and matching right

Despite anything in clause 10.5 and 10.6, each obligation of Gloucester under those clauses do not apply:

- (a) to the extent it restricts the Gloucester Board from taking or refusing to take any action with respect to a Competing Proposal which is or may reasonably be expected to lead to a Superior Proposal (which was not solicited, initiated, invited or encouraged (whether directly or indirectly) by Gloucester or any of its Representatives in contravention of clause 10.2, 10.3 or 10.4; and
- (b) to the extent that the Gloucester Board determines in good faith and after having taken written advice from its legal advisers that complying with such obligation would be likely to involve a breach of the fiduciary or statutory duties owed by any Gloucester Director.

10.8 Normal provision of information

Nothing in this clause prevents a party or its Representatives or agents from:

- (a) providing information to its Representatives;
- (b) providing information to any Regulatory Authority;
- (c) providing information to its auditors, customers, financiers, joint venturers and suppliers acting in that capacity in the ordinary course of business;
- (d) providing information required to be provided by law, including to satisfy its obligations of disclosure under the ASX Listing Rules or to any Regulatory Authority; or
- (e) making presentations to brokers, portfolio investors, analysts and other third parties in the ordinary course of business.

10.9 Acknowledgement

Each of Gloucester and Bidder has required the other to agree to the obligations set out in this clause in consideration of it proceeding with the Transactions and incurring significant costs in doing so. In the absence of obtaining these obligations from the other party, each of Gloucester and Bidder would not have entered into this deed.

11 Bidder Exclusivity

11.1 Definitions

For the purpose of this clause 11, '**Competing Proposal**' and '**Superior Proposal**' have the meanings in clause 1.1 as if all references to 'Gloucester' were references to 'Bidder', and a '**Representative**' of Yanzhou means each subsidiary of Yanzhou other than members of the Bidder Group (in this clause 11.1 **Yanzhou Entity**), each officer or employee of Yanzhou or of a Yanzhou Entity and each Adviser to Yanzhou or of a Yanzhou Entity.

11.2 Termination of existing discussions

Bidder warrants that, as at the time of execution of this deed, it is not, and must ensure that none of its Representatives are, in any negotiations or discussions, and that they have, and its Representatives have, ceased any existing negotiations or discussions, in respect of any Competing Proposal (or which may reasonably be expected to lead to a Competing Proposal) with any person.

11.3 No shop restriction

During the Exclusivity Period, except with the prior written consent of Gloucester, Bidder must not, and must ensure that none of their Representatives or agents, directly or indirectly solicit, invite, encourage or initiate any Competing Proposal or any enquiries, negotiations or discussions with any Third Party in relation to, or that may reasonably be expected to lead to, a Competing Proposal, or communicate any intention to do any of those things.

11.4 No talk restriction

During the Exclusivity Period, Bidder must not, and must ensure that none of its Representatives or agents, (whether directly or indirectly) enter into, continue or participate in negotiations or discussions with, or enter into any agreement or understanding with, any Third Party in relation to, or that may reasonably be expected to lead to, a Competing Proposal, even if:

- (a) the Competing Proposal was not directly or indirectly solicited, invited, encouraged or initiated by Bidder; or
 - (b) the Competing Proposal has been publicly announced,
- unless:
- (c) the Bidder Board, acting in good faith, determines (after having taken written advice from its external financial and legal advisers) that, where there is a Competing Proposal, the Competing Proposal is or may reasonably be expected to lead to a Superior Proposal having regard to the steps which the Bidder Board proposes to take; and
 - (d) the Bidder Board, acting in good faith, determines (after having taken written advice from its external legal advisers) that failing to respond to that Competing Proposal would be likely to constitute a breach of the Bidder Board's fiduciary or statutory duties,

but only if that Competing Proposal was not directly or indirectly solicited, invited, encouraged or initiated by Yanzhou or Bidder or any of their Representatives in a manner that would breach its obligations under this clause 11.4 or clauses 11.3 or 11.5.

11.5 No due diligence

Without limiting the general nature of clause 11.4, during the Exclusivity Period, Bidder must not, and must ensure that their Representatives and agents do not, make available to any Third Party, or permit any Third Party, to receive any non-public information relating to any member of the Bidder Group in connection with such Third Party formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Proposal, unless:

- (a) the Competing Proposal has not been directly or indirectly solicited, invited, encouraged or initiated in breach of this clause or clauses 11.3 or 11.4;
- (b) the Bidder Board, acting in good faith, determines (after having taken written advice from its external financial and legal advisers) that:

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

- (1) the Competing Proposal is or may reasonably be expected to lead to a Superior Proposal having regard to the steps which the Bidder Board proposes to take; and
- (2) failing to provide any non-public information to a Third Party would be likely to constitute a breach of the Bidder Board's fiduciary or statutory duties; and
- (c) if Bidder proposes that any non-public information be provided to a Third Party, before Bidder provides such information, the Third Party has entered into a written agreement in favour of Bidder regarding the use and disclosure of the confidential information and that restricts the Third Party's ability to solicit the employees of any member of the Bidder Group and that information has also been provided to Gloucester.

11.6 Notification by Yancoal

- (a) Subject to paragraph 11.6(b) and to clause 11.8, during the Exclusivity Period, Bidder must promptly notify Gloucester if:
 - (1) Bidder is approached, directly or indirectly, by any Third Party to take any action of a kind referred to in clauses 11.4 or 11.5; or
 - (2) it proposes to take any action of a kind referred to in clauses 11.4 or 11.5 (for the avoidance of doubt, such notice being given before the taking of the relevant action).
- (b) Paragraph 11.5(a) does not oblige Bidder to provide any details of any approach or proposal from a Third Party, including the identity of the relevant Third Party or the term and conditions of the approach or proposal.

11.7 Response to Competing Proposal

- (a) Subject to clause 11.8, Bidder must not, and must procure that its Representatives do not enter into any legally binding agreement, arrangement or understanding to give effect to or implement a Competing Proposal unless Bidder has provided Gloucester with full details of the Competing Proposal, including, without limitation, the identity of the relevant Third Party, and at least 5 Business Days to match the terms of the Competing Proposal. Bidder's obligations under this clause 11.7 apply in respect of each new Competing Proposal and any material variation or amendment to a Competing Proposal.
- (b) Subject to clause 11.8, if the Bidder Board determines that Gloucester matches or exceeds the terms of a Competing Proposal (**Gloucester Counter Proposal**), then Bidder and Gloucester and each of their respective Representatives must use their best endeavours to agree the amendments to this deed that are reasonably necessary to reflect the Gloucester Counter Proposal and to enter into an amended deed to give effect to those amendments and to implement the Gloucester Counter Proposal, and Bidder must use its best endeavours to procure that the Bidder Board unanimously recommends the Gloucester Counter Proposal to Yanzhou and not recommend the applicable Competing Proposal.

11.8 Fiduciary carve out to notification and matching right

Despite anything in clause 11.6 and 11.7, each obligation of Bidder under those clauses do not apply:

- (a) to the extent it restricts the Bidder Board from taking or refusing to take any action with respect to a Competing Proposal which is or may reasonably be expected to lead to a Superior Proposal (which was not solicited, initiated,

- invited or encouraged (whether directly or indirectly) by Bidder or any of its Representatives in contravention of clauses 11.3, 11.4 or 11.5; and
- (b) to the extent that the Bidder Board determines in good faith and after having taken written advice from its legal advisers that complying with such obligation would be likely to involve a breach of the fiduciary or statutory duties owed by any Bidder Director.

11.9 Normal provision of information

Nothing in this clause prevents a party or its Representatives or agents from:

- (a) providing information to its Representatives;
- (b) providing information to any Regulatory Authority;
- (c) providing information to its auditors, customers, financiers, joint venturers and suppliers acting in that capacity in the ordinary course of business;
- (d) providing information required to be provided by law, including to satisfy its obligations of disclosure under the ASX Listing Rules or to any Regulatory Authority; or
- (e) making presentations to brokers, portfolio investors, analysts and other third parties in the ordinary course of business.

11.10 Bidder not to take public steps toward IPO

- (a) Without limiting the preceding provisions of this clause 11, during the Exclusivity Period, Bidder must not:
- (1) undertake any public marketing activities (including launching an initial public offering and conducting external investor road shows or briefings) in relation to an initial public offering of Bidder (either in its own right or through a vehicle holding substantially all of its assets); or
- (2) enter into any legally binding agreement, arrangement or understanding to give effect to or implement a Competing Proposal that would prevent implementation of the Transactions.
- (b) However, nothing in this clause 11 prevents:
- (1) Bidder or its Representatives from undertaking internal preparations for an initial public offering;
- (2) Bidder or its Representatives from undertaking, soliciting, inviting, encouraging, negotiating, facilitating, preparing for or executing, a transaction that would not be inconsistent with or materially interfere with or materially detract from the commercial efficacy of the Transactions, including for this purpose any cash acquisitions of coal assets, entities or businesses by Bidder or its Representatives; or
- (3) Yanzhou or its Representatives from undertaking, or soliciting, inviting, encouraging, negotiating, facilitating, preparing for or executing, any transaction which does not involve any member of the Bidder Group.

11.11 Acknowledgement

Each of Bidder and Gloucester has required the other to agree to the obligations set out in this clause in consideration of it proceeding with the Transactions and incurring significant costs in doing so. In the absence of obtaining these obligations from the other party, each of Bidder and Gloucester would not have entered into this deed.

APPENDIX 6

MERGER PROPOSAL DEED (CONTINUED)

12 Break Fee

12.1 Background

This clause has been agreed to in circumstances where:

- (a) Each of Bidder and Gloucester believes the implementation of the Scheme has the potential to provide significant benefits to it and its respective shareholders, and acknowledges that, if Bidder enters into this deed and the Scheme is subsequently not implemented, the Bidder will have incurred significant costs, including significant opportunity costs;
- (b) Bidder requested provision be made for the payment outlined in this clause, without which the Bidder would not have entered into this deed;
- (c) Gloucester's board of directors believes that it is appropriate to agree to the payment referred to in this clause to secure the Bidder's entry into this deed; and
- (d) Gloucester has received separate legal advice in relation to this deed and the operation of this clause.

Each of Bidder and Gloucester acknowledge and agree that the costs actually incurred by Bidder under paragraph (a) will be of such nature that they cannot be accurately ascertained, but that the Break Fee is a genuine and reasonable pre-estimate of the cost and loss that would actually be suffered by the other party.

12.2 Payment of Break Fee

Subject to clauses 12.3, 12.6 and 12.7, Gloucester must pay Bidder the Break Fee:

- (a) if:
 - (1) the Independent Expert concludes that the Scheme is in the best interest of Gloucester Shareholders and the Independent Expert has not withdrawn or changed that conclusion;
 - (2) each Merger Ratio Dispute Notice (if any) that has been given under clause 3.9 has been resolved; and
 - (3) there is no Superior Proposal,and the Gloucester Board (or a majority of the Gloucester Board) do not make a public statement recommending that Gloucester Shareholders vote in favour of the Transaction Resolutions within 10 Business Days of those conditions being satisfied, unless they have within those 10 Business Days obtained (and provided to the Bidder, subject to such arrangements for the preservation, to the extent possible, of legal professional privilege, as Gloucester may reasonably require) written advice both from a Queens Counsel or Senior Counsel practising in public company mergers and acquisitions law and from a major Australian law firm that so recommending would be likely to constitute a breach of the Gloucester Board's (or the majority of the Gloucester Board's) fiduciary or statutory duties;
- (b) if at any time after the time that the Gloucester Board (or a majority of the Gloucester Board) makes a public statement recommending that Gloucester Shareholders vote in favour of the Transaction Resolutions but on or before the earlier of the End Date and the time the Court makes, or refuses to make, an order approving the Scheme:
 - (1) the Gloucester Board (or a majority of the Gloucester Board) makes a public statement withdrawing or adversely changing or modifying its or their recommendation that Gloucester Shareholders vote in favour

of the Transaction Resolutions or makes a recommendation or statement that is inconsistent with such recommendation or statement; or

- (2) without limiting the foregoing, the Gloucester Board (or a majority of the Gloucester Board) makes a public statement indicating that they no longer support the Transactions or that they support another transaction (including a Competing Proposal),

but excluding in either case where the reason for the withdrawal, change or modification of recommendation is that:

- (3) the Independent Expert has changed or withdrawn its conclusion that the Scheme is in the best interest of Gloucester Shareholders (unless that change in or withdrawal of the Independent Expert's conclusion is as a result of the existence of a Competing Proposal); or
- (4) Gloucester has exercised a right to terminate this deed under clause 3.8 (as a result of non-satisfaction of a Gloucester Condition or Joint Condition (unless the existence of a Competing Proposal substantially contributed to the failure to satisfy that Gloucester Condition or Joint Condition)), 3.9, 3.10 or 13.1(a) or (e); or
- (c) if at any time before the termination or expiry of this deed, a Competing Proposal of any kind is announced by a Third Party and, within one year of that announcement, the Third Party or an associate of the Third Party completes in all material respects a transaction of the kind referred to in paragraph (a), (b), (c) or (d) of the definition of Competing Proposal. For this purpose, 'completes in all material respects' means that the relevant Competing Proposal is free from any defeating conditions.

12.3 Payment conditions

- (a) Notwithstanding the occurrence of any event under clause 12.2, no amount is payable under the clause if the Scheme becomes Effective.
- (b) Gloucester can only ever be liable to pay the Break Fee once.

12.4 Timing of payment

If the Break Fee is payable under this clause, Gloucester (as applicable) must pay that break fee without set-off or withholding within 5 Business Days of receipt of a tax invoice for payment from the other party.

12.5 Nature of payment

The amount payable by Gloucester to Bidder under clause 12.2 is an amount to compensate Bidder for:

- (a) advisory costs (including costs of Advisers other than success fees);
- (b) costs of management and directors' time;
- (c) out-of-pocket expenses; and
- (d) opportunity costs incurred in pursuing the Transactions or in not pursuing other alternative acquisitions or strategic initiatives which could have been developed to further business and objectives,

incurred by the other party.

12.6 Compliance with law

This clause 12 imposes obligations on Gloucester only to the extent that the performance of all or part of those obligations:

- (a) do not constitute unacceptable circumstances, as declared by the Australian Takeovers Panel;
- (b) do not breach the fiduciary or statutory duties of the Gloucester Board, as determined by a court; and
- (c) are not otherwise held to be unlawful or unenforceable by a court.

If and to the extent any of the above apply, Bidder must reimburse all or part of the Break Fee within five Business Days of receipt of a demand for reimbursement from Gloucester, which demand must be accompanied by reasonable evidence of any of the above applying and the extent to which it applies.

12.7 Other claims

- (a) Despite any other provision of this deed but subject to paragraph (b):
 - (1) if Gloucester becomes liable to pay the Break Fee to Bidder:
 - (A) Gloucester will, upon making payment, have no further Liability for any breach of this deed other than the payment of any interest that may be awarded for late payment of the Break Fee; and
 - (B) the Break Fee will be reduced by any amounts previously paid by Gloucester for any breach of this deed; and
 - (2) subject to paragraph (1), the Liability of Gloucester for any breach of this deed is limited to the payment of an amount equal to the Break Fee and any interest that may be awarded on that amount.
- (b) Nothing in paragraph (a) in any way:
 - (1) prevents a party (in its own right or as trustee for any person contemplated by this deed) from seeking orders from a court of competent jurisdiction for the specific performance by the other party of any obligations under this deed; or
 - (2) extinguishes or limits the Liability of a party for any breach of this deed arising from criminal acts or fraud by the other party or a Representative of the other party.

13 Termination

13.1 General rights

- (a) Bidder or Gloucester may terminate this deed by written notice to the other at any time before 8am on the Second Court Date if:
 - (1) the other has materially breached any provision of this deed including any Gloucester Representation and Warranty or Bidder Representation and Warranty (as applicable);
 - (2) the party wishing to terminate has given written notice to the other in a timely manner setting out the relevant circumstances and stating an intention to terminate this deed; and

- (3) the relevant circumstances continue to exist for ten Business Days from the time the notice of intention to terminate is given (or any shorter period ending at 5pm on the Business Day before the Second Court Date).
- (b) Bidder may terminate this deed by written notice to the other party if the Gloucester Board (or a majority of the Gloucester Board) have not, by no later than the earlier of 31 March 2012 and the date 2 Business Days after the Independent Expert's Report is received by Gloucester, recommended that Gloucester Shareholders vote in favour of the Transaction Resolutions, or if, having made such a recommendation the Gloucester Board (or a majority of the Gloucester Board):
- (1) makes a public statement withdrawing or adversely changing or modifying its or their recommendation that Gloucester Shareholders vote in favour of the Transaction Resolutions or makes a recommendation or statement that is inconsistent with such recommendation or statement; or
 - (2) without limiting the foregoing, makes a public statement indicating that they no longer support the Scheme or that they support another transaction (including, without limitation, a Competing Proposal),
- provided that Bidder may not rely on this termination right if Gloucester asks it, after the termination right becomes available, whether Bidder wishes Gloucester to proceed to convene the Scheme Meeting and to call and arrange to hold the General Meeting, and Bidder requests Gloucester to do so, and following that request the Scheme Meeting has been convened and the General Meeting has been called and arranged to be held.
- (c) Bidder or Gloucester may terminate this deed by written notice to the other in the circumstances set out in, and in accordance with, clauses 3.8, 3.9 or 3.10.
- (d) Bidder may terminate this deed by written notice to Gloucester if Gloucester has breached any provision of clause 10 or permitted any Gloucester Prescribed Occurrence to occur.
- (e) Gloucester may terminate this deed by written notice to Bidder if Bidder has breached any provision of clause 11 or permitted any Bidder Prescribed Occurrence to occur.

13.2 Effect of termination

If this deed is validly terminated by a party in compliance with clauses 3.8, 3.9, 3.10 or 13.1, this deed will be of no force or effect, without any liability or obligation on the part of any party, other than in relation to rights and obligations that accrued before termination and the provisions of this clause and of clauses 1, 7.4, 8, 9, 12.2(b) or (c), 14, 15, 16 and 17, which will remain in force after the termination.

13.3 Termination by written agreement

The parties may terminate this deed by another written agreement between them.

14 Confidentiality

14.1 Confidentiality Obligation

Subject to clause 14.2, the parties acknowledge and agree that:

- (a) they continue to be bound by the Confidentiality Agreement after the date of this deed; and
- (b) the rights and obligations of the parties under the Confidentiality Agreement survive termination of this deed.

14.2 Exceptions to confidentiality

- (a) Nothing in the Confidentiality Agreement restricts any party (the **Recipient**) from disclosing any confidential information of the other party (the **Discloser**) where:
 - (b) that disclosure is required for the purpose of implementing the Transactions or any other transaction the subject of this deed or the Scheme;
 - (c) the disclosure is made, for the purposes of the Bidder's financing in connection with the Transactions, to Bidder's financiers who have agreed to be bound by confidentiality undertakings no less restrictive than those applying to Yanzhou under the relevant Confidentiality Deed, or
 - (d) disclosure of that information would otherwise be permitted under the relevant Confidentiality Deed (whether or not that information is "Confidential Information" within the meaning of the relevant Confidentiality Deed).

15 GST

15.1 Recovery of GST

If GST is payable, or notionally payable, on a supply made under or in connection with this deed, the party providing the consideration for that supply must pay as additional consideration an amount equal to the amount of GST payable, or notionally payable, on that supply (the **GST Amount**). Subject to the prior receipt of a tax invoice, the GST Amount is payable at the same time that the other consideration for the supply is provided. This clause does not apply to the extent that the consideration for the supply is expressly stated to be GST inclusive or the supply is subject to reverse charge.

15.2 Liability net of GST

Where any indemnity, reimbursement or similar payment under this deed is based on any cost, expense or other liability, it may be reduced by any input tax credit entitlement, or notional input tax credit entitlement, in relation to the relevant cost, expense or other liability.

15.3 Adjustment events

If an adjustment event occurs in relation to a supply under or in connection with this deed, the GST Amount will be recalculated to reflect that adjustment and an appropriate payment will be made between the parties and the supplier shall issue an adjustment note to the recipient.

15.4 Survival

This clause will continue to apply after expiration or termination of this deed.

15.5 Definitions

Unless the context requires otherwise, words used in this clause that have a specific meaning in the GST law (as defined in the *A New Tax System (Goods and Services Tax) Act 1999* (Cth)) have the same meaning in this clause.

16 Notices

Any notice, demand, consent or other communication (a **Notice**) given or made under this deed:

- (a) must be in writing and signed by a person duly authorised by the sender;
- (b) must be delivered to the intended recipient by prepaid post (if posted to an address in another country, by registered airmail) or by hand or fax to the address or fax number below or the address or fax number last notified by the intended recipient to the sender with a copy in each case sent to the email address below or the email address last notified by the intended recipient to the sender:

(1) to Bidder: Yancoal Australia Limited
Suite 1105, Level 11
68 York Street
Sydney NSW 2000
Attention: Mr Cunliang Lai
Fax No: +61 2 8243 5388
Email: clai@yancoal.com.au;

with a copy to:

Philippa Stone
Partner
Freehills
MLC Centre
19 Martin Place
Sydney NSW 2000
Australia

Fax no: +61 2 9322 4000

Email: Philippa.Stone@freehills.com

(2) to Yanzhou: Yanzhou Coal Mining Company Limited
No. 298 Fushan South Road
Zoucheng, Shandong
PR China

Attention: Mr Yuxiang Wu

Fax No: +86 (537) 538 2032

Email: wuyx3075@163.com;

with a copy to:

Philippa Stone
Partner
Freehills
MLC Centre

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

Freehills

17 General Provisions

19 Martin Place
Sydney NSW 2000
Australia

Fax no: +61 2 9322 4000

Email: Philippa.Stone@freehills.com

(3) to Gloucester:

Gloucester Coal Ltd
Level 7, 167 Macquarie Street
Sydney NSW 2000
Australia

Attention: Company Secretary

Fax no: +61 2 9220 9999

Email: companysecretary@gcl.com.au

- (c) will be conclusively taken to be duly given or made:
- (1) in the case of delivery in person, when delivered;
 - (2) in the case of delivery by post, two Business Days after the date of posting (if posted to an address in the same country) or seven Business Days after the date of posting (if posted to an address in another country); and
 - (3) in the case of fax, on receipt by the sender of a transmission control report from the despatching machine showing the relevant number of pages and the correct destination fax number or name of recipient and indicating that the transmission has been made without error,
- but if the result is that a Notice would be taken to be given or made on a day that is not a business day in the place to which the Notice is sent or is later than 5pm (local time) it will be taken to have been duly given or made at the start of business on the next business day in that place.

17 General Provisions

17.1 Amendment

- (a) This deed other than clause 8 may be amended only by another deed executed by all the parties.
- (b) Clause 8 may be amended only by another deed executed by all of the parties and the consent of all of the Bidder Parties and all of the Gloucester Parties.

17.2 Assignment

A party cannot assign, charge, encumber or otherwise deal with at law or in equity any of its rights or obligations under this deed, or attempt or purport to do so, without the prior consent of each other party.

17.3 Costs and stamp duty

Each party must each bear their own costs arising out of the negotiation, preparation and execution of this deed. All stamp duty (including fines, penalties and interest) payable on or in connection with this deed and any instrument executed under or any transaction

evidenced by this deed must (subject to the remaining provisions of this clause) be borne by Bidder.

Nothing in clause 5.14 requires Gloucester or the Bidder Group to pay or be responsible for, and Yanzhou indemnifies and will keep indemnified, Gloucester, Bidder and any Bidder Group Member in respect of, any stamp duty (including fines, penalties and interest) which in any way relates to or otherwise arises from:

- (1) the execution of any document, the performance of any obligation or the implementation of any transaction contemplated under clause 5.14; or
- (2) the revocation and/or clawback of any stamp duty exemption or relief (including, but not limited to, any corporate reconstruction, corporate reorganisation or similar relief) where such revocation or clawback in any way relates or otherwise arises from the transfer of any Excluded Asset as contemplated under clause 5.14.

Nothing in this deed requires Bidder or Yanzhou to pay or be responsible for, and Gloucester indemnifies and will keep indemnified, Bidder and Yanzhou and any Bidder Group Member in respect of, any stamp duty (including fines, penalties and interest) which in any way relates to or otherwise arises from:

- (a) anything that pertains to a Gloucester Condition;
- (b) issue and cancellation (or redemption) of the Enforcement Share;
- (c) transfer or cancellation of any Gloucester Options;
- (d) Conversion of the Converting Shares to Gloucester Shares;
- (e) implementation of the Capital Reduction (including the Promissory Note and Trust arrangements) and Special Dividend; or
- (f) termination of Gloucester Share Plan.

17.4 Counterparts

This deed may be executed in any number of counterparts. All counterparts together will be taken to constitute one instrument.

17.5 Entire agreement

This deed and the Confidentiality Agreement contain the entire agreement between the parties with respect to their subject matter. They set out the only conduct relied on by the parties and supersede all earlier conduct and prior agreements and understandings between the parties in connection with their subject matter.

17.6 Further assurances

Each party must do anything necessary (including executing agreements and documents) to give full effect to this deed, the Transaction Documents and the transactions contemplated by those documents.

17.7 Governing law and jurisdiction

This deed is governed by the laws of New South Wales. In relation to it and related non-contractual matters each party irrevocably submits to the non-exclusive jurisdiction of courts with jurisdiction there, and waives any right to object to the venue on any ground.

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

17.8 No merger

The rights and obligations of the parties will not merge on the completion of any transaction contemplated by this deed or the other Transaction Documents. They will survive the execution and delivery of any assignment or other document entered into for the purpose of implementing the Transactions.

17.9 No third party beneficiary

This deed is binding upon and inures solely to the benefit of each party to it and each of their respective permitted successors and assigns, and nothing in this deed, express or implied, is intended to or will confer upon any other person, other than the Bidder Parties and the Gloucester Parties (to the extent set out in clauses 6 and 8), any third party beneficiary rights.

17.10 No waiver

A failure to exercise or a delay in exercising any right, power or remedy under this deed does not operate as a waiver. A single or partial exercise or waiver of the exercise of any right, power or remedy does not preclude any other or further exercise of that or any other right, power or remedy. A waiver is not valid or binding on the party granting that waiver unless made in writing.

17.11 Process agent

Yanzhou:

- (a) irrevocably appoints Bidder as its agent to accept service of process and other documents in any legal action or proceedings arising out of or in any way related to this deed and related non-contractual matters before courts with jurisdiction in New South Wales;
- (b) must ensure that at all times, the agent or a replacement acceptable to Gloucester remains present, authorised and able to accept service of process and other documents on its behalf and, if there is a replacement, it must immediately notify Gloucester and provide it with satisfactory evidence of the replacement's acceptance of its appointment; and
- (c) agrees that service of any process or documents on the agent (or any replacement) will be sufficient service on it.

17.12 Severability of provisions

Any provision of this deed that is prohibited or unenforceable in any jurisdiction is ineffective as to that jurisdiction to the extent of the prohibition or unenforceability. That does not invalidate the remaining provisions of this deed nor affect the validity or enforceability of that provision in any other jurisdiction.

17.13 Waiver of immunity

With respect to any legal action or proceedings arising out of or in any way related to this deed and related non-contractual matters, Bidder irrevocably and unconditionally:

- (a) waives any immunity that it or its assets may have at any time (including from suit, judgment, attachment, execution or other enforcement);
- (b) agrees that it will not raise, rely on or claim any immunity; and

- (c) consents to any relief or any process, including against any property (irrespective of its use or intended use).

APPENDIX 6
MERGER PROPOSAL DEED (CONTINUED)

Freehills

Schedules

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Bidder Representations and Warranties

- 1 Bidder is a validly existing corporation registered under the laws of its place of incorporation.
- 2 The execution and delivery of this deed has been properly authorised by all necessary corporate action and Bidder has full corporate power and lawful authority to execute and deliver this deed and to perform or cause to be performed its obligations under this deed.
- 3 This deed constitutes legal, valid and binding obligations on it and this deed does not result in a breach of or default under any deed or any writ, order or injunction, rule or regulation to which Bidder is a party or is bound.
- 4 As at the date of this deed, there are 76,975,000 Bidder Shares on issue, and Bidder has not issued (and is not required to issue) any other securities or instruments which are still outstanding (or may become outstanding) and which may convert into Bidder securities by way of new issue other than under a dividend reinvestment plan (including pursuant to any underwriting of that plan) or an incentive scheme or option or performance share plans for the benefit of employees and directors only (including any security issued upon conversion, vesting or exercise of rights attaching to any security issued under an incentive scheme, option or performance share plan).
- 5 To the best of Bidder's knowledge, after making due and proper enquiry, all information Bidder has provided to Gloucester or its Representatives as at and from the Disclosure Cut-off Date is not misleading in any material respect (whether by omission or otherwise), including that there are reasonable grounds for all statements as to future matters and a reasonable basis for all statements of opinion in that information.
- 6 After making due and proper enquiry, Bidder is not aware of any material information relating to its businesses that has not been disclosed to Gloucester or its Representatives as at and from the Disclosure Cut-off Date which:
 - (a) is objectively necessary for Gloucester to make an informed decision as to whether to proceed with the Transactions; or
 - (b) might reasonably be expected to cause Gloucester not to proceed with the Transactions at all or to only proceed with the Transactions on materially different terms.
- 7 The Updated Bidder Due Diligence Materials and each disclosure in the Bidder Disclosure Letter have been disclosed in good faith and, so far as the Bidder Board and the senior management of Bidder are aware after due enquiry, Bidder has not knowingly or recklessly:
 - (a) omitted anything from such information such as to make any part of that information materially false or misleading; or
 - (b) included anything materially false or misleading in such information;
- 8 The Bidder Information provided to Gloucester for inclusion in the Explanatory Booklet will:
 - (a) be provided in good faith;

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

Freehills

Schedule 1 Bidder Representations and Warranties

- (b) comply in all material respects with the requirements of the Corporations Act, the Listing Rules and RG 60, including disclosure of all the information that would be required under paragraphs (c), (f), (g), (h), (i), (k), (l) and (m) of section 636(1) of the Corporations Act to be included in a bidder's statement if Bidder were offering the Scheme Consideration as consideration under a takeover bid; and
 - (c) be provided on the understanding that Gloucester will rely on that information for the purposes of preparing the Explanatory Booklet and proposing and implementing the Scheme in accordance with the requirements of the Corporations Act.
- 9 All information provided by or on behalf of Bidder to the Independent Expert to enable the Independent Expert's Report to be included in the Explanatory Booklet to be prepared and completed will be provided in good faith and on the understanding that the Independent Expert will rely upon that information for the purposes of preparing the Independent Expert's Report for inclusion in the Explanatory Booklet.
- 10 As at the date the Explanatory Booklet is despatched to Gloucester Shareholders, the Bidder Information, in the form and context in which that information appears in the version of the Explanatory Booklet registered by ASIC under section 412(6) of the Corporations Act will not be misleading or deceptive in any material respect (whether by omission or otherwise).
- 11 Bidder will, as a continuing obligation, provide to Gloucester all such further or new information which may arise after the Explanatory Booklet has been despatched until the date of the Scheme Meeting which is necessary to ensure that the Bidder Information, in the form and context in which that information appears in the version of the Explanatory Booklet registered by ASIC under section 412(6) of the Corporations Act, is not misleading or deceptive in any material respect (whether by omission or otherwise).
- 12 No Bidder Prescribed Occurrence has occurred.
- 13 There are no restrictions on Bidder issuing New Bidder Shares or CVR Shares to Scheme Shareholders in accordance with the Scheme and there are no restrictions to those New Bidder Shares and CVR Shares being quoted on the financial market conducted by ASX (initially on a deferred settlement basis and thereafter on an ordinary settlement basis), other than receiving permission from ASX to have those Bidder Shares so quoted.
- 14 With effect on the Scheme Record Date, the capital structure of Bidder will be reconstructed consistent with clause 5.3(j) of this deed

Gloucester Representations and Warranties

- 1 Gloucester is a validly existing corporation registered under the laws of its place of incorporation.
- 2 The execution and delivery of this deed by Gloucester has been properly authorised by all necessary corporate action and Gloucester has full corporate power and lawful authority to execute and deliver this deed and to perform or cause to be performed its obligations under this deed.
- 3 This deed constitutes legal, valid and binding obligations on Gloucester and the execution of this deed of itself does not result in a breach of or default under any agreement or deed or any writ, order or injunction, rule or regulation to which Gloucester or any of its Subsidiaries is a party or to which they are bound.
- 4 The Gloucester Information contained in the Explanatory Booklet:
 - (a) will be prepared and included in the Explanatory Booklet in good faith; and
 - (b) will comply in all material respects with the requirements of the Corporations Act, Listing Rules and RG 60;
- 5 As at the date the Explanatory Booklet is despatched to Gloucester Shareholders, the Explanatory Booklet registered by ASIC under section 412(6) of the Corporations Act (excluding the Bidder Information and the Independent Expert's Report) will not be misleading or deceptive in any material respect (whether by omission or otherwise);
- 6 As at the date of this deed and as at and from the Disclosure Cut-off Date, Gloucester is not in breach of its continuous disclosure obligations under the Listing Rules and is not relying on the exclusion in Listing Rule 3.1A to withhold any information from disclosure (other than in relation to the Transactions or as disclosed in writing to Bidder on or before the relevant date) and its public disclosures to ASX (taken as a whole) are not misleading in any material respect (whether by omission or otherwise); and
- 7 No Gloucester Prescribed Occurrence has occurred.
- 8 To the best of Gloucester's knowledge, after making due and proper enquiry, all information Gloucester has provided to Yanzhou, Bidder or their Representatives as at and from the Disclosure Cut-off Date is not misleading in any material respect (whether by omission or otherwise), including that there are reasonable grounds for all statements as to future matters and a reasonable basis for all statements of opinion in that information.
- 9 After making due and proper enquiry, Gloucester is not aware of any material information relating to its businesses that has not been disclosed to Yanzhou, Bidder or their Representatives as at and from the Disclosure Cut-off Date which:
 - (a) is objectively necessary for Yanzhou and Bidder to make an informed decision as to whether to proceed with the Transactions; or

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

Freehills

Schedule 2 Gloucester Representations and Warranties

- (b) might reasonably be expected to cause Yanzhou and Bidder not to proceed with the Transactions at all or to only proceed with the Transactions on materially different terms.
- 10 The Updated Gloucester Due Diligence Materials and each disclosure in the Gloucester Disclosure Letter have been disclosed in good faith and, so far as the Gloucester Board and the senior management of Gloucester are aware after due enquiry, Gloucester has not knowingly or recklessly:
 - (c) omitted anything from such information such as to make any part of that information materially false or misleading; or
 - (d) included anything materially false or misleading in such information;
- 11 As at the date of this deed, the total issued capital of Gloucester is:
 - (a) 202,905,967 Gloucester Shares;
 - (b) 1,000 Converting Shares; and
 - (c) 3,618,574 Options,and there are no other Gloucester options, performance rights, shares, convertible notes or other securities (or offers or agreements to issue any of the foregoing).

Part A Gloucester Prescribed Occurrences

Part 1

Changes to capital structure, distributions

1. Gloucester converts all or any of its shares into a larger or smaller number of shares other than a conversion of some or all of the 1,000 Converting Shares on issue at the date of this deed, into up to the total number of ordinary shares calculated in accordance with clause 4.7.
2. Any Gloucester Group Member (other than a direct or indirect wholly-owned subsidiary of Gloucester) resolves to reduce its share capital in any way (other than under the Capital Reduction) or reclassify, combine, split, redeem or repurchase directly or indirectly any of its shares.
3. Any Gloucester Group Member (other than a direct or indirect wholly-owned subsidiary of Gloucester):
 - 3.1 enters into a buy-back agreement; or
 - 3.2 resolves to approve the terms of a buy-back agreement under the Corporations Act.
4. Any Gloucester Group Member (other than a direct or indirect wholly-owned subsidiary of Gloucester) declares, pays or distributes any dividend, bonus or other share of its profits or assets or agrees to return any capital to its members, other than the Capital Reduction and the Special Dividend.
5. Any Gloucester Group Member issues, agrees to issue or incurs any obligation (including any contingent obligation) to issue or have transferred to any person securities in or of it or any other Gloucester Group Member, other than:
 - 5.1 to Gloucester, a direct or indirect wholly-owned subsidiary of Gloucester; or
 - 5.2 Gloucester Shares, to the holders as at the date of this deed of Gloucester options as required by their terms following a valid exercise of the Gloucester options.
6. Any Gloucester Group Member issues or grants, agrees to issue or grant or incurs any obligation (including any contingent obligation) to issue, grant or have transferred to any person:
 - 6.1 options over shares or other securities convertible into shares in or of it or any other Gloucester Group Member; or
 - 6.2 any debt securities (including any performance rights or options).

Entering into, varying or terminating agreements

7. A Gloucester Group Member enters into, varies in a material respect or terminates any of the following, other than in the ordinary course of business to the extent necessary prior to the Implementation Date for the proper conduct of the business of the relevant Gloucester Group Member:
 - 7.1 an agreement with respect to derivative instruments (including swaps, futures contracts, forward commitments, commodity or currency derivatives or options) or similar instruments;
 - 7.2 a joint venture, partnership or similar arrangement;

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

Freehills

Schedule 3 Part A Gloucester Prescribed Occurrences

- 7.3 an off-take, coal sales or marketing arrangement in relation to the production of any Gloucester Group Member;
- 7.4 an agreement or understanding restraining any Gloucester Group Member from competing with any person or conducting activities in any market;
- 7.5 an agreement or understanding in respect of Finance Debt (other than an agreement, arrangement or understanding of the type referred to in item 7.1); or
- 7.6 a Material Agreement (other than an agreement, arrangement or understanding of the type referred to in item 7.1 to 7.5 inclusive).
8. A Gloucester Group Member enters into, varies in a material respect or terminates any agreement or arrangement (other than an agreement, arrangement or understanding of the type referred to in item 7.1 to 7.6 inclusive) where the agreement or arrangement concerned involves an amount (including any payment, incurring of expenditure or foregoing of revenue) or assets or liabilities to the value, of more than \$20 million (per annum, in any case involving recurring payments), other than in the ordinary course of business, or waives a default or accepts a compromise, where the waiver or compromise involves an amount of more than \$20 million (per annum, in any case involving recurring payments) (and for the purposes of the foregoing a number of separate transactions shall be treated as a single transaction if they are with the same or associated parties or if a reasonable person would otherwise consider them to be related).

Borrowing or lending other than in the ordinary course

9. A Gloucester Group Member incurs or makes available any Finance Debt other than in the ordinary course of business.

Encumbering assets

10. A Gloucester Group Member creates, or agrees to create, any mortgage, charge, lien or other encumbrance over the whole, or substantially all, of its business or property, other than by operation of law in the ordinary course of business.

Insolvency Events

11. A Gloucester Group Member suffers an Insolvency Event or (without limitation) becomes unable to pay its debts as and when due.

Changes to the nature of business

12. A Gloucester Group Member ceases, or threatens to cease, to carry on its business or makes a material change to the nature of its business.

Varying or granting employee benefits

13. Except as specifically provided for in an existing employment contract or in an existing entitlement under an employee incentive scheme, in each case in place prior to the date of this deed, details of which have been Fairly Disclosed on or before 9 December 2011 in the Gloucester Disclosure Materials, any Gloucester Group Member:
- 13.1 paying any bonus to, or increasing the compensation of, any officer or employee of any Gloucester Group Member;
- 13.2 accelerating the rights of any officer or employee of any Gloucester Group Member to compensation or benefits of any kind (including under any Gloucester executive or employee share plan);
- 13.3 granting to any officer or employee of any Gloucester Group Member any increase in severance or termination pay or superannuation entitlements or issuing any Gloucester Shares or securities convertible to Gloucester Shares to any of those persons; or

- 13.4 establishing, adopting, entering into or amending in any material respect (including by taking any action to accelerate any rights or benefits due under) any enterprise bargaining agreement, Australian workplace agreement, employee benefit plan or superannuation scheme of Gloucester or relating to the officers or employees of any Gloucester Group Member,

where the aggregate incremental cost to the Gloucester Group of all such actions exceeds \$5,000,000, provided that paragraphs 13.1 to 13.4 above will not prevent the entry into any enterprise bargaining agreement, Australian workplace agreement or other similar agreement with a group of Gloucester Group operational employees if that occurs in the ordinary course of business as a result of the fact that existing arrangements of that kind with that group of operational employees will expire before the End Date.

Disposing of subsidiaries etc

14. Gloucester or a Gloucester Group member disposes, or agrees to dispose, of shares in a subsidiary for a consideration or with a value in excess of \$20 million, or any Gloucester Group Member is deregistered or dissolved.

Part 2

Changes to accounting methods

15. Any Gloucester Group Member making a change in its accounting methods, principles or practices which would materially affect the reported consolidated assets, liabilities or results of operations of any Gloucester Group Member, other than as required to comply with any changes to generally accepted accounting principles, standards, guidelines or practices in the jurisdiction of the relevant entity's incorporation.

Related party transactions

16. A Gloucester Group Member entering into or resolving to enter into a transaction with any related party of Gloucester (other than a related party which is a Gloucester Group Member) as defined in section 228 of the Corporations Act which would require shareholder approval under Chapter 2E or under Chapter 10 of the ASX Listing Rules.

Changes to arrangements with financial advisers

17. A Gloucester Group Member amending in any material respect any arrangement with its financial advisor, or entering into arrangements with a new financial advisor which arrangements with any such new financial advisor may involve the payment of fees of in excess of \$500,000 (individually or in aggregate), in respect of the Transaction.

Tax deconsolidation

18. A Gloucester Group Member doing anything that would result in a de-consolidation of the Gloucester Consolidated Tax Group, other than acquiring or disposing of a wholly owned subsidiary (subject always to the other provisions of this deed).

Transactions requiring consultation

19. A Gloucester Group Member:
- 19.1 enters into, varies in a material respect or terminates any agreement or arrangement where the agreement or arrangement concerned involves an amount (including any payment, incurring of expenditure or foregoing of revenue) or assets or liabilities to the value, of more than \$10 million (per annum, in any case involving recurring payments); or
- 19.2 waives a default or accepts a compromise, where the waiver or compromise involves an amount of more than \$10 million (per annum, in any case involving recurring payments),

APPENDIX 6
MERGER PROPOSAL DEED (CONTINUED)

Freehills

Schedule 3 Part B Bidder Prescribed Occurrences

without Gloucester having consulted first with Bidder in respect of such event (and for the purposes of the foregoing a number of separate transactions shall be treated as a single transaction if they are with the same or associated parties or if a reasonable person would otherwise consider them to be related).

Part B Bidder Prescribed Occurrences

Other than as approved by the board of an Bidder Group Member on or before the date of this deed or necessary for the Bidder to refinance approximately \$1 billion that may become repayable under its bank facilities between the date of this deed and the Implementation Date, the occurrence of any of the following between the date of this deed and the Implementation Date:

Part 1

Changes to capital structure, distributions

1. The Bidder converts all or any of its shares into a larger or smaller number of shares other than as provided in clause 5.3(j) of this deed.
2. Any Bidder Group Member (other than a direct or indirect wholly-owned subsidiary of the Bidder) resolves to reduce its share capital in any way or reclassify, combine, split, redeem or repurchase directly or indirectly any of its shares.
3. Any Bidder Group Member (other than a direct or indirect wholly-owned subsidiary of the Bidder):
 - 3.1 enters into a buy-back agreement; or
 - 3.2 resolves to approve the terms of a buy-back agreement under the Corporations Act.
4. Any Bidder Group Member (other than a direct or indirect wholly-owned subsidiary of the Bidder) declares, pays or distributes any dividend, bonus or other share of its profits or assets or agrees to return any capital to its members.
5. Any Bidder Group Member issues, agrees to issue or incurs any obligation (including any contingent obligation) to issue or have transferred to any person securities in or of it or any other Bidder Group Member, other than to the Bidder or a direct or indirect wholly-owned subsidiary of the Bidder.
6. Any Bidder Group Member issues or grants, agrees to issue or grant or incurs any obligation (including any contingent obligation) to issue, grant or have transferred to any person:
 - 6.1 options over shares or other securities convertible into shares in or of it or any other Bidder Group Member; or
 - 6.2 any debt securities (including any performance rights or options).

Entering into, varying or terminating agreements

7. A Bidder Group Member enters into, varies in a material respect or terminates any of the following, other than in the ordinary course of business to the extent necessary prior to the Implementation Date for the proper conduct of the business of the relevant Bidder Group Member:
 - 7.1 an agreement with respect to derivative instruments (including swaps, futures contracts, forward commitments, commodity or currency derivatives or options) or similar instruments;
 - 7.2 a joint venture, partnership or similar arrangement;
 - 7.3 an off-take, coal sales or marketing arrangement in relation to the production of any Bidder Group Member;
 - 7.4 an agreement or understanding restraining any Bidder Group Member from competing with any person or conducting activities in any market;

APPENDIX 6 MERGER PROPOSAL DEED (CONTINUED)

Freehills

Schedule 3 Part B Bidder Prescribed Occurrences □

- 7.5 an agreement or understanding in respect of Finance Debt (other than an agreement, arrangement or understanding of the type referred to in item 7.1); or
- 7.6 a Material Agreement (other than an agreement, arrangement or understanding of the type referred to in item 7.1 to 7.5 inclusive).

8. A Bidder Group Member enters into, varies in a material respect or terminates any agreement or arrangement (other than an agreement, arrangement or understanding of the type referred to in item 7.1 to 7.6 inclusive) where the agreement or arrangement concerned involves an amount (including any payment, incurring of expenditure or foregoing of revenue) or assets or liabilities to the value, of more than \$40 million (per annum, in any case involving recurring payments), other than in the ordinary course of business, or waives a default or accepts a compromise, where the waiver or compromise involves an amount of more than \$40 million (per annum, in any case involving recurring payments) (and for the purposes of the foregoing a number of separate transactions shall be treated as a single transaction if they are with the same or associated parties or if a reasonable person would otherwise consider them to be related).

Borrowing or lending other than in the ordinary course

9. A Bidder Group Member incurs or makes available any Finance Debt other than in the ordinary course of business.

Encumbering assets

10. A Bidder Group Member creates, or agrees to create, any mortgage, charge, lien or other encumbrance over the whole, or substantially all, of its business or property, other than by operation of law in the ordinary course of business.

Insolvency Events

11. A Bidder Group Member suffers an Insolvency Event or (without limitation) becomes unable to pay its debts as and when due.

Changes to the nature of business

12. A Bidder Group Member ceases, or threatens to cease, to carry on its business or makes a material change to the nature of its business.

Varying or granting employee benefits

13. Except as specifically provided for in an existing employment contract or in an existing entitlement under an employee incentive scheme, in each case in place prior to the date of this deed, details of which have been Fairly Disclosed on or before 9 December 2011 in the Bidder Disclosure Materials, any Bidder Group Member:
- 13.1 paying any bonus to, or increasing the compensation of, any officer or employee of any Bidder Group Member;
- 13.2 accelerating the rights of any officer or employee of any Bidder Group Member to compensation or benefits of any kind (including under any executive or employee share plan);
- 13.3 granting to any officer or employee of any Bidder Group Member any increase in severance or termination pay or superannuation entitlements or issuing any shares in the Bidder or securities convertible to shares in the Bidder to any of those persons; or
- 13.4 establishing, adopting, entering into or amending in any material respect (including by taking any action to accelerate any rights or benefits due under) any enterprise bargaining agreement, Australian workplace agreement, employee benefit plan or superannuation scheme of the Bidder Group or relating to the officers or employees of any Bidder Group Member,

where the aggregate incremental cost to the Bidder Group of all such actions exceeds \$5,000,000, provided that paragraphs 13.1 to 13.4 above will not prevent the entry into any enterprise bargaining agreement, Australian workplace agreement or other similar agreement with a group of Bidder Group operational employees if that occurs in the ordinary course of business as a result of the fact that existing arrangements of that kind with that group of operational employees will expire before the End Date.

Disposing of subsidiaries etc

14. A Bidder Group Member disposes, or agrees to dispose, of shares in a subsidiary for a consideration or with a value in excess of \$60 million, or any Bidder Group Member is deregistered or dissolved.

Part 2**Changes to accounting methods**

15. Any Bidder Group Member making a change in its accounting methods, principles or practices which would materially affect the reported consolidated assets, liabilities or results of operations of any Bidder Group Member, other than as required to comply with any changes to generally accepted accounting principles, standards, guidelines or practices in the jurisdiction of the relevant entity's incorporation.

Changes to arrangements with financial advisers

16. A Bidder Group Member amending in any material respect any arrangement with its financial advisor, or entering into arrangements with a new financial advisor which arrangements with any such new financial advisor may involve the payment of fees of in excess of \$500,000 (individually or in aggregate), in respect of the Transaction

Tax deconsolidation

17. A Bidder Group Member doing anything that would result in a de-consolidation of the Bidder Consolidated Tax Group, other than acquiring or disposing of a wholly owned subsidiary (subject always to the other provisions of this deed).

Transactions requiring consultation

18. A Bidder Group Member:
- 18.1 enters into, varies in a material respect or terminates any agreement or arrangement where the agreement or arrangement concerned involves an amount (including any payment, incurring of expenditure or foregoing of revenue) or assets or liabilities to the value, of more than \$20 million (per annum, in any case involving recurring payments); or
 - 18.2 waives a default or accepts a compromise, where the waiver or compromise involves an amount of more than \$20 million (per annum, in any case involving recurring payments),

without Yanzhou having first consulted Gloucester in respect of such event (and for the purposes of the foregoing a number of separate transactions shall be treated as a single transaction if they are with the same or associated parties or if a reasonable person would otherwise consider them to be related).

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Schedule 4

Part A Gloucester Material Agreements

Schedule not included

Part B Bidder Material Agreements

Schedule not included

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Schedule 5

Enforcement Share Terms

Schedule not included

Option cancellation consideration

Schedule not included. Refer to Section 11.9 of the Explanatory Booklet

Freehills

Schedule 7

CVR Share terms

Not reproduced here. See Appendix 8 of the Explanatory Booklet.

Signing page

Executed as a deed

Executed as a deed in accordance with section 127
of the *Corporations Act 2001* by
Yancoal Australia Limited

sign here ► _____
Company Secretary/Director

print name _____

sign here ► _____
Director

print name _____

Executed as a deed in accordance with section 127
of the *Corporations Act 2001* by
Gloucester Coal Limited

sign here ► _____
Company Secretary/Director

print name _____

sign here ► _____
Director

print name _____

**APPENDIX 6
MERGER PROPOSAL DEED (CONTINUED)**

Freehills

Signing page

Signed, sealed and delivered as a deed on behalf of
Yanzhou Coal Mining Company Limited by

sign here ► _____

print name _____

Legal Representative / Authorised Representative

sign here ► _____

print name _____

Witness

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Form of Scheme

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APPENDIX 6
MERGER PROPOSAL DEED (CONTINUED)

Freehills

Attachment 1

Form of Scheme

Scheme of Arrangement under Part 5.1 of the Corporations Act

Not reproduced here. See Appendix 3 of the Explanatory Booklet

Attachment 2

Deed Poll

Not reproduced here. See Appendix 7 of the Explanatory Booklet

Freehills

Attachment 3

Indicative Timetable

Not reproduced here. See Important Dates and Times at the beginning of the Explanatory Booklet

Attachment 4

Announcement

Attachment not included

**APPENDIX 6
MERGER PROPOSAL DEED (CONTINUED)**

Freehills

Attachment 5

Part A – Separation Agreement

Attachment not included

Part B – Management and Transitional Services Agreement

Attachment not included

APPENDIX 6
MERGER PROPOSAL DEED (CONTINUED)

Freehills

Attachment 5 Part C – LTCC Licence Agreement

Part C – LTCC Licence Agreement

Attachment not included

Part D – Restructure Agreement

Attachment not included

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APPENDIX 7

DEED POLL

APPENDIX 7 DEED POLL

Freehills

Annexure B

Deed Poll

Date ► *27 APRIL 2012.*

Bidder Yancoal Australia Limited (ABN 82 111 859 119)
of Level 11, 68 York Street, Sydney, New South Wales, Australia
(Bidder)

Recitals 1 Bidder, Gloucester Coal Ltd and Yanzhou Coal Mining Company
Limited have entered into the Merger Proposal Deed to provide
for (among other matters) the implementation of the Scheme.

2 The effect of the Scheme will be to transfer all Scheme Shares to
Bidder in return for the Scheme Consideration.

3 Bidder enters this deed poll to covenant in favour of Scheme
Shareholders to:

 (a) perform the steps attributed to it under the Scheme; and

 (b) provide the Scheme Consideration in accordance with the
Scheme.

This deed witnesses as follows:

Freehills

1 Definitions and interpretation

1.1 Definitions

The meanings of the terms used in this deed are set out below.

Term	Meaning
Merger Proposal Deed	the Merger Proposal Deed dated 22 December 2011 between Bidder, Gloucester Coal Ltd and Yanzhou Coal Mining Company Limited as amended.
Gloucester	Gloucester Coal Ltd as trustee for the Scheme Shareholders.

1.2 Terms defined in Merger Proposal Deed

Words and phrases defined in the Merger Proposal Deed have the same meaning in this deed poll unless the context requires otherwise.

1.3 Incorporation by reference

The provisions of clauses 1.2, 1.3 and 1.4 of the Merger Proposal Deed form part of this deed poll as if set out at length in this deed poll but with 'deed poll' substituted for 'deed' and with any reference to 'party' being taken to include the Scheme Shareholders.

2 Nature of this deed poll

Bidder acknowledges that this deed poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not a party to it.

3 Conditions

3.1 Conditions

Bidder's obligations under clause 4 are subject to the Scheme becoming Effective.

3.2 Termination

Bidder's obligations under this deed poll will automatically terminate and this deed poll will be of no further force or effect if:

- (a) the Merger Proposal Deed is terminated in accordance with its terms; or
- (b) the Scheme is not Effective by the End Date,

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4 Performance of obligations

unless Gloucester and Bidder otherwise agree.

3.3 Consequences of termination

If this deed poll terminates under clause 3.2, in addition and without prejudice to any other rights, powers or remedies available to them:

- (a) Bidder is released from its obligations to further perform this deed poll; and
- (b) Scheme Shareholders retain the rights they have against Bidder in respect of any breach of this deed poll which occurred before it terminated.

4 Performance of obligations

4.1 Generally

Subject to clause 3, Bidder covenants in favour of Scheme Shareholders to perform the actions attributed to it under, and otherwise comply with, the Scheme as if Bidder were a party to the Scheme.

4.2 Provision of Scheme Consideration

- (a) Subject to clause 3, Bidder undertakes in favour of each Scheme Shareholder to provide or procure the provision of the Scheme Consideration to each Scheme Shareholder in accordance with the terms of the Scheme.
- (b) The obligations of Bidder under clause 4.2(a) will be satisfied if, on or before 12 noon on the Implementation Date, it issues all of the Bidder Shares and CVR Shares which it is obliged to issue to Scheme Shareholders and to the Sale Agent under the Scheme, and provides Gloucester with written confirmation that it has done so.

5 Warranties

Bidder represents and warrants to each Scheme Shareholder that:

- (a) **(status)** it is a corporation duly incorporated and validly existing under the laws of the place of its incorporation;
- (b) **(power)** it has the power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;
- (c) **(corporate authorisations)** it has taken all necessary corporate action to authorise the entry into and performance of this deed poll and to carry out the transactions contemplated by this deed poll;
- (d) **(documents binding)** this deed poll is its valid and binding obligation enforceable in accordance with its terms;
- (e) **(transactions permitted)** the execution and performance by it of this deed poll and each transaction contemplated by this deed poll did not and will not violate in any respect a provision of:
 - (1) a law or treaty or a judgment, ruling, order or decree of a Regulatory Authority binding on it;
 - (2) its constitution or other constituent documents; or

Freehills

8 General Provisions

- (2) in the case of delivery by post, two Business Days after the date of posting (if posted to an address in the same country) or seven Business Days after the date of posting (if posted to an address in another country); and
- (3) in the case of fax, at the local time (in the place of receipt of that fax) which then equates to the time at which that fax is sent as shown on the transmission report which is produced by the machine from which that fax is sent and which confirms transmission of that fax in its entirety, unless that local time is not a Business Day, or is after 5.00 pm on a Business Day, when that communication will be deemed to be received at 9.00 am on the next Business Day.

8 General Provisions

8.1 Assignment

- (a) The rights and obligations of Bidder and each Scheme Shareholder under this deed poll are personal. They cannot be assigned, charged, encumbered or otherwise dealt with at law or in equity without the prior written consent of Bidder and Gloucester.
- (b) Any purported dealing in contravention of clause 8.1(a) is invalid.

8.2 Cumulative rights

The rights, powers and remedies of Bidder and each Scheme Shareholder under this deed poll are cumulative with and do not exclude any other rights, powers or remedies provided by law independently of this deed poll.

8.3 No waiver

- (a) Bidder may not rely on the words or conduct of any Scheme Shareholder as a waiver of any right unless the waiver is in writing and signed by the Scheme Shareholder granting the waiver.
- (b) If a Scheme Shareholder does not exercise a right arising from a breach of this deed poll at a given time, it may, unless it has waived that right in writing, exercise the right at a later point in time.
- (c) No Scheme Shareholder may rely on words or conduct of Bidder as a waiver of any right unless the waiver is in writing and signed by Bidder, as appropriate.
- (d) The meanings of the terms used in this clause 8.4 are set out below.
conduct includes delay in the exercise of a right.
right means any right arising under or in connection with this deed poll and includes the right to rely on this clause.
waiver includes an election between rights and remedies, and conduct which might otherwise give rise to an estoppel.

8.4 Stamp duty

Bidder:

- (a) must pay or procure the payment of all stamp duty (if any) any related fines, penalties and interest in respect of the Scheme and this deed poll (including the acquisition or transfer of Scheme Shares pursuant to the Scheme), the performance of this deed poll and each transaction effected by or made under or pursuant to the Scheme and this deed poll; and
- (b) indemnifies and undertakes to keep indemnified each Scheme Shareholder against any liability arising from failure to comply with clause 8.4(a).

8.5 Further assurances

Bidder will, at its own expense, do all things reasonably required of it to give full effect to this deed poll.

8.6 Governing law and jurisdiction

This deed poll is governed by the laws of the State of Victoria. In relation to it and related non-contractual matters Bidder irrevocably submits to the non-exclusive jurisdiction of courts with jurisdiction there, and waives any right to object to the venue on any ground.

**APPENDIX 7
DEED POLL (CONTINUED)**

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Signing page


Executed as a deed poll

Bidder

Signed sealed and delivered by
Yancoal Australia Limited by

sign here ▶ 
Company Secretary/Director

print name Ling ZHANG

sign here ▶ 
Director

print name MURRAY BAILEY

APPENDIX 8

CVR TERMS OF ISSUE

APPENDIX 8

CVR TERMS OF ISSUE

Freehills

Yancoal Australia Limited CVR Shares - proposed terms of issue

1 General

1.1 Fully paid share in the capital of Yancoal

- (a) Each CVR Share is a share in the capital of the company and is issued on the terms set out in these Terms of Issue.
- (b) Each CVR Share will be issued by the company fully paid as part of the consideration for the acquisition of shares in Gloucester Coal Limited (ACN 008 881 712) (GCL) pursuant to a scheme of arrangement between GCL and its shareholders.

1.2 Voting rights, notice of meeting

- (a) CVR Shares confer rights on a CVR Shareholder to:
 - (1) receive notice of any general meeting of the company and a copy of any report or balance sheet (including a profit and loss account) of the company to be considered by the meeting; and
 - (2) attend any general meeting of the company.
- (b) A CVR Share does not confer rights on a CVR Shareholder to:
 - (1) receive dividends;
 - (2) subscribe for, or participate in any bonus issue of, new shares in the capital of the company; or
 - (3) vote at any meeting of the company, except on a proposal specified in clause 1.2(c).
- (c) The proposals referred to in clause 1.2(b)(3) are proposals:
 - (1) to wind up the company;
 - (2) to reduce the share capital of the company;
 - (3) which directly affects any right, power or privilege in relation to the CVR Shares; and
 - (4) to dispose of all company property, and the business and undertaking of the company.
- (d) A CVR Shareholder entitled to vote under this clause is entitled to cast one vote on a show of hands and one vote for each CVR Share held on a poll.
- (e) Each CVR Share ranks equally with each other CVR Share.

1.3 Return of capital

If there is a return of capital on a winding up of the company, CVR Shareholders will, rank equally with Ordinary Share holders, but will only be entitled to receive out of the assets of the company available for distribution to holders of shares in the capital of the company:

Freehills

- (a) a cash sum of \$0.00000001 per CVR Share; and
- (b) for CVR Shareholders other than Yanzhou CVR Shareholders, any Repurchase Price which remains unpaid,

and will not otherwise participate in any repayment of capital or surplus assets and profits available for distribution to holders of shares in the capital of the company.

2 Repurchase

2.1 Repurchase Date

On or before the 40th Trading Day following the VWAP Period End Date in respect of a Lapse Notice (or deemed Lapse Notice), the company will **Repurchase** each CVR Share, in the manner set out in clause 2.2, for the Repurchase Price.

2.2 Method of Repurchase

The company must Repurchase the CVR Shares by causing them to be purchased by a Yanzhou CVR Shareholder for the Repurchase Price.

2.3 Enforcement by the company of rights to procure Repurchase

- (a) The company represents and warrants to CVR Shareholders that it has entered into an agreement with Yanzhou under which Yanzhou has agreed that Yanzhou will purchase, or will procure that any Yanzhou CVR Shareholder purchases, the CVR Shares for the Repurchase Price as provided in clause 2.2 above (**Yanzhou Obligation**).
- (b) The company undertakes in favour of CVR Shareholders:
 - (1) to enforce the Yanzhou Obligation so that it is performed in full and on time; and
 - (2) not to amend, waive or otherwise abrogate the Yanzhou Obligation in any way which adversely affects the rights of Yancoal,and acknowledges and agrees that any amendment, waiver or other abrogation of the Yanzhou Obligation which adversely affects the rights of Yancoal varies the rights attaching to the CVR Shares.

3 Lapse Notices and deemed Lapse Notices

3.1 Before the End Date

The company may issue a Lapse Notice at any time before the End Date.

3.2 On the End Date

If the company has not issued a Lapse Notice by the date which is the End Date, the company will be deemed to have issued a Lapse Notice on the day 45 days before the End Date.

APPENDIX 8 CVR TERMS OF ISSUE (CONTINUED)

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4 Repurchase Price

4.1 Calculation of Repurchase Price

Subject to clauses 4.3 and 5.4, if the Repurchase VWAP is:

- (a) greater than or equal to the Cap Price, the Repurchase Price per CVR Share is \$0.00000001;
- (b) less than the Cap Price but greater than the Floor Price, the Repurchase Price per CVR Share is equal to the Cap Price less the Repurchase VWAP; or
- (c) less than or equal to the Floor Price, the Repurchase Price per CVR Share is \$3.00.

4.2 Satisfaction of Repurchase Price

Subject to clauses 4.3 and 5.4, the Repurchase Price may be satisfied by the company either:

- (a) causing the payment of the Repurchase Price in cash; or
- (b) causing the delivery of Ordinary Shares equal in value to the Repurchase Price, provided that:
 - (1) each Ordinary Share in the company to be delivered will be valued at the Repurchase VWAP which was used to calculate the Repurchase Price;
 - (2) each CVR Shareholder will be taken to have consented to receive Ordinary Shares and to become a member of the company; and
 - (3) all Ordinary Shares in the company to be delivered will be delivered by transfer from an existing holder of Ordinary Shares and not by issue of new Ordinary Shares.

The company must specify in the relevant Lapse Notice (or, where the company is deemed to have issued a Lapse Notice, in a notice given to ASX no later than the date it is deemed to have issued the Lapse Notice) whether the Repurchase Price will be satisfied through cash payment or the delivery of Ordinary Shares. The same method of satisfaction of the Repurchase Price will apply to each CVR Share.

4.3 Buy-back of CVR Shares from Yanzhou CVR Shareholders

The company will be entitled to buy-back CVR Shares from any Yanzhou CVR Shareholders, provided that the price payable to any Yanzhou CVR Shareholder will always be \$0.00000001 per CVR Share, payable in cash.

4.4 Repurchase VWAP

The Repurchase VWAP is the VWAP over the 90 day period ending on the VWAP Period End Date, where:

VWAP in respect of any period, is the average of the daily volume weighted average prices for Ordinary Shares traded on ASX (and, if YCA so elects, Chi-X) during that period, provided that the company may exclude from the trades taken into account in determining such daily volume weighted average price any "crossing" transacted outside the "Open Session State" or any "Special Crossing" transacted at any time, each as defined in the ASX Operating Rules, or any overseas

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trades or trades pursuant to the exercise of options over Ordinary Shares (and any trades on Chi-X having similar features). If Ordinary Shares to be transferred to satisfy the Repurchase Price will be transferred ex-dividend, and any trading price referred to above was in a period when Ordinary Shares were quoted cum-dividend, the price of that trade will be reduced by the amount of the dividend.

VWAP Period End Date	1	if a Lapse Notice is given under clause 3.1, is the 90 day period ending on the day which is 45 days after the date of the Lapse Notice;
	2	if a Lapse Notice is deemed to be given under clause 3.2, is the 90 day period ending on the End Date.

5 Early Lapse

5.1 When Early Lapse Notice deemed to be given

If, at any time before the date which is 90 days before the End Date, the VWAP over 20 of any 25 consecutive Trading Days is above the Cap Price, the company will be deemed to have given an Early Lapse Notice.

5.2 Notice to CVR Shareholders

The company must promptly notify CVR Shareholders and make an announcement to ASX if the VWAP is above the Cap Price over 10 of any 15 consecutive Trading Days at any time before the date which is 90 days before the End Date.

5.3 Repurchase Date on Early Lapse

The company will Repurchase the CVRs on the last Business Day of the calendar month in which the Early Lapse Notice is deemed to be given. A Repurchase under this clause 5.3 will be effected by the company causing the CVR Shares to be purchased by a Yanzhou CVR Shareholder.

5.4 Repurchase Price on Early Lapse

Notwithstanding any other provision of these terms, the Repurchase Price payable as a result of the deemed issue of an Early Lapse Notice will be equal to \$0.00000001 per CVR Share, payable in cash.

6 Discretion to adjust terms in certain events

Subject to obtaining the prior consent of Yanzhou, the Directors may (and must, if Yanzhou, acting reasonably, so requires) adjust the Cap Price, the Floor Price and/or other terms of these Terms of Issue that the Directors reasonably consider appropriate or necessary to maintain their relative value in relation to Ordinary Shares where:

- (a) Ordinary Shares are reconstructed, consolidated, divided, bought back or cancelled;

APPENDIX 8 CVR TERMS OF ISSUE (CONTINUED)

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- (b) the company undertakes a bonus issue or rights issue, a return of capital, makes a distribution other than by way of dividend in accordance with its usual policy or under a winding up; or
- (c) any other corporate action is taken by the company that may have a diluting or concentrating effect on the value of Ordinary Shares and the Directors determine that any such occurrence would, in their reasonable opinion, affect the relative values of the CVR Shares and Ordinary Shares.

7 Withholding tax

Any withholding tax payable by the company in respect of the Repurchase of a CVR Share will be deducted from the Repurchase Price.

8 Quotation of CVR Shares

The company must use all reasonable endeavours to furnish all documents reasonably necessary to apply, at its own expense, for quotation of the CVR Shares on ASX.

9 Amendments to these Terms of Issue

9.1 Amendment without consent

Subject to complying with all applicable laws, the company may, without the authority, assent or approval of CVR Shareholders, amend:

- (a) these Terms of Issue, if the company is of the opinion that the amendment is:
 - (1) of a formal, minor or technical nature;
 - (2) made to cure any ambiguity;
 - (3) made to correct any manifest error;
 - (4) expedient for the purpose of enabling the CVR Shares to be listed for quotation or to retain quotation on any stock exchange and it is otherwise not considered by the company to be materially prejudicial to the interests of CVR Shareholders as a whole; or
 - (5) necessary to comply with the provisions of any statute, the requirements of any statutory authority, the ASX Listing Rules or the listing or quotation requirements of any stock exchange on which the CVR Shares are quoted; or
- (b) these Terms of Issue generally, other than clause 2.3, in any case where such amendment is considered by the company not to be materially prejudicial to the interests of CVR Shareholders as a whole.

9.2 Amendment with consent

Without limiting clause 9.1, the company may amend these Terms of Issue if the amendment has been approved in accordance with [*insert cross-reference to rule in Yancoal constitution dealing with variations of rights*] of the Constitution.

10 Power of attorney and further assurances

10.1 Power of attorney

Each CVR Shareholder irrevocably:

- (a) appoints the company, each of its Authorised Officers and any liquidator, administrator or statutory manager of Yancoal (each an **Appointed Person**) severally to be the attorney of the CVR Shareholder and the agent of the CVR Shareholder with power in the name and on behalf of the CVR Shareholder to do all such acts and things including signing all documents or transfers as may in the opinion of the Appointed Person be necessary or desirable to be done in order to effect, record or perfect the Repurchase, transactions contemplated by the Repurchase or by any buy-back under clause 4.3 of the CVR Shares held by the CVR Shareholder when required or permitted in accordance with these Terms of Issue; and
- (b) authorises and directs the company to make such entries in the Register, including amendments and additions to the Register, which the company considers necessary or desirable to record the Repurchase of the CVR Shares in accordance with these Terms of Issue and to record that on that Repurchase or on any buy-back under clause 4.3 the CVR Shareholder ceases to be registered as the holder of CVR Shares.

The power of attorney and agency appointment given in clause 10.1 is given for valuable consideration and to secure the performance by the CVR Shareholder of the CVR Shareholder's obligations under these Terms of Issue and is irrevocable.

10.2 Further assurances

If the company decides to Repurchase CVRs in accordance with these Terms of Issue, the CVR Shareholder must:

- (a) provide all documentation and execute any authorisation or power necessary; and
- (b) take all other action necessary or desirable, to effect the Repurchase.

11 Definitions and interpretation

11.1 Definitions

The following words and expressions shall have the following meanings:

Term	Meaning
ASX	ASX Limited (ABN 98 008 624 691) in its capacity as the securities exchange and operator of a financial market.
ASX Listing Rules	the official listing rules of ASX from time to time, subject to any modification or waivers in their application to Yancoal which ASX

APPENDIX 8 CVR TERMS OF ISSUE (CONTINUED)

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Term	Meaning
	may grant.
ASX Operating Rules	the operating rules of ASX from time to time.
Business Day	a business day as defined in ASX Listing Rules.
Cap Price	\$6.96, subject to adjustment in accordance with these Terms of Issue.
Chi-X	Chi X Australia Pty Ltd (ACN 129 584 667) in its capacity as the security exchange and operator of a financial market.
Constitution	the constitution of Yancoal as amended from time to time.
CVR Share	a fully paid contingent value right share in the capital of Yancoal issued under these Terms of Issue.
CVR Shareholder	a person entered on the Register as the holder of a CVR.
Corporations Act	<i>Corporations Act 2001</i> (Cth).
Directors	a majority of the directors of Yancoal.
Early Lapse Notice	a notice deemed to be given by the company pursuant to clause 5.1
End Date	the date 18 months from the Issue Date.
Floor Price	\$3.96, subject to adjustment in accordance with these Terms of Issue.
Issue Date	the date on which CVR Shares are issued.
Lapse Notice	the notice to be, or deemed to be, provided by the company pursuant to clause 3.

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Term	Meaning
Ordinary Share	an ordinary share in the capital of Yancoal.
Repurchase	has the meaning set out in clause 2.1
Repurchase Price	in respect of each CVR Share, means the amount determined pursuant to clause 4.1.
Register	the register of CVR Shares maintained by Yancoal or its agent and includes any subregister established and maintained under the Clearing House Electronic Subregister System operated by ASX Settlement and Transfer Corporation Pty Limited (ABN 49 008 504 532).
Terms of Issue	these terms of issue.
Trading Day	Has the meaning given in the ASX Listing Rules.
Yancoal	Yancoal Australia Limited ABN 82 111 859 119.
Yanzhou	Yanzhou Coal Mining Company Limited.
Yanzhou CVR Shareholder	Yanzhou, or any related body corporate or other person nominated by Yanzhou (excluding in each case the company or any entity controlled by the company) as a Yanzhou CVR Shareholder with such related body corporate's or other person's consent.
Yanzhou Obligation	has the meaning given in clause 2.3.

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CORPORATE DIRECTORY

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ABN 66 008 881 712

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