CUMNOCK COAL LIMITED

ABN 32 051 493 602

17 July 2007

The Manager
Company Announcements Office
Australian Stock Exchange

Proposed Acquisition of Cumnock Coal Limited

Cumnock Coal Limited (**Cumnock Coal**) today announced that it has entered into a Merger Implementation Agreement with Helios Australia Pty Limited (**Helios**), a related body corporate of Xstrata Coal Pty Limited (**Xstrata Coal**) in relation to a proposal under which Cumnock Coal shareholders will be paid $0.57 for each of their ordinary shares and Cumnock Coal will become a wholly owned subsidiary of Helios (**Proposal**).

Xstrata Coal owns 83.97% of Cumnock Coal's ordinary shares.

The Proposal involves Cumnock Coal reducing its share capital by cancelling all existing ordinary shares and procuring that Helios pays Cumnock Coal shareholders consideration of $0.57 for each ordinary share cancelled. Upon cancellation of all Cumnock Coal ordinary shares Helios will be issued with a share in Cumnock Coal so that at the conclusion of the transaction Helios will be the sole owner of Cumnock Coal.

The reduction of capital will be effected as an equal reduction of capital under section 256B(2) of the Corporations Act. It will need to be approved by Cumnock Coal shareholders. In view of Xstrata Coal's position as the proponent of the Proposal and its relationship with Itochu Coal Resources Australia Pty Limited (**Itochu Coal**) which owns 10.01% of Cumnock Coal, Cumnock Coal is requiring the resolution to be approved by Xstrata Coal, Itochu Coal and a majority of the shares which are voted at the meeting by other Cumnock Coal shareholders. This will ensure that Cumnock Coal's minority shareholders have a full say in the approval process.

It was a precondition to Xstrata Coal putting forward the Proposal that the independent directors of Cumnock Coal, Tony Clark and John Fahey, first obtained an independent assessment of the Xstrata Coal proposal. As a consequence the independent directors engaged KPMG to provide an independent assessment of whether the consideration of $0.57 for each ordinary share cancelled is fair and reasonable to Cumnock Coal ordinary shareholders other than Xstrata Coal (**the non-associated shareholders**).

A copy of KPMG's report dated 17 July 2007 is attached. In that report KPMG have assessed the fully diluted value of a Cumnock Coal ordinary share, inclusive of a premium for control, to be in the range of $0.42 and $0.46. KPMG has as a consequence concluded that the price of $0.57 for each ordinary share offered under the Proposal is fair and reasonable to Cumnock Coal's non-associated shareholders.

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Cumnock Coal's only source of coal production is from the Cumnock No. 1 mine, a single open cut mine in the Hunter Valley coalfields approximately 30 km from Singleton. Cumnock Coal is expected to exhaust its existing coal reserves from this pit and cease mining during the 2008 calendar year. While there is a possibility of extending the mine life through the development of a pit under the existing coal handling and preparation plant, this is subject to the satisfaction of a number of regulatory and contractual conditions as well as the overall economic environment. Consequently, Cumnock Coal faces a somewhat uncertain future as a listed company.

If it is not possible to extend the mine life of Cumnock Coal's current operations when the existing coal reserves are exhausted during calendar 2008 Cumnock Coal will either need to be sold or placed in liquidation so that its surplus assets can be realised and net cash (after paying or providing for all liabilities) distributed to shareholders.

The Proposal provides Cumnock Coal shareholders with the opportunity to realise their investment for cash at a price which represents a substantial premium to the prices at which Cumnock Coal shares have traded over the last 12 months and in particular:

- a premium of approximately 97% over the closing price of Cumnock Coal's shares on the day before the Proposal was announced;
- a premium of approximately 117% over the VWAP of Cumnock Coal shares during the three month period immediately preceding the announcement of the Proposal;
- a premium of approximately 100% over the VWAP of the Cumnock Coal shares during the 12 month period immediately preceding the announcement of the Proposal; and
- a premium of approximately 54% over the highest price at which Cumnock Coal shares have traded during the 12 month period immediately preceding the announcement of the Proposal.

The Proposal represents an attractive exit mechanism for Cumnock Coal shareholders and at the same time eliminates the risks which Cumnock Coal shareholders will remain exposed to if Cumnock Coal is to remain as a listed public company with an uncertain future.

Accordingly, your independent directors recommend that you vote in favour of the Proposal in the absence of a superior proposal.

KPMG will update its independent expert's report now that the Merger Implementation Agreement has been signed and this will be sent to shareholders with the Notice convening a shareholders meeting which is referred to below.

Your independent directors will convene a general meeting of the shareholders of Cumnock Coal to consider the Proposal. The Notice of Meeting will be accompanied by an Explanatory Statement, KPMG's updated Independent Expert Report and a Taxation Report by PwC.

As things currently stand we expect that the meeting will be convened for late August 2007. If Cumnock Coal shareholders approve the Proposal at the meeting it is anticipated that the Proposal will be implemented and shareholders paid in early September 2007.

For further information please contact the Company Secretary, Tony Durbin on 02 9253 6730.

Tony Clark, AM
Chairman
17 July 2007

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Confidential
The Directors
Cumnock Coal Limited
Level 38 Gateway
1 Macquarie Place
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17 July 2007

Dear Sirs

Independent expert report and Financial services guide

1 Introduction

Cumnock Coal Limited (Cumnock or the Company) is an Australian public company listed on the Official List of the Australian Stock Exchange Limited (ASX). Cumnock is a coal mining company that has a single open-cut mine in the Hunter Valley region of New South Wales (NSW). As at 16 July 2007, being the last trading day prior to the date of this report, Cumnock had a market capitalisation of approximately $73 million.

On 24 May 2007, Xstrata Coal Pty Ltd (Xstrata), Cumnock's largest shareholder, advised in a letter to the Board of Cumnock (Initial Letter) that it was inclined to put a proposal to the Cumnock board under which Cumnock would become a wholly owned subsidiary of Xstrata plc (the Proposed Transaction), but only if the following conditions were first satisfied:

- Cumnock's independent directors unanimously recommended the Proposed Transaction, in the absence of a superior proposal.
- An independent expert retained by Cumnock opined that the Proposed Transaction is fair and reasonable to Cumnock shareholders.

Xstrata currently holds approximately 84 percent of the issued shares in Cumnock. The independent directors of Cumnock have requested KPMG Corporate Finance (Aust) Pty Ltd (KPMG) prepare an independent expert report in respect of the Proposed Transaction in order to assist them in determining whether these conditions can be satisfied. In this regard, this report indicates whether, in our opinion, the Proposed Transaction if put to Cumnock shareholders would be fair and reasonable to Cumnock shareholders, other than Xstrata (Non-associated shareholders).

Ultimately, our report will form part of an Explanatory Statement to be prepared in relation to any formal proposal made by Xstrata. The Explanatory Statement will be sent with a Notice of Meeting to convene a general meeting of Cumnock shareholders to seek the approval of the shareholders to the proposal. However, the independent directors are likely to request that we update this report to reflect any proposal that is put by Xstrata and in these circumstances, we will make an appropriate disclosure in our updated report to reflect the issue of this report.

2 Proposed Transaction and requirement for our report

The remainder of this report has been written as if an offer in the form of the Proposed Transaction has been received from Xstrata by the Board of Cumnock.

The Proposed Transaction would be implemented through the following simultaneous mechanism:

- Cumnock will complete an equal capital reduction, whereby all existing shares in the Company will be cancelled.
- One new share will be issued to Helios Australia Pty Limited (Helios), a related body corporate of Xstrata plc. In consideration for the issue of one new ordinary share to it, Helios will pay all Cumnock shareholders a cash payment of $0.57 per share.
- As the Proposed Transaction would be effected by means of an equal capital reduction, it will require approval of Cumnock shareholders pursuant to section 256C of the Corporations Act 2001 (the Act).

Although not technically required under the Act, the independent directors of Cumnock have requested KPMG to prepare an independent expert report as if it were required under Section 640 of the Act, principally for the benefit of the Non-associated shareholders.

Section 640 of the Act requires an independent expert to prepare a report stating whether in the expert's opinion the takeover offer, being the Proposed Transaction, is fair and reasonable and give reasons for forming that opinion.

3 Summary and conclusion

The Proposed Transaction is fair and reasonable to the Non-associated shareholders

In our opinion, having considered the overall implications of the Proposed Transaction, the Proposed Transaction is fair and reasonable to Cumnock's Non-associated shareholders.

Our opinion is based solely on information available at the date of this report.

The principal matters we have taken into consideration in forming our opinion, and the issues that Cumnock's Non-associated shareholders should consider in making their decision as to whether to vote in favour of the Proposed Transaction, are summarised below and discussed in more detail in the remainder of this report.

Fairness

The cash consideration offered under the Proposed Transaction of $0.57 is considered to be fair as it falls above our range of assessed fair market values for a Cumnock share

We have assessed the fully diluted value of a Cumnock share, inclusive of a premium for control, to be in the range of $0.42 and $0.46, which compares to the consideration offered under the Proposed Transaction of $0.57 per Cumnock share. The offer of $0.57 per Cumnock share represents a premium of 24 percent to the high end of our range of assessed fair market values for a Cumnock share.

It is important to note that in arriving at our assessed fair market value range, we have not applied an illiquidity discount to reflect the inherent illiquidity of a Cumnock share or increased the discount rate in the final year to account for an increase in the risk associated with the proposal being considered to mine under Cumnock's coal handling and preparation plant.

The consideration under the Proposed Transaction represents a premium to the price of a Cumnock share immediately before the Proposed Transaction was announced, as well as a premium to prices at which Cumnock shares have traded recently

The consideration offered under the Proposed Transaction of $0.57 per Cumnock share represents a premium to the 1 week to 3 month VWAP for a Cumnock share, measured prior to 13 July 2007, of between 95 percent and 117 percent.

The consideration offered also represents a premium of 97 percent to the closing price for a Cumnock share of $0.29 on the last trading day prior to the date of this report.

Reasonableness

The value of a Cumnock share to Xstrata may exceed our assessed fair market value range

In addition to those synergies and cost savings available to a general pool of purchasers, Xstrata is likely to realise strategic benefits from acquiring Cumnock. In particular, Cumnock holds significant underground resources in the Lower Pikes Gully, Upper Liddell and Barrett seams, all of which are either being mined or being considered for mining by Xstrata.

Included in these resources, is the proposed Southern Open Cut operation which covers land owned by both Cumnock and Xstrata. Ownership by Xstrata of all the land required for the project to proceed may potentially be of significant value to Xstrata. The value of this operation may therefore be significantly higher to Xstrata than a general pool of purchasers.

Under current market conditions, these resources cannot be extracted economically by Cumnock as a stand-alone entity. However, the extraction of these resources may become economically viable in the future due to:

- higher coal prices
- lower costs of production due to advances in technology
- negotiating infrastructure, haulage and other cost sharing arrangements with third parties.

The value of this strategic benefit to Xstrata, by its nature, is difficult to quantify, however, it is important to note that Cumnock is unlikely to be able to extract these benefits as a stand alone entity, particularly should the opportunity eventuate beyond the cessation of mining operations, currently expected towards the end of calendar year 2008, unless mining under the coal handling and preparation plant occurs in which case it will be 2009.

Further to the strategic benefits of Cumnock's coal resources outlined above, Xstrata has advised that compared to other Xstrata coal operations, the time spent managing the affairs of Cumnock as a publicly listed company is disproportionately high relative to the size of Cumnock's mining activities. By acquiring full control of Cumnock, Xstrata is likely to realise additional value in the form of reduced demands on Xstrata management.

The strategic benefits that will flow to Xstrata if the Proposed Transaction is approved, are in part a contributing factor to the premium of the offer over our assessed fair market value range. We consider the premium of the offer to our fair market value range is appropriate to allow Xstrata the opportunity to realise these benefits. However, Non-associated shareholders should consider the benefits of receiving a certain cash sum now against the uncertain potential for greater value to be realised from Cumnock's resources in the future should market conditions make the extraction of the available resources viable.

The prospects of a higher offer emerging in the future are low

Xstrata already holds approximately 84 percent of Cumnock's issued capital. As such, any alternative offer for Cumnock as a whole would need the support of Xstrata to be successful.

We have discussed the prospect of an alternative bidder for Cumnock with Minarco Asia Pacific Pty Limited (Minarco), the technical specialist commissioned by KPMG to assist us with our assessment of the Proposed Transaction. We have concluded that as a result of the location of the assets involved and, particularly, the size of Xstrata's shareholding in Cumnock, there would appear to be no other logical industry buyer for Cumnock. Accordingly, we consider the prospects of a higher offer emerging in the future to be low.

Whilst minority shareholders could reject the Proposed Transaction in the hope that Xstrata will increase the offer consideration, there can be no guarantee that Xstrata would increase its offer beyond the current proposal of $0.57 per Cumnock share.

The Board of Cumnock have considered alternative mechanisms to return value to shareholders

As the operating life of Cumnock's mine is nearing its end, the Board of Cumnock have considered the alternatives available to extend the life of the mine or alternatively, return the remaining value of Cumnock to its shareholders. Of the alternatives reviewed, the Proposed Transaction is considered to be the alternative that provides Non-associated shareholders with the greatest level of return and certainty of outcome.

Approval of the Proposed Transaction provides a certain exit from a historically illiquid stock

Reflecting the tightly held nature of Cumnock's equity, only 1.67 percent of issued capital was traded in the 12 months prior to the announcement of the Proposed Transaction, with an average volume of approximately 16,000 shares traded on each trading day. Acceptance of the Proposed Transaction represents an opportunity for Non-associated shareholders to realise a certain cash amount for their investment, free of costs of realisation.

We note that based on the volume of trading in Cumnock shares in the 12 months prior to the date of the announcement of the Proposed Transaction, the volume of shares held by minority shareholders represents approximately 30 months of trading.

Xstrata has significant voting control

As Xstrata holds approximately 84 percent of the issued shares of Cumnock, it will be in a position to determine the future operation of Cumnock. Therefore, if the Proposed Transaction is not approved under the current terms, Xstrata may seek an alternative means to achieve a similar outcome to that under the Proposed Transaction.

In the event the Proposed Transaction is unsuccessful, Cumnock's share price may fall

Should the Proposed Transaction not be approved, all other things being equal, the traded price of Cumnock's shares is likely to fall to the levels traded immediately prior to the offer being made.

However, we note that it is possible the Company's shares may trade at above pre-offer levels as a consequence of the additional information provided to the market, in particular, information contained in this report regarding the expansion prospects of the Company.

Further implications of not approving the Proposed Transaction include:

- shareholders will not receive the consideration of $0.57 per share
- trading in Cumnock shares will continue to be illiquid
- an alternative offer from Xstrata or a third party may not be forthcoming.

Our assessed values for a Cumnock share are sensitive to movements in exchange rates and coal prices

Our assessed range of fair market values for a Cumnock share is particularly sensitive to the underlying assumptions made in relation to future exchange rates and coal prices.

If, all other things being equal, the forecast AUD:United States Dollar (USD) exchange rates adopted in our report strengthens by 10 percent, the midpoint of our assessed fair market value range for a Cumnock share would fall to $0.39. Conversely, a weakening of 10 percent in the AUD:USD exchange rate results in an increase in the midpoint of our assessed fair market value range for a Cumnock share to $0.50.

Furthermore, if, all other things being equal, the coal prices adopted in our report increase by 10 percent, the midpoint of our assessed fair market value range for a Cumnock share would rise to $0.51. Conversely, a 10 percent decrease in coal prices results in a fall in the midpoint of our assessed fair market value range for a Cumnock share to $0.38.

We note that even with favourable movements in exchange rates or coal prices, the assessed fair market value range is still significantly below the offer price of $0.57.

KPMG has based its opinions on the prevailing market, economic and other conditions at the date of this report. It should be noted that conditions can change over a relatively short period of time and that our findings should be considered in light of any such changes.

Taxation

In the event the Proposed Transaction is approved, the Non-associated shareholders will receive $0.57 in cash. Cumnock has submitted a class ruling to the Australian Taxation Office (ATO) seeking confirmation that this payment is a capital payment to shareholders. The ATO's decision on the class ruling will be communicated to Cumnock shareholders prior to the general meeting.

Should the ruling confirm the payment as a capital payment, Cumnock shareholders may crystallise a capital gains tax liability depending upon their personal situation. We note that our opinion may need to be revised depending on the taxation implications of the ruling ultimately provided by the ATO.

General advice

This letter is a summary of KPMG's opinion as to the merits or otherwise of the Proposed Transaction. This opinion should be read in conjunction with, and not independently of the detailed report and appendices as attached.

In forming our opinion, we have considered the interests of the Non-associated shareholders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual shareholders. It is not practical or possible to assess the implications of the Proposed Transaction on individual shareholders as we do not know their specific financial circumstances.

The decision of the Non-associated shareholders as to whether or not to vote in favour of the Proposed Transaction is a matter for individuals based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. In this regard, the taxation consequences may vary widely depending on individual circumstances. Individual shareholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it.

As an individual's decision whether or not to vote in favour of the Proposed Transaction may be influenced by their particular circumstances, we recommend that individual shareholders consult their financial adviser.

Our opinion is based solely on the information available at the date of this report as set out in Appendix 2. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report.

All currency amounts in this report are denominated in Australian dollars ($ or AUD) unless stated otherwise.

Yours faithfully

Gary Wingrove
Executive Director

Sean Collins
Executive Director

FINANCIAL SERVICES GUIDE

Dated 17 July 2007

KPMG Corporate Finance (Aust) Pty Ltd ABN 43 007 363 215 (KPMG or **we** or **us** or **ours** as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide (**FSG**). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- who we are and how we can be contacted
- the services we are authorised to provide under our **Australian Financial Services Licence, Licence No: 246901**
- remuneration that we and/or our staff and any associates receive in connection with the general financial product advice
- any relevant associations or relationships we have
- our complaints handling procedures and how you may access them.

Financial services we are licensed to provide

We hold an Australian Financial Services Licence, which authorises us to provide financial product advice in relation to:

- interests in managed investments schemes (excluding investor directed portfolio services)
- securities (such as shares and debentures).

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

General Financial Product Advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Benefits that we may receive

We charge fees for providing reports. These fees will be agreed with, and paid by, the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis.

Except for the fees referred to above, neither KPMG, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Associations and relationships

Through a variety of corporate and trust structures KPMG is ultimately wholly owned by and operates as part of KPMG's Australian professional advisory and accounting practice. Our directors may be partners in KPMG's Australian partnership.

From time to time KPMG and/or KPMG related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Industry Complaints Service Limited (**FICS**). FICS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FICS are available at the FICS website www.fics.asn.au or by contacting them directly via the details set out below.

Financial Industry Complaints Service Limited
PO Box 579
Collins Street West
Melbourne VIC 8007

Toll free: 1300 78 08 08
Facsimile: (03) 9621 2291

Contact details

You may contact us using the details set out at the top of our letterhead on page 1 of this report.

Contents of the remainder of KPMG's report

The remainder of this independent expert's report is set out below under the following headings:

4 Background to the Proposed Transaction

On 24 May 2007, Xstrata, Cumnock's largest shareholder, advised the Board of Cumnock that it was inclined to put a proposal under which Cumnock would become a wholly owned subsidiary of Xstrata but only if the following conditions were first satisfied:

- Cumnock's independent directors unanimously recommended the Proposed Transaction, in the absence of a superior proposal.
- an independent expert retained by Cumnock opined that the Proposed Transaction is fair and reasonable to Cumnock shareholders.

Xstrata currently holds approximately 84 percent of the issued shares in Cumnock. The Proposed Transaction will be implemented through the following mechanism:

- Cumnock will complete an equal capital reduction, whereby all existing shares in the Company will be cancelled.
- One new share will be issued to Helios, a wholly owned related body corporate of Xstrata. In consideration for the issue of one new ordinary share to it, Helios will pay Cumnock shareholders a cash payment of $0.57 per share.
- As the Proposed Transaction would be effected by means of an equal capital reduction, it will require approval of Cumnock shareholders pursuant to section 256C of the Act. The terms of the Proposed Transaction will be set out more fully in the Explanatory Statement.

5 Basis of assessment

General

This report has been prepared to assist the independent directors in determining whether the conditions set out in the Initial Letter can be satisfied. Ultimately, the independent directors are likely to request KPMG update this report for inclusion in an Explanatory Statement which will accompany a Notice of Meeting to be sent to Cumnock's shareholders to convene a general meeting to seek shareholder approval for the Proposed Transaction.

Requirement for our report

Although not technically required under the Act, the independent directors of Cumnock have requested KPMG to prepare an independent expert as if it were required under Section 640 of the Act, principally for the benefit of the Non-associated shareholders.

Criteria for assessment of fairness and reasonableness

Under Section 640 of the Act, an independent expert's report is required to state whether the offer is considered fair and reasonable. Policy Statement 75 (PS 75) issued by the ASIC's antecedent body, the Australian Securities Commission, sets out the framework within which this opinion is required to be prepared.

PS 75 outlines the following definitions of "fair" and "reasonable":

- an offer is "fair" if the value of the consideration being offered is equal to or greater than the value of the securities that are the subject of the offer (this comparison is required to be undertaken assuming 100 percent ownership of the target)

- an offer is "reasonable" if it is fair, or where it is "not fair", it may still be "reasonable" after considering other significant factors that support the acceptance of the offer in the absence of any higher bid before the close of the offer.

Factors considered in determining our opinion

PS 75 sets out certain matters an expert might consider when deciding whether shareholders should accept the offer, including:

- the offeror's pre-existing entitlement to shares in the target company

- the liquidity of the market in the target company's shares or the probability that an alternative offer might be made

- taxation losses, cash flow or other benefits through achieving 100 percent ownership of the target company

- any special value of the company to the offeror

- the value to an alternative offeror.

Under these definitions, and in the absence of a higher offer, the Proposed Transaction would be considered fair, and therefore reasonable, if the cash consideration of $0.57 per Cumnock share is equal to, or greater than, the assessed full underlying value of one Cumnock share, inclusive of a premium for control.

When assessing the full underlying value of the Company, we have considered those synergies and benefits that would be available to a pool of purchasers of Cumnock. We have not included the value of special benefits that may be unique to Xstrata. Accordingly, our valuation of Cumnock has been determined regardless of the bidder and any special benefits of the Proposed Transaction that may result.

In forming our opinion as to whether the Proposed Transaction is fair, we have compared $0.57, being the consideration offered, with the assessed value of one Cumnock share.

In considering whether the Proposed Transaction is reasonable, the factors that have been considered include:

- the existing shareholding structure of Cumnock

- the probability of a higher offer being received from Xstrata or a third party

- the liquidity of Cumnock shares in the period prior to the announcement of the Proposed Transaction

- any special value of the Company to Xstrata or an alternative bidder

- the recent trading prices of Cumnock's shares

- the premium or discount the Proposed Transaction represents to the recent trading prices of Cumnock shares

- other advantages and disadvantages of Cumnock shareholders accepting the Proposed Transaction.

Sources of information

In preparing this report and arriving at our opinions, we have considered a number of sources of information as detailed in Appendix 2 to this report.

An important part of the information used in forming an opinion of the kind expressed in this report comprises the opinions and judgment of management and its advisers. We and/or the technical specialist we have commissioned to assist with our assessment, Minarco, have had discussions and/or correspondence with Cumnock head office management in relation to the nature of the business operations and management's views as to specific risks, opportunities and prospects of the Company for the foreseeable future. Whilst the information gained from this was evaluated through inquiry and analysis to the extent practical, such information is often not capable of external verification or validation. Cumnock has represented in writing to KPMG that, to its knowledge, the information provided by it was complete and accurate.

The statements and opinions expressed in this report are made in good faith and have been based on information believed to be reliable and accurate. We have relied upon the information set out in Appendix 2 and have no reason to believe that any material factors have been withheld from us. The preparation of this report does not imply that KPMG or any of its affiliates have carried out any form of audit on the accounting or other records of Cumnock or any it's subsidiaries, their investments. The prospective financial information provided by Cumnock is unaudited and has not been subject to the same level of verification procedures that figures otherwise required to be disclosed to the market by Cumnock for reporting purposes would be.

The information provided to KPMG included forecasts for Cumnock's interests in mining and production operations prepared by the management of Cumnock and amended by Minarco where considered appropriate. Prospective results are by their nature uncertain and are dependent on a number of future events, which cannot be guaranteed. Accordingly, achievement of these forecasts is not warranted or guaranteed by either KPMG or Minarco. Actual results may vary significantly from the prospective information relied on by KPMG. Any variations from prospective results may affect our valuation.

Further, estimates relating to future currency exchange rates, inflation and coal prices are by their nature uncertain and dependent on a number of future events, which cannot be guaranteed. Accordingly, in providing these estimates to KPMG, neither Access Economics Pty Limited or Barlow Jonker Pty Limited has warranted or guaranteed their achievement.

The opinion of KPMG is based on prevailing market, economic and other conditions at the date of this report. It should be noted that conditions can change over a relatively short period of time and that our findings should be considered in light of any such changes. Any subsequent changes in these conditions could impact upon our assessment, either positively or negatively.

6 Profile of the coal industry

Cumnock's principal assets comprise interests and investments in coal mining operations and exploration assets. Accordingly, the financial performance of Cumnock is significantly impacted by developments in the national and international coal industry.

To provide a context for assessing the position of Cumnock in the coal sector, we have set out below an overview of recent trends in national and international coal markets.

General introduction

Coal was first discovered in Australia near Newcastle in 1791, with surface coal gathered by ship owners in 1798 for sale in Sydney. The first export of coal occurred in 1799, with coal shipped from Newcastle to India.

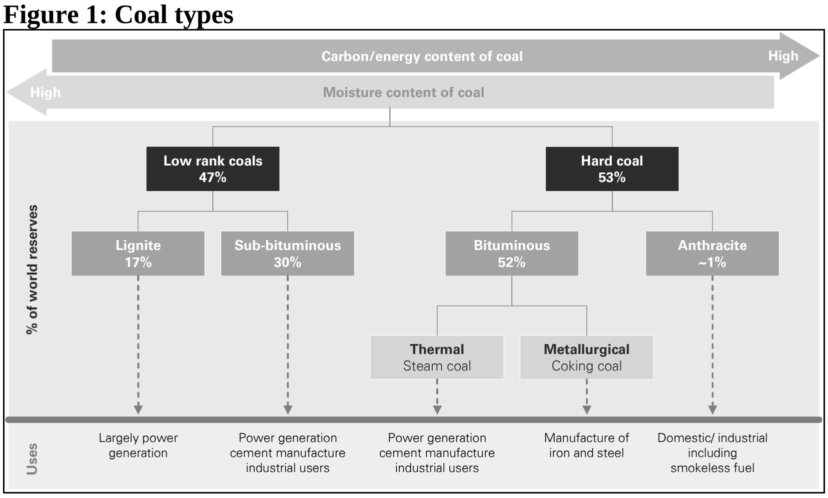
Coal mining has grown into one of Australia's most important industries, generating significant employment in regional areas, fuel for electricity generation, steel production and export income. The Australian minerals industry contributes approximately 8 percent to the gross domestic product of Australia with coal exports in the 2006-07 financial year totalling approximately $22.3 billion. The minerals industry directly and indirectly employs 127,500 and 200,000 people respectively and represents 26 percent of Australia's total capital investment. At the end of June 2006 the NSW coal industry employed 12,658 people.

The Hunter Valley is the largest coal producing area in NSW, with the Bowen and Surat Basins being Queensland's (QLD) premier coal mining area.

About coal

Coal deposits formed during the carboniferous period 360 to 290 million years ago with the burial of swamps and peat bogs. With burial, organic material was subjected to high temperatures and pressures which caused physical and chemical changes to the vegetation, transforming it into peat and then into coal. The quality of each coal deposit is determined by the temperature, pressure and length of time in formation.

Figure 1: Coal types



Source: The Coal Resource

The chemical composition of the coal determines whether the coal will be classified as coking coal (also called metallurgical coal), used in the manufacture of iron and steel, or thermal coal (also called steaming coal), which is used for power generation and to a lesser degree in the cement industry and other energy intensive industries. The coking and thermal coal markets operate relatively independently of each other with some product substitution between the lower quality coking coals and higher quality thermal coals.

Coking coal is divided into three types:

- hard coking coal
- semi-soft coal
- pulverised coal injection (PCI) coal.

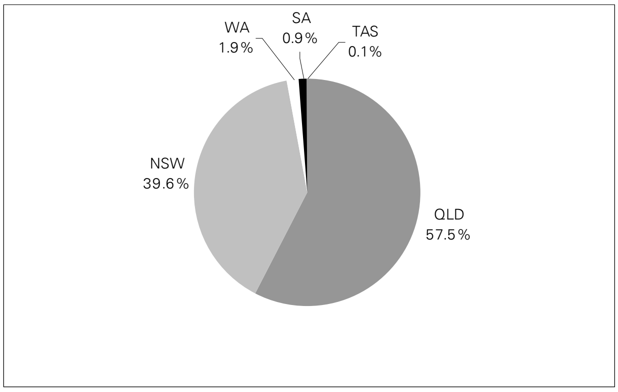
Hard coking coal produces the highest quality coke and therefore attracts the highest price. Semi-soft shares some but not all of the coking properties of hard coking and is often blended with either hard coking coal or PCI to become a blast furnace fuel source. The use of lower cost PCI in the steel industry has impacted the coking coal market as PCI can be substituted for hard coking coal lowering blast furnace operating costs.

Geographic locations

Thermal and coking coals are both classified as black coal (also called hard coal) with Australian production focused in NSW and QLD. Smaller amounts of hard coal are mined in Western Australia (WA), South Australia (SA) and Tasmania (TAS).

The figure below shows the geographic spread of black coal production in Australia.

Figure 2: Geographic spread of black coal production in Australia



Source: IBISWorld Pty Ltd

The Australian coal industry's focus on exports differs from the other leading coal producing countries most of whom have considerable domestic markets. In 2005-06, approximately 66 percent of NSW's and 84 percent of QLD's black coal production was exported. Domestic consumption of black coal is concentrated in NSW and QLD, where electricity authorities are the main domestic consumers. Victoria produces and consumes low rank coals (also called brown coal) from mines dedicated to producing coal for electricity generation.

The Hunter Valley

The Hunter Valley coalfield is the largest coal producing area in NSW, with sixty coal seams developed in three measures. A considerable quantity of the coal reserve is at relatively shallow depths making it accessible to large scale, multi seam open-cut mining. In 2004-05, the Hunter Valley coalfield had saleable production of approximately 80 million tonnes from 19 operating mines. In addition, at the end of this period, there were 10 proposed mines in various stages of development with total coal reserves for the 29 operating and proposed mines estimated at 4.3 billion tonnes.

Coal extracted from the Hunter Valley coalfields is exported through the port of Newcastle, which in 2004 exported around 78 million tonnes or around 10 percent of that year's global trade in coal. Growth in demand is placing pressure on the existing coal supply chain infrastructure leading to the possibility that existing infrastructure may restrict the ability of Hunter Valley coal producers to meet the growth in demand.

Mining methodology

In NSW and QLD, 74 percent and 85 percent respectively of coal produced is sourced from open pit mines.

With open pit mining, the material covering the coal seam (the overburden) is first broken up before being removed to expose the coal seam. The coal seam is then systematically removed and transported to the coal preparation plant using a combination of trucks, shovels and conveyors. Open pit mining is only economically viable when the coal seam is relatively close to the surface. Typically 90 percent or more of the coal seam being mined in a particular area can be removed with open pit mining.

There are two main methods of underground mining:

- room and pillar
- long-wall mining.

In room and pillar mining a series of rooms are cut into the coal seam. An arrangement of pillars are left behind to support the roof and may be removed later in the mining process. This method typically removes 60 percent of the coal, although higher recovery can be achieved if the pillars are removed at a later stage.

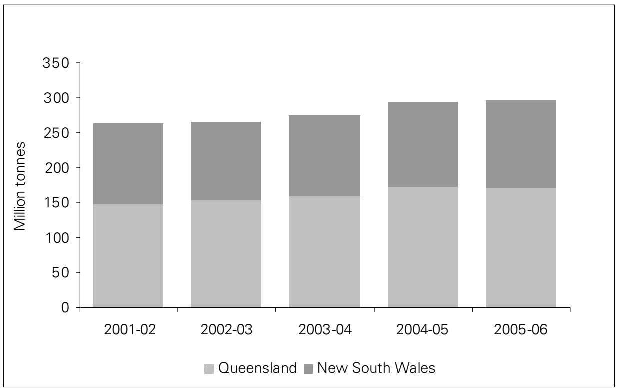
Long-wall mining removes coal by passing a mechanical cutter across the length of a coalface while the roof is held up by hydraulic supports. When all the coal in a single face has been removed the supports holding up the roof are moved forward to engage the next face and the void behind the supports created by removing the coal is allowed to collapse. Long-wall mining requires considerable planning to ensure that the geology in a section is appropriate before development in a section commences. Typically 75 percent of the coal in the area being mined can be removed with long-wall mining.

After being removed from the ground the run-of-mine (ROM) coal is processed (also called beneficiation or washing) to remove impurities such as dirt or rock and ensure that coal of consistent size and quality is delivered to clients.

Production

The figure below shows the combined production of saleable thermal and coking coal from NSW and QLD coalfields for the last five financial years.

Figure 3: Historical black coal production



Source: NSW and QLD government publications

The production and export of both thermal and coking coal is forecast to continue expanding in the short to medium term. To enable increased production, new mines in NSW and QLD are proposed and will open in the short to medium term. In addition, the efficiency of existing mines will be improved and relatively low cost mine expansions will be implemented.

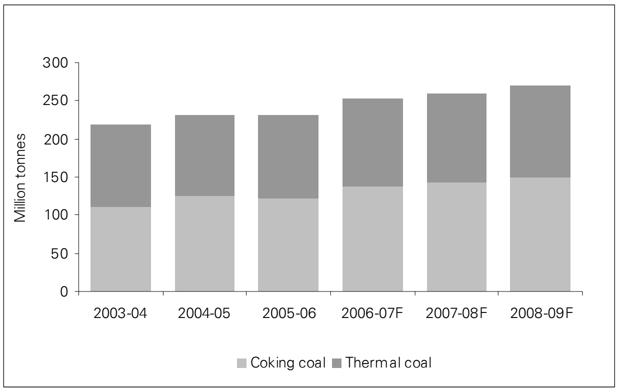
Coal is a non-renewable energy source with the world's coal reserves estimated at approximately 900 billion tonnes or about 200 years of production at current levels. NSW and QLD reserves are estimated at approximately 11 billion and 33 billion tonnes respectively.

Sales

It is forecast that in 2006-07 exports will make up approximately 77 percent by volume and approximately 90 percent by value, of saleable coal produced in Australia.

The figure below shows the historic and forecast exports of Australian black coal.

Figure 4: Historic and forecast black coal exports

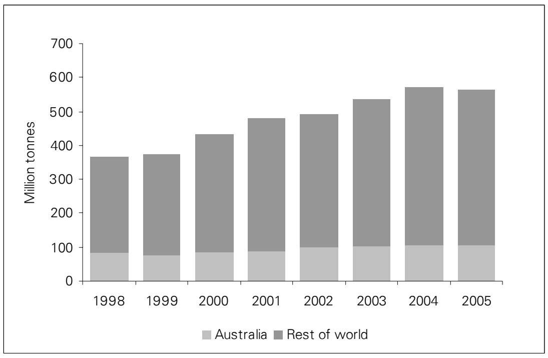


Source: IBISWorld Pty Ltd

Australian coal exports are forecast to continue growing with Japan, the main market for Australia's coal exports, expected to account for approximately 52 percent and 33 percent of Australia's thermal and coking coal exports respectively in 2006-07.

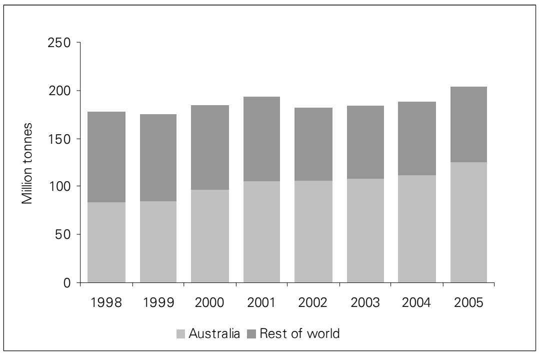
Figure 5 below shows the historical Australian share of the export thermal coal market at approximately 20 percent of the world export market, with Indonesia overtaking Australia in 2005 to become the largest exporter of thermal coal, a position it is forecast by several commentators to maintain. Figure 6 shows the historical Australian share of the export coking coal market at over 50 percent of world export market.

Figure 5:World historical thermal coal exports



Source: ABARE

Figure 6: World historical coking coal exports



Source: ABARE

Global Demand

Global demand measured in imports of thermal and coking coal is forecast to continue growing as shown in the figures below. The International Monetary Fund estimates that coal's share of the world's energy market has climbed to 28 percent, up from 25 percent in 2000, with the International Energy Agency forecasting that power generation from coal is set to double in the next 25 to 30 years.

China has a growing influence on the internationally traded coal market, not only because it produces around 2 billion tonnes per annum, but because it has now become a swing supplier. In the first three months of 2007, China was a net importer of coal with a number of analysts predicting this to continue in future months.

Several commentators have noted that exports of thermal coal most notably to Asia are forecast to continue growing as the region continues to industrialise and increase electricity generation. Chinese plans to add considerable electricity generation capacity, mostly from coal-fired power stations, will require around an extra 100 million tonnes of thermal coal per annum.

Although India is a leading producer of thermal coal with considerable reserves, rapid economic growth and considerably higher demand for coal fired electricity, coupled with difficulties relating to the quality and location of Indian coal, has seen the country become a net importer, a trend that is expected to continue.

Japan has a mature steel industry with demand driven by the economic cycle and is forecast over the medium term to remain as the world's largest importer of coking coal. Continued global economic growth coupled with further urbanisation and industrialisation in the developing world, most notably in Asia, particularly China, is driving demand for steel and hence the demand for coking coal.

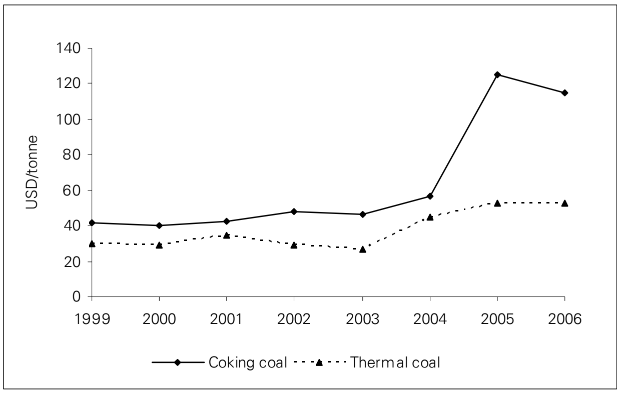
Pricing

The price that Australian coal producers receive for coal is heavily dependent on steel and electricity production overseas, particularly in the Asian region. As the largest importer of both thermal and coking coal, Japan's significant influence as a buyer has implications for dealings with other customers, particularly South Korea and Taiwan, who use prices negotiated with Japan as a benchmark for the prices they pay.

The majority of coal traded in international markets is sold using term contract arrangements. Under the term contracts, sale volumes are usually set contractually with a provision for the purchaser to marginally increase or decrease volume with prices negotiated on an annual basis.

Figure 8 below shows the historical Australian-Japanese contract prices for coking and thermal coal in US dollars in the Japanese financial year (April to March) they occurred.

Figure 7: Historical coal prices

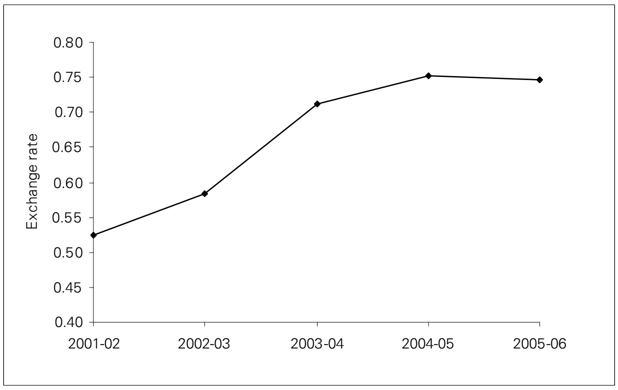


Source: ABARE

Coal prices rose sharply in the mid 2000s as supply failed to keep pace with demand. By 2006 there were signs of downward price pressure, especially for softer coking coal and steaming coal. As new mines and mine expansions come on stream during 2007 and 2008, downward price pressure is expected to intensify.

As an international commodity, coal is sold in USD exposing coal producers to currency risk. Figure 9 below shows historic USD to AUD exchange rates as a period average in the financial year indicated.

Figure 8: Historical exchange rate



Source: ABARE

Stable economic and political conditions in Australia, coupled with strong demand for Australian currency due to the commodities boom, will support the AUD at around its current levels in the short to medium term.

Challenges to the coal industry

The growth in demand for coal places pressure on existing coal supply chain infrastructure with ongoing investment in infrastructure required to prevent and reduce bottlenecks in the supply chain.

Coal users and producers will be subject to increasing pressure from the environmental movement due to concerns about contribution to global warming. However, the highest growth markets for thermal coal are countries not covered by the Kyoto protocol, suggesting that climate concerns will have a relatively muted impact on Australia's coal exports over the medium term.

Outlook

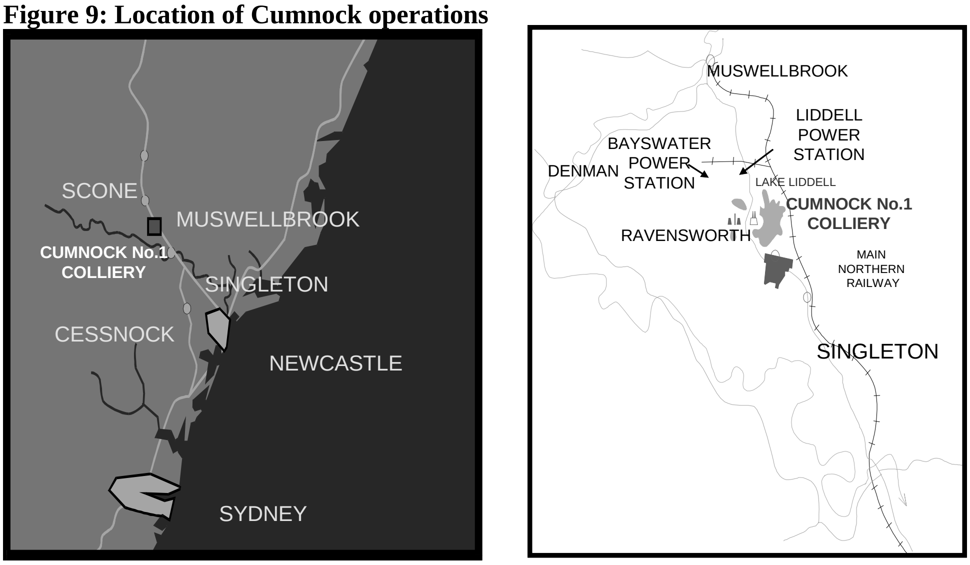
The outlook for the Australian export coal industry remains positive based on the relatively low-cost nature of Australian coal production, the high quality of the coal produced, Australia's location close to the markets of Asia, continuing growth in the world economy and continued industrialisation of developing nations, particularly China.

7 Profile of Cumnock

7.1 Corporate background and development

Cumnock is a coal mining company with a single open-cut mine producing semi-soft and thermal coal for the export market. The Company's operations are located in the Hunter Valley region of NSW, 25 kilometres from Singleton in close proximity to the Liddell and Bayswater power stations and the Liddell rail loop.

Figure 9: Location of Cumnock operations



Source: Cumnock management

Based on current reserves and production plans, Cumnock is expected to exhaust its coal reserves in its existing pit, and consequently cease mining, during the year ending 31 December 2008. Cumnock is, however, considering the possibility of extending mine life through the development of a pit under the existing coal handling and preparation plant.

Cumnock's largest shareholder, Xstrata, holds an approximate 84 percent interest in the Company and provides Cumnock with management, technical and administrative services, as well as sales and marketing support.

Corporate structure

Cumnock has a relatively simple corporate structure with a single wholly owned subsidiary, Cumnock No. 1 Colliery Pty Limited.

History and development

Cumnock was incorporated in Western Australia as New Australian Resources NL on 13 March 1985 to participate in coal and gypsum exploration in WA. The Company was listed on the Official List of the ASX on 11 July 1991. Cumnock changed its name to Cumnock Resources NL in 1992 and adopted its current name on 21 November 1996.

Cumnock purchased its current operations in 1991 from the NSW government, which by this stage had developed several underground mining operations. During 1994 the Company developed open-cut mining operations in addition to its underground operations.

During 1997 Cumnock scaled back the Company's open-cut operations due to weak market conditions and higher operating costs relative to the Company's underground operations. Open-cut mining was eventually suspended in June 1998.

In late 2002, Cumnock announced that the Company would cease underground mining operations due to severe geological conditions and unfavourable drilling results and would instead reopen their open-cut operations. Underground mining eventually ceased in September 2003.

Mining operations

Current operations

Currently, Cumnock's only source of coal production is from a single open-cut pit. Based on Cumnock's current reserve and production profile, the Company will exhaust economic reserves in its existing pit in October 2008.

Cumnock management advise that is likely that run of mine (ROM) production may be extended until 2009, as shown below, through the development of a resource located underneath the CHPP.

Table 1: Historical and forecast life of mine

Full year	Historical 2004	Historical 2005	Historical 2006	Forecast 2007	Forecast 2008	Forecast 2009
ROM production (kt)	1,257	1,417	1,417	1,350	1,038	1,006
Operations yield (%)	84.6	78.5	73.3	72.6	71.8	70.7
Saleable production (kt)	1,064	1,112	1,039	981	745	711
Export sales						
Thermal sales (kt)	77	35	580	509	358	711
Semi-soft sales (kt)	977	885	625	319	387	-
Total sales (kt)	**1,054**	**920**	**1,205**	**828**	**745**	**711**

Source: Cumnock annual reports and life of mine report April 2007

As can be seen from the above table, historical production has been relatively stable over the past three years. However, the yield on the coal seams mined has declined over this period due to an increasing presence of a carbonaceous shale band within the Upper Pikes Gully seam. Production is also expected to fall in the final two years of mining to around one million tonnes per annum.

Cumnock has contracted with Roche Mining Pty Ltd (Roche) in relation to both open-cut mining services and CHPP operating services. As a result of the service contracts with Roche and other service contracts with Xstrata, the Company has no direct employees.

Future development potential

Cumnock management have identified the following opportunities that have been studied in order to extend the life of the mine:

- Barrett underground: A study was undertaken into the recommencement of underground mining of the Barrett seam. The project was not undertaken due to the technical difficulties associated with the project.

- Satellite pits: A study was undertaken to determine the feasibility of selectively mining several of the satellite pits shown in Figure 11 below. The project was ultimately deemed not to be an economically viable option.

Figure 10: Location of proposed satellite pits and Southern Open Cut super pit

Source: Cumnock management presentations

- Southern Open Cut: A study was undertaken to determine the feasibility of large scale open pit mining to take advantage of the stratified lease holdings of Ravensworth West (a neighbouring property owned by Xstrata) and Cumnock to produce a "Super Pit" shown shaded in Figure 11 above. The Southern Open Cut project did not proceed due to the large capital expenditure required, estimated by management at greater than $500 million, coupled with a relatively low internal rate of return. Cumnock would also have to enter into an agreement with Xstrata to access the surface areas of the proposed pit owned by Xstrata.

- CHPP area: Cumnock is currently evaluating whether it will mine the area under their existing CHPP. An application for a surface mining lease to mine this area may be submitted once feasibility studies and approvals have been completed. Should Cumnock proceed with this project it is expected that production will start and finish in 2009. This option involves dismantling the existing processing plant and mining the area underneath it to realise approximately one million tonnes of ROM coal, ultimately yielding approximately 0.71 million tonnes of saleable product.

Figure 11: Location of processing plant area

Source: Cumnock management presentations

Figure 11 above shows the location of the CHPP. Before the commencement of mining, the CHPP will be dismantled with coal produced to be processed under contract by a third party. A potential benefit of this project is that mining the area may reduce the liability Cumnock has to rehabilitate the area covered by the CHPP.

Supplier relationships and significant contracts

Cumnock has entered into contracts with Roche for the provision of mining services relating to the operation of the Company's open pit mine. Roche also manages the operation of the CHPP.

Cumnock also has contracts in place for the haulage of coal between various points in the Company's production process, including from the open pit to CHPP and from the CHPP to the Ravensworth Coal Terminal.

Further, Cumnock has in place the following agreements for the sale of coal:

Table 2: Cumnock coal sales contracts

Purchaser	Specification	Quantity	Period
Sumitomo Metal Industries Ltd	Semi-soft coal	270 kt	Japanese fiscal year '07
Mitsui Mining Company	Semi-soft coal	17 kt	Apr '07 to Mar '08

Source: Cumnock management

All other contracts of significance are with related parties and are discussed in further detail below.

Related party transactions

In addition to the significant supplier relationships outlined above, Cumnock management advise that the Company is highly reliant on Xstrata for the provision of various services. Cumnock advised that the Company has agreements for the provision of the following services with Xstrata:

- sales and marketing

- rail haulage (through Xstrata contract with Pacific National)
- management and technical services
- diesel supply (through an Xstrata contract with Glencore)
- electricity supply (through Xstrata contract with AGL).

Cumnock management are of the opinion that their relationship with Xstrata benefits the Company by allowing Cumnock to leverage off Xstrata's economies of scale with regard to coal marketing and negotiating items such as rail access. The relationship with Xstrata also gives Cumnock the ability to blend their coal with coal produced at other Xstrata mines in the area, leading to increased saleability of coal produced at Cumnock.

In addition to the above arrangements, we note that Cumnock shares back office support and accounting systems with Xstrata.

We understand that the above services are rendered at arms-length terms.

Share capital and ownership

Top ten shareholders

Cumnock currently has on issue 250,530,960 ordinary fully paid shares, which are quoted on the ASX. Cumnock's top ten shareholders as at 13 July 2007 were as follows.

Table 3: Cumnock's top ten shareholders

	Number of shares held 000s	% of issued capital
Xstrata Coal Pty Limited	210,379	83.97
Itochu Coal Resources Australia Pty Ltd	25,078	10.01
Citienergy Corporation	2,507	1.00
Citicorp Nominees Pty Limited	2,008	0.80
ANZ Nominees Limited	1,230	0.49
HSBC Custody Nominees (Australia) Limited	985	0.39
Mrs Cornelia Van Beelen	700	0.28
China Coal Import and Export Co Sunfield	500	0.20
Worldlink Transport Co Ltd	500	0.20
Merrill Lynch (Australia) Nominees Pty Ltd	441	0.21
Total number of shares held by the top 10 shareholders	**244,939**	**97.52**
Other shareholders	6,202	2.48
Total number of shares on issue	**250,531**	**100.00**

Source: Link Market Services investors report

As shown in the table above, Xstrata has approximately 84 percent of Cumnock's issued share capital. Shares not held by either Xstrata or Itochu (Cumnock's other substantial shareholder with Xstrata) represents approximately six percent of Cumnock's issued share capital.

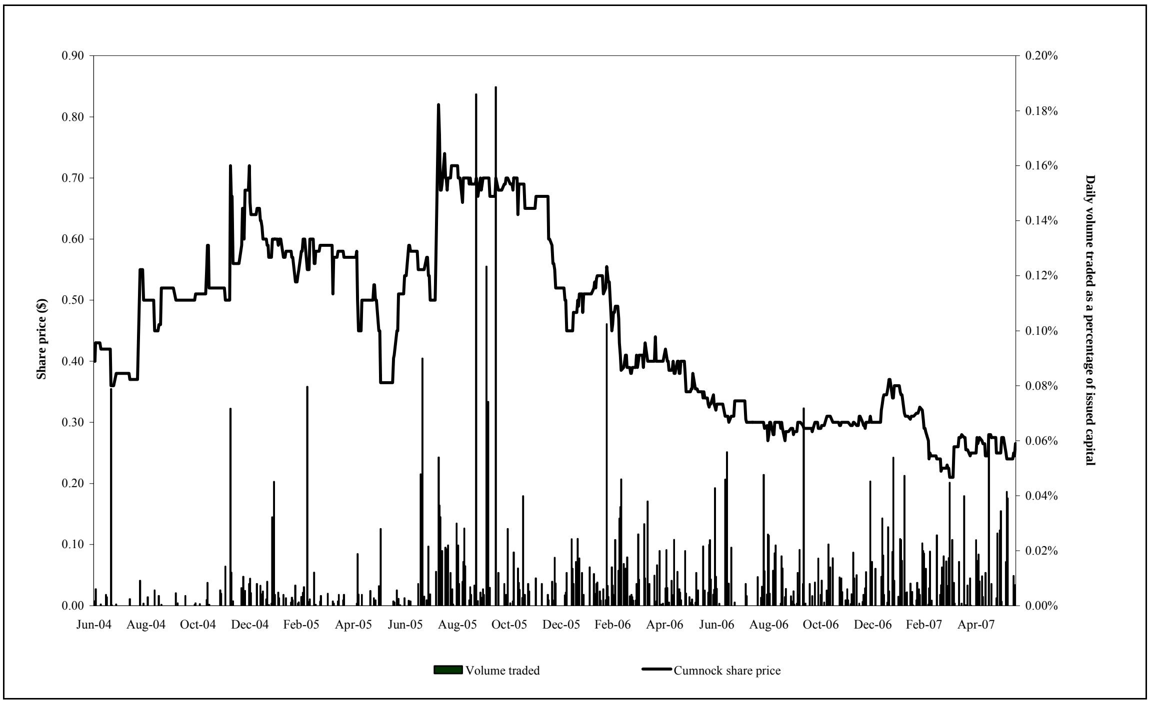
The audited financial report for the financial year ended 31 December 2006 make no reference to any of the directors holding a direct interest in Cumnock.

Cumnock does not have any options or other equity instruments currently issued other than the issued shares as set out above.

Share price history

The chart below depicts Cumnock's daily closing share price since 30 June 2004 and the volume of shares traded expressed as a percentage of issued capital.

Figure 12: Cumnock's share price history



Source: Bloomberg

The share price has exhibited an overall downward trend since July 2005. Cumnock's shares exhibited extremely low levels of liquidity over this period. The closing price of a Cumnock share on the last trading day prior to the date of this report was $0.29.

Significant announcements made by Cumnock since July 2005 that may have impacted their share price include:

- August 2005 – Cumnock announced the results for the six months ended 30 June 2005 including an approximate 70 percent increase in revenues and an approximate 420 percent increase in profit before tax attributed to higher production and coal prices.

- 21 February 2006 – Cumnock announced that the Directors declared the payment of a final unfranked dividend of five cents per ordinary share.

- 19 February 2007 – Cumnock announced the results from investigations into future mining operations detailing that mine reserves may be able to be extended by approximately one million tonnes subject to, inter alia, negotiating contracts to mine and wash the coal economically. Other than this potential for additional resources, the Directors stated that they did not believe there were any further opportunities to extract further resources from the current mining lease area.

Liquidity History

An analysis of the volume of trading in Cumnock's shares in the 12-month period to 13 July 2007 is set out below.

Table 4: Trading liquidity in Cumnock shares pre-announcement

Period prior to announcement date	Closing share price (high) $	Closing share price (low) $	Volume Weighted Average Price $	Cumulative volume	As a % of issued capital %
1 week	0.30	0.27	0.293	434,097	0.17
1 month	0.30	0.23	0.266	1,011,960	0.40
3 months	0.30	0.23	0.262	1,723,305	0.69
6 months	0.30	0.21	0.278	2,747,264	1.10
12 months	0.37	0.21	0.285	4,195,094	1.67
18 months	0.37	0.21	0.333	5,775,801	2.31

Source: Bloomberg

Cumnock shares have exhibited extremely low levels of liquidity in recent times with only 1.1 percent of shares on issue being traded over the six months prior to the announcement of the Proposed Transaction.

We note that while trading in Cumnock shares is extremely illiquid when expressed as a percentage of the overall issued capital, trading in the six months prior to the announcement calculated with regard to the Company's free float (i.e. total issued capital less Xstrata and Itochu's holding) is approximately 18 percent.

7.2 Financial overview

Financial performance

Cumnock's historical audited consolidated income statements for the three years ended 31 December 2004, 2005 and 2006, together with the unaudited results for the four months ended 30 April 2007 (being the latest available results), are summarised in the table below.

Table 5: Summary of Cumnock's historical consolidated financial performance

$000	Year ended 31 Dec 2004	Year ended 31 Dec 2005	Year ended 31 Dec 2006	4 months to 30 Apr 2007
Revenue				
Revenue from sales of coal	88,876	74,413	89,812	14,903
Other revenue	2,077	48	1,444	450
Total revenue	**90,953**	**74,461**	**91,256**	**15,353**
Cost of sales	(59,354)	(44,156)	(61,949)	(9,646)
Administrative expenses	(1,500)	(600)	(1,397)	(449)
Marketing expense	(1,759)	(1,763)	(2,092)	(355)
Redundancy costs	(661)	-	-	-
EBITDA	**27,679**	**27,942**	**25,818**	**4,903**
Depreciation and amortisation	(2,123)	(2,274)	(3,561)	(1,680)
EBIT	**25,556**	**25,668**	**22,257**	**3,223**
Net interest revenue / (expense)	(111)	1,875	2,868	1,118
Share of profit of associates	3	3	3	-
Net profit before income tax	**25,448**	**27,546**	**25,128**	**4,341**
Income tax benefit / (expense)	14,749	(7,550)	(7,524)	(1,303)
Net profit after income tax	**40,197**	**19,996**	**17,604**	**3,038**

Source: Cumnock's 2004, 2005 and 2006 audited annual reports and unaudited April 2007 Management Report

Observations in relation to Cumnock's historical financial performance are set out below.

Year ended 31 December 2004

- Due to the closure of the Company's underground operations, Cumnock sold plant and equipment used for underground mining to entities controlled by Xstrata. As a result of this sale, Cumnock recorded a gain on sale of property plant and equipment of approximately $1.6 million under other revenue.

- Due to the closure of underground operations, Cumnock recorded redundancy costs of approximately $0.7 million.

- Cumnock brought to account previously unrecognised tax losses of approximately $23 million. This resulted in a tax benefit of approximately $15 million being recorded during the year.

Year ended 31 December 2005

- Administrative expenses for 2005 were reduced as a result of a $0.3 million reversal for legal fees and the absence of one-off expenses that occurred in both 2004 and 2006.

Year ended 31 December 2006

- Cumnock management have advised that included within other revenue for the year ended 31 December 2006, is an amount of approximately $1.3 million of royalty income. This amount relates to the net income received from the following contracts:

  - "Access and Compensations Agreement" with Ravensworth Operations

  - "Sublease of mining lease 1393" to Ravensworth Operations

- "Cumnock Co-operation Agreement" with Centennial Fassifern Pty Ltd.

- Cumnock management advise that they expect to receive further royalty payments in respect of the above agreements of approximately $0.5 million for the year ending 31 December 2007 and then nothing in the final two years of commercial operations.

- We note that the revenue for the four months to 30 April 2007 is approximately $14.7 million, which equates to annual revenue of approximately $44 million. This is materially lower than revenue recorded in previous years predominately due to a reduction in the tonnes of coal sold, coal prices and currency movements.

Financial position

Cumnock's historical audited consolidated balance sheets as at 31 December 2005 and 2006, together with the unaudited consolidated balance sheet as at 30 April 2007 (being the latest available results), are summarised below.

Table 6: Summary of Cumnock's historical consolidated balance sheets

$000	Year ended 31 Dec 2005	Year ended 31 Dec 2006	4 months to 30 Apr 2007
Cash and equivalents	47,571	64,663	62,663
Trade and other receivables	3,619	7,084	5,035
Inventories	4,914	1,133	6,746
Prepayments	23	-	122
Foreign exchange contracts	-	514	337
Total current assets	**56,127**	**73,394**	**74,903**
Deferred income tax assets	8,710	2,872	2,872
Property, plant and equipment	10,468	8,413	9,432
Other	45	45	45
Total non-current assets	**19,223**	**11,330**	**12,349**
Total Assets	**75,350**	**84,724**	**87,252**
Trade and other payables	7,002	8,603	7,676
Income tax payable	-	1,157	1,761
Foreign exchange contracts	655	-	-
Total current liabilities	**7,657**	**9,760**	**9,437**
Trade and other payables	732	314	174
Deferred income tax liabilities	83	450	397
Provisions	5,498	6,924	7,054
Total non-current liabilities	**6,313**	**7,688**	**7,625**
Total Liabilities	**13,970**	**17,448**	**17,062**
Net Assets	**61,380**	**67,276**	**70,190**

Source: Cumnock's 2005 and 2006 audited annual reports and unaudited April 2007 Management Report

Observations in relation to Cumnock's historical financial position and further details in relation to key items included in the Company's net asset position as at 30 April 2007 are set out below.

Cash

We note that despite the payment of a dividend of approximately $12.5 million during the year ended 31 December 2006, a substantial portion of Cumnock's total assets is attributable to cash.

As at 30 April 2007, cash represented approximately 72 percent of Cumnock's total assets.

Receivables

Cumnock have advised that the majority of receivables are trade debtors and that they do not expect any issues with the collection of receivables recorded on their books.

Inventories

Inventories as at 30 April 2007 comprise only of coal stocks which are recorded at cost, reflecting the cost of bringing the coal stock to its present location and condition.

Deferred tax asset and liability

The balance of Cumnock's deferred tax assets and liabilities as at 30 April 2007 primarily relates to differences between the treatment of restoration liabilities for tax and accounting purposes.

Property, plant and equipment

Summary details of Cumnock's property, plant and equipment as at 30 April 2007 are set out below.

Table 7: Summary of Cumnock's property, plant and equipment as at 30 April 2007

$000	4 months to 30 Apr 2007
Land and buildings	
Freehold land and buildings – at cost	4,702
Less: accumulated depreciation	(503)
Total land and buildings	**4,199**
Plant and equipment	
Plant and equipment – at cost	33,744
Less: accumulated depreciation	(28,510)
Total plant and equipment	**5,234**
Total property, plant and equipment	**9,433**

Source: Cumnock's unaudited 30 April 2007 management accounts

Other assets

As at 30 April 2007, Cumnock's other assets balance was comprised of the following balances.

Table 8: Summary of Cumnock's other assets as at 30 April 2007

$000	4 month to 30 Apr 2007
Shares in Ravensworth Coal Terminal Pty Ltd	4
Investment in associate (Newcastle Coal Shippers Pty Limited)	41
Total other assets	**45**

Source: Cumnock's unaudited 30 April2007 management accounts

We have been advised by Cumnock management that Ravensworth Coal Terminal Pty Ltd (RCT) is the company responsible for managing the Ravensworth Coal Terminal Joint venture. Further to this we have been advised the coal terminal facilities operated by RCT are:

- used by all three of the joint venture parties listed below
- operated on a cost recovery basis

- currently operating with excess capacity.

Cumnock management has advised us that ownership of RCT is held by the following parties:

- 53.4 percent – Hunter Valley Energy Coal Ltd
- 35.6 percent – Cumnock No 1 Colliery Pty Ltd
- 11.0 percent – Muswellbrook Coal Company Ltd.

From discussion with Cumnock management, we understand that it is unlikely that other parties will seek to utilise the excess capacity of RCT due to logistical constraints.

Cumnock advised that their investment in Newcastle Coal Shippers Pty Limited (NCS) is an approximate 0.04 percent interest. This company is involved in the management of Port Waratah Coal Services. Cumnock's share of profit from its investment in NCS for the year ended 31 December 2006 was approximately $3,000. Management indicated that this investment is accounted for as an associate on the basis of the significant influence Xstrata as a group has over NCS, rather than Cumnock's individual interest.

Payables

Cumnock management have advised that trade and related party payables are non-interest bearing. They are settled in accordance with the individual contract terms which range between approximately 20 and 70 days.

Commodity and currency hedging

Due to the fact that coal is priced in United States dollars, Cumnock have historically utilised currency hedging contracts to protect against adverse movements in the AUD:USD exchange rate.

We have been advised that all currency hedging contracts have now expired and there are no plans to enter into any contracts in the near future.

We have been advised that no commodity price hedging is in place, however we note that the Company has entered into short-term contracts for the sale of coal at fixed prices.

Provisions

As at 30 April 2007, Cumnock had provided approximately $7 million for costs expected to be incurred on cessation of producing activities. This balance reflects the present obligation based on the area disturbed as at 30 April 2007.

Contingent liabilities

In June of 2004, the Industrial Relations Commission handed down a judgement in relation to the death of an employee of the Company. Cumnock pleaded guilty to a breach of the Occupational Health and Safety Act and was fined $123,500. Cumnock will also be liable for the prosecutor's legal costs.

Cumnock management advised that the Company has no other contingent or unrecorded liabilities other than those set out above.

Summary of cash flow statements

Cumnock's audited consolidated Statement of cash flows for the three years ended 31 December 2004, 2005 and 2006 are summarised below:

Table 9: Summary of Cumnock's cash flows statements

$000	Year ended 31 Dec 2004	Year ended 31 Dec 2005	Year ended 31 Dec 2006
Cash flows from operating activities			
Receipts from customers	92,772	80,542	87,392
Payments to suppliers and employees	(65,734)	(55,350)	(60,985)
Interest received	399	1,945	2,730
Income tax paid	-	-	(512)
Other	297	52	1,448
Net operating cash flows	**27,734**	**27,189**	**30,073**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	8,578	-	-
Payments for property, plant and equipment	(426)	(187)	(454)
Net investing cash flows	**8,152**	**(187)**	**(454)**
Cash flows from financing activities			
Repayment of borrowings	(4,498)	-	-
Equity dividends paid	(12,527)	-	(12,527)
Net financing cash flows	**(17,025)**	**-**	**(12,527)**
Net increase in cash held	**18,861**	**27,002**	**17,092**
Cash at the beginning of the year	1,708	20,569	47,571
Cash at the end of the period	**20,569**	**47,571**	**64,663**

Source: Cumnock's 2004, 2005 and 2006 audited annual reports

Observations in relation to Cumnock's statements of cash flows are set out below.

Tax losses and franking credits

We note that over the above period, Cumnock paid taxes only for the year ended 31 December 2006. This is a result of the Company's accumulated tax losses from prior years being utilised to offset current year tax liabilities.

Cumnock management have advised that all tax losses have now been utilised by the Company.

Franking credits

As a result of the Company utilising prior year tax losses, Cumnock has historically generated very few franking credits. We note that the equity dividends paid to shareholders shown above have been unfranked.

Capital expenditure

We have been advised by Cumnock management that the following amounts of capital expenditure are expected to be incurred over the remaining life of the Company's operations:

- approximately $0.7 million for the year ending 31 December 2007

- approximately $1.7 million over the final two years ending 31 December 2009.

The above amounts are primarily attributable to costs associated with developing the coal reserves located under the CHPP in order to extend Cumnock's life of mine into 2009 and include feasibility study costs of approximately $1.1 million.

8 Valuation of Cumnock

Valuation methodology

In assessing the value of Cumnock we have considered a range of valuation methods. ASIC Practice Note 43 (PN 43) states that it is appropriate for an independent expert to consider, amongst other methods of valuation, asset-based methodologies, the application of earnings multiples and discounted cash flow (DCF) analysis.

In our experience, the most appropriate method for determining the value of companies similar to Cumnock is on the basis of their net assets, with the principal operating assets being valued using the DCF approach.

The DCF methodology has a strong theoretical basis, valuing a business on the net present value (NPV) of its future cash flows. It requires an analysis of future cash flows, the capital structure and costs of capital. This technique is particularly appropriate for start up companies and companies with a limited asset life which is often the case with companies dependent upon depleting mineral resources. In applying this technique, a sensitivity analysis for variations in key assumptions adopted should be performed. On application, the DCF technique should generally not give a materially different result to that resulting from a capitalisation of the maintainable future earnings of the business.

ASIC Policy Statements envisage the use by an independent expert of specialists when valuing specific assets. To assist KPMG in the valuation of Cumnock's coal production and exploration assets, Minarco was engaged to prepare an independent technical report to provide the inputs for the valuation of Cumnock's current operations and values for Cumnock's non-operating assets. A copy of Minarco's report, dated 17 July 2007, is attached to this report as Appendix 4.

Minarco's report was prepared in accordance with the requirements of the AusIMM Code and Guidelines for Assessment and Valuation of Mineral Assets and Mineral Securities for Independent Expert Reports (the ValMin Code).

We have satisfied ourselves as to Minarco's qualifications and independence from Cumnock and have placed reliance on its report.

We have relied on the commercial, operational and financial assumptions provided by Minarco in compiling the cash flow model of Cumnock's current operations. KPMG was responsible for the determination of certain macro economic and other assumptions, such as exchange rates, discount rates, inflation and taxation assumptions.

Due to the various uncertainties inherent in the valuation process, we have determined a range of values within which we consider the value of Cumnock's fully diluted shares to be. The valuations ascribed by Minarco to the salvage value of the CHPP, to Cumnock's rehabilitation liability and the value of Cumnock's remaining coal resources (currently not considered as economically viable for mining) have been adopted in our valuation of Cumnock's ordinary shares.

Other assets and liabilities of Cumnock have been incorporated in our valuation at assessed values or book values as discussed later in this section.

Valuation Summary

We have assessed the fair market value of 100 percent of the equity in Cumnock to be in the range of $104.440 million to $116.170 million, which equates to an assessed fair market value per fully diluted Cumnock share of between $0.42 and $0.46. Our range of assessed fair market values represents the value of a 100 percent interest in the Company and includes a premium for control.

We have assessed the value of Cumnock by aggregating the estimated fair market value of Cumnock's mineral interests, the assessed fair market value of other assets considered to be surplus to the current mineral interests of the Company and the assessed salvage value of the Company's assets and, if appropriate, deducting any external borrowings and non-trading liabilities. The value of Cumnock's business operations has been assessed on the basis of fair market value, that is, the value that would be negotiated between a knowledgeable and willing, but not anxious buyer, and a knowledgeable and willing, but not anxious seller, acting in an arm's length transaction, where both buyer and seller are fully informed.

Set out below is a summary of our range of fair market values determined for Cumnock's shares.

Table 11: Summary of assessed fair market value of Cumnock

$000	Low	High
Value of current operations	39,666	43,525
Surplus assets/ (liabilities)		
Excess cash	55,163	55,163
Investments	1,611	4,882
Coal resources	8,000	12,600
Total equity value	**104,440**	**116,170**
Number of shares currently on issue (millions)	250.531	250.531
Assessed fair market value per share - $	**0.42**	**0.46**

Source: KPMG analysis

Our range of assessed values is relatively narrow reflecting the fact that the majority of the value lies in the non-operating assets.

Premium for control

It is generally acknowledged that in order to acquire a 100 percent controlling interest in a listed company, the acquirer must pay a premium over and above the price at which the shares in the target are trading on the ASX prior to the announcement of the takeover bid. This premium reflects the benefits the acquirer achieves through holding a 100 percent controlling interest in contrast to a portfolio shareholding and even a controlling interest of less than 100 percent, although the level of premium paid in the latter circumstances may be less than otherwise may have been the case.

The benefits of holding a 100 percent controlling interest typically may include:

- full and unfettered access to cash flows of the business
- control over dividend decisions

- control over voting at shareholder meetings and, in particular decisions requiring special resolutions, and composition of the Board of Directors
- absolute control over the future direction of the company without the need to have regard to prejudicing the interests of minority shareholders
- ability to group tax losses.

Premiums are paid for reasons that vary from case to case. In some situations the premium paid may be greater than others due to synergies or other benefits the acquirer expects to realise.

A DCF valuation provides a valuation of 100 percent of a project and accordingly incorporates a premium for control in respect of the benefits of accessing in full the cash flows attributable to the Company. As we have applied a DCF methodology in assessing Cumnock's operating assets, no additional premium for control has been included in our valuation.

Accordingly, our assessed the fair market value of a Cumnock share, inclusive of premium for control, of between $0.42 and $0.46 per share, representing a premium of between 45 percent and 59 percent to Cumnock's closing price on the day prior to the date of this report of $0.29.

Current operations

The value of current operations has been determined with reference to the assumptions set out below. The current operations comprise:

- existing mining operations
- realisation of working capital, plant, land, water rights, prepayments and stockpiled coal
- environmental liabilities.

Key operational assumptions

The base case assumptions adopted in our valuation are set out below:

Table 12: Key operating assumptions – Base case

		Assumptions		
Factor	Unit	2007	2008	2009
ROM production	Tonnes	1,350,000	1,037,868	1,005,692
Total saleable production	Tonnes	980,565	745,487	711,401
Total sales	Tonnes	827,818	745,488	711,401
Mining cost per saleable tonne	AUD/tonne	30.92	32.50	32.24
CHPP cost per saleable tonne	AUD/tonne	5.89	6.40	5.67
Administration cost per saleable tonne	AUD/tonne	2.31	4.46	4.06
Distribution and selling cost per saleable tonne	AUD/tonne	16.81	17.03	14.57

Source: Minarco, KPMG analysis

We have considered Minarco's assumptions and discussed them with Minarco in the context of Cumnock's current operating capacity and results. Based on our discussions, we consider the assumptions adopted by Minarco to be reasonable.

Further discussion regarding the assumptions adopted by Minarco in assessing the operational value of Cumnock is contained in Minarco's report, which is attached as Appendix 4 to this report.

Excess cash

We have adjusted Cumnock's cash holdings of $62.663 million as at 30 April 2007 to reflect the $7.5 million of operating cash that Cumnock management has indicated is required for ongoing operations. On this basis, Cumnock's excess cash has been determined at $55.163 million.

Investments

Other investments are immaterial and we have assumed the value of Cumnock's investments to be between $1.611 million and $4.882 million.

Coal resource

Minarco has estimated the value of Cumnock's coal reserve at between $8.0 million and $12.6 million. This reserve relates to mineral resources not currently regarded as economically viable for mining.

Our range of assessed fair market values does not incorporate any terminal value. During the three-year forecasting period, we have assumed Cumnock's entitlement to participate in proceeds from any realisation of mining infrastructure as it occurs. The assumption has been made that the value of the land and the working capital will be realised on the completion of Cumnock's mining operation. Assumptions based on information provided by Minarco have been used to estimate the future costs of mine closure and/or rehabilitation commitments. The potential exists for Cumnock to extend the operational mine life through exploitation of their mineral resources which Cumnock management have indicated are not currently economically viable. Accordingly, Minarco have provided an estimate of the value attached to Cumnock's coal resources.

Economic and financial assumptions

Denomination of cash flows

Cumnock's revenues are denominated in USD and converted to AUD at the exchange rate appropriate to the applicable year as shown in table 13 below. Cumnock's costs are denominated in AUD and their accounts are prepared in AUD. The NPV of Cumnock's forecast cash flows was calculated in AUD.

Exchange rate

Forecast exchange rates utilised by KPMG to value Cumnock's ongoing operations in respect of the Cumnock cash flow model in the period to 2009, are summarised in the table below.

Table 13: Exchange rate assumptions

	2007	2008	2009
AUD:USD[1]	0.806	0.730	0.715
AUD:USD[2]	0.780	0.728	0.710

Notes: 1. Exchange rates represent June quarter in the year indicated
2. Exchange rates represent projected whole calendar year averages
Source: Access Economics Access, Economics' Business Outlook, March Quarter 2007, KPMG analysis

The exchange rate assumptions are low relative to the current spot rates. As Cumnock's revenues are denominated in USD a low exchange rate will act to increase the Company's value as demonstrated in the sensitivity analysis.

Commodity prices

Commodity pricing assumptions utilised by KPMG to value Cumnock's ongoing operations in respect of the Cumnock cash flow model in the period to 2009, are summarised in the table below.

Table 14: Commodity price assumptions in real 2007 terms

USD/tonne	JFY2007	JFY2008	JFY2009	JFY2010
Metallurgical coal				
NSW semi-soft/PCI to Asia	63.50	63.02	59.39	57.94
Thermal coal NSW type				
Jap.utility average contract price	54.00	53.66	50.45	49.22
Asian utility tender price	53.00	52.68	49.49	48.29
AUST spot price to Jap.industry	54.30	53.17	49.02	47.82

Note: JFY = Japanese Financial Year
Source: Barlow Jonker, KPMG analysis

The JFY2007 prices for both metallurgical and thermal coal are higher than the prices achieved in JFY2006. The prices forecast for metallurgical coal are lower that the historical high price of 79.50 USD/tonne achieved in JFY2005.

Other assumptions

Other key financial and economic assumptions adopted by us in assessing the value of Cumnock include:

- a constant long-term inflation rate in respect of Australian inflation of 3.0 percent per annum. This rate was assessed having regard to the rates implied by the current yields on relevant long-dated Government bonds and inflation linked bonds and also to long-term forecasts of economic commentators
- the Australian corporate tax rate of 30 percent
- a post tax real discount rate in the range of 8.4 percent per annum to 9.4 percent per annum. The basis for our calculation of discount rates is discussed in Appendix 3 to this report.

Other assets

Net assets not valued as part of Cumnock's mineral assets comprise cash, non-mining items of property, plant and equipment and sundry other assets and liabilities. These assets have been included in the valuation of the current operations as noted below.

Land

The audited accounts for the year ending 31 December 2006 carry Cumnock's land and buildings at $4.2 million. It is likely that the land owned by Cumnock will only be of interest to another mining company as the value of the land is closely associated with the remaining coal resources. We have assumed that the value of the land will be realised on the completion of mining operations and that the land will realise between $4.2 million and $6.0 million.

Working capital

For the purpose of our assessment, the historical ratio of trade debtors and creditors to the Company's forecast operating revenue has been assumed to be maintained over the life of Cumnock. Cumnock management has indicated that the operating cash required will remain constant over the life of Cumnock. The model provided by Minarco indicates the change in inventory on an annual basis. We have assessed the change in working capital on an annual basis as summarised in the table below.

Table 15: Annual change in working capital

$000	2007	2008	2009
Change in working capital[1]	6,299	1,164	(701)

Note: 1. A positive number indicates a positive cash flow
Source: Minarco, KPMG analysis

It has been assumed that working capital will be realised on completion of Cumnock's mining operations.

Property, plant and equipment

We have relied on Minarco to provide an assessment of the future salvage value of Cumnock's mining related assets in particular the salvage value attributable to the CHPP. Minarco has assessed the future net salvage value of the CHPP in the range of $2 million to $4 million.

No value has been separately ascribed to the buildings on Cumnock's land as once production ceases the buildings will have no material saleable value.

Rehabilitation

Minarco has estimated that Cumnock will be required to spend $8.4 million on rehabilitation.

Water licences

Cumnock has two water licences listed at a total book value of $0.46 million. Cumnock is in the process of transferring one of these licences to Coal and Allied for $0.5 million. It has been assumed that the second water licence will be realised at book value at the end of the life of mine.

Stockpile

Cumnock management has advised that when mining is forecast to cease at Cumnock in 2009 they will have approximately 0.18 million tonnes of coal stockpiled. A value of approximately $10.7 million has been placed on this stockpile and included in the 2009 cash flows for valuation purposes.

Interest bearing debt

Cumnock has no interest bearing debt at the time of the valuation.

Synergies

Benefits and cost savings that any acquirer may achieve as a function of the enlarged entity's greater size, increased reserves and resource base and geographical diversification, are categorised as synergies. The determination of the value of these synergies usually includes a large degree of subjectivity and may not be as easily quantifiable. It is important to note that whilst these benefits may not be easily quantifiable, they can often be key drivers of any transaction. Given the uncertainty in attaching a value to the final quantum of any synergies a potential purchaser may be able to gain, we have not factored them into our range of assessed values for a Cumnock share. We have however considered these benefits in our assessment of the reasonableness of the Proposed Transaction.

As previously stated in section 7, Xstrata provides Cumnock with a range of back office, management and technical functions which any potential purchaser other than Xstrata would need to replicate. Given the uncertainty in attaching a value to the final quantum of these negative synergies that a potential purchaser would need to fund, we have not factored them into our range of assessed values for a Cumnock share. We have however considered these potential costs in our assessment of the reasonableness of the Proposed Transaction.

Sensitivity analysis

A sensitivity analysis around Cumnock's mid-point value of $110.305 million has been performed, the outcome of which is summarised below.

Table16: Sensitivity analysis – Cumnock

	Net present value ($ million)		
% change	**Coal price**	**Exchange rate**	**Discount rate**
+10	128.026	98.103	109.839
+5	119.207	103.914	110.071
0	110.305	110.305	110.305
-5	102.600	117.370	110.543
-10	94.691	125.220	110.782

Source: Minarco's model, KPMG analysis

The sensitivity analysis above indicates that the NPV of Cumnock is sensitive to movements in the coal price and exchange rate. The sensitivity analysis performed for the coal price included movement in the value of the coal resource. The sensitivity analysis performed for the exchange rate was limited to the current operations. We note that the majority of Cumnock's assessed value is attributable to cash and other non-operating assets.

9 Evaluation of the Proposed Transaction

The Proposed Transaction is fair and reasonable to the Non-associated shareholders

In our opinion, having considered the overall implications of the Proposed Transaction, the Proposed Transaction is fair and reasonable to Cumnock's Non-associated shareholders.

Our opinion is based solely on information available at the date of this report.

In assessing whether the Proposed Transaction is fair and reasonable to the Non-associated shareholders, we have considered the advantages and disadvantages that are likely to accrue to the shareholders if the Proposed Transaction proceeds, the implications should the Proposed Transaction not proceed, as well as other commercial factors as set out below.

Fairness

The cash consideration offered under the Proposed Transaction of $0.57 is considered to be fair as it falls above our range of assessed fair market values for a Cumnock share

We have assessed the fully diluted value of a Cumnock share, inclusive of a premium for control, to be in the range of $0.42 and $0.46, which compares to the consideration offered under the Proposed Transaction of $0.57 per Cumnock share. The offer of $0.57 per Cumnock share represents a premium of 24 percent to the high end of our range of assessed fair market values for a Cumnock share.

It is important to note that in arriving at our assessed fair market value range, we have not applied an illiquidity discount to reflect the inherent illiquidity of a Cumnock share or increased the discount rate in the final year to account for an increase in the risk associated with the proposal being considered to mine under Cumnock's coal handling and preparation plant.

The consideration under the Proposed Transaction represents a premium to the price of a Cumnock share immediately before the Proposed Transaction was announced, as well as a premium to prices at which Cumnock shares have traded recently

The consideration offered under the Proposed Transaction of $0.57 per Cumnock share represents a premium to the VWAP for a Cumnock share measured at various points in the three months prior to 13 July 2007 as set out below.

Table 17: Comparison of consideration to Cumnock VWAP

Period prior to 13 July 2007	Cumnock VWAP (cents)	Offer (cents)	Premium (%)
1 week	29.3	57	95%
1 month	26.6	57	114%
3 months	26.2	57	117%

Source: Bloomberg

The consideration offered also represents a premium of 97 percent to the closing price for a Cumnock share of $0.29 on the day prior to the date of this report.

Reasonableness

The value of a Cumnock share to Xstrata may exceed our assessed fair market value range

In addition to those synergies and cost savings available to a general pool of purchasers, Xstrata is likely to realise strategic benefits from acquiring Cumnock. In particular, Cumnock holds significant underground resources in the Lower Pikes Gully, Upper Liddell and Barrett seams, all of which are either being mined or being considered for mining by Xstrata.

Included in these resources, is the proposed Southern Open Cut operation which covers land owned by both Cumnock and Xstrata. Ownership by Xstrata of all the land required for the project to proceed may potentially be of significant value to Xstrata. The value of this operation may therefore be significantly higher to Xstrata than a general pool of purchasers.

Under current market conditions, these resources cannot be extracted economically by Cumnock as a stand-alone entity. However, the extraction of these resources may become economically viable in the future due to:

- higher coal prices
- lower costs of production due to advances in technology
- negotiating infrastructure, haulage and other cost sharing arrangements with third parties.

The value of this strategic benefit to Xstrata, by its nature, is difficult to quantify, however, it is important to note that Cumnock is unlikely to be able to extract these benefits as a stand-alone entity, particularly should the opportunity eventuate beyond the cessation of mining operations, currently expected towards the end of calendar year 2008, unless mining under the coal handling and preparation plant occurs, in which case it will be 2009.

Further to the strategic benefits of Cumnock's coal resources outlined above, Xstrata has advised that compared to other Xstrata coal operations, the time spent managing the affairs of Cumnock as a publicly listed company is disproportionately high relative to the size of Cumnock's mining activities. By acquiring full control of Cumnock, Xstrata is likely to realise additional value in the form of reduced demands on Xstrata management.

The strategic benefits that will flow to Xstrata if the Proposed Transaction is approved, are in part a contributing factor to the premium of the offer over our assessed fair market value range. We consider the premium of the offer to our fair market value range is appropriate to allow Xstrata the opportunity to realise these benefits. However, non-associated shareholders should consider the benefits of receiving a certain cash sum now against the uncertain potential for greater value to be realised from Cumnock's resources in the future should market conditions make the extraction of the available resources viable.

The prospects of a higher offer emerging in the future are low

Xstrata already holds approximately 84 percent of Cumnock's issued capital. As such, any alternative offer for Cumnock as a whole would need the support of Xstrata to be successful.

We have discussed the prospect of an alternative bidder for Cumnock with Minarco, who have indicated that as a result of the location of the assets involved and, particularly, the size of Xstrata's shareholding in Cumnock, there would appear to be no other logical industry buyer for

Cumnock. Accordingly, we consider the prospects of a higher offer emerging in the future to be low.

Whilst minority shareholders could reject the Proposed Transaction in the hope that Xstrata will increase the offer consideration, there can be no guarantee that Xstrata would increase its offer beyond the current proposal of $0.57 per Cumnock share.

The Board of Cumnock have considered alternative mechanisms to return value to shareholders

As the operating life of Cumnock's mine is nearing its end, the Board of Cumnock have considered the alternatives available to extend the life of the mine or alternatively, return the remaining value of Cumnock to its shareholders. Of the alternatives reviewed, the Proposed Transaction is considered to be the alternative that provides Non-associated shareholders with the greatest level of return and certainty of outcome.

Approval of the Proposed Transaction provides a certain exit from a historically illiquid stock

Reflecting the tightly held nature of Cumnock's equity, only 1.67 percent of issued capital was traded in the 12 months prior to the announcement of the Proposed Transaction, with an average volume of approximately 16,000 shares traded on each trading day. Acceptance of the Proposed Transaction represents an opportunity for Non-associated shareholders to realise a certain cash amount for their investment, free of costs of realisation.

We note that based on the volume of trading in Cumnock shares in the 12 months prior to the date of the announcement of the Proposed Transaction, the volume of shares held by minority shareholders represents approximately 30 months of trading.

Xstrata has significant voting control

As Xstrata holds approximately 84 percent of the issued shares of Cumnock, it will be in a position to determine the future operation of Cumnock. Therefore, if the Proposed Transaction is not approved under the current terms, Xstrata may seek an alternative means to achieve a similar outcome to that under the Proposed Transaction.

In the event the Proposed Transaction is unsuccessful, Cumnock's share price may fall

Should the Proposed Transaction not be approved, all other things being equal, the traded price of Cumnock's shares is likely to fall to the levels traded immediately prior to the offer being made.

However, we note that it is possible the Company's shares may trade at above pre-offer levels as a consequence of the additional information provided to the market, in particular, information contained in this report regarding the expansion prospects of the Company.

Further implications of not approving the Proposed Transaction include:

- shareholders will not receive the consideration of $0.57 per share
- trading in Cumnock shares will continue to be illiquid
- an alternative offer from Xstrata or a third party may not be forthcoming.

Our assessed values for a Cumnock share are sensitive to movements in exchange rates and coal prices.

Our assessed range of fair market values for a Cumnock share is particularly sensitive to the underlying assumptions made in relation to future exchange rates and coal prices.

If, all other things being equal, the forecast AUD:USD exchange rates adopted in our report strengthens by 10 percent, the midpoint of our assessed fair market value range for a Cumnock share would fall to $0.39. Conversely, a weakening of 10 percent in the AUD:USD exchange rate results in an increase in the midpoint of our assessed fair market value range for a Cumnock share to $0.50.

Furthermore, if, all other things being equal, the coal prices adopted in our report increase by 10 percent, the midpoint of our assessed fair market value range for a Cumnock share would rise to $0.51. Conversely, a 10 percent decrease in coal prices results in a fall in the midpoint of our assessed fair market value range for a Cumnock share to $0.38.

We note that even with favourable movements in exchange rates or coal prices, the assessed fair market value range is still significantly below the offer price of $0.57.

KPMG has based its opinions on the prevailing market, economic and other conditions at the date of this report. It should be noted that conditions can change over a relatively short period of time and that our findings should be considered in light of any such changes prior to the date Cumnock shareholders meet to vote on the Proposed Transaction.

Taxation

In the event the Proposed Transaction is approved, the Non-associated shareholders will receive $0.57 in cash. Cumnock has submitted a class ruling to the ATO seeking confirmation that this payment is a capital payment to shareholders. The ATO's decision on the class ruling will be communicated to Cumnock shareholders prior to the general meeting. Should the ruling confirm the payment as a capital payment, Cumnock shareholders may crystallise a capital gains tax liability depending upon their personal situation.

Other issues

The decision of Cumnock shareholders as to whether or not to vote in favour of the Proposed Transaction is a matter for individual shareholders based on their risk profile, liquidity preference, investment strategy and tax position. In particular, the taxation consequences (specifically the extent to which CGT will be payable) will vary widely depending on the individual circumstances of each shareholder.

Appendix 1

Qualifications and declarations

Qualifications

KPMG is the holder of an Australian Financial Services Licence No 246901 under the Corporations Act 2001 and is controlled by the partners of KPMG Chartered Accountants (the KPMG Partnership). The KPMG Partnership is a long established firm of chartered accountants which provides a full range of professional services, including advising on valuations, acquisitions, takeovers, restructuring proposals, reorganisations and related matters. The following persons, whose qualifications and experience are stated below, have been responsible for preparation of this report.

Gary Wingrove is a partner in the KPMG Partnership and is an Executive Director of KPMG. He holds a Bachelor of Commerce, is an Associate of the Institute of Chartered Accountants in Australia, and is a Fellow of the Financial Services Institute of Australasia. Gary is the national head of KPMG's valuation practice in Australia and has over 15 years experience in the preparation of valuations and expert reports on the valuation of shares and businesses and the provision of merger and acquisition advice.

Danie van Aswegen is an Executive Director in KPMG's Corporate Finance practice. Danie is a member of the South African Institute of Chartered Accountants as well as a Chartered Financial Analyst (CFA). Danie has over ten years experience in the preparation of independent expert reports, corporate valuations and in the provision of financial advice.

Sean Collins is an Executive Director in KPMG's Corporate Finance practice. He is an Associate of the Institute of Chartered Accountants in Australia, and a Fellow of the Securities and Investments Institute, UK. He holds a Bachelor of Commerce degree from the University of Queensland and has extensive experience in the valuation of shares and businesses.

Messrs Wingrove, van Aswegen and Collins, were assisted in the preparation of this report by other KPMG staff.

Declarations

The statements made in the report are given in good faith and have been derived from information believed to be reliable and accurate. We have examined this information and have no reason to believe that any material factors have been withheld from us.

During the course of this engagement, KPMG provided draft copies of this report to Cumnock management for comment as to factual accuracy, as opposed to opinions, which are the responsibility of KPMG alone. Changes made to this report as a result of these reviews have not changed the opinions reached by KPMG.

Interests

KPMG is entitled to receive a fee for the preparation of this report. Except for this fee, KPMG has not received and will not receive any pecuniary or other benefit whether direct or indirect for or in connection with the preparation of this report.

Employees of KPMG, the KPMG Partnership and its affiliated entities may hold securities in Cumnock. However, no individual involved in the preparation of this report, or review thereof, holds a direct interest in Cumnock.

Consent

KPMG consents to the issue of this report by Cumnock in the Explanatory Statement. Other than this report, neither the KPMG Partnership nor KPMG have been involved in the preparation of the Explanatory Statement. Accordingly, we take no responsibility for the content of the Explanatory Statement as a whole.

Except as noted above, neither the whole nor any part of this report nor any reference thereto may be included in or with or attached to any other document, circular, resolution, letter or statement without the prior written consent of KPMG to the form and context in which it appears.

Reliance on information

KPMG has prepared this report on the basis of information available as at the date of this report. Nothing in this report should be taken to imply that KPMG has verified any information supplied to us, or has in any way carried out an audit of the books of account or other records of Cumnock for the purposes of this report. We have considered and relied upon information provided by certain directors and senior management of Cumnock, which after due enquiry, we believe to be reliable, complete and not misleading. We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

We note that any forecasts and projections as supplied to us are based upon assumptions about events and circumstances that have not yet transpired. Accordingly, KPMG cannot provide any assurance that the estimates will be representative of the results which will actually be achieved during the forecast period.

The opinion of KPMG is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon value either positively or negatively.

Indemnity

Cumnock has indemnified KPMG and its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with this report, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services by KPMG and occasioned by reliance by KPMG on information provided by Cumnock or its representatives which is subsequently found to be false or misleading or not complete. Complete information is deemed to be information which at the time of completing this report should have been available to KPMG and would have reasonably been expected to have been made available to KPMG to enable us to form our opinion.

Appendix 2

Sources of information

In preparing this report and arriving at our opinion, we have considered, amongst others, the following sources of information:

- audited consolidated financial statements in relation for the years ended 31 December 2004, 2005 and 2006
- unaudited monthly management report for April 2007
- draft explanatory statement dated 10 July 2007
- discussions with and reports prepared by independent mining experts Minarco
- various announcements by Cumnock to the ASX
- various broker's notes in relation to selected comparable companies
- various economic analysis papers by market commentators
- discussions with Cumnock directors and management
- Access Economics Pty Limited, Access Economics' Business Outlook, March Quarter 2007
- Barlow Jonker Pty Limited, Coal price forecasts dated 19 June 2007
- ABARE, Australian Commodity Statistics 2006
- various databases including:
  - Bloomberg
  - IBISWorld Pty Ltd
  - Datamonitor
  - OneSource Information Services.

In addition, we held discussions with:

- Anthony Clark AM, Non Executive Independent Chairman – Cumnock Coal Limited
- John Fahey AC, Non Executive Independent Director – Cumnock Coal Limited
- Mike Carrucan, General Manager – Open Cut Operations, Xstrata Coal NSW
- Stephen Hubert, Operations Manager – Cumnock No1 Colliery Pty Limited
- Allan Holz, Commercial Manager – Cumnock No1 Colliery Pty Limited
- Phil Mitchell, Senior Manager – Engineering, Minarco
- Dean Sorley, Consulting Mining Engineer – Minarco

Appendix 3

Calculation of discount rates

We have assessed an appropriate real post tax discount rate for Cumnock to be in the range of 8.4 percent to 9.4 percent per annum (the base rates). We have adopted the base rates in the valuation of Cumnock.

Selection of the appropriate rate to apply to the forecast cash flows of any asset or business operations is fundamentally a matter of judgement. Whilst there is a body of theory that may provide a framework for the derivation on an appropriate discounts rate, it is important to recognise that given the level of subjectivity involved in selecting various inputs to the theoretical framework there is no absolute "correct" discount rate.

We consider the rates adopted to be reasonable discount rates that purchasers would use in the current market in assessing the individual operations of Cumnock and are reflective of the operational and technical risks associated with Cumnock's operations.

The discount rate most generally employed is the weighted average cost of capital (WACC) which reflects an optimal (as opposed to actual) financing structure and is applied to unleveraged cash flows resulting in an enterprise value for the business. Alternatively, for some sectors and enterprises it is more appropriate to apply a capital asset pricing model (CAPM) equity approach instead.

Cumnock currently has no debt and management has indicated that no debt will be utilised during the final three years of operation. As Cumnock will use an all equity capital structure it is more appropriate to use the CAPM approach to determine the discount rate.

Introduction to the CAPM concept

The CAPM provides a theoretical basis for determining a discount rate that reflects the risk of a particular investment or business operation. In simple terms, the CAPM states that the returns expected by an equity investor reflect the risk of the underlying equity investment. The risk can be determined by the risk-free rate of return plus a risk premium which reflects the relative risk (as measured by the "beta" factor) required to be borne by the investor. Therefore, the required rate of return for equity securities is determined as set out below:

$$\text{CAPM} = R_f + \beta \times (MRP) + \alpha$$

where the key inputs are defined as follows:

R_f = risk free rate of return

β = beta factor of the investment or business operation

MRP = equity market risk premium

α = company/project specific risk factor (alpha)

A large degree of subjectivity is involved in estimating the inputs to the formula. These limitations mean that any estimate of the cost of equity must necessarily be regarded as indicative rather than as a firm and precise measure. Furthermore, because the cost of equity is a market-determined measure, changes in market conditions over time will affect its calculation

Risk free rate (R_f)

The relevant risk-free rate of return is the return on a risk-free security, typically for the period of the investment. In practice, government bonds are an acceptable benchmark for the risk-free security. The yield to maturity of government bonds is generally accepted as a proxy for the risk-free rate.

A risk free rate of 6.2 percent per annum has been selected with regard to Cumnock's projected mine life and the yield to maturity on 3-year Australian treasury bonds. The 3-year Australian bond rate has been adopted as a benchmark as it reflects a deep, well-traded market with a life approximately the length of Cumnock's operations.

Market risk premium (MRP)

A MRP of 6.0 percent per annum has been assumed. This figure is within the range of generally accepted market risk premiums.

The MRP represents the additional return that investors expect in return for holding risk in the form of a well-diversified portfolio of risky assets (such as a market index). The MRP is the *expected* risk premium (an ex-ante concept). Given that expectations are not observable, a historical risk premium is generally used to proxy for the expected risk premium.

In addition, the risk premium required by the market is not constant and changes over time. At various stages of the market cycle investors perceive that equities are more risky than at other times and will increase their expected return. Some observers argue that the market risk premium has declined over time.

Beta factor (β)

The beta factor is a measure of the relative risk of an investment or business operation, relative to a well-diversified portfolio of investments. In theory, the only risks that are captured by beta are those risks that cannot be eliminated by the investor through diversification. Such risks are referred to as systematic, undiversifiable or market risk. The concept of beta is central to the CAPM given that beta risk is the only risk that is priced into investor required rates of return.

The beta for equity securities can be statistically measured by regressing the returns on an equity market index against the share price returns of the relevant stock. By definition, the market portfolio has an equity beta of 1.0. A beta greater than 1.0 implies that the returns on a stock are, on average, more volatile, and hence the stock is more risky than the market, whilst a beta of less than 1.0 implies the reverse.

The beta of a stock can be presented as either an adjusted beta or as an historical beta. The historical beta is obtained from the linear regression of a stock's historical data and is based on the observed relationship between the security's return and the returns on an index. Conversely, the adjusted beta is an estimate of a security's future beta. It is initially derived from the historical beta, but modified by the assumption that a security's true beta will move towards the market average of one, over time. Generally, an adjusted beta is used because of its greater predictive features.

Betas derived from stockmarket observations represent equity betas, which reflect the degree of financial gearing of the company. Consequently, it is not possible to compare the equity betas of different companies without having regard to their gearing levels. In theory, a more valid analysis of betas can be obtained by "ungearing" the equity beta, by applying the following formula:

$$\beta_a = \beta_e / [1 + (D/E \times (1-t)]$$

where “D/E” is the debt and equity values of the relevant equity security and “t” is the corporate tax rate. The adjustment involves stripping out the impact of financial gearing from the equity beta to obtain an ungeared beta (denoted by β_a).

The following table sets out adjusted geared betas, current financial gearing and the adjusted ungeared beta estimates for a selection of Australian coal companies. The beta factors have been calculated relative to Australia’s stock exchange.

Table 18: Selected listed companies – geared and ungeared betas

Company	Equity Beta (geared)	Gearing (%)	Asset Beta (ungeared)
Macarthur Coal Ltd	1.3	1.6	1.2
Coal and Allied Industries	0.5	4.0	0.5
New Hope Corp Ltd	1.2	0.0	1.2
Felix Resources Ltd	2.3	37.2	1.6
Centennial Coal Company Ltd	0.8	44.3	0.5
Resource Pacific Holdings Ltd	1.5	39.0	1.0
Mean	**1.3**	**21.0**	**1.0**
Median	**1.2**	**20.6**	**1.1**

Source: Bloomberg, KPMG analysis

Having regard to the above, we consider that, on balance, an appropriate ungeared beta for Cumnock to be in the order of 1.0.

Having determined an appropriate ungeared beta it is necessary to “regear” the beta to a specified level of financial gearing to determine the equivalent equity beta. Cumnock currently has no debt and management has indicated that no debt is likely to be incurred in the final three years of operations. We consider an appropriate gearing level for Cumnock to be 0 percent debt and 100 percent equity. On this basis the regeared beta of Cumnock is in the order of 1.0.

Company/project specific risk factor (α)

Under CAPM theory, it is assumed that diversified investors require no additional returns to compensate for specific risks, because the net effect of specific risks across a diversified portfolio will, on average, be zero i.e. portfolio investors can diversify away all specific risk. In reality many investors will include an additional risk premium to reflect such factors as project location and stage of development. Certainly, it is common for companies to set “hurdle rates” for investments above their own estimates of the cost of capital, to deal with these issues.

It can be argued that the approach of a valuer to this issue should reflect the approach most likely to be adopted by actual or potential purchasers of similar assets. Accordingly, no adjustment has been made to Cumnock’s estimated base cost of equity.

Calculation of CAPM

The following table sets out our base cost of equity estimate for Cumnock’s operations based on the assumptions and inputs discussed above:

Table 19: Estimated cost of equity

Input	Definition	Value adopted
R_f	Risk free rate of return (3yr bond)	6.2%
β_a	Asset beta (ungeared beta estimate)	1.0
β_e	Equity beta (regeared beta estimate)	1.0
MRP	Equity market risk premium	6.0%
CAPM (nominal)	Cost of equity (nominal post-tax)	12.2%
Inflation	Forecast Australian inflation rate	3.0%
CAPM (real)	Cost of equity (real post-tax)	8.9%

Source: KPMG analysis

Having regard to the wide variability in the data relating to betas we consider a base discount rate in the range of 8.4 percent to 9.4 percent per annum to be appropriate.

Appendix 4

Independent Technical Specialist's report by Minarco

Part of the Runge Group

17 July 2007

The Directors
KPMG Corporate Finance (Aust) Ltd
10 Shelley Street
Sydney NSW 2000

Dear Sirs

INDEPENDENT TECHNICAL REVIEW OF CUMNOCK NO.1 MINE AND ASSOCIATED ASSETS

1 SUMMARY

This letter has been prepared at the request of the Directors of KPMG Corporate Finance (Aust) Pty Ltd ("KPMG") acting on behalf of Cumnock Coal Limited ("Cumnock" or "Company") in relation to a proposed buyout of minority interests by Xstrata Coal Australia ("Xstrata") who currently hold 83.9% of the Company's shares. It sets out Minarco Asia Pacific Pty Limited, trading as Minarco MineConsult ("Minarco") assessment of the planned life of mine operations and options for the remaining coal resources within the Relevant Asset held by Cumnock.

The Relevant Asset held by Cumnock is the Cumnock No.1 Mine in the Hunter Valley of NSW. The Hunter Valley Coalfield is a well established coal producing region supplying coal for export through the Port of Newcastle at approximately 87 km by rail.

Minarco has conducted its technical review in recognition of the requirements of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves" (December 2004) published by the Joint Ore Reserves Committee ("JORC") of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geosciences and the Minerals Council of Australia (the "JORC Code").

This letter was prepared in accordance with the relevant requirements of the listing rules of the ASX and the practice notes and policy statements issued by the Australian Securities and Investments Commission ("ASIC") in relation to the preparation of independent expert reports and valuations.

General Description of Assets

The Company owns the Cumnock No.1 Mine including various parcels of overlying land, infrastructure, and statutory licences and permits to mine coal by both open cut and underground methods. Xstrata manages the mine. Underground operations ceased in 2003 and all underground mining equipment was sold to Xstrata.

Mining operations currently consist of an open cut mine in the west of the mine holding (Stage 3) that is bordered by Coal & Allied's ("CNA") Howick Mine to the west, surface conveyor infrastructure to the east and the lease boundary to the south. It is expected this mine will be exhausted around October 2008. A new open cut operation located at the mine infrastructure area (Wash Plant Pit) is currently being evaluated.

Significant resources remain within the mine holding that have the potential for extraction depending on economic conditions and alternative access to the resource.

Mining Tenements

The principal mining leases are CL 378, ML 1502 and ML 1393. These leases include strata below 15.24 m from the surface. The life of mine ("LOM") open cut operations are within CL 378 over which surface leases have been obtained for the Stage 3 area. An application for obtaining a surface mining lease for the final Wash Plant open cut area may be submitted once feasibility and approvals have been completed.

Coal Resources and Reserves

Resources and reserves have been reported in accordance with the JORC Code and reviewed by Minarco. A summary of all the resources within the mine holding are provided in ***Table 1.1***. Exploration has been sufficient to enable the resources to be classified as Measured and Indicated. ML 1393 is split into the part containing old underground workings and that within unmined areas.

Table 1.1 - Total Coal Resources

Mine Lease Area	Measured (Mt)	Indicated (Mt)	Measured + Indicated (Mt)	Inferred (Mt)	Total (Mt)
CL 378 and part ML 1393	3.2	89.9	93.1		93.1
Part ML 1393 and ML 1502	287.7	68.7	356.4		356.4
Total	290.9	158.6	449.5		449.5

Note: 1. JORC Statement prepared June 2006 by C. Parbury of MBGS.

Reserves include 2.4 Mt within the current Stage 3 mining operation. The estimated reserves in the proposed Wash Plant open cut are 1.0 Mt.

Saleable Product and Yield

Yields have been estimated from ash and yield relationships for the various seams mined. This is a reasonable approach for the limited life of mine "(LOM") tonnes to be extracted. The Stage 3 operation produces both Semi Soft Coking Coal ("SSCC") and export thermal coal and the planned Wash Plant pit will produce a thermal product.

Coal Handling and Preparation

The coal handling and preparation plant is suitable for the required coal feed and specified products. The plant is in a fair condition and will be decommissioned after completion of the Stage 3 open cut mine in October 2008. Due to the short life of the plant Minarco understands that maintenance will be minimal. The wash plant and associated coal conveyors and bins will require dismantling to enable the new Wash Plant pit area to be mined.

Minarco considers the plant to be in fair condition and suitable for relocation. A market exists for this equipment.

Infrastructure and Services

The majority of the infrastructure has been decommissioned or not in use following the closure of the underground mine. Costs to dismantle and remove are included in the site rehabilitation costs.

Cumnock has a number of water licences with associated allocation rights that Minarco deem to have value, particularly in dry climate periods where water allocation is reduced. One of these licences is to be sold to CNA for $500,000. The old underground workings are partially flooded and are a possible source of water or disposal of excess water as required.

Product Transport

The coal is trucked to the Ravensworth Coal Terminal ("RCT") from where it is railed to the Port of Newcastle. The RCT is a shared facility in which Cumnock has a 35.6% interest. Rail infrastructure upgrades are progressing to increase the rail handling capacity throughout the Hunter Valley network. Minarco considers that there is sufficient capacity in the rail transport system for Cumnock coal.

Environment and Consent Conditions

Leases and approvals are in place for the mine to operate and extract coal at the Stage 3 open cut. A project application to develop the planned wash plant pit is required to be submitted under Part 3A of the Environmental Planning and Assessment Act. Since the mine will be within existing mine use areas Minarco considers that this application should be a formality.

The mine has comprehensive operating plans and environmental management plans. Minarco is not aware of any significant and material adverse environmental issues.

Strategic Value of Coal Assets

Cumnock has 352 Mt of Measured and Indicated Resources within the southern part of the holding where no mining has been conducted. Studies carried out by Cumnock to assess the availability of reserves within this area have concluded that future underground mining is uneconomic whereas open cut areas over shallow resources have a marginal value. Minarco has reviewed these resource areas and concurs with these conclusions; however Minarco is of the opinion that:

- there is an option value for these resources if the coal price increases sufficiently to provide an economic return
- access to and haulage from these areas is a cost disadvantage to Cumnock but may be economically feasible to a third party with access from alternative infrastructure locations
- the coal resources can be combined with those in adjacent lease holdings to derive an economic benefit.

Minarco is of the opinion that there is an option value for these remaining resources based on an assessment of the cost to mine and probability of coal price movements to give an acceptable return on investment.

Land

Cumnock has surface title to 1,025 ha over the mine holding. The majority of this land has either been disturbed by surface operations or undermined. Minarco considers the disturbed land to have minimal use following rehabilitation. The remaining land overlies resources that may be suitable for open cut mining if an option becomes available to mine this coal. There are also possible strategic benefits with title to provide a coal haulage corridor to rail terminals without requiring permits for public road access.

1.1 CAPABILITY AND INDEPENDENCE

Minarco operates as an independent technical consultant providing resource evaluation, mining engineering and mine valuation services to the resources and financial services industries. The diverse experience covers all levels of mine assessment from designing exploration strategies through to final feasibility studies and coal market assessment. Minarco has extensive experience in independent reporting and valuation of mines and mineral resources for financiers, capital markets and acquisitions.

Minarco has carried out studies for the Company and Xstrata in the last two years and has advised other parties in relation to matters involving the Company. Neither the other parties nor the studies conducted have any relationship to the buyout and Minarco believes that its independence has in no way been compromised.

Minarco has agreed to be paid professional fees and expenses for its preparation of this report. None of Minarco, its directors, staff or sub-consultants who contributed to this report has any direct or indirect interest in:

- the Company or securities in the Company
- Related Parties
- the Relevant Assets, or
- the outcome of any matter related to this report.

Minarco has independently assessed the Relevant Assets of the Company by reviewing the pertinent data, including resources, reserves, environmental issues, production, operating costs, capital expenditures and coal quality. All opinions, findings and conclusions expressed in this report are those of Minarco and its specialist advisors.

Drafts of this Report were provided to Cumnock, but only for the purpose of confirming the accuracy of factual material and the reasonableness of assumptions relied upon in this Report.

1.2 SCOPE OF WORK

The scope of work for the study is to carry out a technical review of the relevant assets including the production schedules, costs, capital expenditure requirements and forward estimates for the mine. The report is also to assess the potential value of the remaining assets following completion of the LOM production plan. An Independent Experts Report will be prepared which the Company may use in a public document.

Matters that have been covered include:

- approvals and licences to operate the mine
- geology and exploration including resource estimates
- proposed mining operations and reserves
- coal quality and market specifications
- surface plant, services and infrastructure
- environment
- operating costs
- capital costs
- transport Agreements, and
- long term strategic options and value for the mine.

1.3 LIMITATIONS AND EXCLUSIONS

The report is based mainly on information provided by Cumnock, either directly from discussions and data provided, or from reports, interviews and correspondence with other organisations whose work is the property of Cumnock.

The report is based on information made available to Minarco before 18 June 2007. Cumnock has not advised Minarco of any material change, or event likely to cause material change, to the mine operations.

The report specifically excludes all aspects of legal issues, commercial and financing matters, land titles and agreements, excepting such aspects as may directly influence technical, operational or asset valuation issues.

In Minarco's opinion, the information provided by Cumnock and its sub consultants was reasonable and nothing discovered during the review suggested that there was any significant error, misrepresentation or omission in respect of that information.

1.4 EXPERT AND SPECIALIST

The Expert for the purpose of this report is Philip Mitchell. Mr Mitchell is a Consulting Mining Engineer of Minarco, has qualifications which include: a BE (Mining) (Sydney University), Graduate Diploma in Applied Finance (Finsia), and a Coal Mine Managers First Class Certificate of Competency. He is a member of the Australasian Institute of Mining and Metallurgy, Fellow of the Financial Services Institute of Australia and a Fellow of the South African Mine Ventilation Society.

Technical Specialists carried out independent reviews of the resources, mine planning, infrastructure, coal processing and environment. Details of qualifications and relevant experience are set out in ***Annexure A*** to this Report.

1.5 METHODOLOGY

The assumptions used in Cumnock's financial model, mining options of the residual resources and the mine assets were the subject of this technical review. The review includes the annual mining rate, striping ratio (for the open cuts), washplant yield, transport, cost of production and capital expenditure. The remaining resources were assessed for their potential for economic recovery. Financial aspects such as loans, cashflow, profit and loss, balance sheet and valuation were not examined as part of the technical review.

The technical data in the LOM model was validated by examining the raw data which makes up the mine plan and checking the reasonableness of the assumptions and data that "drive" the financial model. Minarco then reviewed options for recovering the remaining resources by reviewing studies commissioned by Cumnock and assessing oportunities to third parties. The following points cover the main areas that the review focussed on and a brief description of the methodology used:

- **Operational Status** Key members of the study team visited the mine and held discussions with senior site management. Team members inspected the open cut mining operations, infrastructure and coal handling and preparation plant;
- **Resources and Reserves** A "check list" which is part of the JORC process, was undertaken for the confirmation of resources and reserves which were cross referenced to the sales tonnes in the financial model;
- **Mine Plan** The mine plan was reviewed and checked for the production assumption and mining rate and that the coal preparation yields were appropriate and matched the financial model inputs;
- **Environmental & Approvals** The status of environmental approvals and licensing of the mine was reviewed and environmental constraints assessed to ensure that mine plans appropriately managed environmental regulatory requirements and operational risks. Mine closure and rehabilitation plans and costs were reviewed for adequacy;
- **Capital and Operating Costs** Two different methods were used to validate costs. Firstly, historical costs were compared to future projections and any material differences examined. Secondly, an independent cost model was built using data from first principles, contractor quotations or else comparative data from similar projects in order to validate the Cumnock model; and
- **Strategic and Residual Value** The results of economic studies for mining of satellite surface resources and the remaining underground resources were reviewed and assessed for potential recovery. The probabilities of the remaining resources being converted to reserves and an option or opportunity to economically mine the resources was assessed.

All material changes that Minarco has made to the Cumnock Model including a terminal value for the remaining resources were advised to KPMG based on a high level model for strategic benefit and status of project studies. In addition to a value for the recognised coal resources, Minarco has also advised KPMG on a value that can be attached to the surface infrastructure, water licences and land.

1.6 MATERIALITY

Minarco has adopted the Australian Society of Accountants' Standard AAS5 which proposes that the materiality of information or data can be assessed in terms of the extent to which its omission or inclusion could lead to changes in total value of:

- less than five percent – immaterial;
- between five and 10 percent – discretionary;
- more than ten percent – material.

1.7 INSPECTIONS

A visit to inspect the relevant assets was carried out on 6 June 2007.

1.8 INHERENT MINING RISK

Coal mining, and in particular underground coal mining, is carried out in an environment where not all events are predictable.

Whilst an effective management team can identify the known risks and take measures to manage and mitigate those risks, there is still the possibility that unexpected and unpredictable events may occur. It is not possible therefore to totally remove all risks or state with certainty an event that may have a material impact on the operation of a coal mine will not occur. Sound mine planning should identify and mitigate risks to the greatest extent possible.

2 CUMNOCK MINE

2.1 LOCATION OF ASSETS

The Cumnock No.1 Mine and lease area is located within the Hunter Coalfield approximately 30 km northwest of Singleton and 87 km from the Port of Newcastle. The mine location is shown on ***Figure 2.1***.

The mine is surrounded by the Liddell Open cut to the north, Newpac No.1 Underground mine to the east, the Howick Open cut mine to the west and the Ravensworth West Open cut to the south. The Cumnock mine currently consists of a small contractor operated open cut adjacent to the Howick mine. Underground operations ceased in September 2003.

2.2 LEASES AND TENEMENTS

Cumnock has title to numerous leases that have been granted over time as mining operations advanced from the pit top area to the south as well as mining operations alternating between underground and open cut methods. The principal coal leases are CL 378, ML 1393 and ML 1502 which include the majority of the resources. Additional leases have been obtained for surface activities.

Together with the coal leases Cumnock owns significant parcels of land within the mine holding of approximately 1,025 ha. The various leases and land holdings for the Cumnock mine are detailed in ***Table 2.1***.

Table 2.1 - Cumnock Lease and Mining Titles (Source: 2005 AEMR)

Approval Number	Holder	Auth ority	Issue Date	Expiry/ Review Date	Comment
CL 378	Stocklyn Pty Limited (now known as Cumnock No.1 Colliery Pty Limited)		25/1 0/1991	10/03/2008	Part transfer of CL 739 including Cumnock Underground mining area and surface facilities comprising approximately 1,358 ha. Lease embraces 15 m depth and below.
CL 392	Cumnock No. 1 Colliery Pty Limited	DPI-MR	24/03/1992	24/03/2013	Coal Lease (approximately -3.8 ha). Lease embraces surface and depth to 15.24 m.
ML 1526	Cumnock No.1 Colliery Pty Limited	DPI-MR	3/12/2002	2/12/2023	Cumnock Open Cut .(approximately 165 ha) Lease embraces surface and depth to 15.24 m.
MPL 311 Newcastle	Cumnock No. 1 Colliery Pty Limited	DPI-MR	13/05/1993	13/05/2014	Mining Purposes Lease for Cumnock No. 1 Colliery Open Cut South (approximately 18 ha). Lease embraces surface and depth to 15.24 m.
ML 1325	Cumnock No.1 Colliery Pty Limited	MR	09/09/1993	09/09/2014	Mining Lease for Cumnock No. 1 (Approximately108.8ha). Lease embraces surface and depth to 15.24m
ML 1327	Cumnock No.1 Colliery Pty Limited	DPI-MR	18/10/1993	03/06/2013	Mining Lease for Cumnock, (approximately 9.6 ha – previously Howick Open Cut Colliery).Lease embraces surface and depth to 15.24 m.
ML1300	Cumnock No. 1 Colliery Pty Limited	DPI-MR	29/09/1992	29/09/2013	Mining Lease for Cumnock Open Cut area (approximately 18ha). Lease embraces surface and depth to 15.24m.

ML 1373	Cumnock No.1 Colliery Pty Limited	MR	28/06/1995	DPI-Cut 09/09/2014	Mining lease for Cumnock for a small excision from Howick Open (approximately 1,485 square metres). Lease embraces surface and depth to 15.24 m.
ML 1393	Cumnock No.1 Colliery Pty	DPI-MR	23/07/1996	10/03/2008	Southern Mining Lease for Cumnock comprising approximately 753 ha.
ML 1421	Cumnock No.1 Colliery Pty Limited	DPI-MR	13/1 0/1997	12/10/2018	Extension of Cumnock Southern Mining Lease by 25.75 ha.
ML 1502	Cumnock No.1 Colliery Pty Limited	DPI-MR	03/01/2002	02/01/2023	Underground Extension Area comprising approximately 374.1 ha.
Authorisation 385	Cumnock No.1 Colliery Pty Limited	DPI-MR	3/04/1985	2/06/2006[1] TBA	Renewal paperwork for Authorisation 385 was lodged with DPI on 10th July 2006. Power Coal Centennial Authority to prospect over area that includes ML 1393 and part of CL 378. Does not include CNA haulage roads.
Section 126 Application C94/2204	Cumnock No.1 Colliery Pty Limited	DPI-MR	25/01/1999	Not Stated	Approval for the establishment of an emplacement area in Cumnock South open cut void.

Note 1. Under Section 113 of the Mining Act 1992, renewals for Exploration Leases or Licences must be lodged with DPI-MR not earlier then 2 months and not later then 1 month prior to the expiry date stated on the lease/licence

Under Section 113 of the Mining Act 1992, renewals for Mining Leases must be lodged with DPI-MR not earlier then 5 years and not later then 1 year before the expiry date stated on the lease.

2.3 APPROVALS AND CONSENT CONDITIONS

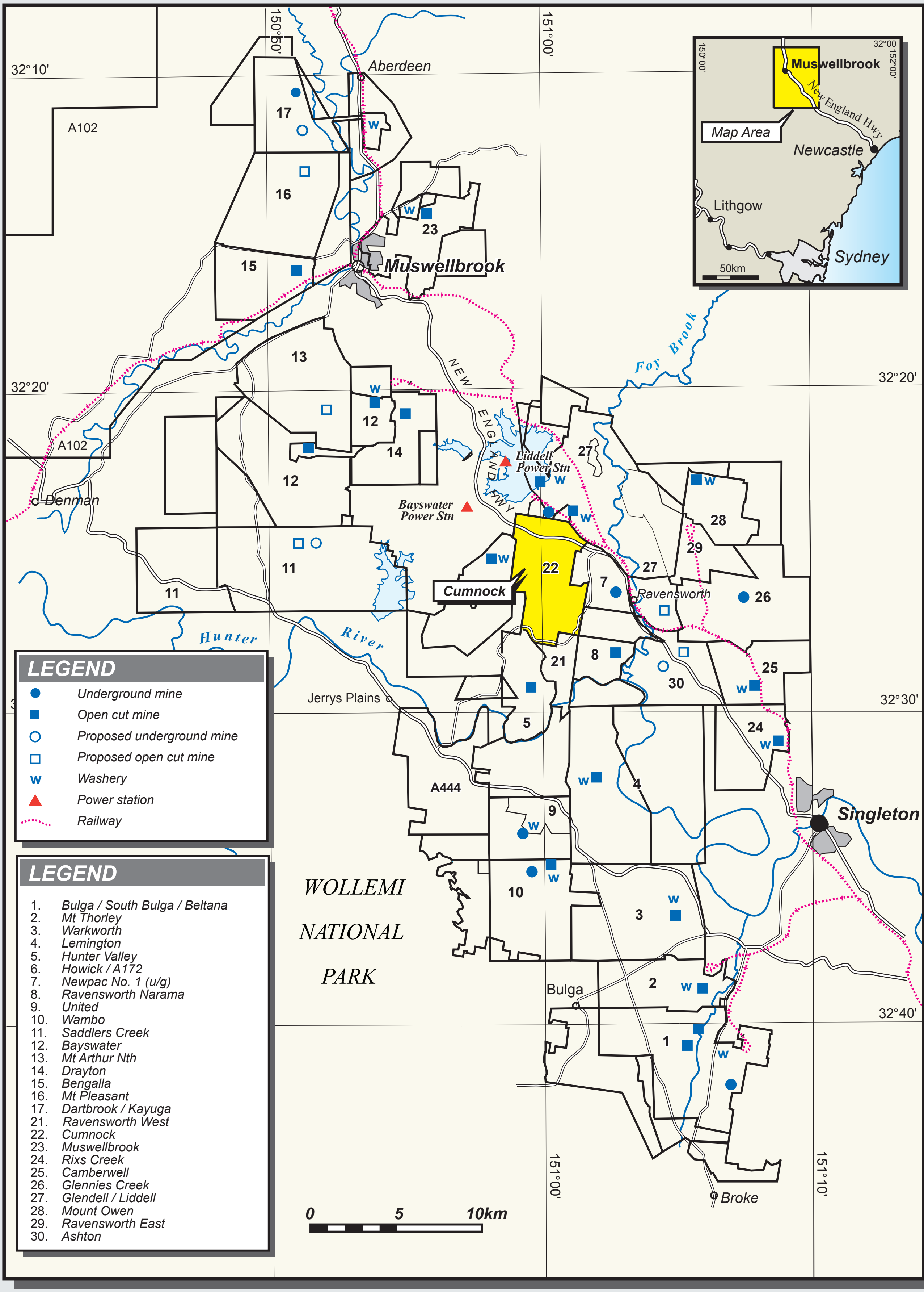
Minarco has reviewed the development consent conditions and found no issues that would require expenditure above that typically required for environment protection and management. The development consents for mining are detailed in ***Table 2.2***.

Approval Number	Holder	Authority	Issue Date	Expiry/ Review Date	Comment
Development Consent					
DA 169/96	Cumnock No.1 Colliery Pty Limited	SSC	1/07/1997	1/07/2018	Increase in underground production and expansion of open cut mining to Stage 3.
DA 46/93	Cumnock No.1 Colliery Pty Limited	SSC	29/06/1993	29/06/2008	Establish an open cut coal mine to produce coal at a rate of 600,000 tonnes per annum.
DA 46/93/M1	Cumnock No.1 Colliery Pty Limited	SSC	10/02/1995	Same as above	Modification of Cumnock South Open Cut DA 46/93 to include an additional 14 ha and to allow for a maximum of 9 traffic flow stoppages on the New England Highway as a result of blast safety.
DA40/92	Cumnock No.1 Colliery Pty Limited	SSC	24/03/1992	Not Stated	Construction of a single 30 Ml dam for on site water management purposes.
DA 75/94	Cumnock No.1 Colliery Pty Limited	SSC	01/03/1995	Not Stated	Reworking of disused slurry ponds (ECA Area).

DA 123.05.01	Cumnock No.1 Colliery Pty Limited	DoP	29/11/2001	29/11/2022	Extension to Cumnock Underground coal mine, increase in coal production rate, minewater discharge to Davis Creek, change in sequencing of Stage 3 of the South Open Cut coal mine and construction and operation of associated surface facilities.
DA 178/99	Cumnock No.1 Colliery Pty Limited	SSC	20/07/1999	Not Stated	Approval for the installation of oil storage facilities.
Building Approvals					
BA 185/97	Cumnock No.1 Colliery Pty Limited	SSC	15/05/1997	Not Stated	Approval to demolish existing store building and the erection of a new and larger store building.

Note: DUAP (Department of Urban Affairs and Planning), DIPNR (Department of Infrastructure, Planning and Natural Resources) and Planning NSW are now called DoP (Department of Planning).
SSC Singleton Shire Council

Minarco is of the opinion that all necessary land use approvals to operate the current mine complex are in place.



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Cumnock Coal No. 1 Mine

LOCATION PLAN

Date: June 2007	Job No 3132M	Figure2.1

2.4 GEOLOGY OF DEPOSIT

2.4.1 Structure of Deposit

The strata dips approximately 2 to 3 degrees to the east towards the Bayswater Syncline that lies to the east of the mine holding. This syncline plunges to the south resulting in an overall increase in cover of the coal seams towards the south. Depths of cover for resources range from near surface subcrop zones to 250 m.

The major geological features that cross the holding are the Hunter Valley Dyke and the Davis Creek Fault which intersect the area in a NE – SW direction. The Davis Creek Fault has a down-throw of between 8 m to 13 m to the east. The Hunter Valley Dyke is approximately 30 m thick with a dip of 80 degrees. Igneous intrusive sills have not been identified however for resource estimations a 30 m heat effected zone surrounding the Hunter Valley Dyke has been applied. A number of minor dykes are present and sub parallel to the major features. All these structural features are well defined.

2.4.2 Stratigraphy and Coal Measures

The Cumnock No.1 coal resources are located within the Foybrook Formation where up to ten seams occur. The major seams in order of depth that are continuous across most of the mine holding are the Lower Pikes Gully, Upper Liddell Seam and the Barrett Seam. The Lower Pikes Gully and Upper Liddell seams have been extensively extracted by underground methods. Seams closer to the surface and not continuous across the holding include the Bayswater and Lemington seams that are mined by open cut. The Bayswater Seam is mined in the southern part of the mine holding by the Ravensworth West open cut. The Bayswater Seam is present in isolated areas to the north of the open cut and are deemed prospective for mining.

Depending on the presence of the full stratigraphic section of coal seams where mining has not occurred, it is possible that all coal could be mined by open cut at reasonable strip ratios. This is the situation over most of ML 1393.

The drill hole spacing allows a reasonable understanding of coal seam splitting and coalescing that takes place for all coal seams in the mine holding. The Lemington, Lower Pikes Gully, Arties, Liddell and Barrett Seams all split to the extent that most of the seams become uneconomic to extract in certain parts of the lease areas. The amount of splitting is reflected in the raw ash contours of the selected working sections for each of the seams. This determines the limits of mining.

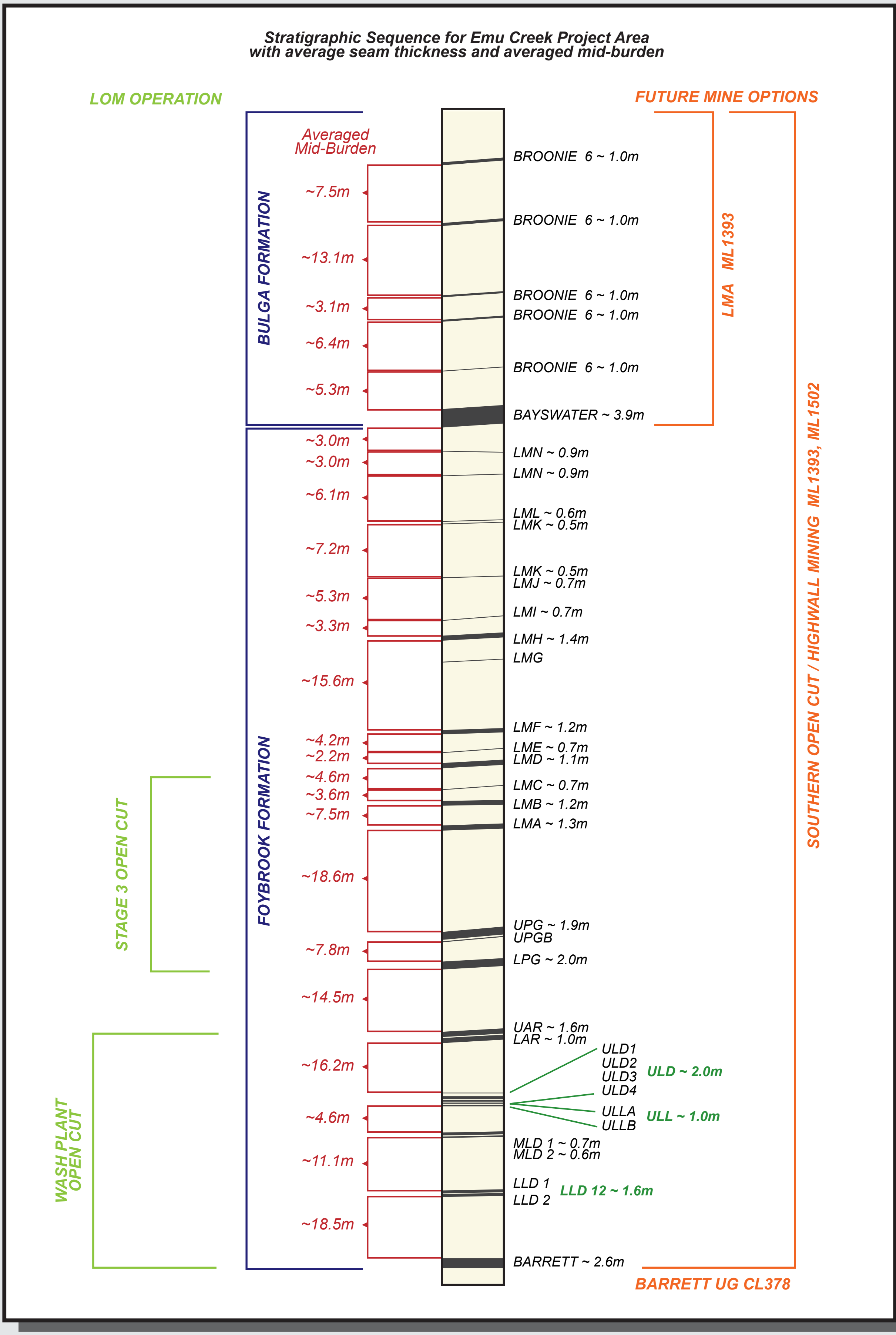
The lease conditions of ML 1502 limit coal resources to those seams 5 m below the Bayswater Seam (3.5 m to 6.0 m thick). Therefore most seams within this lease have the potential for underground mining by Cumnock. The significant seams are the Lower Pikes Gully (avg 2.0 m) and Upper Liddell Seams (1.5 m to 2.3 m) as they both contain low/medium ash coal that is capable of beneficiation to low ash semi-soft products, at reasonably high yields. The Barrett Seam has potential for underground mining, however it has lower coal quality.

Other seams within the stratigraphic sequence have been identified and correlated. These are generally thinner with splitting or poor coal quality and unsuitable for underground extraction. They can potentially be mined by open cut if a full sequence of seams is present. The stratigraphic section of coal seams present is shown in ***Figure 2.2***. The characteristics of the main seam are described below.

Bayswater Seam
The Bayswater Seam is located predominantly in the southern area and has a consistent thickness of 4 m to 5.5 m. Raw ash is between 24% to 30% with a high ash area >32% in the SE area. This coal is sold unwashed to local power stations.

Upper Pikes Gully
The Upper Pikes Gully Seam is less than 2 m thick in the northern area and thickens towards the SE to 2.5 m. A relatively higher total sulphur area TS >0.6% is located in the central underground area near the Davis Creek Fault.

Lower Pikes Gully Seam
The lower Pikes Gully seam (LPG) occurs throughout the lease. Thickness is relatively constant and averages 2.0 m, ranging from 1.6 m to 2.1 m. This coal is sold as an export SSCC and thermal product.



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Cumnock Coal No. 1 Mine

STRATIGRAPHIC SECTION

Date: June 2007	Job No 3132M	Figure 2.2

Upper Liddell Seam

The Upper Liddell Seam (ULD) comprises four plies which are coalesced over the majority of the lease. The combined ULD has a working section thinning southwards and ranging in thickness from 2.3 m to 1.5 m. Splitting of the top ply (ULD1) develops towards the southeast of the lease. This split line would impact on underground potential between the Davis Creek Fault and the Hunter Valley Dyke. Roof conditions, raw coal quality and product yields would deteriorate in this area. Raw ash increases from the Davis Fault towards the SE from 10% to 20% along the southern boundary. The seam deterioration along the southern boundary is compounded by high total sulphur, TS>0.7%. This coal produces a SSCC product.

Barrett Seam

The Barrett Seam (BAR) occurs throughout the lease and is the lowermost potentially mineable seam. It ranges in thickness from 3.5m in the north, thinning east and SE to <2.0m. It is inherently a higher ash, low yield coal with numerous partings and coal bands. It ranges in proposed UG working section thickness from 2.4 metres to 3.8 metres. Further definition of splitting and definition of a consistent working floor are required to improve geological confidence as the basis of reliable mine planning in the underground area. This coal is suitable for an export thermal product.

2.4.3 ROM Coal Quality

The coal quality for all seams with regard to ash varies across the mine holding. Therefore coal yield can differ substantially depending on the proposed product mix. The raw coal quality and product type for the major seams is presented in ***Table 2.3***.

Table 2.3 - Typical Coal Quality and Product Type for Principal Seams

Seam	Ash (% ad)	Total Sulphur (% ad)	Coal Products
Bayswater	24 – 38		Domestic Thermal
Lower Pikes Gully	5 – 18	0.4 – 0.9	SSCC, Export thermal
Upper Liddell	6 – 24	0.5	SSCC
Barrett	20 – 32		Export thermal

Note: SSCC – Semi soft coking coal.

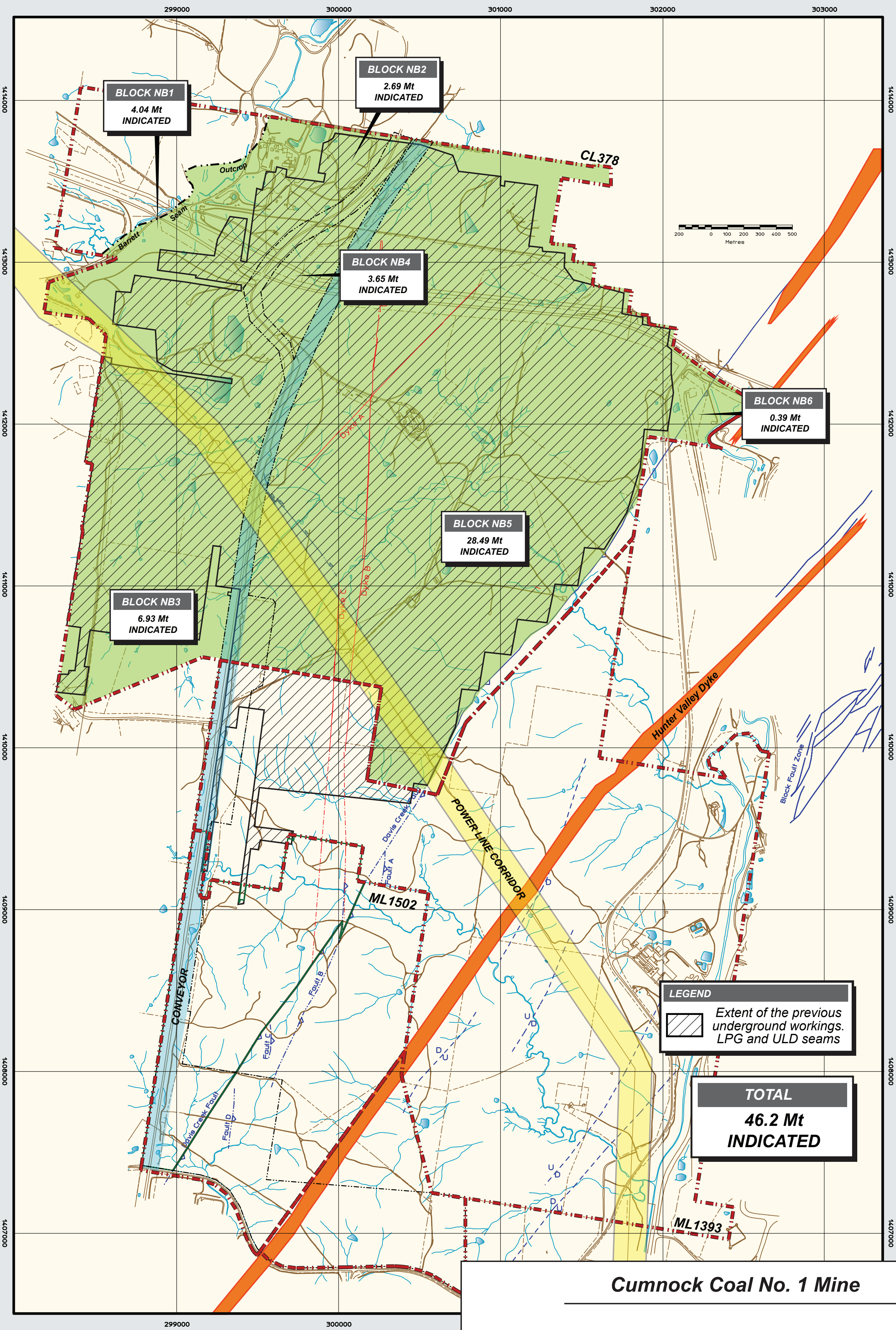
The run of mine ("ROM") ash will be influenced by the in seam stone band thickness variations and the out of seam dilution from the immediate strata. The principal seams mined in the Stage 3 open cut are the Upper and Lower Pikes Gully seams and that planned for the Wash Plant pit will be the Arties, Liddell and Barrett seams. ROM ash will be higher due to out of seam dilution. Consequently total yields will be less than slim core testing although coal product recovered should remain as planned allowing for washing efficiencies.

2.5 COAL RESOURCES

Resource estimates are supported by JORC compliant statements. Minarco has separated the resources between the proposed pits designated for the LOM open cut operations in ***Table 2.4*** and those resources within the remaining areas of the mine holding that have the prospect of recovery shown in ***Table 2.5***. Exploration has been sufficient to enable the majority of the resources to be classified as Measured. ***Figure 2.3*** and ***2.4*** show the seam resource areas within the mine holding.

Table 2.4 - Coal Resources – Proposed Open Cut Mines

Location	Measured (Mt)	Indicated (Mt)	Measured + Indicated (Mt)	Inferred (Mt)	Total (Mt)
Open Cut Stage 3	3.2		3.2		3.2
Wash Plant Pit		2.7	2.7		2.7
Total	3.2	2.7	5.9	-	5.9



Cumnock Coal No. 1 Mine

BARRETT SEAM UNDERGROUND RESOURCES AT JUNE 2006

Date: June 2007	Job No 3132M	Figure 2.3

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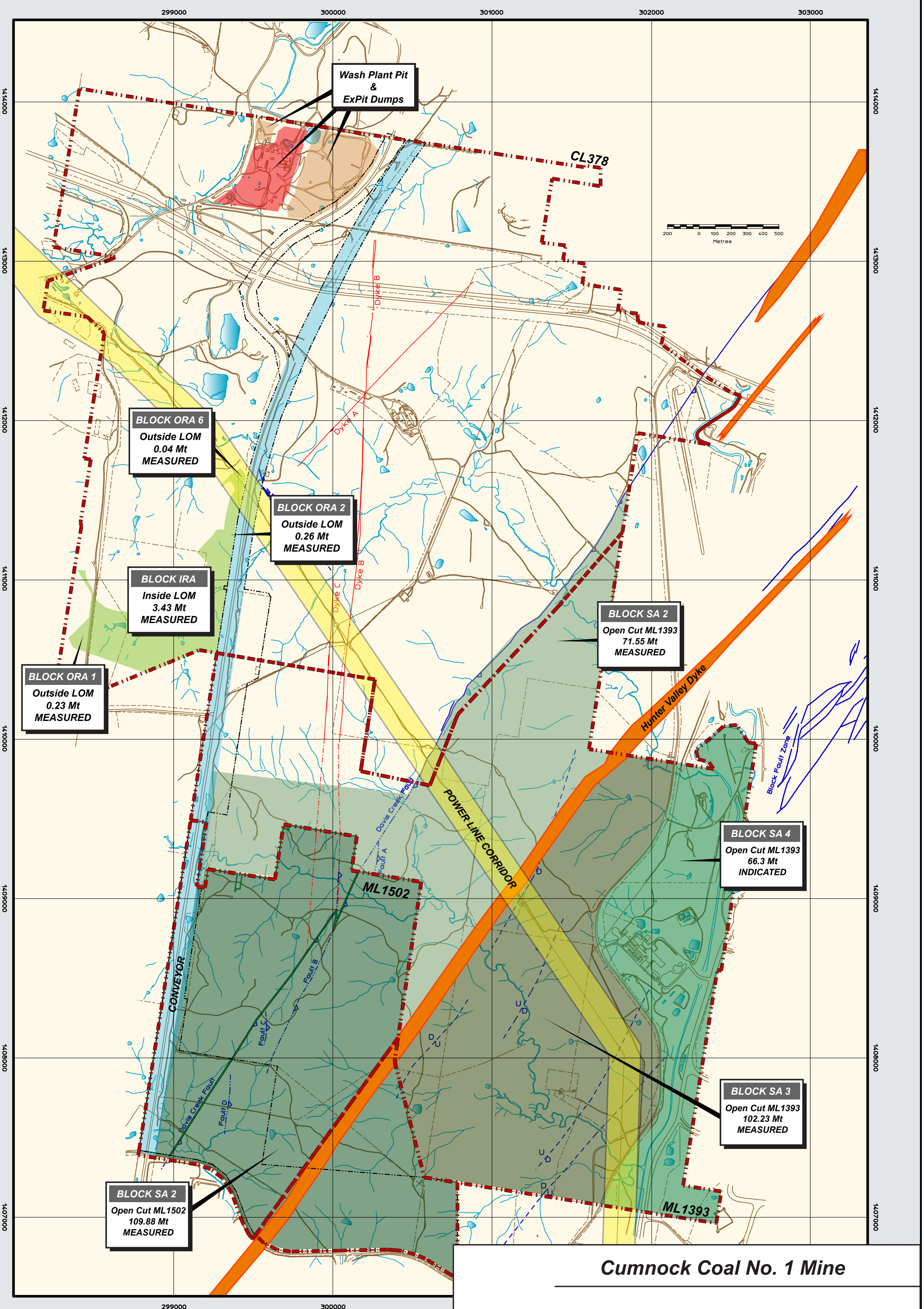

Cumnock Coal No. 1 Mine

OPEN CUT RESOURCES AT JUNE 2006

Date: June 2007	Job No 3132M	Figure 2.4

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Table 2.5 - Coal Resources Remaining Areas

Seam	Measured (Mt)	Indicated (Mt)	Measured + Indicated (Mt)	Inferred (Mt)	Total (Mt)
Broonie	0	4.5	4.5		4.5
Bayswater	8.1	7.3	15.4		15.4
Lemington	103	49.8	152.8		152.8
Upper Pikes Gully	21.5	21.3	42.8		42.8
Lower Pikes Gully	25.7	4.4	30.1		30.1
Arties	31.6	6.4	38		38
Upper Liddell	32.9	6.6	39.5		39.5
Middle Liddell	10.8	2.1	12.9		12.9
Lower Liddell	22.7	4.4	27.1		27.1
Barrett	31.4	49.1	80.5		80.5
Total	287.7	155.9	443.6		443.6

Note: 1. JORC Statement prepared June 2006 by C. Parbury of MBGS.

Minarco notes that overlying the resources identified in ***Table 2.5*** there are surface restrictions and infrastructure easements that would restrict some of the mining activity and hence conversion to reserves.

The coal resources in ***Table 2.5*** are not contiguous with the planned LOM open cut pits within the northern part of the mine holding and are generally deeper requiring new mines to be established for exploitation by Cumnock. These resource areas, however are adjacent to operating mines to the west and south of the Cumnock holding.

2.6 PLANNED LOM OPERATIONS

2.6.1 Stage 3 Open Cut

The Stage 3 open cut is mined by contractors, utilising a truck and excavator fleet to move waste material, assisted by some dozer push and throw blasting of waste. Uncovered coal is loaded with a front end loader into road trucks operated by a contractor for haulage to the ROM crusher station. The mining process is simple and repeatable and it is Minarco's opinion that there is little technical risk associated with the mining process.

All approvals required for mining are in place. Completion of the Mine Operations Plan ("MOP") outlining the final rehabilitation strategy is yet to be completed.

The mine has limited reserves remaining and is expected to cease mining in late 2008 when the lease limits in the south east are intercepted. Resources have been identified that may extend the life of the operation, however these are in adjoining properties. It is Minarco's opinion that there is a low probability that additional reserves will be accessed to extend the Stage 3 open cut.

The rehabilitation plan requires the mining contractor to rehabilitate the waste dumps, and then transfer use of the final void to CNA, who will dump waste material from the neighbouring Howick coal mine into the void. This will significantly reduce the rehabilitation liability of Cumnock.

Alternatively, the final highwall of the Stage 3 open cut can be used as an access for underground mining of the Barrett Seam. Cumnock must inform CNA of the intention to utilise this access by 2010 if the Barrett Seam access is required. In this instance the Stage 3 Open Cut void will not be fully utilised by CNA and a rehabilitation liability will be retained by Cumnock. A study of the potential underground option has indicated that an underground mine is not economically feasible and notification of not using the final void has been given to CNA.

The meeting of rehabilitation targets, described by the current MOP, by the mining contractor will require careful monitoring to avoid the creation of a non funded liability.

2.6.2 Wash Plant Pit

The Wash Plant open cut, that if to proceed, would be located under the existing wash plant and coal handling facilities. This open cut would mine 711 kt of product coal using a truck and excavator operation, similar to the existing Stage 3 pit. Targeted seams are the Arties, Liddell and Barrett. The operation will be small scale and is physically constrained by seam outcrops, and the lease boundary to the north.

No consent or Mining Lease has been granted for this operation. The small tonnage involved in the Wash Plant open cut is expected to allow the project to proceed unheeded through the approvals processes. Minarco is of the opinion that approval will be granted, however there is some risk in the proposed approvals timeline and proposed mining sequence.

Previous underground workings in the Barrett seam will be encountered, and require the adoption of suitable mining techniques. Minarco is of the opinion that the costs for waste removal and coal mining will be higher than the current Stage 3 Open Cut mining costs, and that a portion of the ROM coal will be contaminated with refuse from the underground operation. This will require suitable crushing facilities to remove the contamination

2.6.3 LOM Production Estimates

Minarco has reviewed the planned LOM production model and independently confirms that the production rates and coal product quantities are reasonable. The forecast output from the operations up to their expected completion in 2009 is shown in ***Table 2.6***.

To satisfy marketing requirements some of the SSCC product will be diverted to thermal sales.

An additional 118,189t of product coal is generated but has not been shown in the financial model delivered by Cumnock. This coal is included in ***Table 2.6.***

Cumnock is owed 63,394t of product coal under the swaps and loans arrangement of Xstrata.

Table 2.6 - LOM Production and Yields

	Unit	2007	2008	2009
Production	kt	1,350	1,038	1,006
Yield	%	72.6	71.8	70.7
SSCC	Kt	826[1]	387	
Thermal	Kt	155	358	711
Total Product	**kt**	**981**	**745**	**711**

Note: 1. 273 kt of SSCC will be sold as thermal coal to satisfy sales commitments.

2.6.4 Mining Cost Estimate

The Company provided Minarco with historical mining costs and the forecast operating costs were provided in the LOM model. All mining and coal washing operations are carried out under contract and in Minarco's opinion the cost trends reflected the key cost drivers and terms of contracts. Where in Minarco's assessment of costs there was a material difference Minarco made appropriate adjustments to the cost model input assumptions.

Capital expenditure is minimal for the short LOM period. The major expenditure accrued for the mine is for site rehabilitation. Minarco confirms that the allocated amount is reasonable for the land disturbed.

2.6.5 Coal Preparation and Handling

The ROM coal is trucked to a dump station and conveyed to bins feeding the preparation plant. Bins on site include a 3,000 tonne and 2,000 tonne feed bins, a 250 tonne truck loading product coal bin and a 50 tonne rejects bin. Product coal is trucked to the RCT there being no direct conveyor link.

It is expected the plant will operate until October 2008 and following closure of the Stage 3 open cut may be dismantled to allow mining of the Wash Plant open cut. The plant process is sound using standard circuits consisting of dense medium cyclones and spirals. The plant has excess capacity to its current needs with a potential capacity of approximately 3 Mtpa. The plant is operated under contract and is considered to be in good condition.

Coal from the Wash Plant open cut will be toll washed at a nearby plant provided a suitable tolling agreement can be negotiated.

Minarco has reviewed the forecast plant operating costs used in the LOM cost model and found them to be reasonable for the anticipated throughput. Minarco is aware that a new contract is to be finalised however changes should not be material.

2.6.6 Transport

The coal is trucked to the RCT from where it is railed to the Port of Newcastle. The RCT is a shared facility in which Cumnock has a 35.6% interest. Rail infrastructure upgrades are progressing to increase the rail handling capacity throughout the Hunter Valley network. Minarco considers that there is sufficient capacity in the rail transport system for Cumnock coal.

2.7 MINING OPTIONS

Minarco has reviewed the remaining resource areas which lie outside the defined LOM plans for possible mining operations. These areas include satellite open cut mines extracting the Bayswater and Lemington seams (LMA Pits), a large open cut extracting all seams to the Barrett Seam and an underground mine within the Barrett seam. Mining options and economic studies have deemed these areas within the mine holding to be marginal or uneconomic for extraction by Cumnock due to:

- the limited scale of operations for underground mining
- high strip ratios in locations where Cumnock has access to surface areas
- high capital expenditure requirements for establishing the mines and transport to the existing surface facilities
- the price forecast for coal at the time of the studies.

2.7.1 LMA Pits

A study has been completed by Cumnock examining the suitability of mining coal from open cut mines located along the outcrop of the Lemmington seams in CL 378, ML 1393, ML 1325 and ML 1502. Ten mines, ranging in size from 0.3 Mt to 7 Mt of ROM coal were identified as potential targets. These area are shown on ***Figure 2.5***.

The mines were ranked for suitability on a number of factors including lease restrictions, archaeology, land ownership and environmental issues. In general the small tonnages in the subcrop open cut areas incurred high unit cost penalties associated with gaining approval, development consents and establishing the mine.

Two open cuts, (Pits 4 and 5) separated by the Hunter Valley Dyke, indicated potentially economic coal from the Bayswater and Lemington seams. Further detailed economic evaluation indicated that the significant splitting of the Lemington seams resulted in high waste mining costs on a per unit basis and also that the numerous thin seams attributed to additional coal losses and dilution during the coal mining process. These combined to make the Lemington coal uneconomic. The high ash product Bayswater Seam, suitable for the domestic market and subsequently of low value, did not support the required start up capital.

The operating costs of the mine and capital expenditure resulted in a negative NPV. Minarco has looked at a further option where a larger area within ML 1393 including all seams for open cut mining with associated high wall mining.

2.7.2 Southern Open Cut (ML 1393)

This open cut option lies in the southern portion of the surface land owned by Cumnock in ML1393. The mine is restricted to the west in ML 1502 over which Xstrata holds the surface rights and lease for mining the Bayswater Seam. The mine is a deep open cut operation that would use large out of pit dumps for a portion of the waste material. The area of operations is shown in ***Figure 2.6***. The mine plan extracts coal from the Bayswater Seam down to the Barrett Seam.

The targeted seams are generally separated by medium thickness waste passes with few thick sequences of coal and thin waste material. Minarco is of the opinion that the mine will be operated utilising excavator waste loading and truck haulage, with coal loaded with front end loaders and truck haulage.

Minarco conducted a high level study based upon a 4.8 Mt per annum ROM production scenario with 34 Mt total product reserves from an open cut at a strip ratio of 5.5:1. A further 1.8 Mt of product coal was derived from highwall mining. Operating and capital costs were checked against similar projects. The assumptions were obtained from the August 2005 Cumnock Coal Limited Future Mining Options Presentation Base Case Scenario.

Minarco concludes that an open cut mine is uneconomic but an option exists depending on the probability favourable economic conditions. In reviewing these studies Minarco is of the opinion that there is a potential benefit to mine these resources from adjacent mines where access and infrastructure availabilities present an economic advantage. One such advantage is the surface access to ML 1502 and Bayswater Seam from Ravensworth West owned by Xstrata. A super pit combining the full sequence of seams is possible.

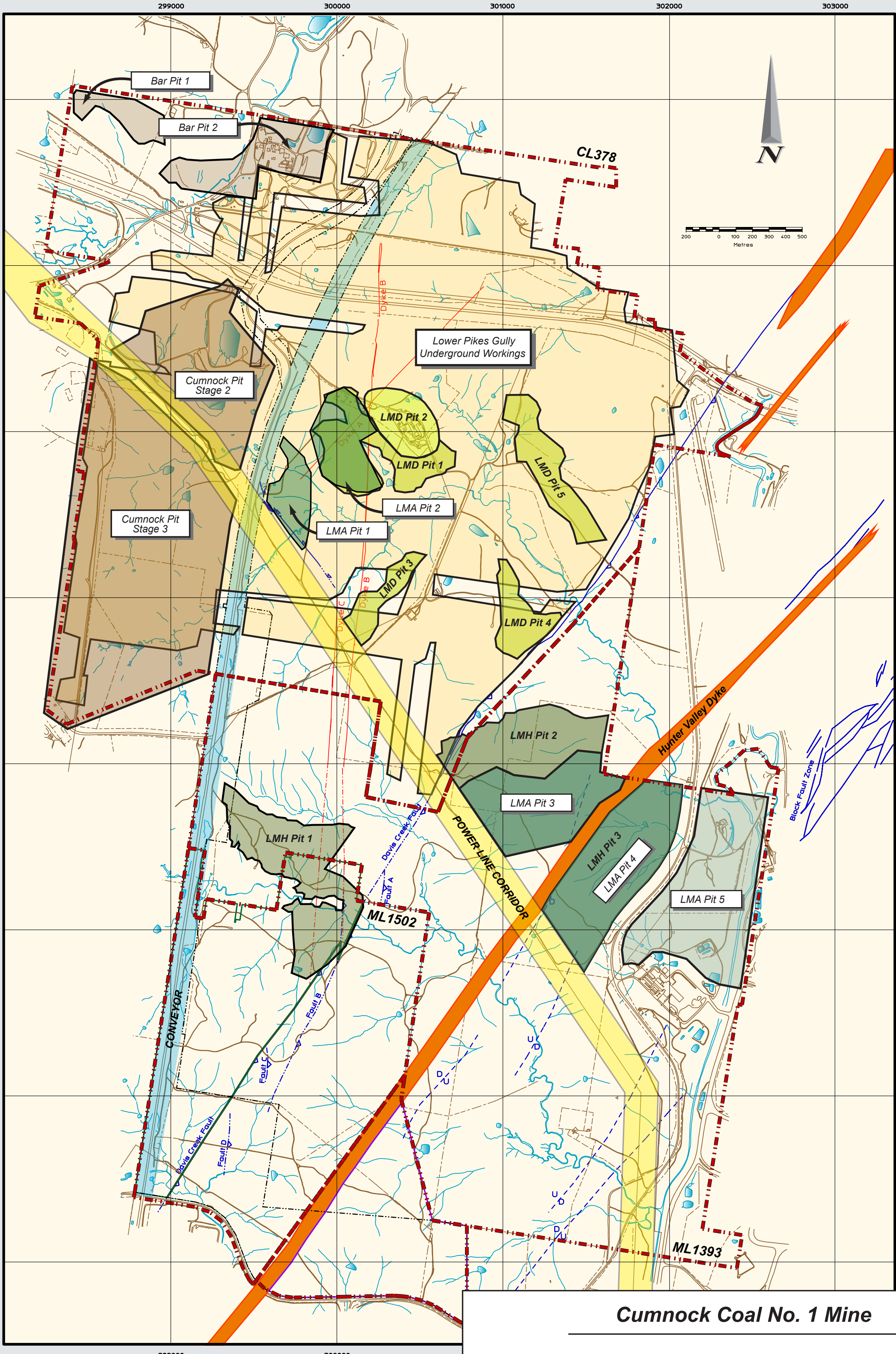
2.7.3 Underground Mining

A technical review has been completed for mining the Barrett Seam by underground methods. The mine was planned to be developed from the final void and highwall of the Stage 3 opencut and extract coal beneath the previously worked underground operations in the Upper Liddell and Pikes Gully seams. The proposed mine plan did not extend to the southern area of the mine holding within ML1502 where no seams have been previously extracted. The outcome of this study concluded that:

- a mine layout of 10 longwall panels can be located within a resource area between the western lease boundary of CL 378 and the Davis Creek Fault providing a mine life of 10 years
- the layout is wholly beneath previously worked areas of the Lower Pikes Gully and Upper Liddell seams
- a number of north/south oriented structures including dykes and minor faulting influenced the number of longwall panels available for extraction
- geotechnical review of available information indicated that floor and roof conditions in roadways may impede development advance rates and that a high density roof support would be required.
- longwall mining should experience no adverse impacts from upper seam workings.
- conditions would improve towards the south as the interburden between the Barrett Seam and the upper seam workings increased
- further geotechnical studies and exploration would be required to advance to a feasibility stage
- average annual production of 2.2 Mt with a maximum 2.9 Mt
- the mining cost and capital expenditure required for the mine resulted in a negative NPV.

It would be necessary for additional reserves to be identified as well as a coal price increase to justify the project. Minarco notes that:

- part of ML1391 and ML1502 include additional Barrett Seam resources that have not been included in the conceptual mine study. A mine plan is possible in this area bounded by the west boundary and the Davis Creek Fault. The resources within this area are classified Measured.
- the Liddell seams are present and potentially available for underground exploitation further adding to the reserves although it is noted that seam splitting is present
- thermal coal prices have escalated
- a mine layout further to the south would not be influenced by upper seam workings.



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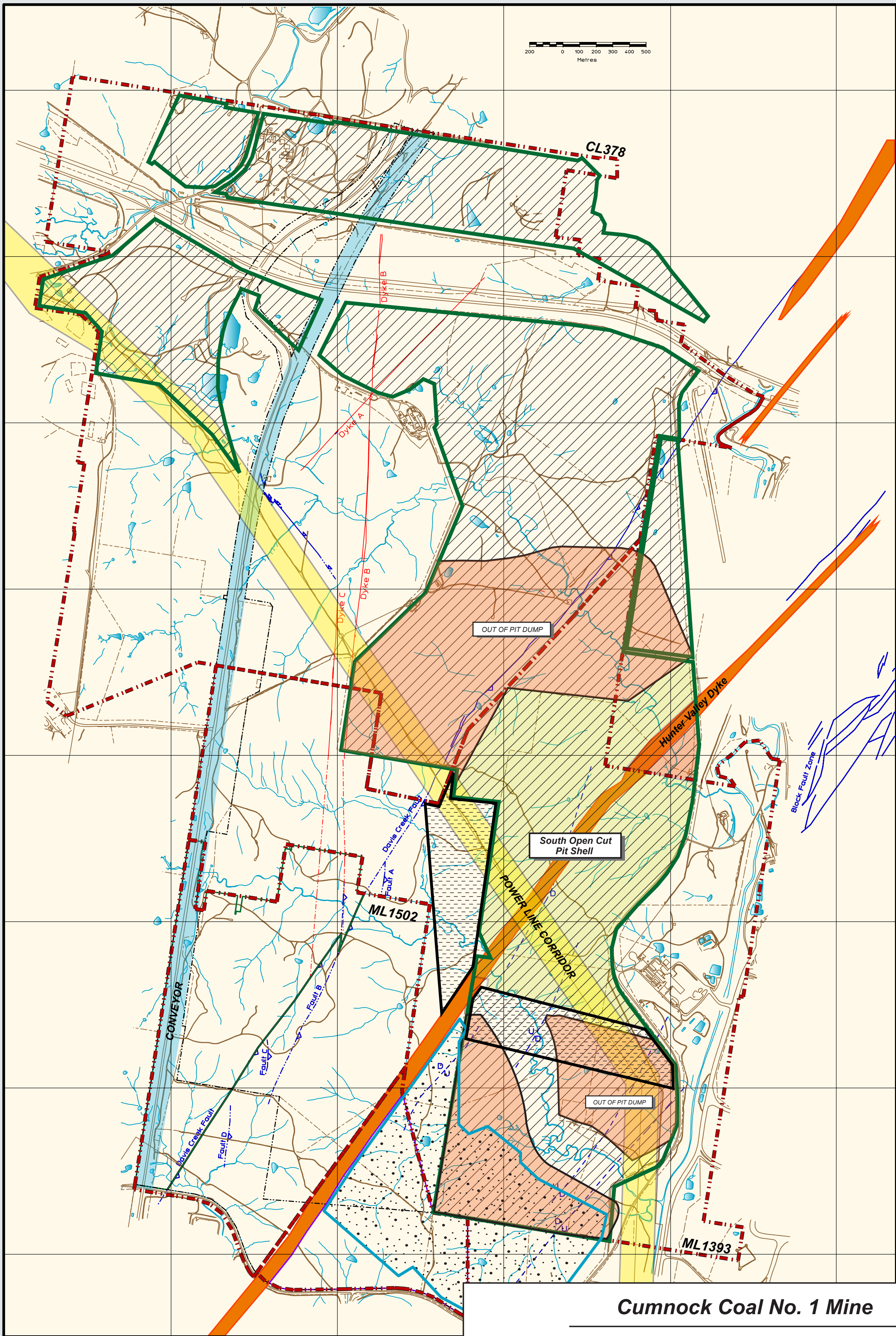
Cumnock Coal No. 1 Mine

SATELLITE PIT OPTIONS

Date: June 2007	Job No 3132M	Figure 2.5



Cumnock Coal No. 1 Mine

ML1393 OPEN CUT OPTION

Date: June 2007 | Job No 3132M | Figure 2.6

LEGEND

- Extent of Cumnock Surface Land
- Ravensworth West Mine
- Highwall Mining

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Minarco concludes that the available resources and required coal price deem such an operation from Cumnock to be unsustainable. There is an option for mining the Barrett Seam beneath the previously worked Liddell and Pikes Gully seams from a highwall established within the Southern Open cut option described previously. Due to timing and risk for such a project Minarco places a low value on this resource. Minarco considers a nominal value of $0.05/t for the Barrett Seam Indicated Resources.

2.7.4 Estimated Probability and Option Value of Resources

Minarco's review of the study options and high level examination of the mining schedules and inputs to a financial model has provided an estimated value range for the remaining resources within the Cumnock holding. These are provided in ***Table 2.7***.

Table 2.7 - Estimated Value of Resources

Project Area	Estimated Resources (Mt)	Estimated Recoverable Tonnes from Conceptual Plan (Mt)	Total Product Tonnes (Mt)	Estimated Probability of Economic Recovery (%)	Derived Value per Resource Tonne (A$/t)	Value per Saleable Tonne (A$/t)	Estimated Value (A$million)
Barrett UG	35.0	22.7	15.5	0.0	0.05	0.05	1.7
LMA[2] OC	8.1	1.5	1.0	8.0	0.02 – 0.04	0.20- 0.44	0.2 – 0.4
Southern OC	283.6	49.4	36.2	3.1	0.02 – 0.04	0.17 – 0.29	6.1 – 10.5
Total		**73.6**	**52.7**				**8.0 – 12.6**

3 MINE ASSETS AND ROYALTY STREAM

3.1 SURFACE INFRASTRUCTURE AND ASSETS

The surface infrastructure major components are:

- coal handling and preparation plant with a nameplate capacity of 2.1 Mtpa feed.
- surface conveyor gantries, bins and feeders that remain in place following cessation of underground mining from the various coal seams.
- surface conveyor from the opencut coal dump station to the CPP feed bin.
- electrical power and substations for the surface coal handling facilities.
- clean coal bin and truck loading facilities
- two D375A dozers, WA600 loader and forklift
- storage facilities, office complex and bathhouse.
- various surface improvements, lighting and roads.
- tailings line to the opencut void.
- water licenses and pumping systems
- surface Land.
- the RCT in which Cumnock has 35.6% share.

3.2 BOOK VALUE

The book value for the Cumnock assets is $5.55 million of which the RCT, water licenses and land are valued at $5.3 million. Accordingly, due to age in service most other assets have been written down to zero value.

3.3 UNDERGROUND INFRASTRUCTURE

All underground infrastructure and equipment that was deemed to be of value was recovered from the mine. The underground mine entrances have since been sealed. The underground equipment was subsequently sold to Xstrata at fair market value following closure of the underground operations.

The underground voids are a source of water which is pumped from bore holes in which submersible pumps are installed.

3.4 COAL PREPARATION PLANT AND HANDLING FACILITIES

The coal handling and preparation plant is suitable for the required coal feed and specified products. The plant is in a fair condition and under the LOM plan can be decommissioned after completion of the Stage 3 open cut mine in October 2008. Due to the short life of the plant Minarco understands that maintenance will be minimal. The wash plant and associated coal conveyors and bins will require dismantling to enable the new pit area to be mined.

Minarco considers the plant to be in fair condition and suitable for relocation. A market exists for this equipment and depending on whether the plant is sold on as "as is – where is" basis or dismantled by Cumnock and sold afterwards a value of $2 to $4 million net of dismantling costs is considered a fair value.

3.5 WATER LICENSES AND GROUND WATER ACCESS

The two water access licences held by Cumnock comprise high security and low security entitlements respectively. Cumnock has listed these assets at a capital value (book value) of $325,000 and $130,000 respectively. However, while these may be of potential further value to other water users in the catchment, these entitlements do not guarantee physical supply of water at all times but, rather, a proportional share in available water. Water authorities adjust the annual allocations of water, termed available water determinations, depending on available water stored in Hunter storages. Cumnock No.1 Mine is in the process of transferring its 500 Ml high security Hunter River water allocation to CNA.

Cumnock's licence for groundwater extraction (2,520 Ml/yr) allied with linkages developed with adjacent operations with ability to better reuse and recycle a variety of waters provides relatively good security for the mining operation.

3.6 SURFACE LANDS

Cumnock has surface title to approximately 1,025 ha over the mine holding. The majority of this land has either been disturbed by surface operations or undermined. Minarco considers this land to have minimal value except for mining purposes. There are also possible strategic benefits with title to allow access to rail terminals without requiring permits for public road passage with consequent restrictions.

Land over the southern part of the holding within ML 1393 covers resources that Minarco has deemed prospective for the Southern open cut operation. Any future mine would require surface access. It is therefore Minarco's opinion that that this land has a value commensurate with land purchases for mining activities.

Minarco has considered a three tier approach to assessing land within the holding. This includes:

- Undisturbed land within conceptual open cut mining areas
- Disturbed land requiring rehabilitation
- Land with limited resources remaining

Minarco has assessed a range of values based on historical prices obtained for exchange of land between Cumnock and neighbouring operations for mining and other purposes.

3.7 ROYALTY STREAM

Cumnock has title to coal from 15.24 m beneath the surface in ML 1393. This includes part of the Bayswater Seam. Under agreements with the former owners of the coal area Cumnock is required to pay a royalty for the coal extracted within the lease. Cumnock has since entered into an agreement with Xstrata to allow the Ravensworth West mine to extract the Bayswater Seam within this lease. A flow through agreement has been agreed between Cumnock and Xstrata that Cumnock receive a royalty for the Ravenworth West coal extraction with a part flow through to Centennial. Mining within this area will be completed in 2007.

Cumnock also has an agreement with CNA for coal mined from an area exchanged on the south side of the Stage 3 open cut. Minarco has been informed that no further coal is planned to be mined from this area.

4 ENVIRONMENTAL MANAGEMENT

The activities that are the focus for site environmental planning and management largely relate to:

- dust emissions
- noise and vibration (blasting and mine equipment)
- pumping and control of mine water
- handling and disposing of hydrocarbon or hazardous materials
- mine rehabilitation.

Minarco considers that these factors are well managed by a suite of plans and programs under the Cumnock environmental management system (CEMS) which addresses matters as outlined below.

4.1 MINING OPERATIONS PLAN AND RELATED DPI APPROVALS

The summary status of the MOP approved and administered by the Department of Primary Industries – Mineral Resources is set out in ***Table 4.1***.

Table 4.1 Status of Mining Operations Plans

Approval Number	Holder	Authority	Issue Date	Expiry/Review Date	Comment
MOP L99/0564	Cumnock No.1 Colliery Pty Limited	DPI-MR	16/07/2004	Not Stated	Mining Operations Plan for decommissioning of Lower Pikes Gully Seam Underground Mine.
MOP	Cumnock No. 1 Colliery Pty Limited	DPI- MR	30/10/2002	30/10/2008	Mining Operations Plan for Cumnock South Open Cut Mine –Stage 3. Note: Variation to MOP in 2004 to include small parcel of land to the west of Cumnock lease. Note: Variation to MOP dated 1September 2005 to include 500m buffer zone of land for Cumnock open cut stage 3.
Section 126 Application C94/2204	Cumnock No. 1 Colliery Pty Limited	DPI-MR	25/01/1999	Not Stated	Approval for the establishment of an emplacement area in Cumnock south open cut void.

4.2 ENVIRONMENT PROTECTION LICENCE

Cumnock No.1 holds Environment Protection Licences (EPL) No. 37 (File Number 270751), originally issued by the Environment Protection Authority (EPA), now Department of Environment and Climate Change (DECC).

The EPL specifies general operational, monitoring, recording and reporting requirements for all operations. Cumnock No.1 Mine currently has no licensed water discharge points, however Cumnock holds salinity credits in the Hunter River Salinity Trading Scheme (HRSTS).

No significant non-compliances in the current or previous period were noted. The EPL is held for the life of the mine and is reissued annually at 26 June, subject to 5-yearly reviews. The EPL will be next subject to review by DECC on 2 September 2009.

4.3 WATER LICENCES

Table 4.2 lists the water licences that are held by the Cumnock No.1 operation.

Table 4.2 - Cumnock No.1 Water Licences

Approval Number	Holder	Authority	Issue Date	Expiry/Review Date	Comment
20BL1 68240	Cumnock No.1 Colliery Pty Limited	DNR	7/04/2003	6/04/2008	Groundwater licence for the extraction of 2520ML (up to 8ML/day)
20WA200745 (replaces 20SL060515)	Cumnock No. 1 Colliery Pty Limited	DNR	01/07/2004	Review period extended beyond 01/07/2006 for transition to new licence regime,	Pumping Plant at Hunter River (Water supply works licence)

Cumnock holds high security and low security water access licence entitlements that enable supplies to be sourced from the Hunter River via Macquarie Generation water transfer facilities and Lake Liddell. Cumnock No.1 Colliery is in the process of transferring its 500 Ml high security Hunter River water allocation to CNA.

4.4 OTHER ENVIRONMENTAL CONSIDERATIONS

4.4.1 Mine Closure

Minarco considers that the comprehensive assessment of mine closure and rehabilitation requirements undertaken by Cumnock adequately address the expected scope of mine closure and site rehabilitation. Cumnock has estimated planned closure costs of $8,420,865 to ensure coverage of financial security for mine closure. Minarco notes that this sum greatly exceeds the requirement under clause 51 of ML 1526 dated 3 December 2002 that proscribes the joint security lodged with the Minister for Mineral Resources to cover fulfilment of lease requirements for CL 378, CL 392, MPL 311, ML 1300, ML 1325, ML 1327, ML 1373, ML 1393, ML 1421 and ML 1502. Cumnock has lodged a bank guarantee of $4,366,000 as security for the site rehabilitation under the lease requirements.

The remaining final void from open cut operations has a variety of interim or continued use options (subject to approval by DPI and other relevant authorities and/or negotiation with adjacent land users), including potential underground mine access or storage for spoil dumping, tailings or coal reject emplacement or water storage.

4.4.2 Native Title

There are no issues with native title.

4.4.3 Rehabilitation

In recent years the progress of rehabilitation has slowed due to drought conditions, however, preparation for future rehabilitation continued (bulk shaping and topsoil preparation) along with maintenance to already established rehabilitation areas. The open cut mine has a considerable proportion of its disturbed areas required to be rehabilitated, and a program is being implemented to ensure timely rehabilitation activity associated with closure of the current open cut operation.

Rehabilitation is undertaken in accordance with a DPI-approved rehabilitation plan as described in the relevant Mining Operations Plan and is consistent with relevant strategic landscape plans for the region. Rehabilitation activity undertaken by Cumnock also relates to surface infrastructure removal as well as assessment and treatment of contamination risks as may be required.

4.5 KEY ENVIRONMENTAL MANAGEMENT ISSUES

Environmental risks and management issues are comprehensively dealt with under a series of key environmental management plans and strategies which are listed in ***Table 4.3***. With the implementation of the nominated management procedures, Minarco considers that the risks are being appropriately managed.

Table 4.3 – Key Management Plans / Monitoring Programs / Strategies

Title	Submission To	Comment
Environmental Policy and Environmental Management System (EMS)	Corporate, and to meet Condition 3.2 of DA 123-05-01	Health, Safety, Environment and Community Management Framework (HSECMF) – a comprehensive environmental management system as part of Xstrata management approach incorporating ISO 14001 certified EMS requirements.
Environmental Monitoring Program (air/dust, surface and groundwater status and water quality, blasting and noise) Incorporates various separate management plans	DoP, DECC	Program approved by DoP. and monitoring activity undertaken and reported as per EPA/DECC and DPI requirements.
Site Water Management Plan (SWMP)	DOP	Managing surface and groundwater condition, water supply and licensing, water balance and environmental aspects.
Archaeology and Cultural Heritage Management Plan	DECC	Monitoring and review of archaeological artefacts within approved mining areas.
Rehabilitation Plan and Mine Closure Strategy	DPI	Mine closure strategy progressively implemented for No.1 Underground mine decommissioning and planning underway for Open Cut closure. These plans compatible with DPI Synoptic Plan for regional rehabilitation.
Social Involvement Plan (SIP)	Corporate	Program for community liaison and actions for demonstrating Cumnock's commitment to social responsibility and to local community.
Flora and Fauna Management Plan (FFMP)	DOP	For improvement of biological values of the Cumnock land and colliery holding areas.

4.6 WATER MANAGEMENT AND GROUNDWATER

Cumnock No. 1 Mine holding is drained by non-perennial creeks (Pikes Gully Creek and Davis Creek and, in the south, Emu Creek) which in turn flow to Bayswater Creek that joins the Hunter River some five kilometres south west of Ravensworth.

Water management at Cumnock No. 1 Mine involves no discharge of contaminated mine water, management of stormwater runoff from disturbed areas, and controlling water flows between storages and water use locations. The mine is a net water user but has developed water supply linkages between adjacent operations. The mine operates within an approved water management plan.

Extensive dewatering of the underground workings provides raw water for the coal preparation plant and Stage 3 open cut, and potentially for neighbouring operations at Liddell and Mount Owen. Make-up water is sourced from the Hunter River via Macquarie Generation and Lake Liddell under relevant high-security and low-security water extraction entitlements. These entitlements have been particularly limited as annual water allocations have been significantly reduced due to drought. Cumnock No.1 Colliery is in the process of transferring it's 500 Ml high - security Hunter River water allocation to CNA.

Mine generated water is consumed in the coal preparation plant and is also used for dust suppression.

Water supplies throughout the drought period have been adequate to meet the needs of the mining operation. The plan involves regular review and monitoring of the status of surface and groundwater conditions and water balances.

4.7 CONCLUSION

Minarco has reviewed the Relevant Assets that comprise the Cumnock No. 1 Mine and finds that the LOM Plan is supported by resources estimated in compliance with the JORC Code. In addition to the LOM operations there are resources within the southern part of the mine holding that have the potential to support future mining and have an option value. Minarco is of the opinion that these resources could be better expoited from adjoining leases

Yours faithfully,

For and on behalf of Minarco Mineconsult

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Philip Mitchell
Consulting Mining Engineer
B.E. (Mining), Grad. Dip. Appl. Fin.
Member AusIMM, F Fin

Annexure A – Qualifications and Experience

Philip Mitchell – Consulting Mining Engineer
BE (Mining), BSc, Grad Dip App Fin, MAusIMM, First Class Mine Managers Certificate (Coal) – NSW & QLD, Member of Australasian Institute of Mining and Metallurgy, Member of Ventilation Society of South Africa
Phil has over 30 years operational and management experience in the mining industry and is experienced in mine planning, cost and capital budgeting, ventilation design, equipment specification and hazard planning for underground operations. Phil has undertaken a range of mining assignments from conceptual mine planning through to final feasibility. He has conducted numerous technical reviews and due diligence studies for financial institutions as well as Expert reporting for publicly listed companies. He has numerous roles as technical advisor to financial institutions.

Dean Sorley – Consulting Mining Engineer, MineConsult - BE (Mining, Hons), Member, Australasian Institute of Mining and Metallurgy
Dean has 16 years experience in the New South Wales and Queensland coal industries, with a background in open cut and underground operations. He has developed particular skills in operational mine planning, software development and innovative problem solving. Dean has managed a technical department, & managed and performed major strategic and feasibility studies, resource ranking, reserves reporting, equipment selection & justifications, annual business planning, rehabilitation studies and long & short term operational planning. Dean is proficient in the use of the MINEX & XPAC suites of software.

Peter R Smith – Senior Associate – Bachelor of Arts (Environmental Science Geomorphology Land Management) – Master of Environmental Studies – Master of Environmental Law – Member, Environment Institute of Australia & New Zealand – Fellow, Australian Institute of Energy – Member, Clean Air Society of Australia and New Zealand
Peter has over twenty five years experience in environmental planning and management for mining, industrial, urban and infrastructure projects. Peter is experienced in the corporate sector (mining), industry association (mining, exploration & extractive industries), consultancies and government sector for investigation, analysis, preparation of environmental reports and audits, and project management of multiple resource and infrastructure development studies. Peter has previously been Director of Environment and Development at NSW Minerals Council, Group Environmental Manager at Cyprus Australia Coal/Oakbridge Ltd, and Corporate Environmental Co-ordinator at Exxon Coal and Minerals Australia Ltd. Peter has been appointed to the Board of the Centre for Mined Land Rehabilitation. Peter is a specialist in mining environmental policy and regulation, and assessment and management of minerals industry operations.

Bill Knox – BSc (Geology), M AusIMM
Bill joined MineConsult in 1993 as an associate and is based in the Sydney office. Bill's areas of expertise include resource and reserve assessment, geological modelling and mine design using Gemcom software, feasibility studies, operational management and grade/quality control. He has held site positions from Mine Geologist to Mine Superintendent and Head Office positions in business planning and development.

Recent operations work has included alliance management of a large opencut coal mine in NZ on behalf of Solid Energy and the mining contractor, which included developing a planning process and dispute resolution. Technical experience has included resource modelling on coal projects in the Hunter Valley, Indonesia, Bangladesh and Zimbabwe as well as a number of gold, base metal and quarry projects. Other work has concentrated on coal resource/reserve audits of procedures and reporting standards of major coal operations in Australia and Indonesia for presentations to corporate management and resource funding institutions. The range of commodities experience in operations and feasibilities studies includes coal, poly-metallics, gold, oil shale, diamonds and quarries. With reference to the Australasian Code for Reporting of Identified Mineral Resources and Reserves, he is considered a competent person to validate statements for Coal Resources and Reserves.

Glen Fewings – Principal Process Enginner-QCC Resources Pty Ltd. -BE (Chemical, Hons)
Glen Fewings holds an Honours Degree in Chemical Engineering and a Diploma in Occupational Health and Safety Management. He has worked in the Australian Coal Industry for 25 years, and for 12 of those years served as Plant Manager at Liddell, Bulga and Baal Bone Coal Preparation Plants. He is a current Committee member of the Australian Coal Preparation Society- NSW Branch, and now works for QCC Resources as Principal Process Engineer, providing services from due diligence studies, feasibility studies, conceptual through to detailed design and project management for the coal processing industry in Australia, Asia and South Africa.