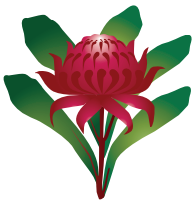
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This document is important and requires your immediate attention. If you are in doubt as to how to respond to the offer, you should consult with your investment dealer, lawyer or other professional advisor. Enquiries concerning information in this document should be directed to Laurel Hill Advisory Group at 1-866-588-7127 (toll-free in North America) or 1-416-637-4661 (collect outside North America).



Waratah Coal

DIRECTORS' CIRCULAR

RECOMMENDING

REJECTION

OF THE PARTIAL OFFER BY

MINERALOGY PTY LTD.

TO PURCHASE COMMON SHARES

OF

WARATAH COAL INC.

for $1.41 per common share

The Board of Directors UNANIMOUSLY recommends that Shareholders REJECT THE PARTIAL OFFER AND NOT TENDER THEIR SHARES

October 17, 2008

NOTICE TO NON-CANADIAN RESIDENTS

The partial offer by Mineralogy Pty Ltd. is made for the securities of a Canadian issuer, and while the partial offer is subject to disclosure requirements of Canada, investors should be aware that these requirements are different from those of the United States and other non-Canadian jurisdictions. The enforcement by non-Canadian investors of civil liabilities under the United States federal securities laws, or under other non-Canadian laws, may be affected adversely by the fact that Waratah exists under the laws of British Columbia, Canada.

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October 17, 2008

Dear Waratah Shareholder:

RE: MINERALOGY'S UNSOLICITED AND OPPORTUNISTIC PARTIAL OFFER

You recently received an unsolicited partial offer (the "Mineralogy Partial Offer") from Mineralogy Pty Ltd. ("Mineralogy") to purchase issued and outstanding common shares (the "Shares") of Waratah Coal Inc. ("Waratah") at a price of $1.41 in cash per Share. The Mineralogy Partial Offer is for that number of Shares that constitutes, when added to the Shares beneficially owned by Mineralogy and its affiliates, 50.1% of the Shares (on a fully diluted basis).

In response to the Mineralogy Partial Offer, the Waratah Board of Directors established a special committee of its independent directors (the "Special Committee"). The Special Committee, assisted by Waratah's financial and legal advisors, carefully reviewed and considered all aspects of the Mineralogy Partial Offer as well as the factors described in the enclosed Directors' Circular and, based on that review, concluded that the Mineralogy Partial Offer is inadequate. Your Board of Directors unanimously recommends that you REJECT the Mineralogy Partial Offer and NOT TENDER your Shares to the Mineralogy Partial Offer.

In making your decision regarding the Mineralogy Partial Offer, you should take into consideration your Board of Directors' opinion that:

- The Mineralogy Partial Offer is inadequate.
- The Mineralogy Partial Offer does not compensate Waratah Shareholders for the size, quality and strategic value of Waratah's assets.
- The Mineralogy Partial Offer structure disadvantages Waratah Shareholders and is opportunistic.
- Your Board of Directors and management of Waratah are pursuing plans to realize the potential of the Galilee Basin Project and are committed to the growth of Waratah.
- Other commercial opportunities are being pursued which the Board of Directors believes may offer more attractive value alternatives to Waratah Shareholders.

If you are an Australian Shareholder, you may be aware that partial offers, such as the Mineralogy Partial Offer, would be unlawful if made in Australia under the Corporations Act (Australia).

For these and other reasons described in the accompanying Directors' Circular, your Board of Directors considers the Mineralogy Partial Offer inadequate and opportunistic and unanimously recommends that you REJECT the Mineralogy Partial Offer and NOT TENDER your Shares. To reject the Mineralogy Partial Offer, you do not need to do anything. If you have tendered your Shares, you can withdraw them until the expiry of the Mineralogy Partial Offer. For information on how to withdraw your Shares, you can contact your broker or our information agent at one of the numbers on the bottom of the next page.

The Board of Directors and the Special Committee are considering alternatives to the Mineralogy Partial Offer in order to maximize value for your Shares and intend to use the time provided by Waratah's Shareholder Rights Plan to vigorously pursue those alternatives. We recommend that you NOT TENDER into the Mineralogy Partial Offer before the Board of Directors and its advisors have had an opportunity to fully explore these alternatives. Tendering into the Mineralogy Partial Offer before the Board of Directors has had an opportunity to fully explore all available alternatives may preclude the possibility of a superior alternative transaction emerging.

We will provide an update on the progress of these activities in a timely way so that you can consider the advances we have made and any material change in circumstances which have come to our attention before the expiry of the Mineralogy Partial Offer.

We strongly encourage you to read the Directors' Circular in its entirety, including the opinion, dated October 17, 2008 from Merrill Lynch Canada Inc., to the effect that as of the date of the opinion and based upon and subject to the matters stated therein, the consideration offered by Mineralogy to Waratah Shareholders under the Mineralogy Partial Offer is inadequate, from a financial point of view.

None of the directors or officers of Waratah has accepted or intends to accept the Mineralogy Partial Offer.

If you have any questions concerning our recommendation that you REJECT the Mineralogy Partial Offer or the information in this Directors' Circular, please call Laurel Hill Advisory Group, our information agent, at:

North American Toll Free:
1-866-588-7127
Collect Outside North America:
1-416-637-4661

Sincerely,

On Behalf of the Board of Directors

(Signed) NICHOLAS MATHER
Chairman of the Board of Directors of
Waratah Coal Inc.

(Signed) HOWARD STACK
Chairman of the Special Committee of the
Board of Directors of Waratah Coal Inc.

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FORWARD-LOOKING STATEMENTS

This Directors' Circular includes certain statements that may be deemed "forward-looking statements." All statements, other than statements of historical facts, that address future production, exploration, resource and reserve potential, exploration drilling, exploration activities and events or developments that the Company expects, are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploration and exploitation successes, continued availability of capital and financing, and general economic, market or business conditions. Additional information concerning these and other factors can be found beginning on page 127 under the heading "Risk Factors" in Waratah's Information Memorandum dated October 2, 2008, filed as part of Waratah's Listing Application to the Australian Securities Exchange ("ASX") which was filed on October 17, 2008 on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") and is available at *www.sedar.com*. All forward-looking statements in this Directors' Circular are made as of the date of this Directors' Circular. Investors are cautioned not to place undue reliance on these forward-looking statements. No forward-looking statement is a guarantee of future performance and actual results or developments may differ materially from those projected in the forward-looking statements.

Waratah disclaims any intention or obligation (except as required by applicable law) to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, or to comment on any analyses, expectations or statements of third parties concerning any forward-looking statements.

ENQUIRIES

This document is important and requires your immediate attention. If you are in doubt as to how to respond to the Mineralogy Partial Offer, you should consult with your investment dealer, stockbroker, bank manager, lawyer or other professional advisor. Enquiries concerning the information in this document should be directed to Laurel Hill Advisory Group, Waratah's information agent, toll-free (in North America) at 1-866-588-7127 and 1-416-637-4661 (collect outside of North America).

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SUMMARY

The information set out below is intended as a summary only and is qualified in its entirety by the more detailed information appearing elsewhere in this Directors' Circular. This Directors' Circular should be read carefully and in its entirety as it provides important information regarding Waratah and the Mineralogy Partial Offer.

Recommendation of the Board of Directors:	**REJECT THE MINERALOGY PARTIAL OFFER AND DO NOT TENDER YOUR SHARES.** **The Board of Directors (the "Board of Directors" or the "Board") of Waratah Coal Inc. ("Waratah" or the "Company") has carefully considered the Mineralogy Partial Offer (as defined below) and the unanimous recommendation of the special committee of independent directors (the "Special Committee") and unanimously recommends that shareholders of Waratah ("Shareholders") REJECT the Mineralogy Partial Offer and NOT TENDER their common shares of Waratah (the "Shares").**
The Mineralogy Partial Offer:	Mineralogy Pty Ltd. ("Mineralogy") made an unsolicited partial offer on October 3, 2008 to purchase that number of Shares of Waratah that constitutes, when added to those Shares beneficially owned by Mineralogy and its affiliates, 50.1% of the Shares (on a fully diluted basis) for $1.41 in cash per Share (the "Mineralogy Partial Offer"). The Mineralogy Partial Offer is conditional and is stated to be open for acceptance until 5:00 p.m. (Toronto time) on November 7, 2008 (although Canadian securities laws require that the Mineralogy Partial Offer be open until at least 11:59 p.m. (local time) on November 7, 2008).
Reasons for Recommendation:	In making their recommendations, the Board of Directors and the Special Committee, assisted by Waratah's financial and legal advisors considered a number of factors set out under "Reasons for Recommendation", including the following: • The Mineralogy Partial Offer is inadequate. • The Mineralogy Partial Offer does not compensate Shareholders for the size, quality and strategic value of Waratah's assets. • The Mineralogy Partial Offer structure disadvantages Shareholders and is opportunistic. • Your Board of Directors and management of Waratah are pursuing plans to realize the potential of the Galilee Basin Project and are committed to the growth of Waratah. • Other commercial opportunities are being pursued which the Board believes may offer more attractive value alternatives to Shareholders.
Intentions with Respect to the Mineralogy Partial Offer:	The Board of Directors has been informed that, as of the date of this Directors' Circular, none of the directors or officers of Waratah, nor any of their respective associates, has accepted or intends to accept the Mineralogy Partial Offer. The directors and officers of Waratah, and their respective associates, own or exercise control or direction over an aggregate of 14,028,472 Shares (assuming the exercise of all warrants and options and other rights to acquire Shares held by such directors and officers and their respective associates), or approximately 18.610% of the Shares on a fully diluted basis.

Actions of Board in Response to the Mineralogy Partial Offer:

The Board of Directors established the Special Committee to examine and review the merits of the Mineralogy Partial Offer, to assess and examine alternatives to the Mineralogy Partial Offer, to consider and advise the Board of Directors as to whether the Mineralogy Partial Offer is in the best interests of Waratah and its Shareholders, and to report and make recommendations to the Board of Directors on such matters. Waratah has engaged Merrill Lynch Canada Inc. as its financial advisor in connection with the Mineralogy Partial Offer.

The Board of Directors and the Special Committee are considering alternatives to the Mineralogy Partial Offer and intend to use the time provided by Waratah's Shareholder Rights Plan to vigorously pursue these alternatives.

Waratah has entered into confidentiality agreements with a number of interested parties and discussions are in progress to bring forward more attractive alternatives to allow these interested parties to formulate proposals. Waratah will advise Shareholders on the progress as soon as practicable and will provide an update prior to the expiry of the Mineralogy Partial Offer. Waratah has established a data room for the purpose of providing confidential information to interested third parties.

While the Board of Directors believes that Waratah and its assets are potentially very attractive to other parties in addition to Mineralogy, there can be no assurance that these discussions will result in an improved take-over bid or other alternative transaction and the Board of Directors may determine that the best alternative available to Waratah is to continue with its current growth strategy on a stand-alone basis.

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DIRECTORS' CIRCULAR

This directors' circular (the "Directors' Circular") is issued by the Board of Directors (the "Board of Directors" or the "Board") of Waratah Coal Inc. ("Waratah" or the "Company") in connection with the unsolicited partial offer (the "Mineralogy Partial Offer") dated October 3, 2008 made by Mineralogy Pty Ltd. ("Mineralogy") to purchase that number of common shares of Waratah (the "Shares") that constitutes, when added to those Shares beneficially owned by Mineralogy and its affiliates, 50.1% of the Shares (on a fully diluted basis) at a price of $1.41 per Share in cash.

The terms and conditions of the Mineralogy Partial Offer, the method of acceptance of the Mineralogy Partial Offer and other information relating to the Mineralogy Partial Offer are set out in the Mineralogy Partial Offer, the take-over bid circular (the "Mineralogy Circular") that accompanies and forms part of the Mineralogy Partial Offer, and the letter of transmittal and the notice of guaranteed delivery that accompany the Mineralogy Partial Offer.

All information provided herein relating to Mineralogy and the Mineralogy Partial Offer is based on information that is contained in the Mineralogy Circular or that is otherwise made publicly available by Mineralogy. The Company assumes no responsibility for the accuracy or completeness of that information.

Unless otherwise indicated, all amounts in this Directors' Circular are expressed in Canadian dollars. On October 17, 2008, the noon rate of exchange as reported by the Bank of Canada was C$1 = US$0.8458, and C$1 = AUD$1.2252.

DIRECTORS' RECOMMENDATION

The Board of Directors has carefully reviewed and considered the Mineralogy Partial Offer, with the benefit of advice from their financial advisor, Merrill Lynch Canada Inc. ("Merrill Lynch"), and legal advisor, Torys LLP ("Torys"). Based on a number of compelling reasons, including those listed below and detailed in this Directors' Circular, the Board of Directors believes that:

- The Mineralogy Partial Offer is inadequate.
- The Mineralogy Partial Offer does not compensate Waratah shareholders for the size, quality and strategic value of Waratah's assets.
- The Mineralogy Partial Offer structure disadvantages Waratah shareholders and is opportunistic.
- Your Board of Directors and management of Waratah are pursuing plans to realize the potential of the Galilee Basin Project and are committed to the growth of Waratah.
- Other commercial opportunities are being pursued which the Board believes may offer more attractive value alternatives to Waratah shareholders.

If the Mineralogy Partial Offer is successfully completed, shareholders of Waratah (the "Shareholders") may lose the opportunity to continue to benefit from the Company's strategic platform, significant coal deposit in Australia, attractive long-term growth prospects and experienced Board of Directors and management team. The Board of Directors believes that continuing to hold Shares would be preferable to accepting the inadequate Mineralogy Partial Offer.

The Board of Directors currently believes that continuing to hold Shares would be preferable to accepting the inadequate Mineralogy Partial Offer while the Board progresses with other more attractive value alternatives.

Accordingly, the Board of Directors UNANIMOUSLY recommends Shareholders REJECT the Mineralogy Partial Offer and NOT TENDER their Shares.

Shareholders who are in doubt as to how to respond to the Mineralogy Partial Offer should consult their own investment dealer, stockbroker, bank manager, lawyer or other professional advisors. Acceptance of the Mineralogy Partial Offer may have tax consequences specific to the circumstances of individual Shareholders, and Shareholders should consult their own professional tax advisors. Enquiries concerning the information in this Directors' Circular should be directed to Waratah's information agent, Laurel Hill Advisory Group, toll free (in North America) at 1-866-588-7127 and 1-416-637-4661 (collect outside of North America).

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If you have tendered your Shares to the Mineralogy Partial Offer, you can withdraw them before the expiry time of the Mineralogy Partial Offer. For information on how to withdraw your Shares, contact your broker or contact Laurel Hill Advisory Group, Waratah's information agent.

Shareholders should consider the terms of the Mineralogy Partial Offer and the recommendations of the Board of Directors contained in this Directors' Circular carefully and come to their own decision as to whether to accept the Mineralogy Partial Offer.

REASONS FOR RECOMMENDATION

The Board of Directors has carefully reviewed and considered the Mineralogy Partial Offer with the benefit of, among other things, advice from the financial and legal advisors to Waratah and the unanimous recommendation of the special committee of independent directors of the Board (the "Special Committee"). The Board of Directors and the Special Committee have unanimously determined that the Mineralogy Partial Offer is inadequate and not in the best interests of Waratah and its Shareholders (other than Mineralogy and its affiliates).

The Board of Directors is recommending that Shareholders REJECT the Mineralogy Partial Offer and NOT TENDER their Shares.

In doing so, the Board of Directors and the Special Committee considered a number of factors, including the following:

1. The Mineralogy Partial Offer Is Inadequate

(a) Opinion from Merrill Lynch

Following the announcement of the Mineralogy Partial Offer on October 3, 2008, Waratah engaged Merrill Lynch as its financial advisor to assess the adequacy, from a financial point of view, of the consideration offered to Shareholders pursuant to the Mineralogy Partial Offer.

The Board of Directors has received a written opinion from Merrill Lynch to the effect that the consideration under the Mineralogy Partial Offer is, as of such date, inadequate from a financial point of view to Shareholders (other than Mineralogy and its affiliates), based upon and subject to the assumptions, limitations and qualifications stated in its opinion. A copy of the opinion is attached to this Directors' Circular as Appendix A.

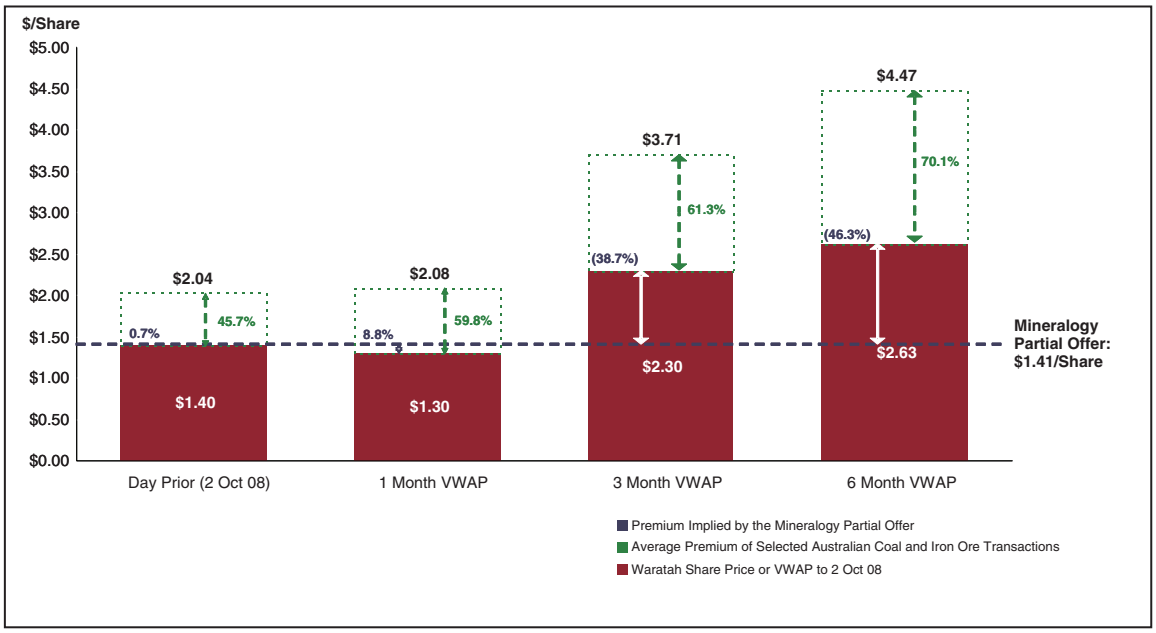
The Board of Directors recommends that you read the opinion carefully and in its entirety for a description of the procedures followed, matters considered and limitations on the review undertaken. The opinion and the description thereof do not constitute a recommendation to Shareholders as to whether they should tender their Shares.

(b) The Mineralogy Partial Offer Fails to Offer an Adequate Premium for Control

If the Mineralogy Partial Offer is successfully completed, Mineralogy will have acquired the ability to exercise effective control over Waratah without having paid an appropriate premium for that control.

The premium implied by the Mineralogy Partial Offer is a minimal 8.8% to Waratah's one-month volume-weighted average price of Shares ("VWAP") on the TSX Venture Exchange (the "TSX-V") up to October 2, 2008, the day prior to the Mineralogy Partial Offer. The Mineralogy Partial Offer is at a significant discount to the three-month (38.7% discount) and six-month (46.3% discount) VWAP of Waratah.

Implied Offer Premiums



Source: Factset

The premiums implied by the Mineralogy Partial Offer (8.8% premium to one-month VWAP and 38.7% discount to three-month VWAP) are substantially below the average premium implied by precedent comparable Australian coal and iron ore transactions (59.8% premium to one-month VWAP and 61.3% premium to three-month VWAP). This illustrates that the Mineralogy Partial Offer does not reflect an adequate premium for control of Waratah.

The Board of Directors believes that if the Mineralogy Partial Offer is successfully completed, Mineralogy would have acquired the ability to exercise effective control over Waratah without having paid an appropriate premium for control.

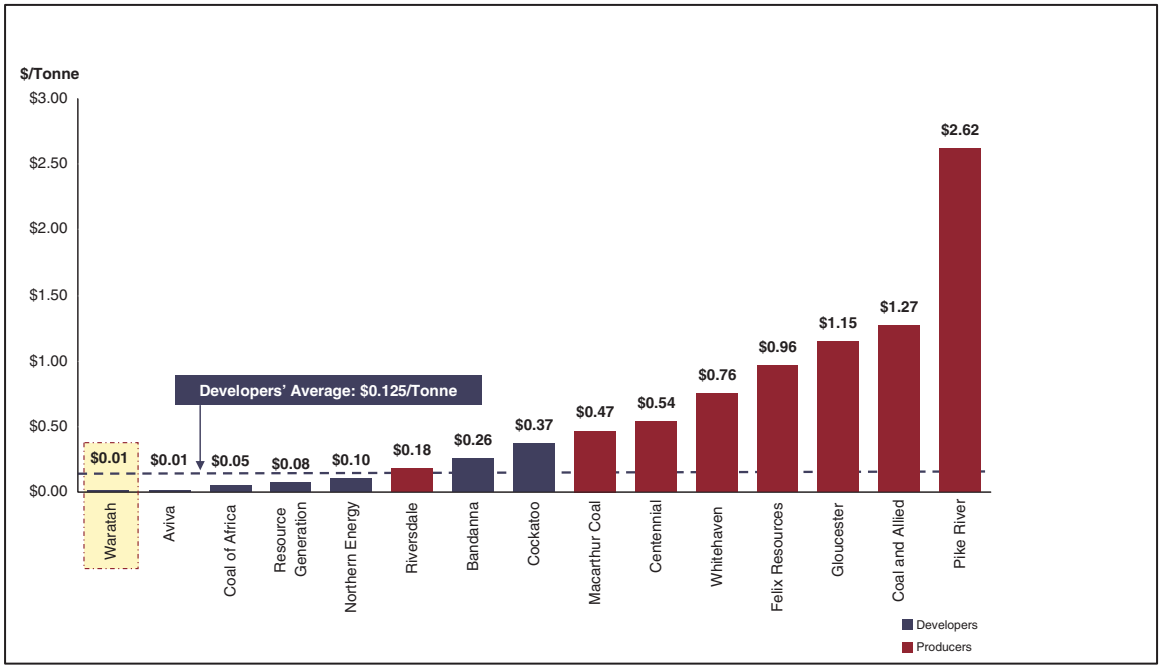
(c) The Mineralogy Partial Offer Represents a Discount to Comparable Coal Transactions

The Mineralogy Partial Offer values Waratah at $0.01/t Enterprise Value/Resource ("EV/Resource"), which is defined as the quotient of an issuer's market capitalization plus net debt divided by resource. Based on the charts below this is considerably lower than the average EV/Resource for Australian developing coal companies and lower than recent Australian coal transactions.

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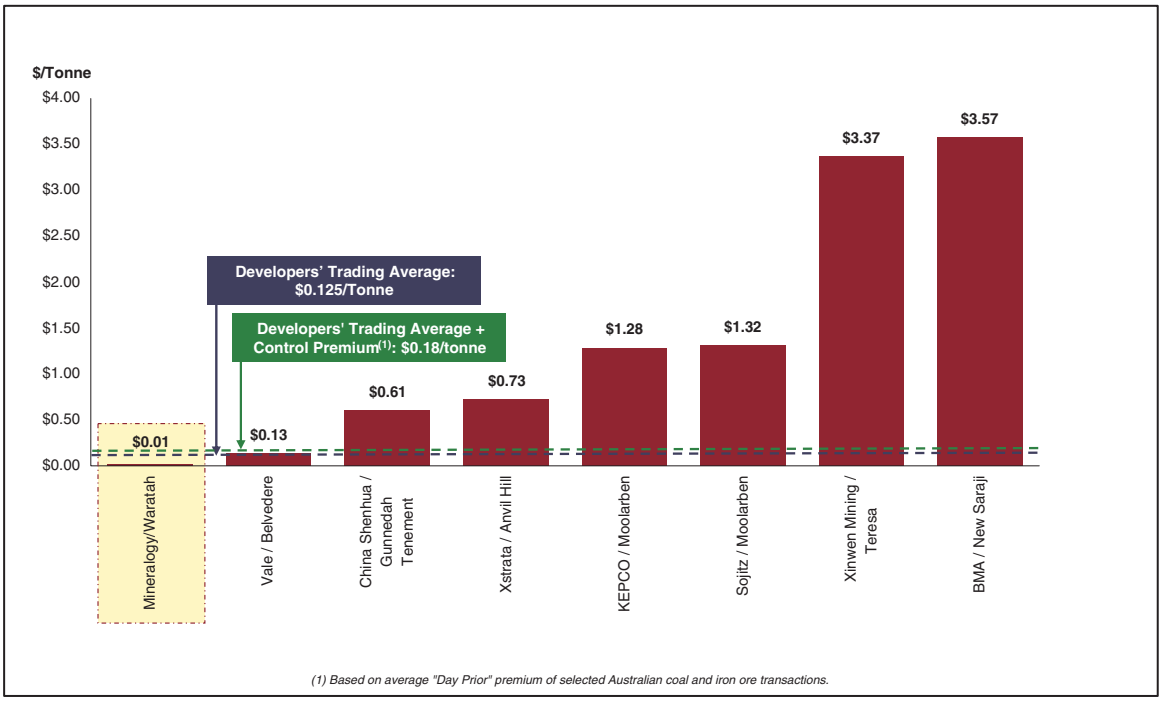
Comparable Trading Coal Companies (EV/Resource)



Source: Company filings, Factset

The average EV/Resource of $0.125/t for comparable developing coal companies is significantly above what is being offered by Mineralogy. Applying the average EV/Resource for developers would equate to a per Share price of $7.22 for Waratah.

Comparable Coal Transactions (EV/Resource)



Source: Company filings, Factset

While the Board acknowledges that the transactions detailed in the chart above may have different characteristics in relation to time to development, access to infrastructure, resource size, location and stage of development, the implied EV/Resource paid for coal transactions in Australia are considerably higher than the Mineralogy Partial Offer made to Shareholders. In addition, the Mineralogy Partial Offer does not provide Shareholders with an adequate premium for control.

(d) The Mineralogy Partial Offer does not Reflect the Value of Effective Control that Mineralogy would Acquire

As disclosed by Mineralogy, Mineralogy currently exercises control or direction over 10,748,200 Shares, approximately 19.07% of the outstanding Shares. The additional Shares that Mineralogy is seeking to acquire through the Mineralogy Partial Offer would increase the percentage of Shares over which Mineralogy exercises control and direction to approximately 50.1% of the Shares on a fully diluted basis. In addition, the terms of the Mineralogy Partial Offer permit Mineralogy to waive its minimum tender condition and take up and pay for any number of Shares deposited under the Mineralogy Partial Offer and not withdrawn, even where such deposited Shares would result in Mineralogy owning less than 50.1% of the Shares.

The ability of Mineralogy to vote those Shares would, if its bid was completed, in and of itself, permit Mineralogy to pass any matter that requires approval by way of an "ordinary resolution" under the *Business Corporations Act* (British Columbia), including the election of directors, and to exercise a veto in respect of any matter that requires approval by way of a "special resolution" under the *Business Corporations Act* (British Columbia), including virtually any proposal by a third party to acquire all of the Shares.

2. The Mineralogy Partial Offer does not Compensate Shareholders for the Size, Quality and Strategic Value of Waratah's Assets

(a) The Galilee Basin Project Continues to Move Forward with Support of the Queensland Government

Waratah's Galilee Basin Project will be one of the largest thermal coal projects to be undertaken in Australia. The large Inferred Coal Resource will enable Waratah to target a 25 million tonnes per annum ("mtpa") project with supporting rail and port infrastructure with a capacity of 50 mtpa that will open the gateway to the Galilee Basin. The size and potential of the Galilee Basin Project prompted Queensland Deputy Premier Hon. Paul Lucas to state that "the Galilee Basin has extraordinary potential for economic development, to provide jobs and income for Queensland and Australia". The significance of the Galilee Basin Project led to the Queensland Government declaring on July 18, 2008, that the project is of "State Significance". This declaration provides recognition for the project under the Public Works and Organisation Act (1970) whereby approval processes are project managed and facilitated, thereby being streamlined by the Coordinator General's Department of the Queensland Government.

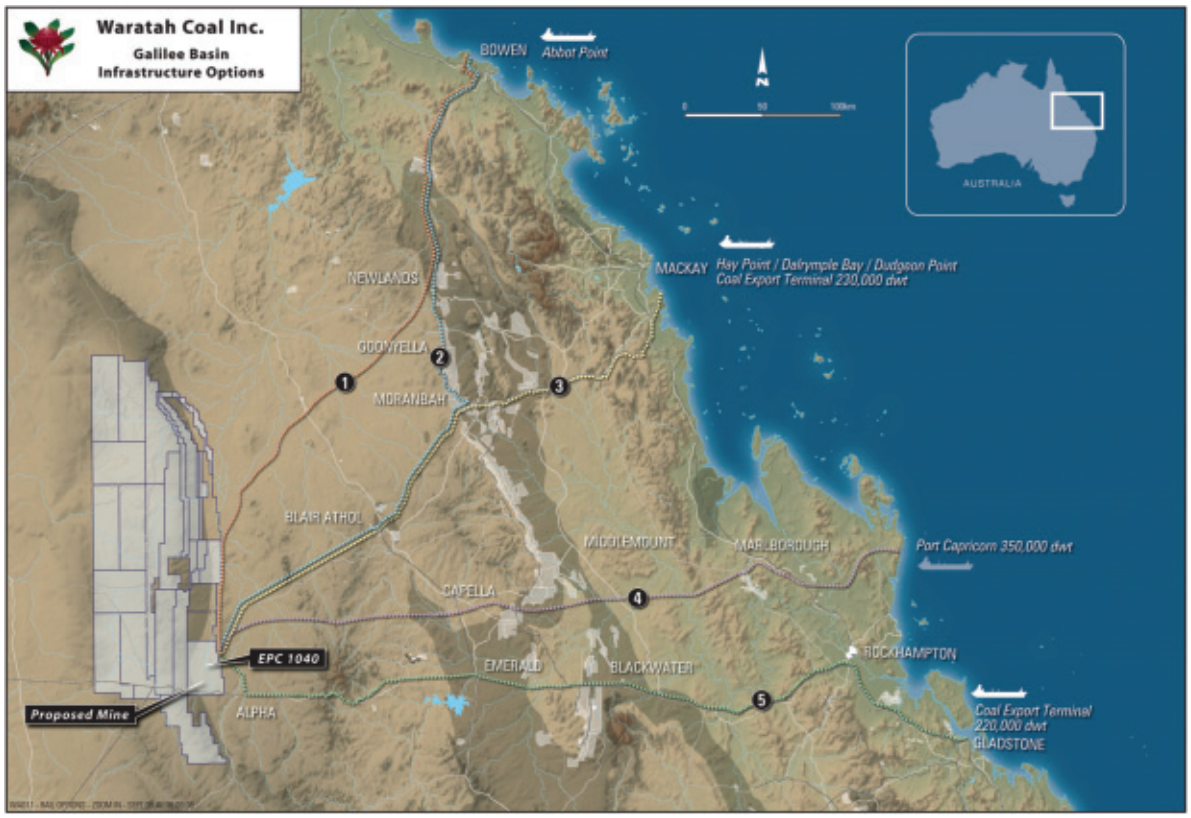
While Waratah's first choice for a rail and port is Port Capricorn, the Company has recently been working in conjunction with representatives of the Queensland Government to further examine various rail and port opportunities available for the development of the Galilee Basin Project. These studies include an assessment of a number of alternative port locations and rail alignments. With the help of the Queensland Government, the possible alternatives have been narrowed to Abbott Point near Bowen, Dudgeon Point adjoining Hay Point near Mackay and a new terminal at Gladstone.

Early work is showing that a heavy haul standard gauge rail solution may be possible by direct connection from the Galilee Basin to the northern end of the Northern Missing link, then via a new dual gauge alignment to Abbott Point. The previous engineering work on the Port Capricorn option has demonstrated that a lower tonne per kilometre cost is possible from utilising a heavy haul standard gauge system over long distances.

Waratah's appointed engineering and project managers, Worley Parsons Limited, is working in a co-operative arrangement with the various authorities in the Queensland Government to narrow the field of possible alternatives to a singular alternative on which the engineering studies will be focused. The working group has proposed an eight week time line in which to deliver a scoping study level of accuracy assessment of the preferred option. The scoping study assessment will provide high level capital and operating costs, risk profile, environmental considerations and an understanding of capacity and delivery timeframes.

Waratah is aiming to obtain government endorsement of a preferred alternative Galilee Basin infrastructure solution along with a clear view on cost project delivery by mid December 2008.

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Legend:

(1) New heavy haul standard gauge rail line to Newlands Mine, new heavy haul dual gauge alignment to Abbott Point.

(2) New narrow gauge rail to Blair Athol connecting to existing Queensland Rail narrow gauge network via new Northern Missing Link (under construction) to Abbott Point.

(3) New narrow gauge rail to Blair Athol connecting to existing Queensland Rail narrow gauge network to Dudgeon Point.

(4) New standard gauge heavy haul rail line to the Bowen Basin then dual gauge rail line to the proposed Port Capricorn (proposed by Waratah as part of the Galilee Basin Project).

(5) Extension and upgrade of the existing Queensland Rail narrow gauge network via Blackwater coal chain to Gladstone.

(b) The Galilee Basin Export Coal Project is Only the Beginning

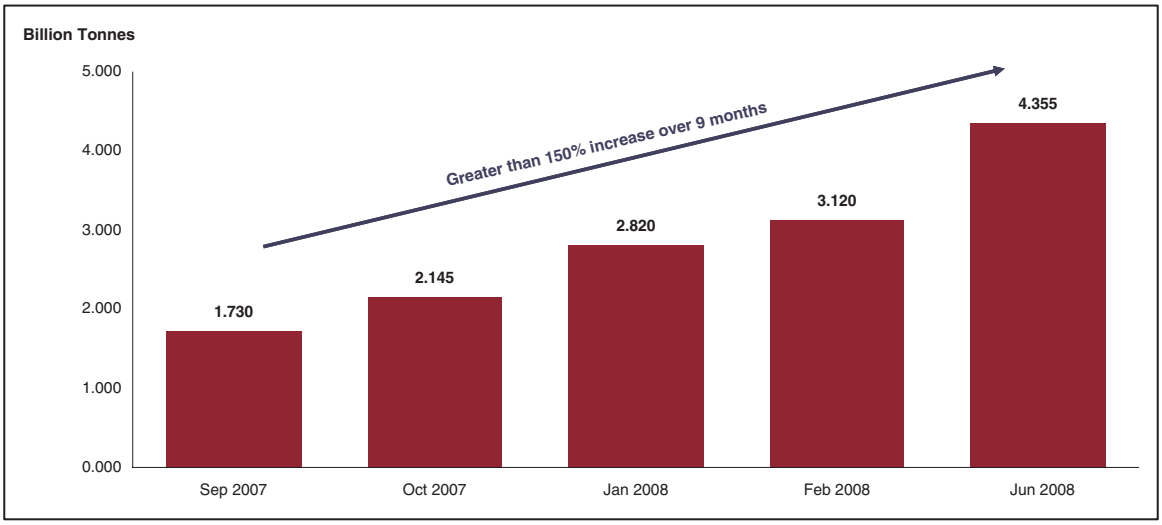
Waratah's principal project is strategically located in the Galilee Basin in Queensland, Australia. The Company has secured exploration permits granted under the Mineral Resources Act 1989 (QLD) specifically for coal ("EPCs"), and applications ("EPCAs"), covering 15,250 km^2 and to date has defined an Inferred Coal Resource of approximately 4.355 billion tonnes of thermal coal.

The Galilee Basin runs parallel to the west of the Bowen Basin which produces approximately 150 million tonnes of coal annually from 34 operating mines. The Galilee Basin is an undeveloped coal basin which has a number of major mining companies, including Vale, AMCI, and Hancock Prospecting, currently exploring for new coal opportunities.

The ultimate size of Waratah's Galilee Basin Project is still being defined; however an indication of Waratah's success to date and additional resource and exploration potential can be measured by the fact Waratah's drilling to date has covered only ~390 km^2 out of a total tenement holding of 15,250 km^2 which drilling has defined an Inferred Coal Resource of approximately 4.355 billion tonnes.

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Waratah's Resource Upgrades and Growth Profile (Inferred Coal Resource)



Source: Company filings

The large tenement holding and resource potential also provides Waratah with a number of strategic investment opportunities which the Company is assessing with industry leaders. The five principal coal seams in Waratah's North and South Alpha tenements (EPC 1040, EPC 1079 and EPC 1053) are of Permian age and contain sub-bituminous high volatile perhydrous coal suitable for use as thermal coal for coal fired power generation.

On October 14, 2008, Waratah gave a presentation at the Queensland Government's Major Projects Conference in Brisbane, outlining the full range of development opportunities it is advancing in the Galilee Basin.

Besides the large scale export coal project the Company is actively pursuing:

- Domestic power projects incorporating clean coal technology and carbon capture sequestration; and
- Underground coal gasification ("UCG") opportunities.

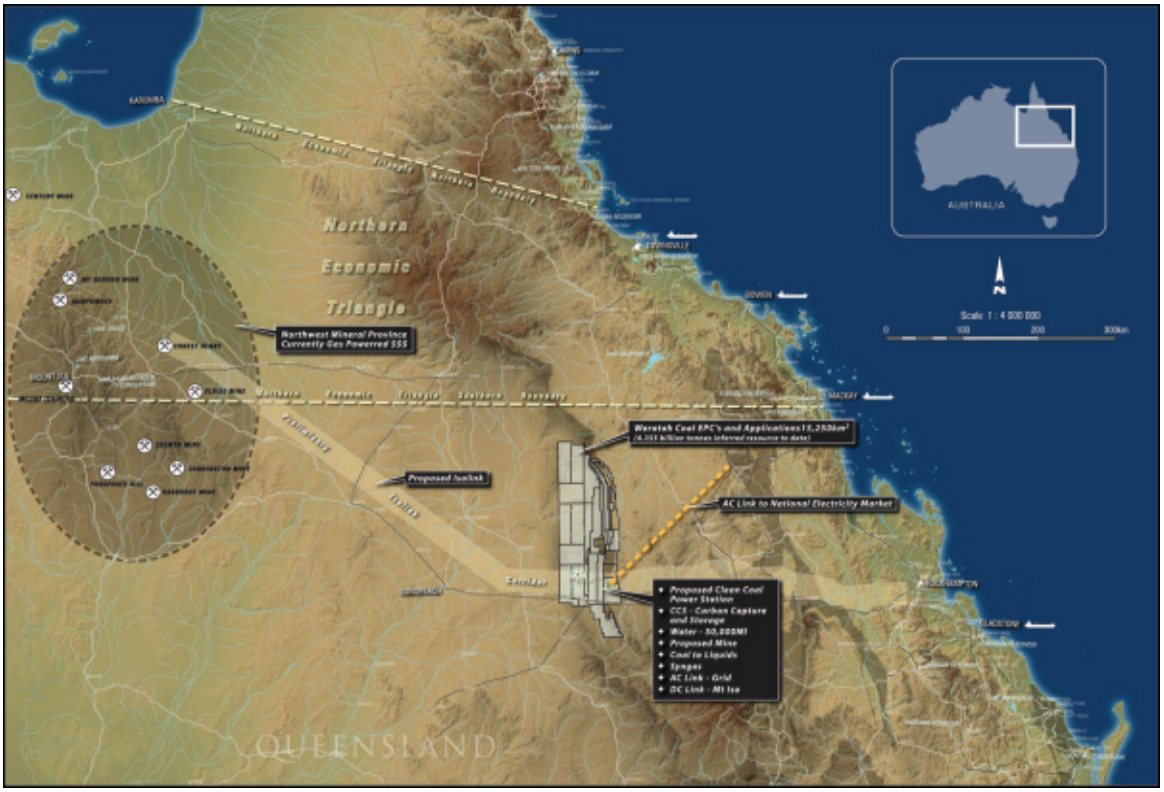
The Galilee Basin is attractively located for a domestic power project sitting midway between the energy starved northwest minerals province and the coastal High Voltage National Power Grid. The Galilee Basin has also been noted by the Commonwealth Scientific Industry Resource Organisation ("CSIRO") as one of the best opportunities in Queensland for carbon sequestration. A domestic power station would therefore have the combined benefit of strong industrial demand for electricity in a location where clean coal technology could be more easily implemented.

Waratah is in discussions with a third party possessing promising clean coal technology.

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Location Plan Showing the Proximity of the Galilee Basin In Relation to the North-West Minerals Province and the Coastal High Voltage National Power Grid



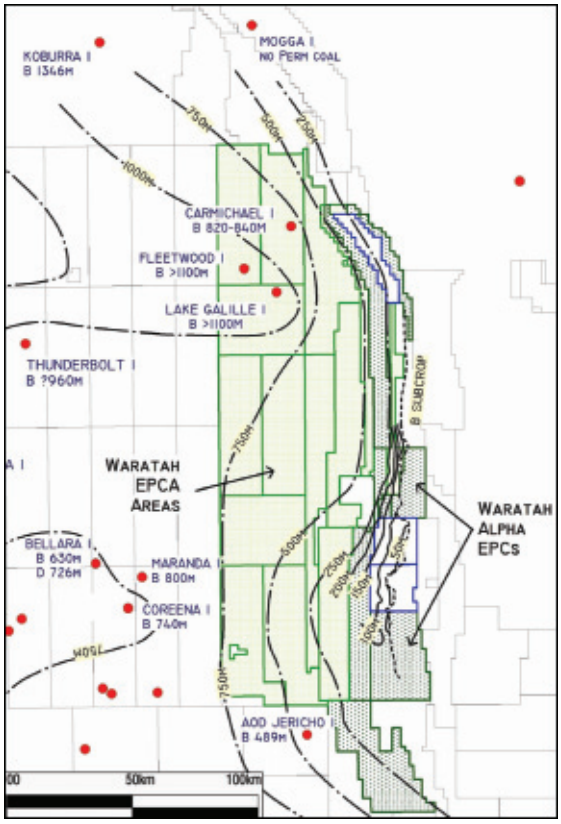
Of the Company's 15,250 km^2 of EPCs and EPCAs, some 10,000 km^2 of tenements target deeper coal (300 m-800 m depth of cover) for UCG potential.

This deeper coal potential occurs in the tenements immediately to the west and downdip the targeted open cut and underground mining areas.

UCG is technology which allows the energy potential of deeper coal resources to be realized without the mining of the coal. There are several companies in Australia beginning to show positive steps towards the successful commercialization of this technology.

The size of Waratah's UCG target areas is such that exploration success would lead to a project of sufficient scale to support a world class petrochemical development. Waratah is in discussions with a third party for the provision of leading edge UCG technology.

Regional Geological Setting Showing Depth of Cover Contours for Prospective UCG Coal Units



In addition to Waratah's tenements in the Galilee Basin, Waratah owns and is exploring a suite of other coal exploration tenements in the Bowen, Surat, Styx, Laura, Clarence Morten and Bonaparte coal basins in Australia. See the section entitled "Waratah Coal Inc." in this Directors' Circular for further information concerning Waratah's assets.

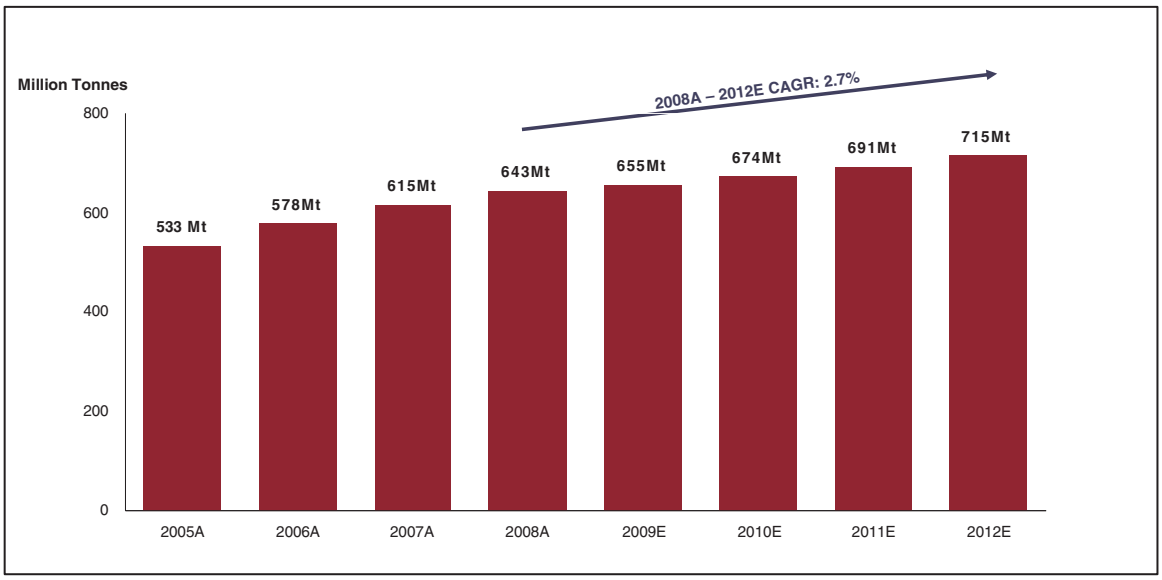
(c) Fundamentals for the Global Seaborne Traded Thermal Coal Market Remain Strong

The unprecedented demand for coal in both the electricity generating and steel production industries has led to a significant increase in the price of coal and, while supply into the market is restricted by a lack of sufficient infrastructure in railways and ports, price forecasts for thermal coal remain strong.

Thermal coal fired power stations provide the lowest production unit cost in electricity generation. China has been responding to an extreme increase in domestic electricity demand by building thermal coal power stations at a rate reported to be greater than one large power station per week. In India, the rate of economic growth has far exceeded the rate of power generation growth and a similar trend in increasing construction of power stations is expected to follow.

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Seaborne Thermal Coal Demand



Source: Barlow Jonker

Waratah's assets are strategically located in a new region with the potential for significant growth and in a market with strong fundamentals. The Board of Directors believes the Mineralogy Partial Offer fails to adequately compensate Shareholders for the strategic value and potential of Waratah's large-scale assets.

3. The Mineralogy Partial Offer Structure Disadvantages Shareholders and is Opportunistic

(a) The Mineralogy Partial Offer is Opportunistically Timed

The Mineralogy Partial Offer is opportunistically timed to take advantage of a recent period during which share prices of exploration companies have declined as a result of macroeconomic factors generally, exacerbated by current fears in equity markets following a sustained period of redemptions and deleveraging by institutions.

The Mineralogy Partial Offer also seeks to take advantage of the purported rejection of Waratah's initial rail and port infrastructure proposal by the Australian Federal Minister for Environment, Heritage and the Arts (the "Minister"). Waratah is challenging this decision at the Federal Court of Australia. Both the Federal and Queensland Governments have encouraged Waratah to investigate other rail and port infrastructure options in order to facilitate the development of the Galilee Basin Project. Waratah continues to work closely with the Queensland Government in this respect and is investigating five other development options in respect of port and rail infrastructure.

As described above, Waratah is assessing the potential for power station developments and UCG as options to realize value for the Galilee Basin Project. Waratah believes that these options would provide value to Shareholders that is well in excess of the Mineralogy Partial Offer. Similarly, Waratah is discussing strategic and financing options with potential partners, the outcome of which the Board of Directors believes could hold considerably more value than the Mineralogy Partial Offer.

Waratah's consistent achievement of its project objectives since its listing on the TSX-V on December 6, 2006, has delivered to Shareholders a compound annual growth rate ("CAGR") in Waratah's Share price of approximately 150%. Waratah's three- and six-month VWAPs at October 2, 2008, one day prior to announcement of the Mineralogy Partial Offer on October 3, 2008, were $2.30 and $2.63 respectively – almost doubling the $1.41 being offered under the Mineralogy Partial Offer.

The Board of Directors believes that the timing of the Mineralogy Partial Offer is opportunistic and disadvantages Shareholders because, if successful, it will deprive Shareholders of the potential future value upside of their Shares, which your Board of Directors believes is a systematic progression of its Galilee Basin Project and the other gas and power projects it is currently pursuing.

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(b) The "Partial Bid" Structure of the Mineralogy Partial Offer is, by its Very Nature, Coercive

The Mineralogy Partial Offer is a "partial bid" – it is an offer to acquire less than all of the Shares. This type of bid is, by its very nature, coercive and the Board of Directors believes is designed to force you into an unpalatable decision to tender your Shares. In contrast to most change of control transactions, there is a significant risk that Shareholders may not be able to sell all their Shares. We believe that the risk of non-negotiability, reduced liquidity and minimal control value, along with Mineralogy's undisclosed strategy for the Galilee Basin Project may create uncertainty over the saleability of your Shares.

Mineralogy's partial bid structure is unusual in Canada and, if made in Australia, would be unlawful under the Corporations Act (Australia). The structure forces Shareholders to decide whether to accept the partial bid (and in respect of how many Shares), whether to sell into the market, or whether to maintain their investment in the face of some measure of increased uncertainty. Shareholders are confronted with increased uncertainty as to the future value (in part as a result of uncertainty as to the plans of Mineralogy and discounts applied by the market to "controlled" companies) and the reduced liquidity of the Shares that are not acquired under the partial bid. A Shareholder will not know whether (or to what extent) other Shareholders will accept the partial bid, so a Shareholder that wants to mitigate the risks associated with the partial bid may feel compelled to deposit his or her Shares, notwithstanding that such Shareholder may view the consideration offered to be inadequate. This uncertainty is compounded by the fact that Mineralogy's intentions with respect to the future of Waratah are unclear.

If Shareholders deposit their Shares under the Mineralogy Partial Offer as a result of this coercion, they may reduce the risks associated with those Shares that are acquired under the Mineralogy Partial Offer (after prorating), but will expose their remaining holdings to these increased uncertainties.

(c) The Mineralogy Partial Offer Creates Value for Mineralogy's Shareholders at Your Expense

(i) If successful, the Mineralogy Partial Offer would reduce Waratah's public float, which could adversely affect the market for, and trading price of, the Shares

If the Mineralogy Partial Offer is successfully completed, Mineralogy will own approximately 50.1% of Waratah's Shares (on a fully diluted basis). Waratah believes that the trading price of the Shares held by the remaining Shareholders may be adversely affected for a number of reasons, including the following:

- the resulting significant decrease in the public float may impair the trading liquidity of the Shares and thereby reduce the number of investors that will be interested in investing in the Shares;
- a smaller public float may result in a less active following of the Shares by equity research analysts; and
- the fact that a controlling or significant position will be held by Mineralogy may impose a minority discount on the other Shares.

The Mineralogy Partial Offer is only for that number of Shares that increases Mineralogy's holdings of Shares from approximately 19.07% to 50.1% (on a fully diluted basis). Should the Mineralogy Partial Offer succeed at the current offer price, control of Waratah will pass to Mineralogy for what the Board of Directors considers to be an opportunistic and inadequate price. The likelihood of an offer at a premium in the future by any party would, in the view of the Board, be severely reduced.

(ii) Mineralogy's intentions are uncertain

The Board of Directors believes that Mineralogy recognizes the future value upside inherent in the Galilee Basin Project and the other potential gas and power options and is seeking to gain control of Waratah's major asset for consideration that reflects less than full value.

Mineralogy has disclosed that it will take the steps necessary to effect certain changes to the composition of Waratah's board of directors to allow Mineralogy's nominees to comprise the majority of its members. There is a risk that the Mineralogy-dominated board of directors of Waratah could request the proposed listing of Waratah on the ASX be cancelled.

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In the Mineralogy Circular, Mineralogy provides no assurance that should it own a controlling interest in Waratah, this controlling interest will not be acquired by or transferred to another affiliate of Mineralogy. The Board notes that Mr. Clive Palmer, who is the principal indirect shareholder of Mineralogy is considering publicly listing the private company which holds a number of his private assets, Resource Development International Ltd ("RDI"), on the Australian and Hong Kong stock exchanges. The Mineralogy Partial Offer provides only limited disclosure regarding Mineralogy's future intentions for Waratah and whether its investment in Waratah will form part of Mr. Palmer's portfolio of assets currently being prepared for the RDI public listing. In the Board's view, this will not likely benefit any Shareholders other than Mineralogy and its affiliates.

(iii) If the Mineralogy Partial Offer is successful, Mineralogy could sell the Shares for a control premium, which you would not benefit from

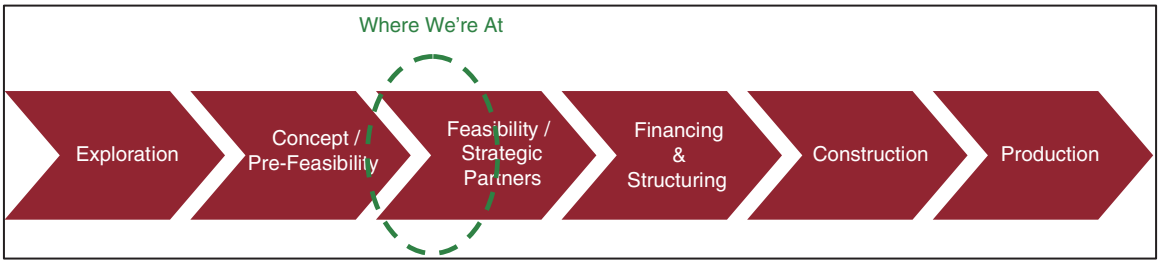
Under Canadian take-over bid legislation, Mineralogy would have the ability to deliver control of Waratah to a third party in a transaction in which that third party pays a premium of up to 15% over the then – current market price for the Shares controlled by Mineralogy without making that premium available to other Shareholders. Assuming that the Mineralogy Partial Offer is successful, Mineralogy will own 50.1% of the Shares (on a fully diluted basis) and will have control of Waratah. In certain circumstances that control could be transferred to a third party at a premium without participation by minority Shareholders.

(d) The Mineralogy Partial Offer is Highly Conditional and is Not a Firm Offer

The highly conditional nature of the Mineralogy Partial Offer entitles Mineralogy to terminate the Mineralogy Partial Offer at will, effectively granting Mineralogy an option for which it is not paying any consideration. Certain of the conditions relate to circumstances involving Mineralogy that are outside the control of Waratah. For example, the Mineralogy Partial Offer is conditional on Mineralogy determining that the consummation of the Mineralogy Partial Offer could not reasonably be expected to have a material adverse effect on Mineralogy. This results in substantial uncertainty for Shareholders as to whether Mineralogy will acquire any Shares under the Mineralogy Partial Offer. **There is no need to make a decision with respect to the Mineralogy Partial Offer until Mineralogy has confirmed the waiver or satisfaction of the conditions.**

4. Your Board Of Directors and Management of Waratah are Pursuing Plans to Realize the Potential of the Galilee Basin Project and are Committed to the Growth of Waratah

(a) Your Board of Directors have executed a strategic plan for the development of the Galilee Basin



Waratah has been following a clear and methodical plan for the development of the enormous potential of its Galilee Basin holdings. This process commenced with the identification, exploration and delineation of a world-scale export thermal coal project. It has also developed, from a conceptual stage, plans which will lead to the optimal exploitation of the project. This process incorporates a properly ordered sequence of studies, an evaluation and a decision, which the Company is in the process of completing. The Mineralogy Partial Offer interrupts the process and seeks to deprive Shareholders of the potential upside that could be derived from the development of the Galilee Basin Project.

(b) Your Board of Directors and Management of Waratah is Well Placed to Raise Capital to Develop the Galilee Basin Project

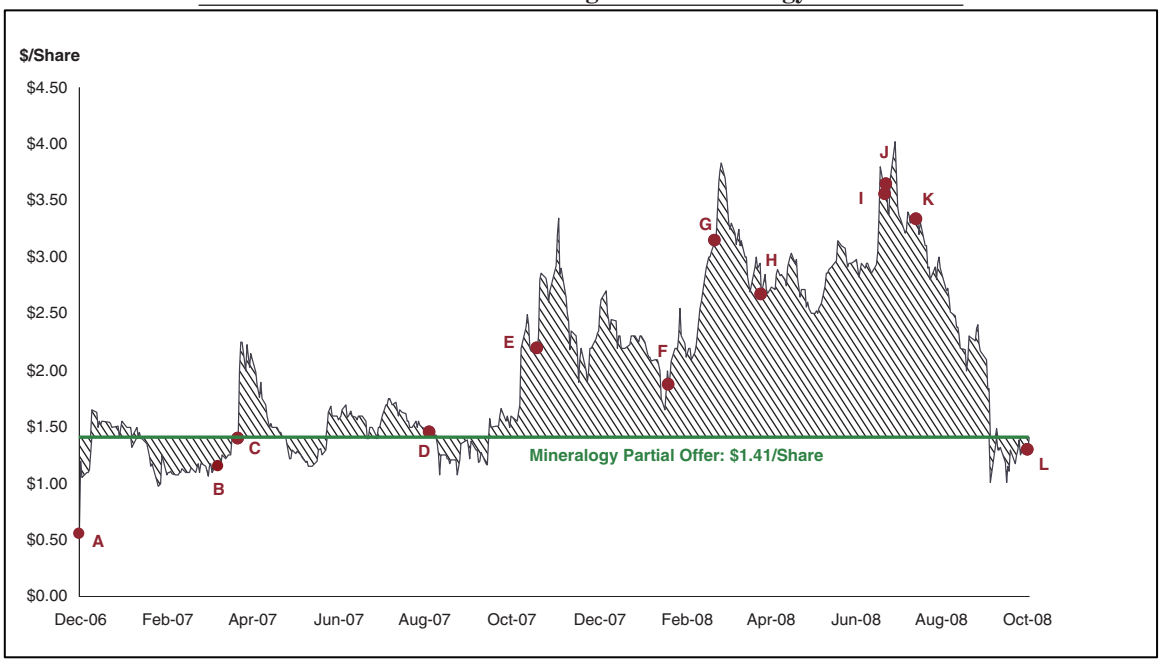
Your Board of Directors and management team have advanced the Galilee Basin Project and provided significant value accretion for Shareholders. It was the foresight and commitment of your Board that have enabled Waratah to achieve a number of significant milestones in a short period of time. A disciplined approach to planning and financing

ensured minimal dilution to existing Shareholders until the Galilee Basin Project had reached sufficient fruition to ensure maximum value was recognized.

The Board of Directors and management have a clearly defined plan in place to realize the potential of the Galilee Basin Project. This included engaging with potential interested parties in relation to investments in Waratah and/or the Galilee Basin Project. Your Board of Directors maintained a planned approach to ensure Shareholder value was maximized and has been informing potential strategic partners who expressed interest in the Galilee Basin Project that a formal process would commence in approximately December 2008.

Since the announcement of the Mineralogy Partial Offer, however, your Board of Directors has expedited this process in order to bring more attractive value alternatives to Shareholders. Your Board of Directors and management team are confident that we have the plans in place and experience to overcome the recent challenges faced by Waratah, which are inevitable in a developing company.

Waratah's Share Price since listing to the Mineralogy Partial Offer



Source: Factset, Company filings

Item	Date	Key Events
A	December 7, 2006	Reverse takeover of Eaglestar Ventures and $3 million raising at $0.50 per Share in Waratah.
B	March 13, 2007	Drilling started in Galilee Basin EPC 1040 and further tenements granted.
C	March 28, 2007	Waratah granted coal exploration licence in Pocky Creek, Galilee Basin.
D	August 9, 2007	Waratah closed private placement of 5,000,000 Shares at $1.60 to raise $8.0 million.
E	October 24, 2007	Galilee Basin: Total Inferred Coal Resources upgraded to 2.145 billion tonnes.
F	January 23, 2008	Galilee Basin: Total Inferred Coal Resources upgraded to 2.820 billion tonnes.
G	February 25, 2008	Galilee Basin: Total Inferred Coal Resources upgraded to 3.12 billion tonnes.
H	March 28, 2008	Waratah closed private placement of 12,698,413 Shares at $3.15 per Share raising $40 million.
I	June 23, 2008	Waratah listing classification on the TSX-V upgraded from Tier 2 to Tier 1.
J	June 24, 2008	Galilee Basin: Total Inferred Coal Resources upgraded to 4.355 billion tonnes.
K	July 15, 2008	Queensland Government announced Galilee Basin Project to be of "State Significance".
L	October 2, 2008	Waratah applied for dual listing with ASX.

Mineralogy alleges in the Mineralogy Circular that Waratah does not have a Board of Directors with sufficient experience to effectively complete the Galilee Basin Project independently. We submit that Mineralogy is misguided

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and that Mineralogy in fact offers less expertise and experience than that which your Company has in place with the combined skills and experience of your Board of Directors and management team as described in Section 4(c) below and in the section entitled "Biographical Information of Directors and Management Team" in this Directors' Circular. In our view, Mineralogy has no comparable record of project development success. Mineralogy is a privately held Australian resource company which acquired its core iron ore assets in the mid 1980's. To date Mineralogy has not successfully developed any of its core iron ore assets into producing mines. In addition, Mineralogy has not developed any coal assets and therefore does not have the same level of experience and expertise as your Board of Directors and management team to develop the Galilee Basin Project.

(c) Your Board of Directors has Recruited an Experienced Management Team to Ensure the Successful Development of the Galilee Basin Project

Waratah has assembled a highly experienced and qualified team of Australian coal industry professionals for the development of the Galilee Basin Project. The members of the team have achieved significant success in the Australian coal industry, specifically in the area of major new project design, construction and delivery.

The core Waratah management team was responsible for delivering the AUD$227 million Oaky North Longwall project for MIM (purchased by Xstrata in July 2003) and its joint venture partners Sumitomo Corporation and Itochu Corporation both of Japan. This project involved the completion of exploration drilling and resource definition, mine planning and optimisation, detailed engineering design and costing, construction, commissioning and operation. It included a new underground mine incorporating a state of the art longwall mining system, new mine surface infrastructure and facilities, high capacity (6,500 tonnes per hour ("tph")) coal clearance system, automated surface stockpiling and overland conveyor, a replacement of the exiting three module 4.5 mtpa coal handling and processing plant ("CHPP") with a new three module 8 mtpa CHPP.

The Oaky North Project was delivered on time and completed without the use of an engineering procurement construction management contractor; it was project managed in house by the team which forms the core of the Waratah management team. The Oaky North project was delivered on budget for less than half the capital cost of two other similar projects completed at the same time by major coal companies in the Bowen Basin. Oaky North went on to set the Australian annual underground production record in 2000, a record which it held until 2007. The members of the Waratah management team involved in the Oaky North Project were:

Name	Waratah Position	Oaky North Project Role
Peter Lynch	President and Chief Executive Officer	Project /Mine Manager, General Manager
Peter Binnie	Vice-President Project Development	Engineering Manager
Nui Harris	Manager Civil Design	Survey and Earthworks Superintendent
Tony Bahre	Logistics and Procurement Contracts Manager	Project Purchasing Manager
George Klenowski	Materials and Geotechnical Consultant	Geotechnical and Construction Manager

Following on from the success of the Oaky North Project, Messrs. Peter Binnie, Nui Harris and Tony Bahre have worked together on the delivery of the upgrade of the Oaky No. 1 Underground mine at a total cost of over AUD$110 million. This included the provision of new surface facilities and services, upgrading and replacement of the coal clearance system 2,800 tph -> 4,500 tph, specification, purchase and installation of a new longwall mining machine.

Messrs. Peter Binnie, Nui Harris and George Klenowski were all involved in the design and construction of the Xstrata Macarthur River Mine expansion and open cut transition project. This project cost AUD$110 million and involved an expansion from 1.3 mtpa run-of-mine ("ROM") ore to 2.8 mtpa ROM ore, construction of an 8 kilometre by 24 metre high flood protection levy, diversion of a river and establishment of a new opencut mining operation.

After the Xstrata Macarthur River Mine Project, Messrs. Peter Binnie, Nui Harris and George Klenowski were employed at various stages by AMCI Australia and then Vale to construct the new Carborough Downs Underground and Isaacs Plains Open Cut.

After MIM, Mr. Peter Lynch was employed as Managing Director of Australia Premium Coals Pty Ltd. ("APC"), the then operating arm of the Coppabella and Moorvale Joint Ventures. During this time, APC financed and

constructed the 3.5 mtpa Moorvale export coal mine incorporating a new wash plant, rail loop and open cut mine and surface facilities. Messrs. Nui Harris and George Klenowski assisted the APC team in bringing the Moorvale Project into production on time and budget.

Mr. Phillip McNamara, Waratah's VP Corporate Development also has a very successful track record in delivering technically difficult coal projects. He was responsible for the delivery of the new Underground Homestead longwal mine in the Hunter Valley for the Wambo Mining Corporation, on time and budget at a cost of AUD$80 million. He was in charge of the United Underground mine and responsible for a transition from a 0.8 mtpa bord and pillar underground operation to a 3.5 mtpa longwall operation, competed on time and under budget at a cost of AUD$45 million. Most recently, Mr. Philip McNamara was employed as the Mine Manager for the Austar Mine in Cessnock New South Wales for the Chinese Company Yanchang. In this role he was responsible for the specification, purchase, installation and commissioning of the first top coal caving long system employed outside of China. This state of the art technology is particularly suited to thick coal seams over 5 metres. The project was delivered on time and budget at a cost of AUD$105 million.

The Waratah management team has a well established track record of delivering successful major project outcomes in the Australian coal industry. This reputation has been achieved across a wide variety of projects in different locations. Most importantly, we believe that they have earned the respect of major foreign parties who have been involved as joint venture partners in many of those projects.

(d) The Mineralogy Partial Offer has been Rejected by all of the Directors and Officers of Waratah

The Board of Directors has been informed that, as of October 17, 2008, none of the directors or officers of Waratah has accepted or intends to accept the Mineralogy Partial Offer. The directors and officers of Waratah own or exercise control over an aggregate of 7,849,333 Shares, common share purchase warrants ("Warrants") to acquire up to 2,034,139 Shares, and options issued under Waratah's stock option plans ("Options") to acquire up to 4,145,000 Shares, representing approximately 18.610% of the Shares (on a fully diluted basis).

5. Other Commercial Opportunities are being Pursued which the Board Believes may Offer More Attractive Value Alternatives to Shareholders

(a) Other Offers or Alternatives may Emerge from Waratah's Value Maximization Process

Over the last 12 months, Waratah has received numerous approaches from parties who have expressed interest in investing in Waratah or partnering in the development of the Galilee Basin Project.

Since the announcement of the Mineralogy Partial Offer on October 3, 2008, the Board of Directors and the Special Committee, with the assistance of financial and legal advisors, have been aggressively pursuing a number of alternatives to the Mineralogy Partial Offer in order to provide more attractive value alternatives for Shareholders. Waratah has, in a number of instances, been solicited by and has, in a number of instances, initiated contact with a number of parties who have expressed an interest in pursuing alternative transactions.

Waratah has entered into confidentiality agreements with a number of interested parties and discussions are in progress to bring forward more attractive value alternatives to allow these interested parties to formulate proposals. Waratah is encouraged by the level of interest to date and will advise Shareholders on the progress as soon as practicable and will provide an update prior to the expiry of the Mineralogy Partial Offer. Waratah has established a data room for the purpose of providing confidential information to interested third parties.

While the Board of Directors believes that Waratah and its assets are potentially very attractive to other parties in addition to Mineralogy, there can be no assurance that these discussions will result in an improved take-over bid or other alternative transaction and the Board of Directors may determine that the best alternative available to Waratah is to continue with its current growth strategy on a stand-alone basis.

Tendering Shares to the Mineralogy Partial Offer before the Board of Directors has had an opportunity to fully explore all available alternatives may preclude the possibility of a superior transaction emerging. The Board of Directors and the Special Committee intend to use the time provided by Waratah's Shareholder Rights Plan (the "Rights Plan") to vigorously pursue these alternatives.

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CONCLUSION AND RECOMMENDATION

For the reasons outlined above, the Board of Directors believes that the Mineralogy Partial Offer fails to provide full value for the Shares and is an attempt by Mineralogy to acquire Waratah without offering adequate consideration to Shareholders.

The Board of Directors UNANIMOUSLY recommends that Shareholders REJECT the Mineralogy Partial Offer and NOT TENDER their Shares.

Any Shareholder who has tendered his or her Shares under the Mineralogy Partial Offer should WITHDRAW those Shares.

The foregoing summary of the information and factors considered by the Board of Directors is not intended to be exhaustive of the factors considered by the Board of Directors in reaching its conclusion and making its recommendation, but includes the material information, factors and analysis considered by the Board of Directors. The members of the Board of Directors evaluated the various factors summarized above in light of their own knowledge of the business, financial condition and prospects of Waratah, and based upon the advice of financial and legal advisors and the recommendation of the Special Committee. In view of the numerous factors considered in connection with their evaluation of the Mineralogy Partial Offer, the Board of Directors did not find it practicable to, and did not, quantify or otherwise attempt to assign relative weight to specific factors in reaching its conclusion and recommendation. In addition, individual members of the Board of Directors may have given different weight to different factors. The conclusion and unanimous recommendation of the Board of Directors was made after considering all of the information and factors involved.

DEFICIENCIES IN THE MINERALOGY CIRCULAR AND MINERALOGY'S SECURITIES LAW FILINGS

The Board of Directors and the Special Committee, based on the advice of legal counsel, are concerned about the number of deficiencies in the Mineralogy Circular and related securities law filings. These deficiencies include the following:

- The Mineralogy Circular contains insufficient disclosure of Mineralogy's plans for Waratah.
- Given Mineralogy's pre-bid purchases, the Mineralogy Partial Offer may not comply with applicable Canadian securities laws.
- The expiry time under the Mineralogy Partial Offer does not comply with applicable Canadian securities laws.
- Mineralogy's market purchase of Shares on October 8, 2008 contravened applicable Canadian securities laws.
- Mineralogy's market purchases during the Mineralogy Partial Offer cannot reduce the number of Shares that Mineralogy is bound to take-up.
- Mineralogy's early warning and insider reporting does not comply with applicable Canadian securities laws.
- Messrs. Clive Palmer and Geoffrey Smith resigned as directors of Mineralogy for one day resulting in the Mineralogy Circular being certified by only one Mineralogy director.

By virtue of the type and nature of the deficiencies in the Mineralogy Circular and related securities law filings, your Board of Directors is concerned and is exploring its alternatives to ensure that Shareholders do not act on an uninformed basis.

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1. Insufficient Disclosure of Plans for Waratah

The Mineralogy Circular fails to provide adequate disclosure of Mineralogy's plans for Waratah if the Mineralogy Partial Offer is successful. In the Mineralogy Circular, Mineralogy indicates that it intends to dedicate significant resources to assist Waratah in obtaining the regulatory approvals and financing required to develop the Galilee Basin Project. However, Shareholders are not provided with any details or plans specifying how this will be achieved. In addition, Mineralogy admits that there is no assurance that Waratah, with the assistance of Mineralogy, will be able to successfully advance the development of the Galilee Basin Project. Mineralogy has not demonstrated relevant experience in its ability to develop a mine like the Galilee Basin Project. Mineralogy has not disclosed its intentions and funding requirements if the Mineralogy Partial Offer is successful.

2. Mineralogy's Pre-Bid Purchases

Mineralogy has not provided sufficient information to Waratah or Shareholders to assess whether the pre-bid purchases below result in the Mineralogy Partial Offer contravening applicable Canadian securities laws. Mineralogy's public filings indicate that it made the following purchases of Shares in the 90 days preceding the Mineralogy Partial Offer.

Date	Number of Shares	Price ($)	Method of Purchase
September 9	1,938,600	1.2536	unknown
September 10	2,940,000	1.3049	unknown
September 11	1,578,000	1.312	private share purchase agreement
September 17	3,091,400	1.3005	private share purchase agreement
September 19	9,600	1.20	public market
September 22	90,400	1.20	public market
September 23	478,300	1.1957	public market
September 24	153,000	1.2998	public market
September 25	80,000	1.30	public market
September 29	259,500	1.30	public market
September 30	115,400	1.35	public market

Based on Mineralogy's holding of 10,734,200 Shares as at October 3, 2008, being the date of the Mineralogy Circular, the Mineralogy Partial Offer represents an offer for 35.860% of Waratah's 75,380,764 Shares on a fully diluted basis on such date.

The pre-bid integration rules of applicable Canadian securities laws apply to purchases of securities by an offeror (such as Mineralogy) in the 90 days preceding the commencement of a take-over bid. The rules require two integration limitations:

(1) under its bid, the offeror must offer at least the highest consideration it paid for the offeree issuer's securities in an acquisition transaction in the 90 days preceding the bid; and

(2) the offeror must offer to acquire under the bid that percentage of securities of the class subject to the bid that is at least equal to the highest percentage that the number of securities acquired from a seller in any such prior transaction was of the total number of securities of that class beneficially owned by that seller at the time of that prior transaction.

In order to have complied with the second part of the pre-bid integration rules of Canadian securities laws, in its purchases listed above, Mineralogy must have acquired not more than 35.860% of any particular seller's holdings of Shares.

Of Mineralogy's eleven identified purchases of Shares during the 90 day pre-bid integration period, seven were identified as being acquired in the public market, and two by way of private share purchase agreement. The method of purchase for two of the purchases is unknown.

For public market purchases, the integration requirement regarding minimum percentage of holdings acquired does not apply so long as the following conditions are met:

(a) no broker acting for the offeror performs services beyond the customary broker's functions in regard to the purchases;

(b) no broker acting for the offeror receives more than the usual fees or commissions in regard to the purchases than are charged for comparable services performed by the broker in the normal course;

(c) the offeror or any person or company acting for the offeror does not solicit or arrange for the solicitation of offers to sell securities of the class subject to the bid, except for the solicitation by the offeror or members of the solicitation dealer group under the take-over bid; and

(d) the seller or any person or company acting for the seller does not, to the knowledge of the offeror, solicit or arrange for the solicitation of offers to buy securities of the class subject to the bid.

Regarding the two private agreement purchases, Mineralogy's filings identify both as being effected through share purchase agreements.

Mineralogy has not provided sufficient information to allow Waratah or Shareholders to assess whether such pre-market purchases result in the Mineralogy Partial Offer contravening applicable Canadian securities laws.

3. Expiry Time does not Comply with Applicable Canadian Securities Laws

Mineralogy has chosen to leave the Mineralogy Partial Offer open for acceptance only until 5:00 p.m. (Toronto time) on November 7, 2008. Applicable Canadian securities laws require a take-over bid to be open for at least 35 full days. The Mineralogy Partial Offer commenced on October 3, 2008. Under applicable Canadian securities laws, the earliest time at which the Mineralogy Partial Offer can expire is 11:59 p.m. (local time) on November 7, 2008. As a result, the Mineralogy Partial Offer would need to be amended before Mineralogy could take up and pay for any Shares deposited under the Mineralogy Partial Offer.

4. Mineralogy's Market Purchase while the Mineralogy Partial Offer is Outstanding Contravened Applicable Canadian Securities Laws

In the Mineralogy Circular under the heading "Market Purchases", Mineralogy disclosed that, subject to applicable law, it "reserves the right to and may purchase Shares" through the facilities of the TSX-V prior to the time that the Mineralogy Partial Offer expires. Applicable Canadian securities laws prohibit market purchases during a bid unless (a) the intention of the offeror on the date of the bid is to make purchases and that intention is stated in the bid circular, or (b) the intention of the offeror to make purchases changes after the date of the bid and that intention is stated in a news release issued and filed at least one business day prior to making such purchases. Mineralogy disclosed on October 8, 2008 that it purchased 14,000 Shares on the TSX-V at a price of $1.40. As Mineralogy had not stated its intention to make market purchases in the Mineralogy Circular, it was required to issue a press release on October 7, 2008 disclosing its intention to make such purchases. As no press release was filed on October 7, 2008, Mineralogy's purchase of 14,000 Shares on October 8, 2008 contravened applicable Canadian securities laws.

5. Mineralogy's Market Purchases during the Mineralogy Partial Offer Cannot Reduce the Number of Shares that Mineralogy is Bound to Take-Up

The Mineralogy Circular states that any Shares purchased by Mineralogy on the published market prior to the expiry of the Mineralogy Partial Offer shall reduce the number of Shares that Mineralogy is bound to take-up under the Mineralogy Partial Offer in accordance with Mineralogy's minimum tender condition. However, under applicable Canadian securities laws, purchases of securities made during a take-over bid must not reduce the number of securities an offeror is bound to take-up under the bid. As a result, the Mineralogy Partial Offer contravenes applicable Canadian securities laws by affecting Mineralogy's obligation to those Shareholders who deposit Shares under the Mineralogy Partial Offer.

6. Inadequate Early Warning and Insider Reporting

Although Mineralogy's press release dated September 30, 2008 disclosed that Mineralogy was interested in taking a majority interest in Waratah, its early warning report dated and signed by Mr. Clive Palmer on the same date simply disclosed that the Shares were acquired for investment purposes.

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Mineralogy's purchases disclosed in the Mineralogy Circular are not consistent with Mineralogy's insider reporting filings. For example, Mineralogy's insider report with respect to the September 9, 2008 and September 10, 2008 purchases indicate a different purchase price per Share than that disclosed in the Mineralogy Circular. In addition, the September 19, 2008 and September 22, 2008 purchases were not reported within 10 days in accordance with applicable Canadian securities laws.

7. Certificate of Material Facts

Applicable Canadian securities laws provide that a bid circular of an offeror must contain a certificate of the offeror and two directors certifying that the offer and circular contain no untrue statement of a material fact or misrepresentation. Mineralogy only had one director (Mr. Clive Mensink) sign the certificate. According to a September 30, 2008 early warning report filed by Mineralogy, Mr. Clive Palmer was also a director of Mineralogy at the time of filing. However, on October 2, 2008 (one day prior to the date of the Mineralogy Partial Offer), Messrs. Clive Palmer and Geoffrey Smith resigned as directors of Mineralogy, resulting in the Mineralogy Circular being certified by only one Mineralogy director. On October 4, 2008 (one day after the date of the Mineralogy Partial Offer) Messrs. Clive Palmer and Geoffrey Smith were reappointed as directors of Mineralogy.

BACKGROUND TO THE MINERALOGY PARTIAL OFFER AND RESPONSE OF WARATAH

Following a request by Mr. Clive Palmer, the founder of Mineralogy, Mr. Peter Lynch, Waratah's President and Chief Executive Officer, met Mr. Palmer for the first time on September 23, 2008. Mineralogy had recently acquired a significant number of Shares, and the purpose of the meeting was to meet a new major Shareholder.

The meeting took place over a short informal lunch. The discussion between Mr. Lynch and Mr. Palmer was kept at a very general level. Both Mr. Lynch and Mr. Palmer began the discussion by outlining the background of their respective businesses before the discussion turned its focus on Waratah. Mr. Palmer said he thought that Waratah had good potential, had a good resource base and project and that he believed the Shares were trading at very low levels.

Mr. Palmer said that he wanted to continue to purchase Waratah Shares, but also mentioned that he would prefer injecting money into Waratah by way of a share placement. Mr. Lynch walked through Waratah's successful $40 million private placement at $3.15 per share in March 2008. As Waratah had no current need for additional capital, Mr. Lynch stated that he did not believe the Board of Directors would consider a placement below that price, but told Mr. Palmer to put forward any proposal he may have to the Board. There was no further discussion on this matter and no proposal was received by the Board.

Mr. Palmer then went on to generally describe his strong Chinese connections, and their potential interest in financing the Galilee Basin Project. However, nothing concrete or specific was discussed.

Mr. Palmer suggested that Waratah should be planning an alternative to its proposed port at Shoalwater Bay. Mr. Lynch stated that Waratah was assessing all available alternatives.

Waratah's proposed dual listing on the ASX was briefly discussed. Mr. Palmer said that he did not believe that Waratah should list on the ASX until a partner had been secured and a project financing arrangement for the Galilee Basin Project put in place. Mr. Palmer also expressed his view that the TSX was not a good exchange for this sort of project.

Mr. Palmer indicated that he was preparing a document outlining his intentions and then ended the general and high-level discussion by stating that he would probably continue to purchase Shares and Mr. Lynch reiterated that Mr. Palmer should take any specific proposal he may have to the Board of Directors.

On October 3, 2008, Waratah became aware that Mineralogy had publicly announced its unsolicited partial offer for 50.1% of Waratah's Shares (on a fully diluted basis). The Board of Directors and management met on October 3, 2008 to consider the circumstances of Waratah in light of the Mineralogy Partial Offer.

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At a subsequent meeting on October 7, 2008, the Board of Directors established the Special Committee, which is comprised of Messrs. Howard Stack (Chairman), Andrew Wilson and Nicholas Mather. The Special Committee was constituted to, among other things, review the Mineralogy Partial Offer and, with the assistance of financial and legal advisors, to make recommendations to the Board of Directors with respect to the Mineralogy Partial Offer and to develop alternatives to the Mineralogy Partial Offer. Waratah also engaged Torys to act as legal advisor and Merrill Lynch to act as financial advisor in connection with the Mineralogy Partial Offer and strategic alternatives thereto.

Also on October 7, 2008, Waratah adopted the limited duration Rights Plan in order to provide the necessary time to properly assess and respond to the unsolicited Mineralogy Partial Offer, including not only the terms of the Mineralogy Partial Offer but also the potential effect on control of Waratah given the size of the position that would result. On October 14, 2008 Mineralogy filed an application with the British Columbia Securities Commission to cease trade the Rights Plan prior to the November 7, 2008 expiry time of the Mineralogy Partial Offer.

In the afternoon of October 16, 2008, the day before this Directors' Circular was finalized, Torys received a three paragraph letter from the law firm Blake, Cassels & Graydon LLP ("Blakes"), addressed to Torys and the Special Committee. The letter stated that Blakes had been instructed by Mineralogy to discuss with Torys and the Special Committee a proposal relating to the Mineralogy Partial Offer. The proposal described in the letter is that: (i) Mineralogy will amend the Mineralogy Partial Offer so that it is for all Shares and extend the expiry date to December 2, 2008; (ii) the minimum tender condition would remain at 50.1% of the outstanding Shares (on a fully diluted basis and taking into account Shares owned by Mineralogy and its affiliates); (iii) Waratah will waive the application of the Rights Plan to the offer as amended and will not take further action to challenge the offer; and (iv) Mineralogy will cease its application to the British Columbia Securities Commission to have the Rights Plan cease traded. The Special Committee, together with legal and financial advisors, is reviewing the letter from Blakes and will respond as soon as practicable.

The Board of Directors met with management and their advisors on several occasions from October 3, 2008 to October 17, 2008. During these meetings, the Board of Directors discussed a number of matters in connection with their responsibilities in light of the Mineralogy Partial Offer, their assessment of the Mineralogy Partial Offer, and alternatives available to maximize value to Shareholders.

The Special Committee met on numerous occasions since the announcement of the Mineralogy Partial Offer. In addition, members of the Special Committee have had independent discussions with management of Waratah, Merrill Lynch and Torys related to the Mineralogy Partial Offer, and participated in strategy and drafting sessions with management, Merrill Lynch and Torys, and made such other independent investigations as they felt were necessary to complete their review and formulate their recommendation regarding the Mineralogy Partial Offer.

On October 17, 2008, the Board of Directors met to discuss the Mineralogy Partial Offer and the Special Committee delivered its report to the Board of Directors. The report concluded that the Mineralogy Partial Offer was inadequate and neither in the best interest of Waratah nor fair to the Shareholders (other than Mineralogy and its affiliates). The Special Committee unanimously recommended to the Board of Directors that it should recommend that Shareholders **REJECT** the Mineralogy Partial Offer and **NOT TENDER** their Shares. At the meeting, the Board received the opinion from Merrill Lynch in the form attached to this Directors' Circular as Appendix A. On the basis of the factors outlined in this Directors' Circular, including the recommendation of the Special Committee and the opinion of Merrill Lynch, the Board unanimously determined that the Mineralogy Partial Offer was inadequate and recommended to Shareholders that they reject the Mineralogy Partial Offer and not tender their Shares.

OPINION OF THE FINANCIAL ADVISOR

Following the announcement of the Mineralogy Partial Offer on October 3, 2008, Waratah engaged Merrill Lynch to assess the financial adequacy of the consideration offered pursuant to the Mineralogy Partial Offer and to provide the Special Committee with advice on available alternatives to maximize shareholder value. On October 17, 2008, Merrill Lynch delivered a written opinion to the Board of Directors concluding that, as of the date of the opinion, the consideration offered pursuant to the Mineralogy Partial Offer was inadequate from a financial point of view to Shareholders (other than Mineralogy and its affiliates). A copy of the opinion containing a description of the matters considered and the limitations of the review undertaken in rendering the opinion is reproduced in full at Appendix A.

The Board of Directors recommends that you read the opinion carefully and in its entirety for a description of the procedures followed, the matters considered, and the assumptions, qualifications and limitations of the opinion. The opinion is not a recommendation as to whether or not Shareholders should deposit their Shares under the Mineralogy Partial Offer.

Merrill Lynch has advised Waratah that it is not an insider, associate or affiliate (as those terms are defined in the *Securities Act* (Ontario)) of Waratah, Mineralogy or any of their respective associates or affiliates. There are no understandings, agreements or commitments between either Merrill Lynch, on the one hand, and Waratah, on the other, or any of their respective associates or affiliates with respect to any future business dealings. Merrill Lynch may in the future, in the ordinary course of business, perform financial advisory or investment banking services for Waratah or any of its associates or affiliates for which services it would expect to receive compensation. In the ordinary course of business, Merrill Lynch and its affiliates may actively trade or hold securities of Waratah for its own account or for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

Merrill Lynch is acting as financial advisor to Waratah in connection with and for the purpose of its evaluation of the Mineralogy Partial Offer and will receive a fee from Waratah for its services whether or not the Mineralogy Partial Offer is consummated, including a fee payable upon delivery of its opinion.

WARATAH COAL INC.

Waratah was incorporated on January 19, 2006 under the *Business Corporations Act* (British Columbia). Originally Eaglestar Ventures Inc., Waratah took its current name after purchasing Waratah Coal Pty Ltd. on December 5, 2006. Waratah is listed on the TSX-V under the symbol "WCI" and is headquartered in Brisbane, Australia.

Waratah is a progressive coal exploration company with a strategy of building shareholder value through forward-thinking acquisition, exploration, and development of coal projects in Australia. The Company currently holds a suite of 22 coal exploration tenements in Australia with 20 of those being in Queensland and two of those tenements being in New South Wales. The Company has a further 20 applications for coal exploration tenements currently awaiting approval with respect to land located in Queensland and the Northern Territory. In addition, the Company holds three minerals exploration tenements in Queensland and has a further three applications for minerals exploration tenements in Queensland awaiting approval.

Summary of Waratah's Projects

Galilee Basin Project

The Galilee Basin Project is based around a current JORC Code compliant Inferred Coal Resource of approximately 4.355 billion tonnes. This is comprised of an Inferred Coal Resource of approximately 3.38 billion tonnes in the South Alpha tenements and an Inferred Coal Resource of approximately 975 million tonnes in the North Alpha tenement.

Exploration is continuing in both tenements to develop a better understanding of the full extent of the deposit. Exploration in the South Alpha tenement is also progressing with the intention of establishing 500 million tonnes of measured resource.

Waratah's intention, subject to feasibility, financing and approvals, is to ultimately develop a 25 mtpa capacity thermal coal mine.

The Company is investigating a number of ways to exploit its Galilee Basin coal tenements, including the export of coal via new port and rail infrastructure. In parallel, the Company is investigating other ways to commercialize the Galilee Basin Project, including through the potential of the Galilee Basin for geo-sequestration of CO_2 emissions and the use of the Company's coal deposits for power generation through conventional supercritical coal fired generation or gasification, a technique which is emerging as an important strategy in coal development.

In conjunction with this exploration effort in the Galilee Basin, Waratah has progressed with a range of scoping studies to examine solutions to the infrastructure requirements of the Galilee Basin. This work has progressed to preliminary pre-feasibility investigations into the development of an efficient Galilee Basin rail system to a dedicated new coal export port approximately 50 kilometres to the south of Shoalwater Bay and approximately 80 kilometres north of Rockhampton.

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In April 2008, Waratah submitted an Initial Advice Statement to the Queensland Government seeking a declaration that the proposed mine, rail and port project forming the Galilee Basin Project was a "Significant Project" under the Queensland State Development and Public Works Organisation Act.

In July 2008, the Queensland Government announced that the Galilee Basin Project had been declared a project of "State Significance". This formally pronounced the commencement of the project approval process and environmental assessment to prepare an Environmental Impact Statement.

On July 30, 2008, the Company referred the Galilee Basin Project to the Minister pursuant to the Environmental Protection and Biodiversity Conservation Act 1999 (the "EPBC Act"). On September 5, 2008 the Minister made a decision that the Galilee Basin Project was "clearly unacceptable" under section 74B of the EPBC Act as the Minister believed that it would have unacceptable impacts on matters protected by Part 3 of the EPBC Act. The Company is, in conjunction with the Queensland Government, currently assessing the options available to it in order to progress the Galilee Basin Project in its current or an amended form and has commenced proceedings with the Federal Court of Australia to resolve this matter. See the section entitled "Recent Developments – EPBC Act Litigation" in this Directors' Circular for further information on these proceedings.

Waratah had previously examined various other alternative port and rail options at the scoping study stage and determined that the proposed Galilee Basin Project in the form submitted to the Queensland Government and the Minister provided the optimum capital and operating cost, capacity and timing outcome, while still allowing appropriate mitigation of environmental effects. In tandem with pursuing the Company's legal rights with respect to the purported decision of the Minister, Waratah intends to undertake a further assessment of other alternative port and rail options with respect to the proposed Galilee Basin Project.

The proposal referred to the Minister contemplated new port and rail infrastructure to form part of the Galilee Basin Project having an initial capacity of 50 mtpa, to cater to the proposed production of 25 mtpa from the Waratah Galilee Mine and an additional 25 mtpa from third party users. The Company has entered a memorandum of understanding with a major Bowen Basin producer which provides that party with certain rights to negotiate an agreement for an option to use the first tranche of throughput capacity of the proposed new port and rail infrastructure to transport a minimum of 15 mtpa of coal.

Blair Athol Project

EPC 1056 was acquired by Waratah Coal Pty Ltd. to explore for discrete Permian basins hosting coal deposits similar to the Blair Athol and Wolfang deposits owned by third parties. Review of historic data including geological, geophysical and drilling programs indicate that there are still areas within EPC 1056 that may have potential for Permian sequences containing export thermal coal deposits.

EPC 1056 was granted on September 28, 2007. The permit is valid for five years and comprises 215 sub-blocks covering a large area (680 km^2) north and northwest of the town of Clermont, with the Blair Athol and Wolfang Basins roughly at its centre and the Miclere Basin in the northern portion. This area is thought to be an isolated extension of the South West Bowen Basin.

Coal was first discovered at Blair Athol in 1864. However, in the mid-1980s, the Blair Athol Mine became one of the world's largest export coal mines. The discovery of the nearby Wolfang Basin coal deposits in 1976 proved that the Blair Athol Basin was not a solitary occurrence in this area.

Nymboida Coking Coal Project

EL 6467 and EL 7186 (Nymboida) are held by Waratah Coal Pty Ltd. The licences are located some 35 kilometres south-west of Grafton in northern New South Wales and cover an area of 59 km^2, roughly centered about the old Nymboida Colliery. The project is located within 30 kilometres of the main north-south rail line providing potential transport solutions to Brisbane and Newcastle.

Nymboida was an historic underground coal mine which was worked up until 1979 supplying high energy coal for a local power station. The operation was closed when the small-scale local power station was replaced by connection to the main state power grid. Mining operations at Nymboida were conducted on the Farquhar's Creek Seam which was recognized at the time as one of the highest energy coals in New South Wales, due to the coal's metallurgical properties.

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Waratah's primary objective for this area is the review and examination of the region for the development of commercially viable natural deposits of high-value coking coal.

In July 2007, Waratah announced positive results of the initial drilling program and coal quality analysis at its Nymboida project. Further geological assessment of the drilling appears to suggest that some drill holes actually intersected a seam lower than the Farhquar Seam (the seam mined in the old underground colliery). This seam, albeit 1.1 metres thick, exhibited excellent coking properties.

In April 2008, Waratah announced that it had commenced the second phase of drilling at its Nymboida coking coal project to continue exploration for a potential underground deposit. Tracks and drill sites have been dozed and drilling of a series of holes targeting the northern and eastern down dip extensions of the Farhquar Seam has progressed.

Styx Project

The Company believes that the Styx Coal Project (EPC 1029), located in central coastal Queensland, has potential for the discovery of both thermal and coking coal deposits based on information from both historical mining data and other known coal prospects within EPC 1029 and on adjacent tenements.

Coal was mined by third parties in the Styx Basin in the first half of the twentieth century with a total production estimated at 1.76 million tonnes. Since that period there has been limited exploration activity by third parties which has focused on the testing of shallow coal potential in the region of previous coal workings beside the main North Coast rail line.

The project is located near good basic road and rail infrastructure, each a critical component for any future development of any deposits defined in the project area.

Moah-Stanwell Project

EPC 994 Stanwell was granted to Waratah Coal Pty Ltd. on August 4, 2006 for a five-year period. This permit consists of 10 blocks (with a total of 100 sub-blocks) covering the Stanwell Coal Measures in Central Queensland at the south and extending generally in a north-easterly direction across the Native Cat Range and extends approximately 11 kilometres past the Stuart Creek State Forest.

Waratah's primary objective is to conduct a prospective exploratory program for the review and examination of the permit area with the intention of identifying commercially viable natural deposits of coal (belonging to the Stanwell Coal Measures).

Bingaree Project

EPC 1073 Bingaree was acquired by Waratah Coal Pty Ltd. with the intention to explore for discrete Upper Permian basins hosting coal deposits and test the eastwards extent of the Baralaba Coal Measures. The area of the present EPC, "Bingaree", was chosen based on available information including regional GSQ geological mapping, GSQ studies, historical exploration data in the general region and geophysical data.

EPC 1073 was granted on November 29, 2006. The permit is valid for five years and comprises 298 sub-blocks covering a large area of 935 km^2 roughly 10 kilometres west of Wowan and 15 kilometres east of Baralaba. Rockhampton, with a population of about 60,000, is the nearest major regional city and is 50 kilometres north-east of EPC 1073.

Strathpine Project, Surat Basin

EPC 1015 was granted on January 22, 2007 and the permit, which is valid for five years, comprises 93 sub-blocks covering an area of about 290 km^2 approximately 25 kilometres north of Miles and 15 kilometres east of Wandoan, in the Surat Basin. The closest major town is Toowoomba, which lies 210 kilometres to the south-east.

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Although the presence of coal deposits in the local area has been known since the late 1890s, it is only relatively recently that the Surat Basin is showing its true potential. The Wandoan Deposits being developed by Xstrata Coal (to the immediate west of Wandoan and 60 kilometres north of Miles) comprise several shallow deposits (eight to date) evidencing very large deposits of thermal coal. The intention of Waratah's present exploration is to identify coal deposits similar to those at Wandoan. Deposits sought occur within the Walloon Sub Group of the Injune Creek Group.

Laura Basin Coking Coal Project

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

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

Coal occurrences are common in the lower Dalrymple Sandstone of the Laura Basin. Within the Laura Basin, known coking coal deposits have been identified at Bathurst Range in the Bathurst Seam.

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

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

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

Share Capital

Waratah's authorized share capital consists of an unlimited number of Shares without par value of which, as of October 17, 2008, 56,358,609 are issued and outstanding. In addition, as of October 17, 2008, there are outstanding Options to acquire up to 5,035,000 Shares upon the exercise thereof, and outstanding Warrants to acquire up to 13,987,155 Shares upon the exercise thereof.

Recent Developments

EPBC Act Litigation

On July 30, 2008 Waratah made a proposal to the Minister under the EPBC Act in respect to its Galilee Basin Project. On September 5, 2008 the Minister made a decision that the Galilee Basin Project was "clearly unacceptable" under section 74B of the EPBC Act as the Minister believed that it would have clearly unacceptable impacts on matters protected by Part 3 of the EPBC Act due to the impacts the route of the rail line and the location of the coal port would have on the environment.

Waratah has commenced proceedings in the Federal Court of Australia seeking a declaration that, amongst other things:

- the Minister's purported declaration was not made in accordance with the EPBC Act and is invalid and of no force or effect; and
- the Minister must decide pursuant to Section 75 of the EPBC Act whether the Galilee Basin Project is a "controlled action" and which provisions of Part 3 of the EPBC Act (if any) are controlling provisions for the Galilee Basin Project.

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If Waratah's proceedings are successful and the Minister decides that the Galilee Basin Project is a "controlled action", then the Company's referral of the Galilee Basin Project will proceed as a "controlled action" pursuant to the EPBC Act. If so, the Minister will specify which of the following actions will be used to assess the Galilee Basin Project: (a) an accredited assessment process; (b) an assessment on referral information; (c) an assessment on preliminary documentation; (d) a public environment report; (e) an environmental impact statement; or (f) a public inquiry.

Waratah's aim and intent is that the benefits and impacts of the Galilee Basin Project should be properly reviewed as part of a consideration a "controlled action" pursuant to the EPBC Act.

If the Federal Court proceedings are not successful, there are two options available to the Company under the Act which are: (a) requesting that the Minister reconsider the decision; or (b) withdrawing the current proposal and submitting a modified proposal as a new referral.

As detailed in the section of this Directors' Circular entitled "The Galilee Basin Project Continues to Move Forward with Support of the Queensland Government" above, in parallel with the Federal Court proceedings, Waratah is evaluating alternative rail and port solutions in conjunction with the Queensland Government with the assistance of Worley Parsons Limited. Waratah already has some understanding of the alternative infrastructure options available to it which was gained during initial scoping studies carried out to determine the Company's preferred arrangement for rail and port infrastructure to develop the Galilee Basin Project and this evaluation is expect to be completed by mid December 2008. Waratah will evaluate the comparative costs and benefits of all alternatives with both the Queensland and Federal Governments.

Waratah's assessment of its proposal versus the alternative options with respect to all or part of the port and rail aspects of the Galilee Basin Project is a work in progress. Waratah can not provide any assurance that the Federal Court action will be successful, that there will be any other feasible port or rail options with respect to the Galilee Basin Project or that any modified proposal will be deemed a "controlled action" under the EPBC Act, however, Waratah believes that it is in the interests of Shareholders that all options be considered.

Application for ASX Listing

On October 2, 2008, Waratah announced that it had made an application to the ASX for admission of Waratah to the Official List of the ASX and for quotation of CDIs for the Shares. Upon admission to the ASX, Waratah will become dual listed with its securities listed on both the TSX-V and the ASX.

The ASX is host to a number of coal exploration and mining companies and the Board considers that listing Waratah's securities in a market very familiar with coal development strategies will be of significant benefit to Waratah and Shareholders. The addition of Waratah to the ASX would represent the listing of a significant new coal exploration and development company in Australia. The Board is of the view that a dual listing on the ASX will broaden the Shareholder base and will also add to Waratah's options for attracting corporate and project funding. The Board also considered the significant demand from Australian retail and institutional investors to dual list Waratah on the ASX, as several of these parties are prevented from investing in securities listed on overseas stock exchanges.

PRINCIPAL SHAREHOLDERS

As of October 17, 2008, to the knowledge of the directors and officers of Waratah, no person beneficially owns, directly or indirectly, or exercises control or direction over, more than 10% of the Shares, other than the following:

Name	Number of Shares[1]	% of Outstanding Shares
Mineralogy Pty. Ltd.	10,748,200	19.07%
Mackenzie Financial Corporation	6,519,101	11.57%

Notes:

(1) The number of Shares beneficially owned was determined solely by a review of an "Early Warning Report/Alternative Monthly Report" and news release searches conducted on SEDAR and a search of insider filings on the Canadian Securities Administrators' System for Electronic Disclosure for Insiders as of October 17, 2008.

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INTENTION OF DIRECTORS, OFFICERS AND CERTAIN SHAREHOLDERS WITH RESPECT TO THE MINERALOGY PARTIAL OFFER

The Board of Directors has made reasonable enquiries of each director and officer of Waratah and their respective associates and any person or company, other than Mineralogy and its affiliates, holding more than 10% of the Shares. The Board is not aware of any person acting jointly or in concert with Waratah. Each of the directors and officers of Waratah together with their respective associates have indicated their intention not to accept the Mineralogy Partial Offer.

DIRECTORS AND OFFICERS OF WARATAH AND OWNERSHIP OF SECURITIES

The following table sets out the names and positions with Waratah of each of its directors and officers and the number and percentage of outstanding securities of Waratah beneficially owned, directly or indirectly, or over which control or direction is exercised by each such person, and, where known after reasonable inquiry, by their respective associates:[1]

Name	Position Held	Number of Shares Owned or Over Which Control or Direction is Exercised	Percentage of Outstanding Shares	Outstanding Options to Purchase Shares	Percentage of Outstanding Options	Outstanding Warrants to Purchase Shares	Percentage of Outstanding Warrants
Peter Lynch	President, Chief Executive Officer and Director	1,891,075[2]	3.36%	1,795,000	35.65%	441,500[3]	3.16%
Nicholas Mather	Chairman and Director	2,447,791[4]	4.34%	175,000	3.48%	613,448[5]	4.39%
Shaun Maskerine	Corporate Secretary and Director	55,000[6]	0.10%	200,000	3.97%	0	n/a
Howard Stack	Director	0	n/a	175,000	3.48%	0	n/a
Andrew Wilson	Director	30,000	0.05%	175,000	3.48%	0	n/a
Duncan Cornish	Chief Financial Officer	3,410,467[7]	6.05%	175,000	3.48%	979,191[8]	7.00%
David Campbell	Vice-President Exploration	0	n/a	550,000	10.92%	0	n/a
Peter Binnie	Vice-President Project Development	0	n/a	450,000	8.94%	0	n/a
Phil McNamara	Vice-President Corporate Development	15,000	0.03%	450,000	8.94%	0	n/a
Total Securities Owned or Over Which Control or Direction is Exercised by Directors and Officers		7,849,333	13.93%	4,145,000	82.32%	2,034,139	14.54%

Notes:

(1) The information as to securities beneficially owned or controlled has been furnished by the respective individuals as at October 17, 2008.

(2) Peter Lynch directly owns 833,205 Shares and beneficially owns 1,057,870 Shares through Peter and Laura Lynch.

(3) Peter Lynch directly owns 191,500 Warrants and beneficially owns 250,000 Warrants through Peter and Laura Lynch.

(4) Nicholas Mather does not directly own Shares but has a beneficial interest in 1,856,229 Shares through N and J Mather (as trustees of the Mather Superannuation Fund) and 591,562 Shares through Samuel Capital Pty Ltd.

(5) Nicholas Mather does not directly own Warrants but has a beneficial interest in 464,057 Warrants through N and J Mather (as trustees of the Mather Superannuation Fund) and 149,391 Warrants through Samuel Capital Pty Ltd.

(6) Shaun Maskerine directly owns 35,000 Shares and beneficially owns 20,000 Shares through Blackmont Capital.

(7) Duncan Cornish does not directly own Shares but his associate Catherine Cornish owns 3,410,467 Shares.

(8) Duncan Cornish does not directly own Warrants but his associate Catherine Cornish owns 979,191 Warrants.

In total, the directors and officers of Waratah, and their respective associates, beneficially own, directly or indirectly, or exercise control or direction over, 14,028,472 outstanding securities, representing 18.610% of the Shares on a fully diluted basis.

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TRADING IN SECURITIES OF WARATAH

During the six-month period preceding October 17, 2008, none of Waratah, the directors or officers of Waratah nor, to the knowledge of the directors and officers of Waratah after reasonable inquiry, any person or company holding more than 10% of the Shares, other than Mineralogy, nor any of their respective associates or affiliates, has traded any securities or rights to acquire securities of Waratah, except as set out in Appendix B. The Board is not aware of any person or company acting jointly or in concert with Waratah. Information relating to the trading of securities or the right to acquire securities of Waratah by Mineralogy is set out in the Mineralogy Circular.

No director or officer of Waratah intends to purchase Shares during the Mineralogy Partial Offer or knows of such an intention on the part of any other person.

ISSUANCES OF SECURITIES BY WARATAH

No Shares or securities convertible into Shares have been issued to the directors or officers of Waratah nor, to the knowledge of the directors and officers of Waratah after reasonable inquiry, any person or company holding more than 10% of the Shares, nor any of their respective associates or affiliates, during the two years preceding October 17, 2008, except as set out in Appendix C.

OWNERSHIP OF SECURITIES OF MINERALOGY OR ITS AFFILIATES

None of Waratah, the directors or officers of Waratah nor, to the knowledge of the directors and officers of Waratah after reasonable inquiry, any person or company holding more than 10% of the Shares, nor any of their respective associates or affiliates, beneficially owns or exercises control or direction over securities of Mineralogy or any of its affiliates. The Board is not aware of any person or company acting jointly or in concert with Waratah.

RELATIONSHIP BETWEEN MINERALOGY AND DIRECTORS, OFFICERS AND SHAREHOLDERS OF WARATAH

No arrangement, agreement, commitment or understanding (including any arrangement, agreement, commitment or understanding as to any payment or other benefit to be made or given by way of compensation for loss of office or as to the directors or officers of Waratah remaining in or retiring from office if the Mineralogy Partial Offer is successful) has been made or is proposed to be made between Mineralogy and any of the directors or officers of Waratah. None of the directors or officers of Waratah is also a director or officer of Mineralogy or of any of its affiliates.

None of the directors or officers of Waratah nor, to the knowledge of the directors and officers of Waratah after reasonable inquiry, any person or company holding more than 10% of the Shares, nor any of their respective associates or affiliates, has any interest in any material contract to which Mineralogy or any of its affiliates is a party. The Board is not aware of any person acting jointly or in concert with Waratah.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND MANAGEMENT TEAM

The following is a brief biography of each of Waratah's directors and executives which includes a description of each individual's credentials and recent professional experience.

Peter Lynch, 42, is the President, Chief Executive Officer and a Director of Waratah and has been involved in the resources industry for 18 years, principally the Australian coal mining industry. Mr. Lynch began his career as a Mining Engineer with Shell Coal Australia in 1989, progressing to the level of Under Manager obtaining his Mine Managers certificates for open cut and underground coal mines along the way. In 1993, Mr. Lynch was employed as an Under Manager at North Goonyella Coal Mines, owned by White Mining and Sumitomo Corporation through to 1995. In 1995 Mr. Lynch was employed as Mine and Project Manager of Oaky North Underground Mine owned by MIM Ltd. In this role he was responsible for the design, construction and operation of an AUD$227 million modern longwall underground coal project. The Oaky North Mine still holds the Australian annual longwall production record of 7.6 million tonnes.

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

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

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

Nicholas Mather, 51, is the Chairman of the Board of Directors and has over 25 years experience in geology, exploration and resource company management. His career has taken him to a variety of countries exploring for precious and base metals and fossil fuels. Mr. Mather has focused his attention on the identification of and investment in large resource exploration projects.

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

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

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

Shaun Maskerine, 41, is the Corporate Secretary and a Director of Waratah. He has worked with public companies for over 10 years. He has served on the boards of a number of resource and industrial companies and has extensive experience in corporate finance and compliance issues. Previous positions include Vice President, Corporate Finance and Director of Odessa Petroleum Corporation, Corporate Secretary of Minco Metals and Mining, President and Director of Dragon Pharmaceuticals, and Vice President Operations and Director of SmartCool Systems Inc. Mr. Maskerine was until recently Vice President, Investment Banking at Longview Capital Partners and serves on the boards of a number of private and public resource companies. Mr. Maskerine holds a Bachelor of Commerce from Memorial University in St. John's and a Masters of Resource Management from Simon Fraser University.

Howard Leigh Stack, 64, is a Director of Waratah and has served on the boards of Australian National Industries Limited, Flight Centre Limited, Data #3Limited, Voxson Limited, Southern Cross Pump Limited, Eastern Corporation Limited, and Magnetica Limited, and has acted as chairman of all those companies (except Flight Centre) for various periods. Mr. Stack was previously Managing Partner of the Australian law firm Feez Ruthning during which time he negotiated the merger with Allen, Allen & Hemsley ("Allens"). Both Feez Ruthning and Allens had exclusive resource based practices and in this context, Mr. Stack acted for several large resource companies in connection with the development of major resource projects some of which involved the development of substantial rail and infrastructure including the development by Queensland Nickel of its Greenvale Nickel mine, a 140 kilometre rail line from Greenvale to Yabulu, and the construction of the project refinery at Yabulu. Mr. Stack currently provides legal and commercial

advice to Macquarie Generation on fuel and infrastructure projects for its Bayswater and Liddell Power Stations in the Hunter Valley, New South Wales. He is currently Chairman of the Board of Trustees for Brisbane Grammar School.

Andrew Wilson, 44, is a Director of Waratah and of Pacific Strategy Partners, a boutique strategy, finance and economic consulting firm with offices in Sydney, Melbourne, and Brisbane. He has a background in electrical engineering, including nine years with Hitachi, followed by over 12 years in management consulting. Mr. Wilson has significant experience in strategic and financial management of large corporations, merger and acquisition transaction support, and new venture development. He also has extensive experience with industrial organizations, including BHP Coal, Carter Holt Harvey and Amatek, financial service companies, including Commonwealth Bank of Australia, National Australia Bank, and Suncorp; and new ventures such as New Energy Partners and Optimal Decision Group. He holds a Bachelor of Electrical Engineering from University of New South Wales and an MBA from the Australian Graduate School of Management.

Duncan Cornish, 41, is the Chief Financial Officer of Waratah and has more than 10 years experience in the accountancy profession both in England and Australia, mainly with the accountancy firms Ernst & Young and PricewaterhouseCoopers. He has extensive experience in all aspects of company financial reporting, corporate regulatory and governance areas, and serves as corporate secretary and chief financial officers of several Australian public companies. Mr. Cornish is a Chartered Accountant. He holds a Bachelor of Business (Accounting) and is a member of the Australian Institute of Chartered Accountants.

David Campbell, 53, is Waratah's Vice President of Exploration and is a highly qualified and experienced coal professional with a diverse range of roles in some of the most respected companies in the coal industry. Mr. Campbell has held senior geological roles with companies including Agip Australia, New Hope Group, BHP Minerals, Bulga Coal, Glencore Coal, Peabody, and SRK Consulting. More recently he has been involved in project development roles including General Manager of Baralaba Coal (Peabody). The Board believes that Mr. Campbell's strong technical experience and proven project management track record will strengthen Waratah's intention to transition from coal explorer to coal producer.

Peter Binnie, 51, is Waratah's Vice President of Project Development and has 35 years of experience in the Australian Coal Industry having first worked in the electrical field with in Rhondda Collieries. He has been employed as an Electrical Engineer at both Cook Colliery (Arco) and the Oaky Creek No. 1 Mine (MIM) where he was involved in electrical design, supervision and system management. In 1996, he moved into the role of Engineering and Maintenance Superintendent at the Oaky North Mine Project. This role involved the design and installation of all mine infrastructure including the electrical system, coal clearance conveyors, ventilation fans and the mine environmental and condition monitoring systems along with the introduction of three complete units of mine development equipment and a 25 strong diesel fleet. The Oaky North Mine progressed to become a very successful operation and established a new benchmark for underground mine performance in Australia. Under Mr. Binnie's engineering direction, the then MIM-owned Oaky Creek No. 1 underground mine was upgraded in 2001/2002 with a AUD$100 million capital investment including the design, installation and commissioning of new electrical, ventilation and conveyor systems and the installation of a new set of longwall mining equipment. Mr. Binnie then moved to the XStrata-owned McArthur River Project in 2002 where he managed the feasibility, engineering and design to convert the then underground mine into a surface operation.

From 2005 to 2007 Mr. Binnie was employed by CVRD as Engineering Manager and Electrical Engineering Manager for the Carborough Downs Coal project. This involved the design and development of a new underground mine and all infrastructure to cater for a new longwall production unit at a planned four mtpa capacity.

Phil McNamara, 44, is the Vice President of Corporate Development of Waratah and has worked within the Australian coal industry since 1982 when he was first employed as a Cadet Mining Engineer with Coal and Allied gaining experience at the Mount Thorley Mine in the Hunter Valley. He graduated from the University of New South Wales with a Bachelor of Engineering (Mining) in 1986 and then worked further with Coal and Allied at its Newcastle export office and then Liddell Colliery. From 1989 to 1993, Mr. McNamara worked with Capricorn Coal Management at the German Creek Mines in Central Queensland as a mining engineer, Undermanager and Development Co-ordinator. From 1994 to 2000 Mr. McNamara was employed at Wambo Mining Corporation in the Hunter Valley initially as Production Manager for two years and then as Mine Manager for five years. In 2001, Mr. McNamara moved to the position of Mine Manager at United Colliery. In 2005, he moved to the Austar Coalmine and oversaw the introduction of the first Top Coal Caving Longwall face into Australia.

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AGREEMENTS BETWEEN WARATAH AND ITS DIRECTORS AND OFFICERS

Except as set forth below, no agreement, commitment or understanding has been made or is proposed to be made between Waratah and any of its directors or senior officers pursuant to which a payment or other benefit is to be made or given by way of compensation for loss of office or as to their remaining in or retiring from office if the Mineralogy Partial Offer is successful.

Existing Change of Control Agreements

Waratah has an employment agreement with Mr. Peter Lynch dated August 4, 2006, as amended. Mr. Lynch may terminate the employment agreement in the event of a change of control of Waratah, which is defined to include, among other things, any person or combination of persons acting jointly or in concert acquiring or becoming the beneficial owner of, directly or indirectly, more than 50% of the voting securities of the Company. Upon such termination, Mr. Lynch is entitled to be paid all payments due and owing to him as at the date of termination (including salary, accrued leave and bonus payments) and a termination payment which includes the total employment cost payable to Mr. Lynch in respect of a 24 month period and any bonus, calculated on a pro-rata basis from the beginning of the fiscal year to delivery of the written notice of termination, on account of the year of termination. Additionally, on such termination, all employee incentive options held by Mr. Lynch will vest and be exercisable within a three month period of such vesting.

Waratah has a consultancy agreement with Mr. Shaun Maskerine dated July 31, 2008 pursuant to which Mr. Maskerine is to act as Corporate Secretary of the Company. Mr. Maskerine may terminate the consultancy agreement in the event of a change of control of Waratah, which is defined to include, among other things, any person or combination of persons acting jointly or in concert acquiring or becoming the beneficial owner of, directly or indirectly, more than 50% of the voting securities of the Company. Upon such termination, Mr. Maskerine is entitled to be paid all payments due and owing to him as at the date of termination (including salary, accrued leave and bonus payments) and a termination payment which includes the salary payable to Mr. Maskerine in respect of a 12 month period and any bonus, calculated on a pro-rata basis from the beginning of the fiscal year to delivery of the written notice of termination, on account of the year of termination. Additionally, on such termination, all employee incentive options held by Mr. Maskerine will vest and be exercisable within a three month period of such vesting.

Each of Messrs. Peter Binnie, David Campbell, Phil McNamara and Duncan Cornish is entitled to certain monetary and non-monetary benefits if, within 12 months of a change of control, the executive is terminated or made redundant. A change of control of Waratah is defined to include, among other things, any person or combination of persons acting jointly or in concert acquiring or becoming the beneficial owner of, directly or indirectly, more than 50% of the voting securities of the Company. In such a circumstance, the executive is entitled to be paid: (a) all accrued and unpaid salary, vacation pay, reimbursable expenses and any bonus earned prior to the date of termination or redundancy but yet unpaid with respect to the previous fiscal year; (b) any bonus, calculated on a pro-rata basis from the beginning of the fiscal year to delivery of the written notice of termination, on account of the year of termination; (c) a lump sum equal to the greater of (i) the executive's base salary for the period commencing on the date of termination or redundancy to 12 months after the date of change of control, (ii) one month's base salary (three months in the case of Mr. Cornish); or (iii) any redundancy payment payable pursuant to applicable laws and regulations. Additionally, all non-vested stock options held by the executive will vest as of the termination and all options will be exercisable until their normal expiry date. Waratah's managers and employees are entitled to identical monetary and non-monetary benefits upon a change of control, except that with respect to clause (i) of this paragraph, the base salary is for the period commencing on the date of termination or redundancy to six months and three months, respectively, after the date of the change of control.

There are no change of control agreements with the Company's non-executive directors, Messrs. Nicholas Mather, Howard Stack and Andrew Wilson.

Special Committee

The Special Committee is comprised of Messrs. Nicholas Mather, Howard Stack and Andrew Wilson. Mr. Howard Stack is the Chairman of the Special Committee. Members of the Special Committee will not receive any additional compensation for their role on the Special Committee.

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Stock Option Plans

The Board has adopted a fixed stock option plan (the "Fixed Stock Option Plan") that allows for the reservation of a maximum of 7,768,800 Shares. Prior to this, the Board had adopted a rolling stock option plan (the "Rolling Stock Option Plan"). As of October 17, 2008, there were 2,465,000 Options to acquire Shares outstanding under the Fixed Stock Option Plan and there were 2,570,000 Options to acquire Shares outstanding under the Rolling Stock Option Plan.

If an offer is made for Shares that, if accepted, would result in the offeror becoming a control person of Waratah, all unexercised Options will immediately become vested, and may be exercised by the Option holder. If the offer is not completed, or the Shares tendered by the Option holder are not taken up, then the Shares may be returned to Waratah and reinstated as authorized but unissued Shares, and the Option and vesting provisions will be reinstated as though the Option had not been exercised.

On the occurrence of an offer to purchase Shares, the Board has the right to declare all Options vested, and to accelerate the expiry date on which any Option becomes exercisable.

If a person acting alone or with a joint actor acquires Shares which total not less than 50% of the outstanding Shares or the votes attached to those Shares are sufficient, if exercised, to elect a majority of the Board, then all outstanding Options will become vested and exercisable by the Option holder.

MATERIAL CHANGES IN THE AFFAIRS OF WARATAH

Except for the Mineralogy Partial Offer, information publicly disclosed by Waratah and as disclosed elsewhere in this Directors' Circular, the directors or officers of Waratah are not aware of any information that indicates any material change in the affairs or prospects of Waratah since June 30, 2008, the date of the last published interim financial statements of Waratah.

SHAREHOLDER RIGHTS PLAN

Waratah adopted the Rights Plan on October 7, 2008 and issued one right (a "Right") in respect of each Share outstanding as at such date. The Board believes that the Rights Plan is an important instrument to allow it sufficient time to pursue value maximizing alternatives for Shareholders, particularly when faced with an unsolicited partial bid, such as the Mineralogy Partial Offer. The Board intends to use the Rights Plan only to advance shareholder interests and has embarked on a process designed to achieve maximum value for Shareholders.

The following is a summary of certain terms of the Rights Plan. All capitalized terms used in this summary without definition have the meanings attributed to them in the Rights Plan unless otherwise indicated. The Rights Plan is available upon request or on SEDAR at *www.sedar.com*.

Summary of the Rights Plan

Purpose of the Rights Plan

The purpose of the Rights Plan is to ensure that Shareholders of Waratah will be positioned to receive full and fair value for their Shares in connection with any bid to acquire control of Waratah through an acquisition of Shares. The Plan has the following objectives: (a) ensure, to the extent possible, that the Shareholders and the Board of Directors have adequate time to consider and evaluate any unsolicited take-over bids for Waratah's securities, including that made by Mineralogy; (b) provide the Board of Directors with adequate time to identify, develop and negotiate value-enhancing alternatives, if considered appropriate, to any such unsolicited take-over bids; (c) encourage the fair treatment of Shareholders in connection with any take-over bid for Waratah's securities; and (d) generally prevent any person from acquiring ownership (or the right to acquire ownership) of or the right to vote more than 20% of the currently outstanding Shares while the process undertaken by the Board of Directors is ongoing, or entering into arrangements or relationships that have a similar effect.

What the Rights Plan Does

The Rights Plan creates Rights that attach to each present and future outstanding Share, with each Right entitling the holder upon exercise and payment of the exercise price to acquire additional Shares. The Rights are not separable from the Shares and no separate certificates representing the Rights will be issued until: (a) a party acquiring more than 20% of the Shares triggers the Rights Plan; or (b) a party makes, or announces an intention to make, a take-over bid (a "Separation Event"). Rights may not be exercised until they are separated from the Shares.

Once a Separation Event occurs, the Rights will be separated from the Shares. The Rights Plan provides in the case of the Mineralogy Partial Offer, that the Separation Time (as defined below) is deferred until the first date of public announcement that a Person (as defined in the Rights Plan) has become an Acquiring Person, unless the Board of Directors determines that it should occur earlier. A Flip-in-Event occurs if the offeror or another person subsequently becomes an Acquiring Person through the acquisition of more than 20% of the Shares except in certain prescribed circumstances. On a Flip-in-Event, each Right, other than those Rights attached to the Shares held by such Acquiring Person and its associates and affiliates, becomes a Right to acquire Shares at a price equal to half of the then-current market price, causing the hostile buyer to suffer substantial dilution. The prospect of this dilution is intended to encourage persons contemplating a take-over bid to ensure that any bid will not trigger the Plan. A bid that does not trigger the Plan (a "Permitted Bid") must meet certain criteria designed to ensure the objectives of the Rights Plan are met.

How the Rights Plan Works

Issue of Rights

Waratah issued one Right in respect of each Share outstanding at the close of business on October 7, 2008 (the "Record Time"). Waratah will issue Rights on the same basis for each Share issued after the Record Time but prior to the earlier of the Separation Time and the Expiration Time (defined below).

Rights Certificates and Transferability

Before the Separation Time, the Rights will be evidenced by certificates for the Shares which are not transferable separate from the Shares. From and after the Separation Time, the Rights will be evidenced by separate Rights Certificates which will be transferable separate from and independent of the Shares.

Exercise of Rights

Rights are not exercisable before the Separation Time. After the Separation Time and before the Expiration Time, each Right entitles the holder to acquire one Share for the Exercise Price, which is equal to three times the Market Price per Share (subject to certain adjustments and anti-dilution provisions). This Exercise Price is expected to be in excess of the estimated maximum value of the Shares during the term of the Rights Plan. Upon the occurrence of a Flip-In Event prior to the Expiration Time (defined below), each Right (other than any Right held by an Acquiring Person, which will become null and void as a result of such Flip-In Event) may be exercised to purchase that number of Shares which has an aggregate Market Price equal to twice the Exercise Price of the Rights for a price equal to the Exercise Price. Effectively, this means that a Shareholder (other than the Acquiring Person) can acquire additional Shares from treasury at half their Market Price.

Definition of "Acquiring Person"

An Acquiring Person is a person who becomes the Beneficial Owner (described below) of 20% or more of Waratah's Shares, excluding any person who acquires 20% or more of the Shares as a result of any one or any combination of Voting Share Reductions, Permitted Bid Acquisitions, Pro Rata Acquisitions, Exempt Acquisitions or Convertible Securities Acquisitions. Also excluded from the definition of "Acquiring Person" are persons who own 20% or more of Waratah's Shares on the date the Rights Plan is entered into, provided such persons do not acquire more than an additional 1% of Waratah's Shares thereafter. In addition, underwriters or members of a banking or selling group acting in connection with a distribution of securities by way of prospectus or private placement are also excluded from the definition of "Acquiring Person".

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Definition of "Beneficial Ownership"

Subject to certain exceptions, a person Beneficially Owns securities if such person or its affiliates or associates or any other person acting jointly or in concert owns the securities in law or equity or exercises control or direction over the securities, or has the right to acquire (immediately or within 60 days) the securities upon the exercise of any convertible securities or pursuant to any agreement, arrangement or understanding.

Definition of "Separation Time"

The Shares and Rights will be separated (the "Separation Time") on the tenth Trading Day after the earlier of:

(a) the first date of public announcement that a person has become an Acquiring Person;

(b) the date of the commencement or announcement of the intent of a person to commence a take-over bid (other than a Permitted Bid or Competing Permitted Bid so long as such take-over bid continues to satisfy the requirements of a Permitted Bid or a Competing Permitted Bid, as applicable); and

(c) the date on which a Permitted Bid or Competing Permitted Bid ceases to be a Permitted Bid or Competing Permitted Bid, as applicable.

The Rights Plan provides in the case of the Mineralogy Partial Offer that the Separation Time is deferred until the first date of public announcement that a Person (as defined in the Rights Plan) has become an Acquiring Person, unless the Board of Directors determines that it should occur earlier.

Definition of "Expiration Time"

Expiration Time occurs on the close of business on the day that is the earlier of:

(a) the time at which the right to exercise Rights is terminated under the terms of the Rights Plan; and

(b) April 5, 2009, being the date that is 180 days from the day the Rights Plan was adopted.

Definition of a "Flip-In Event"

A Flip-In Event occurs when a person becomes an Acquiring Person.

Definition of "Permitted Bid"

A Permitted Bid is a take-over bid made by a person (the "Permitted Offeror") pursuant to a take-over bid circular that complies with the following conditions:

(a) the bid is made to all registered holders of Shares (other than Shares held by the Permitted Offeror), and for all Shares (other than the Shares held by the Permitted Offeror);

(b) the Permitted Offeror agrees that no Shares and/or securities convertible into Shares will be taken up or paid for under the bid for at least 60 days following the commencement of the bid and that no Shares and/or securities convertible into Shares will be taken up or paid for unless at such date more than 50% of the outstanding Shares and/or securities convertible into Shares held by Shareholders other than the Permitted Offeror and certain related parties have been deposited pursuant to the bid and not withdrawn;

(c) the Permitted Offeror agrees that the Shares and/or securities convertible into Shares may be tendered or deposited to and withdrawn from the take-over bid at any time before such Shares and/or securities convertible into Shares are taken up and paid for; and

(d) if, on the date specified for take-up and payment, the condition in paragraph (b) above is satisfied, the Permitted Offeror will make a public announcement of that fact and the bid shall remain open for an additional period of at least 10 Business Days from the date of such public announcement.

Redemption of Rights

The Rights may be redeemed by the Board at its option at any time before a Flip-In Event occurs at a redemption price of $0.00001 per Right. In addition, the Rights will be redeemed automatically in the event of a successful Permitted Bid, Competing Permitted Bid or an Exempt Acquisition.

Waiver

Before a Flip-In Event occurs, the Board of Directors may waive the application of the Flip-In provisions of the Rights Plan to any prospective Flip-In Event which would occur by reason of a take-over bid made by a take-over bid circular to all registered holders of Shares. However, if the Board of Directors waives the Rights Plan with respect to a particular bid, it will be deemed to have waived the Rights Plan with respect to any other take-over bid made by take-over bid circular to all registered holders of Shares before the expiry of that first bid. The Board may also waive the Flip-In provisions of the Rights Plan in certain other circumstances.

Rights Agent

The Rights Agent under the Rights Plan is Computershare Trust Company of Canada.

Rightsholder not a Shareholder

Until a Right is exercised, the holders thereof as such will have no rights as a Shareholder of Waratah.

OTHER INFORMATION

Except as disclosed in this Directors' Circular, the directors or officers of Waratah are not aware of any information that would reasonably be expected to affect the decision of the holders of Shares, or securities exercisable for Shares, to accept or reject the Mineralogy Partial Offer.

Availability of Disclosure Documents

Waratah is a reporting issuer in British Columbia, Alberta and Ontario and files its continuous disclosure documents and other documents with provincial securities authorities in those provinces. Continuous disclosure documents are available on SEDAR at *www.sedar.com*.

STATUTORY RIGHTS

Securities legislation in the provinces and territories of Canada provides securityholders of Waratah with, in addition to any other rights that they may have at law, one or more rights of rescission, price revision or to damages, if there is a misrepresentation in a circular or a notice that is required to be delivered to those securityholders. However, such rights must be exercised within prescribed time limits. Securityholders should refer to the applicable provisions of the securities legislation of their province or territory for particulars of those rights or consult with a lawyer.

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CONSENT OF MERRILL LYNCH CANADA INC.

To: The Board of Directors of Waratah Coal Inc. and
The Special Committee of the Board of Directors of Waratah Coal Inc.

We refer to the offer of Mineralogy Pty Ltd. to acquire common shares of Waratah Coal Inc. ("Waratah") dated October 3, 2008 (the "Mineralogy Partial Offer").

We hereby consent to the inclusion of our opinion letter dated October 17, 2008 in the Directors' Circular of Waratah dated October 17, 2008 in response to the Mineralogy Partial Offer and to the references to such opinion in such Directors' Circular.

Toronto, Ontario
October 17, 2008

(Signed) MERRILL LYNCH CANADA INC.

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CERTIFICATE

DATED: October 17, 2008

The contents of this Directors' Circular have been approved and the delivery of the Directors' Circular has been authorized by the Board of Directors of Waratah Coal Inc. The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

On behalf of the Board of Directors

(Signed) NICHOLAS MATHER
Chairman of the Board of Directors

(Signed) HOWARD STACK
Chairman of the Special Committee

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GLOSSARY

In this Directors' Circular, unless the context otherwise requires:

"**Acquiring Person**" has the meaning ascribed to that term in the Rights Plan;

"**affiliate**" has the meaning ascribed to that term in the *Securities Act* (Ontario);

"**APC**" means the Australia Premium Coals Pty. Ltd.;

"**associate**" has the meaning ascribed to that term in the *Securities Act* (Ontario);

"**ASX**" means the Australian Securities Exchange;

"**Beneficial Ownership**" has the meaning ascribed to that term in the Rights Plan;

"**Board** " or the "**Board of Directors**" means the Board of Directors of Waratah;

"**CAGR**" means compound annual growth rate;

"**CDI**" means a depository interest from the Clearing House Electronic Subregister System operated by the ASX Settlement and Transfer Corporation;

"**CHPP**" means coal handling and processing plant;

"**Company**" or "**Waratah**" means Waratah Coal Inc.;

"**Directors' Circular**" means this directors' circular dated October 17, 2008;

"**EPBC Act**" means the Environmental Protection and Biodiversity Conservation Act 1999;

"**EPC**" means an exploration permit granted under the Mineral Resources Act 1989 (QLD);

"**EPCA**" means an exploration application granted under the Mineral Resources Act 1989 (QLD)

"**EV/Resource**" means the Enterprise Value/Resource, which is the quotient of the market capitalization plus net debt divided by resource;

"**Expiration Time**" has the meaning ascribed to that term in the Rights Plan;

"**Fixed Stock Option Plan**" means the fixed stock option plan adopted by Waratah on October 9, 2007;

"**Flip-In-Event**" has the meaning ascribed to that term in the Rights Plan;

"**Galilee Basin Project**" means the proposed mine, port and rail project in the Galilee Basin, which was declared a significant project by the Queensland Government on July 18, 2008;

"**Inferred Coal Resource**" is that part of a coal resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimates is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes;

"**insider**" has the meaning ascribed to that term in the *Securities Act* (Ontario);

"**JORC**" means the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia;

"**Merrill Lynch**" means Merrill Lynch Canada Inc., Waratah's financial advisor;

"**Mineralogy**" means Mineralogy Pty Ltd.;

"**Mineralogy Circular**" means the take-over bid circular dated October 3, 2008 and forming part of the Mineralogy Partial Offer;

"**Mineralogy Partial Offer**" means the offer made by Mineralogy on October 3, 2008 by way of a take-over bid to purchase that number of Shares of Waratah, that constitutes, when added to those Shares beneficially owned by Mineralogy and its affiliates, 50.1% of the Shares (on a fully diluted basis) for $1.41 per Share in cash, upon the terms and subject to the conditions set forth in the offer to purchase accompanying the Mineralogy Circular;

"**Minister**" means the Australian Federal Minister for Environment, Heritage and the Arts;

"**mtpa**" means million tonnes per annum;

"**Options**" means options to subscribe for Shares issued under the Fixed Stock Option Plan and the Rolling Stock Option Plan;

"**Permitted Bid**" has the meaning ascribed to that term in the Rights Plan;

"**Permitted Offeror**" has the meaning ascribed to that term in the Rights Plan;

"**Record Time**" has the meaning ascribed to that term in the Rights Plan;

"**Right**" means the rights issued under the Rights Plan which entitle the holder upon exercise and payment of the exercise price to acquire additional Shares;

"**Rights Agent**" means Computershare Trust Company of Canada;

"**Rights Plan**" means the shareholder rights plan agreement dated October 7, 2008 between Waratah and Computershare Trust Company of Canada;

"**Rolling Stock Option Plan**" means the rolling stock option plan adopted by Waratah in 2006;

"**SEDAR**" means the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval, which is accessible online at *www.sedar.com*;

"**Separation Event**" has the meaning ascribed to that term in the Rights Plan;

"**Separation Time**" has the meaning ascribed to that term in the Rights Plan;

"**Shareholders**" means the holders of the common shares of Waratah;

"**Shares**" means the common shares of Waratah;

"**Special Committee**" means the special committee of independent directors of the Board of Directors, which is comprised of Messrs. Howard Stack (Chairman), Andrew Wilson and Nicholas Mather, and constituted to, among other things, review the Mineralogy Partial Offer and, with the assistance of financial and legal advisors, to make recommendations to the Board of Directors with respect to the Mineralogy Partial Offer and to develop alternatives to the Mineralogy Partial Offer;

"**tpa**" means tonnes per annum;

"**tph**" means tonnes per hour;

"**Torys**" means Torys LLP, Waratah's legal advisor;

"**TSX-V**" means the TSX Venture Exchange;

"**UCG**" means underground coal gasification which is a method of converting un-mined coal into combustible syngas – a combination of hydrogen and carbon monoxide;

"**VWAP**" means the volume-weighted average price of a security; and

"**Warrants**" means warrants to subscribe for Shares issued by Waratah.

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APPENDIX A
FINANCIAL OPINION



Merrill Lynch Canada Inc.
181 Bay Street
Suite 400
Toronto, Ontario, Canada
M5J 2V8

October 17, 2008

Board of Directors and
Special Committee of the Board of Directors
Waratah Coal Inc.
2080 - 777 Hornby Street
Vancouver, British Columbia, Canada
V6Z 1S4

Members of the Board of Directors and
Members of the Special Committee of the Board of Directors:

On October 3, 2008, Mineralogy Pty Ltd. ("Mineralogy") commenced an offer for that number of common shares (the "Shares") of Waratah Coal Inc. (the "Company") that constitutes, when added to the shares beneficially owned by Mineralogy or any of its affiliates, 50.1% of the Company's shares outstanding (on a fully diluted basis), for a purchase price of CDN $1.41 per Share (the "Consideration"), upon the terms and subject to the conditions set forth in the Offer to Purchase dated October 3, 2008 (the "Mineralogy Circular") and the related Letter of Acceptance and Transmittal (collectively, the "Mineralogy Partial Offer"). To the extent more Shares are tendered than is necessary to satisfy the 50.1% threshold, Mineralogy has indicated that it is only obligated to buy that number of Shares that satisfies this tender condition. Mineralogy has also stated that it currently has no intention to enter into any transactions following the completion of the Mineralogy Partial Offer to enable it to acquire any Shares not acquired pursuant to the Mineralogy Partial Offer.

You have asked us whether, in our opinion, the Consideration being offered by Mineralogy to the holders of the Shares pursuant to the Mineralogy Partial Offer is adequate from a financial point of view to such holders, other than Mineralogy and its affiliates.

In arriving at the opinion set forth below, we have, among other things:

(1) Reviewed certain publicly available business and financial information relating to the Company that we deemed to be relevant;

(2) Reviewed the Company's unaudited quarterly accounts for the period ended June 30, 2008;

(3) Reviewed certain information, including financial forecasts and plans, relating to the business, earnings, cash flow, assets, liabilities and prospects of the Company furnished to us by the Company and based on the best estimates of the Company;

(4) Conducted discussions with members of senior management and representatives of the Company concerning the matters described in clauses 1, 2 and 3 above;

(5) Reviewed the market prices and valuation multiples for the Shares and compared them with those of certain publicly traded companies that we deemed to be relevant;

(6) Reviewed the results of operations of the Company and information regarding the Company's coal projects and exploration tenements and compared them with those of certain publicly traded companies that we deemed to be relevant;

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(7) Compared the proposed financial terms of the Mineralogy Partial Offer with the financial terms of certain other transactions that we deemed to be relevant;

(8) Reviewed the Mineralogy Circular filed by Mineralogy with Canadian securities regulators;

(9) Reviewed the most recent draft of the Directors' Circular of the Company dated October 17, 2008; and

(10) Reviewed such other financial studies and analyses and took into account such other matters as we deemed necessary, including our assessment of general economic, market and monetary conditions.

In preparing our opinion, we have assumed and relied on the accuracy and completeness of all information supplied or otherwise made available to us, discussed with or reviewed by or for us, or publicly available, and we have not assumed any responsibility for independently verifying such information or undertaken an independent evaluation or appraisal of any of the assets or liabilities of the Company or been furnished with any such evaluation or appraisal, nor have we evaluated the solvency or fair value of the Company under any provincial or federal laws relating to bankruptcy, insolvency or similar matters. In addition, we have not assumed any obligation to conduct any physical inspection of the properties or facilities of the Company. With respect to the financial forecast information furnished to or discussed with us by the Company, we have assumed that they have been reasonably prepared and reflect the best currently available estimates and judgment of the Company's management as to the expected future financial performance of the Company.

Our opinion is necessarily based upon market, economic and other conditions as they exist and can be evaluated on, and on the information made available to us as of the date hereof.

We are acting as financial advisor to the Company in connection with and for the purpose of its evaluation of the Mineralogy Partial Offer and will receive a fee from the Company for our services whether or not the Mineralogy Partial Offer is consummated, including a fee payable upon delivery of this opinion. In addition, the Company has agreed to indemnify us for certain liabilities arising out of our engagement. We are currently providing financial advisory services to the Company, and may receive fees for the rendering of such services. In addition, in the ordinary course of our business, we may actively trade the Shares and other securities of the Company for our own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

This opinion is for the use and benefit of the Board of Directors and the Special Committee of the Board of Directors of the Company. Our opinion does not constitute a recommendation to any shareholder as to whether such shareholder should tender any Shares pursuant to the proposed Mineralogy Partial Offer. In addition, you have not asked us to address, and this opinion does not address, the fairness to, or any other consideration of, the holders of any class of securities, creditors or other constituencies of the Company, other than the holders of the Shares.

On the basis of and subject to the foregoing, we are of the opinion that, as of the date hereof, the Consideration being offered by Mineralogy to the holders of the Shares pursuant to the Mineralogy Partial Offer is inadequate from a financial point of view to such holders, other than Mineralogy and its affiliates.

Very truly yours,

Merrill Lynch Canada Inc.

MERRILL LYNCH CANADA INC.

APPENDIX B
TRADING IN SECURITIES OF WARATAH

Shares

Name	Date	Description of Trade	Number of Securities	Price per Security
				($)
Mackenzie Financial Corporation	May 1, 2008 - September 30, 2008	Sale	1,877,500	n/a
Mackenzie Financial Corporation	April 1, 2008 - April 30, 2008	Purchase	500,000	n/a

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APPENDIX C
ISSUANCES OF SECURITIES BY WARATAH

Issuance of Shares by Waratah

Person	Date of Issuance	Number of Shares Granted
Andrew Wilson	May 22, 2008	10,000[1]
Nicholas Mather	March 28, 2008	6,000[2],[3]
Duncan Cornish	March 28, 2008	7,000[2],[4]
Peter Lynch	March 28, 2008	8,000[2]
Shaun Maskerine	February 28, 2008	5,000[1]
Peter Lynch	September 20, 2007	31,800[5]
Peter Lynch	April 7, 2007	101,275[6],[7]
Duncan Cornish	April 7, 2007	225,860[4],[6]
Nicholas Mather	April 7, 2007	141,305[6],[8]
Duncan Cornish	December 5, 2006	3,676,907[4],[9]
Peter Lynch	December 5, 2006	1,750,000[9],[10]
Shaun Maskerine	December 5, 2006	50,000[11]
Nicholas Mather	December 5, 2006	2,300,486[9],[12]
Andrew Wilson	December 5, 2006	20,000[11]

Issuance of Options by Waratah

Grantee	Date of Option Grant	Number of Options Granted	Exercise Price
			($)
Howard Stack	June 2, 2008	175,000	2.70
Andrew Wilson	June 2, 2008	175,000	2.70
David Campbell	February 15, 2008	150,000	2.55
Shaun Maskerine	February 15, 2008	100,000	2.55
Peter Lynch	December 10, 2007	800,000	2.24
Phil McNamara	November 30, 2007	450,000	1.87
Peter Binnie	September 24, 2007	450,000	1.20
David Campbell	January 30, 2007	400,000	0.80
Duncan Cornish	December 5, 2006	175,000	0.60
Peter Lynch	December 5, 2006	995,000	0.60
Shaun Maskerine	December 5, 2006	100,000	0.60
Nicholas Mather	December 5, 2006	175,000	0.60

Issuance of Warrants by Waratah

Grantee	Date of Warrant Grant	Number of Warrants Granted	Exercise Price
			($)
Nicholas Mather	March 28, 2008	3,000[3]	4.50
Duncan Cornish	March 28, 2008	3,500[4]	4.50
Peter Lynch	March 28, 2008	4,000	4.50
Duncan Cornish	December 5, 2006	975,691[4],[9]	0.50
Peter Lynch	December 5, 2006	437,500[9],[13]	0.50
Shaun Maskerine	December 5, 2006	5,000	0.75
Nicholas Mather	December 5, 2006	610,448[9],[14]	0.50
Andrew Wilson	December 5, 2006	10,000	0.50
Peter Lynch	December 5, 2006	101,275[9][15]	n/a
Nicholas Mather	December 5, 2006	141,305[9][16]	n/a
Duncan Cornish	December 5, 2006	225,860[4][9]	n/a

Notes:

(1) Shares issued pursuant to an exercise of warrants at $0.75.

(2) Shares issued pursuant to a placement at $3.15.

(3) Securities issued to Samuel Capital Pty Ltd., an associate of Nicholas Mather.

(4) Securities issued to Catherine Cornish, an associate of Duncan Cornish.

(5) Shares purchased on market for $1.24.

(6) Shares issued pursuant to a conversion or exchange of special warrants. Exercise price not applicable.

(7) 43,405 Shares issued directly to Peter Lynch, and 57,870 Shares issued to Peter and Laura Lynch, an associate of Peter Lynch.

(8) 107,420 Shares issued to N and J Mather, and 33,885 Shares issued to Samuel Capital Pty Ltd., both associates of Nicholas Mather.

(9) Shares and warrants issued as consideration following the acquisition by Eaglestar Ventures Inc. (since renamed Waratah Coal Inc.) of Waratah Coal Pty Ltd.

(10) 750,000 Shares issued directly to Peter Lynch, and 1,000,000 Shares issued to Peter and Laura Lynch, an associate of Peter Lynch.

(11) Shares issued pursuant to a placement at $0.50.

(12) 1,748,809 Shares issued to N and J Mather, and 551,677 Shares issued to Samuel Capital Pty Ltd., both associates of Nicholas Mather.

(13) 187,500 Warrants issued directly to Peter Lynch, and 250,000 Warrants issued to Peter and Laura Lynch, an associate of Peter Lynch.

(14) 464,057 Warrants issued to N and J Mather, and 146,391 Warrants issued to Samuel Capital Pty Ltd., both associates of Nicholas Mather.

(15) 43,405 special warrants issued to Peter Lynch directly, and 57,870 special warrants issued to Peter and Laura Lynch, an associate of Peter Lynch.

(16) 107,420 special warrants issued to N and J Mather, and 33,885 special warrants issued to Samuel Capital Pty Ltd., both associates of Nicholas Mather.

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The Board of Directors unanimously recommends that Shareholders REJECT the Mineralogy Partial Offer and NOT TENDER their Shares.

Any Shareholder who has tendered his or her Shares under the Mineralogy Partial Offer should WITHDRAW those Shares.

ANY QUESTIONS OR REQUESTS FOR ASSISTANCE MAY BE DIRECTED TO THE INFORMATION AGENT:



366 Bay Street
Toronto, Ontario
M5H 4B2

In North America Call Toll Free:
1-866-588-7127

Collect Outside North America
1-416-637-4661