

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

INTRODUCTION

Gloucester Coal Ltd ACN 008 881 712 ("Company") has adopted comprehensive systems of control and accountability as the basis for the administration of corporate governance.

The Board and management are committed to corporate governance and, to the extent they are applicable to the Company, have adopted the Revised Corporate Governance Principles and Recommendations^[1] as published by ASX Corporate Governance Council ("ASX Principles and Recommendations").

Corporate governance disclosures and explanations can be found on the Company's website (www.gloucestercoal.com.au) and Annual Financial Report in the order corresponding with the ASX Principles and Recommendations.

The Board has established the following Committees

- Audit, Risk and Corporate Governance Committee;
- Human Resources and Nomination Committee; and
- Independent Directors Committee

The Board has established the following policies and procedures. The Board of the Company is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs.

1. Board and Management Functions;
2. Policy and procedure for selection and appointment of new directors;
3. Corporate Code of Conduct.
4. Policy on securities trading;
5. Policy and procedure for selection of external auditor and rotation of audit engagement partners;
6. Policy and procedure for compliance with continuous disclosure requirements;
7. Arrangements regarding communication with and participation of shareholders;
8. Risk management policy and internal compliance and control system;
9. Process for performance evaluation of the Board, Board committees, individual directors and key executives; and

^[1] A copy of the Corporate Governance Principles and Recommendations can be found on the ASX's website at www.asx.com.au.

1. BOARD AND MANAGEMENT FUNCTIONS

a) Role of the Board

The Board's key objectives are to:

- i) increase shareholder value whilst maintaining the rights and interests of the Company's shareholders; and
- ii) to ensure the Company is properly governed.

b) Responsibility of the Board

The Board is collectively responsible for promoting the success of the Company by supervising the Company's framework of control and accountability systems to enable risk to be assessed and managed which includes but is not limited to the following;

- i) ensuring the Company is properly managed for example by:
 - (a) appointing and removing the Managing Director / Chief Executive Officer (CEO) of the Company;
 - (b) ratifying the appointment and, where appropriate, the removal of the Chief Financial Officer and the Company Secretary;
 - (c) input into and final approval of management's development of corporate strategy, goals and performance objectives;
 - (d) reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct, and legal compliance;
 - (e) monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available;
- ii) approving and monitoring the progress of major capital expenditure, capital management, acquisitions and disposals (including farm-in, farm-out and joint venture agreements);
- iii) approval of the annual budget;
- iv) monitoring the financial performance of the Company;
- v) approving and monitoring financial and other reporting;
- vi) overall corporate governance of the Company, including conducting regular reviews of the balance of responsibilities within the Company to ensure division of functions remain appropriate to the needs of the Company;
- vii) Liaising with the Company's external auditors and the Audit, Risk and Corporate Governance Committee;
- viii) adopting a formal code of conduct to be followed by the all directors, employees and contractors. The key aspects of this code are:
 - ix) to act with honesty, integrity and fairness;
 - x) to act in accordance with the law; and
 - xi) the use Company resources and property appropriately; and
 - xii) monitoring, and ensuring compliance with, all of the Company's legal obligations, in particular those obligations relating to the environment, native title, cultural heritage and occupational health and safety.

The Board must convene regular meetings with such frequency as is sufficient to appropriately discharge its responsibilities.

The Board (and each individual director) is entitled to seek independent professional advice at the Company's expense, subject to the reasonableness of the costs and Board consent) in the conduct of their duties for the Company.

The Board may from time to time, delegate some of its responsibilities listed above to its senior management team (except for paragraphs (i), (ii), (v) and (vi) and where any matter exceeds the Materiality Threshold as defined below.

c) Materiality Threshold

The Board has agreed on the following guidelines for assessing the materiality of matters:

- i) Materiality – Quantitative
 - (a) Balance sheet items are material if they have a value of more than 10% of pro-forma net asset.
 - (b) Profit and loss items are material if they will have an impact on the current year operating result of 10% or more.

- ii) Materiality – Qualitative
Items are also material if:
 - (a) they impact on the reputation of the Company;
 - (b) they involve a breach of legislation;
 - (c) they are outside the ordinary course of business;
 - (d) they could affect the Company's rights to its assets;
 - (e) if accumulated they would trigger the quantitative tests;
 - (f) they involve a contingent liability that would have a probable effect of 10% or more on balance sheet or profit and loss items; or
 - (g) they will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 10%.

- iii) Material Contracts
Contracts will be considered material if:
 - (a) they are outside the ordinary course of business;
 - (b) they contain exceptionally onerous provisions in the opinion of the Board;
 - (c) they impact on income or distribution in excess of the quantitative tests
 - (d) there is a likelihood that either party will default and the default may trigger any of the quantitative tests;
 - (e) they are essential to the activities of the Company and cannot be replaced or cannot be replaced without an increase in cost of such a quantum as trigger any of the quantitative tests;
 - (f) they contain or trigger change of control provisions;
 - (g) they are between or for the benefit of related parties; or
 - (h) they otherwise trigger the quantitative tests.

Any matter which falls within the above guidelines is a matter which triggers the materiality threshold ("Materiality Threshold").

d) Composition of the Board

The Board is currently comprised of 6 directors of whom 5 (including the Chairman) hold their positions in a non-executive capacity.

The composition of the Board is subject to review in the following ways:

- i) The Company's constitution provides that at every Annual General Meeting, one third of the Directors (excluding the Managing Director) are to retire from office. Each retiring Director under the Constitution is eligible for re-election.
- ii) The full Board considers its composition on a regular basis to ensure that it has available an appropriate mix of skills and experience to ensure the interest of shareholders are served. The performance of the Board as a whole and that of individual Directors is subject to continuous assessment by the Chairman.

e) The Chairman

The chairman is responsible for leadership of the Board, for the efficient organisation and conduct of the Board's function and for the briefing of all directors in relation to issues arising at Board meetings. The chairman is also responsible for shareholder communication and arranging Board performance evaluation.

f) Independence

The Chairman is considered to be independent using the ASX's definition of independence.

The independent directors, along with all directors, are responsible for reviewing and challenging executive performance. They are also responsible for contributing to the development of strategy.

The Board has established an Independent Directors Committee.

g) The Managing Director

The Managing Director is the Executive Officer responsible for running the affairs of the Company under delegated authority from the Board and to implement the policies and strategy set by the Board. In carrying out his/her responsibilities the Managing Director must report to the Board in a timely manner and ensure all reports to the Board present a true and fair view of the Company's financial condition and operational results.

h) Role and Responsibility of Management

The role of management is to support the CEO/Managing Director and implement the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board.

Management is responsible for reporting all matters which fall within the Materiality Threshold at first instance to the CEO/Managing Director or if the matter concerns the CEO/Managing Director then directly to the Chairman or the lead independent director, as appropriate.

2. POLICY AND PROCEDURE FOR SELECTION AND APPOINTMENT OF NEW DIRECTORS

Candidates for the Board are considered and selected by reference to a number of factors which include, but are not limited to, their relevant experience and achievements, compatibility with other Board members, credibility within the Company's scope of activities, and intellectual and physical ability to undertake Board duties and responsibilities. Directors are initially appointed by the full Board, subject to election by shareholders at the next general meeting.

3. CORPORATE CODE OF CONDUCT (INCLUDING DIRECTORS AND KEY EXECUTIVES)

A code of conduct has been established for all directors and employees. It requires all business affairs to be conducted legally, ethically and with integrity. The code provides for reporting of breach of the code by others.

4. POLICY ON SECURITIES TRADING

The Board has adopted a policy and procedure on dealing in the company's securities by directors, officers and employees.

For details of the policy refer to the Company's website www.gloucestercoal.com.au

5. POLICY AND PROCEDURE FOR SELECTION OF EXTERNAL AUDITOR AND ROTATION OF AUDIT ENGAGEMENT PARTNERS

a) Responsibility

The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises. Any appointment made by the Board must be ratified by shareholders at the next annual general meeting of the Company.

b) Selection Criteria

Mandatory criteria

Candidates for the position of external auditor of the Company must be able to demonstrate complete independence from the Company and an ability to maintain independence through the engagement period. Further the successful candidate must have arrangements in place for the rotation of the audit engagement partner on a regular basis.

Other criteria

Other than the mandatory criteria mentioned above, the Board may select an external auditor based on criteria relevant to the business of the Company such as experience in the industry in which the Company operates, references, cost and any other matters deemed relevant by the Board.

c) Review

The Board will review the performance of the external auditor on an annual basis.

6. POLICY AND PROCEDURES FOR COMPLIANCE WITH CONTINUOUS DISCLOSURE REQUIREMENTS

Detailed compliance procedures for ASX Listing Rule disclosure requirements have been adopted by the Company. It is detailed in its application covering the following areas:

- i) Compliance disclosure procedures
- ii) Identifies area of risk for the Company
- iii) Provides guidelines for identifying disclosure material
- iv) Guide for use of trading halts
- v) Guide for decision making process
- vi) Details on record keeping
- vii) Education of Board and management
- viii) Confidentiality
- ix) Release of disclosure material

- x) Updating of compliance procedures

7. ARRANGEMENTS REGARDING COMMUNICATION WITH AND PARTICIPATION OF SHAREHOLDERS

The Company maintains a website at www.gloucestercoal.com.au

Under the heading *Recent News* the Company makes the following information available on a regular and up to date basis:

- i) company announcements;
- ii) notices of meetings and explanatory materials;
- iii) annual reports (since listing); and
- iv) prospectuses.

Under the heading Presentations the Company makes any presentations that the Company has made since listing available on a regular and up to date basis

If you are a shareholder and wish to receive copies of information updates by email please send an email to info@gloucestercoal.com.au to register for the email information update.

8. COMPANY'S RISK MANAGEMENT POLICY AND INTERNAL COMPLIANCE AND CONTROL SYSTEM

The Company has developed a framework for risk management and internal compliance and control systems which cover organisational, financial and operational aspects of the Company's affairs. Risk management is included within the Company's Audit, Risk and Corporate Governance Committee Charter.

9. PROCESS FOR PERFORMANCE EVALUATION OF THE BOARD, BOARD COMMITTEES, INDIVIDUAL DIRECTORS AND KEY EXECUTIVES

The Chairman is responsible for conducting an annual review of Board, Committee and individual director performance.