

This document is important and requires your immediate attention. If you are in doubt about how to respond to the revised 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

NOTICE OF CHANGE TO DIRECTORS' CIRCULAR

RECOMMENDING

REJECTION

OF THE REVISED OFFER BY

MINERALOGY PTY LTD.

TO PURCHASE ALL OF THE OUTSTANDING COMMON SHARES

OF

WARATAH COAL INC.

for \$1.41 per common share

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

October 30, 2008

NOTICE TO NON-CANADIAN RESIDENTS

The revised offer by Mineralogy Pty Ltd. is made for the securities of a Canadian issuer, and while the revised 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 Coal Inc. exists under the laws of British Columbia, Canada.



October 30, 2008

Dear Waratah Shareholder:

RE: MINERALOGY'S REVISED UNSOLICITED AND OPPORTUNISTIC OFFER

Mineralogy Pty Ltd. ("Mineralogy") has recently sent you a notice of extension and variation relating to its unsolicited partial offer to purchase issued and outstanding common shares (the "Shares") of Waratah Coal Inc. ("Waratah" or the "Company") at a price of \$1.41 in cash per Share (the "Mineralogy Partial Offer"). In summary, Mineralogy has extended and varied its initial offer so that (i) it is now an offer for all of the outstanding Shares at a price of \$1.41 in cash per Share and (ii) the expiry date is extended until 5:00 p.m. (Toronto time) on December 3, 2008 (the "Revised Mineralogy Offer").

The special committee of independent directors of Waratah (the "Special Committee"), comprised of Messrs. Howard Stack (Chairman), Andrew Wilson and Nicholas Mather, assisted by Waratah's financial and legal advisors, has carefully reviewed and considered all aspects of the Revised Mineralogy Offer. The Special Committee also considered the status of other alternatives that Waratah's Board of Directors and the Special Committee are pursuing that may offer more attractive value for Waratah shareholders. **Your Board of Directors UNANIMOUSLY recommends that you continue to REJECT the Revised Mineralogy Offer and NOT TENDER your Shares to the Revised Mineralogy Offer.**

Mineralogy has not increased its offer price of \$1.41 per Share, which your Board of Directors, the Special Committee and their financial advisor, Merrill Lynch Canada Inc., previously deemed inadequate. **The Revised Mineralogy Offer fails to address the principal concerns raised by your Board of Directors in the directors' circular dated October 17, 2008 (the "Directors' Circular").** The Directors' Circular is available on SEDAR at www.sedar.com and on Waratah's website at www.waratahcoal.com.

Reasons for Rejection

- The Revised Mineralogy Offer is inadequate.
- The Revised Mineralogy Offer does not compensate Waratah shareholders for the size, quality and strategic value of Waratah's assets.
- The Revised Mineralogy Offer disadvantages Waratah shareholders and is opportunistic.
- Your Board of Directors and the 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.

For these and other reasons described in the Directors' Circular and this Notice of Change, your Board of Directors UNANIMOUSLY recommends that you continue to REJECT the Revised Mineralogy Offer and NOT TENDER your Shares. To reject the Revised Mineralogy Offer, you do not need to do anything. If you have tendered your Shares, you can withdraw them until the expiry of the Revised Mineralogy Offer. For information on how to withdraw your Shares, you can contact your broker or our information agent at one of the numbers listed on the next page.

The Board of Directors and the Special Committee continue to consider alternatives to the Revised Mineralogy Offer that may offer higher bids or more attractive value for your Shares and they 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 Revised Mineralogy Offer before the Board of Directors and its advisors have had an opportunity to fully explore these alternatives. We will provide an update on the status of these alternatives in a timely way so that you can consider the advances we have made and any material change in circumstances which has come to our attention before the expiry of the Revised Mineralogy Offer.

We strongly encourage you to read the Directors' Circular and this Notice of Change in their entirety, including the opinion dated October 30, 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's shareholders under the Revised Mineralogy Offer is inadequate, from a financial point of view.

If you have any questions concerning our recommendation that you **REJECT** the Revised Mineralogy Offer or the information in this Notice of Change, 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 Notice of Change 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 Waratah Coal Inc. expects, are forward-looking statements. Although Waratah Coal Inc. 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 Coal Inc.'s Information Memorandum dated October 2, 2008, filed as part of Waratah Coal Inc.'s Listing Application to the Australian Securities Exchange 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 Notice of Change are made as of the date of this Notice of Change. 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 Coal Inc. 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 about how to respond to the Revised Mineralogy 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 at 1-866-588-7127 (toll-free in North America) or 1-416-637-4661 (collect outside of North America).**

NOTICE OF CHANGE TO DIRECTORS' CIRCULAR

This notice of change (this "Notice of Change") amends and supplements the directors' circular dated October 17, 2008 (the "Directors' Circular") issued by the Board of Directors (the "Board of Directors" or the "Board") of Waratah Coal Inc. ("Waratah" or the "Company") in response to the unsolicited 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 "Mineralogy Partial Offer"). This Notice of Change should be read in conjunction with the Directors' Circular.

By a notice of extension and variation dated October 24, 2008 (the "Mineralogy Notice of Variation") Mineralogy amended and revised the Mineralogy Partial Offer (as so revised, the "Revised Mineralogy Offer") and its take-over bid circular dated October 3, 2008 and forming part of the Mineralogy Partial Offer (the "Original Mineralogy Circular" as so revised, the "Revised Mineralogy Circular"). Under the Revised Mineralogy Offer, Mineralogy (i) is now offering to purchase all of the issued and outstanding Shares at a price of \$1.41 in cash per Share and (ii) has extended the expiry date of its offer until 5:00 p.m. (Toronto time) on December 3, 2008.

All information provided in this Notice of Change relating to Mineralogy is derived from information contained in the Revised Mineralogy Circular, the Mineralogy Notice of Variation and other publicly available information, including information contained in public filings made by Mineralogy with securities regulatory authorities. The Board of Directors and Waratah do not assume any responsibility for the accuracy or completeness of such information.

Unless otherwise indicated, all amounts in this Notice of Change are expressed in Canadian dollars. On October 30, 2008, the noon rate of exchange as reported by the Bank of Canada was C\$1 = US\$0.8183, and C\$1 = AUD\$1.2223.

DIRECTORS' RECOMMENDATION

The Board of Directors has carefully reviewed and considered the Revised Mineralogy Offer, with the benefit of advice from Waratah's financial advisor, Merrill Lynch Canada Inc. ("Merrill Lynch"), Waratah's legal advisor, Torys LLP ("Torys"), and the special committee of independent directors (the "Special Committee"). Based on that review, the Board has concluded that the Revised Mineralogy Offer and the Revised Mineralogy Circular fail to address the principal concerns raised by the Special Committee and the Board of Directors in the Directors' Circular. Further, Mineralogy has not increased its offer price of \$1.41 per Share, which the Board has previously deemed inadequate.

The principal reasons for rejecting the Revised Mineralogy Offer are fully described in the Directors' Circular and continue to apply, including the following:

- The Revised Mineralogy Offer is inadequate.
- The Revised Mineralogy Offer does not compensate Waratah's shareholders ("Shareholders") for the size, quality and strategic value of Waratah's assets.
- The Revised Mineralogy Offer disadvantages Shareholders and is opportunistic.
- Your Board of Directors and the 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 Shareholders.

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

Although the Revised Mineralogy Offer is no longer a partial offer, Mineralogy does not intend to enter into any "going private" transaction or compulsory acquisition that would result in Mineralogy acquiring any Shares not

tendered to the Revised Mineralogy Offer. In addition, Mineralogy could still waive its minimum tender condition of 50.1% of the outstanding Shares (on a fully diluted basis and taking into account Shares owned by Mineralogy and its affiliates) (the “Mineralogy Tender Condition”) and take up and pay for any number of Shares deposited under the Revised Mineralogy Offer, even where such deposited Shares would result in Mineralogy owning less than 50.1% of the Shares. If Mineralogy acquires less than 100% of the Shares under the Revised Mineralogy Offer, the public float of Shares would be reduced and the market for and the trading price of the Shares could be adversely affected. As a result, the Board’s principal reasons for rejecting the Mineralogy Partial Offer continue to apply to the Revised Mineralogy Offer.

For a more detailed description of the reasons for rejecting the Revised Mineralogy Offer, please refer to the Directors’ Circular which is available on Waratah’s website at www.waratahcoal.com or on SEDAR at www.sedar.com.

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 its evaluation of the Revised Mineralogy 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 making its 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.

Shareholders should read the Directors’ Circular and this Notice of Change in their entirety and should consider the terms of the Revised Mineralogy Offer carefully and come to their own decision regarding whether to reject or accept the Revised Mineralogy Offer. Shareholders who are in doubt about how to respond to the Revised Mineralogy Offer should consult their own investment advisor, lawyer or other professional advisors. Shareholders are advised that acceptance of the Revised Mineralogy Offer may have tax consequences and they should consult their own professional tax advisors. Enquiries concerning the information in the Directors’ Circular or this Notice of Change should be directed to Laurel Hill Advisory Group, Waratah’s information agent, at 1-866-588-7127 (toll-free in North America) or 1-416-637-4661 (collect outside of North America).

RECENT DEVELOPMENTS

On the afternoon of October 16, 2008, the day before the Directors’ Circular was finalized, Torsys received a three paragraph letter from the law firm Blake, Cassels & Graydon LLP (“Blakes”) addressed to Torsys and the Special Committee. The letter stated that Mineralogy had instructed Blakes to discuss with Torsys and the Special Committee a proposal relating to the Mineralogy Partial Offer (the “Mineralogy Proposal”).

The Mineralogy Proposal described in the letter was as follows: (i) Mineralogy would amend the Mineralogy Partial Offer so that it would be for all Shares and would extend the expiry date to December 2, 2008; (ii) the Mineralogy Tender Condition would remain unchanged and waivable by Mineralogy; (iii) Waratah would waive the application of its shareholder rights plan dated October 7, 2008 (the “Rights Plan”) to the offer, as amended, and would not take further action to challenge the offer; and (iv) Mineralogy would withdraw its application to the British Columbia Securities Commission (the “BCSC”) to have the Rights Plan cease traded. On October 17, 2008, Blakes was advised that the Special Committee was reviewing and considering the Mineralogy Proposal and that it would provide a response to the proposal after its review was complete.

From October 16, 2008 to October 20, 2008, the Special Committee and the Board of Directors met on several occasions and, with the assistance of Merrill Lynch and Torsys, carefully reviewed and considered the Mineralogy Proposal.

On October 20, 2008, the Special Committee authorized Torys to send a letter to Blakes in response to the Mineralogy Proposal (the “Waratah Response Letter”). The Waratah Response Letter indicated that the Board of Directors implemented the Rights Plan to give the Board adequate time to undertake a process to ensure that the interests of Shareholders are protected in light of the Mineralogy Partial Offer and had the following objectives:

- (i) ensure, to the extent possible, that 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;
- (ii) 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;
- (iii) encourage the fair treatment of Shareholders in connection with any take-over bid for Waratah’s securities; and
- (iv) 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 arrangement or relationships that have a similar effect.

As part of the Mineralogy Proposal, Mineralogy required Waratah to waive the application of the Rights Plan to an amended Mineralogy offer. Under the terms of the Rights Plan, such a waiver would be deemed to be a waiver of the Rights Plan with respect to any other take-over bid commenced before the expiry of an amended Mineralogy offer. The Special Committee was concerned that prematurely waiving the Rights Plan would jeopardize the Special Committee’s process to identify higher bids and other alternatives to Mineralogy’s offer that may offer Shareholders more attractive value.

The Waratah Response Letter noted that the Mineralogy Proposal would not be a “Permitted Bid” under the Rights Plan. The Waratah Response Letter indicated the Special Committee’s concern that the Mineralogy Proposal would permit Mineralogy to waive the Mineralogy Tender Condition, even where the number of Shares tendered to the bid would result in Mineralogy owning less than a majority of the Shares. Because of these concerns, the Special Committee was not prepared to accept the Mineralogy Proposal in its entirety.

However, the Special Committee indicated that it was prepared to recommend that the Board of Directors waive the Rights Plan with respect to an amended Mineralogy offer immediately prior to the proposed December 2, 2008 expiry time, provided that (the “Special Committee Proposal”):

- (i) Mineralogy amends its offer so that it is for all the outstanding Shares;
- (ii) Mineralogy extends the expiry time until at least 11:59 p.m. (local time) on December 2, 2008;
- (iii) Mineralogy withdraws its application to the BCSC to have the Rights Plan cease traded; and
- (iv) Mineralogy’s amended offer contains irrevocable and unqualified conditions that:
 - (a) no Shares will be taken up or paid for unless the Mineralogy Tender Condition is satisfied; and
 - (b) in the event that the requirement in (a) is satisfied, Mineralogy will make a public announcement of that fact and its amended offer will remain open for tenders for not less than 10 business days from the date of such announcement.

The Special Committee was also prepared to recommend that Waratah agree not to initiate any form of legal proceeding to challenge the Mineralogy Partial Offer, provided that Waratah and its counsel have reviewed any amended offer and confirmed that its terms comply with applicable Canadian securities laws.

On October 21, 2008, Blakes indicated to Torys that Mineralogy had decided to reject the Special Committee Proposal, but that Blakes had been instructed to:

- (i) amend the Mineralogy Partial Offer so that it that it is for all of the outstanding Shares; and
- (ii) amend the Mineralogy Partial Offer so that the expiry date would fall on or around the date that is 60 days from the commencement of the Mineralogy Partial Offer.

On October 24, 2008, Mineralogy publicly announced that it had amended and extended the Mineralogy Partial Offer.

The Board of Directors met with their advisors on several occasions after the announcement of the Revised Mineralogy Offer. During these meetings, the Board of Directors discussed a number of matters in connection with their responsibilities in light of the Revised Mineralogy Offer. The Board also discussed its assessment of the Revised Mineralogy Offer and the status of other alternatives that the Board and Special Committee are pursuing that may offer higher bids or more attractive value for Shareholders.

The Special Committee met on numerous occasions from October 24, 2008 to October 30, 2008. In addition, members of the Special Committee had independent discussions with Merrill Lynch and Torys related to the Revised Mineralogy Offer, participated in strategy and drafting sessions with 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 Revised Mineralogy Offer.

On October 30, 2008, the Board of Directors met to discuss the Revised Mineralogy Offer and the Special Committee delivered its report to the Board of Directors. The report concluded that the Revised Mineralogy Offer was inadequate and neither in the best interest of Waratah nor fair to 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 Revised Mineralogy Offer and not tender their Shares. At the meeting, the Board received the opinion from Merrill Lynch in the form attached to this Notice of Change as Appendix A. On the basis of the factors outlined in this Notice of Change and the Directors' Circular, including the recommendation of the Special Committee and the opinion of Merrill Lynch, the Board unanimously determined that the Revised Mineralogy Offer was inadequate and recommended to Shareholders that they **REJECT** the Revised Mineralogy Offer and **NOT TENDER** their Shares.

UPDATE ON THE SPECIAL COMMITTEE PROCESS

The Special Committee, with the assistance of Waratah's financial and legal advisors, has been aggressively pursuing a number of alternatives to the Revised Mineralogy Offer that may provide Shareholders with greater value. Waratah has, in a number of instances, been solicited by and has, in a number of instances, initiated contact with parties who have expressed interest in pursuing alternative transactions that may offer Shareholders more attractive value.

Waratah has entered into confidentiality agreements with a number of interested parties and discussions are in progress to bring forward higher bids or more attractive alternatives. Waratah is encouraged by the level of interest and has established a data room for the purpose of providing confidential information to interested third parties. Several parties are already accessing the data room. Waratah and its advisors have established a process designed to elicit definitive proposals from interested parties in advance of the December 3, 2008 expiry time of the Revised Mineralogy Offer.

As this process is ongoing, it is not possible at this time to predict with certainty what alternatives (if any) may emerge from this process. The Board recommends that Shareholders not tender their Shares until the process is completed. The Board of Directors will provide an update on the status of these alternatives in a timely way so that you can consider the advances it has made and any material change in circumstances which has come to the Board's attention before the expiry of the Revised Mineralogy Offer.

The Board of Directors believes that it is in the best interest of Waratah and Shareholders for there to be sufficient time to permit higher bids or other strategic alternatives that may be available to Waratah to emerge, and for the Special Committee to review and evaluate such potential alternatives. The Board of Directors and the Special Committee intend to use the time provided by the Rights Plan to vigorously pursue these alternatives. Waratah intends to oppose the application by Mineralogy to prematurely cease trade the Rights Plan to ensure it has sufficient time to complete this process.

The Board of Directors believes that Shareholders should wait for the results of the Special Committee's efforts to explore alternatives. Accordingly, Shareholders are advised not to tender their Shares to the Revised Mineralogy Offer. If you have already tendered your Shares to the Revised Mineralogy Offer, you can withdraw them. You should call Waratah's information agent, Laurel Hill Advisory Group at 1-866-588-7127 (toll-free in North America) or 1-416-637-4661 (collect outside North America) for assistance in withdrawing your 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 by the Mineralogy Partial Offer and to provide the Special Committee with advice on alternatives available to offer more attractive value for Shareholders. As part of its engagement, Merrill Lynch considered the Revised Mineralogy Offer and delivered a written opinion to the Board of Directors concluding that, as of the date of the opinion, the consideration offered by the Revised Mineralogy 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 Revised Mineralogy 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 their 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 Revised Mineralogy Offer and will receive a fee from Waratah for its services whether or not the Revised Mineralogy Offer is consummated, including a fee payable upon delivery of its opinion.

RESPONSE TO THE MINERALOGY NOTICE OF VARIATION

Although the Revised Mineralogy Offer is no longer a partial offer, Mineralogy does not intend to enter into any "going private" transaction or compulsory acquisition that would result in Mineralogy acquiring any Shares not tendered to the Revised Mineralogy Offer. In addition, Mineralogy could still waive the Mineralogy Tender Condition and take up and pay for any number of Shares deposited under the Revised Mineralogy Offer, even where such deposited Shares would result in Mineralogy owning less than 50.1% of the Shares. As a result, the Revised Mineralogy Offer and the Mineralogy Notice of Variation still fail to address the principal concerns raised by the Special Committee and the Board of Directors in the Directors' Circular. In addition to the other matters identified in the Directors' Circular and this Notice of Change, the Special Committee and the Board of Directors have the following additional comments in response to the Mineralogy Notice of Variation and certain statements made by Mineralogy therein.

Revised Mineralogy Offer is not a "Permitted Bid"

As discussed in the section entitled "Background to the Mineralogy Partial Offer and Response of Waratah" in the Directors' Circular, on October 14, 2008 Mineralogy applied to the BCSC for an order cease trading the Rights Plan prior to the November 7, 2008 expiry time of the Mineralogy Partial Offer. The BCSC issued a notice of hearing on October 17, 2008 in response to Mineralogy's application, and scheduled a hearing for October 31, 2008. As a result of

the Revised Mineralogy Offer, Mineralogy has asked the BCSC to adjourn the hearing scheduled for October 31, 2008 until November 14, 2008. The BCSC has scheduled the hearing date for November 25, 2008.

One of the purposes of the Rights Plan is to ensure that all Shareholders are treated fairly in any transaction involving a change in control of Waratah and have an equal opportunity to participate in the benefits of a take-over bid. The Rights Plan encourages potential acquirors to negotiate the terms of offers for Shares with the Board of Directors or to make a Permitted Bid without the approval of the Board of Directors. Failure to pursue one of these alternatives creates the potential for substantial dilution of the potential acquiror's position. A Permitted Bid has terms and conditions designed to meet the objectives of the Rights Plan. To be a Permitted Bid, a take-over bid must be open for all the Shares, be accepted by the holders of more than 50% of the Shares (other than those held by any Shareholder or group of Shareholders making a take-over bid) and remain open for at least 10 business days after Shares are first taken up under the bid. A Permitted Bid would ensure that Shareholders do not feel compelled to accept a bid for fear that other Shareholders would tender and that they would remain as minority shareholders in a corporation with a new controlling shareholder, with significantly less liquidity, and the absence of any takeover premium.

Mineralogy has chosen not to amend its offer so that it is a "Permitted Bid". The Board of Directors and the Special Committee intend to use the time provided by the Rights Plan to vigorously pursue alternatives that may offer more attractive value to Shareholders. Waratah intends to oppose the application by Mineralogy to prematurely cease trade the Rights Plan to ensure it has sufficient time to complete this process.

Mineralogy's Rejection of the Special Committee Proposal

Mineralogy rejected the Special Committee Proposal requiring that any amended offer by Mineralogy to acquire Shares contain an irrevocable and unqualified condition that no Shares will be taken up or paid for unless the Mineralogy Tender Condition is satisfied. As described in the Directors' Circular, the Special Committee and the Board of Directors are concerned that Mineralogy may waive the Mineralogy Tender Condition and take up and pay for any number of Shares tendered under the Revised Mineralogy Offer and not withdrawn, even where such tendered Shares would result in Mineralogy owning less than 50.1% of the Shares (on a fully diluted basis). The ability of Mineralogy to vote those Shares may, 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.

INTENTION OF DIRECTORS, OFFICERS AND CERTAIN SHAREHOLDERS WITH RESPECT TO THE REVISED MINERALOGY 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 Revised Mineralogy Offer.

The directors and officers of Waratah, together with their respective associates, own or exercise control over an aggregate of 7,748,058 Shares, common share purchase warrants to acquire up to 2,034,139 Shares, and options issued under Waratah's stock option plans to acquire up to 4,145,000 Shares, representing approximately 18.48% of the Shares (on a fully diluted basis).

NO MATERIAL CHANGES IN THE AFFAIRS OF WARATAH

Except for the Revised Mineralogy Offer, information publicly disclosed by Waratah and as disclosed elsewhere in the Directors' Circular and this Notice of Change, 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.

OTHER INFORMATION

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

The section entitled "Directors and Officers of Waratah and Ownership of Securities," in the Directors' Circular is amended to reflect that Peter Lynch owns 1,789,800 Shares (789,800 Shares directly and 1,000,000 Shares through Peter and Laura Lynch). As a result, the directors and officers exercise control or direction over 13,927,197 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), representing approximately 18.48% of the Shares on a fully diluted basis.

STATUTORY RIGHTS

Securities legislation of 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.

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 as extended and varied by a notice of extension and variation dated October 24, 2008 (together, the “Revised Mineralogy Offer”).

We hereby consent to the inclusion of our opinion letter dated October 30, 2008 in the Notice of Change of Waratah dated October 30, 2008 in response to the Revised Mineralogy Offer, and to the references to such opinion in such Notice of Change.

Toronto, Ontario
October 30, 2008

(Signed) MERRILL LYNCH CANADA INC.

CERTIFICATE

DATED: October 30, 2008

The contents of this Notice of Change have been approved and the delivery of the Notice of Change has been authorized by the Board of Directors of Waratah Coal Inc. The Directors' Circular as updated by and including this Notice of Change 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 the 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

**APPENDIX “A”
FINANCIAL OPINION**



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

October 30, 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 a take-over bid for that number of common shares of Waratah Coal Inc. (the “Company”) that constitutes, when added to the common shares of the Company (the “Shares”) beneficially owned by Mineralogy or any of its affiliates, 50.1% of the 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 and the related Letter of Acceptance and Transmittal (collectively, the “Mineralogy Partial Offer”).

On October 24, 2008, Mineralogy amended the Mineralogy Partial Offer by, among other things, offering to purchase all of the issued and outstanding Shares, other than Shares held by Mineralogy and its affiliates, upon the terms and subject to the conditions set forth in the Offer to Purchase dated October 3, 2008, as amended by the Notice of Extension and Variation dated October 24, 2008 and the related Letter of Acceptance and Transmittal (collectively, the “Revised Mineralogy Offer”). The Consideration remains the same under the Revised Mineralogy Offer.

You have asked us whether, in our opinion, the Consideration being offered by Mineralogy to the holders of the Shares pursuant to the Revised Mineralogy 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;
- (7) Compared the proposed financial terms of the Revised Mineralogy Offer with the financial terms of certain other transactions that we deemed to be relevant;
- (8) Reviewed the Revised Mineralogy Offer filed by Mineralogy with Canadian securities regulators;
- (9) Reviewed the Directors' Circular of the Company dated October 17, 2008 and the most recent draft of the Notice of Change to Directors' Circular of the Company dated October 30, 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 Revised Mineralogy Offer and will receive a fee from the Company for our services whether or not the Revised Mineralogy 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 Revised Mineralogy 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 Revised Mineralogy 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.

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

**Any Shareholder who has tendered his or her Shares under the Revised Mineralogy 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