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If you are in any doubt as to the action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, fund manager, solicitor, accountant or other appropriate independent financial adviser, who is authorised under the Financial Services and Markets Act 2000, if you are resident in the United Kingdom, or, if not, from another appropriately authorised independent financial adviser.

If you sell or transfer or have sold or transferred all of your Ordinary Shares, please forward this document, but not the personalised Form of Proxy enclosed with it, as soon as possible to the purchaser or transferee or to the bank, stockbroker or other agent through or to whom the sale or transfer was effected for onward transmission to the purchaser or transferee. If you sell or have sold or otherwise transferred only part of your holding of Ordinary Shares, you should retain this document. If you receive this document from another Shareholder, as transferee, please contact the Company's Registrar for a Form of Proxy.

Any person (including, without limitation, custodians, nominees and trustees) who may have a contractual or legal obligation or may otherwise intend to forward this document to any jurisdiction outside the United Kingdom should seek appropriate advice before taking any action. The distribution of this document and any accompanying documents into jurisdictions other than the United Kingdom may be restricted by law. Any person not in the United Kingdom into whose possession this document and any accompanying documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.



UK Coal plc

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 2649340)

Proposed Disposal of Harworth Power (Generation) Limited

Circular to Shareholders and Notice of General Meeting of the Company

Your attention is drawn to the letter to Shareholders from Jonson Cox, the Chairman of UK Coal, which is set out in Part I of this document in which the Board unanimously recommends that you vote in favour of the resolution to be proposed at the General Meeting of the Company. Please read the whole of this Circular and consider whether to vote in favour of the Resolution in light of the information contained in this document. In particular, please note the risks and uncertainties that might affect the value of your shareholding in UK Coal plc, which are set out in Part II of this document.

A notice convening a general meeting of the Company to be held at 1.00 p.m. on 1 October 2012 at the offices of Investec Bank PLC, 2 Gresham Street, London EC2V 7QP is set out at the end of this document. A Form of Proxy for use at the General Meeting is also enclosed with this document. Whether or not you intend to attend the General Meeting in person, please complete, sign and return the accompanying Form of Proxy in accordance with the instructions printed on it as soon as possible but, in any event, so as to be received by the Registrar no later than 1.00 p.m. on 29 September 2012. Forms of Proxy received after this time will be invalid. If you hold your Ordinary Shares in uncertificated form (i.e. in CREST) you may appoint a proxy by completing and transmitting a CREST Proxy Instruction in accordance with the procedures set out in the CREST Manual so that it is received by the Registrar (under CREST participant ID RA19) by no later than 1.00 p.m. on 29 September 2012. The time of receipt will be taken to be the time from which the Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

Completion and posting of the Form of Proxy or completing and transmitting a CREST Proxy Instruction will not prevent you from attending and voting in person at the General Meeting, if you wish to do so.

Investec, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as sponsor exclusively for UK Coal connection with the Disposal. Investec is not acting for, and will not be responsible to, any person other than UK Coal for providing protections afforded to customers of Investec or for advising any other person on the contents of this document or any transaction or arrangement referred to herein. For the avoidance of doubt, nothing in this paragraph seeks to limit or exclude Investec's responsibilities and liabilities which may arise under FSMA or the regulatory regime established thereunder.

Climate Change Capital Limited, which is authorised and regulated by the Financial Services Authority, is acting for UK Coal and for no one else in connection with the Disposal and will not be responsible to anyone other than UK Coal for providing the protections afforded to customers of Climate Change Capital Limited or for affording advice in relation to the Disposal.

Capitalised terms have the meanings ascribed to them in Part VIII of this document.

14 September 2012

IMPORTANT NOTICE

The release, publication or distribution of this document in jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this document comes should inform themselves about, and observe, any applicable restrictions or requirements. Any failure to comply with such restrictions may constitute a violation of the securities laws of any such jurisdiction. This document has been prepared for the purposes of complying with English law and the Listing Rules and the applicable rules and the information disclosed may not be the same as those which would have applied and that which would have been disclosed if this document had been prepared in accordance with the laws and regulations of any jurisdiction outside of England and Wales.

This document and any accompanying documents do not constitute an offer or an invitation to purchase or subscribe for any securities or a solicitation of an offer to buy any securities pursuant to the document or otherwise in any jurisdiction in which such offer or solicitation is unlawful. This document does not comprise a prospectus or a prospectus equivalent document.

No person has been authorised to give any information or to make any representations other than as may be contained in this Circular and, if given or made, such information or representations must not be relied on as having been authorised by the Company, Investec or Climate Change Capital.

The statements contained in this document are made as at the date of this document, unless some other time is specified in relation to them, and service of this document shall not give rise to any implication that there has been no change in the facts set out herein since such date. Nothing contained in this document shall be deemed to be a forecast, projection or estimate of the future financial performance of UK Coal or the Group, or of HP(G), or of the Continuing Group, except where otherwise stated.

FORWARD LOOKING STATEMENTS

This document contains forward looking statements which are subject to assumptions, risks and uncertainties. The Company believes that the expectations reflected in these forward-looking statements are reasonable. However, there can be no assurance that these expectations will prove to have been correct. Since these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by those forward looking statements.

The Company does not undertake any obligation to update publicly or revise any forward looking statement as a result of new information, future events or other information, other than as required by the Listing Rules, Disclosure Rules, the rules of the London Stock Exchange or by any other applicable law.

The statements above relating to forward looking statements should not be construed as a qualification to the opinion of the Company as to the Continuing Group's working capital set out in paragraph 9 of Part VII (Additional Information) of this document.

DIRECTORS, COMPANY SECRETARY AND ADVISERS

Directors	Jonson Cox (<i>Chairman</i>) David Brocksom (<i>Finance Director</i>) Gareth Williams (<i>Managing Director, Mining</i>) Owen Michaelson (<i>Managing Director, Property</i>) Peter Hickson (<i>Non-Executive Director</i>) Keith Heller (<i>Non-Executive Director</i>) Steven Underwood (<i>Non-Executive Director</i>) Lisa Clement (<i>Non-Executive Director</i>)
Company Secretary	Geoff Mason
Registered Office	Harworth Park Blyth Road Harworth Doncaster South Yorkshire DN11 8DB
Sponsor	Investec Bank PLC 2 Gresham Street London EC2V 7QP
Financial Adviser	Climate Change Capital Limited 3 More London Riverside London SE1 2AQ
Legal Advisers to the Company	Pinsent Masons LLP 3 Colmore Circus Birmingham B4 6BH
Auditors and Reporting Accountants	PricewaterhouseCoopers LLP Benson House 33 Wellington Street Leeds LS1 4JP
Registrar and Receiving Agent	Equiniti Limited Aspect House Spencer Road Lancing West Sussex BN99 6DA

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of this Circular	14 September 2012
Latest time and date for receipt of Forms of Proxy for the General Meeting	1.00 p.m. on 29 September 2012
General Meeting	1.00 p.m. on 1 October 2012
Expected date of Completion	1 October 2012

Notes:

The times and dates set out in the expected timetable of principal events above and mentioned throughout this Circular are indicative only and subject to change. If any of the times and/or dates change, the revised times and/or dates will be notified by the Company by announcement through a Regulatory Information Service.

References to times in this document are to London time.

PART I

LETTER FROM THE CHAIRMAN OF UK COAL PLC



UK Coal plc

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 2649340)

Directors

Jonson Cox
David Brocksom
Gareth Williams
Owen Michaelson
Peter Hickson
Keith Heller
Steven Underwood
Lisa Clement

Registered Office

Harworth Park
Blyth Road
Harworth
Doncaster
South Yorkshire
DN11 8DB

14 September 2012

Dear Shareholder,

Proposed Disposal of Harworth Power (Generation) Limited (“HP(G)”)

1. Introduction and summary of proposed disposal

The Company announced on 22 June 2012 that the Seller, a wholly-owned subsidiary of UK Coal, had entered into a conditional agreement with Red Rose Infrastructure Limited to sell the entire issued share capital of HP(G) for an aggregate maximum consideration of £20.3 million, of which £20.0 million is payable by the Buyer in cash on Completion. Payment of the remaining £0.3 million of the consideration is dependent upon future rights to gas extraction being granted to HP(G) by DECC.

The Disposal forms part of the Company’s plan to manage its liabilities, improve operational and financial performance and strengthen its balance sheet, in part through an asset realisation programme. £7.4 million of the net proceeds of the Disposal will be used to reduce the borrowings and net liabilities of the Group and £11.3 million will be held by the Seller pending completion of the proposed restructuring of the Group’s business referred to further in Paragraph 10 of this Part I.

The Disposal is of sufficient size relative to the size of the Company to constitute a Class 1 transaction for the purposes of the Listing Rules. As a result, and as required by the Listing Rules, the Disposal is conditional upon the approval of Shareholders.

Your approval of the Disposal is being sought at a general meeting of the Company to be held at 1.00 p.m. on 1 October 2012 at the offices of Investec Bank PLC, 2 Gresham Street, London EC2V 7QP. A notice convening the general meeting containing the full text of the Resolution to be considered at the meeting is set out at the end of this document. A summary of the action you should take is set out in paragraph 11 of this letter and on the Form of Proxy that accompanies this document. If the Resolution is passed at the General Meeting on 1 October 2012, Completion is expected to take place on the same date.

Shareholders should note the working capital statement set out in Paragraph 12 of this Part 1 which states that the Company is of the opinion that the Continuing Group does not have sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document.

The purpose of this document is to provide you with information on the Disposal, to explain the background to and reasons for the Disposal and why the Board believes the Disposal is in the best interests of UK Coal's shareholders taken as a whole and to recommend that you vote in favour of the Resolution.

The financial information in this Part I has been extracted without material adjustment from the financial information contained in Part III (Financial Information on HP(G)) of this document.

You will find definitions for capitalised terms used in this letter and the rest of this document in Part VIII (Definitions) of this document.

2. Information on HP(G)

HP(G) is one of the UK's leading coal mine methane power generators, with assets at UK Coal's Kellingley, Thoresby, Harworth and Stillingfleet mines. HP(G) has installed and operates fourteen gas engines across its asset portfolio, which currently have a maximum electricity generating capacity of 26MW. The electricity generated is either used at UK Coal sites or is supplied to the relevant regional electricity distribution network.

In the year ended 31 December 2011, HP(G) reported an operating profit deriving from its assets and business of £2.5 million (2010: £2.3 million) on revenues of £5.5 million (2010: £3.7 million). A summary of the unaudited trading results for the assets and business of HP(G) for the three years ended 26 December 2009, 25 December 2010 and 31 December 2011 and the six months ended 30 June 2012 (on an IFRS basis) is set out below.

	<i>Unaudited Six Months ended 30 June 2012</i>	<i>Unaudited Year ended 31 December 2011</i>	<i>Unaudited Year ended 25 December 2010</i>	<i>Unaudited Year ended 26 December 2009</i>
<i>£ million</i>				
Revenue	2.6	5.5	3.7	5.1
Operating Profit	1.2	2.5	2.3	2.6
Profit Before Tax	1.2	2.4	2.2	2.2

The gross assets of HP(G) were £5.3 million at 31 December 2011 and £6.0 million at 30 June 2012.

Shareholders should read the whole of this document and not just rely on the summarised financial information set out in this Part I. Please refer to Part III (Financial Information on HP(G)) of this document for further historic financial information relating to HP(G).

3. Information on Red Rose Infrastructure Limited

Red Rose Infrastructure Limited is managed by Capital Dynamics Clean Energy and Infrastructure, a clean energy asset manager. Capital Dynamics Clean Energy and Infrastructure is part of the Capital Dynamics Group, which is an independent asset management firm focusing on investing in the clean energy, infrastructure and property sectors. On 18 January 2012, the Capital Dynamics Group announced the acquisition of a 64MW portfolio of landfill gas assets in the UK, which has comparable operational characteristics to the business of HP(G). This transaction was also negotiated and completed by the Capital Dynamics Clean Energy and Infrastructure team.

4. Background to and reasons for the Disposal

The Disposal forms part of the Company's strategy to improve the Continuing Group's operational and financial performance, reduce net debt and strengthen its balance sheet, in part through an asset realisation programme. A portion of the net proceeds of the Disposal will therefore be used to reduce borrowings. The Disposal is not expected to prevent a breach of covenants in the Company's Bank Facilities at the 31 December 2012 measurement date causing the Company to breach the terms of its Bank Facilities, which would, in the event that a waiver of these covenants cannot be obtained, result in the Bank Facilities becoming repayable in the first quarter of 2013. It would however, in the Board's view be expected to delay a financing shortfall under its Bank Facilities from earlier in the first quarter of 2013 to later in the first

quarter of 2013. This would provide additional time for the Company to undertake its negotiations on the proposed restructuring (described in Paragraph 10 of this Part I). In light of the working capital position of the Company (described in Paragraph 12 of this Part I), the Company is working towards concluding the proposed restructuring as soon as possible.

The Board believes the Disposal is consistent with UK Coal's requirement to strengthen its working capital position and that the consideration for the Disposal fairly reflects the prospects of HP(G) and represents a fair market consideration in the context of the prevailing market conditions.

5. Use of proceeds and financial effects of the Disposal on the Group

At Completion, the net cash proceeds arising from the Disposal are expected to be approximately £18.7 million, after estimated transaction costs of £1.3 million.

It is intended that £7.4 million of the net proceeds of the Disposal will be used to reduce the borrowings and net liabilities of the Group by reducing drawings on the RCF Facility, reducing net bank debt and finance leases from £66.0 million as at 30 June 2012 to £58.6 million. The balance of the proceeds of £11.3 million will be held by the Seller pending completion of the proposed restructuring.

Under certain circumstances set out below the £11.3 million to be held by the Seller pending completion of the proposed restructuring may be used to fund additional pension deficit contributions payable by the Company. In the event that the market value of the assets of the Pension Funds or the Blenkinsopp Section declines or the value of the assessed liabilities in respect thereof increases, or if the Pension Trustees determine that the Group's financial position requires a different approach to contributions and deficit reduction, the Group may be required to increase its deficit contributions. Changes in the investment strategy of the Pension Funds or the Blenkinsopp Section may also result in a requirement to increase the Group's contributions. In addition, the Pensions Regulator has powers, the exercise of which could require the Group to make additional contributions. Any proposed increase in deficit contributions would be subject to a revised deficit valuation, which would be expected to take 12-15 months to complete. Therefore in the event that the proposed restructuring (described in Paragraph 10 of this Part I), which is subject to further negotiation and agreement of legally binding documentation, does not proceed and if any of the circumstances above apply, it is expected that the £11.3 million of the Disposal proceeds that are not used to reduce drawings on the RCF Facility may be applied to fund additional pension deficit contributions payable by the Company. The proposed restructuring is not conditional on the Disposal however negotiations for the proposed restructuring agreement have taken into account the assumed Disposal proceeds.

In the event the Disposal does not proceed as a consequence of the Resolution not being passed and for no other reason then the Seller has agreed to reimburse to the Buyer an amount equal to the reasonable external costs and expenses incurred by the Buyer on or after 14 May 2012 regarding the preparation and execution of the Disposal Agreement up to a maximum of £250,000 (plus any value added tax charged on such costs and expenses). The Disposal Agreement also contains certain warranties and indemnities given by the Seller in favour of the Buyer in respect of HP(G). The warranties are subject to limitations (as set out in Paragraph 4 of Part VI (Principal Terms of the Disposal Agreement) of this document) and liability of the Seller thereunder is capped at £10.0 million, subject to certain exceptions.

The unaudited pro forma financial information for the Continuing Group illustrates the effect of the Disposal on the Group's net assets as at 30 June 2012 as if the Disposal had taken place at that date and is set out in Part IV of this document. This information has been prepared for illustrative purposes only.

The estimated net debt figures set out in Part I have been sourced from the unaudited pro forma financial information set out in Part IV (Unaudited Pro Forma Financial Information) of this document.

Had the Disposal occurred on 1 January 2012, the commencement of the current financial year of the Group, earnings for the Group would have been reduced. The Disposal would have increased the Group's net assets by £12.7 million had it occurred on 30 June 2012, as shown in the unaudited pro forma financial information for the Continuing Group set out in Part IV of this document.

In 2011 when the Group owned 100 per cent. of HP(G) it received revenues of £2,745,000 at Stillingfleet, £566,000 at Harworth, £332,000 at Thorseby and £1,739,000 at Kellingley, representing the total revenue from each site. Following the Disposal the Group will receive a reduced share of the royalties from HP(G). It will receive 20 per cent. of all future revenues generated from the sites at Kellingley, Thoresby and Harworth and will receive 10 per cent. of all future revenues generated from Stillingfleet. Future royalties will vary in line with methane extraction, which determines the revenues on which royalties are based.

6. Current Trading and Prospects of the Continuing Group

Group revenues fell 23 per cent. in the first half of 2012 to £198.3 million (H1 2011: £256.1 million, FY 2011: £488.2 million) following significantly lower sales volumes at slightly higher average realised sales prices (H1 2012 £2.43/GJ: H1 2011 £2.36/GJ, FY 2011: £2.48/GJ). This led to an operating loss of £6.0 million before non-trading exceptional items in the first half of 2012, £41.2 million worse than the operating profit before non-trading exceptional items of £35.2 million booked in H1 2011.

Exceptional costs totalling £5.7 million have been incurred in the period (H1 2011: £0.1 million credit, FY 2011: £16.1 million credit). These costs relate to refinancing and restructuring activities carried out in the first half of 2012. Professional fees of £3.5 million have been classified as non-trading exceptional items and refinancing costs of £2.2 million have been classified as exceptional finance costs.

The Group has continued its programme of realising value from its brownfield property portfolio and achieved disposals in the first half of 2012 with net book value of £16.3 million. These sales generated a profit on disposal of £0.4 million (H1 2011: £2.1 million, FY 2011: £2.7 million). The net proceeds of disposals received in the first half of 2012 of £11.4 million (H1 2011: £36.0 million, FY 2011: £64.3 million), including £3.5 million received in relation to property exchanges in 2011, have been used to reduce the Group's debt.

The Group made a loss before tax of £20.6 million in the period (H1 2011: £22.1 million profit, FY 2011: £58.0 million profit), reflecting the operating loss before exceptional items of £6.0 million, net interest costs of £8.9 million and exceptional costs relating to the refinancing and the restructuring of £5.7 million. As at 30 June 2012 net bank debt, excluding restricted funds was £66.1 million (H1 2011: £109.8 million, FY 2011 £54.7 million) and Generator loans and prepayments were £72.2 million (H1 2011: £97.5 million, FY 2011: £84.1 million).

The Group continues to experience operational difficulties, in particular at its Daw Mill deep mine. Following the recovery of Daw Mill's 32s panel, the mine has been able to recommence mining operations on this panel although at lower than expected production levels. The difficult geological conditions experienced on both the 32s and the 303s panels, coupled with the difficulty of operating two coal faces in this mine, have led the Board to decide that the safest option is to concentrate current mining operations on the 303s panel, which will also mitigate the loss of production. The 32s panel will be put into safe salvage as soon as practicable. This will enable more consistent production in 2012, but is likely to add four weeks to an expected interruption to production in 2013 between the end of operations at the 303 and the start of operations at the 33s panel.

7. Risk Factors

For a discussion of the risks and uncertainties which you should take into account when considering whether to vote in favour of the Resolution, please refer to Part II (Risk Factors) of this document.

8. General Meeting

A notice convening the General Meeting to be held at 1.00 p.m. on 1 October 2012 at the offices of Investec Bank PLC, 2 Gresham Street, London EC2V 7QP is set out at the end of this document. A Form of Proxy to be used in connection with the General Meeting is enclosed.

Owing to the size of the Disposal relative to the size of the Company, the Company requires the approval of Shareholders to proceed with the Disposal. The completion of the Disposal is, therefore, conditional on the passing of the Resolution at the General Meeting. The full text of the Resolution, which is to be proposed as

an ordinary resolution at the General Meeting, is set out in the Notice of General Meeting at the end of this document.

The passing of the Resolution requires a majority of the votes cast in respect of the Resolution to be in favour of the resolution.

9. Further information

Your attention is drawn to the further information set out in Part II to Part VII of this document. You should read the whole of this document and, in particular, the risks and uncertainties set out in Part II (Risk Factors) of this document.

10. Proposed Restructuring

As announced in the Company's interim results on 10 August 2012, the Company has made significant progress towards agreeing a proposed restructuring of its businesses. The proposed restructuring is a highly complex process that involves the goodwill and understanding of a range of stakeholders including the Pension Funds, the Pensions Regulator, the Company's principal banking partner Lloyds Banking Group, Barclays Bank, customers, DECC and the Coal Authority.

A non-binding heads of terms agreement has been reached with the Pension Trustees, and agreement in principle with the Generators, which would result in a combined c.£90 million of financial support to UK Coal over the period to the end of 2015 once the proposed restructuring is implemented. Under the proposed plan it is intended that the mining business would be left free of bank debt and would have an affordable pension deficit reduction scheme. This is expected to create a more stable platform more likely to release the value in the mining business. As part of this arrangement, from 2014 the Pension Funds would receive £30.0 million per annum in deficit contributions plus any cash in the mining business above a minimum headroom requirement of £50.0 million, after agreeing to defer any deficit contributions in 2012 and 2013.

As part of the proposed plan to address the pension fund deficit, it is intended that the Pension Trustees would also invest £30 million in the property business to enable the release of the latent undeveloped value in the property portfolio. In exchange, the Pension Trustees would receive a direct stake of 75.1 per cent. in that business, with existing shareholders being entitled to the benefit of the remaining 24.9 per cent. This stake would be held through a new holding company which would not guarantee the pension liability. In return for the stake, the first £5 million of shareholders' dividend income would be paid to the Pension Funds. The terms of the proposed restructuring would mean that Shareholders' principal continuing economic interest in the Group would be a minority stake in the long term development potential of its property assets.

The Company has had constructive discussions in relation to the heads of terms with the Pension Regulator, who has not raised any major objections to the proposals. The observations which have been raised by the Pension Regulator appear capable of resolution. The proposed restructuring has also been explored with the Company's major stakeholders and the Board has concluded that it offers UK Coal a viable, and sustainable, future. It remains subject to further negotiation and agreement of legally binding documentation with stakeholders and approval of Shareholders. The proposed restructuring is not conditional on the Disposal, however negotiations for the proposed restructuring agreement have taken into account the assumed Disposal proceeds.

11. Action to be taken

You will find enclosed with this document a Form of Proxy for use in connection with the General Meeting or at any adjournment thereof.

It is important to us that our Shareholders have the opportunity to vote, even if they are unable to come to the General Meeting. If you are unable to come to the General Meeting you can use the enclosed Form of Proxy to nominate someone else to come to the meeting and vote for you (this person is called a proxy). In the event the Disposal does not proceed it is unlikely the Company would be able to complete the proposed restructuring.

To appoint a proxy you need to send back the Form of Proxy. As an alternative to returning the Form of Proxy, you can appoint a proxy electronically. Details of the procedure are set out in the notes to the Form of Proxy and the notes to the Notice of General Meeting at the end of this document.

You are requested to complete and sign the Form of Proxy whether or not you propose to attend the General Meeting in person in accordance with the instructions printed on it and return it as soon as possible, but in any event so as to be received no later than 1.00 p.m. on 29 September 2012, by Equiniti, the Company's Registrar, at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.

If you hold your Ordinary Shares in uncertificated form (ie in CREST) you may appoint a proxy by completing and transmitting a CREST Proxy Instruction in accordance with the procedures set out in the CREST Manual so that it is received by Equiniti (under CREST participant ID RA19), by no later than 1.00 p.m. on 29 September 2012.

Unless the Form of Proxy or CREST Proxy Instruction is received by the relevant date and time specified above, it will be invalid.

Completion and posting of the Form of Proxy or completing and transmitting a CREST Proxy Instruction will not preclude you from attending and voting in person at the General Meeting if you wish to do so.

12. Working Capital

The Company is of the opinion that the Continuing Group does not have sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document.

If the Resolution is passed and the sale of HP(G) completes, the net proceeds of the Disposal together with the Company's existing Bank Facilities and existing cash balances will not address the Company's medium and longer term working capital requirements. It is for this reason that the Company is in the process of negotiating a proposed restructuring with its stakeholders.

Absent the completion of the proposed restructuring, which is subject to further negotiation and agreement of legally binding documentation, and after taking account of the net proceeds of the Disposal, the Company's current expectation is that it will breach the covenants of its Bank Facilities at the 31 December 2012 measurement date causing the Company to breach the terms of its Bank Facilities which, in the event that a waiver of these covenants cannot be obtained, would result in the Bank Facilities becoming repayable in the first quarter of 2013. In the event of a covenant breach, the Company would need to obtain a waiver of the relevant covenant from its banks to avoid the Bank Facilities becoming repayable, which in the absence of the proposed restructuring, the Directors are not confident that they would be able to obtain. In addition to the covenant breach, the amount of financing available under the existing Bank Facilities is insufficient to meet forecast working capital requirements during the first quarter of 2013 with an expected funding shortfall of approximately £15 million during this quarter, after taking the Disposal proceeds into account. In the event the Company defaults on its Bank Facilities it will no longer be able to trade as a going concern which would be likely to result in the appointment of receivers, liquidators or administrators as early as the first quarter of 2013.

In the event the Disposal does not proceed it is the Company's current expectation that there will be a financing shortfall under the existing Bank Facilities of approximately £20 million in the first quarter of 2013, occurring earlier in the quarter than would be the case were the Disposal to proceed, and the expectation remains that the Company will breach the covenants referred to in the preceding paragraph at the 31 December 2012 measurement date. In the event the Company defaults on its Bank Facilities it will no longer be able to trade as a going concern which would be likely to result in the appointment of receivers, liquidators or administrators as early as the first quarter of 2013.

There are a variety of factors which could result in a further deterioration in the Company's working capital position and lead to an earlier and / or greater financing shortfall. These operational issues include a fall in coal market prices and production stoppages, such as increases in face gaps.

As a result of the financing pressures and the operational risks faced by the Company and the need to secure further support from key stakeholders, including the Pension Funds (as noted Paragraph 10 concerning the proposed restructuring), the Directors believe that the Continuing Group will require restructuring in order for it to continue to trade as a going concern for the foreseeable future. The Directors believe that there is a reasonable prospect of implementing the proposed restructuring and securing the Company's financial position by the end of 2012. However, it is a complex process and, as set out above, will require the approval of a number of parties and formal legal and regulatory clearance. The Board is confident that if the restructuring is successfully completed the Continuing Group will have adequate resources to continue in operational existence for the foreseeable future.

The proposed restructuring remains subject to further negotiation and agreement of legally binding documentation with stakeholders.

13. Recommendation

The Board considers the terms of the proposed Disposal to be in the best interests of shareholders as a whole.

Accordingly, the Board unanimously recommends Shareholders vote in favour of the Resolution to be proposed at the General Meeting as they intend to do in respect of their own beneficial holdings, which amount in aggregate to 875,404 Ordinary Shares and represent approximately 0.29 per cent. of UK Coal's issued share capital as at 13 September 2012 (the latest practicable date prior to publication of this document).

Yours faithfully

Jonson Cox

Chairman

14 September 2012

PART II

RISK FACTORS

Shareholders should carefully consider the risks and uncertainties set out in this Part II (Risk Factors) of this document when deciding whether or not to vote in favour of the Resolution.

The following risks and uncertainties are not exhaustive and do not purport to be a complete explanation of all the risks involved. The risks and uncertainties set out below are those which the Board believes are the material risks specific to the Group. Additional risks and uncertainties relating to the Group which are not known to the Board as at the date of this document, or that the Board currently deem immaterial, may also have a material adverse effect on the Group if they materialise.

If any or a combination of the following risks and uncertainties actually materialise, the business, operations, financial condition or prospects of the Group could be materially and adversely affected. In such circumstances, the market price of Ordinary Shares could decline and you may lose all or part of your investment.

These risks and uncertainties should be read in conjunction with all other information contained in this document.

1. Financial Risks related to the Disposal and the Continuing Group

The Continuing Group does not have sufficient working capital for its present requirements

The Company is of the opinion that the Continuing Group does not have sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document.

Absent the completion of the proposed restructuring, which is subject to negotiation and legally binding documentation and after taking account of the net proceeds of the Disposal, the Company's current expectation is that it will breach the covenants of its Bank Facilities at the 31 December 2012 measurement date causing the Company to breach the terms of its Bank Facilities which, in the event that a waiver of these covenants cannot be obtained, would result in the Bank Facilities becoming repayable in the first quarter of 2013. In the event of a covenant breach, the Company would need to obtain a waiver of the relevant covenant from its banks to avoid the Bank Facilities becoming repayable, which in the absence of the proposed restructuring, the Directors are not confident that they would be able to obtain. In addition to the covenant breach, the amount of financing available under the existing Bank Facilities is insufficient to meet forecast working capital requirements during the first quarter of 2013 with an expected funding shortfall of approximately £15 million during this quarter, after taking the Disposal proceeds into account. In the event the Company defaults on its facilities and in the event the Group is unable to implement the proposed restructuring, it will no longer be able to trade as a going concern which would be likely to result in the appointment of receivers, liquidators or administrators shortly thereafter.

In the event the disposal does not proceed it is the Company's current expectation that there will be a financing shortfall under the existing Bank Facilities of approximately £20 million in the first quarter of 2013, occurring earlier in the quarter than would be the case were the Disposal to proceed, and the expectation remains that the Company will breach the covenants referred to in the preceding paragraph at the 31 December 2012 measurement date. In the event the Company defaults on its facilities and in the event the Group is unable to implement the proposed restructuring, it will no longer be able to trade as a going concern which would be likely to result in the appointment of receivers, liquidators or administrators shortly thereafter.

The Group may not be able to refinance its amended bank debt facilities in the longer term on reasonable terms or at all

The renewal date for the Group's current bank facilities is 31 December 2013. The ability of the Group to raise funds on reasonable terms in the longer term is dependent on a number of factors, including general

economic, political and capital market conditions and credit availability. There can be no assurance that financing for the Group in the longer term will be available or, if it is, that it will be available on terms that the Group considers acceptable. In particular, should the current difficult financial market conditions persist, in the longer term the Group may have difficulty in renewing, extending or refinancing its debt facilities when they mature in accordance with their terms.

If it is unable to do so or the terms of any new facilities entered into by the Group are more onerous than the terms of the Group's debt facilities, in the longer term this could limit the Group's ability to, amongst other things, bring forward development opportunities and such consequences would adversely affect in the longer term the Group's results of operations, financial condition and future prospects.

The Group may not be able in the longer term to maintain compliance with the covenants in its bank debt facilities

The terms of the Company's debt facilities impose certain restrictions on the Group's operations and require compliance with certain financial covenants including loan-to-value, tangible net worth and minimum interest cover ratios, (further details are set out in paragraph 7 of Part VII (Additional Information) of this document). There is no guarantee that the Group will be able to maintain compliance with the covenants in its debt facilities in the longer term. Failure to comply with those covenants (due, for example, to a deterioration in the valuation of the Group's properties or a decrease in the Group's sales or sale prices) could lead to a default under such facilities. Any default could result in the withdrawal of the Group's debt facilities and/or the acceleration of its obligations to repay its debt facilities, which it would not be able to do without raising new capital or borrowings. This may, accordingly, have a material adverse effect on the Group's results of operations, financial condition and future prospects.

Increased contributions may be required to the Pension Funds in certain scenarios

Under IAS 19, the Pension Funds and the Blenkinsopp Section have a combined actuarial deficit of £116 million as at 30 June 2012. This increased from £101 million as at 31 December 2011.

The deficit of the Pension Funds and the Blenkinsopp Section could increase and have an adverse effect on the financial condition of the Group. Under the technical provisions that are the basis for the triennial calculation of the pension liabilities and for agreement on funding rates with the Pension Trustees, different rates, based on gilt yields, are employed. In addition, actions by the Pensions Regulator or the Pension Trustees or any material revisions to the existing pension legislation could result in the Group being required to incur significant additional costs immediately or in short timeframes. Such costs, in turn, could have an adverse effect on the Group's financial condition.

In the event that the market value of the assets of the Pension Funds or the Blenkinsopp Section declines or the value of the assessed liabilities in respect thereof increases or if the Pension Trustees determine that the Group's financial position requires a different approach to contributions and deficit reduction, the Group may be required to increase its deficit contributions. Changes in investment strategy of the Pension Funds or the Blenkinsopp Section may also result in a requirement to increase the Group's contributions. In addition, the Pensions Regulator has powers, the exercise of which could require the Group to make additional contributions. Any proposed increase in deficit contributions would be subject to a revised deficit valuation, which would be expected to take 12-15 months to complete. Therefore in the event that the proposed restructuring does not proceed, which is subject to further negotiation and legally binding documentation, it is expected that the £11.3 million of the Disposal proceeds that are not used to reduce drawings on the RCF Facility may be applied to fund additional pension deficit contributions payable by the Company. Increases to the Group's contributions could have a material adverse impact on its operating results and financial position.

The approval of the Pension Trustees and the Pensions Regulator may also be needed as part of any restructuring (see Section 10 (Proposed Restructuring) of Part I (letter from Chairman of UK Coal plc) of this document.

As the anticipated use of the proceeds from the Disposal does not involve any payment into the Pension Funds or the earmarking of any part of the proceeds for payment into the Pension Funds, there is a risk that

the Pension Trustees and the Pensions Regulator may require from the Group increased deficit contributions or an immediate contribution to the Pension Funds (whether under the terms of the Pension Funds or pursuant to the Pension Regulator's moral hazard powers). The use of the proceeds might also cause the Pension Trustees of the Pensions Regulator to reject the restructuring proposals. As a consequence only such amount required under the Group's bank facilities to be used to reduce bank indebtedness is being applied with the balance held by the Seller pending completion of the proposed restructuring.

The Group also operates an unfunded concessionary fuel arrangement whereby employees who transferred under the terms of the 1994 privatisation have a right to receive an annual allowance of free or discounted coal. Employees who have subsequently joined the Group are also entitled, subject to certain qualifying conditions, to receive discounted coal. As at 30 June 2012, the actuarial estimate of the liability associated with these arrangements was approximately £46 million. Depending on the costs of continuing to provide these benefits in the future and further changes in actuarial assumptions, the liability associated with the concessionary fuel scheme may continue to increase which could have an adverse effect on the Group's financial condition.

Repayment of £10.0 million Chartis bond

There is a £10.0 million bond with Chartis in relation to surface damage (subsidence) liabilities which expires in December 2012. The Coal Authority requires security to be provided over this potential future liability. Options currently being considered are taking out a new bond or providing security over property. Management has received indications from the Coal Authority that security over property assets may be acceptable, however this has not been formally agreed, including with the banks which currently have security over the majority of property. If these alternatives cannot be agreed, £10.0 million of cash would need to be provided as security.

Inability to realise shareholder value

The Board believe the Disposal is in the best interest of Shareholders taken as a whole and that it currently provides the best opportunity to realise an attractive and certain value for HP(G). If the Disposal does not complete, the Group's ability to deliver shareholder value, to deliver value for HP(G) or to implement the Group's proposed restructuring may be prejudiced.

Working Capital

As set out in paragraph 12 of Part I (letter from the Chairman of UK Coal plc) of this document, the Company does not currently have sufficient working capital for its current requirements. If the Disposal does not proceed the Company's working capital position will be negatively impacted as the Group will not receive the net proceeds of the Disposal.

Requirements of the RCF Facility relating to the disposal

It is a requirement of the RCF Facility that reasonable endeavours be used to carry out the disposal of HP(G). A failure to proceed with the Disposal (if it cannot be shown that reasonable endeavours have been used to carry out the sale) could potentially lead to a breach of such undertaking and an acceleration of the obligations to repay the amounts owed under the RCF Facility and other Bank Facilities.

2. Risks related to the Disposal

Warranties and indemnities in the Disposal Agreement

The Disposal Agreement contains certain warranties and indemnities given by the Seller in favour of the Buyer in respect of HP(G). The warranties are subject to limitations, and liability of the Seller thereunder is capped at £10.0 million, subject to certain exceptions. If the Seller is required in the future to make payments under any of these warranties or indemnities this could have an adverse effect on the Group's cash flow and financial condition. Further details of the Disposal Agreement are set out in Part VI (Principal Terms of the Disposal Agreement) of this document.

Conditionality of the Disposal Agreement

Completion of the Disposal Agreement is conditional upon the approval of Shareholders. There can be no assurance that this condition will be satisfied or waived and Completion will take place. In the event Shareholders do not approve the Resolution, and the requirement to seek the approval of the Shareholders to completion of the Disposal Agreement cannot be waived, the Disposal will not be completed. If the Disposal does not complete, any of the risks and uncertainties set out in paragraph 2 of this Part II may affect the Group's business and results.

3. Specific Risks relating to HP(G)

Lower gas forecasts than expected

In 2011 when the Group owned 100 per cent. of HP(G) it received revenues of £2,745,000 at Stillingfleet, £566,000 at Harworth, £332,000 at Thorseby and £1,739,000 at Kellingley, representing the total revenue from each site. Following the Disposal the Group will receive a reduced share of the royalties from HP(G). It will receive 20 per cent. of all future revenues generated from the sites at Kellingley, Thoresby and Harworth and will receive 10 per cent. of all future revenues generated from Stillingfleet. Future royalties will vary in line with methane extraction, which determines the revenues on which royalties are based.

If the Group produces less coal mine methane gas than expected, HP(G) may generate less electricity and therefore less revenue than expected. This could result in the Group receiving lower royalties payable from HP(G) as well as reduced volumes of electricity supplied to the Group by HP(G) at a discount to the market rate.

Lower engine availability than expected

If the gas engines owned by HP(G) operate at lower availability than expected or incur other operational problems that affect their performance, HP(G) may generate less electricity and therefore less revenue than expected. This could result in the Group receiving lower royalties payable from HP(G), which are set as a defined percentage of revenue generated by HP(G), as well as reduced volumes of electricity supplied to the Group by HP(G) at a discount to the market rate.

Lower power prices than expected

If the power price paid to HP(G) by an offtaker for electricity exported externally is less than expected, HP(G) may generate less revenue than expected. This could result in the Group receiving lower royalties payable from HP(G), which are set as a defined percentage of revenue generated by HP(G).

Petroleum Exploration Development Licence ("PEDL") for Kellingley not secured

If HP(G) does not secure a PEDL for the Kellingley site within two years from Completion, the Group will not receive the deferred consideration of £0.3 million payable by the Buyer.

4. Risks relating to the mining business of the Group

The Group faces operational risks in its mining business

The Group's mining operations are subject to conditions beyond the Group's control that can delay coal production or increase the cost of mining at particular mines for varying lengths of time. These conditions include weather and natural disasters, unexpected maintenance or technical problems, including loss of appropriate IT control systems, key equipment failures, variations in coal seam thickness and quality, geological faulting and issues associated with or caused by geological pressures and conditions, variations in the amount or nature of rock and soil overlying the coal deposit, and variations in rock stress, strain and composition. In addition, face gaps, such as those suffered in 2010 at the Group's Daw Mill mine, caused by the unavailability of subsequent faces due to operational issues can have a significant impact upon the production and subsequent cash flows of the Company.

Difficult conditions remain to be overcome on Daw Mill's 32's face in order to recover equipment. The equipment is needed on Daw Mill's next face and its timely recovery is required in order to avoid extending a face gap in H1 2013.

Hazards particularly associated with the Group's deep mining operations include possible underground fires and explosions, including those caused by methane or other flammable gas or spontaneous combustion of coal left exposed to air, cave-ins or ground falls, discharges of gases and toxic chemicals, flooding, borehole formation and ground subsidence and other accidents, conditions resulting from drilling, and/or removing or processing material from an underground mine, as well as unpredictability in geological conditions that could result in revisions to calculations affecting support structures and tolerances. The Group's deep mining operations have also previously experienced significant disruptions caused by the breakages of a drift belt used to raise coal to the surface.

Hazards particularly associated with the Group's surface mining operations include flooding of open pits, collapses or instability of the open pit walls, accidents related to the operation of large open pit mining and rock transportation equipment, unpredictability in the amount of coal deposits particularly as a result of the presence of unrecorded former mine workings, accidents related to the preparation and ignition of large scale open pit blasting operations, production disruptions due to weather and hazards related to the disposal of mineralised wastewater, such as groundwater and waterway contamination.

If any of the above noted hazards or accidents results in significant injury or apparent risk of serious injury to employees and damage to equipment or other property, the Group may experience unexpected production delays or increased costs. Such delays and costs could have a material adverse effect on the Group's results of operations, financial condition and future prospects, as the Group's main source of income is derived from production emanating from its mining business and the operating costs of the Group's deep mines are largely fixed relative to production levels.

The Group's financial performance over time is dependent on the market price of coal

In 2011, approximately 90 per cent. of the Group's revenues were derived from sales of coal. The Group is exposed to the risks of fluctuating coal prices as its revenue and earnings are directly related to the prevailing prices for the coal produced as demonstrated by the impact of the recent substantial falls in the price of thermal coal in world markets. The Group has historically mitigated this risk in part through longer term customer contracts to provide more certainty of both demand and price. In the past some of these contracts have worked to the Group's disadvantage due to increases in the world price of coal. Therefore the Group has moved towards a strategy of a balanced mix of longer term contracts on fixed, capped and collared and floating prices, and an element of shorter term contracts and spot sales. The Group remains exposed, however, to market price fluctuations the impact of which will vary dependent upon the interaction between the market price and the level of any caps or collars. At around the current market price, we estimate a 10 pence per gigajoule market price movement would have a full year impact in the second half of 2012 of approximately £7 million in revenue terms.

The Group holds some fixed price supply contracts, which in some cases are subject to adjustment in line with movements in the Index of retail prices, resulting in a reduction in sales price in the event of deflation that might not be matched by commensurate falls in costs. The Group also holds some nominal fixed price supply contracts where the sales price will not change even if inflation was higher than expected.

The Group aims to reduce costs on a continuous basis and maintain an efficient production process to maximise our returns throughout the price cycle.

The Group remains exposed to the impact on its market of changes in Government regulation, in particular with reference to the development of a low carbon economy.

The operating costs of the Group's deep mines are largely fixed relative to production levels. Maintaining a certain level of output is therefore key to the Group's short-term financial performance and indeed to the viability of the mines and the business. This risk is compounded by a short cash conversion cycle resulting in production changes having a fairly immediate impact on cash flow.

In an operation as complex as deep mining there are inevitable risks to production from the failure of equipment. UK Coal therefore seeks to maintain adequate supplies of equipment spares to ensure that any downtime is limited and to operate at high levels of machine availability.

The Group's deep mining operations are concentrated on a small number of mines

Deep mining represented 75.0 per cent. of the Group's total sales and 76.8 per cent. of its total coal output in 2011. The Group operates from three deep mines: at Daw Mill, Kellingley and Thoresby. Daw Mill alone produced some 28.0 per cent. of the Group's total coal output in 2011. Any material disruption to any of the Group's deep mines, such as the recent face gaps experienced at Daw Mill, could have a material adverse effect on the Group's businesses, financial condition and results of operations.

Demand for alternative fuel sources may affect the demand for coal in the UK

In 2011, the Group supplied 90 per cent. of its coal output to power generation customers in the UK. The proportion of coal used as a fuel source to produce electricity in the UK has fallen in recent years as the use of gas in particular has increased. Looking forward, the policy of the UK Government is focused on low carbon power generation and renewables which will further reduce the demand for coal in the UK. Reduced demand for coal may force the price for delivery of coal in the UK down. In these circumstances, the Group may be required to reduce output or potentially export coal incurring additional expenses in relation to transport, insurance and other export costs which could materially affect the financial performance and profitability of the Group. World coal prices are affected by numerous factors outside of the Group's control, including the overall performance of economies around the world and the related cyclicity in particular industries that are significant consumers, directly or indirectly, of coal. In addition, speculative trades in coal on world markets may cause short term fluctuations in the price of coal. The Group is unable to influence coal prices directly.

Over the longer term, the Group's financial performance, and its ability to service debt, pay dividends, undertake capital expenditure or finance future acquisitions, would be adversely affected by a sustained material fall in the price of coal. Although the Group has historically attempted to mitigate the risk of coal demand, there can be no guarantee that these efforts will be successful.

The Group may be liable for customer costs if it does not deliver coal in accordance with its contractual commitments

The Group may be liable for the costs of its customers in purchasing coal from alternative suppliers if the Group is unable to supply coal in accordance with its contractual obligations. Any failure to supply coal in accordance with its contractual obligations could have a material adverse effect on the Group's businesses, financial condition and results of operations.

There may be disruption in transportation services and/or increases in transportation costs

The Group's customers largely depend upon rail to collect coal from the Group's mines and the Group also depends upon road haulage and rail networks to deliver coal to customer delivery sites. An extended disruption of these transportation services because of weather related problems, network capacity limitations, key equipment failures, strikes, lock outs or other events could impair the Group's ability to supply coal to its customers. Any extended disruption in transportation services or increase in transportation costs could have a material adverse effect on the Group's results of operations, financial condition and future prospects.

Reliance on third party suppliers

The Group relies on third party suppliers for a number of its consumables, including steel products, specialised resins, cementitious materials, diesel and other materials used in the construction and continuing development of its mines. Many of the products used have to be specifically approved for use underground in the UK and may not be readily substitutable. Any material increase in the cost of raw materials, or the inability by the Group to source third party suppliers for the supply of its raw materials, could have a material adverse effect on the Group's results of operations or financial condition.

The Group's deep underground mining equipment, especially the face equipment, is installed at the start of the mining of a new panel and is not easily replaceable during the life of a panel. The Group is therefore dependent upon the supplier of such equipment to supply spare or replacement parts. The Group maintains replacement parts for critical equipment to reduce the downtime resulting from equipment failure, although it is dependent on suppliers for replenishment of these stocks.

The Group's performance may suffer from industrial action, work stoppages or increased labour costs

The majority of the Group's employees are members of labour unions. During the financial year 2011 the need to change employee terms and conditions resulted in some difficulties but these were resolved with the assistance of the Advisory Conciliation and Arbitration Service and material industrial disputes did not arise. To minimise such risks there remains a strong focus on improving employee and trade union engagement.

However, there can be no assurance that the Group's businesses will not be affected by industrial action in the future. Any prolonged work stoppage or strike could have a material adverse impact on the Group's operations or financial performance. In addition, the Group engages in discussions with unions regarding pay rises and increased benefits. As a result of these discussions, there may be increases in the Group's labour costs and such increases may have a material adverse effect on the Group's operations or financial condition.

The level of energy supply and prices, which may rise or fall from today's levels, are an important factor for the Group's cost base

As a significant portion of the Group's costs relate to energy consumption, the Group's earnings are affected by fluctuations in the cost of electricity, diesel and other fuels. The cost of these fuels has been volatile in the recent past, although there has been some correlation between the market price of coal and that of other fossil fuels, which may help to lessen the impact of the fluctuations on the Group's financial performance. Legislation regarding the use of fossil fuels and electricity may increase the Group's costs. Whilst the Group will continue to enjoy the benefits of the supply agreement with HP (G) significant or prolonged interruption in the supply of energy to one or more of the Group's facilities, in particular to a deep mine where electricity is essential to move air over long distances underground and therefore to provide safe working conditions, could have a material adverse effect on the Group's results of operations, financial condition and future prospects.

5. Other risks relating to the Group

The results of legal proceedings could have an adverse effect on the Group's results and operations

The nature of the Group's business subjects the Group to the risk of regulatory investigations, claims, lawsuits and other proceedings in the ordinary course of its business, which may be costly and have an adverse effect on production and management. The results of these legal proceedings cannot be predicted with certainty. These matters could have a material adverse effect on the Group's results of operations in any future period, and a judgement against the Group in respect of a substantial amount could have a material adverse impact on the Group's business, financial condition and results of operations.

It is in the nature of the mining industry that there are risks to health and safety, however much the Group strives to avoid them by following and implementing appropriate health and safety rules and policies. In the event of a fatality or serious injury, the Group and/or its senior employees may be subject to investigation, prosecution or litigation for any breaches of health and safety or other legislation.

The results of such action may result in financial or criminal penalties that may deter senior employees from continuing to work or taking up more senior management positions. In the event of the loss of key employees in such a manner or inability to find internal staff willing or able to fulfil certain roles, it may not be easy to find replacement employees from the market.

There have been 4 fatalities of mine workers since September 2008. The Company has been advised that no proceedings will be issued against it in respect of the earliest of these four fatalities but has recently been prosecuted in respect of the second fatality which occurred in 2009, which has resulted in the Company

being fined £200,000. A second prosecution in respect of a fatality in July 2009 has been initiated but has yet to come before the courts. The Company is preparing its case in respect of this incident.

No prosecution or civil proceedings have yet been initiated in respect of the fourth fatality which occurred in 2011. However, investigations into the Group's compliance with health and safety regulations in respect of this fatality are ongoing and the Company is aware that these investigations may lead to prosecution in relation to potential breaches of the Group's statutory obligations or civil proceedings being brought pursuant to which the Group may be fined or become subject to civil liability, which together with the current prosecution could have a material adverse effect on the financial condition of the Group.

PART III

FINANCIAL INFORMATION ON HP(G)

The following historical information relating to the business and assets of HP(G) has been extracted without material adjustment from the consolidation schedules that underlie the Company's audited consolidated accounts for the years ended 31 December 2011, 25 December 2010 and 26 December 2009 and unaudited accounts for the six months ended 30 June 2012.

The financial information contained in this Part III has been prepared using the accounting policies set out in the Group's Annual Reports and Accounts for each of the financial years ended 31 December 2011, 25 December 2010 and 26 December 2009 and in accordance with International Financial Reporting Standards as adopted by the European Union.

The financial information contained in this Part III does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The consolidated statutory accounts for UK Coal in respect of the financial years ended 31 December 2011, 25 December 2010 and 26 December 2009 have been delivered to the Registrar of Companies.

Shareholders should read the whole of this document and not rely solely on the financial information contained in this Part III.

Financial information

(i) **Unaudited income statement for the years ended 31 December 2011, 25 December 2010 and 26 December 2009 and the 6 months ended 30 June 2012**

	<i>Unaudited 30 June 2012 £000</i>	<i>Unaudited 31 December 2011 £000</i>	<i>Unaudited 25 December 2010 £000</i>	<i>Unaudited 26 December 2009 £000</i>
Revenue	2,554	5,485	3,661	5,113
Cost of sales	(1,129)	(2,712)	(1,145)	(2,269)
Gross profit	1,425	2,773	2,516	2,844
Administrative expenses	(180)	(319)	(182)	(227)
Operating profit	1,245	2,454	2,334	2,567
Finance costs	–	(5)	(108)	(335)
Profit before tax	1,245	2,449	2,226	2,232

Note:

The income statement information presented above is before the allocation of taxation as it is not possible to provide a meaningful allocation of these costs.

(ii) **Unaudited net asset statement as at 30 June 2012 and 31 December 2011**

	<i>Unaudited 30 June 2012 £000</i>	<i>Unaudited 31 December 2011 £000</i>
ASSETS		
Non-current assets		
Operating property, plant and equipment	4,936	5,346
	<u>4,936</u>	<u>5,346</u>
Current assets		
Trade and other receivables	514	–
Unrestricted cash balances	611	–
	<u>1,125</u>	<u>–</u>
Total assets	<u>6,061</u>	<u>5,346</u>
LIABILITIES		
Current liabilities		
Trade and other payables	(5,343)	(5,873)
	<u>(5,343)</u>	<u>(5,872)</u>
Total liabilities	<u>(5,343)</u>	<u>(5,872)</u>
Net assets	<u>718</u>	<u>(527)</u>

Notes:

- (i) The Group operated a central treasury function with cash being pooled and managed centrally up to March 2012. Accordingly the net asset statement above is presented cash free for 31 December 2011.
- (ii) Trade and other payables includes £5,284,000 owed by HP(G) to the Seller. The balance relates to consideration due the Seller following the transfer of assets to HP(G). This amount owed by HP(G) to the Seller will be settled as part of the consideration received in respect of the HP(G) disposal.

PART IV

UNAUDITED PRO FORMA FINANCIAL INFORMATION FOR THE CONTINUING GROUP

The unaudited *pro forma* statement of consolidated net assets of the Continuing Group set out below has been prepared on the basis set out in the notes below to illustrate the effect of the proposed Disposal on the consolidated net assets of the Continuing Group as at 30 June 2012 as if the Disposal had taken place on that date.

The unaudited *pro forma* statement of consolidated net assets, which has been produced for illustrative purposes only, by its nature addresses a hypothetical situation and, therefore, does not represent the Continuing Group's actual financial position or results. The unaudited *pro forma* financial information is compiled on the basis set out in the notes below and is based on the unaudited condensed consolidated interim financial statements of the Group as at 30 June 2012.

Ordinary Shareholders should read the whole of this Circular and not rely solely on the summarised financial information contained in this Part IV (Unaudited Pro Forma Financial Information). PricewaterhouseCoopers LLP's report on the unaudited *pro forma* statement of net assets is set out in Part V (Accountant's Report in Respect of the Unaudited Pro Forma Financial Information) of this Circular.

£000	Group as at 30 June 2012 (note 1)	Adjustments		Unaudited pro forma Continuing Group
		Disposal as at 30 June 2012 (note 2)	HP(G) Disposal consideration (notes 3,4,5)	
ASSETS				
Non-current assets				
Operating property, plant and equipment	212,595	–	–	212,595
Surface mine development and restoration assets	29,703	–	–	29,703
	242,298	–	–	242,298
Investment properties	252,084	–	–	252,084
Investment in joint ventures	3,040	–	–	3,040
Deferred tax asset	31,509	–	–	31,509
Other receivables	7,025	–	–	7,025
	535,956	–	–	535,956
Current assets				
Inventories	33,799	–	–	33,799
Trade and other receivables	40,897	4,770	(5,284)	40,383
Unrestricted cash balances	3,533	(611)	–	2,922
Restricted cash balances	23,959	–	11,265	35,224
Non-current assets classified as held for sale	6,316	(4,936)	–	1,380
	108,504	(777)	5,981	113,708
Total assets	644,460	(777)	5,981	649,547
LIABILITIES				
Current liabilities				
Borrowings – bank loans, overdrafts and finance leases	(5,156)	–	–	(5,156)
– generator loans and prepayments	(40,223)	–	–	(40,223)
Trade and other payables	(130,612)	59	–	(130,553)
Provisions	(12,638)	–	–	(12,638)
	(188,629)	59	–	(188,570)
Net current liabilities	(80,125)	(718)	5,981	(74,979)
Non-current liabilities				
Borrowings – bank loans, overdrafts and finance leases	(64,418)	–	7,435	(56,983)
– generator loans and prepayments	(32,014)	–	–	(32,014)
Derivative financial instruments	(3,447)	–	–	(3,447)
Trade and other payables	(498)	–	–	(498)
Deferred tax liabilities	(1,171)	–	–	(1,171)
Provisions	(83,799)	–	–	(83,799)
Retirement benefit obligations	(161,200)	–	–	(161,200)
	(346,547)	–	7,435	(339,112)
Total liabilities	(535,176)	59	7,435	(527,682)
Net assets	109,284	(718)	13,416	121,982

Notes:

1. The net assets of the Group have been sourced without material adjustment from the Group's unaudited condensed consolidated interim financial statements for the period ended 30 June 2012.
2. The net assets of HP(G) have been sourced, without material adjustment, from the historical financial information of HP(G) set out in Part III (Financial Information on HP(G)) of this Circular.
3. Receipt of disposal consideration of £20.0 million (including £5.3m to repay intra-group amounts owed by HP(G) to the Seller) less estimated transaction costs of £1.3 million for the HP(G) disposal. Additional consideration of £0.3 million, dependent upon future rights to gas extraction being granted to HP(G) by DECC, has not been recognised above as the amount is contingent upon a future event.
4. £7.4 million of the net proceeds of the Disposal will be used to reduce the RCF Facility.
5. £11.3 million of the net proceeds will be held by the Seller pending completion of the proposed restructuring. In the event the proposed restructuring does not proceed the Pension Scheme may require the amount to be applied against the pension deficit following a valuation report.
6. No account has been taken of any trading or results of the Group since 30 June 2012.

PART V

ACCOUNTANT'S REPORT IN RESPECT OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION FOR THE CONTINUING GROUP

The Directors
UK Coal plc
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Doncaster
South Yorkshire
DN11 8DB

Investec Bank PLC
2 Gresham Street
London
EC2V 7QP

14 September 2012

Dear Sirs

UK Coal plc (the “Company”)

We report on the pro forma financial information (the “**Pro forma financial information**”) set out in Part IV of the Company’s circular dated 14 September 2012 (the “**Circular**”) which has been prepared on the basis described in the notes to the Pro forma financial information, for illustrative purposes only, to provide information about how the proposed disposal of Harworth Power (Generation) Limited might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the condensed consolidated interim financial statements for the period ended 30 June 2012. This report is required by item 13.3.3R of the Listing Rules (the “**Listing Rules**”) and is given for the purpose of complying with that Listing Rules and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company to prepare the Pro forma financial information in accordance with item 13.3.3R of the Listing Rules.

It is our responsibility to form an opinion, as required by item 13.3.3R of the Listing Rules as to the proper compilation of the Pro forma financial information and to report our opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the document, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with item 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the document.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Opinion

In our opinion:

- a) the Pro forma financial information has been properly compiled on the basis stated; and
- b) such basis is consistent with the accounting policies of the Company.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

PART VI

PRINCIPAL TERMS OF THE DISPOSAL AGREEMENT

The following is a summary of the material terms of the Disposal Agreement. As set out in Section 13 of Part VII (Additional Information) of this document, the Disposal Agreement is available for inspection by Shareholders.

1. Parties

The Disposal Agreement was entered into on 22 June 2012 between the Seller and the Buyer in respect of the sale and purchase of the entire issued share capital of HP(G).

2. Consideration

The Buyer has agreed to purchase the shares in HP(G) for a total price payable on Completion of £20.0 million (the “**Consideration**”). The Consideration will be settled partly by way of repayment on Completion, for and on behalf of HP(G), of the aggregate amount of intra-group debt owed by HP(G) to the Seller as at the date of Completion, and partly by way of cash payment by the Buyer to the Seller on Completion.

A further £0.3 million (the “**Contingent Consideration**”) will be payable to the Seller by the Buyer if a petroleum exploration and development licence in respect of the Leased Premises at Kellingley (the “**PEDL**”) is granted by DECC to HP(G) or any member of the Buyer’s group within two years of the date of Completion.

The Seller has agreed with the Buyer that during the period beginning 1 March 2012 and ending on Completion, neither it or any other member of the Continuing Group will undertake any transaction with HP(G) which has the effect of reducing HP(G)’s cash balances, subject to certain exceptions (permitted payments such as the lease and gas royalty payments under the contracts described in section 7.2 of Part VII (Additional Information) of this document). To the extent that any such transactions have been undertaken it will compensate the Buyer accordingly.

The Buyer has placed a sum equal to the value of the Consideration and the Contingent Consideration into an escrow account jointly operated by the Buyer’s solicitors and the Seller’s solicitors (the “**Escrow Account**”). The Consideration will be released to the Seller following receipt of notification to the Seller’s solicitors that the Condition (as defined below) has been satisfied. The Contingent Consideration will be released to the Seller in the event that the PEDL is granted within two years of the date of Completion, or will be returned to the Buyer in the event that the PEDL is not granted within such time.

3. Condition to Completion

The Disposal Agreement is conditional upon the passing of the Resolution set out in this document by the Shareholders (the “**Condition**”). If the Condition is not satisfied by 31 October 2012, or such later date as the Buyer and the Seller shall agree (the “**Long Stop Date**”), the Disposal Agreement will terminate.

4. Warranties, indemnities and limitations on liability

The Seller has given warranties to the Buyer which are customary for a transaction of this nature including, amongst other things, in respect of its capacity to enter into the Disposal Agreement, title to the shares being sold, accounts and financial matters, the assets of HP(G), contracts, litigation, licences, employees, intellectual property, real estate matters, the transfer of assets from the Seller to HP(G) prior to entering into the Disposal Agreement (the “**Hive Down**”) and taxation matters.

The Disposal Agreement contains certain limitations on the ability of the Buyer to claim against the Seller for breach of warranty. In particular, the aggregate liability of the Seller for all warranty claims under the Disposal Agreement will not exceed £10,000,000 (save in respect of claims under the warranties relating to

the Seller's capacity and its title to the shares in HP(G), HP(G)'s title to its assets, and the Hive Down). The Seller will not be liable for any warranty claim unless it exceeds £20,000. The Seller will also have no liability for any warranty claim unless and until liability in respect of all warranty claims exceeds £300,000 in aggregate (in which case the Seller will be liable for the full amount and not just the excess over £300,000). In addition, non-taxation warranty claims must be brought within eighteen months of the date of Completion and tax warranty claims must be brought within seven years of the date of Completion.

The Seller has agreed to indemnify the Buyer against any liabilities or costs that the Buyer, HP(G) or any member of the Buyer's group of companies incurs in connection with:

- (a) the Hive Down not having been completed in accordance with the terms of the intra-group asset transfer agreement entered into between the Seller and HP(G) prior to entering into the Disposal Agreement;
- (b) any liabilities HP(G) incurs pursuant to the Group's banking arrangements; and
- (c) any charges payable to Northern Powergrid (Yorkshire) Plc in respect of connection charges at the Company's Stillingfleet mine prior to Completion and any costs associated with applying for and establishing a 12 MW export connection at this mine.

5. Pre-Completion arrangements

Subject to certain exceptions and specific obligations set out in the Disposal Agreement, the Seller has agreed to procure that from the date the Disposal Agreement was entered into until the date of Completion the business of the Company is run in its usual and normal course, and has agreed to certain customary restrictions on the conduct of the business of HP(G) pending Completion. In particular, the Seller has covenanted to procure that the Company shall not without the Buyer's consent issue any further shares, acquire or dispose of any material assets or material stocks other than in the usual and ordinary course, declare any dividends, or create any encumbrances over the share capital of HP(G).

6. Termination

The Disposal Agreement may be terminated by the Buyer or the Seller in the event that Completion has not occurred by the Long Stop Date. The Disposal Agreement may also be terminated by the Buyer in the event that the Seller fails to promptly notify the Buyer that the Resolution has been passed.

7. Miscellaneous

The Seller and the Buyer have agreed to use their reasonable endeavours to enter into a transitional services agreement following Completion in respect of the provision of certain on-going services to HP(G) for a period of three months following Completion.

The Seller has also agreed to use its reasonable endeavours to assist HP(G) in procuring from Northern Powergrid (Yorkshire) Plc confirmation that the connection agreements in place at the sites at Harworth and Stillingfleet permit export capacity of 7 MW and 12 MW respectively.

If Completion does not take place as a consequence of the Resolution not being passed and for no other reason then the Seller has agreed to reimburse to the Buyer an amount equal to the reasonable external costs and expenses incurred by the Buyer on or after 14 May 2012 regarding the preparation and execution of the Disposal Agreement up to a maximum of £250,000 (plus any value added tax charged on such costs and expenses).

The Disposal Agreement also contains certain other customary provisions, such as an obligation on the Buyer and the Seller not to disclose any confidential information regarding each other's group of companies. The Disposal Agreement is governed by English law.

PART VII

ADDITIONAL INFORMATION

1. Responsibility Statement

The Directors of the Company, whose names appear in paragraph 2.2 of this Part VI (Additional Information), accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. The Company and the Directors

2.1 *The Company*

The Company was incorporated and registered in England and Wales as a public limited company on 27 September 1991 under the Companies Act 1985 with number 2649340 and the name Elkindrive Limited. The name of the Company was changed to R.J.Budge (Holdings) plc on 10 December 1991, to RJB Mining plc on 25 February 1993 and to UK Coal plc on 25 May 2001. The legal and commercial name of the Company is UK Coal plc. The principal legislation under which UK Coal operates is set out in the Companies Acts and the regulations made thereunder.

The Company is domiciled in the United Kingdom with its registered office and principal place of business at Harworth Park, Blyth Road, Harworth, Doncaster DN11 8DB. The business address of each of the Directors is Harworth Park, Blyth Road, Harworth, Doncaster DN11 8DB. The telephone number of the Company's registered office is +44 (0) 1302 751 751.

2.2 *The Directors*

The Directors of the Company are listed below.

Jonson Cox	<i>(Chairman)</i>
Gareth Williams	<i>(Managing Director, Mining)</i>
Owen Michaelson	<i>(Managing Director, Property)</i>
David Brocksom	<i>(Finance Director)</i>
Peter Hickson	<i>(Senior Independent Non-Executive Director)</i>
Keith Heller	<i>(Non-Executive Director)</i>
Steven Underwood	<i>(Non-Executive Director)</i>
Lisa Clement	<i>(Non-Executive Director)</i>

3. Interests of Directors

3.1 *Directors' Shareholdings*

As at 13 September 2012 (being the latest practicable date prior to the publication of this document) the interests of each of the Directors, their immediate families and related trusts and, insofar as is known to them or could with reasonable diligence be ascertained by them, persons connected (within the meaning of Section 252 255 of the Companies Act 2006) with the Director (all of which, unless otherwise stated, are beneficial) in the share capital of the Company, including interests arising pursuant to any transaction notified to the Company pursuant to rule 3.1.2 of the Disclosure Rules, are as follows:

<i>Name of Director</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued Ordinary Shares</i>
David Graham Brocksom	47,090	0.016%
Owen Michaelson	75,000	0.025%
Gareth Williams	–	–
Jonson Cox	196,945	0.066%
Peter Hickson	–	–
Lisa Clement	–	–
Keith Heller	525,000	0.175%
Steven Underwood	31,369	0.010%

3.2 *Directors' share awards and long term incentives*

The number of share awards to Executive Directors as at 13 September 2012 are as follows:

(i) *2010 and 2011 Long Term Incentive Plans (“LTIPs”)*

Details of the awards held by Executive Directors under the LTIPs are as follows:

	<i>No. of shares</i>	<i>Vesting Date</i>	<i>End of Performance Period</i>
David Brocksom			
LTIP 2010	586,687	26.08.13	Dec 2012
LTIP 2011	680,217	20.04.14	Dec 2013
Owen Michaelson			
LTIP 2010	575,000	26.08.13	Dec 2012
LTIP 2011	666,665	20.04.14	Dec 2013
Gareth Williams			
LTIP 2010	575,000	26.08.13	Dec 2012
LTIP 2011	666,665	20.04.14	Dec 2013

The performance conditions for 2010 and 2011 awards require relative total shareholder return (“TSR”) performance against the FTSE share index excluding financial and investment companies over a three year period commencing at the beginning of the 2010 and 2011 financial years respectively. Twenty five per cent. of the award will vest if TSR is ranked at the median of the comparator group rising on a straight-line to full vesting if the Company’s TSR is ranked at or above the upper quartile. In addition the Company’s absolute TSR has to be positive over the three year performance period and the Remuneration Committee must be satisfied that there has been an underlying improvement in the Company’s financial performance.

(ii) *Jonson Cox share awards*

Details of the awards held by Jonson Cox pursuant to a Long Term Award and an Annual Award granted pursuant to Listing Rule 9.4.2R (2):

	<i>No. of shares</i>	<i>Date granted</i>	<i>Vesting Date</i>
Long Term Award	2,800,000	04.02.11	15.11.13
Annual Award	1,520,000	04.02.11	15.11.13

The Long Term Award and the Annual Award are both subject to continued employment up to the vesting date and the satisfaction of performance criteria related to the turnaround and recovery of the Company over the three year performance period (the “**Recovery Plan**”).

The Annual Award was to vest on an annual basis in three equal tranches subject to Mr Cox's continued employment and progress against the achievement of strategic key performance indicators over the three year period. The Remuneration Committee decided that in light of the strategic importance of the Recovery Plan these key performance indicators should be primarily assessed against the achievement of the Recovery Plan, and therefore the condition for the vesting of these shares should be the same as the Long Term Award shares. In light of the Company's Recovery Plan being over a three year period, it was decided that it would be more appropriate to measure progress towards achievement of the key performance criteria over the plan's full three year period. The Remuneration Committee therefore amended the terms of the plan so that vesting would be at the end of the three year period. Therefore the Long Term Award and the Annual Award are now subject to the same performance criteria over the same performance period.

The Ordinary Shares required for share awards under the LTIPs, the Long Term Award and the Annual Award may be fulfilled either through newly issued Ordinary Shares or by the purchase of Ordinary Shares in the market.

4. Details of the service contracts and letters of appointment of the Directors

Details of the service contracts of the Executive Directors are set out below. All Executive Directors are employed by the Company and have rolling service contracts, which expire at normal retirement age unless terminated beforehand in accordance with the terms of the individual contract. All contracts contain non compete obligations and all are terminable on twelve months' notice by either party, with the option for the Company to pay compensation in lieu of notice:

<i>Name of Executive Director</i>	<i>Date of contract</i>	<i>Current Basic Salary</i>	<i>Total emoluments and compensation for year ended 31 December 2011</i>
Jonson Cox	15.11.10	£470,000*	£379,000
David Brocksom	04.09.07	£242,889	£367,000
Owen Michaelson	30.07.10	£236,900	£388,000
Gareth Williams	15.02.10	£240,350	£351,000

*Mr Cox's base salary of £350,000 has been supplemented by £120,000 for the financial year 2011 – 2012 only in light of the additional time that Mr Cox will be expected to provide in 2012. This additional amount will not be paid until sufficient short-term recovery of the mining business has been achieved and the proposals for restructuring have been fully developed and tabled with key stakeholders.

The Non-Executive Directors' appointments may be terminated by either party giving to the other not less than three months' written notice with the exception of Peter Hickson, Senior Independent Director, whose appointment is subject to six months' notice. Non-Executive Directors are appointed for specified terms of three years after which their appointments are reviewed. They are not entitled to bonus payments or pension arrangements, nor do they participate in the Company's long term incentive plans. The current fee rate for Non-Executive Directors is £40,000 per annum with an additional fee of £6,000 per annum payable for chairing a committee. Peter Hickson has a part executive role and is therefore paid a fee of £65,000 which includes his responsibilities as Chairman of the Remuneration Committee. Further details of the terms of appointment of the Non-Executive Directors are set out below.

<i>Name of Non-Executive Director</i>	<i>Date of contract</i>	<i>Date of first appointment</i>	<i>Date of re appointment</i>	<i>Unexpired term</i>	<i>Total emoluments and compensation for year ended 31 December 2011 (£)</i>
Peter Hickson	30.06.11	1.07.11	22 June 2015	2 years 9 months	33,000
Lisa Clement	29.11.11	15.12.11	22 June 2015	1 years 9 months	2,000
Keith Heller	18.04.11	19.04.11	9 June 2014	1 years 9 months	32,000
Steven Underwood	27.07.10	1.09.11	22 June 2015	2 years 9 months	13,000

5. Details of key individuals for HP(G)'s business

The following individuals are deemed key to the operations of HP(G) by UK Coal's management.

<i>Name</i>	<i>Position</i>
Brian Dobbin	Generation Manager, Harworth Power

6. Major interests in Ordinary Shares

- 6.1 Set out in the table below are the identities of the Shareholders, who, so far as the Company is aware, are interested, directly or indirectly, in three per cent. or more of the Company's total voting rights and capital in issue as at 13 September 2012 (being the latest practicable date prior to the publication of this document). The Company has received no notifications of any changes to this information since this date.

<i>Name</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued Ordinary Shares</i>
Goodweather Holdings Limited *	87,234,470	29.15
Invesco Perpetual	24,861,080	8.31
UBS Collateral Account	24,625,090	8.23
Pelham Capital Management CFD	22,376,560	7.48

* A company within the Peel Group

- 6.2 The Company is not aware of any person who exercises, or could exercise, directly or indirectly, jointly or severally, control over the Company.

7. Material contracts

7.1 *The Continuing Group*

No contracts have been entered into (other than contracts entered into in the ordinary course of business) by any member of the Continuing Group either: (i) within the period of two years immediately preceding the date of this document, which are or may be material to the Continuing Group; or (ii) at any time, which contain any provisions under which any member of the Continuing Group (as relevant) has any obligation or entitlement which is, or may be, material to the Continuing Group (as relevant) as at the date of this document, save as disclosed below:

(a) *Joint Venture Agreement and associated agreements*

The JVA was entered into on 14 June 2011 by the Company, UK Coal Mining, EOS, Peel Environmental Limited and Peel Holdings Environmental (IOM) Limited. The JVA governs the

relationship between the parties in relation to the development of waste to energy facilities on the eleven sites owned by the Company or EOS situated at:

Asfordby	Bilsthorpe
Cutacre	Gedling
Houghton Main	Kellingley
Meriden	North Selby
Treton Point	Wardley
Waverley AMP	

A separate special purpose vehicle special purpose vehicle (“**SPV**”) was incorporated for each of the sites listed above. The shares in each of the SPVs are held on a 50:50 basis between one member of the Continuing Group and one member of the Peel Group.

Each SPV entered into a call option in relation to the JVA, which is an agreement between an SPV and either UK Coal Mining or EOS (as appropriate, depending on which entity owns the underlying property interest in the relevant site) granting each SPV an option to purchase either the underlying freehold or leasehold title to the one of the 11 sites listed above. Each SPV entered into (i) a development agreement with Peel Environmental Limited and Peel Environmental Management (the “**Development Agreement**”) in relation to the development of waste facilities on the sites listed above, and (ii) a loan with Peel Finance (UK) Limited. The call option is exercisable by each SPV upon receipt of planning permission to build waste to energy related infrastructure.

The Development Agreement sets out the basis upon which Peel Environmental Management (UK) Limited is engaged by the JVA partners to provide services in connection with obtaining planning permission and completing enabling works to facilitate the construction of waste to energy related infrastructure, including provisions in relation to the sale of the site, the fee for services, the performance of the services, the obligations of each SPV and termination.

The loan facility to be provided by Peel Finance (UK) Limited is to enable each SPV to exercise the relevant call option and pay the base land value to UK Coal Mining or EOS (as appropriate, depending on which entity owns the underlying property interest in the relevant site). The loan will be repayable on a sale by the SPV of either the waste related infrastructure at the relevant site, the site itself or on the occurrence of certain insolvency events, and is subject to interest at the London Interbank Offered Rate plus 3 per cent. There is no obligation on the part of the Company of the other entities within the Continuing Group to provide any finance or for any party to provide a guarantee in respect of the loan.

(b) *Disposal Agreement*

A summary of the material terms of the Disposal Agreement are set out in Part VI (Principal Terms of the Disposal Agreement) of this document.

(c) *Contracts connected to transfer of assets to HP(G).*

Members of the Continuing Group are also a party to the documents listed at sections 7.2.1 to 7.2.5 of this Part VII below.

(d) *Bank Facilities*

£20,423,179 Lloyds TSB Commercial Finance Limited ABL Facilities (the “ABL Facilities”)

Pursuant to the debt purchase agreement (“**DPA**”), property loan agreement (“**PLA**”) and syndication agreement (“**Syndication Agreement**”), each originally dated 13 September 2007, Lloyds TSB Commercial Finance Limited (“**LTSBCF**”) made facilities available to UK Coal Mining (a) initially for the purpose of repaying amounts outstanding under (i) a facility agreement entered into with the Bank of Nova Scotia and Lloyds TSB Bank plc (“**Lloyds**”) on 1 October 1999 and (ii) other existing facilities provided by Lloyds, and (b) thereafter, for general corporate and working purposes. The

ABL Facilities have been amended from time to time, including by a deed of accession, amendment and restatement dated 6 May 2011 whereby UK Coal Investments Limited (“UKCIL”) acceded to the PLA and Syndication Agreement and most recently by a deed of amendment and restatement dated 14 May 2012. The total commitments under the ABL Facilities are split into Tranche A and Tranche B which are subject to an aggregate limit of £20,423,179. £1,000,000 of Tranche A is repayable on 31 October 2012 with the outstanding balance of £762,152 to be repaid in full on 30 November 2012 and Tranche B is repayable in full on 31 December 2013.

The ABL Facilities are revolving credit facilities and the amounts drawn under the ABL Facilities fluctuate on a regular basis. Under the terms of the ABL Facilities, if UK Coal Mining is to draw against the PLA, the amount outstanding from time to time under the PLA may not exceed 61.4 per cent. of the current value of the Group’s properties the subject of the loan as valued by Edward Symmons LLP. A non-utilisation fee of 0.4 per cent. is payable (monthly in arrears) in relation to any part of the ABL Facilities. The interest payable on monies borrowed under any of the ABL Facilities is 4.0 per cent. per annum above 3 month London Interbank Offered Rate subject to a ratchet depending on the total amount of the commitments under the ABL Facilities. In addition a £140,000 facility service fee is payable per annum in equal monthly instalments under the PLA.

As security for the ABL Facilities UK Coal Mining has entered into a security deed (containing fixed and floating charges over all of UK Coal Mining’s assets) and has also entered into legal mortgages over the majority by value of its properties (other than the sites from which it operated mining activities). Further, each of Harworth Estates (Agricultural Land) Limited (“HEAL”), Harworth Estates (Waverley Prince) Limited (“HEWPL”) and Harworth Group Limited (“HGL”) (subsidiaries of the Group) have provided guarantees in favour of LTSBCF in respect of the liabilities of UK Coal Mining under the ABL Facilities. As further security UKCIL has entered into a debenture (containing fixed and floating charges over all of UKCIL’s assets) in respect of its liabilities under the ABL Facilities and the RCF Facility (as described below).

UK Coal Mining and UKCIL have given certain warranties and undertakings, including undertakings that they will provide specified financial and other information to LTSBCF, undertakings in relation to the value and collection of certain of their debts due from customers, undertakings that they will not sell, transfer, lease or otherwise dispose of, or deal with, their charged properties or assets without LTSBCF’s consent (except by undertaking certain permitted activities) and undertakings that restrict the development of the charged properties without the consent of LTSBCF first being obtained.

UK Coal Mining and UKCIL are also obliged to use their best endeavours to dispose of properties owned by them for not less than reasonable market price such that the aggregate consideration for such disposals shall be no less than (i) £20,000,000 by 31 December 2012 and (ii) £35,000,000 (aggregated with the total consideration at 31 December 2012) by 31 December 2013.

£41,500,000 Lloyds TSB Bank plc Revolving Credit Facility (the “RCF Facility”)

Pursuant to a revolving credit facility agreement dated 11 May 2010, LTSBCF as lender and Lloyds as issuing bank made available to UK Coal Mining a revolving credit facility. LTSBCF transferred by novation all of its rights and obligations to Lloyds on 11 May 2010. The RCF Facility has been amended from time to time, including by an amendment and restatement deed dated 14 May 2012. The RCF Facility is equal to £41,500,000 of which £27,500,000 is available for drawing as loans (the “RCF Loans”) and £14,000,000 is available for drawing by way of letters of credit (the “RCF LCs”).

The financial profile of the RCF loans reduces by £7,500,000 on 30 September 2012 and the balance amortises over the period June 2013 to November 2013. The RCF LCs are £8,000,000 up to 31 March 2013, rising up to £12,000,000 to September 2013 and finally rising up to £14,000,000 from 1 October 2013 to 31 December 2013.

The RCF Facility is to be used for general corporate and working capital purposes subject to certain specific exceptions. The total amount available to be drawn by way of a RCF Loan must not exceed the specific limit corresponding to the particular period in which a utilisation request is made for a RCF Loan (the “RCF Loan Limit”). The total amount available to be drawn by way of a RCF LC

must not exceed the specific limit corresponding to the particular period in which a utilisation request is made for a RCF LC (the “**RCF LC Limit**”). The final repayment date for the facilities is the earlier of (i) 31 December 2013 and (ii) the date of final repayment of the ABL Facilities.

Each RCF Loan bears interest at a rate of 6.00 per cent. per annum plus LIBOR, unless the base rate of LTSBCF is 0.25 per cent. (or more) higher than LIBOR, in which case the interest on each RCF Loan is 6.0 per cent. per annum plus the base rate of LTSBCF and the mandatory cost rate, if any. Roll up interest of 10.00 per cent. per annum is also payable on each RCF Loan. The RCF Facility provides for payment by UK Coal Mining of certain fees in connection with the facilities including (i) a commitment fee of 0.25 per cent. per annum on undrawn amounts and (ii) a letter of credit fee of 4.00 per cent. per annum on the outstanding amount of each letter of credit issued subject to such fee reducing to 1.00 per cent. in relation to the amount of any letter of credit to the extent that cash cover has been provided in relation to it.

The RCF Facility contains certain mandatory prepayment events, including a flotation and a change of control of UK Coal Mining. UK Coal Mining has the right to cancel the whole or any part of the aggregate outstanding commitments under the facilities and is permitted to voluntarily prepay any outstanding loans.

UK Coal Mining has given certain warranties and undertakings, including (but not limited to) undertakings that it will provide specified financial and other information to LTSBCF and undertakings that it will not sell, transfer, lease or otherwise dispose of, or deal with, its charged properties or assets without LTSBCF’s consent (except by undertaking certain permitted activities). In particular the RCF Facility contains an obligation on HGL to use reasonable endeavours to dispose of the entire issued share capital of the Seller or procure the disposal of the entire issued share capital or all of the business and assets of HP(G) on arm’s length terms by no later than 30 September 2012.

As security for the RCF Facility, LTSBCF has the benefit of second ranking security on the same assets and on the same terms as the security created over UK Coal Mining and UKCIL’s assets and properties in respect of the ABL Facilities. In addition, as security for the RCF Facility, HEAL and HEWPL have each entered into debentures with LTSBCF pursuant to which HEAL and HEWPL grant security over their respective assets. Further, each of HEAL, HEWPL and HGL have provided guarantees in favour LTSBCF in respect of the liabilities of UK Coal Mining under the RCF Facility.

The liabilities under the RCF Facility rank in right and priority behind the liabilities under the ABL Facilities, the HEAL Facility and the HEWPL Facility (each as described below) pursuant to the terms of an intercreditor agreement dated 14 May 2012. Absolute maintenance financial covenants, (a capital measure which requires the maintenance of a minimum figure for the net assets of the Company after deductions of its liabilities) apply quarterly on the same basis under each of the RCF Facility, ABL Facilities, HEAL Facility and HEWPL Facility

£25,274,251.92 term loan facility with Bank of Scotland PLC (the HEWPL Facility)

Pursuant to a facility agreement dated 25 July 2007 (the “**HEWPL Facility**”), Bank of Scotland (“**BoS**”) made available a term loan and revolving credit facility to HEWPL for the purpose of refinancing the acquisition of its properties and for the purpose of financing remediation and development costs in respect of its properties and, in specified circumstances, refinancing loans made to it by UK Coal. The HEWPL Facility has been amended from time to time, including by an amendment and restatement deed dated 14 May 2012.

The term loan facility is repayable in full on 31 December 2013. Interest is payable on the drawn down amount under the HEWPL Facility at the rate of 4.5 per cent. per annum plus LIBOR and any mandatory costs. Interest is payable under this facility on the last day of each interest period in relation to the loan.

Under the terms of the HEWPL Facility, the aggregate amount outstanding from time to time under the HEAL Facility and the HEWPL Facility (less cash on deposit in cleared funds in an account held with Lloyds or BoS subject to security) (the “**Loan**”) may not at any time exceed, based on the most

recent valuation, the aggregate of (a) 75 per cent. of the value of the properties identified as agricultural and then owned by HEAL, (b) 50 per cent. of the value of the properties identified as undeveloped and then owned by HEAL and (c) 25 per cent. of the value of the properties then owned by HEWPL (together, the “Value”). There is no breach of this loan-to-value ratio if on any day that the Loan exceeds the Value, the outstandings and commitments under the HEAL Facility and the HEWPL Facility are prepaid and cancelled to the extent necessary to ensure that the Loan does not exceed the Value within 10 Business Days of such date provided that any prepayment is not funded by a utilisation of the ABL Facilities.

Pursuant to the terms of the HEWPL Facility, it is also a requirement that the tangible net worth of UK Coal (being the aggregate of amounts paid up or credited as such on the issued share capital of UK Coal and certain capital and revenue reserves of the Group less certain debit balances and intangibles and goodwill and adjusted to ignore certain changes to those reserves post 31 December 2011) does not exceed the amount as specified on the particular testing date.

HEWPL and UK Coal Mining have given certain warranties and undertakings to BoS, including (but not limited to), in the case of HEWPL, undertakings that it will provide specified financial and other information to BoS, that it will not sell, transfer, lease or otherwise dispose of, or deal with, its properties or assets without BoS’ consent (except by undertaking certain permitted activities) and that it will develop (or procure the development of) its properties in accordance with all legal requirements and the documentation it has provided to BoS, having used its best endeavours to secure certain planning permissions within deadlines as specified under the terms of the HEWPL Facility.

UK Coal Mining has provided a guarantee of punctual payment and performance of liabilities incurred by HEWPL arising out of a breach of environmental law in relation to its properties and punctual performance of all environmental remediation works required in respect of HEWPL’s properties necessary to provide “development ready plots” and all works required to comply with any recommendations contained in specified environmental reports relating to HEWPL’s properties.

HGL (as direct parent company of HEWPL) and HEAL have provided, amongst other things, an unlimited guarantee in respect of HEWPL’s liabilities under the HEWPL Facility. As noted below, HEWPL and HEAL are also parties to an unlimited cross-guarantee in respect of the other’s obligations under the HEAL Facility and the HEWPL Facility.

As security for the HEWPL Facility, HEWPL has provided a debenture and legal charges over its properties and assets, and HEAL has provided a debenture in support of the cross-guarantee. HEAL has also provided legal charges and Scottish standard securities over certain of its properties in favour of BoS.

The original hedging arrangements entered into in July 2007 for a notional principal amount of £42,000,000 at an interest rate payable of 6.145 per cent. were restructured on 29 April 2010, to the effect that HEWPL entered into a 3-month LIBOR interest rate cap hedging arrangement with BoS with an effective date of 29 July 2011. Payments due under the hedging arrangements are payable in nine quarterly instalments of £572,550 commencing on 31 July 2011 with a final payment date of 31 July 2013.

Term loan facility with Lloyds TSB Bank PLC and Bank of Scotland PLC (the “HEAL Facility”)

Pursuant to a term loan and revolving credit facilities agreement dated 15 February 2006 (the “HEAL Facility”), Lloyds and BoS made available a £50,000,000 facility to HEAL for the purpose of financing and refinancing the acquisition of its properties from other members of the Group (and related transaction costs) and re-gearing its borrowings against such properties. HEAL has prepaid this facility in full and such prepaid amounts cannot be redrawn.

Pursuant to an amendment and restatement agreement dated 14 May 2012 the final repayment date for the facility was extended to 31 December 2013. Interest is payable on the drawn down amount under the HEAL Facility at the rate of 4.5 per cent. plus LIBOR (and any mandatory costs). Under

the terms of the HEAL Facility, the aggregate amount outstanding from time to time under the HEAL Facility and the HEWPL Facility (less cash on deposit in cleared funds in an account held with Lloyds or BoS subject to security) (the “**Loan**”) may not at any time exceed, based on the most recent valuation, the aggregate of (a) 75 per cent. of properties identified as agricultural and then owned by HEAL, (b) 50 per cent. of the properties identified as undeveloped and then owned by HEAL and (c) 25 per cent. of the properties then owned by HEWPL (together, the “**Value**”). There is no breach of this loan-to-value ratio if on any day that the Loan exceeds the Value, the outstandings and commitments under the HEAL Facility and the HEWPL Facility are prepaid and cancelled to the extent necessary to ensure that the Loan does not exceed the Value within 10 Business Days of such date provided that any prepayment is not funded by a utilisation of the ABL Facilities.

Pursuant to the terms of the HEAL Facility, it is also a requirement that the tangible net worth of UK Coal (being the aggregate of amounts paid up or credited as such on the issued share capital of UK Coal and certain capital and revenue reserves of the Group less certain debit balances and intangibles and goodwill and adjusted to ignore certain changes to those reserves post 31 December 2011) does not exceed the amount as specified on the particular testing date.

HEAL has given certain warranties and undertakings, including (but not limited to) undertakings that it will provide specified financial and other information to Lloyds, that it will not alter any of its property without Lloyds’ consent, that it will not sell, transfer, lease or otherwise dispose of, or deal with, its properties or assets without Lloyds’ consent (except by undertaking certain permitted activities) and that the whole of its issued share capital will at all times be legally and beneficially owned and controlled by HGL.

HGL (as direct parent company of HEAL) has provided an unlimited guarantee in respect of HEAL’s liabilities under the HEAL Facility and HEWPL’s liabilities to BoS under the HEWPL Facility described above. HEWPL and HEAL are also parties to an unlimited cross-guarantee in respect of the other’s obligations under the HEAL Facility and the HEWPL Facility.

As security for the HEAL Facility, HEAL has provided, amongst other things, a debenture over its assets, legal charges over its properties and assets and standard securities (and rental assignments) in relation to its Scottish properties. HGL has also provided a charge over the entire issued share capital it holds in HEAL and HEWPL has provided a debenture in support of the cross-guarantee.

£20,000,000 Term Loan Facility with Barclays Bank PLC (the “EOS Facility”)

Pursuant to a term loan facility agreement dated 7 May 2008, Barclays Bank plc (“**Barclays**”) made available a facility to EOS (a subsidiary within the Group) for the purposes of refinancing the acquisition of Harworth Park (the Group’s head office) and repaying amounts outstanding under a £21,500,000 facility agreement entered into with Barclays on 31 August 2005. Pursuant to an amendment and restatement deed dated 4 September 2009 the final repayment date was extended from 7 May 2011 to 7 May 2012 and under the terms of an amendment and restatement deed dated 25 April 2012 the final repayment date was further extended to 31 December 2013. The facility is fully drawn with a current balance of £20,000,000 outstanding.

Interest is payable (quarterly in arrears) on the outstandings under this facility at the rate determined by Barclays to be the aggregate of Barclays’ margin of 4.0 per cent. per annum, the cost of sterling deposits (being the annual percentage rate at which sterling deposits are offered by Barclays in the London Interbank Market for delivery on the first day of that interest period in an amount and for a period comparable to that interest period and amount advanced) and mandatory costs. If no event of default has occurred and is continuing the margin will be reduced on a ratcheted basis according to a loan to value percentage range.

The facility is to be repaid by quarterly instalments of £200,000 each. Any balance outstanding on the final repayment of 31 December 2013 will be repaid in full on that date. An exit fee will be payable based on the loan to value percentage on 31 December 2013.

EOS must ensure that various loan-to-value and interest cover ratio financial covenants are met. The income cover covenants and the loan to the value covenants are to be tested quarterly by reference to

information provided by EOS to Barclays. EOS has the ability to cure breaches of the loan-to value covenants by making capital prepayments and of the income cover covenants by providing cash collateral to an account secured to Barclays if the relevant cure is implemented within a prescribed time limit.

EOS has given certain warranties and undertakings to Barclays, including (but not limited to) undertakings that it will provide specified financial and other information to Barclays and that it will not sell, lease, transfer or otherwise dispose of, or deal with, its properties without the consent of Barclays (except by undertaking certain permitted activities). In addition to the customary events of default, a material breach of the asset management agreement in place between EOS and UK Coal Mining in respect of the management of the properties charged by EOS to Barclays which is not remedied within the prescribed time limits would result in an event of default occurring.

HGL (as direct parent company of EOS) has provided a limited recourse guarantee (up to the value recovered from the realisation of the legal charge that HGL has provided to Barclays over its shares in EOS) and UK Coal has provided a rental shortfall guarantee under which it is required to pay to Barclays sufficient monies to make up in cash any shortfall under the income cover covenants which EOS is obliged to meet under the EOS Facility. As security for its obligations EOS has provided a debenture and legal charges over all of its properties (generally the surfaces and buildings of closed collieries and the Group's head office), a charge over its rental account and a charge over an income cover deposit account and HGL has provided a legal charge over its shareholding in EOS.

An interest rate swap was entered into between EOS and Barclays in May 2012 for a notional principal amount of £20,000,000 at an interest rate payable of 1.4 per cent. The maturity date is 31 December 2013.

(e) *Shareholder Facilities*

£10,000,000 Standby Facility Agreement with Peel Holdings Finance Limited (the “Standby Facility”)

A £10,000,000 standby facility agreement originally dated 14 April 2011 (replacing a previous facility dated 23 April 2010) was entered into by UK Coal and Peel Holdings Finance Limited (“Peel”) (a member of the Peel Group). The Standby Facility has been amended from time to time including by an amendment and restatement agreement dated 26 April 2012. The Standby Facility was put in place for the general corporate purposes of the Group. The facility under the Standby Facility comprises a short term revolving loan facility in a maximum amount of £10,000,000. Conditions to draw down of the Standby Facility include (i) that at the time there are no funds available to the Group for drawing cash under any of the Existing Facilities (as defined in the Standby Facility but including all of the Group's major debt facilities) for working capital purposes with the exception of undrawn amounts up to a maximum of £7,500,000 under the RCF Facility and (ii) that in the 12 month period following any request for funds, no material default under the Group's Existing Facilities will arise. The final repayment date of the facility is 31 December 2013.

UK Coal agrees to pay interest on each loan under the Standby Facility at a percentage rate of 12.5 per cent. per annum which is payable in arrears on the last day of each interest period. In addition a further amount of interest accrues on each loan at a percentage rate per annum to be determined by reference to borrowings under the RCF Facility and is capitalised on the last day of each interest period. Such capitalised interest is repayable on the earlier of 31 December 2013 and the day on which all amounts under the Standby Facility otherwise become due and payable. The facility provides for payment by UK Coal of certain fees in connection with the facility including a commitment fee computed quarterly at the rate of 1.0 per cent. per annum on the amount of the average available facility. The Standby Facility contains certain mandatory prepayment events including illegality and change of control of UK Coal.

UK Coal has the right, on two business days notice, to cancel the whole or any part of the aggregate outstanding commitments under the facility and UK Coal is permitted to voluntarily prepay the whole or part of any outstanding loans. The Standby Facility contains covenants by, and restrictions on, UK

Coal including (but not limited to) an obligation not to incur any further financial indebtedness (other than pre-existing indebtedness incurred under the Existing Facilities) unless the Standby Facility will be repaid and cancelled and not to create encumbrances over its assets other than those granted in connection with the Existing Facilities and the obligation to notify Peel after it becomes aware of any event of default under the Existing Facilities and to notify Peel should it agree to amend the terms of its other financing arrangements to ensure that Peel is in no worse position as a result of such amendment.

(f) *Customer Facilities*

Generator Loans

The Group is party to certain contracts for coal supply to power generator customers (“**Generators**”) which resulted in increased cash flows to the business in 2009, 2010 and 2011 compared to the original contracts in place. These increased cash flows were treated in the financial statements as loans from and prepayments by the Generators. These arrangements have moved from drawdown phase into repayment phase, and are being repaid out either out of later revenue or as separate repayments, which commenced in October 2010 and end in 2015. £17.1 million was repaid in 2011, and the balance outstanding at June 2012 is £72.2 million. Interest is charged on these outstanding amounts using actual or implied interest rates, and the average rate on these balances is 11 per cent.

7.2 **HP(G)**

No contracts have been entered into (other than contracts entered into in the ordinary course of business) by HP(G): (i) within the period of two years immediately preceding the date of this document, which are or may be material to HP(G); or (ii) at any time, which contain any provisions under which any member of HP(G) (as relevant) has any obligation or entitlement which is, or may be, material to HP(G) (as relevant) as at the date of this document save as disclosed below:-

(a) *Contracts connected to transfer of assets to HP(G)*

7.2.1 **Agreements for Lease**

HP(G) has entered into four agreements for lease all dated 22 June 2012 in respect of the sites on which the Generating Assets are situated (the “**Leased Premises**”). Three of the agreements for lease are made between UK Coal Mining as landlord and HP(G) as tenant in respect of the sites at Harworth, Kellingley and Thoresby. In respect of Stillingfleet colliery the agreement for lease is made between UK Coal (Investments) Limited as landlord and HP(G) as tenant. Each agreement for lease is in respect of an agreed form of lease (the “**Leases**”) which will be granted and completed fifteen working days following service of notice in writing by HP(G) on the relevant landlord requiring completion of the relevant lease. It is intended that the Leases will be entered into upon completion of the Disposal agreement. The key terms of the Leases are set out as follows:

Term – Each lease has a duration of 25 years.

Rents

Kellingley: £9,575 per annum

Thoresby: £2,750 per annum

Harworth: £7,600 per annum

Stillingfleet: £20,125 per annum

Rights of Termination – HP(G) has the right to terminate the lease at any time on not less than 12 month’s notice; or immediately if, following decommissioning of the relevant mine, it is no longer practicable to drain or otherwise capture gas from the relevant mine.

UK Coal Mining /UK Coal (Investments) Limited (the “**Relevant Landlord**”) has the right to terminate the lease where

- HP(G) has generated no electricity at the site for a consecutive period of 12 months;
- the relevant Interface Agreement (as defined below) is terminated;
- the Relevant Landlord exercises its rights under the Interface Agreement to reposition the leased premises, in which case an alternative lease will be offered to HP(G) in respect of the new site; or
- immediately if, following decommissioning of the relevant mine, it is no longer practicable to drain or otherwise capture gas from the relevant mine.

Rent review – An upwards only rent review will take place every five years in line with the retail price index.

7.2.2 **Interface Agreements for Operational Mines**

HP(G) has entered into three interface agreements, each dated 16 March 2012 as amended by deeds of amendment dated 16 June 2012, relating to the operation of the Operational Mines (the “**Interface Agreements**”). The Interface Agreements are between UK Coal Mining and HP(G) in respect of the Harworth, Kellingley and Thoresby mines. Each Interface Agreement sets out the relative ownership of assets at each of the Leased Premises and stipulates the obligations in terms of the ongoing operational interaction between HP(G) and the Relevant Landlord.

General Responsibilities and General Terms

HP(G) is responsible for operating and maintaining to best industry standards the Generating Assets and is required to comply with the instructions given by the relevant UK Coal Mining mine manager in respect of UK Coal Mining’s compliance with regulations for mine safety together with complying with the directions of the Inspectorate of Mines.

UK Coal Mining is required to use reasonable endeavours to maintain efficient delivery of CMM to HP(G), but is under no obligation to deliver any minimum quantity. Whilst the Operational Mine remains operational, UK Coal Mining is responsible for all costs associated with the drainage, capture and pumping of CMM gas to the specified point of delivery to HP(G). A mechanism exists to enable HP(G), at HP(G)’s cost, to export surplus electricity to the distribution network of the local district network operator if specified circumstances arise.

Terms in relation to decommissioning

UK Coal Mining retains the right to decommission an Operational Mine at any time, subject to providing HP(G) with not less than six months prior written notice and is responsible for all costs associated with the process of mine decommissioning. HP(G) will be responsible, at its own cost, for maintaining all necessary consents and licences required for enabling the continued extraction of CMM from the relevant decommissioned mine.

Following the decommissioning of a mine the Offtake Agreement (described in more detail below) will fall away. Where CMM is still capable of being drained from the mine, HP(G) will have the exclusive right to use any such CMM solely for the purposes of generating electricity using the Generating Assets and HP(G) shall have the right to supply any electricity to a third party offtaker, subject to royalty fees being payable in respect of such CMM by HP(G) to UK Coal Mining.

Termination

The Interface Agreement is entered into as an open-ended contract with no fixed term. The Interface Agreement can be terminated by HP(G) at any time, subject to HP(G) giving 12 months prior written notice to UK Coal Mining.

Either party has the right to terminate the Interface Agreement in respect of a specific mine if HP(G) has generated no electricity at the site for a consecutive period of 12 months, the corresponding lease for the site has been terminated, or, following decommissioning of a mine site, it is no longer practicable to drain or otherwise capture gas from the mine.

7.2.3 The Stillingfleet Interface Agreement

The Stillingfleet Interface Agreement dated 16 March 2012 as amended by a deed of amendment dated 22 June 2012 is between UKCIL, UK Coal Mining and HP(G) and stipulates the obligations of each party in relation to the operation of the Generating Assets at the Leased Premises at Stillingfleet.

The Stillingfleet Interface Agreement is entered into as an open ended contract with no fixed term.

UKCIL owns the site and HP(G) owns and operates the Generating Assets located within the part of the site which is leased to HP(G) under the terms of the Lease.

HP(G) is responsible for operating and maintaining to best industry standards the Generating Assets and is required to comply with the instructions given by the relevant UK Coal Mining mine manager in respect of UK Coal Mining's compliance with regulations for mine safety together with complying with the directions of the Inspectorate of Mines. HP(G) is also responsible for the maintenance and operation of the gas pipes and the CMM capture equipment located above the mine shaft.

HP(G) has the exclusive right to use such any CMM solely for the purposes of generating electricity using the Generating Assets and HP(G) has the right to supply any electricity generated to a third party offtaker (which is currently Smartest Energy Limited), subject to payment of gas royalty fees which are payable under the lease in respect of the Leased Premises at Stillingfleet.

The Stillingfleet Interface Agreement can be terminated by HP(G) at any time, subject to HP(G) giving 12 months prior written notice to UK Coal Mining. Either party has the right to terminate the Stillingfleet Interface Agreement if HP(G) has generated no electricity at the site for a consecutive period of 12 months, the corresponding lease for the site has been terminated, or, the mine shaft is filled.

7.2.4 Offtake Agreements relating to the supply of CMM and purchase of electricity

HP(G) has entered into three offtake agreements with UK Coal Mining, each dated 16 March 2012 as amended by deeds of amendment dated 22 June 2012, relating to the supply of CMM and purchase of electricity for each of the sites at Harworth, Thoresby and Kellingley ("**Offtake Agreements**"). For Kellingley only, the Offtake Agreement also governs the supply of heat by HP(G) to UK Coal Mining whilst the Kellingley colliery is operational, as well as the supply of CMM and purchase of electricity.

The Offtake Agreements for each site are effective from 16 March 2012 and continue until the relevant Offtake Agreement is terminated due to either, the mine being decommissioned, the corresponding lease being terminated or expiring, or termination of the relevant Interface Agreement.

HP(G) has the exclusive right to take supply of any CMM captured from the mine and UK Coal Mining has the exclusive right to take supply of any electricity generated by the Generating Assets using the CMM (and in the case of Kellingley, UK Coal Mining also has the exclusive

right to take the supply of any heat). A mechanism exists in each Offtake Agreement to enable HP(G) to export electricity to the distribution network of the local district network operator (in accordance with the terms of the relevant Interface Agreement) if UK Coal Mining fails to pay any amounts due under the relevant Offtake Agreement within a specified period of time.

UK Coal Mining is required to use reasonable endeavours to maintain efficient delivery of CMM to HP(G), but is under no obligation to deliver any minimum quantity. Likewise, HP(G) is required to use reasonable endeavours to generate and supply electricity to UK Coal Mining (and in the case of Kellingley, to also use reasonable endeavours to supply heat), but is under no obligation to supply any minimum quantity.

For all sites, a pricing mechanism is in place whereby any electricity supplied to UK Coal Mining is supplied at a rate which is reduced percentage of the market electricity price prevailing at the time of supply.

As the colliery at Stillingfleet is decommissioned, there is no offtake agreement in place for this site. All electricity produced by the Generating Assets located at the Leased Premises at Stillingfleet is exported and sold to the distribution network of the local district network operator rather than to any company within the Continuing Group.

7.2.5 Intra-Group Asset Transfer Agreement

On 16 March 2012, the Seller and HP(G) entered into a business sale agreement pursuant to which the Seller agreed to transfer all of the assets of the Business (As defined below) to HP(G). The cash consideration payable by HP(G) for the Business was £5,283,716, to be left outstanding as an interest free intercompany loan.

The Business is defined as the business carried on by the Seller at each of the mines at Kellingley, Thoresby, Harworth and Stillingfleet as at 1 March 2012 being the business of generating electricity from coal mine methane gas using electricity generating assets located at each mine to be either:-

- (a) supplied to and used by UK Coal at the mines at Kellingley, Thoresby and Harworth; or
- (b) exported to the distribution system of the local district network operator (as applicable).

The cash in hand or at the bank of the Seller derived from the Business was not included in the transfer. The Intra-Group Asset Transfer Agreement contains usual provisions for a transaction of this nature relating to apportionment of outgoing and obtaining consents relating to the transfer of the Business.

7.2.6 Clarke Energy maintenance agreement

The Generating Assets were installed and commissioned at each of the Mines on behalf of the Seller by Clarke Energy between 2002 and 2006. Four separate maintenance agreements covering the Generating Assets at each of the four Mine sites have been in place with Clarke Energy since they were installed. These agreements have been assigned to the benefit of HP(G) after the assets were hived down from the Seller to HP(G), and each agreement terminates on 30 September 2012. Under the agreements, Clarke Energy carry out all routine and planned maintenance of the Generating Assets, including minor and major overhauls, for a fee which is based on the number of MWh that the engines have generated.

7.2.7 Smartest Energy Power Purchase Agreement

HP(G) sells electricity which is exported to the distribution network at Harworth and Stillingfleet via a Power Purchase Agreement (PPA) with Smartest Energy, which then resells the electricity to consumers. The PPA was entered into on 1 March 2012 and runs until 30 September 2012. Under the terms of the PPA, Smartest Energy pays HP(G) a fixed price per MWh of electricity generated under two timed-based tariffs (peak and off-peak), plus 97.5 per

cent. of “embedded benefits” it receives (avoided transmission and distribution costs). In return HP(G) pays Smartest Energy a metering fee of £1.65 per site per day.

8. Material legal and arbitration proceedings

8.1 *The Continuing Group*

Except as set out in this paragraph 8 there are no, nor have there been any, governmental, legal or arbitration proceedings (nor is the Company aware of any such proceedings being pending or threatened by or against any member of the Continuing Group) which may have, or during the last twelve months prior to the date of this document have had, a significant effect on the financial position or profitability of the Continuing Group.

There have been four fatalities of mine workers since September 2008. The Company has been advised that no proceedings will be issued against it in respect of the earliest of these four fatalities but has recently been prosecuted in respect of the second fatality which occurred in 2009, which has resulted in the Company being fined £200,000. A second prosecution in respect of a fatality in July 2009 has been initiated but has yet to come before the courts. The Company is preparing its case in respect of this incident.

No prosecution or civil proceedings have yet been initiated in respect of the fourth fatality which occurred in 2011. However, investigations into the Group’s compliance with health and safety regulations in respect of this fatality are ongoing and the Company is aware that these investigations may lead to prosecution in relation to potential breaches of the Group’s statutory obligations or civil proceedings being brought pursuant to which the Group may be fined or become subject to civil liability, which together with the current prosecution could have a material adverse effect on the financial condition of the Group.

The Company has received brief details of a further prosecution that has been initiated by the Health and Safety Executive (“HSE”) against a member of the Group in respect of a potential breach of the Health and Safety at Work etc. Act 1974 arising from a gas ignition at Kellingly mine in November 2010. No-one was injured in the incident and no further details have been provided by the HSE in respect of the prosecution.

8.2 *HP(G)*

There are no, nor have there been any, governmental, legal or arbitration proceedings (nor is the Company aware of any such proceedings being pending or threatened by or against HP(G)) which may have, or during the last twelve months prior to the date of this document have had, a significant effect on HP(G)’s financial position or profitability.

9. Working Capital

The Company is of the opinion that the Continuing Group does not have sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document.

If the Resolution is passed and the sale of HP(G) completes, the net proceeds of the Disposal together with the Company’s existing Bank Facilities and existing cash balances will not address the Company’s medium and longer term working capital requirements. It is for this reason that the Company is in the process of negotiating a proposed restructuring with its stakeholders.

Absent the completion of the proposed restructuring, which is subject to further negotiation and agreement of legally binding documentation, and after taking account of the net proceeds of the Disposal, the Company’s current expectation is that it will breach the covenants of its Bank Facilities at the 31 December 2012 measurement date causing the Company to breach the terms of its Bank Facilities which, in the event that a waiver of these covenants cannot be obtained, would result in the Bank Facilities becoming repayable in the first quarter of 2013. In the event of a covenant breach, the Company would need to obtain a waiver of the relevant covenant from its banks to avoid the Bank Facilities becoming repayable, which in the

absence of the proposed restructuring, the Directors are not confident that they would be able to obtain. In addition to the covenant breach, the amount of financing available under the existing Bank Facilities is insufficient to meet forecast working capital requirements during the first quarter of 2013 with an expected funding shortfall of approximately £15 million during this quarter, after taking the Disposal proceeds into account. In the event the Company defaults on its Bank Facilities it will no longer be able to trade as a going concern which would be likely to result in the appointment of receivers, liquidators or administrators as early as the first quarter of 2013.

In the event the Disposal does not proceed it is the Company's current expectation that there will be a financing shortfall under the existing Bank Facilities of approximately £20 million in the first quarter of 2013, occurring earlier in the quarter than would be the case were the Disposal to proceed, and the expectation remains that the Company will breach the covenants referred to in the preceding paragraph at the 31 December 2012 measurement date. In the event the Company defaults on its Bank Facilities it will no longer be able to trade as a going concern which would be likely to result in the appointment of receivers, liquidators or administrators as early as the first quarter of 2013.

There are a variety of factors which could result in a further deterioration in the Company's working capital position and lead to an earlier and / or greater financing shortfall. These operational issues include a fall in coal market prices and production stoppages, such as increases in face gaps.

As a result of the financing pressures and the operational risks faced by the Company and the need to secure further support from key stakeholders, including the Pension Funds (as noted in Paragraph 10 of Part I of this document, concerning the proposed restructuring), the Directors believe that the Continuing Group will require restructuring in order for it to continue to trade as a going concern for the foreseeable future. The Directors believe that there is a reasonable prospect of implementing the proposed restructuring and securing the Company's financial position by the end of 2012. However, it is a complex process and, as set out above, will require the approval of a number of parties and formal legal and regulatory clearance. The Board is confident that if the restructuring is successfully completed the Continuing Group will have adequate resources to continue in operational existence for the foreseeable future.

The proposed restructuring remains subject to further negotiation and agreement of legally binding documentation with stakeholders.

10. Significant change

10.1 *The Continuing Group*

There has been no significant change in the financial or trading position of the Continuing Group since 30 June 2012 (being the date to which the Group's latest published results have been prepared) save as set out below:

As announced in the Company's interim results on 10 August 2012, the Company has made significant progress towards a restructuring of its businesses. The proposed restructuring has been explored with the Group's major stakeholders, advisers and the Board has concluded that it offers UK Coal a viable, and sustainable, future.

A non-binding heads of terms agreement has been reached with the Pensions Trustees, and agreement in principle with the Generators, which would result in a combined c.£90.0 million of financial support to the Company over the period to the end of 2015 once the proposed restructuring is implemented. Under the proposed plan it is intended that the mining business would be left free of bank debt.

From 2014, the Pension Funds would receive £30.0 million per annum plus any cash in the mining business above a minimum headroom requirement of £50.0 million, after agreeing to defer any deficit contributions in 2012 and 2013. As part of the proposed restructuring, it is intended that the Pension Trustees would also invest £30m in the property business in exchange for a direct stake of 75.1 per cent. in that business, with existing shareholders being entitled to the benefit of the remaining 24.9

per cent. This stake would be held through a new holding company which would not guarantee the pension liability.

10.2 **HP(G)**

There has been no significant change in the financial or trading position of HP(G) since 30 June 2012 (being the date to which the financial information on HP(G) presented in Part III (Financial Information) of this Circular has been prepared).

11. **Related party transactions**

Save as disclosed in note 14 on page 35 of the Unaudited Financial Results for the Half Year Ended 30 June 2012, note 32 on page 92 of the 2011 Annual Report, note 31 on page 96 of the 2010 Annual Report and note 32 on page 128 of the 2009 Annual Report, each incorporated by reference into this document, the Group did not enter into any related party transactions (which for these purposes are those set out in the standards adopted according to Regulation (EC) 1606/ 2002) during any of the financial years ended 26 December 2009, 25 December 2010 and 31 December 2011.

12. **Consents**

- 12.1 Investec has given, and has not withdrawn, its written consent to the inclusion in this document of the references to its name in the form and context in which they appear.
- 12.2 Climate Change Capital has given, and has not withdrawn, its written consent to the inclusion in this document of the reference to its name in the form and context in which they appear.
- 12.3 PricewaterhouseCoopers LLP has given, and not withdrawn, its written consent to the inclusion in this document of its report on the unaudited pro forma financial information in Part V (Accountant's Report on the Unaudited Pro Forma Financial information) of this document, in the form and context in which it appears.

13. **Documents available for inspection**

Copies of the following documents will be available for inspection at the offices of the Company at Harworth Park, Blyth Road, Harworth, Doncaster, DN11 8DB and at the offices of Pinsent Masons LLP, 30 Crown Place, London, EC2A 4ES during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) up to and including the date of the General Meeting:-

- (a) the Memorandum and Articles of Association of the Company;
- (b) the consolidated audited accounts of the Company and its subsidiary undertakings for the three financial periods ended 31 December 2011, 25 December 2010 and 26 December 2009 and unaudited financial information for the six months ended 30 June 2012;
- (c) the Disposal Agreement;
- (d) The report prepared by PricewaterhouseCoopers LLP on the unaudited pro forma financial information set out in Part IV of this Circular;
- (e) the written consent letters referred to in Section 12 of this Part VII;
- (f) the letters of appointment of the Non-Executive Directors;
- (g) the Executive Directors' service contracts; and
- (h) this document.

PART VIII

DEFINITIONS

The following terms have the following meanings throughout this document unless the context otherwise requires:-

“AGM”	Annual General Meeting
“Bank Facilities”	the bank facilities set out in Paragraph 7.1 (d) of Part VII of this document
“Blenkinsopp Section”	the Blenkinsopp section of the Industry-Wide Mineworkers’ Pension Scheme
“Board” or “Directors”	together the Executive Directors and the Non-Executive Directors
“Buyer”	Red Rose Infrastructure Limited (registered number 7686173), whose registered address is at 1030 Central Park, Slutchers Lane, Warrington WA1 1QL
“certificated” or “in certificated form”	an Ordinary Share not in uncertificated form
“Circular” or “this document”	this circular issued by the Company and dated 14 September 2012
“Climate Change Capital”	Climate Change Capital Limited, which acted as financial adviser to the Group on the disposal of HP(G)
“CMM”	coal mine methane gas
“Companies Acts”	has the meaning given in Section 2 of the Companies Act 2006
“Completion”	the completion of the Disposal in accordance with the terms of the Disposal Agreement
“Completion Date”	the date of Completion
“Continuing Group”	UK Coal and its subsidiaries and subsidiary undertakings, excluding HP(G)
“CREST”	the relevant system (as defined in the CREST Regulations) for the paperless settlement of trades in listed securities in the United Kingdom, of which Euroclear is the operator (as defined in the CREST Regulations)
“CREST Manual”	the manual, as amended from time to time, produced by Euroclear describing the CREST system and supplied by Euroclear to users and participants thereof
“CREST Proxy Instruction”	the instruction whereby CREST members send a CREST message appointing a proxy for the meeting and instructing the proxy on how to vote
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001/3755)
“DECC”	the Department for Energy and Climate Change
“Disclosure Rules”	the Disclosure and Transparency Rules made by the FSA pursuant to FSMA governing the disclosure of information by listed companies

“Disposal”	the proposed sale by the Seller of the entire issued share capital of HP(G) to the Buyer pursuant to the Disposal Agreement
“Disposal Agreement”	the share sale and purchase agreement dated 22 June 2012 between the Seller and the Buyer in relation to the Disposal, pursuant to which the Seller has conditionally agreed to sell the entire issued share capital of HP(G) to the Buyer, and which is described in more detail in Part VI (Principal Terms of the Disposal Agreement) of this document
“EOS”	EOS Inc Limited (registered number 04006353) whose registered office is Harworth Park, Blyth Road, Harworth, Doncaster, DN11 8DB
“Euroclear”	Euroclear UK & Ireland Limited, the operator of CREST
“Executive Directors”	the executive directors of the Company at the date of this Circular, being Jonson Cox, Gareth Williams, Owen Michaelson and David Brocksom
“Form of Proxy”	the form of proxy accompanying this document for use by Shareholders in connection with the General Meeting
“FSA”	the Financial Services Authority of the United Kingdom
“FSMA”	the Financial Services and Markets Act 2000, as amended
“FTSE”	Financial Times Stock Exchange
“General Meeting”	the General Meeting of the Company convened by the Notice of General Meeting to be held at 1.00 p.m. on 1 October 2012 at the offices of Investec Bank PLC, 2 Gresham Street, London EC2V 7QP or any reconvened meeting following any adjournment thereof
“Generators”	the generator customers of the Group, being E.ON Energy Trading, Scottish and Southern Energy, Edf Energy and Drax Power Ltd
“Generating Assets”	means the assets used at each of the Mines to generate electricity from CMM
“Group”	in respect of any time prior to Completion, UK Coal and its subsidiaries and subsidiary undertakings including HP(G) and, in respect of periods any time following Completion, the Continuing Group
“HP(G)”	Harworth Power (Generation) Limited (registered number 7896679) whose registered office is Harworth Park, Blyth Road, Harworth, Doncaster, DN11 8DB
“IAS”	International Accounting Standards
“IFRS”	International Financial Reporting Standards as adopted by the Council of the European Union
“Investec”	Investec Bank plc, sponsor and joint broker to the Company
“Leased Premises”	has the meaning set out in paragraph 7.2 of Part VII (Additional Information) of this document
“Listing Rules”	the Listing Rules made by the FSA pursuant to FSMA governing, <i>inter alia</i> , admission of securities to the Official List

“JVA”	a joint venture agreement between the Company, UK Coal Mining, EOS, Peel Environmental Limited and Peel Holdings (IOM) Limited dated 14 June 2011
“London Stock Exchange”	London Stock Exchange plc
“Mines”	means the coal mines located at: (a) Kellingley Colliery; (b) Thoresby Colliery; (c) Harworth Colliery; and (d) Stillingfleet Colliery.
“MW”	Megawatt (one million Watts)
“Non-Executive Directors”	the non-executive directors of the Company at the date of this Circular, being Peter Hickson, Keith Heller, Steven Underwood and Lisa Clement
“Notice of General Meeting”	the notice of the General Meeting set out at the end of this document
“Official List”	the Official List of the Financial Services Authority
“Operational Mine”	means mine sites where the Company is actively mining
“Ordinary Shares”	ordinary shares of 1 pence each in the capital of the Company
“Peel Group”	Peel Holdings Limited (No. 2567Y) of Billown Mansion House, Mallew, Ballasalla, Isle of Man, IM9 3DL and its subsidiaries from time to time
“Pension Funds”	the UK Coal Mining Limited section of each of the Industry-Wide Coal Staff Superannuation Scheme and the Industry-Wide Mineworkers’ Pension Scheme
“Pension Protection Fund”	a body corporate established under the Pensions Act 2004
“Pensions Regulator”	the regulatory body established by the Pensions Act 2004
“Pension Trustees”	the Industry-Wide Coal Staff Superannuation Scheme Trustees Limited, as the trustee of the Industry-Wide Coal Staff Superannuation Scheme, and the Industry-Wide Mineworkers’ Pension Scheme Trustees Limited, as the trustee of the Industry-Wide Mineworkers’ Pension Scheme
“RCF Facility”	the Revolving Credit Facility described in paragraph 7.1(d) of Part VII (Additional Information) of this document
“Registrar” or “Equiniti”	Equiniti Limited, Aspect House, Spencer Road, Lancing West Sussex, BN99 6DA
“Regulatory Information Service”	one of the regulatory information services authorised by the Financial Services Authority to receive, process and disseminate regulatory information from listed companies
“Resolution”	the ordinary resolution as set out in the Notice of General Meeting
“Seller”	Harworth Power Limited (registered number 1156905), a wholly-owned subsidiary of UK Coal, whose registered office is at Harworth park, Blyth Road, Haworth, Doncaster DN11 8DB
“Shareholders”	holders of Ordinary Shares

“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“UKCIL”	UK Coal (Investments) Limited (no. 07532134) whose registered office is Harworth Park, Blyth Road, Haworth, Doncaster, DN11 8DB
“UK Coal” or “Company”	UK Coal plc (registered number 2649340) whose registered office is at Harworth Park, Blyth Road, Haworth, Doncaster DN11 8DB
“UK Coal Mining”	UK Coal Mining Limited (no. 02997374) whose registered office is Harworth Park, Blyth Road, Haworth, Doncaster, DN11 8DB, a subsidiary of UK Coal
“uncertificated” or “in uncertificated form”	recorded on the Company’s register of members as being as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
“£” or “Sterling” or “pence”	the lawful currency of the United Kingdom

References to the singular includes the plural and *vice versa*, unless the context otherwise requires.

UK COAL PLC

NOTICE OF GENERAL MEETING

Notice is hereby given that a General Meeting of UK Coal plc (the “**Company**”) will be held at 1.00 p.m. on 1 October 2012 at the offices of Investec Bank PLC, 2 Gresham Street, London EC2V 7QP to consider and, if thought fit, to pass the following resolution as an ordinary resolution of the Company:

Ordinary Resolution

THAT the disposal of the entire issued share capital of Harworth Power (Generation) Limited (the “**Disposal**”) on the terms and subject to the conditions of a disposal agreement dated 22 June 2012 between Harworth Power Limited and Red Rose Infrastructure Limited described in the circular to shareholders of the Company dated 14 September 2012 of which this Notice forms part (the “**Circular**”) (which is a Class 1 transaction for the purposes of the Listing Rules of the Financial Services Authority) be approved and that each and any of the Directors and the Secretary of the Company be authorised to conclude and implement the Disposal in accordance with such terms and conditions and to make such non-material modifications, variations, waivers and extensions of any of the terms of the Disposal and of any documents and arrangements connected with the Disposal as he thinks necessary or desirable.

By order of the Board

Geoff Mason
Company Secretary

14 September 2012

Registered Office:
Harworth Park
Blyth Road
Harworth
Doncaster
DN11 8DB

Incorporated in England and Wales with registered number 2649340

Notes:-

Entitlement to attend and vote

1. The right to attend and vote at the meeting is determined by reference to the Company’s register of members. Only a member entered in the register of members at 6.00 p.m. on 29 September 2012 (or, if this meeting is adjourned, in the register of members at 6.00 p.m. on the day two days prior to any adjourned meeting) is entitled to attend and vote at the meeting and a member may vote in respect of the number of ordinary shares registered in the member’s name at that time. Changes to the entries in the register of members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.

Proxies

2. A shareholder of the Company may appoint one or more proxies (who need not be a member of the Company) to exercise all or any of his rights to attend and to speak and vote at a meeting of the Company provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him. A shareholder may only appoint a proxy or proxies by:
 - completing and returning the proxy form enclosed (“*Form of Proxy*”); or

- if you are a user of the CREST system (including CREST Personal Members), having an appropriate CREST message transmitted; or
- submitting your proxy electronically at www.sharevote.co.uk.

You may not use any electronic address provided in this document to communicate with the Company for any purposes other than those expressly stated. To appoint more than one proxy, (an) additional Form(s) of Proxy may be obtained by contacting the Registrars helpline on 0871 384 2301 or you may photocopy the Form of Proxy enclosed. Calls to this number are charged at 8p per minute from a BT landline: other telephony provider costs may vary. Lines are open 8.30 a.m. to 5.30 p.m., Monday to Friday. Callers from outside the UK should dial +44(0) 121 415 7047.

IMPORTANT: In any case your Form of Proxy must be received by the Registrar no later than 1.00 p.m. on 29 September 2012.

To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent (ID RA19) by 1.00 p.m. on 29 September 2012. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means.

3. CREST Personal Members or other CREST sponsored members, and those CREST Members who have appointed voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual (available via www.euroclear.com/CREST) concerning practical limitations of the CREST system and timings. CREST Personal Members or other CREST sponsored members, and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. The Company may treat a proxy appointment sent by CREST as invalid in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
4. As an alternative to completing a hard copy proxy form, you can appoint a proxy or proxies electronically by visiting www.sharevote.co.uk. You will need your Voting ID, Task ID and Shareholder Reference Number (this is the series of numbers printed under your name on the proxy form). Alternatively, if you have already registered with Equiniti Limited's online portfolio service, Shareview, you can submit a proxy form at www.shareview.co.uk. Full instructions are given on both websites. To be valid, your proxy appointment(s) and instructions should reach Equiniti Limited no later than 1.00 p.m. on 29 September 2012 or such later time as the Company's directors may allow.

Further details of the appointment of proxies are given in the notes to the Form of Proxy enclosed.

Corporate representative

5. Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not exercise their powers differently in relation to the same shares.

Nominated Persons

6. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may have a right, under an

agreement between him and the shareholder by whom he was nominated, to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

7. The statement of the rights of shareholders in relation to the appointment of proxies in paragraph 2 above does not apply to Nominated Persons. The rights described in that paragraph can only be exercised by shareholders of the Company.

Issued share capital and total voting rights

8. As at 13 September 2012 (being the last practicable date prior to the publication of this Notice) the Company's issued share capital consisted of 299,298,160 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 13 September 2012 are 299,298,160.

Members' rights to ask questions

9. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (i) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (ii) the answer has already been given on a website in the form of an answer to a question, or (iii) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

Inspection of documents

10. The Disposal Agreement (as defined in the Circular) and other documents listed in paragraph 13 (of Part VII (Additional Information)) of the Circular will be available for inspection at the location of the General Meeting from 15 minutes before the General Meeting until it ends.

Website

11. A copy of this notice, and other information required by s.311A of the Companies Act 2006, can be found at www.ukcoal.com.

Voting results

12. The results of the voting at the general meeting will be announced through a regulatory information service and will appear on our website, www.ukcoal.com, on 1 October 2012.

