GLOUCESTER COAL

Annual Report 2011

ABN 66 008 881 712




CONTENTS

HIGHLIGHTS

- NPAT of $54.6 million, 67% increase
- Increased revenue from the sale of coal by 34%
- Increased resources by 442% and reserves by 268% (following completion of acquisitions)
- Increased EBITDA margin at 26%
- Transformation programme included:
  - Continued strengthening of the balance sheet; net assets increased from $181 million to $1 billion
  - Raised $671 million from shares issued during the period
  - New senior management team sourced and appointed
  - Acquisition of near 50% interest in the Middlemount Project
  - Announced acquisition of Donaldson and Monash (completed 14 July 2011)
- Approval granted for the Duralie Extension Project [1]
- First stage Coal Handling Processing Plant upgrade completed
- Middlemount Project substantially progressed
- Commenced review of operations for Gloucester Basin and Donaldson
- $400 million unsecured debt facility obtained from Noble Group subsequent to year end

1 Project approval subject of merits appeal. Development can be carried out while appeal on foot. Appeal was heard by the Land and Environment Court with decision expected this calendar year.

	2011 $million	2010 $million
Revenue from sale of coal	306.6	229.3
EBITDA	81.1	52.3
EBITDA Margin	26%	23%
Profit Before Tax	76.5	41.5
Net Profit After Tax	54.6	32.7
Earnings per Share (cents per share)	38.3	36.1
Cash & Cash Equivalents	182.3	27.8
Current Ratio	2.1	2.4
Interest Bearing Loans	99.1	34.7
Gearing	9.8%	19.2%
Net Assets	**1,014.7**	**181.2**

TABLE 1: PRODUCTION VOLUMES

	2011 kt	2010 kt
Gloucester Basin		
Duralie	1,753	1,694
Bowens Road North	652	933
Co-disposal	229	304
Roseville	309	170
Total ROM Coal delivered to CHPP	**2,943**	**3,101**
ROM Coal processed	2,965	2,919
Product Yield	61%	66%
Total Product [2]	**1,814**	**1,918**

TABLE 2: SALES VOLUMES

	2011 kt	2010 kt
Gloucester Basin		
Coking	787	751
Thermal	1,350	1,219
Total Sales	**2,137**	**1,970**
Purchases	(86)	(183)

2 Production reported inclusive of stockpile adjustments for the current year.

CHAIRMAN'S LETTER TO SHAREHOLDERS

INTRODUCING THE 'NEW' GLOUCESTER COAL

The 2011 Financial Year was a transformational one for Gloucester Coal. The near 50 per cent acquisition of Middlemount, and the decisions to purchase the Donaldson and Monash Assets (now completed), have significantly altered Gloucester Coal's growth prospects and enhanced its overall investment proposition. These strategic transactions have created a solid foundation for Gloucester Coal and are expected to deliver significant value to shareholders over the medium to long term.

STRATEGIC ACQUISITIONS

Four significant acquisitions took place during the 2011 Financial Year[1] which offer notable synergies with Gloucester Coal's existing asset base and have expanded the Company's project pipeline. The quality assets acquired are:

- The Middlemount mine which is under development and located in Queensland's Bowen Basin. It will produce coking coal and low volatile pulverised coal injection ("LV PCI"). In December 2010, the Company exercised its option to acquire additional shares in Middlemount to move to a near 50 per cent holding.
- The Middlemount royalty of 4 per cent of the total Free On Board Trimmed Sales from Middlemount.
- Donaldson:
  - a high energy thermal and coking coal producer based in New South Wales with mining operations in the Hunter Valley just south of Maitland, 25 kilometres from the Port of Newcastle. Donaldson's production is sourced from three mines: the Donaldson open cut mine and the Abel and Tasman underground mines. The Donaldson complex of mines can produce a mix of thermal and soft coking coal, depending on prevailing market conditions and pricing; and
  - an 11.6 per cent founding shareholding in NCIG Holdings Pty Limited, a new coal export terminal at the Port of Newcastle.
- Monash, a prospective export semi–soft coking (58%) and thermal (42%) early-stage exploration project strategically located near existing infrastructure in the Hunter Valley.

The four transactions were complex and comprehensive and required a significant commitment from both the Directors of the Board and the management team. In the end, the Directors believe that the acquisitions will prove to be value accretive and are critical to the medium to long term future of Gloucester Coal.

Through these acquisitions, Gloucester Coal increased its resources by 442 per cent and its reserves by 268 per cent. The result is a company that has four clearly defined domains of production and development.

Gloucester Coal is now well-positioned in the Australian coal market as a producing miner with scale and significant growth opportunities. Its combination of coking and thermal coal resources is complemented by an ability to substitute the supply of coal type to match demand from overseas markets. In addition to this, Gloucester is fortunate to have port capacity entitlements that enable it to realise its growth plans.

The forecast growth profile of Gloucester Coal is considerable. It is expected that total coal production will increase to over 12 million tonnes in fewer than 10 years and double within the next four years. The plan to move to approximately 10 million tonnes of production by the 2015 Financial Year is contingent on the delivery of well-defined projects which are currently at various stages of development. Based on preliminary forecasts, Gloucester Coal expects to have a resource base capability to produce between 40 and 50 per cent coking coal. These projections are testimony to the strategic investments made in the 2011 Financial Year. Further, they confirm the strong platform that has been built to support the expansion of production in the medium to long term.

The change in the asset base and the associated increased longevity of mine life positions the Company to be able to enter into longer term off–take agreements with customers in the Asian region. This will provide longer term security to the sales programme going forward.

The management team has now commenced a review of the Gloucester Basin and Donaldson operations. The review is intended to deliver commercially focused long-term mining plans and to optimise the production profile of the operating domains for the next 20 years. The review will also consider strategies for the improvement of operating costs and productivity at each site. It will also identify potential blending synergies that may be achievable with the new combination of coal types and qualities.

1 The Donaldson and Monash transactions were announced during the 2011 Financial Year and were completed on 14 July 2011.

CHAIRMAN'S LETTER TO SHAREHOLDERS (CONTINUED)

Management Team

During the year, a number of executive management changes were made, including the appointment in February 2011 of Brendan McPherson as Chief Executive Officer and Tim Crossley as Deputy Chief Executive Officer. Both Mr McPherson and Mr Crossley are highly experienced executives from the Australian mining sector and bring a wealth and depth of strategic and operational experience to Gloucester. Both appointments were vital additions to the team and provided the Board with the confidence that the growth plans for the Company could be executed successfully.

The management team was also enhanced by a number of other senior appointments across both corporate and operational functions. During, or shortly after the 2011 Financial Year, Ross Monks was appointed to the position of GM Marketing, Marie Festa was appointed as Investor Relations Director and Hemang Shah was appointed as General Counsel. Mr Monks was previously Senior Marketing Manager Coal for Vale Australia where he held the position for four years and was responsible for the sale of approximately seven-million tonnes of metallurgical and thermal coal to markets in Japan, Korea and Taiwan. Ms Festa was previously General Manager Investor Relations for Asciano, a top-100 ASX-listed company. Mr Shah is a corporate lawyer and was previously a Senior Associate at law firm Minter Ellison in the Mergers and Acquisitions Group.

The experience and calibre of the management team is a valuable asset to Gloucester Coal. Furthermore, it is a reflection of the Company's ability to attract a high quality of talent and experience.

Remuneration

As a leader in its sector, Gloucester Coal recognises the importance of offering competitive rewards to both attract and retain high calibre executives. The success of the Company's acquisition strategy and the fulfillment of significant transaction milestones were due in no small part to the combined work of your Board of Directors and the senior management team. We have recognised the additional demands required of several of our non-executive Directors to meet performance benchmarks for these projects and for the 2011 Financial Year. Their remuneration is in line with the projected value the acquisitions will bring. Your Board of Directors and management team work hard to return value to shareholders and accordingly we adhere to clear guidelines in remunerating the management team:

- Providing competitive rewards to attract and retain high calibre executives;
- Linking executive rewards to shareholder value;
- Allocating a significant portion of executive compensation "at risk", dependent upon meeting pre-determined performance benchmarks; and
- Establishing appropriate performance hurdles in relation to variable executive compensation.

The Board is very aware that the market for senior executive talent, especially in the mining sector, is extremely challenging and will continue to ensure that Gloucester has in place remuneration practices which will allow us to retain our key executives.

Overview 2011 Financial Year

Gloucester Coal achieved pleasing results for the 2011 Financial Year. The positive performance was delivered despite some very challenging circumstances. During the period, the Company responded to difficult operating conditions. These included the impact of adverse weather conditions experienced in NSW, delays to the Duralie and Stratford extension projects, and a softening of demand from Japanese steel mills following the earthquake and tsunami disasters. Nevertheless, Gloucester Coal delivered a solid performance.

Overall coal sales increased by eight per cent despite lower production volumes. The increased sales volumes combined with a five per cent increase in coking coal sales contributed to a 34 per cent increase in total revenue for the Company. Earnings before interest, tax and depreciation increased by 57 per cent excluding transaction costs. This earnings growth was driven once again by increased sales and higher average coal sales prices. The benefits of higher sales and average pricing was offset in part by an increase in unit production costs as a result of higher strip ratios, increased contractor mining rates and impacts on production due to wet weather.

The Middlemount Project progressed substantially during the period with civil works completed and trial tonnes of ROM coal processed. A revised Reserve statement was finalised in March 2011 which represented a 68 per cent increase in coal reserves. The construction of the rail spur linking Middlemount to the Goonyella Abbot Point Extension rail line was delayed due to severe weather impacts.

Looking Ahead

The year ahead will be a transitional one for Gloucester Coal. The foundations that were put in place in the 2011 Financial Year with the transformation programme will be developed further with a view to delivering the medium to long term objectives of the Company. These developments will include the progression of major projects, the continuation and actioning of the operations reviews and ongoing strategic exploration and drilling to enhance resources and progress Monash to Reserve status.

In the Gloucester Basin, approvals for the Stratford Extension Project will be progressed and production at Duralie will begin to ramp up targeting three million tonnes of ROM by the 2014 Financial Year. The second stage of the coal handling processing plant upgrade will commence targeting a coal processing rate of around 700 tonnes per hour.

At Donaldson, study works and approvals for an increase in production at both Tasman and Abel will be progressed with a focus on maximising coking coal output. In the medium term, Gloucester Coal intends to introduce long wall mining at Donaldson which is expected to increase productivity and reduce the cost base in a meaningful way.

The development of Middlemount will continue in the 2012 Financial Year. The construction of the rail spur is expected to be completed during the first half of the Financial Year. Following its completion, the mine will progress to full scale operations. Middlemount is currently awaiting approval of an Environmental Impact Statement to increase its ROM production from 1.8 million tonnes to up to 5.4 million tonnes.

Exploration activities, including drilling, commenced at Monash in August 2011 and will continue during the 2012 Financial Year with an objective to reach Reserve status in the near term.

The export coal market outlook remains somewhat uncertain and will be dependent on a number of external factors including global economic conditions and weather related impacts. Having said this, we continue to believe that the demand for both coking and thermal coal will remain robust over the medium to long term.

Turning Point

Overall, the 2011 Financial Year was a successful year for Gloucester Coal and should prove to be a significant turning point for the Company. I firmly believe that the performance of the Gloucester Basin assets, and the execution of the four strategic acquisitions will be seen as a critical milestone in our quest to achieve the long-term objectives of the Company. The enhanced growth profile, increased scale of operations, and diversification of both production and geography have provided a solid platform to increase shareholder value over time.

These events and achievements are of course the result of very hard work and enormous dedication from the employees and Directors of Gloucester Coal. On behalf of the Board of Directors I would like to take this opportunity to thank all employees for their tireless efforts over the past 12 months. I would also like to thank CEO Brendan McPherson and Deputy CEO Tim Crossley and their teams for their commitment in what has proven to be a challenging period. In addition, thank you to my fellow Directors on the Board of Gloucester Coal who have carried an enormous load during this transformational year in assisting me in creating and executing the vision of the Company.

Lastly, I would like to thank all shareholders who have continued to support Gloucester Coal over the past 12 months in what has been a truly transformational year for the Company.

I look forward to working with you all in the year ahead.

James MacKenzie
Chairman

OUR TRANSFORMATION

During the 2011 Financial Year, the Board of Gloucester Coal considered a range of strategic initiatives which we believed were necessary to transform the Company from a relatively small coal producer operating only in the Gloucester Basin to a multi-site operation with significant growth potential.
I am pleased to confirm that these strategic initiatives considered by the Board were brought to fruition.

As part of this transformation the Board considered the range and scope of skills which would be required within the Company to manage this new direction and the systems and practices which would have to be enhanced to ensure the Company was able to deliver the expected benefits from these strategic initiatives.

YEAR IN REVIEW

Total material movement increased 13 per cent during the year with a focus on the re-establishment of pit working areas and the development of the Clareval pit. ROM production, although impacted by delays to the Duralie and Stratford extension projects, was only marginally below the previous Financial Year.

ROM feed through the CHPP increased marginally over the prior year. A strong performance in the fourth quarter saw coal flows increase from the pits, reducing CHPP idle time and increasing feed rates in line with CHPP upgrade works.

The CHPP phase one upgrade works were completed in June 2011, increasing CHPP feed rates to 600 tonnes per hour ("tph"). A further upgrade to enhance the CHPP to 700tph is expected to be concluded during the 2012 Financial Year.

OPERATIONS PERFORMANCE

Duralie Extension Project

The Duralie Extension Project gained approval in December 2010. The planned production ramp-up at Duralie commenced following the approval with all required infrastructure now in place. ROM production from the Duralie pits was three per cent above the prior year which was a positive achievement considering the impact of weather conditions at the mine.

Following the Duralie Extension Project approval, a merits appeal hearing was heard in the Land and Environment Court by Chief Judge Preston. Hearings commenced on 9 May 2011 and concluded on 1 July 2011. Gloucester Coal is awaiting a decision from the Court. Development can be carried out whilst the appeal is on foot.

Port and Rail

The Company has an evergreen 10-year Ship or Pay contract for port capacity with Port Waratah Coal Services ("PWCS") for export coal from Stratford and Duralie. Gloucester Coal secured an additional 0.4 million tonnes of capacity commencing on the completion of the PWCS T4 expansion. The total capacity under contract meets the forecast production from Stratford and Duralie. Long-term rail contracts currently in place are broadly aligned with the production forecasts for Gloucester Basin export volumes.

On 14 July 2011, the Company completed the acquisition of Donaldson Coal, including its 11.6 per cent share of Newcastle Coal, Infrastructure Group ("NCIG"). This gives the Company the flexibility to complement its PWCS contracts by utilising terminal capacity held by Donaldson at NCIG.

During the year, the Australian Competition and Consumer Commission ("ACCC") approved the Australian Rail Track Corporation's Hunter Valley Rail Access Undertaking. This revised undertaking provides the Company with the ability to secure long-term contracts for access to rail track capacity. The Company intends to secure these contracts over the coming year.

Marketing

Total sales volumes increased by eight per cent over the prior year as a result of both higher coking coal and thermal coal sales volumes. There was a 53 per cent reduction in coal purchases during the year, effectively resulting in a 15 per cent increase in the sale of Gloucester Basin coal. High coal stocks at the beginning of the year were progressively sold down leaving minimal coal stocks on hand at the end of the year.

Coking coal sales volumes increased by five per cent over the previous year. This increase was buoyed by the sale of a portion of coking coal at historically higher prices in the June 2011 quarter to established customers. The periods of pricing gains were largely due to the supply shock arising from weather events impacting production from Queensland coking coal producers.

Notwithstanding periods of good pricing, marketing of coking coal has proved challenging throughout the year. Constricted supply from Queensland has seen larger volumes of US coking coals being shipped to Asian customers. The overall demand for the Company's coking product into its traditional Japanese steel mill customers softened due to the impact of the Japanese earthquake and tsunami events.

In the second half of the year, commencement of mining from the new Clareval seam at Duralie provided a new source of coking coal. This material has been successfully integrated into the Gloucester Basin coking coal blend and will form an integral component in coking coal cargoes.

Thermal coal sales rose by 11 per cent over the previous year with high thermal coal stockpiles being reduced to minimal levels by the end of the year. The demand for off take of the Company's high ash thermal product remains reliable and consistent.

Exploration

A total of $20.6 million was spent on Gloucester Coal's exploration programme, an increase of 22 per cent over the previous year. The number of drill rigs operating in the Gloucester Basin reached a maximum of eight rigs during the year.

Reserves and Resources

The Company reported an increase in JORC Reserves to 123.0 million tonnes (2010: 74.8 million tonnes) and JORC Resources to 340.0 million tonnes (2010: 278.8 million tonnes)[3] as a result of the equity share of reserves and resources obtained through the Middlemount acquisition. This report was issued prior to the Donaldson and Monash acquisitions.

3 Gloucester Coal Ltd.'s JORC Coal Reserves and Resources were updated as at 30 June 2010 as detailed in the release to the ASX on 26 July 2010. Middlemount's JORC Coal Reserves and Resources was updated on 17 March 2011 as detailed in the release to the ASX on this date.

YEAR IN REVIEW (CONTINUED)

MIDDLEMOUNT PROJECT UPDATE

Construction progress

The development of Middlemount progressed substantially during the period. Civil works were completed in September 2010 enabling trial operations to commence. These works were undertaken by MCG Contractors and included haul roads, dams, tailings storage facility and levees. Construction of the project's Coal Handling and Preparation Plant was completed by Sedgman in September 2010.

The construction of a 16.5km rail spur to provide access for the mine to the Goonyella rail system commenced construction on 1 September 2010. Progress of construction was severely impacted by rainfall in the region. It is now expected that the rail spur will be completed in late 2011 calendar year.

Production and Sales

Processing trials and commissioning testing have been undertaken to enable a greater understanding of the product coal from the project. In excess of 100kt of ROM coal has been processed during the year. In anticipation of completion of the rail spur, mining operations commenced in early 2011 to produce market samples for customers in advance of full-scale production. In April, NRW was awarded a five-year contract to undertake mining services for the project.

Exploration

Following further exploration and increased understanding of product coal quality, a Revised Reserve Statement for the project was finalised in March 2011. That new statement represents a 68 per cent increase in the recoverable coal reserves for the project and justifies the Company's plans to increase production to up to 5.4mtpa ROM. Middlemount prepared an Environmental Impact Statement ("EIS") to support its application for an increase in the environmental approval for the project from 1.8mtpa ROM to up to 5.4mtpa ROM. The draft EIS was open for public comment for an eight-week period in January through March 2011 during which Middlemount undertook extensive public consultation. No substantial issues were identified during this process and no submissions were made by the community or non–Government organisations. Middlemount has submitted a supplementary EIS to the Government and is awaiting a final decision on the EIS. It is expected that final environmental approval for the expansion of production will be obtained during the first half of 2012 calendar year.

Port and Rail

Export of Middlemount product will be initially via Dalrymple Bay Coal Terminal ("DBCT") until completion of the Northern Missing Link, expected in early 2012 calendar year. Middlemount has secured a 15-year contract at Abbot Point and will be one of the pioneer projects that will benefit from the development of the Missing Link. Middlemount has a long-term rail haulage contract with Pacific National and this haulage has commenced for the export of the product sample cargoes to customers.

SAFETY

The Gloucester Basin operations safety performance improved through the year with a 21 per cent reduction in total recordable injury frequency rates. Although this was a positive achievement, the Company acknowledges that its safety performance must continue to improve. Safety is the number one priority for the Company and will continue to be a key focus going forward.

COMMUNITY

As a major employer in the Gloucester Basin, Gloucester Coal is acutely aware of the role the Company plays in community life. In 2011, Gloucester Coal began the process of renewing and strengthening relationships with Gloucester Council, seeking Council's advice on ways in which the Company can better help the people of the area to achieve their community goals. As well as support for iconic local events, Gloucester Coal has taken the first steps to establish a new Community Support programme, to ensure a helping hand for a wider range of community initiatives – from education to environment, aged care to the performing arts.

In the lower Hunter Valley, Gloucester Coal, through its fully owned subsidiary Donaldson Coal, remains a strong supporter of the Hunter Valley Training Company, which celebrated its 30th anniversary in 2011. Hunter Valley Training Company has a proud record of training young people and finding them productive employment in Hunter industry.

ENVIRONMENT

It is Gloucester Coal's objective to excel in all aspects of environmental management, moving ahead of compliance to set new standards in terms of water quality, air quality, and response to local communities in which it operates. At Stratford, a new pivot irrigation system was established to improve rehabilitation after mining, and 24/7 noise monitoring is now in place.

Stratford is also one of nine locations selected to work with the Office of Environment and Heritage on a comprehensive programme to improve air quality and reduce greenhouse emissions.

In the Gloucester Basin, the Company is moving to integrate environmental models with real time monitoring and weather data to provide mine operators with information to better manage mining activity for current conditions.

At Donaldson the rehabilitation programme continues to attract attention for setting the highest standards, with the land being returned to a standard equal to, if not higher, than its pre–mining state.

FINANCIAL PERFORMANCE

Gloucester Coal's net profit after tax for the year to 30 June 2011 was $54.6 million compared with $32.7 million for the previous corresponding period. After eliminating the impact of transaction costs relating to acquisitions ($6.4 million after tax), the Company delivered an operating profit after tax of $61.0 million, which represents profit of $29 per tonne of coal sold.

Earnings before interest, tax, depreciation and amortisation (EBITDA) was $81.1 million ($90.3 million before corporate transaction costs) with a solid EBITDA margin of 26 per cent.

Revenue from the sale of coal was $306.6 million (2010: $229.3 million).

Net tangible assets increased from 199 cents per share at June 2010 to 662 cents per share at June 2011 mainly due to the acquisition of the Middlemount assets during the year and the sound operating results.

DETAILS OF TRANSACTIONS

Middlemount Acquisition

On 30 September 2010, the Company acquired a 27.52 per cent interest in the Middlemount Project and other Middlemount assets. The consideration paid was $398.7 million, consisting of $298.2 million in cash and 10,810,811 new Gloucester Coal Ltd shares issued to Noble Group Limited.

On 24 December 2010, Gloucester Coal Ltd and Macarthur Coal Ltd completed a transaction involving the exercise of Gloucester Coal's call option for an additional near 22.48 per cent interest in Middlemount Coal Pty Ltd and the early transfer of shares that were previously transferable on achievement of a project milestone. Consideration payable by Gloucester was $97.6 million, including $45 million of deferred cash consideration paid on 30 June 2011.

Post completion of the 24 December 2010 transaction, Gloucester Coal holds a near 50 per cent interest in the project.

Equity Raisings

On 4 August 2010, as part of the proposed Middlemount acquisition, the Company announced a 3 for 5 accelerated, non–renounceable pro–rata entitlement offer which raised approximately $441 million. On 26 August 2010, the Company issued 46.9 million new shares in respect of the Institutional Entitlement Offer and 0.8 million shares on 6 September 2010 in respect of the Retail Entitlement Offer, at a price of $9.25 per share.

On 16 May 2011, as part of the proposed Donaldson and Monash acquisitions, the Company announced a 2 for 11 fully underwritten accelerated non–renounceable pro–rata entitlement offer to raise approximately $230 million. On 24 May 2011, the Company issued 24.3 million shares in respect of the Institutional Entitlement Offer and 1.2 million shares on 16 June 2011 in respect of the Retail Entitlement Offer, at a price of $9.00 per share.

Donaldson and Monash Acquisitions

On 14 July 2011, the Company acquired, through a wholly owned subsidiary, a 100 per cent interest in Donaldson Coal from a wholly owned subsidiary of Noble Group Limited ("Noble"), a related party and ultimate holding company of Gloucester Coal, for an enterprise value of $585 million. This was completed by Gloucester assuming debt of $225 million from Donaldson and issuing $360 million of new Gloucester Coal Ltd shares at acquisition at $9.75 per share. Fair value of the consideration transferred was $321.2 million being 36,923,076 new shares with a fair value of $8.70 per share, being the closing market price of Gloucester shares at the acquisition date. The Donaldson transaction was approved by the Company's non–associated shareholders on 8 July 2011.

Subsequent to year end, on 14 July 2011, the Company acquired a 100 per cent interest in Ellemby Holdings Pty Ltd ("Monash") for consideration of $30 million cash and the issuance of 1,000 unquoted converting shares (the terms of which allow for the provision of additional shares to the Monash vendors subject to achieving key milestones). The Monash transaction was approved by the Company's non-associated shareholders on 8 July 2011.

RESERVES AND RESOURCES

Set out in the following table are the summary details of the latest Reserves and Resources.

(mt)	Gloucester Basin and Middlemount [4]	Donaldson	Monash	Combined
Reserves	123	152	–	275
Measured and Indicated Resources	242	763	13	1,018
Measured, Indicated and Inferred Resources	340	885	287	1,512

Coal resources are reported inclusive of coal reserves (i.e. coal reserves are not additional to coal resources).

Measured, Indicated and Inferred Resources are not additional to Measured and Indicated Resources.

Gloucester Basin

The following table summarises the Gloucester Basin Coal Reserves as at 30 June 2010, announced on 26 July 2010.

		Coal Reserves (mt)		
Region	Area	Proven Reserves (mt)	Probable Reserves (mt)	Proven & Probable Reserves (mt)
Duralie	Main Pit [B]	–	6.2	6.2
	Clareval West [B]	10.6	0.6	11.2
	Railway Pit [A]	0.9	–	0.9
	North East [A]	–	6.5	6.5
Stratford [B]	Avon North	–	3.1	3.1
	Bowens Road North	1.8	0.4	2.2
	Co–disposal Area	–	2.2	2.2
	Grant & Chainey	–	8.2	8.2
	Grant & Chainey	–	6.8	6.8
	Stratford East	–	2.9	2.9
	Stratford South	–	5.0	5.0
	Stratford South	–	1.5	1.5
	Roseville West & South	–	18.1	18.1
Total: Open Cut Reserves		**13.3**	**61.5**	**74.8**

The information that relates to Gloucester's Coal reserves in this table is based on information compiled by:

A Mr Robert MacKenzie, a full–time employee of Runge Ltd trading as Minarco–MineConsult, and

B Mr Shaun Tamplin, a full-time employee of Tamplin Resources Pty Ltd.

Mr Robert MacKenzie and Mr Shaun Tamplin are members of the Australian Institute of Mining and Metallurgy. Mr Robert MacKenzie and Mr Shaun Tamplin have sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the JORC Code.

Mr Robert MacKenzie and Mr Shaun Tamplin consent to the inclusion in this Statement of the matters based on their information in the form and context in which it appears.

Reserves have been rounded to appropriate levels of accuracy in accordance with 2004 JORC Code.

The estimates of Coal Reserves have been carried out in accordance with the "2004 Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (The JORC Code)" prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia. Coal resources are reported inclusive of coal reserves (i.e. coal reserves are not additional to coal resources).

During the year, coal was mined at Duralie Main Pit (1.5mt), Clareval West (0.3mt), Bowens Road North (0.7mt), Co–disposal Area (0.2mt) and Roseville West & South (0.3mt)

4 Includes Gloucester's near 50% interest in Middlemount

The following table summarises the Gloucester Basin Coal Resources as at 30 June 2010, announced on 26 July 2010.

		Coal Resources (mt)			
Region	**Area**	**Measured**	**Indicated**	**Measured & Indicated**	**Inferred**
Stratford	Bowens Road North [A]	2.7	0.6	3.3	–
	Avon North [A]	–	3.0	3.0	–
	Roseville West [A]	–	35.5	35.5	5
	Co–disposal Area [A]	–	2.3	2.3	–
	Stratford East [B]	–	5.8	5.8	4
Grant & Chainey [B]	Grant & Chainey	–	56.8	56.8	25
Duralie [A]	Duralie Main Pit	0.7	8.3	9.0	–
	Duralie North West	9.9	4.5	14.4	1
	Duralie East	–	9.2	9.2	3
	Railway Pit	1.2	0.5	1.7	–
Total	**Open Cut**	**14.5**	**126.5**	**141.0**	**38**
Duralie [A]	Duralie Underground	0.9	39.9	40.8	59
Total	**Underground**	**0.9**	**39.9**	**40.8**	**59**
Total	**Open Cut & Underground**	**15.4**	**166.4**	**181.8**	**97**

The information that relates to Gloucester's Coal resources in this table is based on information compiled by;

A Ms Janet Bartolo, a full–time employee of McElroy Bryan Geological Services Pty Ltd; and

B Mr Shaun Tamplin, a full-time employee of Tamplin Resources Pty Ltd.

Ms Janet Bartolo and Mr Shaun Tamplin are members of the Australian Institute of Mining and Metallurgy and have sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the JORC Code.

Ms Janet Bartolo and Mr Shaun Tamplin consent to the inclusion in this Statement of the matters based on their information in the form and context in which it appears.

The estimates of Coal Resources have been carried out in accordance with the "2004 Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (The JORC Code)" prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia. Coal resources are reported inclusive of coal reserves (i.e. coal reserves are not additional to coal resources).

Coal resources have been updated by subtraction of mined tonnes for Duralie Main Pit, Roseville West and Co–disposal area.

During the year, coal was mined at Duralie Main Pit (1.5mt), Clareval West (0.3mt), Bowens Road North (0.7mt), Co–disposal Area (0.2mt) and Roseville West & South (0.3mt)

Middlemount

The following table summarises the Middlemount Coal Resources and Reserves as at 17 March 2011. This information has been presented on a 100 per cent basis.

		Coal Resources (mt)				Coal Reserves (mt)		
Region	Area	Measured	Indicated	Measured & Indicated	Inferred	Proven Reserves	Probable Reserves	Proven & Probable Reserves
Bowen Basin	Middlemount	89.3	31.5	120.8	1.8	69	27	96

JORC Resources

The estimates of Coal Resources have been carried out in accordance with the "2004 Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (The JORC Code)" prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia. Coal resources are reported inclusive of coal reserves (i.e. coal reserves are not additional to coal resources).

The information that relates to the Middlemount Resources in this table is based on information compiled by Mr Greg Jones, a full-time member of JB Mining Services Pty Ltd. Mr Greg Jones is a member of the Australasian Institute of Mining and Metallurgy and has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code. Mr Greg Jones consents to the inclusion in this Statement of the matters based on his information in the form and context in which it appears.

JORC Reserves

The estimates of Coal Reserves have been carried out in accordance with the "2004 Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (The JORC Code)" prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia. Coal resources are reported inclusive of coal reserves (i.e. coal reserves are not additional to coal resources).

The information that relates to the Middlemount Reserves in this table is based on information compiled by Mr Mark Bryant, a member of The Minserve Group Pty Ltd. Mr Mark Bryant is a member of the Australasian Institute of Mining and Metallurgy and has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code. Mr Mark Bryant consents to the inclusion in this Statement of the matters based on his information in the form and context in which it appears.

Monash

The following table summarises the Monash Coal Resources as at July 2010. These resources are still current as drilling has only just commenced on the Monash project (acquired on 14 July 2011).

		Coal Resources (mt)		
Region	Area	Indicated	Inferred	Total indicated and inferred
Monash	Woodlands Hill	2.1	43	45
	Blakefield	2.4	48	50
	Whynot	2.9	57	60
	Whybrow	2.8	46	49
	Borehole	2.2	57	59
	Fassifern	0.7	23	24
Total		**13.0**	**274**	**287**

All resources comply with the JORC Code 2004. The information above that relates to EL 6123 and EL 7579 (Monash Project), is based on information compiled by Ian D. Blayden, employed by Geological and Management Services Pty Ltd ABN 47001 256 248. Ian Blayden is a member of the Mineral Industry Consultants Association, the Australian Institute of Geoscientists and AusIMM.

Dr. Blayden has sufficient experience which is relevant to the style and mineralisation, and type of deposit under consideration, and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code of Reporting of Mineral Resources and Ore Reserves.

Dr. Blayden consents to the inclusion in this Statement of the matters based on his information in the form and context in which it appears.

Donaldson

The following table summarises the Donaldson Coal Resources and Reserves as at 1 July 2009 (acquired on 14 July 2011).

		Coal Resources (mt)				Coal Reserves (mt)		
Region	**Area**	**Measured [5]**	**Indicated [5]**	**Measured & Indicated [5]**	**Inferred [6]**	**Proven Reserves [6]**	**Probable Reserves [6]**	**Proven & Probable Reserves [6]**
Open Cut		–	–	–	–	2.5	–	2.5
Tasman	Fassifern	29.7	9.3	39.0	6	12.9	5.1	18.0
	West Borehole	19.2	11.4	30.6	6	6.6	1.1	7.7
Tasman Extension	Great Northern	0.4	0.6	1.0	–	–	–	–
	West Borehole	28.8	17.1	45.9	9	0.3	7.8	8.2
	Sandgate	50.6	38.6	89.2	28	0.7	0.4	1.1
Abel	Upper Donaldson	63.4	9.5	72.9	–	24.2	7.7	31.9
	Lower Donaldson	94.0	14.9	108.9	–	21.7	8.6	30.3
	Upper Big Ben	123.8	36.9	160.7	3	–	–	–
	Ashtonfield	6.9	2.0	8.9	–	–	–	–
Abel Extension	Upper Donaldson	19.7	18.9	38.6	28	1.7	10.0	11.7
	Lower Donaldson	28.4	28.7	57.1	42	7.3	11.7	19.0
	Lower Big Ben	16.0	5.5	21.5	–	–	–	–
	Ashtonfield	54.5	13.9	68.4	–	17.4	4.7	22.1
	Rathluba	10.1	10.2	20.3	–	–	–	–
Total		**545.5**	**217.5**	**763.0**	**122**	**95.4**	**57.1**	**152.4**

JORC Resources

All resources comply with the JORC Code 2004. The information in this statement relates to Coal Resources at the Tasman Underground Mine and Able Underground Mine, and the two prospects, the Abel Extension and Tasman Extension, is based on information compiles by Ian D. Blayden, employed by Geological and Management Services Pty Ltd ABN 47001 256 248. Ian Blayden is a member of the Mineral Industry Consultants Association, The Australasian Institute of Geoscientists and AusIMM.

JORC Reserves

The Reserves Statement complies with the JORC Code 2004. The information in this statement relates to Coal Reserves at the Tasman Underground Mine and Abel Underground Mine, and the two prospects, the Abel Extension and Tasman Extension, is based on information compiled by David A.Thomas, employed by IMC Mining Group Pty Ltd. Mr. Thomas is a member of AusIMM.

Both Dr. Blayden and Mr. Thomas have sufficient experience which is relevant to the style and mineralisation, and type of deposit under consideration, and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 edition of the Australasian Code of Reporting of Mineral Resources and Ore Reserves.

Dr. Blayden and Mr. Thomas consent to the inclusion in this Statement of the matters based on his information in the form and context in which it appears.

5 Air Dried Basis (ad)

6 As received moisture basis (ar): ROM = 6.0%, Marketable = 8.0%

DIRECTORS' REPORT

The Directors present their report together with the Financial Report of Gloucester Coal Ltd and its controlled entities ("the Group"), for the Financial Year ended 30 June 2011 and the Auditor's Report thereon.

MR JAMES MACKENZIE

MR GREGORY FLETCHER

MR DENIS GATELY

DIRECTORS

The names and details of the Company's directors in office at any time during or since the end of the Financial Year are as follows:

MR JAMES MACKENZIE

BBus, FCA, FAICD

Chairman and Independent Non–Executive Director

Mr James MacKenzie has been Chairman and Independent Non–Executive Director of Gloucester Coal since 16 June 2009.

Mr MacKenzie is also Chairman of the Mirvac Group Board (since 2005) and Chairman of Pacific Brands Limited (since 2008). In addition he is a Director of Melco Crown Entertainment Limited (since 2008).

Mr MacKenzie has extensive experience as a company director having held a number of directorships over the past 10 years. From 2000 to 2007 Mr MacKenzie led the transformation of the Victorian Government's Personal Injury Schemes as Chairman of the TAC and Victorian WorkCover Authority. Previously, he held senior executive positions with ANZ Banking Group, Norwich Union and Standard Chartered Bank. Mr MacKenzie is a Chartered Accountant and was a Partner in both the Melbourne and Hong Kong offices of an international accounting firm, now part of Deloitte. In 2003, he was awarded the Centenary Medal for services to public administration.

Mr MacKenzie is Chairman of the Nominations Committee and is Chairman of the Independent Board Committee. He is also a member of the Audit, Risk and Corporate Governance Committee and the Remuneration Committee.

MR GREGORY FLETCHER

BCom, CA

Independent Non–Executive Director

Mr Gregory Fletcher has been a Director of Gloucester Coal since 30 June 2009.

Mr Fletcher is also Chairman of SMEG Australia Pty Ltd, an Independent Non–Executive Director of WDS Limited where he chairs the Board Audit and Risk Committee and is a member of the Board Human Resources Nominations Committee and Health Safety Environment Community Committee. In addition, Mr Fletcher chairs the Audit and Risk Committees at Railcorp, Sydney Ferries, RTA and the City of Sydney Council and is a member of the NSW Auditor General's Audit and Risk Committee and the Sydney Olympic Park Authority Audit, Risk and Compliance Committee. Mr Fletcher was a Director of Railcorp up until the Railcorp Board was wound up on 30 June 2010 in line with the NSW Transport Administration Act.

Mr Fletcher was a senior partner of Deloitte for 16 years (retired May 2009) specialising in external and internal audits and risk management. Mr Fletcher has provided professional services to some of Australia's largest listed corporations.

Mr Fletcher is Chairman of the Audit, Risk and Corporate Governance Committee and a member of the Remuneration Committee and Independent Directors Committee.

MR DENIS GATELY

BA, LLB, RFD, ADM, FAICD

Independent Non–Executive Director

Mr Denis Gately has been a Director of Gloucester Coal since 21 February 2011.

Mr Gately is also a Director and Chairman of Alligator Energy Ltd, an ASX-listed company engaged in uranium exploration.

Mr Gately is a corporate and commercial lawyer with more than 30 years' experience working in the resources (minerals, oil and gas) and energy sectors. His experience includes both transactional (M&A, capital markets) and operational aspects of mineral exploration and production. He has extensive experience in the coal sector in Queensland and New South Wales, both in the sale and purchase of assets and businesses, and in all aspects of operations including development, transport and sales. Mr Gately joined Minter Ellison in 1985 and was a partner from 1987 to 2010. He was head of the firm's national energy and resources group for four years, a member of its national board for nine years and managing partner of its Brisbane office for six years. He is a former director, national president and now an honorary life member of AMPLA Ltd (the Australian Resources and Energy Law Association).

Mr Gately is Chairman of the Remuneration Committee and a member of the Nomination Committee, Audit, Risk and Corporate Governance Committee and Independent Directors Committee.

MR DAVID BROWNELL

MR RICARDO LEIMAN

MR WILLIAM RANDALL

MR DAVID BROWNELL

BCom, MBA

Independent Non–Executive Director

Mr Brownell is an organisation and strategy consultant, and formerly Senior Vice President of Boston Consulting Group's (BCG) Melbourne office and the Asia-Pacific Leader of BCG's Organisation Practice Group. Mr Brownell was previously a Director of Hunter Colliery Donaldson Coal. He began his consulting career in the London office of McKinsey and Co and was Partner in the Australian consulting firm that merged with BCG in 1990.

Mr Brownell is a member of the Remuneration Committee and the Audit, Risk and Corporate Governance Committee.

MR RICARDO LEIMAN

MBA

Non–Executive Director

Mr Ricardo Leiman has been a Director of Gloucester Coal since 16 June 2009.

Mr Leiman is an Executive Director and the Chief Executive Officer of Noble Group Limited. He was first appointed Director of Noble on 1 April 2009 and was last re–elected at the Noble annual general meeting on 27 April 2009. Mr Leiman holds MBAs from the University of Rochester NY, U.S.A. and the University of Nyenrode, the Netherlands as well as an Economics degree from the University of Sao Paulo, Brazil. He started his career with Credit Lyonnais Bank in Brazil followed by management positions with Louis Dreyfus in Sao Paulo and London, Eximcoop in the Netherlands and Trader Classified Media in London and Paris. In 2002 he rejoined Louis Dreyfus as COO North America, EMEA (Europe, Middle East, Africa) and Asia, later becoming COO Soft Commodities. Mr Leiman joined Noble in April 2006.

Mr Leiman is a Nominee of Noble Group Limited.

Mr Leiman was a Director of Windimurra Vanadium Limited (Administrators appointed) in the previous three years (November 2006 to February 2009).

MR WILLIAM RANDALL

BBus

Non–Executive Director

Mr William Randall has been a Director of Gloucester Coal since 16 June 2009.

Mr Randall is Noble Group Head of the Energy Coal & Carbon Complex division. Mr Randall holds a Bachelor degree in Business, major in International Marketing and Finance. He started his career at Noble in Australia, transferring to Asia in 1999 where he established Noble's coal operations, mining and supply chain management businesses. Following his appointment as Director of Noble Energy Inc in 2001, Mr Randall continued to build the global coal and coke marketing network and asset pipeline. He was appointed global head of Coal & Coke in 2006 and became a member of the Noble Group Executive Board in 2008 and assumed management of the Steel & Ferro Alloys business in April 2010.

Mr Randall is a Nominee of Noble Group Limited.

Mr Randall is a member of the Nominations Committee and the Remuneration Committee.

FORMER DIRECTORS

MR BARRY TUDOR

BEc, CA, MBA, MAICD

Former Chief Executive Officer and Managing Director

Mr Tudor was Chief Executive Officer and Managing Director of Gloucester Coal from 16 June 2009 and resigned on 22 February 2011.

COMPANY SECRETARIES

MR HEMANG SHAH

BBus, LLB (Hons)

Hemang Shah joined Gloucester Coal on 25 July 2011 as General Counsel. Mr Shah is a corporate lawyer and was previously a Senior Associate at law firm Minter Ellison in the Mergers and Acquisitions Group. He has significant experience in advising listed and unlisted companies including those in the resources sector. Mr Shah was appointed as Company Secretary on 23 August 2011.

MS LISA WAI YIN YIM

FCIS

Ms Lisa Yim has been Company Secretary of Noble Group Limited since 1994, in charge of the overall corporate secretarial function and regulatory and corporate governance compliance. Ms Yim was appointed Company Secretary of Gloucester Coal on 16 June 2009, replaced on 23 August 2011.

MR CRAIG BOYD

BEc, CA

Mr Boyd is a Chartered Accountant with over 15 years' financial experience. Mr Boyd joined Gloucester Coal in January 2006 and was promoted to the position of Acting Chief Financial Officer in January 2011.

Appointed as Company Secretary on 25 February 2011, replaced on 23 August 2011.

DIRECTORS' MEETINGS

Director	Board Meetings		Audit, Risk and Corporate Governance Committee Meetings		Human Resources & Nominations Committee Meetings		Independent Directors' Committee Meetings [7]	
	A	B	A	B	A	B	A	B
James MacKenzie	14	14	5	5	3	4	32*	41
Gregory Fletcher	14	14	5	5	4	4	41	41
Denis Gately	4	4	1	1	1	1	40	41
David Brownell	14	14	4	5	4	4	–	–
Ricardo Leiman	5	14	–	–	–	–	–	–
William Randall	12	14	–	–	–	–	–	–
Former Directors								
Barry Tudor	9	9	–	–	1	1	–	–

A Number of meetings attended.

B Number of meetings held during the time the director held office during the period.

* Mr MacKenzie was granted leave of absence by the Board and did not attend a number of non–critical Independent Directors Committee meetings.

7 The Independent Directors' Committee was formed for the purpose of the acquisitions of Monash and Donaldson.

CORPORATE GOVERNANCE STATEMENT

The Gloucester Coal Ltd Board of Directors ("the Board") is committed to achieving best practice in the area of corporate governance and business conduct. The Corporate Governance Statement and Compliance Table outlines the main corporate governance principles and practices followed by Gloucester Coal Ltd.

The Company's corporate governance practices were in place throughout the year ended 30 June 2011. The Board is comfortable that practices are satisfactory for a company of Gloucester Coal's size. Below are the main corporate governance practices in place (unless otherwise stated) throughout the financial period, in relation to the corporate governance principles and recommendations of the ASX Corporate Governance Council:

PRINCIPLE 1

Lay solid foundations for management and oversight

The Company has a small Board consisting of six non-executive directors and a small management team, so while the roles and functions have to be flexible to meet specific requirements, the Board and management functions have been formalised and approved by the Board. The Company is in the process of expanding its management team to support the recent increase in the size of the Company and as part of this process has recruited a General Manager Marketing, Investor Relations Director and General Counsel over the past months. The statement of Board and management responsibilities can be found within the Statement of Corporate Governance Practices on the Company's website.

In determining short-term bonuses payable to senior executives in connection with the 2011 Financial Year, regard was had to the performance of each executive. This performance evaluation is in accordance with the process previously disclosed. The Company is currently undertaking a process of updating its performance review processes. A further discussion of the performance evaluation of executives in determining bonuses is set out in the remuneration report in section B.

PRINCIPLE 2

Structure the Board to add value

The Board consists of six directors, of whom four hold their positions in independent non–executive capacities. The Chairman is an independent non–executive director as well as Greg Fletcher, Denis Gately and David Brownell. Directors of Gloucester Coal Ltd are considered to be independent when they are non-executive directors, independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgment. In determining or confirming a Board member's independence, the relevant materiality threshold for potential conflicts is determined on a case by case basis having regard to the circumstances.

There are procedures in place, agreed by the Board, to enable directors, in furtherance of their duties, to seek independent professional advice at the Company's expense. The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report.

Denis Gately is a former partner of Minter Ellison having retired on 30 June 2010 and continues as a consultant of that firm. Minter Ellison is the Company's principal legal advisor and was engaged by the Company prior to Mr Gately's appointment to the Board in February 2011. The Board is of the view that the Company's engagement of Minter Ellison and Mr Gately's consultancy with that firm since 1 July 2010 does not affect Mr Gately's independence, particularly because he is not involved in engaging Minter Ellison to provide legal services and does not receive or approve invoices issued by Minter Ellison. The Company also has a number of other relationships with other external law firms.

Greg Fletcher is a former partner of Deloitte Touche Tohmatsu (Deloitte). An entity affiliated with Deloitte, Deloitte Corporate Finance Pty Ltd ("DCF") was appointed by the Company as an independent expert to opine on the Middlemount transaction as well as the Donaldson and Monash transactions. The manner in which DCF was engaged and all interaction with them has been in a manner to maintain their independence to the Company and appropriate protocols and procedures were put in place. The Board therefore does not consider that the appointment of DCF compromises Greg Fletcher's independence.

During the financial year, an independent review was conducted of the performance of the Board, its committee and directors. This review was foreshadowed in the Company's 2010 Annual Report. The process for performance evaluation of the board, board committees, individual directors and key executives is set out in the Company's Statement of Corporate Governance Practices which can be found on its website.

The Board of Directors strives to achieve the right mix of skills and diversity in its composition. The Board seeks to have leading individuals in each of the following areas:

- management and corporate governance;
- mining;
- legal; and
- accounting/finance.

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

At each annual general meeting the following directors must retire:

a) any director who was appointed by the directors during the year to fill a casual vacancy or as an addition to the existing directors.

b) if that director did not retire at that annual general meeting, the director would have held office without re–election beyond the third annual general meeting following the meeting at which the director was last elected or re–elected or at the next annual general meeting, would have held for that office for more than three years.

c) if, after excluding any director retiring pursuant to paragraph a) above:

i) there are six or less directors, two directors must retire from office; or

ii) there are more than six directors, one-third of directors (rounded down to the nearest whole number) must retire from office.

The directors who must retire in the manner described in paragraph c) include any directors who retire pursuant to paragraph b). Furthermore, the constitution of the Company (which is available at the website www.gloucestercoal.com.au) sets out guidance on which directors should retire pursuant to paragraph c) if sufficient directors do not volunteer themselves for retirement.

On 7 July 2011, the Human Resources and Nominations Committee was split into two separate committees, a Remuneration Committee and a Nominations Committee. The members of and attendance at meetings of the Human Resources and Nominations Committee is set out in the Directors' Meeting section of the Directors' Report. The Nomination Committee has the objective of helping the Board achieve its objective of ensuring the Company has a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties. The Nomination Committee Charter may be found on the Company's website.

PRINCIPLE 3

Promote ethical and responsible decision making

The Company has a formal Code of Conduct, approved by the Board. The Code requires directors and employees to conduct all business affairs legally, ethically and with integrity. The Code provides for reporting of breaches of the Code by others.

The Code of Conduct establishes:

i) practices necessary to maintain confidence in the Company's integrity;

ii) practices necessary to take into account legal obligations of stakeholders; and

iii) responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Independent Directors Committee members approve all material transactions with the ultimate parent entity, subsidiaries and entities with joint control.

On 25 May 2011, the Company formally adopted a diversity policy. The diversity policy is designed to support Gloucester's commitment to diversity. The Company is committed to achieving the goals of providing access to equal opportunities at work based on merit and fostering a corporate culture that embraces and values diversity. Every employee within the Group is responsible for supporting and maintaining Gloucester's corporate culture, including its commitment to diversity in the workplace. Commencing in the financial year starting 1 July 2011 the Board will establish measurable objectives for achieving gender diversity and review and assess, at least annually, both the measurable objectives for achieving gender diversity and Gloucester's progress in achieving them. The charter of the Nomination Committee provides that the committee is responsible for the review of the measurable objectives set on an annual basis pursuant to the Diversity Policy, reporting progress against them, and reporting to the Board recommending any changes to those measurable objectives or the way they are implemented. The measurable objectives for the 2012 Financial Year have been set.

Gloucester Coal is committed to pursuing gender diversity throughout the organisation with the amount of female employees increasing in 2011. 34 per cent of Corporate Head Office employees are now attributed to females, whilst on site, females make up six per cent of the workforce.

The Company will be looking at how the percentage of women can be increased throughout the 2012 Financial Year as part of a broader effort to boost and diversify its workforce.

The full Code of Conduct, Nominations Committee Charter and Diversity Policy may be found on the Company's website.

PRINCIPLE 4

Safeguard integrity in financial reporting

It is the Board's responsibility to ensure that an effective internal control framework exists within Gloucester Coal. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non–financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control, integrity and ethical standards for the management of the Group to an Audit, Risk and Corporate Governance Committee. However, ultimate responsibility remains with the Board.

The Audit, Risk and Corporate Governance Committee has a formal charter, approved by the Board. The charter of the committee may be found on the Company's website. The Committee consists of the three non–executive directors with the most applicable expertise and skills for this Committee. The Chairman of the Audit, Risk and Corporate Governance Committee is not the Chairman of the Board. The Chief Executive Officer, Deputy Chief Executive Officer and the Acting Chief Financial Officer are invited to Committee meetings at the discretion of the Committee.

The main responsibilities of the Audit, Risk and Corporate Governance Committee are to:

- Review and report to the Board on the annual report, the annual and half–year financial reports and all other financial information published by the Company or released to the market;
- Assist the Board in reviewing the effectiveness of the Company's internal control environment covering effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations;
- Oversee the effective operation of the risk management framework – see Principle 7 below;
- Recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, and the scope and quality of the audit; and
- Review and assess the various risk factors that can impact the Company's business – see Principle 7 below.

The Chief Executive Officer and the Acting Chief Financial Officer have declared in writing to the Board that the financial records of the Company for the financial period have been properly maintained and the Company's financial reports for the period ended 30 June 2011 comply with accounting standards and present a true and fair view of the Company's financial condition and operational results. This statement is required annually.

The external auditor is invited to Audit, Risk and Corporate Governance Committee meetings at the discretion of the Committee. The external auditor met with the Audit, Risk and Corporate Governance Committee five times during the period.

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

Candidates for the position of external auditor of the Company must be able to demonstrate complete independence from the Company and an ability to maintain independence through the engagement period. Further, the successful candidate must have arrangements in place for the rotation of the audit engagement partner on a regular basis. The Company's auditor, Ernst & Young, has a policy of partner rotation every five years.

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

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

The members of the Audit, Risk and Corporate Governance Committee are Greg Fletcher (Chairperson), Denis Gately, David Brownell and James MacKenzie. Mr Fletcher is a former partner of accounting firm, Deloitte Touche Tohmatsu. The respective backgrounds and skills of the members of the Committee can be found within the Directors' Report. Five Committee meetings were held during the 2011 Financial Year. The attendance by each member of the audit, risk and corporate governance committee to meetings which took place during the 2011 Financial Year is set out in the Directors' Meeting section of the Directors' Report.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

PRINCIPLE 5

Make timely and balanced disclosure

The Company, its directors and staff are acutely aware of continuous disclosure requirements and operate in an environment where strong emphasis is placed on full, appropriate and timely disclosure. The Company has formal written policies regarding disclosure to ensure compliance with ASX listing rule disclosure and accountability at a senior executive level for that compliance.

The Company has a Disclosure Program and Procedures which can be found on the Company's website. The purpose of the Disclosure Program and Procedures is to provide a summary of the obligation on the Company to disclose material information, provide examples of situations where disclosure is required, and where disclosure may be executed and establish a system within Gloucester Coal to ensure all required disclosure occurs.

PRINCIPLE 6

Respect the rights of shareholders

The Company provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX, posting them on the Company's website and issuing media releases.

During the year the Company created a new position of Investor Relations Director and hired a person to fill this position. The Investor Relations Director's responsibility includes enhancing communication to the market.

The Company has a communications strategy to promote effective communication with shareholders. Subject to ASX rules on disclosure, the Company communicates regularly with shareholders, brokers and analysts and maintains a review of information provided on its website.

The Company's arrangements regarding communication with and participation of shareholders are contained within the Company's Statement of Corporate Governance Practices which may be found on the Company's website.

Shareholders are encouraged to attend the Company's annual general meeting and use this opportunity to ask questions. The external auditor attends the annual general meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

In order to provide an equal opportunity for all shareholders to ask questions of the Board and/or its auditor, shareholders will be asked to submit in writing any questions to the Company or the Company's auditor before the AGM.

PRINCIPLE 7

Recognise and manage risk

The Company believes that there is significant need for formal policies on risk oversight and management. Risk management arrangements are reviewed by the Board, senior management and by the Audit, Risk and Corporate Governance Committee.

The Audit, Risk and Corporate Governance Committee Charter may be found on the Company's website.

The Board has required management to design and implement a risk management and internal control system to manage the Company's material business risks.

The Board has required management to report to it on whether those risks are being managed effectively.

The Chief Executive Officer and the Acting Chief Financial Officer have declared in writing to the Board that their section 295A declaration is founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial risks.

The Company has commissioned an independent review of its risk framework to enhance identification and management of risks Company wide (including in respect of the recently acquired Donaldson and Monash assets). This review is expected to be completed by the end of the current calendar year.

The Company's policies on risk oversight and management of material business risks may be found in the Audit, Risk and Corporate Governance Committee Charter. This document may be found on the Company's website.

PRINCIPLE 8

Remunerate fairly and responsibly

The Company has a Remuneration Committee, which meets as and when required to consider remuneration matters relating to senior employees. As at the date of this annual report, the Remuneration Committee consists of a majority of independent directors and its members are Denis Gately (chairperson), Greg Fletcher, David Brownell, James MacKenzie and William Randall. The Remuneration Committee was established on 7 July 2011 and prior to that, its functions were carried out by the Human Resources and Nominations Committee. Attendance at Human Resources and Nominations Committee meetings during the financial year is set out in the Directors' Meeting section of the Directors' Report.

The objective of the Remuneration Committee is to help the Board achieve its objective of ensuring the Company has coherent remuneration policies and practices to attract and retain executives and directors who will create value for shareholders, observes those remuneration policies and practices and fairly and responsibly rewards executives having regard to the performance of the Group, the performance of the executives and the general pay environment.

The Remuneration Committee may seek any information it considers necessary to fulfil its responsibilities. The Remuneration Committee has access to management and may seek explanations and information from management, at the Company's cost. The Remuneration Committee may seek professional advice from employees of the Group and from appropriate external advisers, at the Company's cost. The Remuneration Committee may meet with external advisers without management being present.

Pursuant to its charter, the Remuneration Committee must comprise and does comprise at least three members, a majority of independent directors and a chairperson who is an independent director.

Other than the payment to directors of superannuation, there is no scheme for retirement benefits.

The Company's securities trading policy prohibits transactions in associated products which limit risk of participating in unvested elements under any equity based remuneration scheme. This policy may be found on the Company's website.

The Remuneration Committee Charter may be found on the Company's website.

COMPLIANCE WITH RECOMMENDATIONS

PRINCIPLE	COMPLIANCE YES/NO	REFERENCE/ EXPLANATION
1 Lay solid foundations for management and oversight		
1.1 Formalise and disclose the functions reserved to the Board and those delegated to management.	YES	Website
1.2 Disclose the process for evaluating the performance of senior executives.	YES	Page 36
2 Structure the Board to add value		
2.1 A majority of the Board should be Independent Directors.	YES	Page 23
2.2 The Chairperson should be an Independent Director.	YES	Page 23
2.3 The roles of Chairperson and Chief Executive Officer should not be exercised by the same individual.	YES	Page 23
2.4 The Board should establish a Nominations committee.	YES	Website
2.5 Disclose the process for evaluating the performance of its Board, its committees and individual directors.	YES	Page 23
3 Promote ethical and responsible decision making		
3.1 Establish a Code of Conduct to guide directors, the Chief Executive Officer (or equivalent), the Chief Financial Officer (or equivalent) and any other key executives as to: • the practices necessary to maintain confidence in the Company's integrity; • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	YES	Page 24
3.2 Disclose the policy concerning trading in Company securities by directors, officers and employees.	YES	Website
3.3 Disclose the measurable objectives in the annual report for achieving gender diversity set by the board and progress to achieving these objectives.	YES	Page 24
3.4 Disclose the proportion of women employees in the whole organization, women in senior executive positions and women on the board.	YES	Page 24
4 Safeguard integrity in financial reporting		
4.1 The Board should establish an Audit Committee.	YES	Page 25
4.2 Structure the Audit Committee so that it consists of: • only Non–Executive Directors; • a majority of Independent Directors; • an independent Chairperson, who is not Chairperson of the Board; and • at least three members.	YES	Page 25
4.3 The Audit Committee should have a formal charter.	YES	Website
5 Make timely and balanced disclosure		
5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.	YES	Website

PRINCIPLE	COMPLIANCE YES/NO	REFERENCE/ EXPLANATION
6 Respect the rights of shareholders		
6.1 Design and disclose a communication strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	YES	Website
7 Recognise and manage risk		
7.1 The Board or appropriate committee should establish policies on risk oversight and management of material business risks.	YES	Page 26
7.2 The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	YES	Page 26
7.3 The Board should disclose whether it has received assurance from the Chief Executive Officer and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	YES	Page 26
8 Remunerate fairly and responsibly		
8.1 The Board should establish a Remuneration Committee.	YES	Page 27
8.2 The remuneration Committee should be structured so that it consists of mainly independent directors, is chaired by an independent chair and has at least three members.	YES	Page 27
8.3 Clearly distinguish the structure of Non–Executive Directors' remuneration from that of executives.	YES	Page 35

PRINCIPAL ACTIVITIES

During the year, the principal activities consisted of the production and marketing of Gloucester coking and thermal coals from the Stratford Mine comprising the Bowens Road North pit, Roseville pits and co–disposal, and from the Weismantel and Clareval pits at the Duralie Mine.

The Middlemount Project acquired during the period is a development mine located in Queensland's Bowen Basin forecast to produce coking coal and low volatile pulverised coal injection ("LV PCI").

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Middlemount is a mine under development located in Queensland's Bowen Basin and forecast to produce coking coal and low volatile pulverised coal injection ("LV PCI"). On 30 September 2010, the Company acquired a 27.52 per cent interest in the Middlemount Project and other Middlemount Assets. The consideration paid was $398.7 million, consisting of $298.2 million in cash and 10,810,811 new Gloucester Coal Ltd shares issued to Noble Group Limited.

On 24 December 2010, Gloucester Coal Ltd and Macarthur Coal Ltd completed a transaction involving the exercise of Gloucester Coal's call option for an additional near 22.48 per cent interest in Middlemount Coal Pty Ltd. Consideration payable by Gloucester was $97.6 million, including $45 million of deferred cash consideration paid on 30 June 2011. Post completion of the 24 December 2010 transaction, Gloucester Coal holds a near 50 per cent interest in the project.

On 4 August 2010, in association with the proposed Middlemount acquisition, the Company announced a 3 for 5 accelerated, non–renounceable pro–rata entitlement offer to raise approximately $441 million. On 26 August 2010, the Company issued 46.9 million new shares in respect of the Institutional Entitlement Offer and 0.8 million shares on 6 September 2010 in respect of the Retail Entitlement Offer, at a price of $9.25 per share.

On 16 May 2011, in association with the proposed Donaldson and Monash acquisitions, the Company announced a 2 for 11 fully underwritten accelerated non–renounceable pro–rata entitlement offer to raise approximately $230 million. On 24 May 2011, the Company issued 24.3 million shares in respect of the Institutional Entitlement Offer and 1.2 million shares on 16 June 2011 in respect of the Retail Entitlement Offer, at a price of $9.00 per share.

Other than those noted above, there were no other significant changes in the state of affairs of the Group during the financial year.

REVIEW OF OPERATIONS

The consolidated profit after tax for the financial year was $54.6 million (2010: $32.7 million).

During the year, the Company had production of coking and thermal coal of 1.8 million tonnes (2010: 1.9 million). The Company sold 2.1 million tonnes (2010: 2.0 million) of coal with a revenue of $306.6 million (2010: 229.3 million).

Gloucester Coal continued to acquire strategic freehold land to secure mining operations into the future, and now holds in excess of 6,500 hectares in the Gloucester Basin.

The Duralie Extension Project gained approval in December 2010. Following the Duralie Extension Project approval, a merits appeal hearing was heard in the Land and Environment Court by Chief Judge Preston. Hearings commenced on 9 May 2011 and concluded on 1 July 2011. Gloucester Coal is awaiting a decision from the Court. Development can be carried out whilst the appeal is on foot.

The Company maintains the highest commitment to ensure that its operations pose minimal risk to the natural environment. Environmental management is undertaken in accordance with extensive Environmental Management Plans prepared in consultation with relevant government agencies and approved by NSW Department of Planning (DoP). Reports of actual environmental performance are regularly submitted to regulators and reviewed with the Community Consultative Committees. The environmental team has continued to demonstrate responsible management and with the co–operation and commitment of all employees and contractors has delivered a solid environmental performance. Emphasis remains on compliance with the development consents, water management and the rehabilitation of mined areas and waste dumps.

DIVIDENDS DECLARED DURING THE YEAR 2011

There were no dividends declared during or subsequent to the financial year.

There are $53,622,206 franking credits available as at 30 June 2011.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Group will continue the production and marketing of Gloucester coking and thermal coal from the Stratford pits and Duralie pits. Productivity improvements remain concentrated on maximising the proportion of coking coal to thermal coal sold and increasing product yield.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years may not be included in this Annual Report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

EVENTS SUBSEQUENT TO REPORTING DATE

Acquisition of Donaldson and Monash

On 14 July 2011, the Company acquired a 100 per cent interest in Donaldson Coal from Noble Group Limited ("Noble"), a related party, for an enterprise value of $585 million. This was completed by Gloucester assuming debt of $225 million from Donaldson and issuing $360 million of new Gloucester Coal Ltd shares issued (at $9.75 per share) at acquisition to a wholly owned subsidiary of Noble Group Limited. The consideration is subject to completion adjustments. Fair value of the consideration transferred was $321.2 million being 36,923,076 new shares with a fair value of $8.70 per share, being the closing market price of Gloucester shares at the acquisition date. The Donaldson transaction was approved by the Company's non–associated shareholders on the 8 July 2011.

In addition, on 14 July 2011, the Company acquired a 100 per cent interest in Ellemby Holdings Pty Ltd for consideration of $30 million cash and the issuance of 1,000 unquoted converting shares (the terms of which allow for the provision of additional shares to the Monash vendors subject to achieving key milestones). A Company owned and controlled by Gloucester Coal Ltd CEO, Brendan McPherson, and his spouse held a minority interest in Ellemby Holdings Pty Ltd prior to acquisition by Gloucester Coal Ltd. The Ellemby transaction was approved by the Company's non–associated shareholders on the 8 July 2011.

Other events after balance sheet date

On 14 July 2011, the Company entered into an A$400 million debt facility with Noble. The facility matures on 1 July 2015, replacing the current US$80 million facility with Noble. At the date of this report, the Company held a drawn down balance of $230.5 million from the debt facility with Noble. Interest is calculated at a rate of BBSY plus 3.0 per cent per annum, payable quarterly.

On 31 August 2011, Donaldson agreed to additional take or pay commitments for port capacity at NCIG under Stage 2F scheduled to start commissioning in 2013. Donaldson will receive 11.6 per cent of the additional capacity of 13mtpa.

Other than noted above, in the interval between balance date and the date of this report, there has not arisen any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

DIRECTORS' INTERESTS

The relevant interest of each director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by the companies within the Group and other related bodies corporate, as notified by the directors to the Australian Securities Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Gloucester Coal Ordinary Shares	Gloucester Coal Options over Ordinary Shares	Noble Group Limited Ordinary Shares	Noble Group Limited Options over Ordinary Shares
James MacKenzie	5,600	–	–	–
Gregory Fletcher	1,000	–	–	–
Denis Gately	5,000	–	–	–
Ricardo Leiman	–	–	23,176,602	81,409,090
William Randall	–	–	21,629,767	7,184,086

SHARE OPTIONS

Options granted to directors, officers and executives of the Company

During or since the end of the financial year, the Company granted options for no consideration over unissued ordinary shares in Gloucester Coal Ltd to the following executives of the Company as part of their remuneration:

	Number of options granted	Grant Date	Exercise price	Expiry date
Brendan McPherson	1,000,000[8]	13 April 2011	$12.03	13 April 2018
Tim Crossley	1,000,000[8]	13 April 2011	$12.03	13 April 2018
Craig Boyd	87,339[9]	7 January 2011	$11.09	7 January 2018

Unissued shares under options

At the date of this report, there are 2,343,855 ordinary shares of the Company under option.

Further details are included in the Remuneration report on pages 34 to 47.

8 50% of options issued vest on 23 February 2014 and 50% vest on 23 February 2016

9 50% of options issued vest on 1 September 2013, 25% vest on 1 September 2014 and 25% vest on 1 September 2015

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

Indemnification

During this calendar year, the Company indemnified the following directors of the Company: David Brownell, Greg Fletcher, Denis Gately, Ricardo Leiman, James MacKenzie and William Randall, and the following executives: Brendan McPherson, Craig Boyd, Tim Crossley and Hemang Shah, against all liabilities incurred as an officer of the Company or of a subsidiary of the Company and all reasonable legal costs (and certain other costs and expenses) incurred by them in defending an action for a liability incurred by them as an officer of the Company or any of its subsidiaries.

Except as noted above, the Company has not, during or since the end of the financial period, in respect of any person who is or has been an officer of the Company or a related body corporate indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including for legal costs for defending an action for liability.

Insurance premiums

During the financial period, the Company has paid premiums to insure each of the directors and officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

The premiums paid are not disclosed as such disclosure is prohibited under the terms of the relevant insurance policies.

NON–AUDIT SERVICES

During the year, Ernst & Young, the Company's auditor, has performed certain other services in addition to its statutory duties. The Board has considered the non–audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit, Risk and Corporate Governance Committee, is satisfied that the provision of those services during the year is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non–audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit, Risk and Corporate Governance Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non–audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 Professional Independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amount paid to the auditor of the Company, Ernst & Young and its related practices for non–audit services provided during the year are set out below.

	CONSOLIDATED	
	30 Jun 11 $	**30 Jun 10 $**
Services other than statutory audit		
Corporate transaction services	344,470	–
Taxation advice and compliance services	438,606	261,908
	783,076	**261,908**

REMUNERATION REPORT – AUDITED

Remuneration is referred to as compensation throughout this report.

This report outlines the remuneration arrangements in place for Key Management Personnel of Gloucester Coal Ltd.

During the 2011 Financial Year, Gloucester embarked on the first stage of a major expansion and change programme designed to reposition the Company to become a significant player in the Australian coal mining sector. This process was commenced in the 2010 Financial Year when the Board assessed various strategic options available to the Company, although much of the implementation of the strategic direction chosen occurred in the 2011 year. As well as evaluating and concluding four significant corporate transactions (Middlemount, Middlemount Royalty Stream, Donaldson and Monash) the Company also raised $671 million in equity and completed a major review of its internal management capability resulting in a significant strengthening of its executive team within the year.

A) KEY MANAGEMENT PERSONNEL

Details of the Key Management Personnel including the top five remunerated executives of the parent and group are set out below:

Directors	Status
James MacKenzie	Chairman and Independent Non–Executive Director
Gregory Fletcher	Independent Non–Executive Director
Denis Gately [A]	Independent Non–Executive Director
David Brownell	Independent Non–Executive Director
Ricardo Leiman	Non–Executive Director
William Randall	Non–Executive Director
Current Executives	
Brendan McPherson [B]	Chief Executive Officer
Tim Crossley [B]	Deputy Chief Executive Officer
Craig Boyd [C]	Acting Chief Financial Officer and Company Secretary
Former Directors	
Barry Tudor [D]	Executive Director and Chief Executive Officer
Former Executives	
Graham Colliss [E]	Chief Operating Officer
William Kendall [F]	Chief Commercial Officer
Neil McKenzie [G]	Chief Financial Officer and Company Secretary
Lisa Wai Yin Yim [H]	Company Secretary

A Appointed 21 February 2011.

B Appointed 22 February 2011.

C Appointed Acting Chief Financial Officer 1 January 2011 and appointed Company Secretary 25 February 2011 to 23 August 2011.

D Resigned 22 February 2011.

E Resigned 15 April 2011.

F Appointed 1 July 2010 to 22 February 2011.

G Appointed Chief Financial Officer and Company Secretary 19 July 2010 to 22 December 2010.

H Replaced 23 August 2011.

B) PRINCIPLES OF COMPENSATION

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group.

The performance of the Company depends upon the quality of key management personnel. To prosper, the Company must attract, motivate and retain highly skilled key management personnel.

To meet this objective, the Company has adopted the following principles in its compensation framework:

- Provide competitive rewards to attract high calibre executives;
- Link executive rewards to shareholder value;
- Significant portion of executive compensation "at risk", dependent upon meeting pre–determined performance benchmarks; and
- Establish appropriate performance hurdles in relation to variable executive compensation.

Remuneration Committee (formerly Human Resources and Nominations Committee)

The Remuneration Committee of the Board of Directors (formed on 7 July 2011), formerly the Human Resources and Nominations Committee[10], is responsible for determining and reviewing compensation arrangements for executives.

In undertaking its remuneration duties, the Remuneration Committee gives appropriate consideration to the Group's performance and objectives, employment conditions and remuneration relativities. Executive remuneration and incentive policies and practices are performance based and aligned with the Group's vision, values and overall business objectives. Executive remuneration and incentive policies and practices are designed to:

(a) motivate the directors and management to pursue the Group's long term growth and success; and

(b) demonstrate a clear relationship between the Group's overall performance and the performance of executives.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- the capability and experience of the key management personnel;
- the key management personnel's ability to control the relevant operation's performance;
- the Company's performance including earnings, growth in share price, and returns on shareholder wealth;
- the amount of incentives within each key management personnel's compensation; and
- prevailing market conditions for management personnel.

Compensation structure

In accordance with sound corporate governance, the structure of non–executive director and executive management compensation is separate and distinct.

Non–executive director compensation

Objective

The Board seeks to set aggregate compensation at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate compensation of non–executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held in November 2009 when shareholders approved an aggregate compensation amount of $1,500,000 per year. The Remuneration Committee is responsible for reviewing the remuneration of non–executive directors for serving on the board or any committee both individually and in total.

Each non–executive director receives an annual fee for being a director of the Company (Chairman $275,000 plus 9 per cent superannuation, and non Noble employee directors $150,000 including superannuation). The Constitution also provides that if a director performs extra services or makes any special exertions for the benefit of the Company, the director may be paid additional remuneration to reflect the value to the Company of those extra services or special exertions. This additional remuneration does not form part of the shareholder approved aggregate compensation amount.

The compensation of the non–executive directors (excluding employees of Noble)[11] set out in Table 1 includes transaction specific and additional remuneration for the services undertaken by the directors of the Company in dealing

10 On 7 July 2011, the Human Resources and Nominations Committee was split into two separate committees, a Remuneration Committee and a Nominations Committee.

11 The non–Noble employees non–executive directors are James MacKenzie, David Brownell, Greg Fletcher and Denis Gately.

REMUNERATION REPORT – AUDITED (CONTINUED)

with the significant corporate transactions undertaken by the Company during the year as specified in Section C below ("transaction specific remuneration"). Additional remuneration also includes fees for directorships of jointly controlled entities.

Executive management compensation

The Company aims to reward executive management with a level and mix of compensation commensurate with their position and responsibilities within the Company so as to:

- reward executive management for Company and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executive management with those of shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total compensation is competitive by market standards.

Structure

In determining the level and make–up of executive management compensation, the Remuneration Committee considers comparable executive roles in companies of similar industry and market capitalisation. Compensation consists of the following key elements:

- Fixed Compensation
- Variable Compensation (consisting of Short Term Incentives ("STI") and Long Term Incentives ("LTI")).

The proportion of fixed compensation and variable compensation (potential short term and long term incentives) is established for each executive management personnel by the Remuneration Committee. Tables 1 and 2 detail the variable component (%) of the most highly remunerated executives.

Fixed compensation

Objective

The level of fixed compensation is set so as to provide a base level of compensation which is both appropriate to the position and is competitive in the market of companies in a similar industry and market capitalisation.

Fixed compensation is reviewed annually by the Remuneration Committee. The 2011 Financial Year has been a transformational year during which all current Executives within the Key Management Personnel were appointed or promoted to their current positions. As such an annual assessment of their fixed remuneration was not applicable, however all salaries for these roles were determined having regard to relevant comparative compensation in the market; and internal and, where appropriate, external advice on policies and practices. As noted above, the Committee has access to external advice independent of management.

From 1 July 2011, the *Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011* will take effect and requires, among other things, that all contracts entered into with remuneration consultants, and reporting of any subsequent recommendations, are made directly to the Remuneration Committee. While this legislation does not take effect until after the end of the 2011 Financial Year, the Board confirms that it has had regard to the general principles of the legislation in respect of any external remuneration advice received.

Shortly after the end of the 2011 Financial Year, the Remuneration Committee has engaged a remuneration consultant to provide advice to the Remuneration Committee and the Board. This appointment complied with the provisions of the *Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011.*

Executive management personnel are given the opportunity to receive their fixed (primary) compensation in a variety of forms, including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

The fixed compensation component of the executive directors and the most highly compensated key executives is detailed in Tables 1 and 2 of this report.

Variable compensation – Short Term Incentive (STI)

Objective

The objective of the STI program is to link the achievement of the Company's operational targets with the compensation received by the key management personnel charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executive management personnel to achieve the operational targets and such that the cost to the Company is reasonable in the circumstances.

Structure

Actual STI payments granted to each executive were determined after taking into account the Company's performance as well as the individual performance of the executive which included both financial and non–financial measures.

Typically included are measures such as contribution to net profit after tax, production cost targets, environmental and safety and individual performance against pre–determined objectives. Payments under the short term incentive scheme to the executive management personnel are only made provided the Company's performance is adequate and the performance of the individual executive meets the minimum performance criteria requirements of the Remuneration Committee.

On an annual basis, after consideration of performance against KPIs, each executive is rated by the Remuneration Committee, incorporating an overall performance rating for the Company. These ratings determine the amount, if any, of the short term incentive allocated to each executive. As is the usual practice, STI payments for the 2011 Financial Year have been delivered to executives as a cash bonus.

The percentage of total bonuses for executives paid in respect of the 2011 Financial Year is set out in section G below. Subject to the Company being profitable and them meeting their KPIs, Brendan McPherson (CEO) and Tim Crossley (Deputy CEO) are entitled to an STI bonus payment of 50–90 per cent of their total fixed remuneration at the time of payment. They were each paid an STI of $160,000 for the 2011 Financial Year, approximating the midpoint of their entitlement. A key factor in determining the STI bonus for Craig Boyd of $130,000 was the significant work exerted by him on the four recent acquisitions.

Variable pay – Long Term Incentive (LTI)

Objective

The objective of the LTI plan is to reward and retain executive management personnel in a manner which aligns this element of compensation with the creation of shareholder wealth. As such, LTI grants are made to executive management personnel and senior employees who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance.

Structure

LTI grants to executives are delivered in the form of options. Share options are granted under a service condition and may be subject to performance hurdles based on the discretion of the Board of Directors.

Performance hurdles for LTI grants during the 2012 Financial Year are intended to include a hurdle against total shareholder returns. Such a hurdle would require the Company to outperform an appropriate index such as the S&P ASX 200 for a specified period prior to any LTIs (such as options) vesting.

Tables 4, 5 and 6 provide details of options granted, the value of options, vesting periods and lapsed options under the LTI plan.

C) TRANSACTION SPECIFIC REMUNERATION

During the Financial Year, the non–executive directors not employed by Noble received transaction specific remuneration for their work in dealing with the acquisitions undertaken by the Company:

- The Middlemount mine which is under development and located in Queensland's Bowen Basin. It will produce coking coal and low volatile pulverised coal injection ("LV PCI"). In December 2010 the Company exercised its option to acquire additional shares in Middlemount, to move to a near 50 per cent holding,
- The Middlemount royalty of four per cent of the total Free On Board Trimmed Sales from the Middlemount Project.

REMUNERATION REPORT – AUDITED (CONTINUED)

- Donaldson Coal, a high energy thermal and coking coal producer based in New South Wales with mining operations in the Hunter Valley just South of Maitland, 25 kilometres from the Port of Newcastle. Donaldson's production is sourced from three mines, the Donaldson open cut mine and the Abel and Tasman underground mines. The Donaldson complex of mines can produce a mix of thermal and soft coking coal, depending on prevailing market conditions and pricing. This included 11.6 per cent founding shareholding in NCIG Holdings Pty Limited, a new coal export terminal at the Port of Newcastle.
- Monash, a prospective export semi–soft coking (58%) and thermal (42%) early stage exploration project strategically located near existing infrastructure in the Hunter Valley.

The Board established a committee of independent directors to conduct these transactions who were responsible for the retention and instruction of investment bankers and lawyers, and independent experts and technical experts required to opine on these transactions by law.

In relation to these transactions there were 41 separate meetings of the independent directors committee. In addition, the due diligence committee, formed by these directors to review and approve the documentation to be circulated to shareholders as required by law, met on 55 separate occasions to discharge their responsibilities.

This involved "extra services" pursuant to the Company's constitution and as such entitled these directors to additional remuneration. The determination of this remuneration was based on market rates.

D) CONSEQUENCES OF PERFORMANCE AND THE LINK TO REMUNERATION

The table below summarises the Company's performance over the last five years and the effect on shareholder value. The relationship between the remuneration policy and the Company's performance is aligned through the use of a short term incentive plan which aims to align the bonus payments of senior management with the short term targets of the Company and the long term incentive plan which aims to align the long term incentives for senior management with share price growth. In this respect, the options issued to senior management during the 2011 Financial Year under the LTIP were 'strike price' options issued with an exercise price representative of the share price at the time of issue and accordingly, the performance of the Company's share price will directly impact the remuneration of senior management.

	2011	2010	2009	2008	2007
Net profit after tax ($000)	54,562	32,730	81,740	23,447	18,026
Diluted earnings per share (cents per share)	38.2	36.1	99.8	28.7	22.8
Dividend (cents per share)	–	–	0.14	0.21	0.14
Closing price of shares (cents per share)	8.49	12.25	5.13	12.72	5.00
Market capitalisation ($m)	1,409	1,004	420	1,044	395

E) EMPLOYMENT CONTRACTS

The Executives' terms of employment are detailed in formal service agreements. Each agreement is of a continuing duration and has no set term of service (subject to the termination provisions within each agreement).

The Company may generally terminate an Executive's employment without notice or payment in lieu of notice in cases of serious and willful misconduct by the Executive, or in certain other circumstances. The following table summarises the individual details of the service agreements for the executive management personnel.

Executive	Status	Term	Notice period (Months)	Eligible for STI	Eligible for LTI [12]	Termination by Company	Termination Following Fundamental Change or Redundancy	Eligible for other Benefits [13]
Brendan McPherson	Current	Unlimited	Company: 6 Executive: 6	Yes	Yes	6 months remuneration + Pro–rata STI	6 months remuneration + Pro–rata STI	Yes
Tim Crossley	Current	Unlimited	Company: 6 Executive: 6	Yes	Yes	6 months remuneration + Pro–rata STI	6 months remuneration + Pro–rata STI	Yes
Craig Boyd	Current	Unlimited	Company: 6 Executive: 3	Yes	Yes	6 months salary + Pro–rata STI	12 months remuneration + Pro–rata STI	Yes
Barry Tudor	Resigned	Resigned	Company: 6 Executive: 6	Yes	Yes	6 months salary + Pro–rata STI	6 months salary + Pro–rata STI	Yes
Graham Colliss	Resigned	Resigned	Company: 12 Executive: 12	Yes	Yes	12 months remuneration + Accrued Sick Leave	12 months salary + Pro–rata STI	Yes
Neil McKenzie	Resigned	Resigned	Company: 6 Executive: 6	Yes	Yes	6 months remuneration + Pro–rata STI	6 months remuneration + Pro–rata STI	Yes
William Kendall	Resigned	Resigned	Company: 6 Executive: 6	Yes	Yes	6 months remuneration + Pro–rata STI	6 months remuneration + Pro–rata STI	Yes

The CEO, Mr McPherson, was appointed to the position on 22 February 2011 and is employed under a rolling contract. Under the terms of Mr McPherson's service contract, fixed remuneration inclusive of superannuation, is $632,200 per annum. Subject to the Company being profitable and him meeting his KPIs, Brendan McPherson is entitled to participate in the Company's STI plan. Mr MrPherson's participation in the LTI is at the discretion of the Board which discretion will be exercised based on the policies discussed above.

12 Eligibility for LTI is subject to Board approval for each grant.

13 Fees paid by the Group for Directors' and Officers' liability are not itemised for each Director and, as their disclosure would breach the terms of the policy, are not set out in this Report. Other benefits may also include access to benefits under the Company's insurance policies for Death, Total and Permanent Disability and Salary Continuance.

REMUNERATION REPORT – AUDITED (CONTINUED)

F) KEY MANAGEMENT PERSONNEL REMUNERATION (COMPANY AND CONSOLIDATED)

Details of the nature and amount of each major element of remuneration of each director of the Company and the five named Company and Group executive management personnel who received the highest remuneration are:

Table 1: Remuneration for the year ended 30 June 2011

	SHORT TERM				
	Salary $	Other fees [14] $	Total salary and fees $	STI [15] $	Non–monetary benefits $
Non–Executive Directors					
James MacKenzie	275,000	441,000	716,000	–	–
Gregory Fletcher	137,615	352,686	490,301	–	–
Denis Gately [16]	49,047	143,297	192,344	–	
David Brownell	137,615	101,389	239,004	–	–
Ricardo Leiman [17]	–	–	–	–	–
William Randall [17]	–	–	–	–	–
Former Directors					
Barry Tudor [18]	388,040	–	388,040	210,733	1,008
TOTAL SPECIFIED DIRECTORS	**987,317**	**1,038,372**	**2,025,689**	**210,733**	**1,008**
Current Executives					
Brendan McPherson	204,487	–	204,487	160,000	
Tim Crossley	199,375	–	199,375	160,000	
Craig Boyd	271,211	–	271,211	130,000	
Former Executives					
Graham Colliss	254,785	–	254,785	53,292	–
William Kendall	259,590	–	259,590	116,267	2,272
Neil McKenzie	265,483	–	265,483	40,000	–
TOTAL SPECIFIED EXECUTIVES	**1,454,931**	**–**	**1,454,931**	**659,559**	**2,272**
TOTAL KEY MANAGEMENT PERSONNEL	**2,442,248**	**1,038,372**	**3,480,620**	**870,292**	**3,280**

14 Other fees included in remuneration as discussed in Section B under the Non–executive director compensation heading.

15 The Short Term Incentive Bonus is for performance during the Financial Year ended 30 June 2011. The amount was determined subsequent to year end after performance reviews were completed and approved by the Remuneration Committee.

16 Mr Gately was appointed on 21 February 2011.

17 Mr Leiman and Mr Randall are Noble Group Limited employees and are not remunerated by Gloucester Coal Ltd.

18 Mr Tudor resigned from CEO and Executive Director on 22 February 2011. As part of the termination benefit, Mr Tudor was paid $250,000 on 1 July 2011 and is entitled to be paid $250,000 on 2 January 2012.

19 See table 4 for details on the calculation of the fair value of options granted.

POST EMPLOYMENT	LONG TERM BENEFITS	TERMINATION BENEFITS	SHARE BASED PAYMENTS			
Super–annuation benefits $	Long Service Leave $	$	Value of options [19] $	Total (including other fees) $	Proportion of remuneration performance related %	Value of option as a proportion of remuneration %
24,750	–	–	–	740,750	–	–
15,199	–	–	–	505,500	–	–
3,800	–	–	–	196,144	–	–
14,496	–	–	–	253,500	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
25,550	–	930,141	–	1,555,472	13.5	–
83,795	**–**	**930,141**	**–**	**3,251,366**		
18,404	26,041	–	178,468	587,400	27.2	30.4
17,944	25,390	–	178,468	581,177	27.5	30.7
15,199	12,970	–	53,720	483,100	26.9	11.1
12,561	–	550,714	–	871,352	6.1	–
11,399	–	216,733	–	606,261	19.2	–
14,919	–	20,348	–	340,750	11.7	–
90,426	**64,401**	**787,795**	**410,656**	**3,470,040**		
174,221	**64,401**	**1,717,936**	**410,656**	**6,721,406**		

Other than noted above, termination benefits were paid in accordance with the service agreement of each executive and included payments in lieu of notice and annual, long service and personal leave where relevant.

REMUNERATION REPORT – AUDITED (CONTINUED)

F) KEY MANAGEMENT PERSONNEL REMUNERATION (COMPANY AND CONSOLIDATED) (CONTINUED)

Details of the nature and amount of each major element of remuneration of the Company and Group executives who received the highest remuneration are:

Table 2: Remuneration for the year ended 30 June 2010

	SHORT TERM				
	Salary $	Other fees [21] $	Total salary and fees $	STI [22] $	Cash Bonus $
Non–Executive Directors					
James MacKenzie	275,269	220,500	495,769	–	–
David Brownell	136,577	144,000	280,577	–	–
Gregory Fletcher	136,577	157,500	294,077	–	–
Ricardo Leiman [23]	–	–	–	–	–
William Randall [23]	–	–	–	–	–
Former Executive Director					
Barry Tudor	594,854	–	594,854	451,313	–
TOTAL SPECIFIED DIRECTORS	**1,143,277**	**522,000**	**1,665,277**	**–**	**–**
Former Executives					
Kirby Johnson	52,270	–	52,270	–	–
Graham Colliss	317,563	–	317,563	94,684	157,500
Peter Scott	275,534	–	275,534	75,858	75,000
TOTAL SPECIFIED EXECUTIVES	**645,367**	**–**	**645,367**	**170,542**	**232,500**
TOTAL KEY MANAGEMENT PERSONNEL	**1,788,644**	**522,000**	**2,310,644**	**621,855**	**232,500**

21 Other fees included in remuneration as discussed in Section B under the Non-executive director compensation heading.

22 The Short Term Incentive Bonus is for performance during the Financial Year ended 30 June 2010. The amount was determined subsequent to year end after performance reviews were completed and approved by the Remuneration Committee.

23 Mr Leiman and Mr Randall are Noble Group Limited employees and are not remunerated by Gloucester Coal Ltd.

24 Refer to 30 June 2010 Annual Report for the fair value of options granted.

	POST EMPLOYMENT	TERMINATION BENEFITS	SHARE BASED PAYMENTS			
Non–monetary benefits $	Super–annuation benefits $	$	Value of options [24] $	Total (including other fees) $	Proportion of remuneration performance related %	Value of option as a proportion of remuneration %
–	24,774	–	–	520,543	–	–
–	13,423	–	–	294,000	–	–
–	13,423	–	–	307,500	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	44,054	–	463,090	1,553,311	29.1	29.8
–	**95,674**	**–**	**463,090**	**2,675,354**		
–		–			–	–
–	2,291	169,625	–	224,186	–	–
–	14,461	–	–	584,208	16.2	–
–	14,461	–	–	440,853	17.2	–
–	**31,213**	**169,625**	**–**	**1,249,247**		
–	**126,887**	**169,625**	**463,090**	**3,924,601**		

REMUNERATION REPORT – AUDITED (CONTINUED)

G) ANALYSIS OF BONUSES INCLUDED IN REMUNERATION

Details of the vesting profile of the Short Term Incentive Bonuses awarded as remuneration to each director of the Company and each of the named Company executive management personnel and relevant Group senior management are detailed below:

	Total performance bonus included in remuneration [25] $	Vested in year %	Forfeited in year [26] %
Executives			
Brendan McPherson	160,000	80	20
Tim Crossley	160,000	82	18
Craig Boyd	130,000	100	–
Former Executive Directors			
Barry Tudor	210,733	57	43
Former Executives			
Graham Colliss	53,292	50	50
Graham Colliss	116,267	100	–
Neil McKenzie	40,000	34	66

Performance assessments are conducted for senior executives on an annual basis as part of the Short Term Incentive process. Other than for the former employees, performance is assessed for each executive against individual Key Performance Indicators. During the year the performance criteria were assessed based on a subjective assessment of the performance of the executive by the Remuneration Committee after taking into account the operational outcomes of the business and the areas of responsibility.

25 Amounts included in remuneration in the financial period represent the amount that vested in the financial period based on achievement of personal goals and satisfaction of specified performance criteria. No amounts vest in future years in respect of the short term incentive bonus schemes for the year ended 30 June 2011.

26 The amounts forfeited are due to performance or service criteria not being met in relation to the current financial period. STI bonuses are in respect of safety and environmental performance criteria, Company results and individual KPIs for the twelve month period ended 30 June 2011.

H) EQUITY INSTRUMENTS

(i) Options and rights over equity instruments granted as compensation

All options in the Long Term Incentive Plan ("LTIP") refer to options over ordinary shares of Gloucester Coal Ltd which are exercisable on a one for one basis under the LTIP.

Table 4

	Plan	Number of options granted	Grant date	Vest date	Fair value of options at grant date	Exercise price per option	Expiry date	Number of options vested
2011								
Executives								
Brendan McPherson	LTIP	500,000	13 Apr 2011	23 Feb 2014	$2.79	$12.03	13 Apr 2018	–
	LTIP	500,000	13 Apr 2011	23 Feb 2016	$3.39	$12.03	13 Apr 2018	–
Tim Crossley	LTIP	500,000	13 Apr 2011	23 Feb 2014	$2.79	$12.03	13 Apr 2018	–
	LTIP	500,000	13 Apr 2011	23 Feb 2016	$3.39	$12.03	13 Apr 2018	–
Craig Boyd	LTIP	43,669	7 Jan 2011	1 Sep 2013	$4.01	$11.09	7 Jan 2018	–
	LTIP	21,835	7 Jan 2011	1 Sep 2014	$4.27	$11.09	7 Jan 2018	–
	LTIP	21,835	7 Jan 2011	1 Sep 2015	$4.49	$11.09	7 Jan 2018	–

(ii) Modification of terms of equity–settled share-based payment transactions

No terms of equity–settled share–based payment transactions (including options and rights granted as compensation) have been altered or modified by the issuing entity during the reporting period.

(iii) Exercise of options granted as compensation

During the reporting period, no shares were issued on the exercise of options previously granted as compensation..

REMUNERATION REPORT – AUDITED (CONTINUED)

H) EQUITY INSTRUMENTS (CONTINUED)

(iv) Analysis of options and rights over equity instruments granted as compensation

Details of the vesting profile of the options granted as remuneration to each director of the Company and each Company executive and relevant Group executive is listed below:

Table 5

Directors	Options granted Number	Options granted Date	Vested in year %	Cancelled in year %	Financial years in which grant vests
Barry Tudor	1,000,000	20 November 2009	–	100%	n.a.
Brendan McPherson	500,000	13 April 2011	–	–	30 June 2014
	500,000	13 April 2011	–	–	30 June 2016
Tim Crossley	500,000	13 April 2011	–	–	30 June 2014
	500,000	13 April 2011	–	–	30 June 2016
Craig Boyd	43,669	7 January 2011	–	–	30 June 2014
	21,835	7 January 2011	–	–	30 June 2015
	21,835	7 January 2011	–	–	30 June 2016

(v) Analysis of movements in options

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each Company director and each of the named Company executives and relevant Group executives is detailed below:

Table 6

Directors	Granted in year [27] $	Exercised in year [28] $	Cancelled in year [29] $
Brendan McPherson	3,090,000	–	–
Tim Crossley	3,090,000	–	–
Craig Boyd	366,522	–	–
Former Executive Director			
Barry Tudor	–	–	5,450,000

Options granted as part of key management personnel remuneration in the year have been valued using a Monte Carlo Simulation option pricing model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk–free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option. See below for further details:

27 The value of options granted in the year is the fair value of the options calculated at grant date using a Monte Carlo Simulation option pricing model. The total value of options granted is included in the table above. This amount is allocated to remuneration over the vesting period.

28 The value of options exercised during the year is calculated as the market price of shares of the Company on the Australian Securities Exchange as at close of trading on the date the options were exercised after deducting the price paid to exercise the option. For options that were sold during the year the value of the options has been calculated as the net proceeds received.

29 The value of the options that lapsed during the year represents the benefit forgone and is calculated at the date the option lapsed reflecting the intrinsic value of the option.

ANALYSIS OF MOVEMENTS IN OPTIONS

(vi) Fair value of options

The following table summarises the factors and assumptions that were used in determining the fair value of options on grant date:

Table 7

	Grant date	Expiry date	Vesting date	Share price at time of grant $	Exercise price $	Perform–ance hurdle	Esti-mated volatility %	Expect-ed life (years)	Risk free rate %	Dividend yield %
2011 Issues	13 April 2011	13 April 2018	23 Feb 2014	10.75	12.03	No	40	3.13	5.23	4.00
	13 April 2011	13 April 2018	23 Feb 2016	10.75	12.03	No	40	5.13	5.46	4.00
	7 Jan 2011	7 Jan 2018	1 Sep 2013	12.11	11.09	No	40	2.90	5.26	4.00
	7 Jan 2011	7 Jan 2018	1 Sep 2014	12.11	11.09	No	40	3.90	5.36	4.00
	7 Jan 2011	7 Jan 2018	1 Sep 2015	12.11	11.09	No	40	4.90	5.44	4.00
2010 Issues	20 Nov 2009	20 Nov 2016	17 June 2012	6.18	5.65	No	40	5.0	3.50	4.37
	20 Nov 2009	20 Nov 2016	17 June 2014	6.18	5.65	No	40	5.0	3.50	4.37

Options issued during the year have been independently valued. The dividend yield is based on the assumptions of analyst reports. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumptions that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

AUDITOR'S INDEPENDENCE

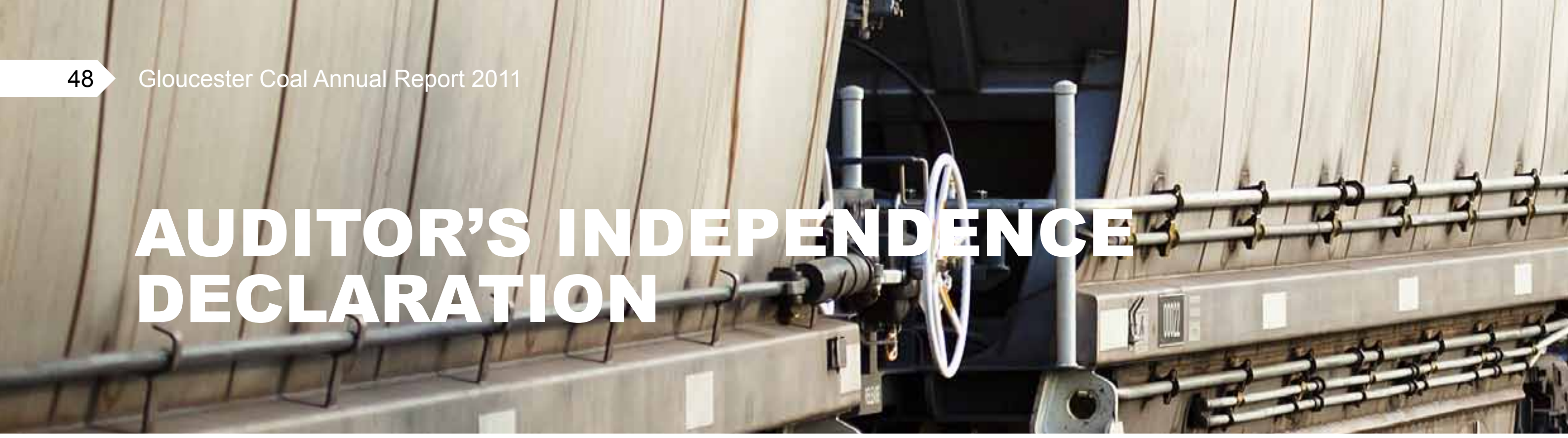
The Auditor's independence declaration is set out on page 48 and forms part of the Directors' Report for the Financial Year ended 30 June 2011.

ROUNDING

The Company is of a kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and, in accordance with that Class Order, amounts in the Financial Report and Directors' Report have been rounded off (where rounding is applicable) to the nearest thousand dollars, unless otherwise stated.

This report is made in accordance with a resolution of the directors.

James MacKenzie
Chairman
Dated at Sydney this 29th day of September 2011



AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

ERNST & YOUNG

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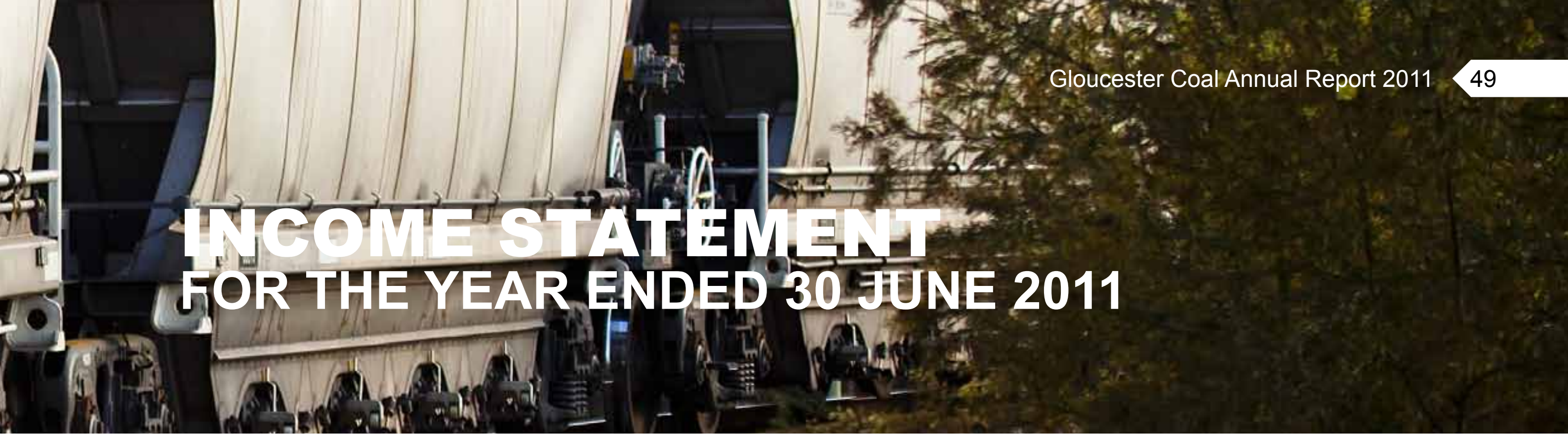
Auditor's Independence Declaration to the Directors of Gloucester Coal Limited

In relation to our audit of the financial report of Gloucester Coal Limited for the financial year ended 30 June 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Michael Elliott
Partner
29 September 2011



INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2011

	NOTES	30 Jun 11 $'000	30 Jun 10 $'000
Revenue from sale of coal			
– Sale of coking coal		166,251	109,710
– Sale of thermal coal		140,304	119,584
Total revenue from sale of coal		**306,555**	**229,294**
Cost of sales		(223,346)	(172,679)
Gross profit		**83,209**	**56,615**
Other operating income / (expense)	6	5,537	(839)
Administration expenses	7	(25,693)	(14,551)
Share of loss of an associate		(656)	–
Profit before financing and tax		**62,397**	**41,225**
Financial income	8	17,992	1,043
Finance costs	9	(3,918)	(728)
Profit before tax		**76,471**	**41,540**
Income tax expense	12	(21,909)	(8,810)
Net profit for the period (attributable to owners of the parent)		**54,562**	**32,730**
Earnings per share (cents per share)			
– Basic earnings per share	13	38.3	36.1
– Diluted earnings per share	13	38.2	36.1

The income statement should be read in conjunction with the accompanying notes.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011

	NOTES	30 Jun 11 $'000	30 Jun 10 $'000
Profit for the period		**54,562**	**32,730**
Other comprehensive income			
Cash flow hedge losses/(gains) transferred to income statement		11,830	(14,761)
- Tax effect of losses/(gains) transferred to income statement		(3,549)	4,428
Cash flow hedge (losses)/gains taken to equity		13,834	(11,830)
- Tax effect of (losses)/gains taken to equity		(4,150)	3,549
Total other comprehensive income for the period, net of tax		**17,965**	**(18,614)**
Total comprehensive income for the period (attributable to owners of the parent)		**72,527**	**14,116**

The statement of comprehensive income should be read in conjunction with the accompanying notes.

BALANCE SHEET
AS AT 30 JUNE 2011

	NOTES	30 Jun 11 $'000	30 Jun 10 $'000
CURRENT ASSETS			
Cash and cash equivalents	15	182,330	27,811
Trade and other receivables	16	29,450	16,588
Other financial assets (derivatives)	16	4,614	–
Inventories	17	9,341	19,179
Waste in advance		57,736	29,459
TOTAL CURRENT ASSETS		**283,471**	**93,037**
NON–CURRENT ASSETS			
Restricted cash	15	2,004	–
Property, plant and equipment	18	807,438	146,126
Exploration and evaluation	19	56,593	25,619
Financial asset – royalty receivable	20	182,000	–
Investments	21	999	83
Deferred tax asset	12	10,727	–
TOTAL NON–CURRENT ASSETS		**1,059,761**	**171,828**
TOTAL ASSETS		**1,343,232**	**264,865**
CURRENT LIABILITIES			
Trade and other payables	22	56,777	20,372
Other financial liabilities (derivatives)	22	–	9,670
Interest bearing loans and borrowings	23	74,555	4,538
Income tax liability		2,647	2,886
Provisions	24	1,125	200
Employee benefits	25	782	770
TOTAL CURRENT LIABILITIES		**135,886**	**38,436**
NON–CURRENT LIABILITIES			
Interest bearing loans and borrowings	23	24,567	30,190
Deferred tax liabilities	12	152,099	7,175
Provisions	24	10,842	7,712
Other non–current liabilities		4,893	–
Employee benefits	25	281	156
TOTAL NON–CURRENT LIABILITIES		**192,682**	**45,233**
TOTAL LIABILITIES		**328,568**	**83,669**
NET ASSETS		**1,014,664**	**181,196**
EQUITY			
Issued capital		898,030	137,247
Retained profits		102,572	48,010
Reserves		14,062	(4,061)
TOTAL EQUITY (attributable to equity holders of the parent)		**1,014,664**	**181,196**

The balance sheet should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2011

	Share capital $'000	Equity reserve $'000	Hedge reserve $'000	Retained Profits $'000	Total $'000
At 1 July 2009	**137,247**	**3,687**	**10,333**	**15,280**	**166,547**
Profit for the period	–	–	–	32,730	32,730
Other comprehensive income, net of tax	–	–	(18,614)	–	(18,614)
Total comprehensive income, net of tax	**–**	**–**	**(18,614)**	**32,730**	**14,116**
Transactions with owners in their capacity as owners:					
Share based payments – options	–	533	–	–	533
At 30 June 2010	**137,247**	**4,220**	**(8,281)**	**48,010**	**181,196**
At 1 July 2010	**137,247**	**4,220**	**(8,281)**	**48,010**	**181,196**
Profit for the period	–	–	–	54,562	54,562
Other comprehensive income, net of tax	–	–	17,965	–	17,965
Total comprehensive income, net of tax	**–**	**–**	**17,965**	**54,562**	**72,527**
Transactions with owners in their capacity as owners:					
Shares issued to institutional and retail investors	670,808	–	–	–	670,808
Share issue costs, net of tax	(10,565)	–	–	–	(10,565)
Shares issued to Noble Group	100,540	–	–	–	100,540
Share based payments – options	–	158	–	–	158
At 30 June 2011	**898,030**	**4,378**	**9,684**	**102,572**	**1,014,664**

The statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011

	NOTES	30 Jun 11 $'000	30 Jun 10 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		304,526	235,687
Payments to suppliers and employees		(224,110)	(197,556)
Cash generated from operations		**80,416**	**38,131**
Income tax paid		(17,564)	(35,387)
Interest paid		(2,854)	(754)
Interest received		4,856	1,043
Net cash from operating activities	15	**64,854**	**3,033**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(105,302)	(58,622)
Payments for exploration and evaluation expenditure		(20,572)	(16,919)
Acquisition of jointly controlled entity, net of cash acquired		(389,666)	–
Investment income		3	3
Loans to jointly controlled entity		(79,014)	–
Security deposits paid		(88)	(10)
Payment for investments		–	(13)
Net cash used in investing activities		**(594,639)**	**(75,561)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from shares issued		670,808	–
Dividends paid		(4)	(26)
Proceeds from borrowings		35,175	39,221
Repayment of borrowings		(4,238)	(4,630)
Payment of share issue costs		(15,433)	–
Net cash used in financing activities		**686,308**	**34,565**
Net increase/(decrease) in cash and cash equivalents		156,523	(37,963)
Cash and cash equivalents at beginning of period		27,811	65,774
Cash and cash equivalents at end of period	**15**	**184,334**	**27,811**

The statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

Gloucester Coal Ltd (the "Company") is a company domiciled in Australia and is listed on the Australian Stock Exchange. The consolidated financial report of the Company for the Financial Year ended 30 June 2011 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in a jointly controlled entity.

The financial report was authorised for issue by the directors on 29 September 2011.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group also complies with the International Financial Reporting Standards (IFRSs) and interpretations as issued by the International Accounting Standards Board.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and unlisted investments which are measured at fair value. The methods used to measure fair values are discussed further in note 28.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Group's functional currency.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998, and, in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

(d) Use of estimates and judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These accounting policies have been consistently applied by each entity in the Group.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods if the revision affects both current and future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements. Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made:

- Ore reserve and resource estimates – refer to note 3(k)(iii)
- Depreciation – refer to note 3(k)(iii)
- Inventories – refer to note 3(i)
- Impairment of assets – refer to note 3(n)
- Exploration and evaluation expenditure – refer to note 3(l)
- Waste in advance – refer to note 3(m)
- Mine rehabilitation provision – refer to note 3(q)
- Recovery of deferred tax assets – refer to notes 3(v) and 12
- Share based payment transactions – refer to note 3(r)(iii)
- Onerous contract provision – refer to note 3(q)

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) New accounting standards and Interpretations

(i) Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous Financial Year. Management has reviewed and assessed the new accounting standards effective 1 July 2010 and these have been deemed to be not material to the Group Financial Report.

(ii) Accounting Standards and interpretations issued but not yet effective

Australian accounting standards and Interpretations that have been recently issued or amended but are not yet effective and have not been adopted by the Company for the annual reporting period 30 June 2011 are outlined below:

AASB 9 Financial Instruments

AASB 2009–11 and AASB 2010–7 Amendments to Australian Accounting Standards arising from AASB 9

Addresses the classification and measurement of financial assets, with mandatory application for the period beginning on or after 1 January 2013. Under AASB 9, at initial recognition all financial assets are measured at fair value. Debt instruments may be subsequently measured at amortised cost if the objective is to hold the assets to collect the contractual cash flows and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All equity investment financial assets are measured at fair value either through other comprehensive income or profit and loss. The Group must make a choice for each instrument, unless they are held for trading in which case they must be measured at fair value through profit and loss. The Group has not yet determined the potential effect of the standard on the Group's financial results.

AASB 124 Related Party Disclosures (December 2009)

The revised statement amends the definition of a related party applicable for the period beginning on or after 1 January 2011. The impact will be disclosure in nature only and will not impact the financial results.

AASB 2009–12, AASB 2010–4 and AASB 2010–5 Amendments to Australian Accounting Standards

These amendments make numerous editorial changes to a range of Australian Accounting Standards and Interpretations, applicable for the period beginning on or after 1 January 2011. The Group has not yet determined the potential affect of the changes on the Group's financial results.

AASB 1054 Australian Additional Disclosures

AASB 2011–1 Amendments to Australian Accounting Standards arising from the Trans–Tasman Convergence project

This standard is a consequence of phase 1 of the joint Trans–Tasman Convergence project of the AASB and FRSB, applicable for the period beginning on or after 1 July 2011. This standard relocates all Australian specific disclosures from other standards to one place and revises current disclosures. The impact will be disclosure in nature only and will not impact the financial results.

AASB 10 Consolidated Financial Statements

Establishes a new control model that applies to all entities, replacing parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and SIC–12 Consolidation – Special Purpose Entities, applicable for the period beginning on or after 1 January 2013. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager it may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. The Group has not yet determined the potential affect of the standard on the Group's financial results.

AASB 11 Joint Arrangements

The new standard replaces AASB 131 Interests in Joint Ventures and SIC-13 Jointly-controlled Entitees non-monetary Contributions by Ventures, applicable for the period beginning on or after 1 January 2013. The new standard uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition, AASB 11 removes the option to account for jointly controlled entities ("JCE") using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. The Group has not yet determined the potential affect of the standard on the Group's financial results, however the change may require the Group's interest in jointly controlled entities to be accounted for using equity accounting instead of the proportionate consolidation method that is currently applied.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AASB 12 Disclosure of Interests in Other Entities

Includes all new disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities, applicable for the period beginning on or after 1 January 2013. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non–controlling interests. The impact will be disclosure in nature only and will not impact the financial results.

AASB 13 Fair Value Measurement

Establishes a single source of guidance under AASB for determining the fair value of assets and liabilities, applicable for the period beginning on or after 1 January 2013. The new standard does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under AASB when fair value is required or permitted by AASB. In addition, the standard also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. The Group has not yet determined the potential affect of the standard on the Group's financial results.

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

(ii) Jointly controlled entities

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement.

The interest of the Group in jointly controlled entities is brought to account by proportionately consolidating the assets, liabilities and its share of loss generated by the jointly controlled entity in its financial statements.

(iii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

(c) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's Chief Operating Decision Maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues.

Operating segments have been identified based on the information provided to the CODM determined as the Board of Directors.

Two or more operating segments are aggregated when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services
- Nature of the production processes
- Type or class of customer for the products and services
- Methods used to distribute the products or provide the services, and if applicable
- Nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

(d) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non–monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(e) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational and financing activities. The Group does not hold or issue derivative financial instruments for speculative purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re–measurement to fair value is recognised immediately in profit and loss except for those that qualify as cash flow hedges (see accounting policy f).

(f) Hedging

On entering into a hedging relationship, the Group formally designates and documents the hedge relationship and risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. When the forecasted transaction subsequently results in the recognition of a non-financial asset, or a non-financial liability, the associated cumulative gain or loss is removed from other comprehensive income and included in the initial cost or other carrying amount of the non–financial asset or liability. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset, the associated gains and losses that were recognised directly in other comprehensive income are reclassified into profit or loss in the same periods during which the asset acquired affects profit and loss. For cash flow hedges, other than those described above, the associated cumulative gain or loss is removed from other comprehensive income and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement. Movements recorded in profit or loss are included in revenue from sale of coal in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in other comprehensive income and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in other comprehensive income is recognised immediately in the income statement.

Loan facilities denominated in United States dollars are reviewed at the time of inception to determine if they qualify as a natural cash flow hedge against sales. The chattel mortgage facility has been determined to be a natural cash flow hedge and is accounted for as discussed above.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and call deposit with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Restricted cash is classified as non–current as it is not readily convertible to cash.

(h) Trade and other receivables

Trade and other receivables, which generally have 7 to 30 day terms, are stated at their amortised cost less impairment losses (see policy n).

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost is determined as follows:

(i) Coal stocks are determined using a weighted average basis. Costs include direct material, overburden removal, mining, processing, labour, related transportation costs to the point of sale, mine rehabilitation costs incurred in the extraction process and other fixed and variable overhead costs directly related to mining activities.

(ii) Consumables – comprising average cost or purchase price plus freight and associated charges.

(j) Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, classified as available-for-sale are measured at fair value. Gains or losses on available for sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

For an investment where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Purchases and sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place are recognised on the trade date, i.e. the date that the Group commits to purchase the asset.

(k) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy n). The cost of self constructed assets includes the cost of raw material, direct labour, the initial estimate, where relevant, of costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate portion of production overheads.

Mining property and development assets include costs transferred from exploration and evaluation assets once technical feasibility and commercial viability of an area of interest are demonstrable, and subsequent costs to develop the mine to production phase.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefit embodied with the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iii) Depreciation

All assets, including intangibles, have limited useful lives and are depreciated/amortised using the straight line or diminishing value methods over their estimated useful lives, with the exception of freehold land (which is not depreciated) and mining property (including land premiums), plant and equipment (which are amortised on a units of production basis over the life of the economically recoverable reserves) on a prospective basis.

The estimated useful lives (including useful life based on current production basis) in the current and comparative periods are as follows:

Freehold buildings	7–12 years
Plant and equipment	4–12 years
Office equipment, furniture and fittings	4–5 years
Motor vehicles	4–5 years
Mining property and development	7–12 years

The residual value, the effective life and the depreciation method applied to an asset are assessed at least annually.

(l) Exploration, evaluation and development

Exploration and evaluation

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Group has obtained the legal rights to explore the area are recognised in the income statement.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

(i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or

(ii) activities in the area of interest have not, at the reporting date, reached a stage which permits reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment, accounting policy (n)). For the purposes of impairment testing, exploration and evaluation assets are allocated to cash generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Development

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from intangible assets to mining property and development assets within property, plant and equipment, and depreciated in accordance with the policy set out in accounting policy (k).

(m) Waste in advance

Expenditure incurred to remove overburden or waste material during the production phase of a mining operation is deferred to the extent it gives rise to future economic benefits and charged to operating costs on a units of production basis using the estimated average stripping ratio for the area being mined. Changes in estimates of average stripping ratios are accounted for prospectively.

For the purposes of assessing impairment, waste in advance is grouped with other assets of the relevant cash generating unit.

(n) Impairment

The carrying amounts of the Group's assets, other than inventories (see policy i) and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indications exist, the asset's recoverable amount is estimated, as described below.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of the Group's receivables carried at amortised costs is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(o) Trade and other payables

Trade and other payables are stated at their amortised cost. Trade payables are non–interest bearing and are normally settled within 60 days.

(p) Interest bearing loans and borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any differential between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre–tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Dismantling

Provision is made for close–down and rehabilitation costs (which include the dismantling and demolition of infrastructure and removal of residual materials) at the end of mine life in the accounting period when the obligation arises, based on the estimated future costs. At the time of establishing the provision, a corresponding asset is recognised (where it gives rise to a future benefit) and is depreciated in accordance with the policy set out in accounting policy (k).

The provision does not include allowances for unforeseeable events and is reviewed on an annual basis for changes in cost estimates or life of operations.

Rehabilitation

Provisions are made for site rehabilitation costs relating to areas disturbed during the mine's operation up to reporting date but not yet rehabilitated. The provision is based on estimated future costs in accordance with undiscounted security bonds lodged with the Department of Resources and Energy, Minerals adjusted to account for the area of disturbance at the reporting date. When the provision is recognised, the corresponding rehabilitation costs are recognised as part of mining property and development assets.

At each reporting date, the rehabilitation liability is re-measured in line with changes in the timing or amount of the costs to be incurred. Changes in the liability relating to rehabilitation of mine infrastructure and dismantling obligations are added to or deducted from the related asset.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If the change in the liability results in a decrease in the liability that exceeds the carrying amount of the asset, the asset is written down to nil and the excess is recognised immediately in the income statement. If the change in the liability results in an addition to the cost of the asset, the recoverability of the new carrying value is considered. Where there is an indication that the new carrying amount is not fully recoverable, an impairment test is performed with the writedown recognised in the income statement in the period in which it occurs.

The amount of the provision relating to the rehabilitation of environmental disturbance caused by ongoing production and extraction activities is recognised in the income statement as incurred. Changes in the liability are charged to the income statement as rehabilitation expense.

Onerous contract

Onerous contract provisions are recognised at the time the Company determines that the contract will be loss making. The provision is based on the present obligation of the contracts.

(r) Employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages and salaries and annual leave expected to be settled within 12 months of the reporting date are recognised in employee benefit liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when liabilities are settled.

(ii) Defined contribution pension plans

The Company and other subsidiaries contribute to several defined contribution pension plans. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

(iii) Share based payment transactions

The Group provides benefits to some employees and directors of the Group in the form of share–based payment transactions (equity–settled transactions). The fair value of options granted is recognised as an employee expense over the period during which the employees become unconditionally entitled to the options (the vesting period), with a corresponding increase in equity.

The fair value is measured at grant date using the Monte Carlo Simulation option pricing model, by an external valuer, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

If the terms of the equity–settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity–settled award is cancelled (other than an award cancelled by forfeiture when vesting conditions are not satisfied), it is treated as if it has vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and the new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

(s) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(i) Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight–line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and the reduction of the liability.

(ii) Group as lessor

Leases in which the Group retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income.

(t) Share capital
Ordinary shares are classified as equity.

(i) Repurchase of share capital
When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from total equity.

(ii) Transaction costs
Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

(u) Revenue
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of coal
Revenue from the sale of coal is recognised in the income statement when the risks and rewards of ownership have been transferred to the buyer, no further processing is required, the quantity and quality of the coal has been determined, the price is fixed and generally title has passed to the buyer.

(ii) Dividends
Revenue is recognised when the shareholders' right to receive the payments is established.

(iii) Rental income
Rental income arising on land surrounding the mine sites is accounted for on a straight–line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned.

(v) Income tax
Income tax on the profit and loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of prior years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and the differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised to the extent that it is probable that the future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the tax benefit will be realised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation
The Company is the head entity in a tax–consolidated group comprising the Company and all its Australian wholly owned subsidiaries. The implementation date for the tax-consolidated group was 1 January 2004.

The current and deferred tax amounts for the tax-consolidated group are allocated among the entities in the Group such that each entity measures its current and deferred taxes based on the group allocation method. Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of assets and liabilities in the respective entity's balance sheet and their tax values applied under the group allocation method.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the head entity from the subsidiaries in the tax-consolidated group are recognised in conjunction with any tax funding arrangement amounts. Any difference between these amounts is recognised by the Company as an equity contribution to or distribution from the subsidiary. Distributions firstly reduce the carrying amount of the investment in the subsidiary, and are then recognised as revenue.

The Company recognises deferred tax assets arising from unused tax losses of the tax–consolidated group to the extent that it is probable that the future taxable profits of the tax–consolidated group will be available against which the asset can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nature of tax funding and tax sharing agreements

The head entity, in conjunction with other members of the tax–consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members or the tax–consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter–entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter–entity receivable (payable) is at call.

Contributions to fund the current tax liabilities are payable as per the tax funding agreement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The members of the tax–consolidated group have entered into a valid Tax Sharing Agreement under the tax consolidation legislation which sets out the allocation of income tax liabilities between the entities, should the head entity default on its tax payment obligations and the treatment of entities leaving the tax–consolidated group. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the Tax Sharing Agreement is considered remote.

(w) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Statement of Cash Flows on a gross basis, and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as an operating cash flow. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(x) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method. Interest income is recognised in the income statement as it accrues, using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(y) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends;
- The after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non–discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

4. FINANCIAL RISK MANAGEMENT

Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Currency rate risk
- Interest rate risk.

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board of Directors has established the Audit, Risk and Corporate Governance Committee, which is responsible for developing and monitoring risk management policies. The Committee reports to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits and controls. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through their training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit, Risk and Corporate Governance Committee oversees how management monitors compliance with the Group's risk management framework in relation to the risks faced by the Group.

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Trade and other receivables
The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industries and countries in which customers operate, has less influence on credit risk. Approximately 75 per cent of the Group's revenue is attributable to sales transactions with three customers.

Approximately 80 per cent of the Group's customers have been transacting with the Group for over four years, and losses have occurred infrequently. The Group's trade and other receivables relate mainly to the Group's coking and thermal coal customers. The Group does not require collateral in respect of trade and other receivables.

The Group trades only with recognised, creditworthy third parties. Receivable balances are monitored on an ongoing basis, with the result that the Group's exposure to bad debts is not significant. Other than noted above, there are no significant concentrations of credit risk within the Group.

The Group has not established an allowance for impairment for trade and other receivables.

Guarantees
The Group provides financial guarantees for statutory bonding requirements associated with mining operations and other purposes, such as infrastructure commitments and security of premises' leases.

Details of outstanding guarantees are provided in note 23.

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically, the Group ensures that it has sufficient cash on demand to meet all expected operational expenses as and when due, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains the following line of credit:

- As at 30 June 2011:
  - US$80 million facility with Noble Group Limited
  - US$35 million drawn down on the facility
  - Interest under the facility is payable at a rate of LIBOR plus 2.5%
- Subsequent to 30 June 2011, the Group entered into a new facility, replacing the US$80 million facility:
  - A$400 million facility with Noble Group Limited
  - Interest under the facility is payable at a rate of BBSY plus 3%
  - Facility matures on 1 July 2015

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group enters into par forward foreign exchange contracts, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Audit, Risk and Corporate Governance Committee. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

Currency risk
The Group is exposed to currency risk on sales, purchases and demurrage that are denominated in a currency other than the respective functional currency of Group entities, the Australian dollar (AUD). The currency in which these transactions are primarily denominated is US dollars (USD).

The Group's hedging policy was revised in May 2011 to effectively hedge 85 per cent of committed fixed price sales which are denominated in foreign currency. The hedges are denominated in the currency of the contracts, usually US dollars. The Group uses forward exchange contracts to hedge its currency risk. Most contracts have maturity dates of less than one year from the reporting date. When necessary, forward exchange contracts are rolled over at maturity. In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short term imbalances. The Group classifies its forward exchange contracts hedging transactions as cash flow hedges and states them at fair value. Cash flow ineffectiveness is recognised immediately in the income statement as Other operating income/(expense).

The net fair value of forward exchange contracts used as hedges of forecasted transactions at 30 June 2011 was an asset of $4,614,000 (2010: liability of $9,670,000).

Interest rate risk
The Group mitigates its interest rate risk by a mix of fixed and variable interest rates.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Other market price risk

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements: such contracts are not settled net.

The Group is exposed to fluctuations in the coal price. The Group currently does not have any hedges against the movement in the spot coal price but at 30 June 2011 had entered into thermal coal sale contracts for delivery through 2015 totaling 3.7 million tonnes, subject to the foreign currency risk management policies and procedures detailed above.

Capital management

The Board's policy is to maintain a strong capital base (cash and access to funding) to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the capital structure on a regular basis, including the level of dividends to ordinary shareholders.

At 30 June 2011, employees held less than one per cent of ordinary shares. All eligible employees may be awarded shares under the Employee Share Plan, which provides for an annual grant of shares to the value of $1,000 to be made annually at the discretion of the Board. No shares were issued under the plan during the year.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

5. SEGMENT INFORMATION

Information reported to the Chief Operating Decision Maker ("CODM"), determined as the Board of Directors for the purpose of resource allocation and assessment of segment performance is focused on two operating segments being the Gloucester Basin in New South Wales and the Bowen Basin in Queensland.

Operations within the Gloucester Basin are deemed to be one operating segment as thermal coal and coking coal are considered to be joint products of the one production process. The operations in the Bowen Basin are reported as a separate operating segment.

Segment Income Statement

	Gloucester Basin $'000	Bowen Basin $'000	Total $'000
30 June 2011			
Segment Revenue			
Sales of coking coal	166,251	–	166,251
Sales of thermal coal	140,304	–	140,304
Total segment revenue from income statement	**306,555**	**–**	**306,555**
Segment net operating profit after tax	**60,213**	**3,575**	**63,788**
Net interest income	7,765	7,537	15,302
Remeasurement of royalty receivable	–	1,839	1,839
Depreciation and amortisation	(18,667)	(34)	(18,701)
Reconciliation of segment net operating profit after tax to net profit before tax			
Segment net operating profit after tax			63,788
Transaction costs [30]			(9,226)
Income tax expense			21,909
Net profit before tax			**76,471**

30 Transaction costs of $9.2m were incurred during the year in connection with the Middlemount ($4.1m) and Donaldson ($5.1m) acquisitions.

5. SEGMENT INFORMATION (CONTINUED)

Revenue by geographical location

Revenue from external customers by geographical location is detailed below. Revenues obtained from external customers are attributed to individual countries based on the country of domicile of the customer. The Company does not have external revenues from external customers that are attributable to any foreign country other than those shown.

	CONSOLIDATED	
	30 Jun 11 $'000	30 Jun 10 $'000
Australia	57,417	33,247
Japan	110,521	75,820
Singapore [31]	132,440	69,418
United Kingdom	6,177	27,905
Other	–	22,904
Total external revenue	**306,555**	**229,294**

Major customers

The Group received 75 per cent of its external revenue from three customers (2010: 67 per cent from three customers). There are no additional customers which account for more than 10 per cent of the Group's external revenues.

Segment Assets

Segment assets as at 30 June 2011 are as follows:	Gloucester Basin $'000	Bowen Basin $'000	Total $'000
Segment operating assets	496,735	837,831	1,334,566
Intersegment eliminations			4,052
Other financial assets (derivatives)			4,614
Total assets per the balance sheet			**1,343,232**

All segment operating assets are located within Australia.

In the comparative period, the Group had one segment therefore comparatives have not been presented.

6. OTHER OPERATING INCOME / (EXPENSE)

	CONSOLIDATED	
	30 Jun 11 $'000	30 Jun 10 $'000
Rental income	223	227
Cancellation fee from coal contracts [32]	7,350	–
Remeasurement of royalty receivable	1,839	–
Net loss on foreign exchange	(3,959)	(1,158)
Other	84	92
Total other operating income/ (expense)	**5,537**	**(839)**

31 Sales to Singapore are to a related party.

32 The Company negotiated the cancellation of fixed Australian dollar forward sales contracts for the 2012–2014 years, resulting in a cancellation fee of $7.35m.

7. ADMINISTRATION COSTS

	CONSOLIDATED	
Transaction costs	9,226	5,266
Other administration costs	16,467	9,285
Total administration costs	**25,693**	**14,551**

8. FINANCE INCOME

Interest income on royalty receivable (unwinding of discount)	12,161	–
Interest income	5,831	1,043
Total finance income	**17,992**	**1,043**

9. FINANCE COSTS

Interest paid or payable on interest bearing loans	2,690	545
Loan establishment fee amortisation	778	137
Interest expense (unwinding of discount on provisions)	450	46
Total finance costs	**3,918**	**728**

10. OPERATING EXPENSES IN COST OF SALES

Depreciation	18,701	11,306
Net loss on disposal of property, plant and equipment	–	15

11. PERSONNEL EXPENSE

Wages and salaries	13,735	10,725
Contributions to defined contribution pension plans	812	589
Equity settled transactions – options	158	533
Total personnel expense	**14,705**	**11,847**

12. INCOME TAX EXPENSE

RECOGNISED IN THE INCOME STATEMENT

	CONSOLIDATED	
	30 Jun 11 $'000	30 Jun 10 $'000
Current tax expense		
Current income tax charge	17,477	9,556
Adjustment for prior periods	(2,469)	–
Deferred tax expense		
Origination and reversal of temporary differences	6,901	(746)
Total income tax expense in income statement	**21,909**	**8,810**
Numerical reconciliation between tax expense and pre–tax net profit		
Profit before income tax	76,471	41,540
Income tax using the domestic corporation tax rate of 30%	22,941	12,462
Increase/ (decrease) in income tax expense due to:		
Expenditure not allowable for income tax purposes	409	8
Research and development	(75)	(75)
Investment allowance on purchase of equipment	–	(3,312)
Decrease in income tax expense due to:		
Under / (over) provided in prior periods	(1,366)	(273)
Income tax expense on pre–tax profit	**21,909**	**8,810**

12. INCOME TAX EXPENSE (CONTINUED)

DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	CONSOLIDATED	
	30 Jun 11 $'000	30 Jun 10 $'000
Deferred tax liabilities – amounts recognised in profit or loss		
Property, plant and equipment	141,606	5,427
Waste in advance	17,321	8,876
Remeasurement of royalty receivable	4,200	–
Employee share trust	–	393
Other deferred tax liabilities	6,383	3,213
	169,510	**17,909**
Deferred tax liabilities – amounts recognised directly in equity		
Fair value of derivatives	4,079	–
Total deferred tax liabilities	**173,589**	**17,909**
Deferred tax assets – amounts recognised in profit or loss		
Employee benefits	529	511
Provisions	3,588	2,140
Other deferred expenditure	7,678	4,487
Tax losses [33]	16,528	–
Fair value of derivatives	–	47
	28,323	**7,185**
Deferred tax assets – amounts recognised directly in equity		
Share issue costs	3,894	–
Fair value of derivatives	–	3,549
Total deferred tax assets	**32,217**	**10,734**
Net deferred tax liabilities	**141,372**	**7,175**
Deferred tax balances disclosed in the balance sheet		
Deferred tax asset	10,727	–
Deferred tax liability	(152,099)	(7,175)
Net deferred tax liabilities	**(141,372)**	**(7,175)**

33 Tax losses of $55.1 million (the Company's equity share) have been recognised as a deferred tax asset relating to the Middlemount operations. These losses are carried forward indefinitely and will be offset against future taxable profits in the Middlemount group, subject to passing of the Same Business test. Management consider it is probable that this deferred tax asset will be recoverable against future taxable income.

13. EARNINGS PER SHARE

Basic earnings and dilutive earnings per share

The calculation of basic and diluted earnings per share at 30 June 2011 was based on profit attributable to ordinary shareholders of $54,562,000 (2010: $32,730,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2011 of 142,390,859 (2010: 90,561,998) for basic and 142,717,890 (2010: 90,778,648) for diluted, calculated as follows:

	BASIC		DILUTED	
	2011 000'S	2010 000'S	2011 000'S	2010 000'S
Issued ordinary shares at beginning of period	81,962	81,962	81,962	81,962
Effect of shares issued during the period (weighted average)	51,829	–	51,795	–
Effect of share placement [34]	8,600	8,600	8,634	8,621
Effect of share options on issue	–	–	327	196
Weighted average number of ordinary shares at the end of the period	**142,391**	**90,562**	**142,718**	**90,779**
Earnings per share				
From continuing operations (cents per share)	38.3	36.1	38.2	36.1

Excluded from the calculation of diluted earnings per share for 30 June 2011 are 2,000,000 options that could potentially dilute basic earnings per share in the future because they are antidilutive.

14. DIVIDENDS PAID AND PROPOSED

During or subsequent to the end of the Financial Year, the directors did not declare any dividends.

There are $53,622,206 franking credits available as at 30 June 2011.

a) Dividend Reinvestment Plan

During the current year, the Dividend Reinvestment Plan ("DRP") remained suspended and no shares were issued under the DRP.

34 The basic and diluted earnings per share for the current and comparative period take into account the effect of the bonus portion of the shares issued in August and September 2010.

15. CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	30 Jun 11 $'000	30 Jun 10 $'000
Reconciliation of cash balances		
Cash and cash equivalents	182,330	27,811
Restricted cash	2,004	–
Bank balances	**184,334**	**27,811**
Reconciliation of net profit after tax to net cash flows from operating activities		
Net profit after tax	54,562	32,730
Adjustments for:		
Loss on sale of fixed assets	–	15
Depreciation and amortisation	18,701	11,306
Loan fee amortisation	778	137
Share of loss from associate	656	–
Equity settled share based payments expense	158	533
Cash flow hedge (gains)/losses transferred to income statement	8,281	(10,333)
Investment income	(3)	(3)
Interest income (unwinding of discount)	(12,161)	–
Remeasurement of royalty receivable	(1,839)	–
Unrealised foreign exchange gains/(losses)	(2,552)	–
Changes in assets and liabilities:		
(Increase)/Decrease in receivables	(6,175)	4,909
(Increase)/Decrease in inventories	11,903	(14,000)
(Increase)/Decrease in waste in advance	(26,179)	(1,194)
(Increase)/Decrease in other financial assets (derivatives)	(4,212)	10,003
Increase/(Decrease) in creditors and provisions	18,592	(4,494)
Increase/(Decrease) in income tax liability	(239)	(25,830)
Increase/(Decrease) in deferred tax liability	4,583	(746)
Net cash inflow from operating activities	**64,854**	**3,033**

16. TRADE AND OTHER RECEIVABLES (CURRENT)

	CONSOLIDATED	
	30 Jun 11 $'000	30 Jun 10 $'000
Trade receivables	28,035	14,805
Prepayments	1,415	1,783
Total trade receivables and prepayments	**29,450**	**16,588**
Other financial assets (derivatives)	4,614	–
Total trade and other receivables (current)	**34,064**	**16,588**

Other financial assets (derivatives) are forward currency contracts accounted for as cash flow hedges. Refer to note 3(f) for the accounting policy relating to cash flow hedges.

The Group's exposure to credit, currency and interest rate risks related to trade and other receivables is disclosed in note 28.

17. INVENTORIES

	CONSOLIDATED 30 Jun 11 $'000	CONSOLIDATED 30 Jun 10 $'000
Coal stocks – at cost	8,162	18,091
Consumables – at cost	1,179	1,088
Total inventories	**9,341**	**19,179**

18. PROPERTY, PLANT AND EQUIPMENT

CONSOLIDATED	Freehold land $'000	Buildings $'000	Plant and equipment $'000	Office equipment $'000	Motor vehicles $'000	Mining property & development $'000	Total $'000
Cost							
Balance 1 July 2009	30,536	633	73,254	464	789	59,456	165,132
Additions	4,925	98	53,004	285	357	523	59,192
Disposals	–	–	–	–	(65)	–	(65)
Balance 30 June 2010	**35,461**	**731**	**126,258**	**749**	**1,081**	**59,979**	**224,259**
Balance 1 July 2010	35,461	731	126,258	749	1,081	59,979	224,259
Middlemount acquisition	6,170	2,994	38,211	19	84	521,943 [35]	569,421
Additions	33,504	549	19,340	440	361	56,548	110,742
Disposals	–	(100)	(112)	–	(134)	–	(346)
Balance 30 June 2011	**75,135**	**4,174**	**183,697**	**1,208**	**1,392**	**638,470**	**904,076**
Depreciation and amortisation							
Balance 1 July 2009	–	345	31,628	293	380	34,196	66,842
Depreciation and amortisation for the period	–	43	8,810	88	160	2,205	11,306
Disposals	–	–	–	–	(15)	–	(15)
Balance 30 June 2010	**–**	**388**	**40,438**	**381**	**525**	**36,401**	**78,133**
Balance 1 July 2010	–	388	40,438	381	525	36,401	78,133
Depreciation and amortisation for the period	1,659 [36]	10	15,055	53	157	1,767	18,701
Disposals	–	(81)	(49)	–	(66)	–	(196)
Balance 30 June 2011	**1,659**	**317**	**55,444**	**434**	**616**	**38,168**	**96,638**
Carrying Amounts							
At 1 July 2009	30,536	288	41,626	171	409	25,260	98,290
At 30 June 2010	35,461	343	85,820	368	556	23,578	146,126
At 1 July 2010	35,461	343	85,820	368	556	23,578	146,126
At 30 June 2011	**73,476**	**3,857**	**128,253**	**774**	**776**	**600,302**	**807,438**

35 Includes reserves of $446.7 million acquired on acquisition of Middlemount – refer to note 29 for further detail.

36 Represents amortisation of premiums paid on land acquisitions.

19. EXPLORATION AND EVALUATION

	CONSOLIDATED
	$'000
Balance 1 July 2009	**8,700**
Additions	16,919
Balance 30 June 2010	**25,619**
Balance 1 July 2010	**25,619**
Additions	20,571
Middlemount acquisition	14,767
Transfer to mining property and development	(6,033)
Other exploration accruals	1,669
Balance 30 June 2011	**56,593**

The recoverability of the carrying amounts of exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest.

20. FINANCIAL ASSET – ROYALTY RECEIVABLE

A right to receive a royalty of four per cent of Free on Board Trimmed sales from the Middlemount Project was acquired as part of the Middlemount Assets during the period. This financial asset has been determined to have a finite life being the life of the Middlemount Mine and will be amortised on a units of production basis over this period.

The royalty receivable is measured based on management's expectations of the future cash flows with gains and losses recorded in the income statement at each reporting date.

	CONSOLIDATED
	$'000
Balance 1 July 2010	**–**
Acquired on 30 September 2011	168,000
Unwinding of the discount on provision	12,161
Remeasurement of royalty receivable	1,839
Balance 30 June 2011	**182,000**

21. INVESTMENTS

	CONSOLIDATED	
	30 Jun 11 $'000	30 Jun 10 $'000
Non–current		
Unlisted investments available for sale	50	62
Security deposits	949	21
	999	**83**

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 28.

22. TRADE AND OTHER PAYABLES (CURRENT)

	CONSOLIDATED	
	30 Jun 11 $'000	30 Jun 10 $'000
Trade payables	27,251	8,668
Other accrued expenses	22,406	11,704
Accrued take or pay	7,120	–
Total trade payables and accrued expenses	**56,777**	**20,372**
Other financial liabilities (derivatives)	–	9,670
Total trade and other payables (current)	**56,777**	**30,042**

Other financial liabilities (derivatives) are forward currency contacts accounted for as cash flow hedges. Refer to note 3(f) for the accounting policy relating to cash flow hedges.

23. INTEREST BEARING LOANS AND BORROWINGS

This note provides information about contractual terms of the Group's interest bearing loans and borrowings.

	CONSOLIDATED	
	30 Jun 11 $'000	30 Jun 10 $'000
Current		
Chattel mortgage facility – secured [37]	3,525	4,538
Loan from Noble Group – unsecured	32,622	–
Middlemount shareholder loan [38]	38,408	–
	74,555	**4,538**
Non–Current		
Chattel mortgage facility – secured [37]	20,209	30,190
Middlemount shareholder loan [38]	4,358	–
	24,567	**30,190**
Chattel Mortgage Facility– Secured		
Effective interest rate	5.68%	5.68%
Maturity	30–Jun–17	30–Jun–17
Loan from Noble Group – Unsecured		
Effective interest rate	2.69%	n.a
Maturity	30–Jun–12	n.a
Middlemount Shareholder Loan		
Effective interest rate	8.39%	n.a
Maturity	24–Dec–15	n.a

Under the Chattel mortgage facility, the eleven trucks are pledged as security with a carrying value of $26.6 million.

37 Excluded from the above bank loans are capitalised loan establishment fees of $224,000 (2010: $335,000) which are being amortised over the term of the Chattel Mortgage facility.

38 The Middlemount Shareholder loan is repayable to the other Shareholder of Middlemount.

23. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

	CONSOLIDATED	
	30 Jun 11 $'000	30 Jun 10 $'000
Financing facilities		
At reporting date, the following financing facilities had been negotiated and were available		
Total facilities		
Loans	140,994	43,728
Bank guarantees	23,000	23,000
Total facilities available at reporting date	**163,994**	**66,728**
Facilities used at reporting date		
Loans	99,121	34,728
Bank Guarantees	21,266	20,129
Total facilities used at reporting date	**120,387**	**54,857**
Facilities unused at reporting date	**43,607**	**11,871**

Excluded from the financing facilities noted above is a facility agreement of $80 million held by Middlemount (at 100%) ($15 million term loan – nil drawn as at 30 June 2011 and $65 million letter of credit; however to the extent the letter of credit portion is not utilised it can be converted to a term loan) with Noble Group Limited for the provision of a term loan and a letter of credit facility. The facility is secured by:

(i) fixed and floating charge over the assets of the Middlemount Group, including a share mortgage over the Ribfield Pty Ltd shares, and

(ii) a share mortgage over the Company's shares held by one of its shareholders, Custom Mining Pty Ltd (formerly Custom Mining Ltd).

At 30 June 2011 Middlemount has provided guarantees totalling $12.4 million.

24. PROVISIONS

	CONSOLIDATED		
	Rehabilitation $'000	Dismantling $'000	Total $'000
At 1 July 2010	**6,699**	**1,213**	**7,912**
Provisions made during the period	2,036	–	2,036
Unwinding and discount rate adjustment	377	73	450
Middlemount acquisition	1,569	–	1,569
At 30 June 2011	**10,681**	**1,286**	**11,967**
Current 2011	1,125	–	1,125
Non–current 2011	9,556	1,286	10,842
	10,681	**1,286**	**11,967**
Current 2010	200	–	200
Non–current 2010	6,499	1,213	7,712
	6,699	**1,213**	**7,912**

Site rehabilitation and dismantling

Provision is made for mine site rehabilitation and dismantling of mining infrastructure. The provision for mine rehabilitation has been recognised in relation to the Group's coal mining operations. Assumptions based on the current economic environment have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary rehabilitation and dismantling costs required which will reflect market conditions at that time. Furthermore, the timing of rehabilitation is likely to depend on when mining ceases.

The basis for accounting is set out in note 3(q) of the significant accounting policies.

25. EMPLOYEE BENEFITS

	CONSOLIDATED	
	30 Jun 11 $'000	30 Jun 10 $'000
Current		
Liability for annual leave	782	770
	782	**770**
Non–current		
Liability for long service leave	281	156
	281	**156**

26. UNQUOTED EMPLOYEE OPTIONS

Long Term Incentive Plan

The Group established the long term incentive plan to replace the employee share option plan in November 2009 to provide directors and other senior management the opportunity to purchase shares in the Company.

Option issues have been made during the year to Employees as per the table below. In accordance with this program, options are exercisable at prices specified by the Board at the date of issue, and were issued in accordance with the scheme's rules and regulations.

Grant date	Employees entitled	Number of options	Vesting date	Vesting conditions	Contractual life of options
7–Jan–11	Senior Management	375,000	1–Jul–13	Employment at vesting date	7 years
7–Jan–11	Senior Management	187,500	1–Jul–14	Employment at vesting date	7 years
7–Jan–11	Senior Management	187,500	1–Jul–15	Employment at vesting date	7 years
7–Jan–11	Senior Management	365,233	1–Sep–13	Employment at vesting date	7 years
7–Jan–11	Senior Management	182,617	1–Sep–14	Employment at vesting date	7 years
7–Jan–11	Senior Management	182,617	1–Sep–15	Employment at vesting date	7 years
13–Apr–11	Senior Management	1,000,000	23–Feb–14	Employment at vesting date	7 years
13–Apr–11	Senior Management	1,000,000	23–Feb–16	Employment at vesting date	7 years

The number and weighted average exercise prices of all share options is as follows:

	Weighted average exercise price 2011	Number of options 2011	Weighted average exercise price 2010	Number of options 2010
Outstanding at the beginning of the period	$5.65	1,000,000	–	–
Issued during the period	$11.23	3,480,467	$5.65	1,000,000
Exercised during the period	–	–	–	–
Forfeited during the period	–	–	–	–
Cancelled during the period	$7.56	1,934,339	–	–
Outstanding at the end of the period	**$11.83**	**2,546,128**	**$5.65**	**1,000,000**

26. UNQUOTED EMPLOYEE OPTIONS (CONTINUED)

The following table summarises the factors and assumptions that were used in determining the fair value of options on grant date:

	Grant date	Expiry date	Vesting date	Share price at time of grant $	Exercise price $	Performance hurdle	Estimated volatility %	Expected life (years)	Risk free rate %	Dividend yield %
2011 Issues	13/04/11	13/04/18	23/02/14	10.75	12.03	No	40	3.13	5.23	4.00
	13/04/11	13/04/18	23/02/16	10.75	12.03	No	40	5.13	5.46	4.00
	07/01/11	07/01/18	01/09/13	12.11	11.09	No	40	2.90	5.26	4.00
	07/01/11	07/01/18	01/09/14	12.11	11.09	No	40	3.90	5.36	4.00
	07/01/11	07/01/18	01/09/15	12.11	11.09	No	40	4.90	5.44	4.00
2010 Issues	20/11/09	20/11/16	17/06/12	6.18	5.65	No	40	5.0	3.50	4.37
	20/11/09	20/11/16	17/06/14	6.18	5.65	No	40	5.0	3.50	4.37

Equity settled employee expenses are as follows:

	CONSOLIDATED 30 Jun 11 $'000	CONSOLIDATED 30 Jun 10 $'000
Share options	158	533
	158	**533**

27. SHARE CAPITAL AND RESERVES

Movements in ordinary share capital

	Date issued	Number issued and quoted	Issue Price $
Fully paid shares at 30 June 2010		**81,962,133**	**various**
Issue of shares under the Institutional Equity Raising	18–Aug–10	46,870,700	9.25
Issue of shares under the Retail Equity Raising	6–Sep–10	803,418	9.25
Issue of shares to Noble Group Limited	30–Sep–10	10,810,811	9.30
Issue of shares under the Institutional Equity Raising	24–May–11	24,301,090	9.00
Issue of shares under the Retail Equity Raising	16–Jun–11	1,234,739	9.00
Fully paid shares at 30 June 2011		**165,982,891**	

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll each share is entitled to one vote.

Hedge reserve

The hedge reserve comprises the effective portion (net of tax) of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred.

Equity reserve

The equity reserve represents the value of shares held by an equity compensation plan that the Group is required to include in the consolidated financial statements.

This reserve will be reversed against share capital when the underlying shares vest in the employee. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

28. FINANCIAL INSTRUMENTS

Exposure to currency risks arises in the normal course of the Group's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates.

Credit risk

	2011 $'000	2010 $'000
Current assets		
Other financial assets – cash flow hedges	7,924	–
Current liabilities		
Other financial liabilities – cash flow hedges	–	(9,670)
Other financial liabilities – fair value hedges	(3,310)	–
Net other financial asset/(liability)	**4,614**	**(9,670)**

Forward currency contracts – cash flow hedges

The following table outlines the outstanding forward currency contracts accounted for as cash flow hedges:

	Group			
	Notional amount		Average exchange rate	
	2011 A$'000	2010 A$'000	2011	2010
Buy AUD/ sell USD				
Buy AUD maturity less than 12 months	51,745	252,826	0.9025	0.8690
Buy AUD maturity greater than 12 months	–	8,500	–	0.8470
	51,745	**261,326**	**0.9025**	**0.8683**

Forward currency contracts – fair value hedges

The following table outlines the outstanding forward currency contracts accounted for as fair value hedges:

	Group			
	Notional amount		Average exchange rate	
	2011 A$'000	2010 A$'000	2011	2010
Buy USD/sell AUD				
Sell AUD maturity less than 12 months	35,990	–	0.9725	–
	35,990	**–**	**0.9725**	**–**

28. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency risk

Refer to note 4 for discussion on foreign currency risk management.

Exposure to currency risk

The Group's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

	30 June 2011		30 June 2010	
Group	**AUD $'000**	**USD $'000**	**AUD $'000**	**USD $'000**
Financial assets				
Cash	–	3,153	–	3,430
Trade receivables	–	23,204	–	12,169
Royalty receivable	182,000	–	–	–
Financial liabilities				
Trade and other payables	–	(1,026)	–	(1,510)
Interest bearing loans and borrowings	–	(60,727)	–	(29,542)
Gross balance sheet exposure	**182,000**	**(35,396)**	**–**	**(15,453)**
Forward exchange contracts	(3,310)	8,502	–	(8,130)
Net exposure	**178,690**	**(26,894)**	**–**	**(23,583)**

The following significant exchange rates applied during the year:

Group	**Average rate**		**Reporting date spot rate**	
AUD	**2011**	**2010**	**2011**	**2010**
USD	0.9881	0.8523	1.0729	0.8408

Sensitivity analysis

A 10 cent movement in the Australian dollar against the US dollar at 30 June 2011 would have increased (decreased) other comprehensive income and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010.

	CONSOLIDATED	
	Other comprehensive income $'000	**Post tax profit or loss $'000**
30 June 2011		
10 cent rise in $A:$US	1,307	(12,250)
10 cent fall in $A:$US	(1,576)	16,602
30 June 2010		
10 cent rise in $A:$US	19,549	1,888
10 cent fall in $A:$US	(24,828)	(2,398)

Significant assumptions used in the foreign currency exposure sensitivity analysis include:

- Reasonably possible movements in the foreign exchange rates were determined based on third-party foreign currency forecasts.
- The reasonably possible movement was calculated by taking the USD spot rate as at the balance date, moving this spot rate by the reasonably possible movements and then re–converting the USD into AUD with the “new spot rate”. This methodology reflects the translation methodology undertaken by the Group.
- The movement includes the impact of the remeasurement of the royalty receivable by moving the forecast exchange rates used in the discounted cash flow model by the reasonably possible movements.
- A price sensitivity of derivatives has been based on a reasonably possible movement of spot rates at balance dates not on forward rates.
- The effect on other comprehensive income is the effect on the cash flow hedge reserve.
- The sensitivity does not include financial instruments that are non–monetary items as these are not considered to give rise to currency risk.

Credit risk

		Group	
		Carrying amount	
	Note	2011 $’000	2010 $’000
Financial assets:			
Cash and cash equivalents (including restricted cash)	15	184,334	27,811
Trade and other receivables	16	29,450	16,588
Royalty receivable	20	182,000	–
Other financial assets (derivatives)	16	4,614	–
Other financial assets (non-current)	21	999	83
		401,397	**44,482**

The Group’s maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Group	
	Carrying amount	
	2011 $’000	2010 $’000
Australia	–	3,113
Asia	28,035	8,196
Europe	–	3,171
	28,035	**14,480**

The Group’s maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	Group	
	Carrying amount	
	2011 $’000	2010 $’000
Coking coal customers	14,785	9,945
Thermal coal customers	13,208	4,528
Other	42	7
	28,035	**14,480**

The Group’s most significant customer balance accounts for $23,774,095 of the trade receivables carrying amount as at 30 June 2011 (2010: two customers at $10,010,000). These balances have been fully receipted subsequent to year end.

28. FINANCIAL INSTRUMENTS (CONTINUED)

The ageing of the Group's trade receivables at the reporting date was:

CONSOLIDATED	Gross 2011 $'000	Impairment 2011 $'000	Gross 2010 $'000	Impairment 2010 $'000
Not past due	17,469	–	9,586	–
Past due	10,566	–	4,894	–
	28,035	**–**	**14,480**	**–**

Receivables that are past due are not considered impaired. The full amount of the past due receivables has been received subsequent to the end of the year.

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables as all customers have a good credit history with the Group.

Liquidity risk

The following are contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements:

Consolidated	Carrying amount $'000	Contractual cash flows $'000	6 mths or less $'000	6–12 mths $'000	1 – 5 years $'000	> 5 years $'000
2011						
Liquid financial assets						
Cash and cash equivalents	184,334	184,334	182,330	–	2,004	–
Trade and other receivables	29,450	29,450	29,450	–	–	–
Financial liabilities						
Trade and other payables	(59,424)	(59,424)	(59,424)	–	–	–
Interest bearing loans and borrowings	(99,122)	(114,017)	(35,158)	(2,508)	(73,511)	(2,840)
Net inflow	**55,238**	**40,343**	**117,198**	**(2,508)**	**(71,507)**	**(2,840)**
2010						
Liquid financial assets						
Cash and cash equivalents	27,811	27,811	27,811	–	–	–
Trade and other receivables	14,805	14,805	14,805	–	–	–
Financial liabilities						
Trade and other payables	(23,258)	(23,258)	(23,258)	–	–	–
Interest bearing loans and borrowings	(34,728)	(42,440)	(3,231)	(3,231)	(25,851)	(10,127)
Net outflow	**(15,370)**	**(23,082)**	**16,127**	**(3,231)**	**(25,851)**	**(10,127)**

The following table details the liquidity risk arising from the derivative liabilities held by the Group at balance date. Gross settled derivatives mainly comprise forward exchange contracts that are used to hedge future forecasted sales.

Consolidated	Carrying amount $'000	Contractual cash flows $'000	6 mths or less $'000	6–12 mths $'000	1 – 5 years $'000	> 5 years $'000
2011						
Forward exchange contracts used for hedging (gross settled)						
Outflow	10,905	(10,905)	(10,905)	–	–	–
Inflow	(15,519)	15,756	15,756	–	–	–
Derivative asset	**(4,614)**	**4,851**	**4,851**	–	**–**	**–**
2010						
Forward exchange contracts used for hedging (gross settled)						
Outflow	281,756	(281,756)	(145,695)	(127,498)	(8,563)	–
Inflow	(272,086)	273,408	139,982	124,926	8,500	–
Derivative liability	**9,670**	**(8,348)**	**(5,713)**	**(2,572)**	**(63)**	**–**

Interest rate risk

The following table sets out the carrying amount, by maturity, of the financial instruments that are exposed to variable rate interest rate risk:

CONSOLIDATED	< 1 year $'000	1–<2 years $'000	>2–<5 years $'000	Total $'000	Effective interest rate %
As at 30 June 2011					
Cash assets	182,330	2,004	–	184,334	4.41
Interest bearing liabilities	(71,029)	(4,358)	–	(75,387)	5.92
Net exposure	**111,301**	(2,354)	–	**108,947**	
As at 30 June 2010					
Cash assets	27,811	–	–	27,811	3.75
Interest bearing liabilities	–	–	–	–	–
Net exposure	**27,811**	**–**	**–**	**27,811**	

Interest on financial instruments classified as floating rate is re–priced at intervals of less than one year.

28. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value sensitivity analysis for variable rate instruments

A change of one per cent in interest rates at the reporting date would have increased (decreased) profit and loss by the amounts shown below. The analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for 2010.

	Post tax profit or loss		Other comprehensive income	
CONSOLIDATED	1% increase $'000	1% decrease $'000	1% increase $'000	1% decrease $'000
30 June 2011				
Variable rate instruments	763	(763)	–	–
30 June 2010				
Variable rate instruments	195	(195)	–	–

Commodity price risk

The royalty receivable is remeasured based on certain assumptions including future expected commodity prices. The following table shows the impact of a 10 per cent change in commodity prices in the remeasurement of the royalty receivable would have on profit or loss. The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Post tax profit or loss		Other comprehensive income	
CONSOLIDATED	10% increase $'000	10% decrease $'000	10% increase $'000	10% decrease $'000
30 June 2011				
Royalty receivable	12,874	(12,868)	–	–

Fair value

Derivatives

Forward exchange contracts are marked to market using market data.

Interest bearing loans and borrowings

The carrying amount of loans are considered to approximate fair value.

Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table below.

Level 1: the fair value is calculated using quoted prices in active markets.

Level 2: the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3: the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

CONSOLIDATED	Quoted market price (Level 1) $'000	Valuation technique – market observable inputs (Level 2) '000	Valuation technique – non market observable inputs (Level 3) $'000	Total '000
Year ended 30 June 2011				
Financial assets				
Investments – unlisted	–	–	49	49
Royalty receivable	–	182,000	–	182,000
Derivative instruments – foreign exchange contracts	–	4,614	–	4,614
Total assets	**–**	**186,614**	**49**	**186,663**
Year ended 30 June 2010				
Financial assets				
Investments – unlisted	–	–	62	62
Total assets	**–**	**–**	**62**	**62**
Financial liabilities				
Derivative instruments – foreign exchange contracts	–	(9,670)	–	(9,670)
Total liabilities	**–**	**(9,670)**	**–**	**(9,670)**

For financial instruments not quoted in an active market, the fair value is determined by using non market observable inputs.

Transfer between categories

There were no transfers between Level 1 and Level 2 during the year.

Reconciliation of Level 3 fair value movements

	CONSOLIDATED 2011 $'000
Opening balance	62
Disposals	(13)
Closing balance	**49**

29. INTEREST IN A JOINTLY CONTROLLED ENTITY

Initial acquisition of the Middlemount Project

On 30 September 2010, the Company acquired the following Middlemount Assets from Noble Group Limited:

- 27.52 per cent interest in Middlemount Project ("Middlemount")
- Right to acquire a further 2.48 per cent interest in Middlemount from Macarthur Coal Limited for a further $8 million, payable following completion of a certain shipping milestone
- Option to acquire a further 20 per cent interest in Middlemount from Macarthur Coal Limited for an exercise price of $100 million, to be exercised at any time up to 18 months from completion of the CHPP
- Right to receive a royalty of four per cent of Free on Board Trimmed sales from Middlemount

Consideration was $398.7 million, consisting of $298.2 million in cash and $100.5 million of new Gloucester Coal Ltd shares issued to Noble Group Limited, 10,810,811 shares with a fair value of $9.30 per share, being the closing market price of Gloucester shares at the acquisition date.

The Middlemount Project is a development mine located in Queensland's Bowen Basin forecast to produce coking coal and LV PCI.

As the Company had significant influence over the entity, it was accounted for under equity accounting.

Step–up of acquisition of Middlemount

On 24 December 2010, the Company announced the early exercise of an option and other rights to acquire additional shares in Middlemount from Macarthur Coal Limited to move to a near 50 per cent interest.

Total consideration was $97.6 million, including deferred consideration of $45.0 million paid on 30 June 2011.

As of 24 December 2010, the Company gained joint control of Middlemount and is accounting for its investment under the proportionate consolidation method of accounting.

The Group has recognised the fair values of the identifiable assets and liabilities of Middlemount as follows:

	Fair value at acquisition date $'000
Property, plant and equipment	122,703
Reserves [39]	446,718
Exploration and evaluation	14,767
Deferred tax assets	13,786
Cash and cash equivalents [40]	6,110
Trade and other receivables	6,687
Inventories	2,064
Waste in advance	2,098
Financial asset – royalty receivable	168,000
Term deposits at call	828
Total assets	**783,761**
Trade and other payables	(12,234)
Accrued take or pay [41]	(12,013)
Loans and borrowings	(121,717)
Provisions	(1,569)
Deferred tax liabilities (at nominal value)	(140,568)
Total liabilities	**(288,101)**
Fair value of identifiable net assets	495,660
Share of loss since acquisition	656
Total	**496,316**
Acquisition date fair value of consideration transferred:	
Shares issued, at fair value	100,540
Cash paid	395,776
Consideration transferred	**496,316**
Cash outflow on acquisition is as follows:	
Net cash acquired with the Middlemount assets [40]	6,110
Cash paid	(395,776)
Net consolidated cash outflow	**(389,666)**

The carrying value equals the fair value of the net assets acquired, with the exception of reserves and resources and the associated deferred tax liability, which had a nil value.

Loans to Middlemount

Since acquisition the Company has provided loans to Middlemount of $120.0 million.

Profit and loss impact of the acquiree

It was determined that the Company had significant influence over the acquired entity prior to joint control, therefore equity accounting was undertaken until the option and right were exercised and joint control was obtained. The equity share of the loss of the associate of $0.7 million was recognised prior to the step up in its acquisition.

Acquisition related costs

Total business combination expenses for the period of $4.1 million are included in administration expenses.

39 Reserves are classified as property, plant and equipment in the balance sheet.

40 Includes non–current restricted cash of $2.0 million.

41 Classified as current trade and other payables ($7.1 million) and other non–current liabilities ($4.9 million) on the balance sheet.

29. INTEREST IN A JOINTLY CONTROLLED ENTITY (CONTINUED)

Impact of jointly controlled entity

Included in the financial results of the Group are the following items which represents the Group's interest in Middlemount.

	30 Jun 11 $'000
Current assets	5,630
Non–current assets	661,569
Current liabilities	65,849
Non–current liabilities	149,861
Expenses	3,575
Details of any contractual commitments by the jointly controlled entity	
Acquisition of property, plant or equipment	13,859
Take or pay commitments	455,694
Operating expenditure commitments	196,504

30. COMMITMENTS

Commitments include the Group's proportionate share of Middlemount's commitments.

a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	CONSOLIDATED	
	30 Jun 11 $'000	30 Jun 10 $'000
Property, plant and equipment payable within one year	30,504	3,044
Consumable materials within one year	595	546
	31,099	**3,590**

b) Operating lease commitments

The non–cancellable operating lease rentals are payable as follows:

	CONSOLIDATED	
	30 Jun 11 $'000	30 Jun 10 $'000
Within one year	8,307	1,426
One year or later and no later than five years	30,055	1,982
Greater than five years	2,474	-
	40,836	**3,408**

The Group leases various mobile equipment used in coal production. These leases are generally five year leases, with one lease for eight years. Currently there are five leases due to between 13 May 2014 and 21 April 2019. These leases have an escalation rate based on the Consumer Price Index. In addition, the Group has entered into an agreement, which is determined under IFRIC 4 Determining whether an Arrangement contains a Lease, to be disclosed as an operating lease. This agreement ends in March 2016 with an option to extend for three years.

The Group leases office space and parking under non–cancellable operating leases expiring on 31 October 2014. The leases are increased by a fixed factor of 1.04 at each anniversary date.

During the year ended 30 June 2011, $8,522,000 was recognised as an expense in the Income Statement in respect of operating leases (2010: $6,179,000).

c) Take or pay commitments

The following represents the minimum commitments under the take or pay contracts for rail and port access:

	CONSOLIDATED	
	30 Jun 11 $'000	30 Jun 10 $'000
Within one year	29,566	15,431
One year or later and no later than five years	215,840	83,102
Greater than five years	472,227	–
	717,633	**98,533**

d) Employee compensation commitments

Commitments under non–cancellable employment contracts not provided for in the financial statements and payable:

	CONSOLIDATED	
	30 Jun 11 $'000	30 Jun 10 $'000
Key and senior management personnel		
Within one year	1,025	1,608

The above commitments represent the minimum balances payable under employment contracts for key management personnel.

e) Operating expenditure commitments

Commitments related to operating expenditure not provided for in the financial statements and payable:

	CONSOLIDATED	
	30 Jun 11 $'000	30 Jun 10 $'000
Within one year	33,398	–
One year or later and no later than five years	133,605	–
Greater than five years	29,501	–
	196,504	**–**

31. CONTINGENT LIABILITIES

	CONSOLIDATED	
	30 Jun 11 $'000	30 Jun 10 $'000
Secured guarantees for satisfactory contract performance	27,548	20,129

No material losses are expected in respect of any of the above contingent liabilities.

32. AUDITOR'S REMUNERATION

	CONSOLIDATED	
	30 Jun 11 $	30 Jun 10 $
Audit services		
Auditors of the Group		
Audit and review of financial reports	193,250	176,520
	193,250	**176,520**
Other services		
Auditors of the Group		
Advice on corporate transactions	344,470	–
Taxation advice and compliance services	438,606	261,908
	783,076	**261,908**

33. DETAILS OF SUBSIDIARIES AND JOINT VENTURE ENTITIES

The consolidated financial statements include the financial statements of Gloucester Coal Ltd and the subsidiaries and jointly controlled entities listed in the following table:

Name	Country of incorporation	2011	2010
Parent Entity			
Gloucester Coal Ltd			
Significant subsidiaries			
Westralian Prospectors NL	Australia	100%	100%
Eucla Mining NL	Australia	100%	100%
CIM Duralie Pty Ltd	Australia	100%	100%
CIM Stratford Pty Ltd	Australia	100%	100%
CIM Services Pty Ltd	Australia	100%	100%
CIM Mining Pty Ltd	Australia	100%	100%
Stratford Coal Pty Ltd	Australia	100%	100%
Stratford Coal Marketing Pty Ltd	Australia	100%	100%
Duralie Coal Pty Ltd	Australia	100%	100%
Duralie Coal Marketing Pty Ltd	Australia	100%	100%
Gloucester (SPV) Pty Ltd	Australia	100%	–
Gloucester (Sub Holdings 1) Pty Ltd	Australia	100%	–
Gloucester (Sub Holdings 2) Pty Ltd	Australia	100%	–
Jointly controlled entities			
Middlemount Coal Pty Ltd [42]	Australia	Approximately 50%	–
Ribfield Pty Ltd [42]	Australia	Approximately 50%	–
Middlemount Mine Management Pty Ltd [42]	Australia	Approximately 50%	–

The consolidated entity, via two legal entities, has a 100 per cent participating interest in the Stratford Joint Venture, whose principal activity is coal mining.

42 On 30 September 2010, the Company acquired a 27.52% interest in the Middlemount Project. On 24 December 2010, the Company announced the early exercise of an option and other rights to acquire additional shares in Middlemount from Macarthur Coal Limited to move to a near 50% interest.

34. NON–DIRECTOR RELATED PARTIES

Parent entities

The parent entity in the Group is Gloucester Coal Ltd. Gloucester Coal Ltd's parent entity is Osendo Pty Limited and the Ultimate Parent Entity is Noble Group Limited ("Noble") which owned 55.3 per cent of Gloucester Coal Ltd as at 30 June 2011 (2010: 55.47%). Osendo Pty Limited is wholly owned by Noble Group Limited and is incorporated in Australia. Noble Group Limited is listed on the Singapore Securities Exchange and incorporated in Bermuda.

Transactions with the ultimate parent entity

The Company acquired Middlemount Coal Pty Ltd on 30 September 2010 from Noble Group Limited for consideration of $298.2 million cash and the issuance of 10,810,811 new Gloucester Coal Ltd shares. The Middlemount transaction was approved by the Company's non-associated shareholders in September 2010.

The Company made sales of coal to Noble Group Limited, the ultimate parent entity, and its subsidiaries by way of arm's length transactions at both normal market prices and normal commercial terms. The Group has sold coal to Noble Group Limited for $116.2 million during the year (2010: $61.6 million). At 30 June 2011, Noble Group Limited owed $24.0 million (2010: $1.3 million) which has been fully receipted subsequent to year end.

During the period, fixed Australian dollar forward sales contracts with Noble Group Limited were cancelled, resulting in a gain being recognised of $7.35 million.

During the period, the Company entered into a US$80 million debt facility with Noble Group Limited, maturing on 1 July 2012. As at 30 June 2011, the Company had drawn down US$35 million. Interest charged during the year was $0.4 million at a rate of LIBOR plus 2.5 per cent per annum payable quarterly. As at 30 June 2011, accrued interest payable for this loan is $0.4 million.

On 23 June 2011, the Company has assumed a lease agreement pertaining to the Macquarie Street, Sydney office. The lease was originally in Noble's name. There have been no significant changes to the existing lease terms which were made at both normal market prices and under normal commercial terms.

Subsequent to year end, on 14 July 2011, the Company (through a wholly owned subsidiary) acquired a 100 per cent interest in Donaldson Coal from Noble Group Limited ("Noble"), a related party, for an enterprise value of $585 million. This was completed by Gloucester assuming debt of $225 million from Donaldson and issuing $360 million of new Gloucester Coal Ltd shares issued at $9.75 per share at acquisition to a wholly owned subsidiary of Noble. Fair value of the consideration transferred was $321.2 million being 36,923,076 new shares with a fair value of $8.70 per share, being the closing market price of Gloucester shares at the acquisition date. The Donaldson transaction was approved by the Company's non-associated shareholders on the 8 July 2011. Immediately post the transaction Noble owned a 63.4 per cent interest in Gloucester Coal Ltd.

As a result of the successful completion of the Donaldson Transaction on 14 July 2011, the Company entered into a Marketing Services Agreement with Noble Group Limited in relation to the sale and export of coal. In accordance with the agreement, which was approved by shareholders on 8 July 2011, the Company must pay Noble a marketing fee calculated as two per cent times the actual sales export in excess of 3.5 million tonnes (but not exceeding 11.75 million tonnes) times the volume weighted average gross sales price per tonne of Free on Board Trimmed Sales ("FOBT"). During the year ended 30 June 2011, no payments between the parties have been made in relation to this agreement.

On 14 July 2011, the Company entered into a $400 million unsecured debt facility with Noble, replacing the US$80 million facility. The new facility matures on 1 July 2015. Interest is to be charged at a rate of BBSY plus 3 per cent per annum payable quarterly.

The Company is entitled to receive a royalty in respect of 4 per cent of Free on Board Trimmed sales from Middlemount. No royalties were received from Middlemount during the period.

Transactions with entities with joint control

During the period, the Company has provided loans to Middlemount to the value of $120 million, maturing on 24 December 2015. Interest charged during the period was $4.1 million at a rate of the Bank Bill Swap Reference Rate: Average bid – 30 days ("BBSY") plus 3.5 per cent per annum accrued and capitalised monthly. As at 30 June 2011, accrued interest receivable of $4.1 million has been capitalised into the loan balance.

Transactions with the ultimate parent entity, subsidiaries and entities with joint control

Sales to and purchases from related parties within the wholly–owned group and Noble Group, including the Marketing Services Agreement, are made in arm's length transactions at both normal market prices and normal commercial terms. Transactions include sale and purchase of coal and recharge of administrative and other costs, such as rent. Outstanding balances at period–end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables. The Independent Directors Committee provides approval on all material transactions with the ultimate parent entity, subsidiaries and entities with joint control.

35. RELATED PARTIES

The following persons were key management personnel of the Group at any time during the reporting period and, unless otherwise indicated, were key management personnel for the entire period:

Directors	Status
James MacKenzie	Chairman and Independent Non–Executive Director
Gregory Fletcher	Independent Non–Executive Director
Denis Gately [A]	Independent Non–Executive Director
David Brownell	Independent Non–Executive Director
Ricardo Leiman	Non–Executive Director
William Randall	Non–Executive Director

Current Executives	
Brendan McPherson [B]	Chief Executive Officer
Tim Crossley [B]	Deputy Chief Executive Officer
Craig Boyd [C]	Acting Chief Financial Officer and Company Secretary

Former Directors	
Barry Tudor [D]	Chief Executive Officer and Managing Director

Former Executives	
Graham Colliss [E]	Chief Operating Officer
William Kendall [F]	Chief Commercial Officer
Neil McKenzie [G]	Chief Financial Officer and Company Secretary
Lisa Wai Yin Yim [H]	Company Secretary

A Appointed 21 February 2011.

B Appointed 22 February 2011.

C Appointed Acting Chief Financial Officer 1 January 2011 and appointed Company Secretary 25 February 2011 to 23 August 2011.

D Resigned 22 February 2011.

E Resigned 15 April 2011.

F Appointed 1 July 2010 to 22 February 2011.

G Appointed Chief Financial Officer and Company Secretary 19 July 2010 to 22 December 2010.

H Replaced 23 August 2011.

Key management personnel compensation

Individual directors' and executives' compensation disclosures

Information regarding individual directors and executive's compensation and some equity instruments' disclosures as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 are provided in the Remuneration Report section of the Directors' Report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous Financial Year, and there were no material contracts involving directors' interests at year–end.

	CONSOLIDATED	
	30 Jun 11 $'000	30 Jun 10 $'000
Short–term employment benefits	4,354	3,165
Post–employment benefits	174	127
Long term benefits	64	–
Termination benefits	1,718	170
Share–based payments	411	463
	6,721	3,925

Option holdings of key management personnel

The movement during the reporting period in the number of options over ordinary shares in Gloucester Coal Ltd held directly, indirectly, or beneficially, by each of the key management personnel, including their related parties, is as follows:

30 June 2011	Held at 1 July 2010	Granted as compensation	Exercised	Other changes (options sold)	Held at 30 June 2011	Vested during the year	Vested and exercisable at 30 June 2011
Current executives							
Brendan McPherson	–	1,000,000	–	–	1,000,000	–	–
Tim Crossley	–	1,000,000	–	–	1,000,000	–	–
Craig Boyd	–	87,339	–	–	87,339	–	–
Former executives							
Graham Colliss	–	184,339	–	(184,339)[43]	–	–	–
Will Kendall	–	750,000	–	(750,000)[43]	–	–	–
Barry Tudor	1,000,000	–	–	(1,000,000)[43]	–	–	–

30 June 2010	Held at 1 July 2009	Granted as compensation	Exercised	Other changes (options sold)	Held at 30 June 2010	Vested during the year	Vested and exercisable at 30 June 2011
Barry Tudor	–	1,000,000	–	–	1,000,000	–	–

43 Upon cessation of employment options granted were cancelled.

Movements in shares

The movement during the reporting period in the number of ordinary shares in the Company, held during the financial period by each director of Gloucester Coal Ltd and each key management person, including their personally–related entities, are set out below:

30 June 2011	Held at 1 July 2010	Issued on exercise of options	Acquisitions	Disposals	Issued Employee Share Plan	Held at 30 June 2011
James MacKenzie	–	–	5,600	–	–	5,600
Greg Fletcher	–	–	1,000	–	–	1,000
Denis Gately	–	–	2,000	–	–	2,000
Executives						
Craig Boyd	4,000	–	–	–	–	4,000
Former Executives						
Graham Colliss	120,000	–	–	–	–	120,000 [44]
Barry Tudor	50,000	–	20,000	–	–	70,000 [45]

30 June 2010	Held at 1 July 2009	Issued on exercise of options	Acquisitions	Disposals	Issued Employee Share Plan	Held at 30 June 2010
Barry Tudor	50,000	–	–	–	–	50,000
Executives						
Graham Colliss	200,000	–	–	(80,000)	–	120,000

Loans to key management personnel and their related parties

		CONSOLIDATED	
Key management and their related parties	Transaction	2011 $'000	2010 $'000
Barry Tudor	Loan to acquire LTIP Units	–	1,700

Loans to acquire ESOT units are non–recourse. As at 30 June 2011 the balances of these loans were nil (2010: $1,700,000). There were no other loans to directors or specified executives during the financial period.

Other transactions with key management personnel and their related parties

Subsequent to year end, on 14 July 2011, the Company acquired a 100 per cent interest in Ellemby Holdings Pty Ltd for consideration of $30 million cash and the issuance of 1,000 unquoted converting shares. A Company owned and controlled by Gloucester Coal Ltd CEO Brendan McPherson and his spouse held a minority interest in Ellemby Holdings Pty Ltd prior to acquisition by Gloucester Coal Ltd. The Ellemby transaction was approved by the Company's shareholders on 8 July 2011.

A number of key management personnel, or their related parties, transacted with the Group in the reporting period. From time to time, key management personnel of the Group, its subsidiaries or their related entities, may purchase goods or equipment from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers and are trivial or domestic in nature.

44 Shares held as at 15 April 2011 being the date of cessation of employment.

45 Shares held as at 15 April 2011 being the date of cessation of employment.

36. PARENT ENTITY INFORMATION

Information relating to Gloucester Coal Ltd:	30 Jun 11 $'000	30 Jun 10 $'000
Current assets	224,586	65,679
Total assets	1,070,219	168,067
Current liabilities	18,879	14,494
Total liabilities	128,113	53,494
Issued capital	898,030	137,247
Accumulated losses	18,613	(57,546)
Equity reserve	4,378	4,220
Hedge reserve	9,683	(8,281)
Total shareholders' equity	942,105	114,573
Profit after tax of the parent entity	48,865	38,933
Total comprehensive income of the parent entity	66,830	20,319
Details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries	21,266	20,129
Details of any contractual commitments by the parent entity		
– Acquisition of property, plant or equipment	1,327	2,069
– Acquisition of consumable materials	397	356
– Operating lease commitments	3,974	3,849

37. EVENTS AFTER BALANCE SHEET DATE

Acquisition of Donaldson

On 14 July 2011, the Company (through a wholly owned subsidiary) acquired a 100 per cent interest in Donaldson Coal from Noble Group Limited ("Noble"), a related party and ultimate parent of the Company, for an enterprise value of $585 million. This was completed by Gloucester assuming debt of $225 million from Donaldson and issuing $360 million of new Gloucester Coal Ltd shares issued at $9.75 per share to a wholly owned subsidiary of Noble. Fair value of the consideration transferred was $321.2 million being 36,923,076 new shares with a fair value of $8.70 per share, being the closing market price of Gloucester shares at the acquisition date. The Donaldson transaction was approved by the Company's non-associated shareholders on the 8 July 2011.

The Group has assessed the provisional fair values of the identifiable assets and liabilities of Donaldson Coal as follows:

	Fair value at acquisition date $'000
Property, plant and equipment	219,222
Reserves and resources	425,093
Exploration and evaluation	11,266
Deferred mining asset	31,523
Intangible – port allocation	132,253
Cash and cash equivalents	59
Trade and other receivables	13,312
Investments	15,896
Inventories	11,210
Intangibles	6,784
Total assets	**866,618**
Trade and other payables	(53,377)
Customer contracts	(116,245)
Financial liability – marketing services fee payable	(7,527)
Interest bearing loans and borrowings	(225,000)
Provisions	(12,148)
Deferred tax liabilities	(131,090)
Total liabilities	**(545,387)**
Fair value of identifiable net assets	**321,231**

Acquisition date fair value of consideration transferred:	
Equity issued	**321,231**

Cash outflow on acquisition is as follows:	
Net cash acquired from Donaldson	59
Cash paid	–
Net consolidated cash inflow	**59**

Acquisition costs of $5.1 million are included in administration expenses during the period in relation to the acquisition of Donaldson.

Acquisition of the Monash Assets

In addition, on 14 July 2011, the Company acquired a 100 per cent interest in Ellemby Holdings Pty Ltd for consideration of $30 million cash and the issuance of 1,000 unquoted converting shares with a preliminary fair value of $86.7 million. A company owned and controlled by Gloucester Coal Ltd CEO Brendan McPherson and his spouse held a minority interest in Ellemby Holdings Pty Ltd prior to acquisition by Gloucester Coal Ltd. The Ellemby transaction was approved by the Company's non-associated shareholders on the 8 July 2011.

The Group has assessed the provisional fair values of the identifiable assets and liabilities of the Monash Assets as follows:

	Fair value at acquisition date $'000
Cash and cash equivalents	250
Intangible – exploration & evaluation	135,749
Other	2
Total assets	**136,001**
Trade and other payables	(6,412)
Income tax liability	(173)
Contingent consideration	(86,650)
Trade and other payables	(10,891)
Total liabilities	**(104,126)**
Fair value of identifiable net assets	**31,875**

Acquisition date fair value of consideration transferred:	
Cash paid	**(31,875)**

Cash outflow on acquisition is as follows:	
Net cash acquired with the Monash assets	250
Cash consideration paid	(30,000)
Transaction costs	1,875
Net consolidated cash outflow	**(31,625)**

Other events after balance sheet date

On 14 July 2011, the Company entered into an A$400 million debt facility with Noble. The facility matures on 1 July 2015 replacing the current US$80 million facility with Noble. At the date of this report, the Company held a drawn down balance of $230.5 million from the debt facility with Noble. Interest is calculated at a rate of BBSY plus 3 per cent per annum, payable quarterly.

On 31 August 2011, Donaldson obtained additional take or pay commitments for port capacity at NCIG under Stage 2F scheduled to start commissioning in 2013. Donaldson will receive 11.6 per cent of the additional capacity of 13mtpa.

Other than noted above, in the interval between balance date and the date of this report, there has not arisen any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

DIRECTORS' DECLARATION

1. The directors of Gloucester Coal Ltd ("Company") declare:

   a) in the directors' opinion

      (i) the financial statements and notes, are in accordance with the Corporations Act 2001 (**Act**), including:

         (A) section 296 (compliance with accounting standards as defined in section 9 of the Act); and

         (B) section 297 (true and fair view); and

      (ii) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

   b) an explicit and unreserved statement of compliance with the international financial reporting standards has been included in the notes to the financial statements; and

   c) the directors have been given the declarations from the Chief Executive Officer and Acting Chief Financial Officer required by section 295A of the Corporations Act 2001.

Dated at Sydney this 29th day of September 2011.

This declaration is made in accordance with a resolution of the directors.

James MacKenzie
Chairman

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Sydney NSW 2000 Australia
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Independent audit report to the members of Gloucester Coal Limited

Report on the financial report

We have audited the accompanying financial report of Gloucester Coal Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(a) the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

ERNST & YOUNG

Opinion

In our opinion:

a. the financial report of Gloucester Coal Limited is in accordance with the *Corporations Act 2001*, including:

  i giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

  ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(a).

Report on the remuneration report

We have audited the Remuneration Report of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Gloucester Coal Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*

Ernst & Young

Ernst & Young

M. Elliott

Michael Elliott
Partner
Sydney
29 September 2011

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 23 September 2011.

EQUITY SECURITIES

Size of shareholding	Number of shares
Ordinary shares – GCL	202,905,967
Converting shares	1,000

Ordinary shares carry one vote per share and carry the rights to dividends. As part of the consideration for the acquisition of Donaldson, 36,923,076 Ordinary Shares were issued to a subsidiary of Noble Group Ltd. These shares are currently subject to a voluntary escrow which ends on 13 July 2012.

Converting shares are non-cumulative preference converting shares which pay a dividend at a rate of 5 per cent per annum on face value (face value is $1.00 per converting share) and they are not voting shares for the purpose of the Corporations Act. Additional details of the coverting shares including the terms of conversion can be found in the Appendix 3B dated 15 July 2011 lodged by the Company in respect of the converting shares, a copy of which is located on the ASX platform and the Company's website.

DISTRIBUTION OF EQUITY SECURITIES

Analysis of numbers of equity security holders by size of holding:

Size of shareholding	%	Number of shares	Number of shareholders
1–1,000	0.2	422,236	1,132
1,001–5,000	0.9	1,750,971	736
5,001–10,000	0.3	653,447	93
10,001–100,000	0.8	1,677,156	63
100,001 and over	97.8	198,402,157	25
Total	**100.0**	**202,905,967**	**2,049**

There were 296 holders of less than a marketable parcel of ordinary shares.

EQUITY SECURITY HOLDERS

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Holding	%
Osendo Pty Limited	91,764,626	45.23
Mt Vincent Holdings Pty Ltd	36,923,076	18.20
National Nominees Limited	24,457,037	12.05
JP Morgan Nominees Australia Limited	13,703,415	6.75
HSBC Custody Nominees	10,707,204	5.28
JP Morgan Nominees Australia Limited	5,075,003	2.50
Cogent Nominees Pty Limited	3,971,156	1.96
Citicorp Nominees Pty Limited	2,257,846	1.11
AMP Life Limited	1,879,334	0.93
UBS Wealth Management Australia Nominees Pty Ltd	1,337,447	0.66
Citicorp Nominees Pty Limited	1,108,356	0.55
Osendo Pty Limited	943,267	0.47
UBS Nominees Pty Ltd	807,236	0.40
Citicorp Nominees Pty Limited	595,880	0.29
Australian Reward Investment Alliance	467,600	0.23
Bond Street Custodians Limited	421,271	0.21
Cogent Nominees Pty Limited	371,072	0.18
Queensland Investment Corporation	289,623	0.14
Citicorp Nominees Pty Limited	268,733	0.13
Citicorp Nominees Pty Limited	252,846	0.12
Total of top 20 shareholders	**197,602,028**	**97.39**
Other shareholders	5,303,939	2.61
Total shares on issue	**202,905,967**	**100.00**

SUBSTANTIAL HOLDERS

Substantial holders in the Company are set out below:

	Number Held
Noble Group Limited	128,687,702
Ausbil Dexia Limited	11,397,035
BT Investment Management	10,520,641

HOLDERS OF CONVERTING SHARES

There are three holders of converting shares. The following hold more than 20 per cent of the converting shares.

Converting shareholder	Number Held
SES Rotges Investments Pty Ltd	250
McActivity Pty Ltd	600

GENERAL INFORMATION

DIRECTORS

James MacKenzie
Chairman

Gregory Fletcher
Non–Executive Director

Denis Gately
Non–Executive Director

David Brownell
Non–Executive Director

Ricardo Leiman
Non–Executive Director

William Randall
Non–Executive Director

CHIEF EXECUTIVE OFFICER

Brendan McPherson

DEPUTY CHIEF EXECUTIVE OFFICER

Tim Crossley

COMPANY SECRETARY

Hemang Shah

REGISTERED OFFICE

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Facsimile: 61 2 8235 8229
Website: www.computershare.com

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ANZ
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AUDITORS

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