GLOUCESTER COAL

Half Yearly Report 2011 / 2012

ABN 66 008 881 712

APPENDIX 4D

RESULTS FOR ANNOUNCEMENT TO THE MARKET

HALF YEAR REPORT FOR THE PERIOD ENDED 31 DECEMBER 2011 PREVIOUS CORRESPONDING PERIOD: 31 DECEMBER 2010	%		A$'000
Revenues from ordinary activities	Up 65	to	226,993
Loss from ordinary activities after tax attributable to members	Down 259	to	(36,897)

There have been no dividends proposed during or subsequent to the interim period.

During the period, the Company entered into a Merger Proposal Deed with Yanzhou Coal Mining Company Limited and its wholly owned Australian subsidiary, Yancoal Australia Limited. One of the terms of the Merger Proposal is the payment of a Special Dividend to eligible Gloucester Shareholders. Please refer to the Company's announcement issued on 23 December 2011 for further details.

Net tangible assets per security	Corresponding Period	Current Period
Net tangible asset backing per ordinary security (cents)	402.10	622.74

The Company acquired a 100% interest in Donaldson Coal Holdings Limited and a 100% interest in Monash Coal Holdings Pty Ltd (formerly Ellemby Holdings Pty Ltd) during the period.

As at 31 December 2011 the Company had a 100% interest in the Stratford Joint Venture and had joint control over Middlemount Coal Pty Ltd.

GLOUCESTER COAL

HALF YEAR REPORT 2011/12
ABN 66 008 881 712

CONTENTS

HIGHLIGHTS

- Production for the period was 2.1 million tonnes, up 131%
- Coal sales for the period was 1.7 million tonnes, up 69%
- Increased revenue from the sale of coal by 65%
- EBITDA (before transaction costs) of $34.8 million
- Continued strengthening of the balance sheet, with net assets of $1,295 million
- Completed acquisition of Donaldson and Monash assets
- Middlemount ramp up of operations progressed substantially with rail project commissioned ahead of expectations
- Substantial upgrade to Monash Resources by 101%
- 4 year EBAs in place for Donaldson employees
- Project approvals to deliver 10 million tonnes per annum of production by 2016 progressed
- Review of Gloucester Basin geology and Donaldson operations completed
- Merger Proposal Deed entered into with Yanzhou Coal and subsidiary Yancoal Australia

	6 months 31 Dec 11 $million	6 months 31 Dec 10 $million
Revenue from sale of coal	227.0	137.5
EBITDA (before transaction costs)	34.8	40.1
EBITDA margin (before transaction costs)	15%	29%
Transaction costs[1]	(41.3)	(4.1)
EBITDA (after transactions costs)	(6.5)	36.0
Depreciation and amortisation	(26.3)	(7.8)
Profit / (loss) before tax	(56.9)	31.3
Net profit / (loss) after tax	(36.9)	23.2
Earnings / (loss) per share (cents per share)	(18.4)	20.8
Cash and cash equivalents	31.6	9.4
Current ratio	1.5	1.5
Interest bearing loans	410.7	68.5
Gearing	32%	9%
Net assets	1,295.3	762.3

[1] Transaction costs of $41.3m were incurred during the period in connection with the Donaldson acquisition on 14 July 2011 ($37.9m) and the potential Yancoal merger announced on 23 December 2011 ($3.4m). Transaction costs of $4.1m were incurred during the half year ended 31 December 2010 in connection with the Middlemount acquisition.

Table 1: Production volumes	6 months 31 Dec 11 kt	6 months 31 Dec 10 kt
Gloucester Basin[2]		
Total ROM Coal delivered to CHPP	1,618	1,515
ROM Coal processed	1,551	1,489
Total Yield	64%	60%
Product	990	889
Middlemount[3]		
Total ROM Coal delivered to CHPP	367	-
ROM Coal processed	329	-
Total Yield	69%	-
Product	226	-
Donaldson[4]		
Total ROM Coal delivered to CHPP	1,431	-
ROM Coal processed	1,316	-
Total Yield	64%	-
Product	842	-
Gloucester Coal Total Product	**2,058**	**889**

Table 2: Sales volumes	6 months 31 Dec 11 kt	6 months 31 Dec 10 kt
Coal type		
Metallurgical	499	351
Thermal	1,240	677
Total sales[5]	**1,739**	**1,028**
Purchases	(9)	(50)

[2] Production reported inclusive of stockpile adjustments for the half year ended 31 December 2011.
[3] Middlemount production shown on an equity share basis for the period of joint control.
[4] Donaldson production shown for the period of control.
[5] Sales data includes Donaldson sales for the period of control and equity share of Middlemount sales for the period of joint control.

DIRECTORS' REPORT

The Directors present their report together with the Financial Report of Gloucester Coal Ltd ('the Company'), being the Company and its controlled entities, for the half year ended 31 December 2011 and the Review Report thereon.

DIRECTORS

The names and details of the Company's Directors in office at any time during or since the end of the financial period are as follows:

Mr James MacKenzie
BBus, FCA, FAICD
Chairman and Independent Non-Executive Director
Chairman and Director since 16 June 2009.

Mr William Randall
BBus
Non-Executive Director
Director since 16 June 2009.

Mr Gregory Fletcher
BCom, CA
Independent Non-Executive Director
Director since 30 June 2009.

Mr Denis Gately
BA, LLB, RFD, ADM, FAICD
Independent Non-Executive Director
Director since 21 February 2011.

Dr Julie Beeby
BSc(Hons), MBA, PhD, GAICD
Independent Non-Executive Director
Director since 6 October 2011.

Mr Brendan McPherson
BEc, PMD (HBS)
Managing Director and Chief Executive Officer
Director since 6 October 2011 and Chief Executive Officer since 22 February 2011.

FORMER DIRECTORS

Mr David Brownell
BCom, MBA
Independent Non-Executive Director
Director since 16 June 2009, until 30 November 2011.

Mr Ricardo Leiman
MBA
Non-Executive Director
Director since 16 June 2009, until 30 November 2011.

SUMMARY OF OPERATIONS

OVERVIEW

The six months to 31 December 2011 was a period of transition for Gloucester Coal. The completion and integration of the Donaldson and Monash businesses and the establishment of mining operations at Middlemount were significant achievements for the Company during the period.

Gloucester Coal is now a producing miner in the Australian coal market with scale and significant growth opportunities. It has four clearly defined domains of production and future development and through its combination of coking and thermal coal resources it has an ability to substitute the supply of coal type to match demand from overseas markets.

The benefits of scale and the ability to manage coal type production profiles have been extremely valuable in what has been a volatile period in the coal market. The first quarter of the 2011/2012 financial year saw a gradual softening of overseas demand for export coal, in particular metallurgical coal. This situation deteriorated further in the second quarter.

Gloucester Coal achieved a number of significant milestones over the past six months. The approval of the Duralie extension project, the significant increase in JORC Resources at Monash, the early commissioning of Middlemount's rail project and the commencement of the approvals processes for the Stratford and Tasman extensions were all critical milestones that provided the foundations to grow the Company for decades to come.

The weakness in coal markets globally and some production issues at the Gloucester Basin and Donaldson during the first half resulted in a net loss after tax of $36.9m. The impact of the subdued demand for metallurgical coal was mitigated in part by a decision to change the Company's production profile towards producing a higher percentage of thermal coal, which remained relatively robust during the period. The overall Free on Board (FOB) cash cost per tonne of coal (excluding Middlemount, royalties and interest) was $111. The higher than expected FOB cash cost per tonne was primarily driven by lower production volumes and advance stripping of waste in the Gloucester Basin.

On 23 December 2011 Gloucester Coal announced it had entered into a merger proposal deed with Yanzhou Coal Mining Company Limited ("Yanzhou") and its wholly owned Australian subsidiary, Yancoal Australia Limited ("Yancoal") following an approach from Yanzhou. Under the merger proposal, Gloucester's assets will be combined with the following Yancoal Australian assets:

- 100% interest in the Austar Coal Mine;
- 90% interest in the Ashton Coal Joint Venture;
- 80% interest in the Moolarben Joint Venture;
- 100% interest in the Yarrabee coal mine;
- 15.4% interest in the Newcastle Coal Infrastructure Group; and
- 5.6% interest in the Wiggins Island Coal Export Terminal.

Details of the Merger Proposal Deed are available in the Gloucester Coal announcement issued to the Australian Stock Exchange on 23 December 2011. Gloucester has engaged Deloitte to prepare an Independent Expert's Report expressing an opinion on whether the proposal is in the best interest of Gloucester's shareholders.

The proposal is subject to the completion of due diligence by both parties validating the relative value of the Yancoal Assets and Gloucester specified in the Merger Proposal Deed, a process which is ongoing.

The Gloucester Directors believe that a combination of Gloucester and the Yancoal Assets has the potential to create a world class coal production and export operation. The Gloucester Directors believe that it is important to assess the outcome of Gloucester's ongoing due diligence described above before making a recommendation to shareholders, which they will do on completion of that process.

OPERATIONS

Gloucester Basin

Production in the Gloucester Basin increased by 11% during the period compared to the previous corresponding period with overall product yields improving by 4%. The increase in production was achieved despite the impact of extreme wet weather events in June and July resulting in almost no coal mined during the first quarter from the newly developed Clareval pit. The delay in mining coal at Clareval resulted in an imbalance of waste moved, to coal mined, at Duralie. Coal mining volumes returned to planned levels in the second quarter following the dewatering of the Clareval pit. The Coal Handling and Preparation Plant ("CHPP") performance improved with record throughput reached for the month of December. The CHPP also achieved a significant safety milestone of five years with no lost time injuries.

A review of the Gloucester Basin geology and life of mine plan was undertaken during the 2011 calendar year and a new life of mine plan is now under development. The new life of mine plan will provide the Company with a consolidated long term outlook for the Gloucester Basin operations and identifies mine developments that maximise growth opportunities in a sustainable and cost effective manner. One of the key development opportunities identified in this process is the Stratford North Project.

In mid-2011, Gloucester management commissioned Minarco to undertake a strategic review of the geological potential of the Gloucester Basin. As part of this review, Minarco built a regional geological model using available existing exploration data, including 2,018 drill holes and eight seismic traverses. (Note: This was not a JORC Code compliant model, as the waste and coal quantities have been estimated by interpolation and extrapolation of widely spaced data points). Through this exercise, it was identified that significant coal potential exists in the Stratford North area. Further work was then undertaken to build a concept level mine plan which identified the potential for a long life (>30 years), low strip ratio (< 5:1 ROM) mine plan. In order to progress this plan further, exploration will need to be completed to define a Mineral Resource in the Stratford North area (which may or may not result in the determination of a Mineral Resource). Exploration and geological assessments of surrounding areas suggests there is a potential for the Stratford North Project to deliver 200 to 240 million tonnes of ROM coal.

Middlemount

The ramp up of operations at Middlemount progressed significantly with a total of 226kt of coal produced by the end of the six month period. The five year mining services contract formally commenced on 1 July 2011. A number of project milestones were achieved including the earlier than expected commissioning of the rail spur, rail loop and train load out facilities in November. Mining Lease 70417 was approved providing additional overburden dump space which was critical to achieving forecast production volumes. The CHPP commenced 24 hours a day, 7 days a week operations in the second quarter performing reliably at s 400 tonnes per hour ("tph") run rate. Works to expand the CHPP to 700tph and improve product screening also commenced during the period. These works are expected to enhance coking coal recovery.

The process to gain an Environmental Authority to increase ROM production from 1.8 million tonnes to 5.4 million tonnes progressed over the period. Middlemount is currently awaiting approval. In December 2011, the Queensland Government announced that North Queensland Coal Terminal Pty Ltd ("NQCT"), of which Middlemount is a shareholder, had secured Preferred Respondent Status for the development of a 30 million tonne per annum capacity coal terminal as part of the Abbot Point port development in Queensland. Middlemount is seeking an additional 1 million tonnes to complement the existing 3 million tonnes per annum contracted capacity at Abbott Point.

Donaldson

The acquisition of Donaldson was completed on 14 July 2011. Over the near six month period of ownership over 800,000 tonnes of coal was produced at Donaldson. During this period a 4 year Enterprise Bargaining Agreement was signed with employees. Performance at Donaldson underground mines was broadly in line with expectations, however some challenging mining conditions combined with equipment reliability issues impacted production during the period. The Donaldson open cut operations produced lower than expected volumes as a result of adverse weather conditions during the second quarter.

The key focus since the acquisition of Donaldson has been a review of the operations with particular emphasis on improving mining development rates. The review was completed at the end of December 2011 and the development and implementation of a business improvement programme has progressed.

The review identified opportunities for improvement across the areas of planning, capacity, management, infrastructure, technical systems and mindset and behaviours. A transformational improvement programme has now commenced focusing on standardising work practices, sequenced wheeling, start and end of shift management interactions and reducing unplanned downtime.

Costs

Total FOB cash cost per tonne for the six month period (excluding Middlemount, royalties and interest) was $111.

Costs per tonne in the Gloucester Basin were 15% above management expectations due to advance stripping of waste (cost of $9.41/tonne) and lower production volumes. Volumes were impacted in the first quarter by the flooding of the Clareval Pit. The continued restrictions on shuttle rail haulage hours of operations in the second quarter impacted the ability to recover volumes lost in the first quarter.

Costs per tonne at Donaldson were 2% above management expectations due to lower production volumes. Production was impacted by lower development mining rates and the flow on impact on extraction mining rates. Difficult mining conditions and equipment reliability issues also affected production during the period.

SALES AND MARKETING

Total coal sales for the period was 1.7 million tonnes up 69% from the previous corresponding period. Metallurgical coal sales increased by 42% over the period and thermal coal sales increased by 83%.

The increase in sales was primarily driven by the addition of the Donaldson and Middlemount coal sales mitigating the impact of lower demand for export coal from overseas markets. Coal prices during the period were volatile, more so in the metallurgical coal market. Thermal coal prices were subdued at times however movements in price, in most cases, coincided with changes in the value of the Australian dollar. Movements in metallurgical coal prices were more aligned with a slowing of product demand from overseas users and general global economic conditions, affecting non premium coking coal products and LVPCI products in particular.

The acquisition of Donaldson has assisted the Company to mitigate the impact of a soft coking coal market. The flexibility to change the production profile at the Donaldson mines meant that a higher percentage of global specification thermal coal could be produced to maximise coal sales over the period.

The split of metallurgical coal to thermal coal sold was 30% metallurgical, 70% thermal, however, the split of coal type produced was 40% metallurgical, 60% thermal.

The total realised price per tonne for all coal sold over the six month period was $131 (31 December 2010: $134).

FUTURE DEVELOPMENT PROJECTS

Duralie Extension

The Duralie Extension was approved in December 2010. Following the approval a Merits Appeal was lodged in the Land and Environment Court. In November 2011 Chief Justice Preston issued a new approval for the Duralie Extension Project with revised conditions. The revised conditions require Gloucester to adhere to "best practice" environmental monitoring, which is consistent with the Company's strong commitment to conducting its operations in an environmentally responsible manner. One of the conditions requires the ongoing restriction of rail haulage hours of operations. During the second half of this financial year the Company proposes to lodge a S75W amendment to increase the railing hours to provide it with increased flexibility to meet its growth targets for production.

Stratford Extension

The Preliminary Environmental Assessment for the Stratford Extension Project was lodged in October 2011. The Director-General subsequently confirmed that the application will be assessed under Division 4.1 (State Significant Development) of the Environmental Planning and Assessment Act (1979). Director-General requirements were issued on 14 December 2011. Gloucester plans to submit an Environmental Impact Assessment in mid 2012 of the calendar year. Consultation with both regulatory bodies and with the community will be undertaken in the second half of this financial year.

Tasman Extension

Work progressed on the Tasman Extension Project within the period. The Tasman Extension is also being assessed under Division 4.1 (State Significant Development) of the Environmental Planning and Assessment Act (1979). Director-General requirements were issued on 14 December 2011. Gloucester plans to submit an Environmental Impact Assessment in mid 2012 of the calendar year. Community consultation for the projects has commenced.

Abel Project Modification

Work continued on the 75W modification to the Abel underground Mine Project to allow for Shortwall and Longwall mining in the approved area. A Project Description and Preliminary Environmental Assessment were lodged with a request for Director-General requirements for the Environmental Assessment on 19 December 2011. Gloucester expects to lodge the Environmental Assessment in the third quarter of the 2012 calendar year. Community consultation for the project has commenced.

EXPLORATION

Exploration expenditure during the six months to 31 December 2011 was $16.3 million.

Gloucester Basin

The Company continued its programme of exploration and resource definition on tenements A311, A315 and EL6904. Up to seven rigs operated on exploration targets during the six month period. A total of 31,711 metres of drilling was completed. Drilling was focused on targets to the north of the existing Stratford operations and the north of the existing Duralie operation. In addition, drilling focusing on the strategic understanding of the Gloucester Basin was also undertaken.

Donaldson

The Company continued its programme of exploration and resource definition drilling EL5498 during the six month period. A total of 1,766 metres were drilled in five holes targeting the West Borehole seam as part of the Tasman Extension MLA. An additional 1,269 metres in four separate holes were completed targeting the Ashtonfield seam. This second programme incorporated a close spaced drill pattern for detailed mine planning purposes.

Monash

The Company commenced its programme of exploration at Monash. A preliminary pilot hole at MN001 was completed as an open hole to 419 metres. A second hole at MN001A was completed to 488 metres for the purpose of gathering coal quality samples of selected seams. The Company completed two further holes, MN002 and MN003 later in the period. The prospective coal measure strata was cored in both of these holes to total depths of 470 and 575 metres respectively. In addition, MN004 has been cored to a depth of 620 metres. Raw coal analysis has been completed for holes MN001A, 2 and 3. Washability testing and clean coal analysis is proceeding.

During the period, the Company announced a substantial updgrade to its Monash Coal Resources.

- Total JORC coal resources for Monash have increased to 577 million tonnes from the previously announced 287 million tonnes.

- Measured and indicated resources have increased from 13 million tonnes (indicated) to 100 million tonnes (measured and indicated) from the resources previously announced.

SUBSEQUENT EVENTS

Gloucester Basin Reserve and Resource Upgrade

On 6 February 2012, the Company announced Resources and Reserves for the Wenham Cox Road area within A311, A315 and ML1528 adjacent to the Stratford mining area in the Gloucester region.

- JORC Coal Resources for Wenham Cox Road total 37 million tonnes, including Measured Resources of 4.0 million tonnes, Indicated Resources of 20.1 million tonnes and Inferred Resources of 13 million tonnes.
- JORC Coal Reserves for Wenham Cox Road total 12.2 million tonnes, which are all in the Probable category.

Donaldson Reserve and Resource Upgrade

On 23 February 2012, the Company announced an 8.3 million tonne increase in the total Reserves of the Donaldson mines.

- JORC Coal Resources for Donaldson total 885 million tonnes including 659.4 million tonnes of measured resources (previously 545.5 million tonnes), 182.9 million tonnes of indicated resources (previously 217.5 million tonnes) and 42.7 million tonnes of inferred resources (previously 122 million tonnes) .
- JORC Coal Reserves for Donaldson total 160.7 million tonnes including 115.9 million tonnes of proved reserves (previously 95.4 million tonnes) and 44.8 million tonnes of probable reserves (previously 57.1 million tonnes).

Other than noted above, there has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future years.

AUDITOR'S INDEPENDENCE

The Auditor's Independence Declaration is set out on page 13 and forms part of the Directors' Report for the half year ended 31 December 2011.

ROUNDING

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, 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	Brendan McPherson
Chairman	*Managing Director*

Dated at Sydney this 27th day of February 2012

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

In relation to our review of the financial report of Gloucester Coal Limited for the half-year ended 31 December 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

Anton Ivanyi
Partner
27 February 2012

CONSOLIDATED INCOME STATEMENT

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

	NOTES	6 months 31 Dec 11 $'000	6 months 31 Dec 10 $'000
Revenue from sale of coal		226,993	137,523
Cost of sales		(214,317)	(103,441)
Gross profit		12,676	34,082
Other operating income	4	12,514	3,966
Administration expenses		(16,688)	(5,091)
Share of loss of an associate		-	(656)
Profit before transaction costs, financing and tax		8,502	32,301
Transaction costs		(41,315)	(4,135)
Profit / (loss) before financing and tax		(32,813)	28,166
Financial income	5	4,150	4,336
Finance costs	5	(28,240)	(1,189)
Profit / (loss) before tax		(56,903)	31,313
Income tax (expense) / benefit		20,006	(8,153)
Net profit / (loss) for the period (attributable to owners of the parent)		(36,897)	23,160

Earnings / (loss) per share (cents per share)		
– Basic earnings / (loss) per share	(18.4)	20.8
– Diluted earnings / (loss) per share	(18.4)	20.7

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

	NOTES	6 months 31 Dec 11 $'000	6 months 31 Dec 10 $'000
Profit / (loss) for the period		(36,897)	23,160
Other comprehensive income / (loss):			
Cash flow hedge losses / (gains) transferred to income statement		(13,834)	11,830
– Tax effect of losses / (gains) transferred to income statement		4,150	(3,549)
Cash flow hedge (losses) / gains taken to equity		7,452	23,390
– Tax effect of (losses) / gains taken to equity		(2,236)	(7,017)
Total other comprehensive income / (loss) for the period, net of tax		(4,468)	24,654
Total comprehensive income / (loss) for the period (attributable to owners of the parent)		(41,365)	47,814

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

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2011

	NOTES	31 Dec 11 $'000	31 Dec 10 $'000
CURRENT ASSESTS			
Cash and cash equivalents	6	30,917	182,330
Trade and other receivables		58,252	29,450
Financial asset – marketing services fee receivable	7	854	-
Financial asset – royalty receivable	8	15,890	-
Other financial assets (derivatives)		2,224	4,614
Inventories		52,293	9,341
Waste in advance		83,109	57,736
TOTAL CURRENT ASSETS		243,539	283,471
NON CURRENT ASSESTS			
Restricted cash	6	677	2,004
Financial asset – royalty receivable	8	177,110	182,000
Property, plant and equipment	9	1,692,745	807,438
Exploration and evaluation	10	217,871	56,593
Intangibles	11	57,386	-
Investments	12	19,287	999
Deferred tax asset		13,891	10,727
TOTAL NON-CURRENT ASSETS		2,178,967	1,059,761
TOTAL ASSETS		2,422,506	1,343,232

CONSOLIDATED BALANCE SHEET (continued)

AS AT 31 DECEMBER 2011

	NOTES	31 Dec 11 $'000	30 Jun 11 $'000
CURRENT LIABILITIES			
Trade and other payables		74,922	49,657
Customer contracts	13	55,604	-
Interest bearing loans and borrowings	14	4,133	74,555
Income tax liability		173	2,647
Take or pay provision	15	21,221	7,120
Rehabilitation and dismantling provisions		1,731	1,125
Employee benefits		9,126	782
TOTAL CURRENT LIABILITIES		166,910	135,886
NON-CURRENT LIABILITIES			
Financial liability – marketing services fee payable	7	14,772	-
Customer contracts	13	77,522	-
Interest bearing loans and borrowings	14	406,546	24,567
Take or pay provision	15	98,593	4,893
Rehabilitation and dismantling provisions		15,716	10,842
Contingent consideration	16	88,959	-
Deferred tax liabilities		257,393	152,099
Employee benefits		763	281
TOTAL NON-CURRENT LIABILITIES		960,264	192,682
TOTAL LIABILITIES		1,127,174	328,568
NET ASSETS		**1,295,332**	**1,014,664**
EQUITY			
Issued capital	23	1,219,261	898,030
Retained profits		65,675	102,572
Reserves		10,396	14,062
TOTAL EQUITY (attributable to equity holders of the parent)		**1,295,332**	**1,014,664**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

	Share capital $'000	Equity reserve $'000	Hedge reserve $'000	Retained profits $'000	Total $'000
At 1 July 2010	137,247	4,220	(8,281)	48,010	181,196
Profit for the period	-	-	-	23,160	23,160
Other comprehensive income, net of tax	-	-	24,654	-	24,654
Total comprehensive income, net of tax	-	-	24,654	23,160	47,814
Transactions with owners in their capacity as owners:					
Shares issued	440,986	-	-	-	440,986
Share issue costs	(8,426)	-	-	-	(8,426)
Shares issued to Noble Group	100,540	-	-	-	100,540
Share based payments - options	-	155	-	-	155
At 31 December 2010	670,347	4,375	16,373	71,170	762,265
At 1 July 2011	898,030	4,378	9,684	102,572	1,014,664
Loss for the period	-	-	-	(36,897)	(36,897)
Other comprehensive loss, net of tax	-	-	(4,468)	-	(4,468)
Total comprehensive loss, net of tax	-	-	(4,468)	(36,897)	(41,365)
Transactions with owners in their capacity as owners:					
Shares issued to Noble Group	321,231	-	-	-	321,231
Share based payments - options	-	802	-	-	802
At 31 December 2011	1,219,261	5,180	5,216	65,675	1,295,332

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

	NOTES	6 months 31 Dec 11 $'000	6 months 31 Dec 10 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		202,446	139,360
Payments to suppliers and employees		(298,420)	(116,402)
Cash generated from operations		(95,974)	22,958
Transaction costs paid		(38,315)	-
Income tax paid		(5,292)	(14,167)
Interest paid		(11,152)	(778)
Interest received		913	4,336
Net cash from / (used in) operating activities	6	(149,820)	12,349
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(66,617)	(25,960)
Payments for exploration and evaluation expenditure		(16,273)	(11,016)
Acquisition of subsidiaries, net of cash acquired	19, 20	(31,619)	-
Acquisition of jointly controlled entity, net of cash acquired	18	-	(344,666)
Investment income		-	2
Loans to jointly controlled entity		-	(79,881)
Security deposits paid		-	(20)
Payment for investments		(2,500)	-
Net cash (used in) investing activities		(117,009)	(461,541)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from shares issued		-	440,986
Dividends paid		-	(5)
Proceeds from borrowings		196,894	-
Repayment of borrowings		(82,805)	(2,282)
Payment of share issue costs		-	(7,926)
Net cash from financing activities		114,089	430,773
Net decrease in cash and cash equivalents		(152,740)	(18,419)
Cash and cash equivalents at beginning of period		184,334	27,811
Cash and cash equivalents at end of period	6	31,594	9,392

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 ("GCL") is a company domiciled in Australia and is listed on the Australian Stock Exchange. The consolidated financial report of the Company for the half year ended 31 December 2011 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled operations.

The consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2011 is available upon request from the Company's registered office at Level 7, 167 Macquarie Street, Sydney, NSW, 2000 or at www.gloucestercoal.com.au.

The financial report was authorised for issue by the Directors on 27 February 2012.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: Interim Financial Reporting and the Corporations Act 2001.

The consolidated interim financial report does not include all the information required for a full annual financial report and should be read in conjunction with the most recent annual financial report. This report must also be read in conjunction with any public announcements made by the Company during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

The consolidated entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with this Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(b) Significant accounting policies

The accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2011 with the exception of the application of accounting policies that were not previously required, described below.

Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the acquisition date plus costs directly attributable to the combination.

The transaction costs arising on the issue of equity instruments are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the transaction that otherwise would have been avoided. All other transaction costs incurred are expensed.

Except for non-current assets classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the business combination over the net fair value of the consolidated entity's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the consolidated entity's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

The fair values disclosed are provisional due to the complexity of the acquisition and due to the inherently uncertain nature of the mining industry. The review of the fair value of the assets and liabilities acquired will be completed within 12 months of the acquisition date at the latest.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be re-measured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of AASB 139, it is measured in accordance with the appropriate AASB.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss.

Transaction costs of a business combination that is abandoned are recognised as an expense in the income statement.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss includes financial assets held for trading and financial assets designated at initial recognition at fair value through profit and loss. Financial assets are designated as held for trading if they are acquired for the purpose of selling or repurchasing in the short term. Financial assets at fair value through profit and loss are carried in the balance sheet at fair value with changes in fair value recognised in finance income or finance costs in profit or loss.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination are their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible assets.
Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

New Standards and Interpretations

Australian Accounting Standards and Interpretations that have been recently issued or amended but are not yet effective, have not been adopted by the consolidated entity for the half year ended 31 December 2011 and are summarised in the annual financial report for the year ended 30 June 2011, with the exception of IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine which was issued on 19 October 2011.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to stripping costs incurred during the production phase of a surface mine. Production stripping costs are to be capitalised as part of an asset, if an entity can demonstrate that it is probable future economic benefits will be realised, the costs can be reliably measured and the entity can identify the component of an ore body for which access has been improved. This asset is to be called the "stripping activity asset". The stripping activity asset shall be depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied unless another method is more appropriate.

IFRIC 20 applies to annual periods beginning on or after 1 January 2013. Earlier application is permitted, however, the Company has not elected for early adoption for the half year ended 31 December 2011. The Company has not yet determined the potential effect of the interpretation on the Company's financial results.

(c) Use of estimates and judgements

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing this consolidated interim financial report, the significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation of uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2011.

(d) Comparatives

Certain balances in the prior period income statement have been reclassified to be consistent with the classification as at 31 December 2011.

3. 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 four operating segments being the Gloucester Basin in New South Wales, Middlemount in Queensland, the Donaldson mines in NSW (acquired in July 2011) and Exploration (acquired in July 2011).

The reportable segments are based on the location of mining operations.

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. Similarly, operations within the Donaldson mines are deemed to be one operating segment. The operations at Middlemount and the Exploration segment are also reported as separate operating segments.

SEGMENT INCOME STATEMENT

31 December 2011	Gloucester Basin $'000	Middlemount $'000	Donaldson $'000	Exploration $'000	Total $'000
Segment revenue					
Metallurgical	42,864	16,551	27,113	-	86,528
Thermal	68,246	-	82,813	-	151,059
Total segment revenue from income statement	111,110	16,551	109,926	-	237,587
Inter-segment sales	(2,552)	-	(8,042)	-	(10,594)
Total revenue from income statement	108,558	16,551	101,884	-	226,993
Segment net operating profit / (loss) after tax	8,022	17,842	(7,404)	(1,633)	16,827
Interest income - unwinding of the discount	-	3,237	-	-	3,237
Interest (expense) - unwinding of the discount	(270)	(1,236)	(11,103)	(2,309)	(14,918)
Re-measurement of royalty receivable	-	11,021	-	-	11,021
Depreciation and amortisation	(10,864)	(1,969)	(13,461)	-	(26,294)
Reconciliation of segment net operating profit after tax to net (loss) before tax					
Segment net operating profit after tax					16,827
Net interest expense on Group facilities					(12,409)
Transaction costs[6]					(41,315)
Income tax benefit					(20,006)
Net (loss) before tax					(56,903)

31 December 2010	Gloucester Basin $'000	Middlemount $'000	Donaldson $'000	Exploration $'000	Total $'000
Segment revenue					
Metallurgical	71,082	-	-	-	71,082
Thermal	66,441	-	-	-	66,441
Total segment revenue from income statement	137,523	-	-	-	137,523
Segment net operating profit after tax	24,579	(656)	-	-	23,923
Interest expense - unwinding of the discount on provisions	(225)	-	-	-	(225)
Depreciation and amortisation	(7,854)	-	-	-	(7,854)
Reconciliation of segment net operating profit after tax to net profit before tax					
Segment net operating profit after tax					23,923
Net interest income on Group facilities					3,372
Transaction costs[7]					(4,135)
Income tax expense					8,153
Net profit before tax					31,313

For the period ended 31 December 2010, the impact to the profit and loss for the Bowen Basin was the Company's share of the loss of $0.7 million. As this was a mine under development during that period, there was no revenue recognised.

[6] Transaction costs of $41.3m were incurred during the period in connection with the Donaldson acquisition on 14 July 2011 ($37.9m) and the potential Yancoal merger announced on 23 December 2011 ($3.4m).
[7] Transaction costs of $4.1m were incurred during the period in connection with the Middlemount acquisition.

SEGMENT ASSETS

	Gloucester Basin $'000	Middlemount $'000	Donaldson $'000	Exploration $'000	Total $'000
Segment assets as at 31 December 2011 are as follows:					
Segment operating assets	654,970	929,927	717,190	118,195	2,420,282
Other financial assets (derivatives)					2,224
Total assets per the balance sheet					2,422,506

Segment assets as at 30 June 2011 are as follows:					
Segment operating assets	496,735	837,831	-	-	1,334,566
Inter-segment 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.

4. OTHER OPERATING INCOME

	6 months 31 Dec 11 $'000	6 months 31 Dec 10 $'000
Net loss on revaluation of foreign currency	(35)	(3,543)
Re-measurement of royalty receivable	11,021	-
Cancellation fee from coal contracts	-	7,350
Other	1,528	159
Total other operating income	12,514	3,966

5. FINANCIAL INCOME AND FINANCE COSTS

	6 months 31 Dec 11 $'000	6 months 31 Dec 10 $'000
Financial income		
Interest income	913	4,336
Unwinding of discount of royalty receivable	3,237	-
Total financial income	**4,150**	**4,336**
Finance costs		
Interest paid or payable on interest bearing loans	(13,318)	(557)
Unwinding of discount on provisions	(14,918)	(225)
Other	(4)	(407)
Total finance costs	**(28,240)**	**(1,189)**
Net financing income / (costs)	**(24,090)**	**3,147**

6. CASH AND CASH EQUIVALENTS

	6 months 31 Dec 11 $'000	6 months 31 Dec 10 $'000
Reconciliation of cash balances		
Cash and cash equivalents	30,917	7,389
Restricted cash[8]	677	2,003
Bank Balances	31,594	9,392
Reconciliation of cash flows from operating activities		
Profit / (loss) after income tax	(36,897)	23,160
Adjustments for:		
Depreciation and amortisation	26,294	7,854
Loan fee amortisation	-	407
Share of loss from associate	-	656
Equity settled share based payments expense	802	155
Equity settled cash flow hedge (gains) / losses	(1,970)	8,281
Accrued share issue costs	-	(500)
Investment income	-	(2)
Interest income (unwinding of the discount)	(3,237)	-
Interest expense (unwinding of the discount)	14,918	-
Re-measurement of royalty receivable	(11,021)	-
Re-measurement of marketing services fee payable	586	-
Amortisation of port allocation	266	-
Release of customer contracts liability	(10,652)	-
Release of take or pay accrual	(6,445)	-
Other non-cash items	(2,265)	-
Changes in working capital:		
(Increase)/decrease in receivables	(14,744)	892
(Increase)/decrease in inventories	(31,742)	3,221
(Increase)/decrease in waste in advance	(25,373)	(6,983)
(Increase)/decrease in other financial assets	-	(12,146)
(Increase)/decrease in royalty receivables	3,258	-
Increase/(decrease) in creditors and provisions	(26,300)	(6,631)
Increase/(decrease) in income tax liability	(2,647)	(9,882)
Increase/(decrease) in deferred tax liability	(22,651)	3,867
Net cash inflow/(outflow) from operating activities	(149,820)	12,349

8 Restricted cash is the Company's share of Middlemount's cash backing for bank guarantees.

7. FINANCIAL ASSET / LIABILITY – MARKETING SERVICES FEE RECEIVABLE / PAYABLE (CURRENT AND NON-CURRENT)

As part of the acquisition of Donaldson, an agreement was entered into with Noble Group Limited ("Noble"), the ultimate parent entity, for Noble Marketing to provide international marketing services, advice and information in relation to the sale and marketing of export coal. The agreement expires on 31 December 2040 and the fee is calculated as 2 per cent times the actual export sales in excess of 3.5 mtpa (but not exceeding 11.75 mtpa) times the volume weighted average gross sales price per tonne of Free on Board Trimmed Sales ("FOBT"). A liability is recognised for the portion of the fee which is deemed to be above market norms.

If any party other than Noble acquires over 50% of Gloucester Coal Ltd, a prepayment can be requested by either party for the remainder of the agreement based on volumes of 8.25 mtpa from 2020. Payment may be made in cash or Gloucester scrip at Gloucester's discretion when the prepayment is requested by Noble.

	31 Dec 11 $'000
Balance 1 July	-
Donaldson acquisition	(12,413)
Unwinding of the discount	(919)
Re-measurement of marketing services fee payable	(586)
Balance 31 December	(13,918)
Current	854
Non-current	(14,772)

8. FINANCIAL ASSET – ROYALTY RECEIVABLE (CURRENT AND NON-CURRENT)

A right to receive a royalty of 4% of Free on Board Trimmed Sales from the Middlemount Project was acquired as part of the Middlemount Assets acquisition. 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.

	6 months 31 Dec 11 $'000	12 months 30 Jun 11 $'000
Opening balance	182,000	-
Acquisition of the royalty receivable	-	168,000
Unwinding of the discount	3,237	12,161
Amortisation of the royalty receivable	(3,258)	-
Re-measurement of royalty receivable	11,021	1,839
Closing balance	193,000	182,000
Current	15,890	-
Non-current	177,110	182,000

9. PROPERTY, PLANT AND EQUIPMENT

	6 months 31 Dec 11 $'000	12 months 30 Jun 11 $'000
Cost		
Opening balance	904,076	224,259
Middlemount acquisition (PP&E)	-	122,703
Middlemount acquisition (reserves)	-	446,718
Donaldson acquisition (PP&E)	257,529	-
Donaldson acquisition (reserves)	587,455	-
Other additions	66,617	110,742
Disposals	-	(346)
Closing balance	1,815,677	904,076
Depreciation and amortisation		
Opening balance	(96,638)	(78,133)
Depreciation and amortisation for the period	(26,294)	(18,701)
Disposals	-	196
Closing balance	(122,932)	(96,638)
Net book value	1,692,745	807,438

10. EXPLORATION AND EVALUATION

	6 months 31 Dec 11 $'000	12 months 30 Jun 11 $'000
Opening balance	56,593	25,619
Middlemount acquisition	-	14,767
Monash acquisition[9]	117,832	-
Donaldson acquisition	27,173	-
Other additions	16,273	22,240
Transfer to mining property and development	-	(6,033)
Closing balance	217,871	56,593

[9] The Monash acquisition balance is $0.7 million less than the fair value of the Exploration and Evaluation asset at acquisition date at Note 20. The difference is in relation to the Monash transaction costs that were capitalised in the financial statements for the year ended 30 June 2011.

11. INTANGIBLES

Port Allocation

Through the acquisition of Donaldson, the Company now holds an 11.6% interest in the Newcastle Coal Infrastructure Group ("NCIG") and has access agreements for port capacity from Port Waratah Coal Services ("PWCS"). The entitlement to port capacity provides the Company with value particularly during the period where constraints are forecast at the port. The intangible is deemed to have a finite life and is amortised over the period that Donaldson is anticipated to derive a benefit from the asset.

	31 Dec 11 $'000
Balance 1 July	-
Donaldson acquisition – port allocation	57,652
Amortisation of port allocation	(266)
Balance 31 December	57,386

12. INVESTMENTS

Included in investments is US$19.2 million (A$18.9 million) fixed coupon NCIG bonds which were acquired during the period and are classified as held for trading financial instruments. The held for trading financial instrument is accounted for at fair value which is determined to be cost as this is the expected value to be realised upon sale. A$15.9 million of the carrying amount at 31 December 2011 was acquired as part of the acquisition of Donaldson.

13. CUSTOMER CONTRACTS (CURRENT AND NON-CURRENT)

At the time of acquisition of Donaldson, a liability was recognised for the out of the money sales contracts held by Donaldson. The value of the liability is representative of the discounted value of the out of money portion of the contracts. The liability will be released over the life of the contracts as the sales commitments are satisfied.

	31 Dec 11 $'000
Balance 1 July	-
Donaldson acquisition	(138,121)
Unwinding of the discount	(5,657)
Release of the customer contracts liability	10,652
Balance 31 December	(133,126)
Current	(55,604)
Non-current	(77,522)

14. INTEREST BEARING LOANS AND BORROWINGS

	31 Dec 11 $'000	30 Jun 11 $'000
Current		
Chattel mortgage facility – secured	(3,926)	(3,525)
Loan from Noble Group – unsecured	-	(32,622)
Middlemount shareholder loan[10]	(39)	(38,408)
Finance lease liability – secured	(168)	-
Total current	**(4,133)**	**(74,555)**
Non-Current		
Chattel mortgage facility – secured	(19,201)	(20,209)
Loan from Noble Group – unsecured	(337,967)	-
Middlemount shareholder loan	(43,672)	(4,358)
Finance lease liability – secured	(5,706)	-
Total non-current	**(406,546)**	**(24,567)**
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	7.48%	2.69%
Maturity	1-Jul-15	30-Jun-12
Middlemount shareholder loan		
Effective interest rate	8.39%	8.39%
Maturity	24-Dec-15	24-Dec-15
Finance lease liability		
Effective interest rate	12.24%	-
Maturity	15-Aug-19	-

Under the Chattel mortgage facility, eleven trucks are pledged as security with a carrying value of $23.1 million.

	31 Dec 11 $'000	30 Jun 11 $'000
At reporting date, the following financing facilities had been negotiated and were available:		
Total facilities		
Loans	(429,001)	(98,228)
Bank guarantees	(60,195)	(23,000)
Total facilities available at reporting date	**(489,196)**	**(121,228)**
Facilities used at reporting date		
Loans	(366,968)	(56,356)
Bank guarantees	(57,859)	(21,266)
Total facilities used at reporting date	**(424,827)**	**(77,622)**
Facilities unused at reporting date	**(64,369)**	**(43,606)**

[10] The Middlemount shareholder loan is repayable to the other Shareholder of Middlemount.

	31 Dec 11 $'000	30 Jun 11 $'000
Financing facilities for Jointly Controlled Entity[11]		
At reporting date, the following financing facilities had been negotiated and were available:		
Total facilities		
Loans	(83,711)	(82,766)
Bank guarantees	(7,567)	(7,567)
Total facilities available at reporting date	**(91,278)**	**(90,333)**
Facilities used at reporting date		
Loans	(43,711)	(42,766)
Bank guarantees	(5,732)	(6,282)
Total facilities used at reporting date	**(49,443)**	**(49,048)**
Facilities unused at reporting date	**(41,835)**	**(41,285)**

Included in 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 31 December 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 Middlemount's shares held by one of its shareholders, Custom Mining Pty Ltd (formerly Custom Mining Ltd).

On 14 July 2011, the Company entered into a A$400 million debt facility with Noble Group Limited, a related party. The facility matures on 1 July 2015, replacing the US$80 million facility with Noble that was in place at 30 June 2011. As at 31 December 2011, the Company held a drawn down balance of $338.0 million from the debt facility with Noble. Interest is calculated at a rate of BBSY plus 3 per cent per annum, payable quarterly.

15. TAKE OR PAY PROVISION (CURRENT AND NON-CURRENT)

At the time of acquisition of Middlemount and Donaldson, the individual companies held forecast excess capacity for port and rail contracts. A liability was recognised for the estimated excess capacity contracted for at the time of the acquisitions. The provision has a finite life and will be released over the period in which excess capacity is realised.

	6 months 31 Dec 11 $'000	12 months 30 Jun 11 $'000
Opening balance	(12,013)	-
Middlemount acquisition	-	(12,013)
Donaldson acquisition	(108,482)	-
Unwinding of the discount	(5,764)	-
Release of the take or pay accrual	6,445	-
Closing balance	(119,814)	(12,013)
Current	(21,221)	(7,120)
Non-current	(98,593)	(4,893)

[11] Financing facilities shown on an equity share basis.

16. CONTINGENT CONSIDERATION

The vendors of Monash received 1,000 converting shares as part of the consideration for the Monash Assets. The converting shares will allow the vendors to receive an additional number of Gloucester Coal Ltd ordinary shares ("Gloucester shares") as contingent consideration to be issued as certain stages (summarised below) are achieved. The fair value was determined on a discounted cash flow basis and by applying a probability for each of the potential stages to be achieved. The stages are:

Stage One: The Company will be required to pay an amount (through the issue of Gloucester shares) of $1.16 per tonne of coal reserves identified on the Monash tenements. This amount will be capped at $70m.

Stage Two: The Company will be required to pay an amount (through the issue of Gloucester shares) of $0.70 per tonne of coal reserves identified and included in a mine planning area as at the date of the granting of a mining lease. This amount will be capped at $50m.

The Company is required to provide additional shares equal in value to 2.5% of the total (indexed to CPI) Stage Two Payment for each complete calendar quarter between finalisation of the Stage Two JORC report (following grant of the mining lease and planning approval) and 31 December 2016.

As part of the agreement with the Monash vendors, a change in control of Gloucester could result in an acceleration of the Gloucester shares to be provided to the Monash vendors.

	31 Dec 11 $'000
Balance 1 July	-
Monash acquisition	(86,650)
Unwinding of the discount	(2,309)
Balance 31 December	(88,959)

17. COMMITMENTS AND CONTINGENT LIABILITIES

Bank Guarantees held by the Company increased by $36.0 million to $63.6 million. The increase is mainly due to the acquisition of Donaldson which provided guarantees totalling $37.2 million at 31 December 2011.

During the period, the Company entered into a rail transportation agreement which expires at the end of February 2016. The remaining commitment under the agreement as at 31 December 2011 is approximately $33.2 million.

The Company also committed to purchasing four 789C trucks during the period and the outstanding commitment for these trucks as at 31 December 2011 was $7.6 million.

Furthermore, the Company committed $1.6 million for the major overhaul and conversion of a continuous miner.

As part of the Donaldson acquisition, the Company has a minimum commitment of $362.0 million under contracts for rail and port access in addition to the take or pay liabilities on the balance sheet.

As part of the Monash acquisition terms, the Company has committed to spend up to $20 million over three years on an agreed drilling programme to prove reserves and up to $15 million on a programme to be agreed to secure a mining lease and related authorisations.

Middlemount signed a contract for the product screening implementation during the period which is due for completion in March/April 2012. Gloucester's share of the commitment for the signed contract was $11.3 million at half year end.

Apart from the above, there were no material changes to the commitments and contingent liabilities reported at 30 June 2011.

18. INTEREST IN A JOINTLY CONTROLLED ENTITY

The Company gained joint control of Middlemount by increasing its interest in the project to a near 50% interest on 24 December 2010.

Loans to jointly controlled entity

Since acquisition, the Company has provided loans to the jointly controlled entity of $186.8 million.

The Group has recognised the final 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[12]	446,718
Exploration and evaluation	14,767
Deferred tax assets	17,390
Cash and cash equivalents[13]	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	787,365
Trade and other payables	(12,234)
Accrued take or pay	(12,013)
Loans and borrowings	(121,717)
Provisions	(1,569)
Deferred tax liabilities (at nominal value)	(147,533)
Total liabilities	(291,705)
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[14]	6,110
Cash paid	(395,776)
Net consolidated cash outflow	(389,666)[14]

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 on the completion Middlemount balance sheet.

[12] Reserves are classified as property, plant and equipment in the balance sheet.
[13] Includes restricted cash of $2.0 million.
[14] The cash ouflow per the statement of cash flows is $344,666,000. The difference of $45m relates to deferred consideration which was paid on 30 June 2011.

Profit and loss impact of the acquired entity

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 obtaining control for the half year ended 31 December 2010.

Had the acquisition of Middlemount occurred at the beginning of the period, the income statement for the half year ended 31 December 2010 would have included a loss of $3.7 million.

Acquisition related costs

Total business combination expenses for the half year ended 31 December 2010 of $4.1 million were included in the income statement.

19. ACQUISITION OF DONALDSON

On 14 July 2011, the Company (through a wholly owned subsidiary) completed the acquisition a 100 per cent interest in Donaldson Coal from a wholly owned subsidiary of 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 consideration shares are subject to a 12 month escrow from the date of issue, during which period Noble must not deal in, encumber, or do or not to do anything which would have the effect of transferring effective ownership or control of the consideration shares. A $27.5 million reduction in the purchase price was agreed during the period in accordance with the Share Purchase Agreement. The reduction resulted in a $27.5 million decrease in the related party loan the Company holds with the parent company.

The Donaldson transaction was approved by the Company’s non-associated shareholders on 8 July 2011.

The Group has recognised 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	226,006
Reserves and resources	587,455
Exploration and evaluation	27,173
Deferred mining asset	31,523
Intangible – port allocation	57,652
Cash and cash equivalents	59
Trade and other receivables	13,312
Investments	15,896
Inventories	11,210
Total assets	970,286
Trade and other payables	(53,377)
Customer contracts	(138,121)
Take or pay liability	(108,482)
Financial liability – marketing services fee payable	(12,413)
Interest bearing loans and borrowings	(225,000)
Provisions	(12,148)
Deferred tax liabilities	(127,046)
Total liabilities	(676,587)
Fair value of identifiable net assets	293,699
Acquisition date fair value of consideration transferred:	
Equity issued	321,231
Reduction in related party loan	(27,532)
Consideration transferred	293,699
Cash outflow on acquisition is as follows:	
Net cash acquired from Donaldson	59
Cash paid	-
Net consolidated cash inflow	59

Had the acquisition of Donaldson occurred at the beginning of the period, the impact to the income statement for the half year ended 31 December 2011 would have been an additional profit after tax of $4.2 million.

Acquisition costs of $37.9 million are included in the income statement during the half year ended 31 December 2011 in relation to the acquisition of Donaldson.

20. ACQUISITION OF THE MONASH ASSETS

On 14 July 2011, the Company acquired the Monash Assets by acquiring a 100 per cent interest in Monash Coal Holdings Pty Ltd (formerly Ellemby Holdings Pty Ltd) for consideration of $30 million cash, the issuance of 1,000 unquoted converting shares with a preliminary fair value of $86.7 million and acquisition costs of $1.9 million, giving a total consideration of $118.6 million. A company owned and controlled by Gloucester Coal Ltd CEO Brendan McPherson and his spouse held a minority interest in Monash Coal Holdings Pty Ltd prior to the acquisition by Gloucester Coal Ltd. The Monash transaction was approved by the Company's non-associated shareholders on 8 July 2011.

The Group has recognised the 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
Exploration and evaluation	118,576
Other	2
Total assets	118,828
Trade and other payables	(77)
Income tax liability	(173)
Total liabilities	(250)
Fair value of identifiable net assets	118,578
Acquisition date fair value of consideration transferred:	
Cash paid	31,928
Contingent consideration	86,650
Consideration transferred	118,578
Cash outflow on acquisition of assets is as follows:	
Net cash acquired with the Monash Assets	250
Cash paid	(30,054)
Transaction costs	(1,874)
Net consolidated cash outflow	(31,678)

21. RELATED PARTY TRANSACTIONS

Transactions with the ultimate parent entity

Sales of coal to Noble Group Limited, the ultimate Parent Entity, and its subsidiaries are made by way of arm's length transactions at both normal market prices and normal commercial terms. The Company has sold coal to Noble Group Limited for $148.1 million during the period (31 December 2010: $68.3 million). At 31 December 2011, Noble Group Limited owed $24.0 million (31 December 2010: $12.0 million) which has been fully receipted subsequent to half year end.

On 14 July 2011, the Company entered into a A$400 million debt facility with Noble Group Limited, replacing the US$80 million facility with Noble that was in place at 30 June 2011. The facility matures on 1 July 2015. As at 31 December 2011, the Company held a drawn down balance of $338.0 million from the debt facility with Noble. Interest charged during the period was $9.0 million at a rate of BBSY plus 3 per cent per annum, payable quarterly. As at 31 December 2011, accrued interest payable for this loan was $2.2 million.

On 14 July 2011, the Company (through a wholly owned subsidiary) acquired a 100 per cent interest in Donaldson Coal from a wholly owned subsidiary of Noble Group Limited, 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. Completion adjustments were agreed with Noble in December 2011 pursuant to the terms of the Share Purchase Agreement, and the purchase price was reduced by $27.5 million which was offset against the Noble loan facility. The Donaldson transaction was approved by the Company's non-associated shareholders on 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, 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 2 per cent times the actual export sales in excess of 3.5 mtpa (but not exceeding 11.75 mtpa) times the volume weighted average gross sales price per tonne of Free on Board Trimmed Sales ("FOBT"). During the period ended 31 December 2011, no payments between the parties have been made in relation to this agreement.

Transactions with Noble also include the reimbursement of port charges, demurrage costs and shipment fees that Noble have paid on behalf of the Company. Outstanding balances at period end are unsecured and settlement occurs in cash.

Transactions with entities with joint control

The Company is entitled to receive a royalty in respect of 4 per cent of Free on Board Trimmed Sales from Middlemount. A receivable for the royalty of $3.3 million was included in trade receivables at 31 December 2011.

The Company has provided loans to Middlemount to the value of $186.8 million, maturing on 24 December 2015. Interest charged during the period was $6.6 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 31 December 2011, accrued interest receivable of $10.6 million has been capitalised into the loan balance.

Transactions with key management personnel and their related parties

On 14 July 2011, the Company acquired a 100 per cent interest in Monash Coal Holdings Pty Ltd (formerly 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 Monash Holdings Pty Ltd prior to acquisition by Gloucester Coal Ltd. The Monash transaction was approved by the Company's non-associated shareholders on 8 July 2011.

22. UNQUOTED EMPLOYEE OPTIONS

On 1 December 2011, the Company issued 1,458,483 unlisted options over ordinary shares under the Employee Share Option Plan at an exercise price of $7.30 and vesting between 1 December 2013 and 1 December 2015. The options will only vest if the Company's total shareholder return outperforms the ASX 200 Accumulation Index over the period between the grant date and the vesting date.

There were 3,618,574 unlisted options on issue at 31 December 2011.

23. SHARE CAPITAL

Movements in ordinary share capital

	Date issued	Number of shares	$'000	Issue Price $
Fully paid shares at 30 June 2011		165,982,891	898,030	various
Issue of shares to Noble Group[15]	14 July 2011	36,923,076	321,231	9.75
Fully paid shares at 31 December 2011		**202,905,967**	**1,219,261**	

The shares were issued at $9.75 per share as part of the consideration for the acquisition of Donaldson (refer to Note 19). The 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.

Converting Shares

As part of the consideration for the acquisition of the 100 per cent interest in Monash Coal Holdings Pty Ltd (formerly Ellemby Holdings Pty Ltd) on 14 July 2011, the Company issued 1,000 unquoted converting shares with a preliminary fair value of $86.7 million (refer to Note 20). The converting shares will entitle the Monash Vendors to receive a number of additional Gloucester Coal shares as deferred consideration to be issued in stages if certain conditions are satisfied in the future (refer to Note 16).

24. SUBSEQUENT EVENTS

Gloucester Basin Reserve and Resource Upgrade

On 6 February 2012 the Company announced Resources and Reserves for the Wenham Cox Road area within A311, A315 and ML1528 adjacent to the Stratford mining area in the Gloucester region.

- JORC Coal Resources for Wenham Cox Road total 37 million tonnes, including Measured Resources of 4.0 million tonnes, Indicated Resources of 20.1 million tonnes and Inferred Resources of 13 million tonnes.
- JORC Coal Reserves for Wenham Cox Road total 12.2 million tonnes, which are all in Probable category.

Donaldson Reserve and Resource Upgrade

On 23 February 2012, the Company announced an 8.3 million tonne increase in the total Reserves of the Donaldson mines.

- JORC Coal Resources for Donaldson total 885 million tonnes including 659.4 million tonnes of measured resources (previously 545.5 million tonnes), 182.9 million tonnes of indicated resources (previously 217.5 million tonnes) and 42.7 million tonnes of inferred resources (previously 122 million tonnes) .
- JORC Coal Reserves for Donaldson total 160.7 million tonnes including 115.9 million tonnes of proved reserves (previously 95.4 million tonnes) and 44.8 million tonnes of probable reserves (previously 57.1 million tonnes).

Other than noted above, there has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future years.

[15] Shares were issued to Mt Vincent Holdings Pty Limited, a wholly owned subsidiary of Noble Group Limited.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Gloucester Coal Ltd ("the Company"), we declare that in the opinion of the Directors:

a) the financial statements and notes, set out on pages 14 to 37, are in accordance with the Corporations Act 2001, including:

   I. giving a true and fair view of the financial position of the consolidated entity as at 31 December 2011 and of their performance for the half year ended on that date; and

   II. complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and

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

Dated at Sydney this 27th day of February 2012.

Signed on behalf of the Board

James MacKenzie	Brendan McPherson
Chairman	*Managing Director*

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To the members of Gloucester Coal Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Gloucester Coal Limited, which comprises the balance sheet as at 31 December 2011, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, 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 half-year end or from time to time during the half-year.

Directors Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Gloucester Coal Limited and the entities it controlled during the half year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, 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.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Gloucester Coal Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Anton Ivanyi
Partner
Sydney
27 February 2012

GENERAL INFORMATION

DIRECTORS

James MacKenzie
Chairman

Brendan McPherson
Chief Executive Officer and Managing Director

William Randall
Non-Executive Director

Gregory Fletcher
Non-Executive Director

Denis Gately
Non-Executive Director

Dr Julie Beeby
Non-Executive Director

COMPANY SECRETARY

Hemang Shah

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AUDITORS

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