



## **QUARTERLY REPORT**

PERIOD ENDED 30 SEPTEMBER 2010

### **HIGHLIGHTS**

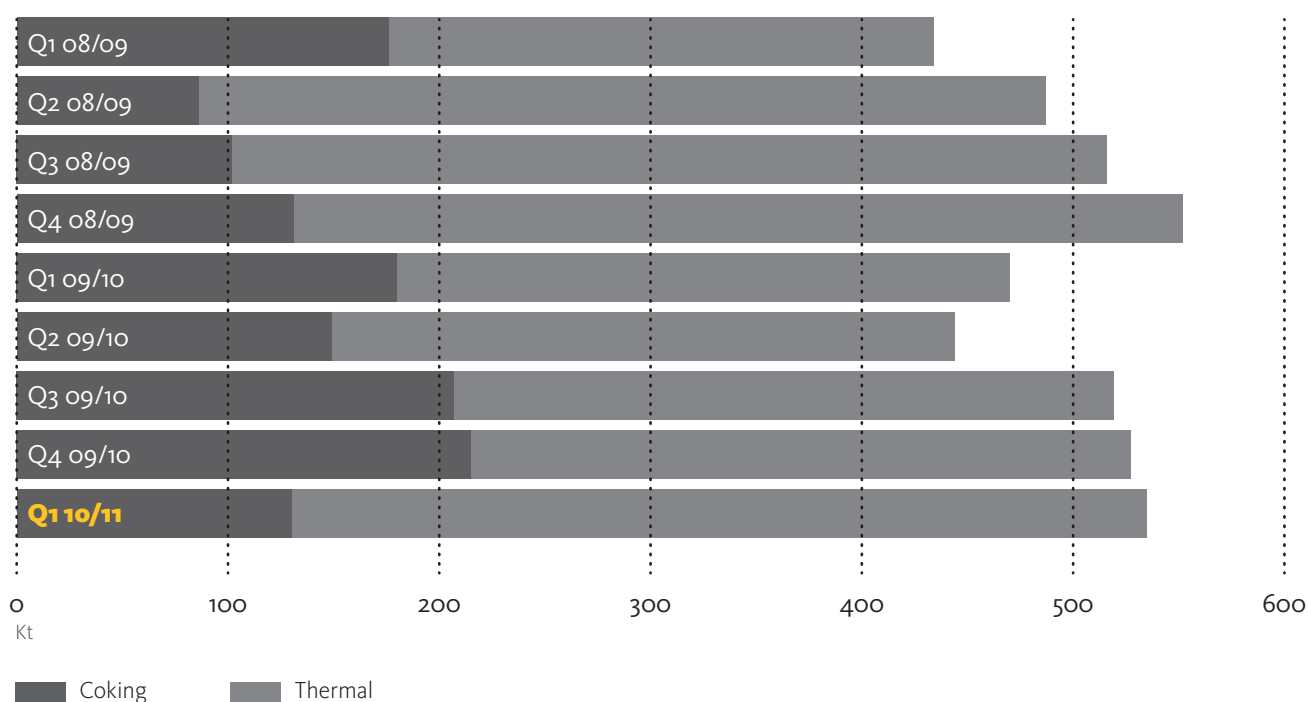
- 22% increase in sales over the previous corresponding period
- Successful Equity Raising of \$441m
- Acquisition of the interest in the Middlemount Joint Venture

## SALES

Total net sales of 515kt for the quarter were 94kt higher than the total of 421kt for the previous corresponding period.

### FIRST QUARTER 2010/11 SALES

	September 2009	September 2010	Change
Coal Type	Kt	Kt	%
Coking	180	130	(28%)
Thermal	290	405	40%
<b>Total Sales</b>	<b>470</b>	<b>535</b>	<b>14%</b>
Purchases	(49)	(20)	(59%)
<b>Net Sales</b>	<b>421</b>	<b>515</b>	<b>22%</b>



## SALES (CONTINUED)

### COKING COAL

Coking coal sales were 130kt for the quarter compared to 180kt for the previous corresponding period. Shipment timing is primarily responsible for the lower quarterly coking coal sales volume, with 100kt of coking coal shipments completing in early/mid October 2010. The volume of Coking coal sales next quarter is expected to increase to approximately 230kt based on already completed shipments and firm commitments in the Company's current shipping programme.

Quarterly pricing of tonnages with Japanese steel mill customers has continued, with the Company agreeing prices for shipments in the October – December 2010 quarter. Agreed prices have softened in line with falls in the overall coking coal market. The Company has commenced visits to potential Asian buyers outside its traditional Japanese steel mill customer base in preparation for the increased tonnages of coking coal to be generated from the Company's expansion programme.

### THERMAL COAL

Sales of Thermal coal of 405kt represents an increase of 40% compared to the previous corresponding period (290kt).

The Company was able to optimise sales to ship thermal coal and maximise usage of its ship loading allocation through the Port of Newcastle. This ability to accelerate Thermal coal sales helps ensure that the Company faces limited exposure to take or pay costs for under usage of ship loading allocation.

## PRODUCTION

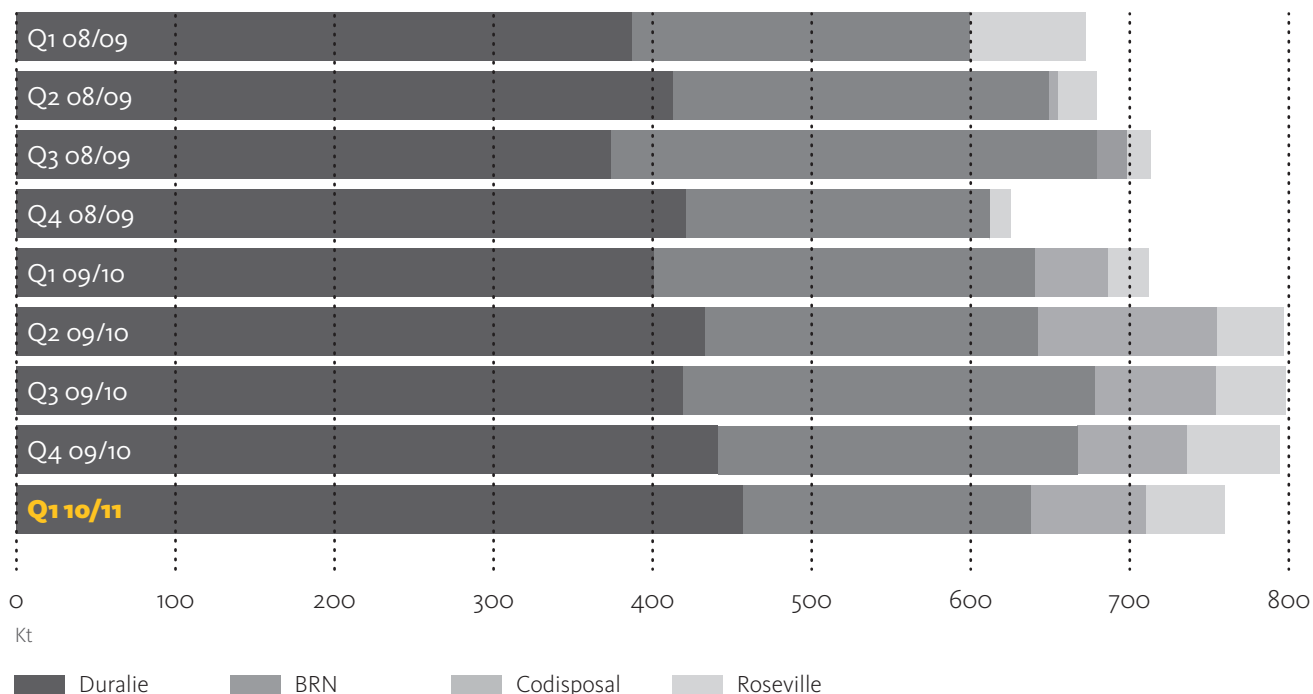
### FIRST QUARTER 2010/11 PRODUCTION

	September 2009	September 2010	Change
Coal Source	Kt	Kt	%
Duralie	401	457	14%
Bowens Road North	239	181	(24%)
Co-disposal	46	72	57%
Roseville	26	50	92%
<b>Total ROM Coal Delivered to CHPP</b>	<b>712</b>	<b>760</b>	<b>7%</b>
<b>Preparation Plant</b>			
ROM Coal processed	657	740	13%
Total Yield	66%	61%	(5%)
Total Product	434	451	4%



## PRODUCTION (CONTINUED)

### ROM PRODUCTION BY QUARTER



### OPEN CUT PRODUCTION

Mining operations, and consequently ROM coal production, were affected by significant wet weather in July. To increase production at Roseville and therefore increase coking coal production, some mining capacity was transferred from the BRN pit to the Roseville pit.

### PART 3A APPLICATION – DURALIE

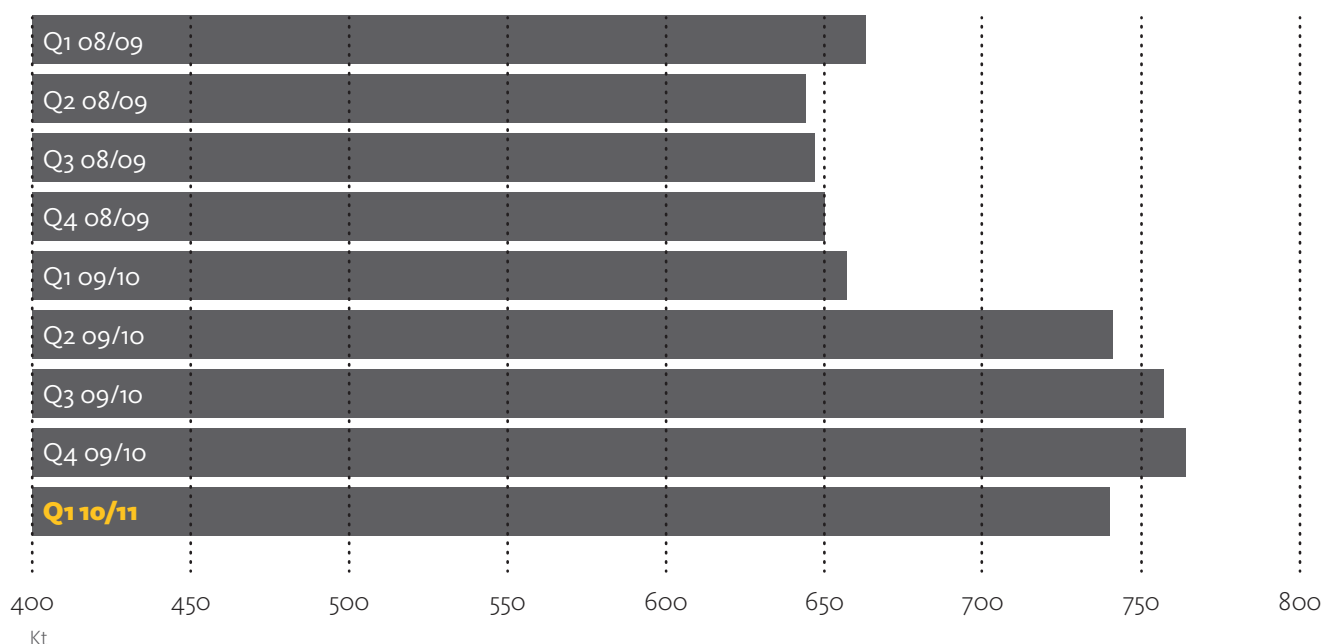
The NSW Department of Planning has essentially completed the Director General's Assessment Report for the Part 3A application. The Federal Department of Sustainability, Environment, Water, Population and Communities (DSEWPC) issued a Notification, declaring that the expansion of the Duralie Project is a "Controlled Action", on the basis that it may pose a threat to an endangered species. The endangered species, the Giant Barred Frog, has a habitat in a local creek downstream of the current operations.

The Company has provided extensive data to the DSEWPC, to substantiate that since the commencement of operations in 2003 there is no evidence or observations to support the possibility that the operations may pose a threat. The review by the DSEWPC is currently progressing through due process and an outcome is anticipated by December 2010, which may include a condition that will require the Company to implement a frog monitoring programme.

The delays in receiving approval have begun to impact the planned waste volumes associated with the scheduled coal production increases. To mitigate the effects of the delay, plans and actions have been established for implementation once approvals are granted so as to increase the mining capacities in order to recover a proportion of the delays by the fourth quarter.



## STRATFORD PREPARATION PLANT ROM FEED BY QUARTER



### STRATFORD COAL PREPARATION PLANT

The CHPP improvement and upgrade project continued during the quarter. The last major stage of the upgrade to increase flotation and filtration capacity to suit the new Clareval coal has been committed and major equipment ordered for delivery during the first half of 2011.

Product yield was down from the previous corresponding period as a result of a higher proportion of Roseville and Co-disposal feed.

## EXPLORATION

The focus on increasing JORC Reserves continued, with exploration drilling concentrating on the Clareval and Weismantel seams, to meet the previously advised JORC Reserves and Resources targets within the Gloucester Basin.

Despite delays due to wet weather, drilling performance continued to progress at a reasonable rate and remains ahead of the original schedule announced in 2009. There was an average of six drill rigs in operation during the quarter, primarily core drilling.

Exploration expenditure during the quarter was \$4.0 million, compared to \$8.6 million in the previous quarter. This resulted in the drilling of 11,649 metres (of which 85% was core drilling) which is a decrease over the 31,319 metres drilled in the previous quarter.





## EXPLORATION (CONTINUED)

Gloucester is committed to its strategic exploration programme, with the results to date providing significant progress towards the target goal of 130mt of JORC Coal Reserves. Continuing positive results indicate that the Company is on track to achieve its goal early in the second half of 2011, approximately one year ahead of schedule. However, the target areas over the following months are in regions of relatively higher geological risk than to date and may be subject to some limitations of existing infrastructure and topography.

## MIDDLEMOUNT AQUISITION

Gloucester's Shareholders approved the acquisition of the Middlemount Assets (detailed below) at a meeting held on 28 September 2010 for \$437.5 million:

- 27.52% interest in the Middlemount Joint Venture;
- the right to acquire a further 2.48% interest in the Middlemount Joint Venture from Macarthur Coal Limited for a further \$8 million, which is payable following completion of a certain shipping milestone;
- an option to acquire a further 20% interest in the Middlemount Joint Venture from Macarthur Coal Limited for an exercise price of \$100 million. This option can be exercised at any time up to the 18 months from completion of the CHPP; and
- the right to receive a royalty of 4% of Free on Board Trimmed sales from the Middlemount Joint Venture.

With the inclusion of Gloucester's share of the Middlemount Coal Joint Venture, metallurgical coal production is forecast to reach 4mtpa by 2014/15.

## MIDDLEMOUNT MINE PROJECT

Construction of the Middlemount CHPP continues with first coal processed in September.

This small amount of coal remains on site and is expected to be sold in FY11 through a third party. Further testing and processing of coal will be undertaken during the December quarter. Bulk earthworks for site infrastructure were materially completed during the September quarter.

Approval for construction of the rail spur to the Middlemount Mine was received from the Isaac Regional Council on 24 August 2010. The Middlemount Early Rail Alliance (MERA), an alliance consortium of GHD and John Holland, commenced construction works in September. The rail spur remains on track for completion in the December half of the 2011 calendar year.

During the quarter, Middlemount Coal Pty Ltd signed a long-term take or pay contract with Pacific National Pty Ltd for the haulage of 3mtpa of coal from its Middlemount mine to the expanded Abbot Point Coal Terminal.



## FINANCE

During the quarter, the Company raised \$441 million through a 3 for 5 accelerated, non-renounceable pro rata entitlement offer comprising an Institutional Entitlement Offer raising \$434 million and an additional \$7 million through the retail component of the Entitlement Offer. A total of 47.7 million new shares were issued under the offer.

On 30 September 2010, Gloucester paid \$337.5 million and issued 10,810,811 of new Gloucester Coal Ltd ordinary shares to Noble Group Limited for the acquisition of the Middlemount Assets. A further payment is to be made to repay pre completion loans made by Noble Group Limited to the Middlemount Joint Venture.

At 30 September 2010, Gloucester had cash on hand of \$152.5 million before the repayment of Middlemount loans to Noble compared to \$27.8 million at the end of June 2010.

## NOBLE TAKEOVER OFFER

On 4 June 2010, Noble Group Limited provided a Bidder's Statement regarding the offer to acquire the remaining shares of Gloucester Coal Ltd, which it did not already own, for \$12.60 per share. The Offer Period expired on 8 October 2010, resulting in Noble Group owning approximately 65% of Gloucester Coal Ltd on that date.



## FOR FURTHER INFORMATION

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