



QUARTERLY REPORT

PERIOD ENDED 31 DECEMBER 2011

HIGHLIGHTS

- 5 years LTI free at Stratford CHPP
- Record coal mining at Gloucester Basin's Duralie mine
- Middlemount rail project commissioned ahead of expectations
- Mining activities at Middlemount continue to ramp up with year to date sales increased to 326kt (based on 100% of Middlemount sales)
- Middlemount granted Mining Lease 70417
- North Queensland Coal Terminal Pty Ltd, of which Middlemount is a shareholder, secures Abbot Point Preferred Respondent Status
- Monash drilling provides substantial upgrade to resources
- Director General requirements for Stratford extension project and Tasman extension received
- Market conditions deteriorate across all product lines but in particular for semi soft and semi hard products
- Duralie merits appeal hearing decision handed down

OVERVIEW

During the second quarter Gloucester continued to advance its development and growth projects in both the Gloucester Basin and Donaldson. Record coal mining performance was achieved at the Duralie mine. Despite these positive achievements sales volumes were below expectations primarily as a result of weak overseas demand for high volatile export semi hard coking coal. A review of the Donaldson operations was completed during the quarter and work has commenced to implement a business improvement program at the Abel mine.

Both the Gloucester Basin's Stratford extension project and Donaldson's Tasman extension project received their respective project Director-General Requirement's following the submission of preliminary environmental assessment documents in October 2011.

Gloucester welcomed the decision by the NSW Land & Environment Court to grant approval for the Duralie Extension Project. The approval included revised conditions and a continued restriction on rail haulage hours of operations which has impacted expected production volumes for the quarter.

Monash drilling programme continued following the 101% increase of total JORC resources for Monash announced during the quarter.

SECOND QUARTER 2011/2012 PRODUCTION

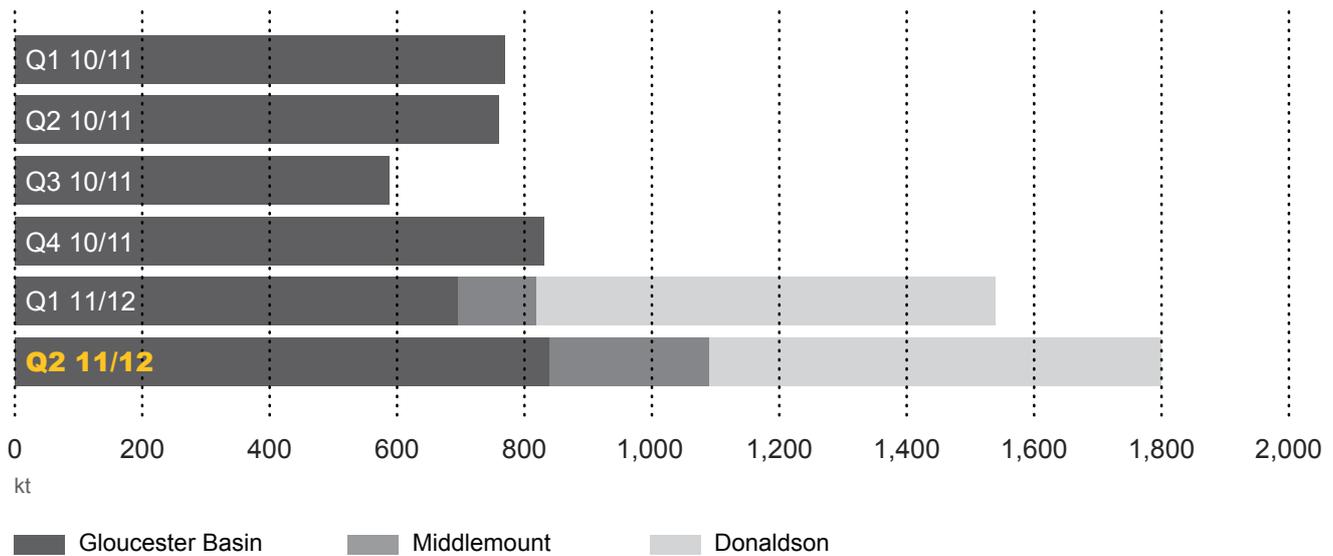
	Dec 2011	Dec 2010	Change	YTD Dec 2011	YTD Dec 2010
Gloucester Basin¹	kt	kt	kt	kt	kt
Total ROM Coal Delivered to CHPP Preparation Plant	908	754	20%	1,618	1,514
ROM Coal processed	842	749	12%	1,551	1,489
Total Yield	64%	58%	6%	64%	60%
Total Product	541	438	24%	990	889
Middlemount²	kt	kt	kt	kt	kt
Total ROM Coal Delivered to CHPP Preparation Plant	248	-	-	367	-
ROM Coal processed	238	-	-	329	-
Total Yield	66%	-	-	69%	-
Total Product	157	-	-	226	-
Donaldson³	kt	kt	kt	kt	kt
Total ROM Coal Delivered to CHPP Preparation Plant	713	-	-	1,431	-
ROM Coal processed	682	-	-	1,316	-
Total Yield	63%	-	-	64%	-
Total Product	427	-	-	842	-
Gloucester Coal Total Product	1,124	451	149%	2,058	889

1. Production reported inclusive of stockpile adjustments for the current quarter and year to date.

2. Middlemount production shown on an equity share basis

3. Donaldson production shown for period of control

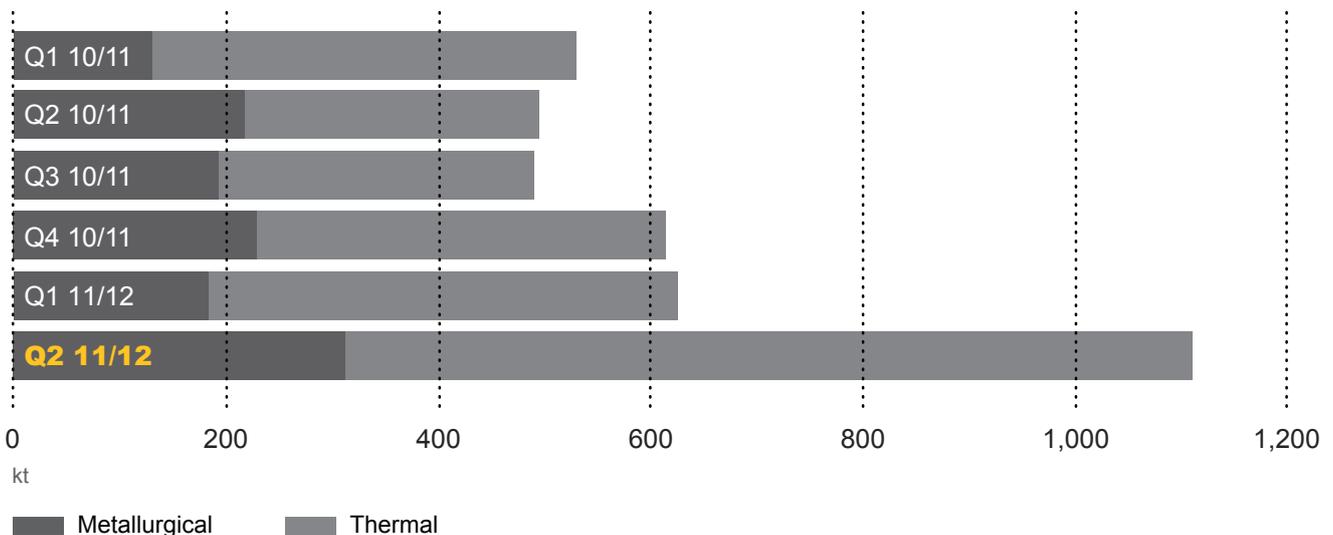
ROM PRODUCTION BY QUARTER



SALES

	Dec 2011	Dec 2010	Change	YTD Dec 2011	YTD Dec 2010
Coal Type	kt	kt	%	kt	kt
Metallurgical	313	222	41%	499	352
Thermal	799	272	194%	1,240	677
Total Sales	1,112	494	125%	1,739	1,029
Purchases	-	(30)	(100%)	(9)	(50)

Note: Sales data includes Donaldson sales for period of control and equity share of Middlemount sales.



PRODUCTION

GLOUCESTER BASIN

Gloucester Basin waste movement continued to perform above expectations while coal mining volumes steadily improved. Duralie delivered record ROM production volumes and overall ROM production volumes exceeded the previous corresponding quarter. The dewatering of the Clareval pit following flooding in the first quarter resulted in a recovery of coal mining volumes at Duralie.

With large quantities of coal now exposed at Duralie, the Clareval and Weismantel pits are now well positioned to deliver strong coal flows in the second half of the financial year subject to resolving the limitation on shuttle train hours of operations between Duralie and Stratford. Should a resolution not occur in the near term, full year production volumes from the Duralie mine will remain below management forecasts.

The Coal Handling and Preparation Plant achieved record performance with 600tph throughput for the December month. The CHPP has pleasingly reached a significant safety milestone of 5 years with no lost time injuries.

MIDDLEMOUNT

Middlemount achieved a number of significant milestones during the quarter including the granting of Mining Lease 70417 which provides additional overburden dump space to deliver forecast growth volumes, the successful commissioning of the rail spur, loop and train load out facilities and the securing of Abbot Point Preferred Respondent Status by North Queensland Coal Terminal Pty Ltd, of which Middlemount is a shareholder.

The ramp-up of mining operations continued during the quarter with a focus on safety management, increasing the size of the labour workforce, and the commissioning of new equipment. A total of 496kt (100% basis) of ROM coal was mined. The CHPP commenced 24 hours a day, 7 days a week operations and performed reliably at 400tph run rate. Product coal was transported via Middlemount's own load out facility following commissioning of the train load out and rail line in late November.

Upgrade works to expand the Middlemount CHPP to 700tph commenced during the quarter as did works on the product screening facility which is expected to enhance coking coal recovery.

DONALDSON

A review of the existing operations and the future growth plans of the Donaldson mines was a key focus during the quarter and progressed to implementation stage. The Abel and Tasman underground mining operations performed slightly below expectations whilst the Donaldson open cut mine volumes were impacted by wet weather. Mine equipment reliability issues combined with difficult mining conditions resulted in lower development mining rates. The implementation of an improvement program at Abel is expected to deliver improved operational performance at the mine by the start of the fourth quarter.

SALES

Total sales of 1,112kt for the quarter were 125% (618kt) higher than the previous corresponding period and 77% higher than the first quarter sales, primarily due to the addition of the Donaldson operations and the ramp up of Middlemount. Gloucester Basin stocks at the end of the quarter were higher than expected due to a drop off in demand and prices for its semi hard coking coal. Donaldson stockpiles across all products at the end of the period were at manageable levels. Overall demand for coal, in particular semi soft and semi hard coals, and realisable coal prices were substantially subdued during the period. In response to this sharp decline in demand for metallurgical coals, management took steps to change its production profile towards producing a higher percentage of thermal coal.

METALLURGICAL COAL

Metallurgical coal sales were 313kt for the quarter compared to 222kt for the previous corresponding quarter, an increase of 41%. This was influenced primarily by the equity share of Middlemount LVPCI sales where production continued to ramp up.

Middlemount dispatched further trial cargoes of LVPCI during the quarter and found positive interest in the market. Due to reduced demand from target customers additional spot cargoes were shipped to manage stock piles.

Demand for the metallurgical coals continued to weaken with traditional end user markets for metallurgical coals were running at reduced capacity. Gloucester Basin and Donaldson coal was cleared in the spot market at lower than expected prices, particularly the Gloucester Basin semi hard coking product.

THERMAL COAL

Thermal coal sales of 799kt were up significantly on the previous quarter with (441kt) an increase of 81%. The increase in sales was primarily driven by a shift to producing more thermal coal and less semi soft coking coal at Donaldson to align with demand from end users.

Prices softened over the period, however, demand for thermal coal remained reasonably robust. Thermal coal shipments increased as deliveries deferred in the previous quarter were shipped. Thermal shipments were also enhanced in part by the ability to blend Gloucester Basin and Donaldson coal qualities to optimal specifications. Overall thermal stockpiles were at more manageable levels by the end of the second quarter.

DEVELOPMENT PROJECTS

DURALIE EXTENSION

On 10 November 2011, the NSW Land & Environment Court granted approval for the Duralie Extension Project. The approval included revised conditions requiring “best practice” environmental monitoring. This approval is consistent with the Company’s expectations, and is in line with the Company’s strong commitment to environmentally responsible conduct of all its operations. The decision has resulted in a continued restriction on rail haulage hours of operations, however the Company is assessing options to mitigate this outcome.

STRATFORD EXTENSION

As previously advised, the Preliminary Environmental Assessment for the Stratford Extension Project was lodged in mid-October 2011. A Planning Focus Meeting was held on-site with the Department of Planning and Infrastructure and other relevant statutory authorities on 9 November 2011. The Director-General has confirmed that this application will be assessed under Division 4.1 (State-Significant Development) of the Environmental Planning and Assessment Act (1979). Director-General’s requirements were issued on 14 December 2011. Specialist consultants have continued with the preparation of reports and documentation to accompany the Environmental Impact Statement (EIS), with lodgement of the EIS scheduled for mid-2012. An overview of the project was provided to the Stratford Community Consultative Committee on 1 December 2011.

TASMAN EXTENSION

Work continued on the Tasman Extension Project which is being assessed under Part 4.1 of the Environmental Planning and Assessment Act, 1979. An Updated Conceptual Project Development Plan was presented to the Department of Resources and Energy. The Department of Planning and Infrastructure issued its Director-General’s Requirements for the Environmental Impact Statement. Specialist studies continued on the key environmental issues that will form part of the Environmental Impact Statement due to be lodged mid 2012. The Tasman Community Consultative Committee was updated on the Project during the quarter.

ABEL PROJECT MODIFICATION

Work continued on the section 75W modification to the Abel Underground Mine Project Approval to allow for Shortwall and Longwall mining within the approved mining area. Donaldson lodged a Project Description and Preliminary Environmental Assessment with a request for Director General’s Requirements for the Environmental Assessment to the Department of Planning & Infrastructure in December. Three community information sessions were held with the local community during the quarter. Specialist studies continued on the key environmental issues that will form part of the Environmental Assessment due to be lodged in August 2012.

DEVELOPMENT PROJECTS (CONTINUED)

MIDDLEMOUNT PROJECT

DEVELOPMENT

The Middlemount project progressed substantially during the quarter with the development of infrastructure and the commencement of ongoing operations.

On 23 November 2011, the rail spur for the Middlemount Project was officially opened. The 16.5km rail spur provides a direct link from the Middlemount Project to the Goonyella rail network, enabling exports through both Dalrymple Bay Coal Terminal (DBCT) and Abbot Point Coal Terminal (APCT) via the Northern Missing Link.

Completion of the rail spur marked the commencement of ongoing operations and the progressive ramp up of coal production over the next few years. The environmental authority to increase ROM production from 1.8mt per annum to 5.4mt per annum is expected to be granted by the end of the 2012 financial year.

On 8 December 2011, the Governor-in-Council granted an additional Mining Lease (ML70417) for the Middlemount project. The new mining lease, east of the existing Middlemount Mine, provides a further 1,080 hectares of space for overburden dumps and associated mine infrastructure. The granting of this additional mining lease provides additional out of pit dump space to ensure that the total project resource can be fully developed.

CONSTRUCTION

During the quarter, construction work progressed to upgrade the Coal Handling and Preparation Plant's product screening plant and product stockpile. This \$22.5m upgrade is being undertaken by Sedgman Limited and will enable Middlemount Coal to maximise the proportion of coking coal produced from the mine and improve stockpile utilisation.

INFRASTRUCTURE

On 19 December 2011, the Northern Missing Link rail line which links the Goonyella Rail System to Abbot Point was officially opened. The 70km link provides Middlemount with long term rail access to Abbot Point where Middlemount has a 15 year port export agreement.

In December, the Queensland Government also 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 30mt per annum capacity coal terminal as part of the T4-T9 port development at Abbot Point.

Through NQCT, Middlemount is seeking an additional 1mt per annum of port capacity to complement the existing 3mt per annum contracted capacity that Middlemount holds at Abbot Point. Capacity at the new terminal is expected to be available from 2017.

EXPLORATION

Exploration expenditure during the quarter was \$9.4 million.

GLOUCESTER BASIN

The Company continued its programme of exploration and resource definition on tenements A311, A315 and EL 6904. Up to 7 rigs operated on exploration targets during the quarter. A total of 15,775 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.

DONALDSON

The Company continued its programme of exploration and resource definition drilling during the quarter. A total of 697 metres were drilled in 3 holes targeting the West Borehole seam as part of the Tasman Extension MLA. An additional 1,044 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 completed 2 further holes, MN002 and MN003 in its programme of exploration at Monash. 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. Preliminary results are to hand for seams so far drilled in MN004.

FOR FURTHER INFORMATION

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