



**GLOUCESTER
COAL**

Half Year Report 2010/11
ABN 66 008 881 712





APPENDIX 4D

RESULTS FOR ANNOUNCEMENT TO THE MARKET

HALF YEAR REPORT FOR THE PERIOD ENDED 31 DECEMBER 2010

PREVIOUS CORRESPONDING PERIOD: 31 DECEMBER 2009

			A\$'000
Revenues from ordinary activities	Up 33%	to	137,523
Profit from ordinary activities after tax attributable to members	Up 28%	to	23,160

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

Net tangible assets per security	Corresponding Period	Current Period
Net Tangible asset backing per ordinary security	221.01	402.10

The Company obtained jointed control over Middlemount Coal Pty Ltd during the period.

As at 31 December 2010 the Company had a 100% interest in the Stratford Joint Venture.

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NOTES TO THE
FINANCIAL STATEMENTS



HIGHLIGHTS

- NPAT of \$23.2 million, 28% increase
- Increased revenue from the sale of coal by 33%
- Consistent EBITDA margin at 26%
- Continued strengthening of the balance sheet, with net assets of \$762.3 million
- Raised \$441 million from share issue
- Acquisition of nearly 50% of the Middlemount Project
- Final approval received and mining lease granted for the Duralie Extension Project
- Gloucester Basin operations well placed to benefit from strong demand from Gloucester coking and thermal coal
- Expansion to 2.8mtpa on track (including a doubling of coking coal capacity)¹
- Middlemount development on track with minimal disruptions from wet weather
- US\$80 million debt facility obtained from Noble Group
- Exploration programme on track to deliver further increases in JORC Reserves

1. Estimated coking coal sales are 1.2mtpa of total 2.8mtpa product coal sold following stage one expansion.

HIGHLIGHTS (CONTINUED)

	6 months 31 Dec 10 \$million	6 months 31 Dec 09 \$million
Revenue from sale of coal	137.5	103.7
EBITDA	36.0	25.5
EBITDA Margin (%)	26%	25%
Profit Before Tax	31.3	21.4
Net Profit After Tax	23.2	18.1
Earnings per Share (cents per share)	20.8	22.1
Cash & Cash Equivalents	9.4	4.4
Current Ratio	1.5	2.9
Interest Bearing Loans	68.5	nil
Net Assets	762.3	180.7

TABLE 1: SALES VOLUMES

	6 months 31 Dec 10 kt	6 months 31 Dec 09 kt
Coking	351	329
Thermal	677	585
Total Sales	1,028	914
Purchases	(50)	(82)

TABLE 2: PRODUCTION VOLUMES

Coal source		
Duralie	873	834
Bowens Road North	382	448
Co-disposal	142	159
Roseville	118	68
Total ROM Coal delivered to CHPP	1,515	1,509
ROM Coal processed	1,489	1,398
Product Yield	60%	66%
Total Product	889	925



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 2010 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

Director and Chairman since 16 June 2009.

MR BARRY TUDOR

BEc, CA, MBA, MAICD

Chief Executive Officer and Managing Director

Director since 16 June 2009.

MR DAVID BROWNELL

BCom, MBA

Independent Non-Executive Director

Director since 16 June 2009.

MR RICARDO LEIMAN

MBA

Non-Executive Director

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.

SUMMARY OF OPERATIONS

SALES AND MARKETING

Coal sales for the period (1,028kt) were 12% higher than for the previous corresponding period (914kt).

Coking coal sales for the period (351kt) were 7% higher than the previous corresponding period (329kt).

With the extension of Duralie operations (up to 3mtpa ROM), including the commencement of mining of the Clareval seam from January 2011, sales of coking coal are expected to rise in both total volume and as a percentage of the Company's coal production.

During the period, the Company focused considerable effort on expanding the market for Gloucester coking coal with existing and new customers, in anticipation of the almost doubling of coking coal tonnage over the next 18 months. Discussions were positively received and the Company is well placed to expand trade volume with its traditional customers, while continuing to expand sales to new markets.

The recent flooding in Queensland's Bowen Basin and the resultant negative impact on mine output and rail infrastructure has manifested in rising coking coal prices. In this climate the Company has agreed its coking coal pricing for the January – March 2011 quarter at a level of approximately US\$200/tonne. In addition, the Company believes that it has an uncontracted volume of coking coal available for sale into the spot market during the January – March 2011 quarter and believes that it is well positioned to benefit from the surge in spot prices.

Thermal coal sales (677kt) were made to the export market and were 16% higher than the corresponding period (585kt).

During the period, anticipating the strengthening of thermal coal prices, the Company negotiated the cancellation of fixed Australian dollar forward sales contracts for the 2012-2014 years, resulting in an increase in net profit of \$7.35m. At 31 December 2010, the remaining fixed price thermal contracts were 0.7mt due for delivery during calendar year 2011.

Subsequent to the end of the period, the Company has committed to index linked pricing contracts of 0.7mt per year for the 2012 – 2014 years.

The Company continues to enter into forward foreign exchange contracts to mitigate against the movement in the A\$ to the US\$. At 31 December 2010, the Company had entered into forward contracts totalling US\$176.4m at an average rate of 0.8782. These hedges are scheduled to be settled over the twelve months to December 2011.

DIRECTORS' REPORT (CONTINUED)

PRODUCTION

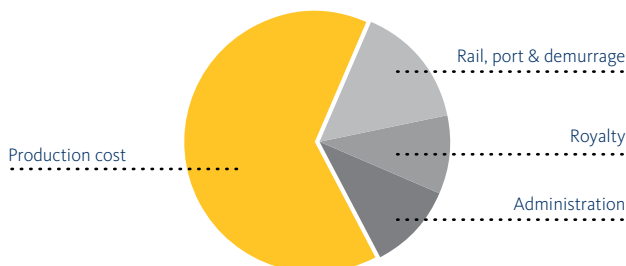
Total ROM coal production volumes for the period are slightly higher than the previous corresponding period, although product yield is down on the previous corresponding period. As a consequence of mining through some areas of lower yielding coals while maintaining production in anticipation of the Duralie Extension approval.

The Coal Handling and Processing Plant ("CHPP") is in the final stages of a refurbishment and upgrade to increase throughput to 4.3mtpa in readiness for the increased ROM tonnages from Duralie.

Total operating costs have increased over the previous period from \$85 a tonne sold to \$94 a tonne sold. The increase is principally driven by lower product yields.

Figure 1.

Own Coal Total Cost: \$94



At Duralie, a 250T excavator was mobilised to provide additional capacity for the production ramp up of the new Clareval pit and four CAT789C XQ trucks are on order and scheduled to be commissioned in October 2011 to bring the Duralie owned mining truck fleet to 15.

The Duralie Extension Project was approved by the NSW DoP in December 2010 and a mining lease granted in early January 2011, allowing for the extension of the Weismantel open pit mining operations to the north and the development of the new Clareval pit. Refer to the subsequent events on page 6 for information on a merit appeal challenge against the grant of the environmental approvals of the Duralie Extension Project.

EXPLORATION

Exploration remains a high priority. Coal seams targeted in the period include the Cloverdale, Deards, Bindaboo, Weismantel and Clareval. The Company has spent \$11.0 million during the period on exploration, and an update to JORC Reserves is expected in the third quarter of the financial year.

MIDDLEMOUNT PROJECT

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

On 24 December 2010, Gloucester Coal Ltd and Macarthur Coal Ltd completed a transaction involving the exercise of Gloucester Coal's call option for an additional 22.48% interest in Middlemount Coal Pty Ltd and the early transfer of shares that were previously transferable on achievement of a certain project milestone.

Consideration paid by Gloucester was A\$97.6 million, including \$45 million of deferred cash consideration due on 30 June 2011.

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

Construction

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 on the ground in September. The significant wet weather throughout the Bowen Basin has impacted timing and some earthworks associated with the construction of the Rail Spur to join the Mine to the Goonyella rail network. Despite this delay, Middlemount Coal continues to expect delivery of the Rail Spur in the second half of 2011 calendar year, subject to no further significant wet weather events.

Stage one of the Middlemount CHPP was completed in the December quarter with commissioning expected to be completed during the March 2011 quarter. The small quantity of coal required to complete the commissioning is located on site and is expected to be sold during the first half of calendar year 2011.

Operations

Water management structures constructed prior to the significant rainfall seen during the period have operated successfully with minimal wet weather impact on the site.

During the December quarter, an Environmental Impact Statement was lodged with the Queensland Environmental Protection Agency for approval to increase production to up

DIRECTORS' REPORT (CONTINUED)

to 5.4mtpa (ROM). The approval is expected in the second half of this calendar year, subject to customary public and regulatory consultation and approval procedures.

On 11 January 2011, Middlemount Coal and NRW Holdings Limited (ASX:NWH) executed a contract for NRW Holdings to undertake preliminary works for the Middlemount Coal Project until 31 December 2011. These preliminary works will be undertaken to help build product awareness with potential customers of Middlemount Coal ahead of large scale mining at the end of the calendar year.

Infrastructure

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

QR National has advised that the delivery of the Northern Missing Link, required to transport the coal from the Middlemount coal project to Abbot Point Coal Terminal, remains on track to be delivered in early 2012 calendar year.

SUBSEQUENT EVENTS

On 7 January 2011, the Company committed to issue 1,894,583 unlisted options over ordinary shares under the Employee Share Option Plan at an exercise price ranging from \$9.25 to \$11.09 and vesting between 1 July 2013 and 1 September 2015. 1,480,467 of the options have been issued to date, with the remaining 414,116 options subject to approval at the next AGM.

On 25 January 2011, the Company completed a drawdown of US\$35 million from its US\$80 million debt facility with Noble Group Limited, which was established during the period.

In February 2011, an objector commenced a merit appeal challenge in the NSW Land and Environment Court against the NSW Planning Minister's grant of the environmental approvals for the Duralie Extension Project in December 2010.

The Company considers that the measures it has committed to and implemented as part of its environmental obligations under the approvals that it has received should position it well to successfully defend the challenge.

During the currency of the merit appeal challenge, the Company is entitled to continue to rely on the environmental approval to carry out its operations in the Duralie Extension area.

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 7 and forms part of the Directors' Report for the half year ended 31 December 2010.

ROUNDING OFF

The Company is of a kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and, in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

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



James MacKenzie
Chairman



Barry Tudor
Managing Director

Dated at Sydney this 16th day of February 2011



AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001



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

In relation to our review of the financial report of Gloucester Coal Ltd for the half year ended 31 December 2010, 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.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'M. Elliott'.

Michael Elliott
Partner
16 February 2011

INCOME STATEMENT FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	NOTES	6 months 31 Dec 10 \$'000	6 months 31 Dec 09 \$'000
Revenue from sale of coal			
- Sale of coking coal		71,082	42,947
- Sale of thermal coal		66,441	60,714
Total revenue from sale of coal		137,523	103,661
Cost of sales		(103,441)	(76,327)
Gross profit		34,082	27,334
Other operating income / (expense)	4	3,966	(2,022)
Administration expenses		(9,226)	(4,456)
Share of loss of an associate	9	(656)	-
Profit before financing and tax		28,166	20,856
Financial income		4,336	729
Finance costs		(1,189)	(140)
Profit before tax		31,313	21,445
Income tax expense		(8,153)	(3,346)
Net profit for the period (attributable to owners of the parent)		23,160	18,099
Earnings per share (cents per share)			
- Basic earnings per share		20.8	22.1
- Diluted earnings per share		20.7	22.1

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



STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2010

NOTES	6 months 31 Dec 10 \$'000	6 months 31 Dec 09 \$'000
Profit for the period	23,160	18,099
Other comprehensive income		
Cash flow hedge losses/(gains) transferred to income statement	11,830	(14,761)
– Tax effect of losses/(gains) transferred to income statement	(3,549)	4,428
Cash flow hedge gains taken to equity	23,390	8,786
– Tax effect of gains taken to equity	(7,017)	(2,636)
Total other comprehensive income for the period, net of tax	24,654	(4,183)
Total comprehensive income for the period (attributable to owners of the parent)	47,814	13,916

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



BALANCE SHEET

AS AT 31 DECEMBER 2010

	NOTES	31-Dec-10 \$'000	30-Jun-10 \$'000
CURRENT ASSETS			
Cash and cash equivalents (including restricted cash)	5	9,392	27,811
Trade and other receivables		22,383	16,588
Other financial assets (derivatives)		23,267	-
Inventories		18,023	19,179
Waste in advance		38,540	29,459
Income tax refund		6,996	-
TOTAL CURRENT ASSETS		118,601	93,037
NON-CURRENT ASSETS			
Property, plant and equipment		742,440	146,126
Intangible – exploration & evaluation		33,021	25,619
Financial asset – royalty receivable	6	168,000	-
Investments		931	83
Deferred tax asset		8,059	-
TOTAL NON-CURRENT ASSETS		952,451	171,828
TOTAL ASSETS		1,071,052	264,865
CURRENT LIABILITIES			
Trade and other payables		25,681	20,372
Other financial liabilities (derivatives)		-	9,670
Interest bearing loans and borrowings		3,512	4,538
Income tax liability		-	2,886
Provisions		2,620	200
Employee benefits		826	770
Deferred consideration	9	45,000	-
TOTAL CURRENT LIABILITIES		77,639	38,436
NON-CURRENT LIABILITIES			
Interest bearing loans and borrowings		65,029	30,190
Deferred tax liabilities		156,450	7,175
Provisions		9,506	7,712
Employee benefits		163	156
TOTAL NON-CURRENT LIABILITIES		231,148	45,233
TOTAL LIABILITIES		308,787	83,669
NET ASSETS		762,265	181,196
EQUITY			
Issued capital		670,347	137,247
Retained profits		71,170	48,010
Reserves		20,748	(4,061)
TOTAL EQUITY (attributable to equity holders of the parent)		762,265	181,196

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

STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Notes	Share capital \$'000	Equity reserve \$'000	Hedge reserve \$'000	Retained Profits \$'000	Total \$'000
At 1 July 2009		137,247	3,687	10,333	15,280	166,547
Profit for the period		-	-	-	18,099	18,099
Other comprehensive income, net of tax		-	-	(4,183)	-	(4,183)
Total comprehensive income, net of tax		-	-	(4,183)	18,099	13,916
Transactions with owners in their capacity as owners:						
Share based payments – options		-	187	-	-	187
At 31 December 2009		137,247	3,874	6,150	33,379	180,650
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

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



STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	NOTES	6 months 31 Dec 10 \$'000	6 months 31 Dec 09 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		139,360	109,254
Payments to suppliers and employees		(116,402)	(97,481)
Cash generated from operations		22,958	11,773
Income tax paid		(14,167)	(31,045)
Interest paid		(778)	(117)
Interest received		4,336	729
Net cash from/ (used in) operating activities	5	12,349	(18,660)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		-	(15)
Payments for property, plant and equipment		(25,960)	(37,700)
Payments for exploration and evaluation expenditure		(11,016)	(4,959)
Acquisition of jointly controlled entity, net of cash acquired	9	(344,666)	-
Investment income		2	-
Loans to jointly controlled entity	9	(79,881)	-
Security deposits paid		(20)	(10)
Net cash used in investing activities		(461,541)	(42,684)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from shares issued		440,986	-
Dividends paid		(5)	(8)
Repayment of borrowings		(2,282)	-
Payment of share issue costs		(7,926)	-
Net cash from/(used in) financing activities		430,773	(8)
Net decrease in cash and cash equivalents		(18,419)	(61,352)
Cash and cash equivalents at beginning of period		27,811	65,774
Cash and cash equivalents at end of period		9,392	4,422

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 2010 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 2010 is available upon request from the Company’s registered office at Level 15, Tower B, 799 Pacific Highway, Chatswood, NSW, 2067 or at www.gloucestercoal.com.au.

The financial report was authorised for issue by the directors on 16 February 2011.

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 2010.

Management has reviewed and assessed the new accounting standards effective 1 July 2010 and these have been deemed to be not applicable to the Company.

(c) Comparatives

Certain balances in the prior period balance sheet have been reclassified to be consistent with the classification as at 31 December 2010.

(d) 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 uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2010.

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 two operating segments being the Gloucester Basin in New South Wales and the Bowen Basin in Queensland.

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

Segment profit and loss

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 is a mine under development, there was no revenue recognised during the period.

Segment assets

Segment assets as at 31 December 2010 are as follows:

	Gloucester Basin \$'000	Bowen Basin \$'000	Total \$'000
Segment operating assets	281,763	766,022	1,047,785
Intersegment eliminations:			
Other financial assets (derivatives)			23,267
Total assets per the balance sheet			1,071,052

4. OTHER OPERATING INCOME/ (EXPENSE)

	6 months 31 Dec 10 \$'000	6 months 31 Dec 09 \$'000
Rental income	107	131
Net loss on revaluation of foreign currency	(3,543)	(2,184)
Other	52	31
Cancellation fee from coal contracts	7,350	-
Total other operating income/ (expense)	3,966	(2,022)

5. CASH AND CASH EQUIVALENTS

	6 months 31 Dec 10 \$'000	6 months 31 Dec 09 \$'000
Reconciliation of cash balances		
Cash and cash equivalents	7,389	4,422
Restricted cash	2,003	-
Bank balances	9,392	4,422
Reconciliation of net profit after tax to net cash flows from operating activities		
Profit after income tax	23,160	18,099
Adjustments for:		
Loss on sale of fixed assets	-	15
Depreciation and amortisation	7,854	4,719
Loan fee amortisation	407	60
Share of loss from associate	656	-
Equity settled share based payments expense	155	187
Equity settled cash flow hedge (gains)/ loss	8,281	(10,333)
Accrued share issue costs	(500)	-
Investment income	(2)	-
Changes in working capital:		
Increase/(decrease) in creditors and provisions	(6,631)	(11,907)
(Increase)/decrease in receivables	892	10,712
(Increase)/decrease in inventories	3,221	(8,889)
(Increase)/decrease in waste in advance	(6,983)	(725)
(Increase)/decrease in other financial assets	(12,146)	7,101
Increase/(decrease) in income tax liability	(9,882)	(27,749)
Increase/(decrease) in deferred tax liability	3,867	50
Net cash inflow/(outflow) from operating activities	12,349	(18,660)

6. FINANCIAL ASSET – ROYALTY RECEIVABLE

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 during the period. This financial asset has been determined to have a finite life being the life of the Middlemount Mine and will be amortised on a units of production basis over this period.

The royalty receivable is marked-to-market with gains and losses recorded in the income statement. There was not a material change in the fair value of the royalty receivable since the date of acquisition, therefore there is no impact to the income statement during the period.

7. INTEREST BEARING LOANS AND BORROWINGS

During the period, the Company entered into a US\$80 million debt facility with Noble Group Limited, a related party. The facility matures on 1 July 2012. At the end of the period, the Company had not drawn down on the loan facility.

8. COMMITMENTS AND CONTINGENT LIABILITIES

Bank Guarantees held by the Company increased by \$0.9 million to \$21 million.

During the period, the Company committed to acquiring four CAT789C XQ trucks to be commissioned in October 2011, with remaining amounts due of approximately \$14.8 million.

Apart from the above, there were no material changes to the commitments and contingent liabilities reported at 30 June 2010.

9. INTEREST IN A JOINTLY CONTROLLED ENTITY

Initial Acquisition of the Middlemount Project

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

- 27.52% interest in Middlemount Project ("Middlemount")
- Right to acquire a further 2.48% interest in Middlemount from Macarthur Coal Limited for a further \$8 million, payable following completion of a certain shipping milestone
- Option to acquire a further 20% interest in Middlemount from Macarthur Coal Limited for an exercise price of \$100 million, to be exercised at any time up to 18 months from completion of the CHPP
- Right to receive a royalty of 4% of Free on Board Trimmed sales from Middlemount

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

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

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

Step-up of Acquisition of Middlemount

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

Total consideration was \$97.6 million, including deferred consideration in the amount of \$45.0 million due on 30 June 2011.

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

Loans to Jointly Controlled Entity

Since acquisition, the Company has provided loans to the jointly controlled entity of \$79.9 million.

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

	Fair value at acquisition date \$'000
Property, plant and equipment	122,703
Reserves and resources ¹	449,472
Deferred tax assets	13,786
Cash and cash equivalents	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	771,748
Trade and other payables	(12,234)
Loans and borrowings	(121,717)
Provisions	(1,569)
Deferred tax liabilities (at nominal value)	(140,568)
Total liabilities	(276,088)
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	350,776
Deferred consideration	45,000
Consideration transferred	496,316
Cash outflow on acquisition is as follows:	
Net cash acquired with the Middlemount assets ²	6,110
Cash paid	(350,776)
Net consolidated cash outflow	(344,666)

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

¹ Reserves and resources are classified as property, plant and equipment in the balance sheet.

² Includes restricted cash of \$2.0 million.

Profit and loss impact of the acquiree

It was determined that the Company had significant influence over the acquired entity prior to joint control, therefore equity accounting was undertaken until the option and right were exercised and joint control was obtained. The equity share of the loss of the associate of \$0.7 million was recognised prior to obtaining joint control of the entity. There was no profit and loss impact subsequent to gaining joint control.

Had the acquisition of Middlemount occurred at the beginning of the period, the income statement would have included a loss of \$3.7 million.

Acquisition related costs

Total acquisition related costs for the period of \$4.1 million are included in administration expenses.

10. RELATED PARTY TRANSACTIONS

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 \$68.3 million during the period.

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

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

The Company entered into a US\$80 million debt facility with Noble, maturing on 1 July 2012.

11. SHARE CAPITAL

Movements in ordinary share capital

	Date issued	Number issued and quoted	Issue Price \$
Fully paid shares at 30 June 2010		81,962,133	various
Issue of shares under the Institutional Equity Raising	18 August 2010	46,870,700	9.25
Issue of shares under the Retail Equity Raising	6 September 2010	803,418	9.25
Issue of shares to Noble Group Limited	30 September 2010	10,810,811	9.30
Fully paid shares at 31 December 2010		140,447,062	

12. SUBSEQUENT EVENTS

On 7 January 2011, the Company committed to issue 1,894,583 unlisted options over ordinary shares under the Employee Share Option Plan at an exercise price ranging from \$9.25 to \$11.09 and vesting between 1 July 2013 and 1 September 2015. 1,480,467 of the options have been issued to date, with the remaining 414,116 options subject to approval at the next AGM.

On 25 January 2011, the Company completed a drawdown of US\$35 million from its US\$80 million debt facility with Noble Group Limited.

In February 2011, an objector commenced a merit appeal challenge in the NSW Land and Environment Court against the NSW Planning Minister's grant of the environmental approvals for the Duralie Extension Project in December 2010.

The Company considers that the measures it has committed to and implemented as part of its environmental obligations under the approvals that it has received should position it well to successfully defend the challenge.

During the currency of the merit appeal challenge, the Company is entitled to continue to rely on the environmental approval to carry out its operations in the Duralie Extension area.

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.



DIRECTORS' DECLARATION

1. In the opinion of the directors of Gloucester Coal Ltd ("the Company"):
 - a) the financial statements and notes, set out on pages 8 to 18, 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 2010 and of their performance for the half year ended on that date; and
 - (ii) complying with Australian Accounting Standards AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
2. 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 16th day of February 2011.

Signed in accordance with a resolution of the directors.

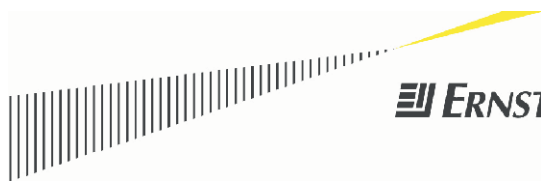


James MacKenzie
Chairman



Barry Tudor
Managing Director





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To the members of Gloucester Coal Ltd

Report on the Half Year Financial Report

We have reviewed the accompanying half year financial report of Gloucester Coal Ltd, which comprises the balance sheet as at 31 December 2010, the 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 Interim and Other Financial Reports 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 2010 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 Ltd 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. We confirm that the Auditor's Independence Declaration would be in the same terms if given to the directors as at the time of this auditor's report.

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 Ltd 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 2010 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



Michael Elliott
Partner
Sydney
16 February 2011

GENERAL INFORMATION

DIRECTORS

James MacKenzie
Chairman

Barry Tudor
Chief Executive Officer and Managing Director

David Brownell
Non-Executive Director

Ricardo Leiman
Non-Executive Director

William Randall
Non-Executive Director

Gregory Fletcher
Non-Executive Director

COMPANY SECRETARIES

Neil McKenzie
Lisa Wai Yin Yim

REGISTERED OFFICE

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ABN: 66 008 881 712

SHARE REGISTER

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AUDITORS

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