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GLOUCESTER COAL

STRATEGIC REVIEW DRIVES EXPANSION OF GLOUCESTER BASIN OPERATIONS

HIGHLIGHTS

- Expanded exploration program targeting 130mt JORC Reserves within three years
- Planned production increase to 3.5mtpa from 2014 including 2mtpa of coking coal product
- Extended outlook for open cut mining operations to 2030
- Thermal coal marketing strategy delivers higher prices and is expected to achieve historically high margins on future sales

Gloucester Coal Limited (ASX:GCL) has completed Phase One of its Strategic Review which has critically analysed the company's strategy for maximizing the value of it's Gloucester Basin assets including, exploration, JORC reserves and resources, operations, production growth and marketing.

The Company operates coal mines at Stratford and Duralie in the Gloucester Basin, 100 kilometers north of Newcastle in New South Wales. Coals from Stratford and Duralie are blended to produce approximately 2.0mtpa made up of 30% coking coal and 70% thermal coal. Gloucester coking coal is renowned for its high fluidity. Coal is exported through Newcastle's Port Waratah, predominantly to Asian markets.

In June 2009, Noble Group became Gloucester Coal's largest shareholder holding 87.7% of the issued capital. A new CEO and Board were appointed who commenced a Strategic Review of the business.

Gloucester Coal CEO Barry Tudor said the Strategic Review has highlighted the still untapped potential of the Gloucester Basin. The review has identified the opportunity for near-term growth which would increase production and optimise the use of existing assets.

"We have a clear opportunity to expand production, particularly of our high-value coking coal. This can be done within existing and new pits and allows for the better use of our infrastructure", Mr Tudor said.

"Preliminary exploration also shows significant potential for the expansion of coking coal production which should make Gloucester Coal a significant provider of coking coal within a few years.

"We believe we are on track to becoming a larger producer of superior coal products with substantially increased JORC reserves and an extended mine life through a relatively modest investment in exploration and infrastructure", Mr Tudor said.

EXPLORATION

The review has confirmed the significant potential of under-explored coal seams within the Company's existing tenements. To develop the opportunity Gloucester Coal has committed to an exploration program of approximately $8m pa, including the appointment of a dedicated Exploration Manager with responsibility to drive conversion of reserves to JORC standard and a doubling of drilling capability to 6 drill rigs, with plans to increase this number to 10 drill rigs in 2010.

The exploration program is targeting coal resources of between 180 million and 275 million tonnes of additional coal[1] with the aim of achieving JORC Reserves in excess of 130 million tonnes[2] within 3 years.

"Drill sampling has indicated large amounts of unexplored coal in readily accessible seams within our existing tenements. We believe an enhanced exploration program should bring substantial additional reserves to JORC standard and underpin the company's extended mine life", Mr Tudor said.

PRODUCTION

The current program of seeking to increase saleable coal production to 2.8mtpa (presently 2mtpa) from July 2010 is on track with the Company having submitted an Environmental Assessment application for the Duralie Mine Extension Project. The Project provides for the extension and continuation of open pit mining operations at the existing Duralie Coal Mine through northerly extension of the current workings (within ML 1427) and new Clareval Pits (Mining Lease Application Area (MLA) 1). Together these would extend the current Duralie operation by approximately nine years. The Duralie Extension Project has been designed to maximise the utilisation of existing infrastructure through the continued development of open pit mining operations to facilitate a ROM coal production rate from 1.8mtpa up to approximately 3mtpa.

The Duralie Extension also provides for the optimisation of operations and blending between the Stratford and Duralie pits.

[1] Per ASX releases dated 2 and 17 February 2009. Measured and indicated resources as at 31 December 2008 were 209mt.

[2] Per ASX release dated 17 February 2009, proved and probable recoverable reserves were 38mt. ASX announcement dated 21 October 2009 indentified additional 7.3mt JORC reserves as at 30 June 2009

The introduction of Clareval Coal into the Gloucester blend is expected to bring significant benefits to the company. Clareval Coal has significantly better product ash and sulfur specifications than the Weismantel and Bowens Road North coals. This will improve the product mix by producing a greater proportion of coking coal with higher value attributed to higher coal quality.

A key focus of the strategic review has been confirmation that a further increase in production to 3.5mtpa, with a focus on production of coking coal is feasible. Analysis has confirmed that existing expansion plans are expected to allow for such an increase in production. In coordination with an expansion of operations at the Stratford mine, the Duralie Extension is expected to support the planned increase to 3.5mt commencing from 2014. Importantly, this is expected to include 2 million tonnes of coking coal, representing an almost fourfold increase from current production levels.

OPTIMISATION OF MINING OPERATIONS

The strategic review has confirmed that optimisation of operations can be achieved through mining at higher strip ratios than the historical average. Higher strip ratios will also deliver longer mine life, and maximisation of enterprise value. The company has decided to increase strip ratios across its pits to an average of 5:1 to maximise the mining of economic coal and in turn maximise profit in the medium to long term. While this will increase production costs per tonne the resultant increase in volume and life of mine is expected to more than offset any reduction in margin.

EXTENSION OF LIFE OF MINE

The increase in strip ratio, combined with the targeted increase in reserves is expected to support greater production and extended mine life with open cut operations projected to continue to 2030 and beyond.

STRATEGIC MARKETING INITIATIVES

Through blending and managing production the Company seeks to maximise the saleable quantity of coking coal while fully utilising its production and export capacity with thermal coal sales. As a result of the strategic review, Gloucester has successfully repositioned its higher ash and sulfur thermal coal at a lower discount to the benchmark price, and has secured forward sales in A$ for 50% of its thermal coal production in 2011-2014 at historically high margins of A$20-A$45 per tonne[3].

An increase in production of coking coal will allow for additional export and local sales. Exports of coking coal will continue to be centered on five major Japanese Steel Mills but additional strategic markets are being developed as production increases.

[3] Based on current cash margin.

STRATEGIC REVIEW – PHASE TWO

Phase Two of the Strategic Review is focused on external growth opportunities outside of the Gloucester Basin and is currently in progress and further announcements regarding this phase are expected at the conclusion of this review.

FOR FURTHER INFORMATION

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