



**GLOUCESTER
COAL**

QUARTERLY REPORT

PERIOD ENDED 31 MARCH 2011

THIRD QUARTER HIGHLIGHTS

- Clareval pit development commenced and first Clareval coal extracted and processed
- Expansion to 3.5mtpa by 2014 on track
- Record month in March for total material movement within the Gloucester Basin operations
- Middlemount hauls first coal
- Middlemount development works continue with first railings from the Middlemount spur line expected in December 2011

OVERVIEW

During the quarter, Gloucester made significant progress towards restoring pit inventories which were adversely impacted as a result of the delays in the Duralie and Stratford extension approvals.

In December, the Company obtained the relevant project approvals at the Duralie and Stratford operations to allow access to Clareval Coal and advance the Bowens Road North pit cut back.

CEO Brendan McPherson said, "The Duralie Extension Project and associated modifications at Stratford are important steps toward increasing the Gloucester Basin product coal output up to 3.5mtpa by 2014, including up to 2.0mtpa of coking coal, which will add significant value to Gloucester Coal."

The introduction of Clareval Coal into the Gloucester blend is expected to bring major benefits to the Company, including improving the product mix by producing a greater proportion of coking coal with higher value attributed to higher coal quality and an improvement in total CHPP yield.

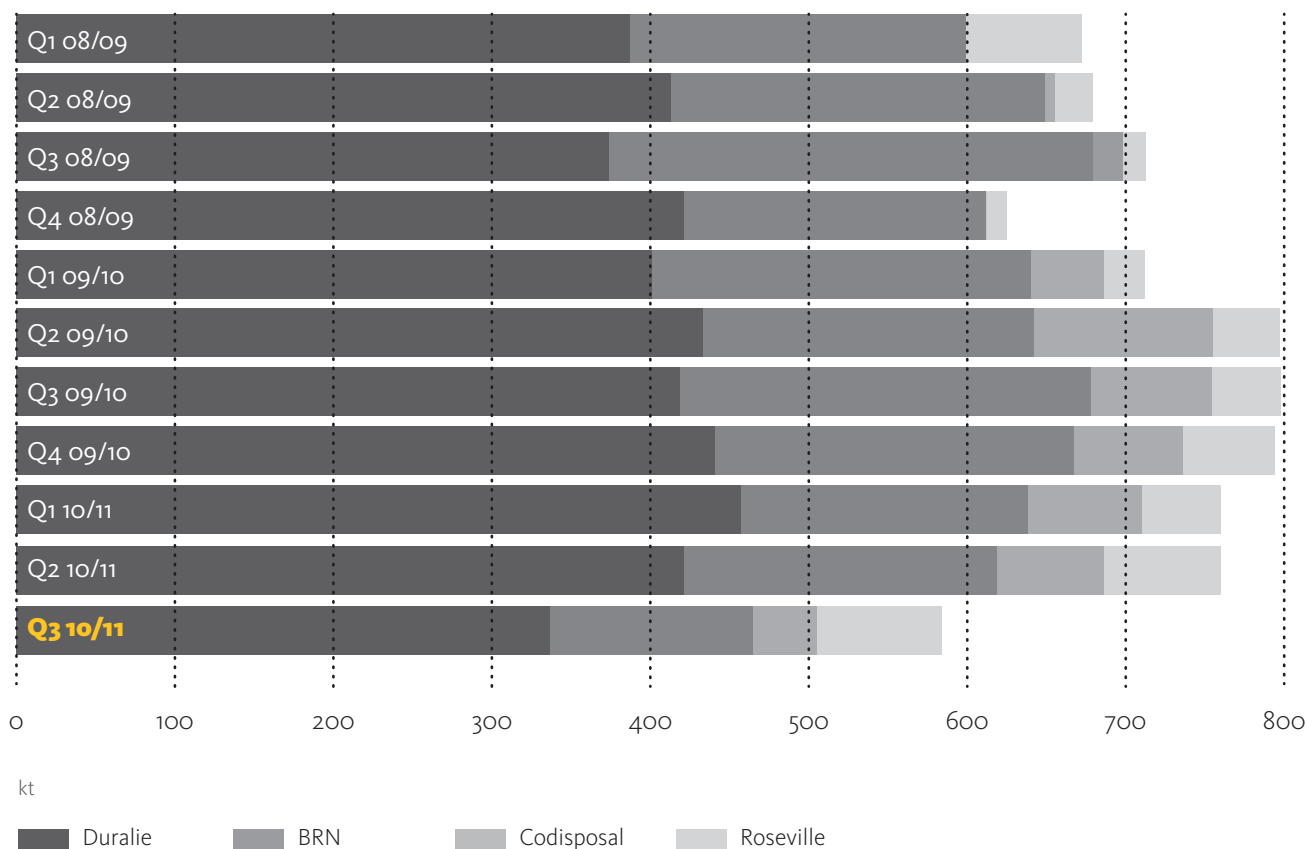
PRODUCTION

THIRD QUARTER 2010/11 PRODUCTION

	March 2010	March 2011	Change	YTD March 2010	YTD March 2011
	kt	kt	%	kt	kt
Coal Source					
Duralie	419	332	(21%)	1,253	1,205
Bowens Road North	259	137	(47%)	707	518
Co-disposal	76	34	(55%)	235	176
Roseville	44	86	95%	112	204
Total ROM Coal Delivered to CHPP	798	589	(26%)	2,307	2,103
Preparation Plant					
ROM Coal processed	757	560	(26%)	2,155	2,049
Total Yield	66%	61%	(5%)	66%	60%
Total Product	502	342	(32%)	1,427	1,231

PRODUCTION (CONTINUED)

ROM PRODUCTION BY QUARTER



OPEN CUT PRODUCTION

ROM coal production for the current quarter at both the Duralie and Stratford mines was negatively impacted by the delays in the extension approvals at Duralie and BRN. Total open cut ROM production for the quarter was 26% lower at 589kt compared to the FY10 corresponding period of 798kt and 9% lower on a year to date basis. Due to the mining impacts of the delays, the Company expects that its annual production for the 2011 fiscal year will be in line with that of the previous year of 1.9mt. However, the Company remains confident of increasing the Gloucester Basin product coal output up to 3.5mtpa by fiscal year 2014. As a result of the inclusion of coal from the Clareval seam, it is anticipated that a higher proportion of coking coal will be recovered in FY11 compared to FY10.

Despite the impact of the extension approval delays in the quarter, total material movement (waste and raw coal) for the quarter was 4,026kbcu compared to 3,118kbcu in the previous corresponding period. The increase in material moved reflects additional equipment and labour to support the planned expansion and a rapid recovery from suppressed volumes following delays to approvals.

PRODUCTION (CONTINUED)

DURALIE EXTENSION PROJECT

The planned production ramp up from the development of the new Clareval seam at Duralie commenced, with the first Clareval coal mined and railed for processing in February.

Accelerated haul road construction and supporting environmental works achieved fast access for the development of the Clareval box cut to expose the first Clareval coal and develop pit inventory.

The requirement to re-establish mine advance, undertake development works in the Clareval pit and ensure a rapid recovery from the confined operations at Wiesmantel as a result of the Duralie Extension Project approval delays delivered record total movement volumes in March 2011.

The Duralie Extension Project and associated modifications at Stratford are important steps toward increasing the Gloucester Basin product coal output up to 3.5mtpa by 2014, including up to 2.0mtpa of coking coal.

MERIT APPEAL NSW DEPARTMENT OF PLANNING

A merit appeal to the NSW Department of Planning's (DoP) approval of the Duralie Extension Project has been lodged in the Land and Environment Court. The DoP is the First Respondent and Duralie Coal Pty Ltd is the Second Respondent in those proceedings.

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.

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.

STRATFORD MINES

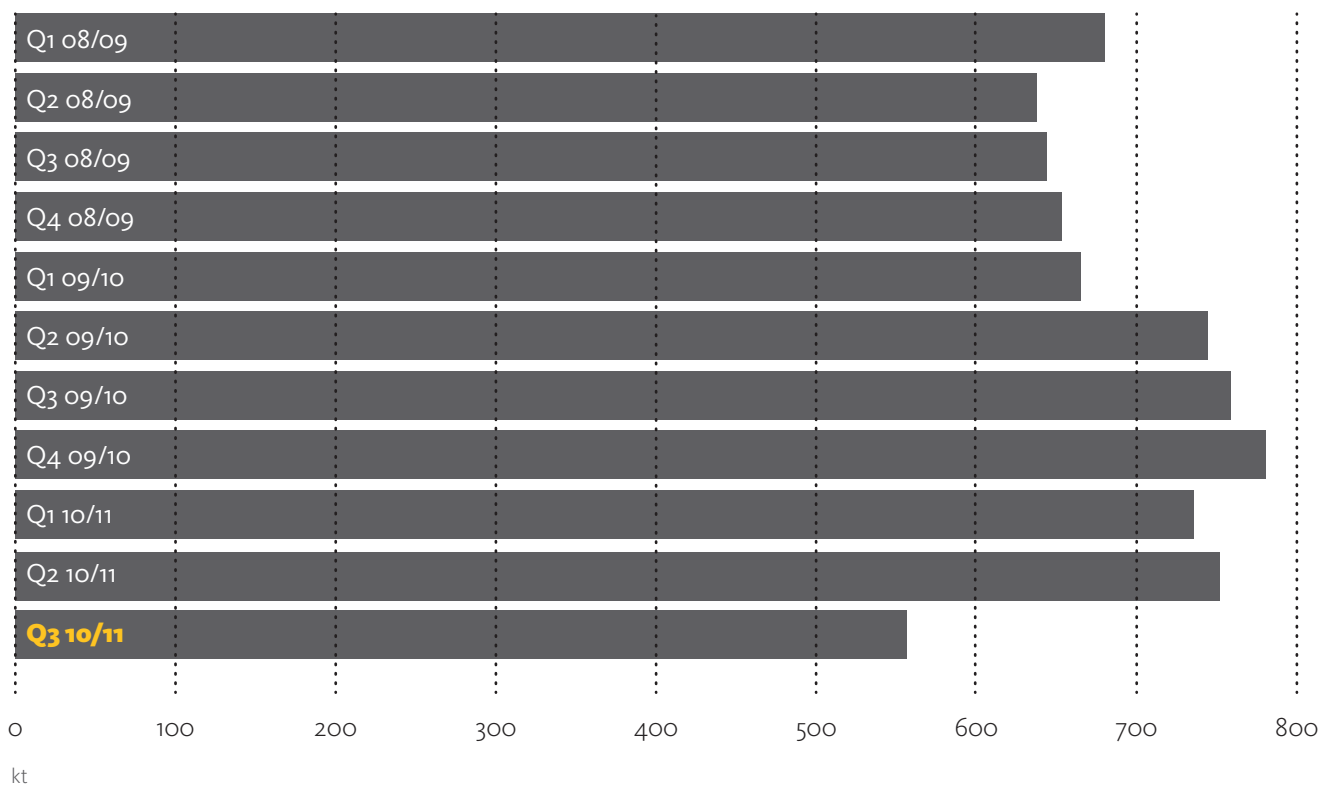
Mining operations in the BRN pit were advanced into the highwall cut back area following on from the receipt of the approval at the end of the second quarter. Excavation of the cut back material commenced early in the quarter. Extra labour was employed during the quarter for additional rostered time within the consent limits to accelerate the volume recovery.

Roseville West pit development continued and ROM coal production increased above the prior quarter levels as strip ratios reduced, reflecting development progressing past the weathered zone.

WET WEATHER

A higher than average number of wet weather days continued to be experienced during the quarter. This constrained potential output from mining operations and also limited irrigation opportunities to reduce stored water levels. The total stored water levels at Duralie were 70% at the end of the quarter, consistent with the prior quarter.

STRATFORD PREPARATION PLANT ROM FEED BY QUARTER



STRATFORD COAL HANDLING PREPARATION PLANT (“CHPP”)

The CHPP improvement and upgrade project continued as scheduled. Commissioning of the screen, pump and centrifuge upgrade successfully delivered the planned increase to 600tph processing capacity.

Yield was lower compared to the previous corresponding period as a result of higher proportions of lower yield coals in the total plant feed. Yields increased through the quarter with commencement of mining the Clareval seam in late February, increasing the proportion of the high yield coal in the total plant feed.

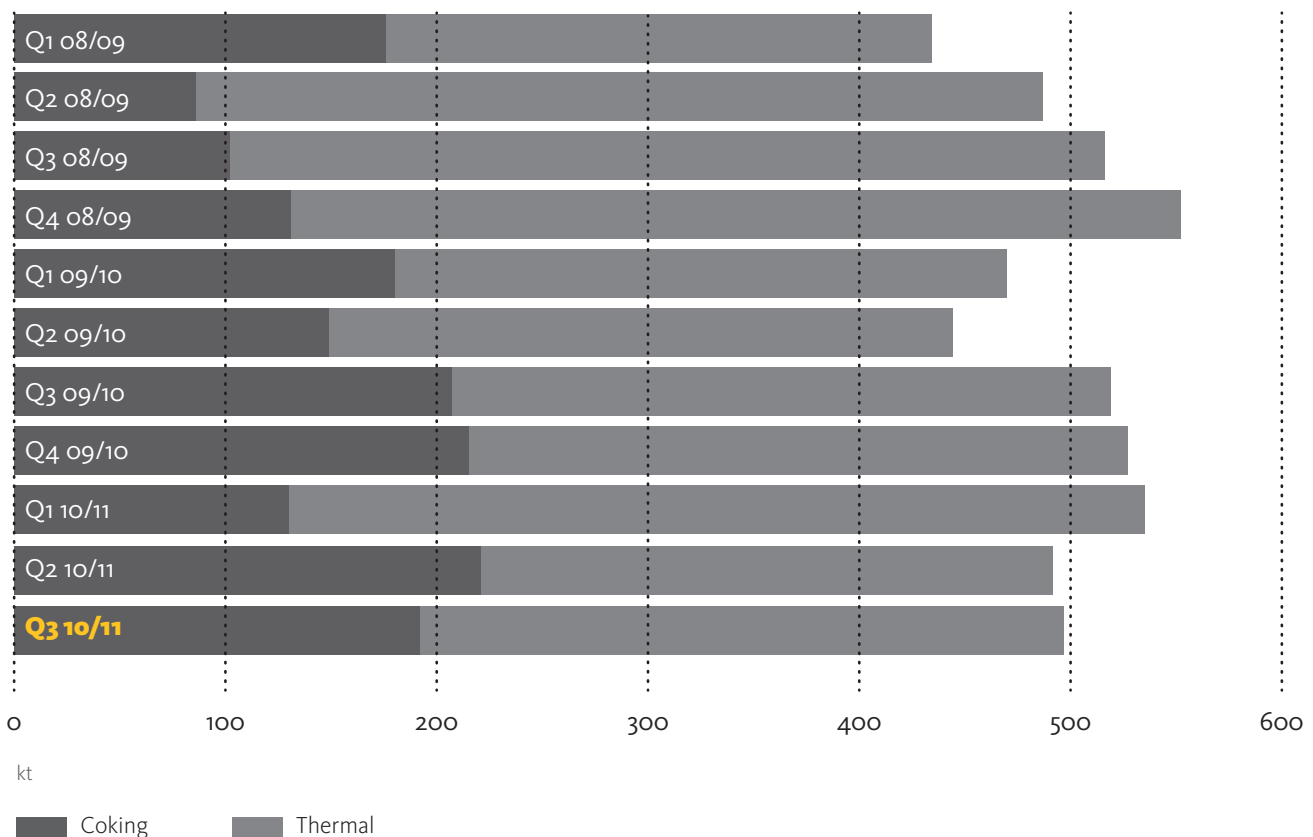
Expansion of the fines processing and recovery capacity to increase yield is on schedule with commissioning expected to occur in the first quarter of FY12.

SALES

Total net sales of 496kt for the quarter were 6% (33kt) lower than the corresponding period (529kt). Sales were down for the period principally driven by lower production due to the delays in the Duralie extension and Stratford extension approvals. What was pleasing during the period was operations were able, through ROM blend changes, to maximise coking coal volumes and hence partially mitigate the impact of the Duralie and Stratford extension approval delays on coking coal volumes.

THIRD QUARTER 2010/11 SALES

	March 2010	March 2011	Change	YTD March 2010	YTD March 2011
Coal Type	kt	kt	%	kt	kt
Coking	207	196	(5%)	536	548
Thermal	322	300	(7%)	907	977
Total Sales	529	496	(6%)	1,443	1,525
Purchases	(63)	(36)	(42%)	(145)	(86)



SALES (CONTINUED)

COKING COAL

Coking coal sales were 196kt for the quarter compared to 207kt for the previous corresponding quarter, a decrease of 5%. The tsunami in Japan led to a softening in demand for coking coal. The duration of the reduced demand from Japan is unknown, however we expect to return to a stronger demand situation by the second quarter of FY12.

THERMAL COAL

Sales of Gloucester thermal coal of 300kt were lower compared to the previous corresponding quarter (322kt). Thermal coal sales were impacted by lower coal volumes resulting from delays in the approvals of the Duralie and Stratford extension projects and a focus to maximise coking coal recoveries from the CHPP. This focus came at a cost to total plant yield.

EXPLORATION

The Company is continuing its programme of exploration in tenements A311, A315 and EL6904.

Up to seven drill rigs operated on exploration targets during the quarter for a total of 11,912 metres of drilling that included 1,200m of core to provide for coal quality analysis. Drilling was focused on exploration targets to the north of existing mining operations at Stratford and to a lesser extent targets near the Duralie operation.

Geological interpretation, seam correlation and data validation of the multi seam stratigraphy progressed in the third quarter. Exploration expenditure during the quarter was \$6.3 million, compared to \$7.0 million in the previous quarter.

FINANCE

During the quarter, the Company drew down US\$35m of the US\$80 million loan facility from Noble Group Limited. The loan facility was entered into on an arm's length basis with Noble Group Limited during the previous quarter.

At 31 March 2011, the Group's consolidated cash (including restricted cash) on hand is \$35.4 million compared to \$9.4 million as at 31 December 2010.

MIDDLEMOUNT UPDATE

DEVELOPMENT

A revision of Coal Reserves and Capital Costs in relation to the Middlemount Project were announced to the market on 17 March 2011.

An Environmental Impact Study (EIS) seeking to increase production level of the project from 1.8mtpa ROM up to 5.4mtpa ROM was released for public submissions during the quarter. Only 11 submissions were received on the EIS. Middlemount Coal will respond to the issues raised in these submissions and expects to obtain the approval to increase production by mid to late 2012.

CONSTRUCTION

The significant wet weather experienced throughout Central Queensland has impacted upon earthworks and associated structures for the construction of the Rail Spur to join the Middlemount Mine to the Goonyella rail network. Despite this delay, Middlemount Coal continues to expect delivery of the Rail Spur late in the 2011 calendar year, subject to no further significant wet weather events.

OPERATIONS

Water management structures constructed prior to the significant rainfall seen during the quarter have operated successfully with minimal wet weather impact on the site. Further commissioning testing of the CHPP was undertaken during the quarter. A total of 37kt of product coal was trucked and sold to the Coppabella-Moorvale Joint Venture.

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 produce coal for further processing and sales. The aim of this small scale production is to help build product awareness of Middlemount Coal with potential customers ahead of large scale mining at the end of the calendar year.

Subsequent to the appointment in January 2011 of NRW to undertake preliminary works, on 13 April 2011, Middlemount Coal appointed NRW to undertake mining services for the project for a five year period commencing 1 July 2011. The contract, under which NRW will carry out clearing, overburden removal, drill and blast, coal mining, haulage and associated activities, will provide delivery of ROM coal to meet ramp up of the project from commencement of operations in late 2011. The ramp up of operations is subject to the timing of completion of the rail loop and environmental approvals for increased production.

FOR FURTHER INFORMATION

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