



GLOUCESTER COAL LTD

ABN 66 008 881 712

MARKET RELEASE

CHAIRMAN'S ADDRESS TO SCHEME MEETING

Today I will talk about the Scheme, its rationale, recent developments and the future if shareholders do not vote in favour of the Scheme. Then we will move to the formal business of the vote.

As has been reported in the press, earlier this year, we received an unsolicited approach by the Noble Group regarding a scheme of arrangement whereby the Noble Group would acquire all of the shares in Gloucester Coal. The Noble Group indicative proposal was conditional, incomplete and less than the Xstrata offer. Nonetheless, the Board then sought expressions of interest from other parties to determine their interest in the company. Xstrata subsequently came in with a firm proposal of \$4.75 for all the shares in Gloucester and this proposal is described in the Scheme Booklet.

In the absence of a Superior Proposal, the Board has recommended this offer based on a number of factors which are contained in the Scheme Booklet.

RECENT DEVELOPMENTS

Since receiving the offer from Xstrata and making the recommendation to shareholders, the Board has watched with interest as your company has attracted the attention of a number of organisations.

Over recent weeks the Noble Group and AMCI have emerged on the register as significant shareholders each with approximately 10% of Gloucester Coal.

We have been advised that AMCI will vote against the scheme and expect Noble also to vote against the Scheme. We expect that the Scheme will therefore not be approved.

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THE FUTURE

I therefore would like to share with you the future direction of the Company.

The Board and management of Gloucester will continue to implement the business plan and financial and operating strategies it had in place prior to the proposed Scheme and in particular the Board will;

- continue to seek a Chief Executive Officer to replace Gavin May, whose contract expires on 31 July 2007. The executive search is at an advanced stage;
- continue to optimize the operations. One of our main projects currently underway, is to add additional secondary flotation cells to the washery. This project will cost \$2 million and is expected to improve yield by about 2%. The project which was initiated, developed and managed in-house, is expected to be completed by the end of this year and within budget;
- as was announced in November 2006 following the significant discovery of coal reserves in the Clareval seam, continue working on the expansion of the washery from an annual capacity of 3.2 million tonnes to 4.0 million tonnes per annum together with additional product handling facilities. The total project is expected to cost approximately \$30 million. The design and the approval process including an EIS are both well under way. The project is on target to be completed in 2009;
- vigorously continue with our successful exploration programme to identify further resources in the Gloucester basin and convert our coal inventory to JORC standard where possible;
- ensure that the primary focus of the new CEO is to escalate the pursuit of growth opportunities outside the Gloucester basin; and
- review Gloucester's capital management program and dividend policy in light of current capital requirements and improved outlook on coal prices.

With the ownership issue resolved and the improved demand for coal we believe that the outlook of Gloucester Coal is very promising.

Andy Hogendijk
Chairman

For further information

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