

VULNERABILITY EXPOSED, COMMUNITY SUPPORT STRONG

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As we welcome the New Year, the resources sector finds itself in challenging policy and operating environments.

While the CSG/LNG sector is forging ahead and a number of companies in the metals industry have announced plans for new capacity, the coal industry faces the challenge of having to reduce costs in the face of the continued strength of the Australian dollar and low prices, which are not expected to rebound

strongly because of soft demand and strong global supply.

The flow on to the exploration sector is evident in the struggle for investment dollars owing to cautious equity markets and leaner internal budgets tightened to manage cash flows.

As reflected in our latest CEO Sentiment Index (page 4), which also contains two additional questions on past and future employment intentions (page 2), these vulnerabilities are likely to result in more job losses over the next 12 months (predominantly for coal).

Despite these vulnerabilities, the resources sector remains strongly committed to Queensland. We have calculated that in 2011/12 the sector injected into the Queensland economy some \$36 billion in wages, goods and services spending and community contributions. This is the highest level recorded over the past three years of analysis, easily surpassing the \$25.5 billion total from 2010/11.

In recognition of this contribution, our most recent public opinion polling by Crosby Textor Group (page 3) shows that the sector enjoys a strong social licence to operate with four in five Queenslanders supporting the resources sector.

Just as important is recognition by the public that the sector is vulnerable, and governments must take action to protect jobs and revenues. Nearly two-thirds of Queenslanders believe that the state should do more to protect the resources industry in order to create jobs and generate revenue.

To this end, the QRC will continue to prosecute its reform agenda, acknowledging the Premier's November announcement

at the QRC Annual Lunch that the Resources Sub-Committee of Cabinet will continue to operate in 2013.

However, there are promising signs of some strengthening in the coal sector, with Queensland export volumes showing steady growth in the first six months of 2012/13. Overall, Queensland's coal exports reached 168 million tonnes in 2012 compared to 153 million tonnes in 2011.

Just as the coal sector shows some tentative signs of recovery, the anti-coal movement continues its relentless campaign to undermine this mainstay of the state's resources sector, ranging from hoax media releases to 'concerned citizen' newspaper ads calling for a cap on our coal exports. The text of the ad was long on global warming angst, but lacking in basic economics. The Australian Financial Review editor captured the flawed logic perfectly: *'limiting Australia's coal exports would do nothing apart from reduce our share of the coal market, cut national wealth and tax receipts, and raise coal prices for others.'*

In the meantime, activists working against the coal-seam gas (CSG) sector in Queensland seem to be moving their focus to NSW. Perhaps they realise they are fighting a losing battle as more and more Queenslanders are directly and indirectly benefiting from the CSG sector, which spent \$5.3 billion in Queensland on wages, goods and services and community contributions in 2011/12.

Queenslanders are also coming to appreciate the benefits of a diverse resources sector. As our special survey of employment intentions (see page 2) shows, while the mining sector has been losing people over the past six months, the gas sector continues recruiting.

What the coal and CSG sectors do have in common is a concern with the Newman government's signalled approach of using statutory land-use planning to resolve perceived widespread land use conflicts between agriculture and the resource industry.

As QRC commissioned opinion research reveals (page 3), the overwhelming majority of the population is satisfied that the two sectors can co-exist and that agriculture alone cannot sustain strong regional economies

The QRC does not support the arbitrary mapping of restrictive

IN THIS EDITION:

- Key indicators: QRC Production and Value of Production Indices.
- Feature articles: Survey of CEO members--employment intentions over the previous six months and next 12 months; and Community views towards the Queensland mining and resource sector.
- QRC CEO Sentiment Index.



zones that sterilises resources without any consideration of the economic cost to current and future generations. Backed up by solid research and analysis, we'll be presenting to the state government a strong case outlining why arbitrary zoning is not the best way, economically or socially, to promote improved coexistence.

KEY INDICATORS

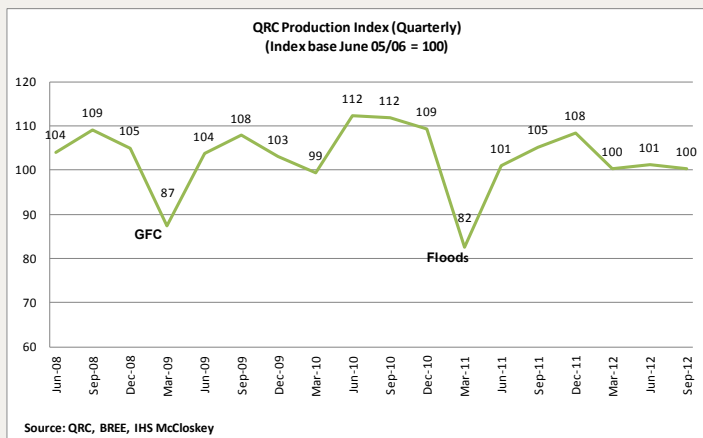
QRC PRODUCTION INDEX

The QRC production index is a composite weighted index that tracks percentage increases and decreases in the total production of Queensland bauxite, alumina, aluminium, coal¹, copper, gold, lead, silver, and zinc quarter to quarter.

Note – because Queensland is not yet producing significant quantities of additional coal-seam gas this output has not been included.

The index at the end of the September 2012 quarter (latest available data) remained flat for the third consecutive quarter, reaching 100 index points. This is a decrease of 1 percentage point from the September 2012 quarter (June 2006=100).

Queensland coal exports increased slightly over the September quarter from 39.9Mt to 40.3Mt. Alumina (1442kt), bauxite (6179kt) and copper content (64kt) also recorded slight increases. Production decreases were recorded for silver (338t), lead (108kt) and zinc (214kt). Gold (4t) and aluminium (84kt) remained constant.



QRC VALUE OF PRODUCTION INDEX

Comprising the same basket of goods as the QRC production index, the QRC value of production index combines domestic production and average global benchmark prices to track percentage increases and decreases in the Queensland resource sector's total value of production.

¹ Please note that the Index charts have been recalibrated. BREE coal data (price and saleable production) for all years have been substituted for more accurate McCloskey calculated and supplied Queensland coal export figures and Australian prime hard coking coal FOB and Newcastle FOB marker (thermal) price estimates.

The index at the end of the September 2012 quarter (latest available data) reached 107 index points, a substantial decrease from the previous quarter's 132.

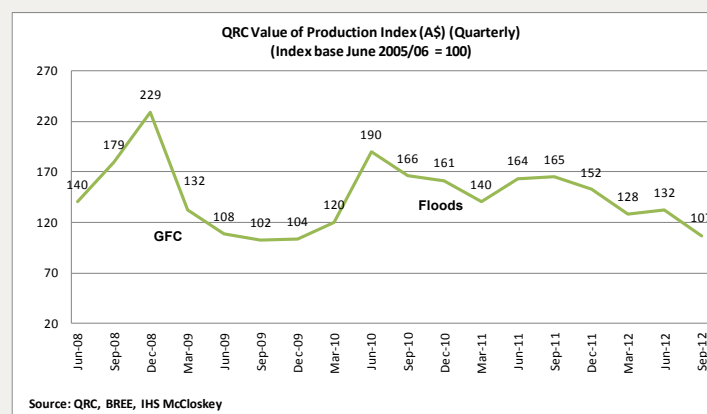
In aggregate terms, the Queensland value of production decreased from \$A8.8 billion in the June 2012 quarter to \$A7 billion in the September quarter.

Three probable reasons for this substantial decrease in revenues are, continuing global macroeconomic uncertainty that is keeping buyers out of markets (especially Europe); a persistently high Australian dollar (despite recent domestic interest rate cuts and falling commodity prices); and oversupply and weak economic activity in certain markets (especially China) that are moderating prices.

Prevailing thermal coal prices of \$US80-86/t (Newcastle FOB marker) were at three-year lows and reflected soft demand and considerable oversupply in major customer markets. Of note is that these low spot prices are finding their way into Australia-Japanese Power Utility (JPU) December thermal coal contract prices with deals at \$US95-98/t FOB for 6322kc GAR product reported recently. By comparison, this product earned \$US120/t FOB in negotiations 12 months ago.

Metallurgical coal prices, as measured by the McCloskey Australian prime hard marker, plummeted from \$US219/t in June to \$US153/t by end September. FOB settlements for Jan-March quarter hard coking coal contracts with Japanese and South Korean steel mills were recently settled at \$US165/t for premium Peak Downs brand. Depending on the grade, PCI and lower quality metallurgical coal would be expected to sell for US\$20-\$50/t less than this.

Prices for alumina (\$A271/t), aluminium (\$US1914/t) and copper (\$US7717/t) continued to fall while prices for aluminium and for remaining precious and base metals (gold, lead, silver, and zinc) held steady.



SURVEY OF EMPLOYMENT INTENTIONS

The QRC recently surveyed the CEOs of full member companies to ascertain employment trends over the past six months and what may occur over the next 12 months given the current high level of uncertainty.

A total of 26 CEOs responded to the following survey questions.

STATE OF THE SECTOR

Question 1

Over the PAST six month period to today, what was the estimated change in employment numbers of the Queensland operations of your company, by job category? Please include direct and contract workers.

	Additions	Losses	Net balance
Management	52	213	-161
Professional	57	211	-154
Trades	104	613	-509
Other ²	350	2898	-2548
Total	563	3935	-3372

From this sample of 26 resources sector businesses in Queensland a minimum loss of 3372 workers (contractors and full-time employees) occurred in the second half of 2012.

Question 2

Over the NEXT 12 months, what will be the likely retrenchment/hiring intentions of the Queensland operations of your company, by job category? Please consider direct and contract workers.

	Additions	Losses	Net balance
Management	114	65	49
Professional	130	92	38
Trades	51	223	-172
Other ²	252	625	-373
Total	547	1005	-458

According to this sample, it is safe to say the Queensland resources sector will likely experience more job losses over the next 12 months.

While CEOs in the oil and gas sector held generally favourable employment intentions over the next 12 months, mining, and to a lesser extent, exploration CEOs were less optimistic citing the following challenges:

- Securing internal and external development funding given global macroeconomic and regulatory uncertainty (carbon price and royalties in particular).
- High \$AU against the \$US.
- High \$US input costs with no significant recovery in minerals prices (especially for coal) expected in the foreseeable future.
- Increasing industrial disputation levels

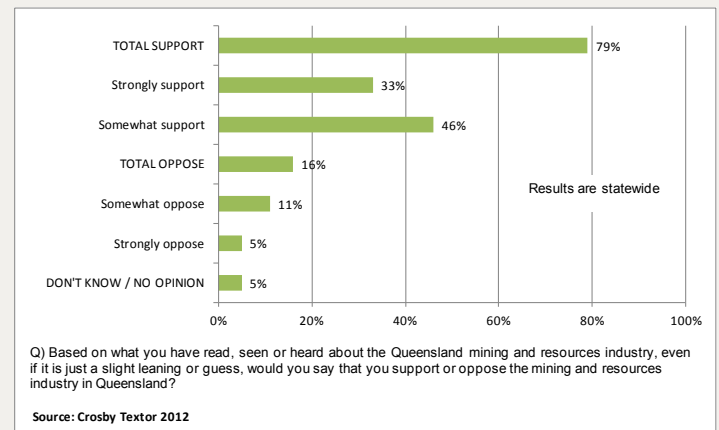
2 Other refers to a variety of occupational categories including maintenance, plant operators and administration.

COMMUNITY VIEWS OF THE QUEENSLAND RESOURCES SECTOR

Leading researchers Crosby Textor (CT) Group has undertaken extensive quantitative and qualitative work to ascertain community views of the resources sector in Queensland.

The research involved 10 community focus groups from the central Queensland (CQ), Darling Downs (DD) and Brisbane regions supported by a statewide telephone survey of 1500 voters.

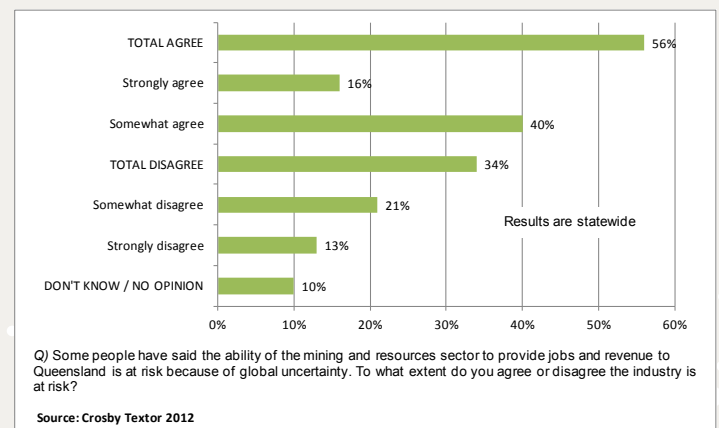
Statewide support for the Queensland resources sector is very high at nearly 80 percent. On the DD and in CQ, the sector recorded 74 and 83 percent support scores respectively.



These findings are particularly relevant in the context of the the state government's proposal to enshrine statutory regional plans under law.

In the DD and CQ, this policy would see the state government quarantine significant areas of the state from resource development in response to perceived conflict between agriculture and mining.

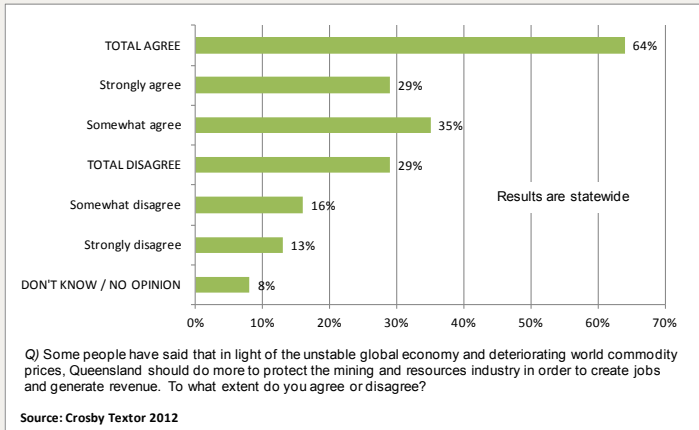
The CT Group research confirms that in sharp contrast to the views of some, the overwhelming majority of the population are satisfied that the two sectors can co-exist and that agriculture alone cannot sustain strong regional economies.



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Also of significant note are community concerns over the impact of global uncertainty on the health of the resources sector; and the need to better insulate it to ensure it continues to create jobs and generate revenue.

Queenslanders are concerned that 'the ability of the sector to provide jobs and revenue is at risk because of global uncertainty.'

Almost two-thirds agree that 'Queensland should do more to protect the industry in order to create jobs and generate revenue.'

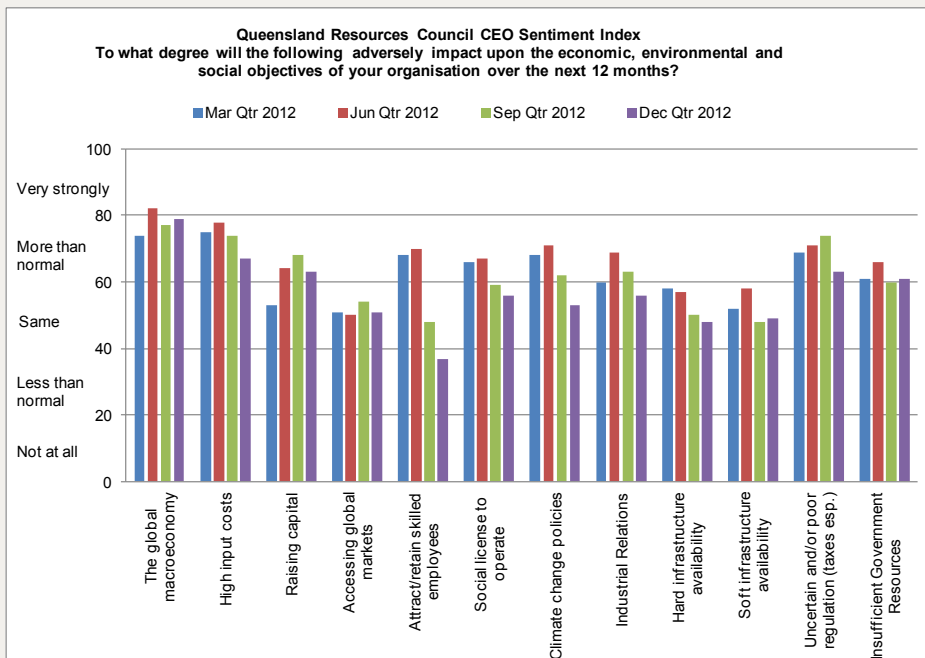
QRC CEO SENTIMENT INDEX

The QRC CEO Sentiment Index is a survey of the QRC's full member company chief executives.

These companies cover the majority of mining, minerals

processing, contracting, exploration, electricity generation and oil and gas extraction activity in Queensland.

Issues that will 'more than normal' (score 60-79) adversely impact operations over the next 12 months:



1. Global macroeconomy (79) = continued global economic uncertainty is depressing demand and prices, especially coal
2. High input costs (67) = continued unsustainable wage levels and declining productivity
3. Capital raising (63) = raising capital on the debt and equity markets remains difficult for some
4. Uncertain and/or poor regulation (includes taxes and royalties) (63) = concern over increasing royalties and continued taxation uncertainties
5. Insufficient government resources (61) = concern over pace of approvals processes.

Of note is the significant softening of concerns related to growth – namely attracting and retaining skilled employees (37).

QRC PROFILE

The Queensland Resources Council is the peak representative body for more than 300 companies with interests in the state's minerals and energy sector. The QRC's 87 full-member companies comprise explorers, miners, contractors, mineral processors, oil and gas producers and electricity generators. QRC service companies cover the gamut of professional services provided to the resources sector in the four corners of Queensland.