AUSTRAL COAL

28 February 2005

OPERATING RESULTS

YEAR ENDED 31 DECEMBER 2004

Directors of Austral Coal Limited today reported a Net Loss After Tax of $30.263 million for the full year ended 31 December 2004. This result excludes an income tax benefit of $7,002,000 resulting from the pre-tax operating loss.

Production of Run of Mine and clean coal for the year was below expectations and reflects the commissioning difficulties experienced following installation of the new longwall system and adverse geological impacts on underground operations. The major issues were:

- an extended commissioning and rectification period for the new longwall system related to shortcomings in electrical, mechanical and software issues;
- a 12 week delay in the start up of panel 22 as a result of adverse geology and an increased requirement to develop using the slower and more expensive grunching methodology (drill and fire) rather than conventional mining;
- abandonment of panel 21 in the Tahmoor lease in March 2004 as a result of roof convergence, resulting in a loss of 120,000 ROM tonnes.

In December 2004 the company and equipment manufacturers rectified the major longwall equipment problems that had been hindering operational performance. As a result, equipment reliability has improved considerably and production for January and February has totalled 365,000 ROM tonnes.

On the 17 February 2004 the company jointly announced a proposal to merge with Centennial Coal Company Limited after considering a number of strategic options. The merger has been endorsed by the Austral Board in the absence of a higher offer and is expected to proceed over the next two months.

Contacts: Ugo
Cario, Managing Director or Stephen Peterson, Company Secretary on (02) 8256-4700

Appendix 4E

28 February 2005

Preliminary Final Report

AUSTRAL COAL LIMITED	
ABN:21 069 071 816	**Financial Year Ended 31 December 2004**

For announcement to market:

	A$'000
Revenues from ordinary activities (15.9% decrease from previous year revenues of $97,640,000)	82,090
Profit/(Loss) from ordinary activities (previous year profit of $2,730,000)	(30,263)
Net profit/(loss) for the period attributable to members (previous year profit of $2,730,000)	(30,263)
Net tangible assets per share (2003: $0.424)	$0.372

Dividends

No dividends have been declared or proposed during the current year or the previous year.

Audit

The financial report is based on accounts which have been audited.

The attached financial statements give full details of the performance of the company for the year ended 31 December 2004.

In determining the operating result directors have not included the income tax benefit of $7,002,000 resulting from the pre-tax operating loss. Consequently the net operating loss has increased from $23,261,000 to the reported level of $30,263,000.

Summary of performance

Production of Run of Mine and clean coal for the year was below expectations reflecting failures of the newly installed longwall and shearer equipment to perform to specifications and adverse geological impacts in underground operations.

The principal factors impacting performance were:

- An extended commissioning and rectification period for the new longwall related to shortcomings in electrical, mechanical and software issues.
- A 12 week delay in the start up of panel 22 as a result of adverse geology and an increased requirement to develop using the slower and more expensive grunching methodology (drill and fire) rather than conventional mining
- Abandonment of panel 21 in the Tahmoor lease in March 2004 due to roof convergence resulting in a loss of 120,000 ROM tonnes.

The above factors reduced ROM coal production to 1,757,000 tonnes (2003:1,518,000) and saleable coal production to 1,204,000 tonnes (2003:1,181,000).

In December 2004, the company and the original equipment manufacturers undertook a major rectification of the longwall equipment problems that had been hindering operational performance. Based on these rectification works, equipment reliability has improved and production has increased. In addition the company has been successful in negotiating a price increase of more than 120% for its coking coal and other benefits including the cancellation of a significant volume of carryover tonnage and agreement to price some future shipments at the average of current year and next year prices.

Directors are confident of improved performance in 2005 based on increasing production as the new longwall ramps up to capacity and the benefits of new contract prices take full effect.

1 March 2005

The Announcements Officer
Australian Stock Exchange
Level 6
20 Bridge Street
Sydney NSW 2000

Dear Sir

Amendment of 2004 Financial Statementds

Directors of Austral Coal Limited request that the financial statements lodged earlier this morning be withdrawn and replaced with the attached financial statements following amendments to note 1 to the accounts and the audit report.

Yours sincerely

Stephen Peterson
Company Secretary

AUSTRAL COAL LIMITED

ABN 21 069 071 816

Directors Report & Financial Statements

Year ended 31 December 2004

DIRECTORS' REPORT

Your directors submit their report for the year ended 31 December 2004

Directors

The names and details of the directors of the company in office during the 2004 financial year and until the date of this report are:

Names and Qualifications

Vincent H Pendal, Chairman

Mr Pendal has extensive experience in banking and corporate finance in both the industrial and mining sectors. He is a Director and major shareholder of Oakvale Capital Limited, which provides independent advice on both corporate finance and treasury management to a range of leading organisations, government authorities and institutions throughout Australia. He is also Chairman of Brandrill Limited Age 59.

Ugo Cario, Managing Director

Mr Cario holds a Bachelor of Commerce degree and has over 25 years experience in the NSW south coast underground coal mining industry and was previously General Manager of the Tahmoor Colliery. He is a former Director of Kembla Coal and Coke Pty Limited and held a number of senior roles within the former CRA group. He is a Director of Port Kembla Coal Terminal Limited. Age 55.

Anthony G Sherlock

Mr Sherlock was a senior partner of Coopers & Lybrand responsible nationally for the Credit Risk Management Division. In that capacity he was responsible for the management of a wide range of companies under administration including the Clutha group of companies, which owned and operated coal mines on the NSW south coast. He is a Director of IBA Health Ltd, Sydney Aquarium Ltd, Stockland Funds Management Limited and Chairman of Equatorial Mining Limited. Age 63.

Matthew Blackham

Mr Blackham is a qualified mining engineer with over 40 year’s experience in the coal industry. He previously held a number of senior positions with Coal & Allied Industries Limited (including Deputy Chief Executive) and RW Miller (Holdings) Limited. He has been responsible for the Hunter Valley No 1 mine, Mount Thorley mine and the Hunter Valley No 2 lease area. Age 69.

Vivian Forbes

Mr Forbes is a geologist and financial analyst with extensive knowledge in coal exploration, mine feasibility, development and management garnered from several open cut and underground coal mines in Queensland. He was formerly a director of Burton Coal Pty Ltd and is currently a Director of Dalyrmple Bay Coal Terminal Pty Ltd. Age 65

Interests in the shares of the company and related bodies corporate

As at the date of this report the interests of the directors in the share capital of Austral Coal Limited were:

	Ordinary Shares
Vince Pendal	1,312,682
Ugo Cario	1,299,275
Anthony G Sherlock	45,224
Matthew Blackham	1,581,210
Vivian Forbes	50,000

Principal Activities

The principal activities of the economic entity during the financial year were the mining and marketing of coal from the group's Tahmoor Colliery.

Dividends

Directors have not declared or paid dividends in respect of the financial year ended 31 December 2004 (2003, nil).

Results of Operations

The economic entity reported a net loss after tax of ($30,263,000) for 2004 (2003; was a profit of $2,730,000).

The Tahmoor Colliery produced 1,757,000 tonnes of run of mine coal (2003; 1,518,000 tonnes) which resulted in 1,204,000 tonnes of saleable coal being produced (2003; 1,181,000 tonnes). Total sales for the financial year were 1,248,000 tonnes (2003; 1,366,000 tonnes) and at year end there were stocks of 57,000 tonnes of saleable coal (2003; 46,000 tonnes).

Further details of the year's operations are included in the Operational Review section of the Annual Report.

Significant changes in the State of Affairs

Shareholders' equity increased by $12,001,000 in 2004 to $78,526,000. The movement was due to additional capital raised offset by losses of $30,263,000. Capital raisings during the year included:

- placement of $15,000,000 in January 2004 to Everzoom Associates Limited, a wholly owned subsidiary of Noble Group Limited,
- 4 for 13 non-renounceable entitlement issue raising $26,868,000, less issue costs of $1,621,000, and placement of $2,017,000 in May 2004.

There were no other significant changes in the state of affairs of the economic entity during the financial year not otherwise disclosed in this report or the financial report.

Subsequent Events

In January 2005 the company raised $14,549,000 less issue costs of $450,000 through a placement to major shareholders and new institutional and professional investors.

On 23 February 2005 Austral Coal Limited and Centennial Coal Company Limited jointly announced that Centennial Coal Company Limited would bid for Austral Coal Limited offering 10 Centennial Coal Company Limited shares for every 37 Austral Coal Limited shares held. Acceptance of the offer is recommended by all directors. If any director of the company does not recommend the offer by Centennial Coal Company Limited in a public announcement or adversely modifies an earlier recommendation or recommends a competing offer, a break fee of $2,790,000 will be payable to Centennial Coal Company Limited.

Since year end an additional $2,000,000 has been drawn under the ANZ Bridge Loan facility.

The outstanding 150,000 options issued under the Senior Executive Performance Share Plan have been exercised since year end.

Likely Developments and Expected Results

There are no further developments in the operations of the economic entity which have not been disclosed in this Annual Report and which would have a material effect on the economic entity and which are currently known to directors.

Executive Performance Share Plan

Members approved the implementation of an Executive Performance Share Plan at a general meeting held on 30 November 1999. The number of shares which may be granted under this plan is dependent on the achievement of performance targets set by the board.

During the year 587,613 shares, relating to prior years performance, were issued under the Executive Performance Share Plan. As at the date of this report 4,760,924 shares have been issued under the Share Plan since inception.

Environmental Regulation and Performance

The consolidated entity holds licences issued by the Environmental Protection Authority which specify limits for discharges to the environment arising from the consolidated entity's operations.

These licences regulate the management of discharges to the air and storm water run-off associated with the mining operations. While some aspects of water quality do not meet regulation limits, there have been no significant known breaches of the consolidated entity's licence conditions.

Directors' and Other Officers Emoluments

The board of directors is responsible for determining and reviewing compensation arrangements for directors, the chief executive officer and the executive team.

Directors assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash, superannuation and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

The emoluments for the financial year of each specified director and each of the five senior specified executives of the company follow.

Emoluments of specified directors include the following:

Director	Base Fee	Superannuation	Motor Vehicle	Bonus [1]	Equity
VH Pendal	70,000	6,300	-	-	-
U Cario	257,500	45,000	25,000	40,906	-
AG Sherlock	45,000	4,050	-	-	-
M Blackham	42,500	3,825	-	-	-
V Forbes	40,000	3,600	-	-	-
M Kiernan [2]	7,500	-	-	-	-

[1] Bonus paid in respect of performance in 2003. No bonus was paid in respect of performance in 2004.

[2] Mr M Kiernan was appointed to the board on 15 July 2004. Mr Keirnan resigned from the board on 5 November 2004.

Emoluments of the five most senior specified executive officers include:

Executive Officer	Base Fee	Superannuation	Motor Vehicle	Bonus [1]	Equity
R Johnson	202,807	-	40,000	29,562	-
SK Peterson	195,383	27,000	-	24,893	-
J Loughnan	133,930	50,200	-	22,418	-
P Wynn	125,342	59,410	19,833	20,137	-
I Shepherd	115,159	12,081	40,600	16,449	-

[1] Bonus paid in respect of performance in 2003. No bonus was paid in respect of performance in 2004.

Non executive directors are entitled to a retirement benefit, the amount of which depends on the length of service on the board. Directors with more than 5 years service are entitled to a retirement benefit of three times the fees received in the 12 months prior to retirement. Directors with between 3 and 5 years of service are entitled to a retirement benefit of double the fees received in the 12 months prior to retirement. Directors with less than 3 years service are entitled to a retirement benefit equal to the fees received in the 12 months prior to retirement. All of the non-executive directors of the Company have served more than five years on the board with the exception of Mr Forbes who joined the board in November 2003.

Corporate Governance

The directors of Austral Coal Limited support the principles of good corporate governance and best practise recommendations established by the ASX Corporate Governance Council. The company's corporate governance statement is included in the Annual Report.

Indemnification and Insurance of Directors and Officers

During the financial year the company paid an insurance premium of $ 69,575 (2003; $50,119) in respect of a Directors and Officers liability policy covering all directors and officers of the company.

The company has executed a Deed of Access and Indemnity with each of the current Directors indemnifying them against any liability incurred in their capacity as director and the costs of defending any proceedings, to the extent permitted by law.

Directors' Meetings

The number of meetings of directors held during the year and the number of meetings attended by each director were as follows:

	Directors Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	Held while in office	*Attended*	*Held while in office*	*Attended*	*Held while in office*	*Attended*
VH Pendal	15	14	-	-	1	1
U Cario	15	15	-	-	-	-
AG Sherlock	15	15	2	2	-	-
M Blackham	15	13	2	1	1	1
V Forbes	15	14	2	1	-	-
M Kiernan	5	3	-	-	-	-

In addition to the formal meetings listed above there were three meetings held at short notice, attended by telephone.

Risk Management

Directors regularly review the economic entity's exposure to foreign currency rates particularly the US$ and, where appropriate, enter into foreign currency hedging transactions to reduce these exposures. The results of these transactions are detailed in note 30 to the financial report. The Company has implemented and maintains a number of procedures and controls reflecting the identification and measurement of operational risks.

Rounding

The amounts contained in this report and in the financial statements have been rounded off in accordance with ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors.

VH Pendal
Chairman
Sydney,

28 February 2005

U Cario
Managing Director

AUSTRAL COAL LIMITED

STATEMENT OF FINANCIAL PERFORMANCE

YEAR ENDED 31 DECEMBER 2004

	Notes	Consolidated		Austral Coal Limited	
		2004	2003	**2004**	2003
		$'000	$'000	**$'000**	$'000
Sales Revenue	2(b)	**84,098**	91,581	**-**	-
Cost of coal sold		**(82,401)**	(73,839)	**-**	-
GROSS PROFIT/(LOSS)		**1,697**	17,742	**-**	-
Other revenues from ordinary activities	2(b)	**(2,008)**	6,059	**3,587**	352
Distribution expenses		**(15,738)**	(11,941)	**-**	-
Administration expenses		**(7,905)**	(7,232)	**(27,889)**	-
Borrowing costs		**(8,666)**	(560)	**(2,086)**	(386)
Other expenses from ordinary activities		**(527)**	(127)	**(486)**	(81)
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX	2	**(33,147)**	3,941	**(26,874)**	(115)
Income tax (expense)/credit relating to ordinary activities	3	**2,884**	(1,211)	**(58)**	45
NET PROFIT/(LOSS) ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY	4	**(30,263)**	2,730	**(26,932)**	(70)
Share issue costs	18	**(1,621)**	(1,577)	**(1,621)**	(1,577)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		**(31,884)**	1,153	**(28,553)**	(1,647)
Basic earnings/(loss) per share (cents per share)	24	**(14.5)**	1.7		
Diluted earnings/(loss) per share (cents per share)	24	**(14.5)**	1.7		

AUSTRAL COAL LIMITED

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2004

	Notes	Consolidated		Austral Coal Limited	
		2004	2003	**2004**	2003
		$'000	$'000	**$'000**	$'000
CURRENT ASSETS					
Cash	20(b)	**1,295**	3,127	**7**	16
Receivables	5	**7,206**	15,179	**-**	-
Inventories	6	**5,690**	4,480	**-**	-
Other	7	**8,136**	19,599	**492**	942
TOTAL CURRENT ASSETS		**22,327**	42,385	**499**	958
NON-CURRENT ASSETS					
Receivables	8	**-**	-	**1,543**	73,023
Investments	9	**123**	123	**98,716**	10,000
Property, plant and equipment	10	**224,404**	101,723	**-**	-
Exploration, evaluation and development	11	**319**	38,080	**-**	-
Deferred tax asset	3(b)	**-**	-	**-**	60
Other	12	**2,524**	3,829	**417**	972
TOTAL NON-CURRENT ASSETS		**227,370**	143,755	**100,676**	84,055
TOTAL ASSETS		**249,697**	186,140	**101,175**	85,013
CURRENT LIABILITIES					
Payables	13	**34,812**	24,432	**649**	407
Tax payable	3(b)	**270**	-	**-**	-
Interest bearing liabilities	14	**59,923**	10,878	**-**	-
Provisions	15	**10,102**	15,110	**588**	-
TOTAL CURRENT LIABILITIES		**105,107**	50,420	**1,237**	407
NON-CURRENT LIABILITIES					
Interest bearing liabilities	16	**62,247**	66,482	**22,000**	22,000
Deferred tax liabilities	3(b)	**-**	3,151	**-**	-
Provisions	17	**4,405**	150	**-**	-
TOTAL NON-CURRENT LIABILITIES		**66,652**	69,783	**22,000**	22,000
TOTAL LIABILITIES		**171,759**	120,203	**23,237**	22,407
NET ASSETS		**77,938**	65,937	**77,938**	62,606
EQUITY					
Contributed equity	18	**103,575**	61,311	**103,575**	61,311
Retained profits/(accumulated losses)	19	**(25,637)**	4,626	**(25,637)**	1,295
TOTAL EQUITY		**77,938**	65,937	**77,938**	62,606

AUSTRAL COAL LIMITED

STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2004

	Notes	Consolidated		Austral Coal Limited	
		2004	2003	**2004**	2003
		$'000	$'000	**$'000**	$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		**83,767**	105,048	**-**	-
Payments to suppliers and employees		**(69,884)**	(51,301)	**(1,016)**	(386)
Interest received		**153**	335	**22**	16
Interest and other costs of finance paid		**(10,630)**	(3,518)	**-**	-
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	20(a)	**3,406**	50,564	**(994)**	(370)
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property, plant and equipment		**(37,578)**	(62,993)	**-**	-
Deferred mining costs		**(50,978)**	(41,104)	**-**	-
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES		**(88,556)**	(104,097)	-	-
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from share issues		**43,885**	-	**43,885**	-
Share issue expenses		**(1,621)**	-	**(1,621)**	-
Proceeds from borrowings		**50,804**	56,287	**-**	-
Proceeds from convertible notes		**-**	22,000	**-**	22,000
Cost of convertible notes		**-**	(1,458)	**(18)**	(1,458)
Loan establishment costs		**-**	(4,810)	**-**	-
Repayment of finance lease principal		**(1,544)**	(1,247)	**-**	-
Repayment of borrowings		**(8,206)**	(22,750)	**-**	-
Inter-company advances		**-**	-	**(41,261)**	(20,157)
NET CASH FLOWS FROM FINANCING ACTIVITIES		**83,318**	48,022	**985**	385
NET INCREASE/(DECREASE) IN CASH HELD		**(1,832)**	(5,511)	**(9)**	15
Add opening cash brought forward		**3,127**	8,638	**16**	1
CLOSING CASH CARRIED FORWARD	20(b)	**1,295**	3,127	**7**	16

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial report is a general purpose financial report which has been prepared on a historical cost basis in accordance with the requirements of the Corporations Act 2001 which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

(A) Uncertainty as to Going Concern

The financial statements have been prepared on a going concern basis, the basis of which is dependent upon the entity being able to either meet a number of significant debt repayments due on 31 March 2005, obtain a deferment of these repayments from its lenders for sufficient period to meet these obligations through cash flow or refinance the existing facilities. There is inherent uncertainty as to whether any of these events might occur to enable the entity to continue as a going concern. If the entity was unable to meet these repayments or have them sufficiently deferred or refinanced, it may be required to realise assets and extinguish liabilities and commitments other than in the normal course of business and at amounts that are different to those that are currently stated in the accounts.

A financial impact of this uncertainty is that an income tax benefit of $7,002,000 has not been recorded in the financial statements because realisation of the tax benefit may not be virtually certain. Consequently the net loss for the year ended 31 December 2004 has increased from $23,261,000 to $30,263,000.

(B) Action Taken to Address Uncertainties
Directors note the courses of action taken which address this uncertainty as detailed below.

i The sale of a 25% interest in the Tahmoor mine which resulted in an offer that was capable of acceptance by the company which valued 15% of the company at more than $56 million. This transaction was not progressed due to the merger proposal by Centennial Coal Company Limited.

ii A placement raised $14,549,302 in January 2005.

iii The company has received an offer from Centennial Coal Company Limited to acquire all of the shares in Austral Coal Limited through a scrip based merger under which Austral Coal Limited shareholders will be offered 10 shares in Centennial Coal Company Limited for every 37 shares held in Austral Coal Limited. Directors have executed a Deed of Undertaking agreeing to the terms of the merger and the conditions under which it will proceed. All directors of Austral Coal Limited have recommended acceptance of the offer by Centennial Coal Company Limited, in the absence of a higher bid. The proposed merger has been announced and a Bidder’s Statement and Target’s Response are being prepared. The merger is not expected to complete before late April 2005.

iv As the expected completion date is later than 31 March 2005, when a number of significant loan repayments fall due, the company has requested that its bankers implement standstill arrangements in respect of certain loan repayments to allow the merger to complete. Centennial Coal Company Limited has indicated to the company and its bankers that it intends to refinance the company’s loan facilities on completion of the merger.

The company's bankers have written to the company expressing their intention to negotiate standstill arrangements in respect of loan repayments to 30 June 2005.

v The company has received confirmation of an indicative offer of loan facilities totalling $125 million to the company to refinance the existing loan facilities subject to documentation, if required.

Consequently directors consider that there are reasonable grounds to believe that the company can continue as a going concern.

(b) Changes in Accounting Policy

The accounting policies adopted are consistent with those of the previous year.

(c) Principles of Consolidation

The consolidated accounts are those of the economic entity comprising Austral Coal Limited (the parent entity) and all entities which it controlled from time to time during the year and at balance date. Information from the financial statements of controlled entities is included from the date the parent company obtains control until such time as control ceases. Where there is a loss of control of an entity, the consolidated financial statements include the results for the part of the reporting period during which the parent company had control.

Acquisitions of controlled entities are accounted for using the purchase method of accounting. The financial statements of controlled entities are prepared for the same reporting period as the parent entity using consistent accounting policies.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

(d) Foreign Currencies

Translation of Foreign Currency Transactions

Transactions in foreign currencies of entities within the economic entity are converted to local currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

A monetary item arising under a foreign currency contract outstanding at the reporting date where the exchange rate for the monetary item is fixed in the contract is translated at the exchange rate fixed in the contract.

Except for certain specific hedges, all resulting exchange differences arising on settlement or restatement are recognised as revenues and expenses for the financial year. Any gains or costs on entering a hedge are deferred and amortised over the life of the contract.

Financial instruments that do not meet the criteria to be treated as specific hedges are recognised at their market value. The foreign currency amounts outstanding under these instruments at balance date have been converted using the exchange rate ruling at the end of the financial period and any differences with the face value of the instruments have been brought to account in determining the profit or loss for the financial period.

Specific Hedges

Where a purchase or sale is specifically hedged, exchange gains or losses on the hedging transaction arising up to the date of purchase or sale and costs, premiums and discounts relative to the hedging transaction are deferred and included with the purchase or sale. Exchange gains and losses arising on the hedge transaction after that date are taken to the net profit.

(e) Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and money market investments readily converted to cash net of outstanding bank overdrafts.

(f) Trade and other Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. Receivables from related parties are recognised and carried at the nominal amount due.

(g) Inventories

Stores

Stores are stated at the lower of cost and net realisable value. Costs are assigned to individual items of stock on the basis of weighted average costs.

Finished Goods

Finished goods are stated at the lower of cost and net realisable value. Costs are assigned on the basis of weighted average costs. Costs comprise direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure allocated on a production basis.

(h) Property, Plant & Equipment

Cost and Valuation

Items of property, plant and equipment are carried at the lower of cost and recoverable amount.

Depreciation

Depreciation is provided on a straight line basis over the expected useful life of all items of property, plant and equipment other than freehold land.

The expected useful lives are as follows:

	2004	2003
Buildings	Lesser of mine life and 40 years	Lesser of mine life and 40 years
Plant and Equipment	5–15 years	5-15 years
(Depending on the nature of the asset)		
Leasehold Improvements	The lease term	The lease term
Mine development costs	Units of production	Units of production

Upon commencement of production in the Tahmoor North mining lease, deferred mine development costs associated with Tahmoor North have been transferred to property, plant and equipment in accordance with AASB 1022. These costs will be amortised on a units of production basis over the appropriate reserves.

(i) Exploration, Evaluation, Development and Restoration Costs

Exploration expenditure capitalised and carried forward represents an accumulation of acquisition costs and direct net exploration and evaluation costs incurred by or on behalf of the economic entity, together with an appropriate portion of related overhead expenditure, in relation to separate areas of interest for which rights of tenure are current.

(i) Exploration & Evaluation Phase

Includes costs expected to be recouped through exploitation or sale or where activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserve, and active and significant operations in, or in relation to, the area are continuing.

When an area of interest is abandoned or the Directors decide it is not commercial, any accumulated costs in respect of that area are written off in the year the decision is made. Each area of interest is reviewed at the end of each accounting period and accumulated costs written off to the extent they are not expected to be recoverable in the future.

(ii) Development Phase

Where the activities in the area have reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves, these costs are amortised over the life of the economically recoverable reserves on a unit of production basis, or taken to the Statement of Financial Performance upon sale or other disposition of the area of interest.

(iii) Mining Lease Acquisition Costs

Mining leases are carried at the lower of cost less accumulated amortisation and recoverable amount. Mining leases are amortised over their estimated economic lives on a unit of production basis.

(iv) Restoration Costs

Restoration costs that are expected to be incurred are provided for as part of the cost of the exploration, evaluation and development phases that give rise to the need for restoration. Accordingly, these costs are recognised over the life of the facility as these phases occur. These costs include obligations relating to reclamation, waste site closure and other costs associated with restoration of the site. The estimates of the restoration obligations are based on anticipated technology and legal requirements and future costs. In determining the restoration obligation, the entity has assumed no significant changes will occur in the relevant Federal and State legislation in relation to restoration of such mines in the future.

(j) Maintenance and Repairs

Maintenance, repair costs and minor renewals are charged as expenses as incurred.

(k) Employee Entitlements

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, sick leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and sick leave and any other employee benefits expected to be recognised within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled.

All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by the employees up to reporting date.

Contributions are paid to the Coal Industry Long Service Leave Fund which is responsible for meeting future long service leave entitlements. These contributions are charged against profits when due.

In respect of the consolidated entity's defined benefit superannuation plans, any contributions made to the superannuation fund are charged against profits when due.

The value of the shares issued under the Executive Performance Share Plan described in note 22 is not being charged as an employee entitlement expense.

(l) Income Tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The Company applies the liability method of tax effect accounting. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation.

The company (at this time) has yet to elect to consolidate for taxation purposes.

(m) Recognition of income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognised:

Sale of Goods
Control of the goods has passed to the buyer.

Interest
Control of a right to receive consideration for the provision of, or investment in, assets has been attained.

Dividends
Control of a right to receive consideration for the investment in assets is attained.

Management Fees
Control of a right to be compensated for the provision of management services has been attained and the amount owing can be reliably measured.

(n) Recoverable Amount

Non current assets measured at cost are not carried at an amount in excess of their recoverable amount and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amount the expected net cash flows are discounted to their present values using a market determined risk adjusted discount rate.

(o) Derivative Financial Instruments

The consolidated entity enters into forward exchange contracts where it agrees to sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective is to match the contract with anticipated future cash flows from sales and purchases in foreign currencies, to protect the consolidated entity against the possibility of loss from future exchange rate fluctuations.

Forward exchange contracts are recognised at the date the contract is entered into. Exchange gains or losses are recognised in net profit except those relating to hedges of specific commitments that are deferred and included in the measurement of the sale or purchase.

(p) Investments

Investments in controlled entities are carried at the lower of cost and recoverable amount in Austral Coal Limited's financial report. Investments in controlled entities are eliminated on consolidation.

All other non-current investments are carried at the lower of cost and recoverable amount.

(q) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of the leased item, are recognised as an expense on a straight line basis.

(r) Share Capital

Ordinary share capital is recognised at the fair value of the consideration received by the company. Share issue expenses are netted off share capital.

(s) Earnings per Share

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends , divided by the weighted average number of ordinary shares adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for;

- costs of servicing equity (other than dividends) and preference share dividends,
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses, and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shaes.

Divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(t) Borrowing Costs

The consolidated entity capitalises borrowing costs in association with the acquisition, construction or production of qualifying assets. The capitalisation rate of 8.814% is the weighted average rate applicable to the borrowings of the entity that are outstanding during the financial year.

This capitalisation rate is applied to the weighted average expenditures on the qualifying assets during the year. The amount capitalised is limited by the finance costs incurred during the financial year.

(u) Deferred Finance Costs

The consolidated entity has deferred incidental costs associated with the establishment of debt financing facilities. These costs are being amortised over the respective lives of the facilities being 2 to 5 years.

2. OPERATING PROFIT	Notes	Consolidated 2004 $'000	Consolidated 2003 $'000	Austral Coal Limited 2004 $'000	Austral Coal Limited 2003 $'000
(a) Expenses					
Amortisation of non-current assets					
- Mining Leases		**190**	132	**-**	-
- Development expenditure		**19,140**	21,720	**-**	-
		19,330	21,852	**-**	-
Depreciation of non-current assets					
- Plant and equipment		**5,655**	3,529	**-**	-
- Buildings		**3**	3	**-**	-
		5,658	3,532	**-**	-
Total depreciation and amortisation		**24,988**	25,384	**-**	-
Borrowing costs expensed					
- facility fees		**2,708**	302	**-**	-
- interest expense on borrowings		**7,017**	2,656	**-**	-
- finance lease interest expense		**905**	560	**-**	-
		10,630	3,518	**-**	-
- other borrowing costs		**1,988**	732	**2,572**	81
Total borrowing costs		**12,618**	4,250	**2,572**	81
Less borrowing costs capitalised		**(3,952)**	(3,690)	**-**	-
Total borrowing costs expensed		**8,666**	560	**2,572**	81
Government mining royalties incurred		**2,578**	2,099	**-**	-
Net loss/(profit) on disposal of property, plant and equipment		**2**	-	**-**	-
Superannuation contributions		**2,166**	1,652	**-**	-
Transfers to Provisions:					
- Employee Entitlements		**5,283**	2,849	**588**	-
Significant items					
-Writedown of investment in subsidiary		**-**	-	**(26,284)**	-
(b) Revenue					
Revenue from coal sales at spot		**68,033**	76,642	**-**	-
Net realised foreign currency gains/(losses)		**10,833**	11,165	**-**	-
Agency fee from coal sales		**5,232**	3,774	**-**	-
		84,098	91,581	**-**	-
Other revenue					
- Unrealised foreign currency gain/(losses)		**(2,295)**	5,662	**-**	-
- Interest, other persons/corporations		**153**	335	**22**	16
- Sundry revenue		**134**	62	**-**	-
- Management fees		**-**	-	**3,565**	336
		(2,008)	6,059	**3,587**	352
Operating revenue		**82,090**	97,640	**3,587**	352
(c) Gains and losses					
Net foreign currency gains		**8,538**	16,827	**-**	-

	Notes	Consolidated		Austral Coal Limited	
3. INCOME TAX		**2004**	2003	**2004**	2003
		$'000	$'000	**$'000**	$'000
Prima facie tax on operating profit at tax rates applicable in the country of operation, differs from the income tax provided in the accounts as follows:					
Prima facie tax benefit/(expense) on profit or loss from ordinary activities		**9,944**	(1,182)	**8,062**	35
Tax effect of permanent differences		**(58)**	(134)	**-**	(95)
Prior period adjustment		-	105	-	105
Income tax benefit not recognised on the basis that its recovery is not virtually certain	1(a)	**(7,002)**	-	**(8,120)**	-
Income tax benefit/(expense) attributable to operating profit		**2,884**	(1,211)	**(58)**	45
(a) Income tax expense comprises:					
Provision attributable to current year					
- deferred income tax liability		**(10,303)**	(5,388)	**-**	-
- future income tax benefit		**10,303**	(1,722)	**-**	60
Provision attributable to future years					
- deferred income tax liability		**(16,718)**	(2,177)	**-**	-
- future income tax benefit		**19,602**	8,076	**(58)**	-
		2,884	(1,211)	**(58)**	60
(b) Deferred tax assets and liabilities					
Current tax liability		**(270)**	-	**-**	-
Provision for deferred income tax - non current		**-**	(3,151)	**-**	-
Future income tax benefit -non current		**-**	-	**-**	60
(c) Income tax losses					
Future income tax benefit from tax losses of a controlled entity not recognised at reporting date as realisation of the benefit is not virtually certain		**7,002**	-	**8,120**	-

Netted with the deferred income tax liability are $110,186,000 (2003: $47,819,000) of tax losses which are expected to be utilised when the relevant timing differences comprising the deferred income tax liability reverse.

There are nil franking credits available for distribution. No Dividend is to be paid.

As at the date of preparing this report the company has not finalised its decision regarding whether to enter into tax consolidations with its wholly owned subsidiaries. Accordingly financial statements have been prepared on the basis that each entity within the group was taxable on an individual basis.

	Notes	Consolidated 2004 $'000	Consolidated 2003 $'000	Austral Coal Limited 2004 $'000	Austral Coal Limited 2003 $'000
4. CONTRIBUTIONS TO CONSOLIDATED PROFIT					
Austral Coal Limited		**(648)**	(70)	**(26,932)**	(70)
Tahmoor Coal Pty Ltd		**(29,609)**	1,521	**-**	-
Austral Operations Pty Limited		**(1)**	1,279	**-**	-
Bargo Collieries Pty Ltd		**(6)**	-	**-**	-
Gigalink Pty Ltd		**1**	-	**-**	-
		(30,263)	2,730	**(26,932)**	(70)

5. RECEIVABLES (CURRENT)

	Notes	Consolidated 2004 $'000	Consolidated 2003 $'000	Austral Coal Limited 2004 $'000	Austral Coal Limited 2003 $'000
Trade debtors	(i)	**1,376**	1,045	**-**	-
Receivable on foreign currency contracts	(ii)	**5,830**	14,134	**-**	-
		7,206	15,179	**-**	-

Terms and Conditions
(i) Trade Debtors are non-interest bearing and generally on 14 day terms
(ii) Receivable on foreign currency contracts relates to hedging on foreign currency denominated sales and purchases, details are included in Note 30.

6. INVENTORIES (CURRENT)

	Notes	Consolidated 2004 $'000	Consolidated 2003 $'000	Austral Coal Limited 2004 $'000	Austral Coal Limited 2003 $'000
Raw materials and stores – at cost		**2,120**	1,426	**-**	-
Work-in-progress – at cost		**82**	181	**-**	-
Finished goods – at cost		**3,488**	2,873	**-**	-
		5,690	4,480	**-**	-

7. OTHER CURRENT ASSETS

	Notes	Consolidated 2004 $'000	Consolidated 2003 $'000	Austral Coal Limited 2004 $'000	Austral Coal Limited 2003 $'000
Mine development costs carried forward		**-**	75,658	**-**	-
Amortisation of mine development costs		**-**	(58,409)	**-**	-
	7(a)	**-**	17,249	**-**	-
Deferred finance cost		**3,879**	1,811	**492**	406
Prepayments		**4,257**	539	**-**	-
Other sundry debtors		**-**	-	**-**	536
		8,136	19,599	**492**	942

(a) Reconciliation of movement

	Notes	Consolidated 2004 $'000	Consolidated 2003 $'000	Austral Coal Limited 2004 $'000	Austral Coal Limited 2003 $'000
Opening balance		**17,249**	17,240	-	-
Transfers from non-current mine development costs		**-**	21,729		
Amortisation associated with mining in the Tahmoor lease		**(4,417)**	(21,720)	-	-
Transfer to property, plant and equipment on commencement of mining in Tahmoor North lease	11(b)	**(12,832)**	-	-	-
Closing balance		**-**	17,249	-	-

	Notes	Consolidated		Austral Coal Limited	
		2004	2003	**2004**	2003
8. RECEIVABLES (NON-CURRENT)		**$'000**	$'000	**$'000**	$'000
Owing by Tahmoor Coal Pty Limited		**-**	-	**1,543**	73,023

9. INVESTMENTS (NON-CURRENT)

Investments at cost comprise:

Shares - Unlisted	**123**	123	**-**	-
- Controlled entity	**-**	-	**125,000**	10,000
Less Provision for Diminution	**-**	-	**(26,284)**	-
	123	123	**98,716**	10,000

Investments in controlled entities comprise:

Name	Country of incorporation	Percentage of equity interest held by the economic entity			
		2004	2003		
		%	%		
Tahmoor Coal Pty Ltd – ord shares	Aust	**100**	100	**125,000**	10,000
Austral Operations Pty Ltd – ord shares	Aust	**100**	100	**-**	-
Bargo Collieries Pty Ltd – ord shares	Aust	**100**	100	**-**	-
Gigalink Pty Limited – ord shares	Aust	**100**	100		
Less Provision for Diminution				**(26,284)**	-
				98,716	10,000

No dividends were received by the parent entity during the year from controlled entities.

10. PROPERTY, PLANT AND EQUIPMENT

Freehold land and buildings - at cost	**1,381**	1,381	**-**	**-**
Provision for depreciation	**(16)**	(13)	**-**	-
Freehold land and buildings	**1,365**	1,368	**-**	**-**
Plant and equipment - at cost	**150,457**	108,948	**-**	-
Plant and equipment – leased	**5,943**	5,943		
Provision for depreciation	**(20,172)**	(14,536)	**-**	-
Plant and Equipment	**136,228**	100,355	**-**	-
Mine development in advance – at cost	**116,029**	-	**-**	-
Accumulated amortisation	**(29,218)**	-	**-**	-
Mine development	**86,811**	-	**-**	-
Total property, plant and equipment	**224,404**	101,723	**-**	-

10. PROPERTY, PLANT AND EQUIPMENT (continued)

	Notes	Consolidated		Austral Coal Limited	
		2004	2003	**2004**	2003
(a) Reconciliations		**$'000**	$'000	**$'000**	$'000
Freehold land and Buildings					
Carrying amount at beginning		**1,368**	1,371	**-**	-
Depreciation		**(3)**	(3)	**-**	-
		1,365	1,368	**-**	-
Plant and Equipment					
Carrying amount at beginning		**100,355**	37,199	**-**	-
Additions		**37,578**	62,995	**-**	-
Borrowing Costs		**3,952**	3,690	**-**	-
Disposals		**(2)**	-	**-**	-
Depreciation		**(5,655)**	(3,529)		
		136,228	100,355	**-**	-
Mine development					
Carrying amount at beginning		**-**	-	**-**	-
Transfer from exploration, evaluation and development costs	11(b)	**78,995**	-	**-**	-
Additions		**22,540**	-	**-**	-
Disposals		**-**	-	**-**	-
Amortisation		**(14,724)**	-	**-**	-
		86,811	-	**-**	-

Upon commencement of production in the Tahmoor North mining lease, deferred mine development costs associated with Tahmoor North have been transferred to property, plant and equipment in accordance with AASB 1022. These costs will be amortised on a units of production basis over the appropriate reserves.

11. EXPLORATION, EVALUATION AND DEVELOPMENT COSTS CARRIED FORWARD IN RESPECT OF MINING AREAS OF INTEREST

	Notes	Consolidated 2004	Consolidated 2003	Austral Coal Limited 2004	Austral Coal Limited 2003
Mining Leases - Bargo		**319**	9,030	**-**	-
Accumulated amortisation		**-**	(2,096)	**-**	-
		319	6,934	**-**	-
Mine Development		**-**	31,146	**-**	-
		319	38,080	**-**	-
(a) Reconciliations					
Mining leases					
Carrying amount at beginning		**6,934**	6,841	**-**	-
Additions		**-**	225	**-**	-
Amortisation		**(36)**	(132)	**-**	-
Transferred to property, plant and equipment	11(b)	**(6,579)**	-	**-**	-
		319	6,934	**-**	-

	Notes	Consolidated		Austral Coal Limited	
		2004	2003	**2004**	2003
		$'000	$'000	**$'000**	$'000
11. EXPLORATION, EVALUATION AND DEVELOPMENT COSTS CARRIED FORWARD IN RESPECT OF MINING AREAS OF INTEREST Continued)					
Mine development					
Carrying amount at beginning		**31,146**	11,997	**-**	-
Additions		**28,438**	40,879	**-**	-
Transfers to current assets		**-**	(21,730)	**-**	-
Transfer to property, plant and equipment on commencement of mining in Tahmoor North lease	11(b)	**(59,584)**	-	**-**	-
		-	31,146	**-**	-
(b) Total transferred to property, plant and equipment:					
Mining leases		**6,579**	-	**-**	-
Current mine development	7(a)	**12,832**	-	**-**	-
Non-current mine development		**59,584**	-	**-**	-
	10(a)	**78,995**	-	**-**	-

12. OTHER NON CURRENT ASSETS

Deferred financing costs		**4,647**	4,561	**984**	972
Less amortisation		**(2,123)**	(732)	**(567)**	-
		2,524	3,829	**417**	972

Deferred finance costs are the costs of establishing financing facilities and arrangements. These have been deferred and amortised over the life of each facility.

13. ACCOUNTS PAYABLE (CURRENT)

Trade creditors	(i)	**34,241**	22,164	**649**	407
Foreign currency option premiums payable	(ii)	**571**	2,268	**-**	-
		34,812	24,432	**649**	407

Terms and conditions relating to the above financial instruments:

(i) Trade creditors are non-interest bearing.

(ii) Foreign currency option premium is the deferred option premium payable on $22.5m (2003: USD $37m) of options to purchase USD at a weighted average rate of 72.9 cents (2003: 67.5 cents). These options expire between March 2005 and September 2005 and the premium is payable upon exercise or expiration.

14. INTEREST BEARING LIABILITIES (CURRENT)

	Notes	Consolidated		Austral Coal Limited	
		2004	2003	**2004**	2003
		$'000	$'000	**$'000**	$'000
Finance lease	(i)	**1,684**	1,544	**-**	-
Borrowings	(ii)	**54,119**	9,334	**-**	-
Premium finance	(iii)	**4,120**	-	**-**	-
		59,923	10,878	**-**	-

Terms and conditions relating to the above financial instruments:

(i) Finance leases are payable over 4 years, with a remaining life of 1 year and three months.

(ii) The syndicated Facilities Agreement includes a project loan which is repayable in set tranches as per terms and conditions of the loan agreement.
On the 9 November 2004 the company executed a $20,000,000 Bridge Loan facility with ANZ. This facility expires on 31 March 2005. At the same time the company executed amendments to the syndicated Facilities Agreement, which requires the company to raise a minimum of $60 million by 31 March 2005 either by way of asset sale or new equity. Proceeds from this capital raising is intended to be used primarily to reduce the syndicated loan facilities.

The establishment fee for the ANZ Bridge Loan Facility is payable on the loan repayment date and is calculated having reference to the formula below and the prevailing share price on the date of repayment, subject to a minimum fee of $2,000,000.

The establishment fee is the higher of:

a) $1,000,000 or $2,000,000 if the principal outstanding is greater than $10,000,000 at any time; and

b) A fee calculated as follows:

$$\text{Fee} = \frac{C \times MC}{90\% \times ASP(FS)} \text{ less } \frac{C \times MC}{ASP(M)}$$

Where:
ASP(FS) = Opening Austral share sales price ($0.60)
ASP(M) = Austral share price at termination date
C = 50% if the maximum principal outstanding at any time is $10m or less, or 60% if greater than $10m
MC = maximum level of commitment during the term of the facility.

The establishment fee payable based on the company's share price as at 31 December 2004 was $2,000,000. If the establishment fee had been payable based on the company's share price of $1.21 on 25 February 2005 the amount of the fee would have been $12,305,000.

(iii) The premium finance loan is repayable in 10 equal monthly instalments.

15. PROVISIONS (CURRENT)

	Notes	Consolidated		Austral Coal Limited	
		2004	2003	**2004**	2003
		$'000	$'000	**$'000**	$'000
Employee entitlements		**4,762**	7,453	**588**	-
Deferred gain on foreign currency contracts		**2,047**	1,452	-	-
Unrealised gain on foreign currency contracts		**2,931**	6,205	-	-
Royalty Provisions		**362**	-	**-**	-
		10,102	15,110	**588**	-

Unrealised gains on foreign exchange contracts are determined to be current or non current on the basis of the timing of expected settlement.

	Notes	Consolidated 2004 $'000	Consolidated 2003 $'000	Austral Coal Limited 2004 $'000	Austral Coal Limited 2003 $'000
16. INTEREST BEARING LIABILITIES (NON CURRENT)					
Convertible notes - unsecured	(i)	**22,000**	22,000	**22,000**	22,000
Finance lease	(ii)	**595**	2,279	**-**	-
Borrowings	(iii)	**39,652**	42,203	**-**	-
		62,247	66,482	**22,000**	22,000

Terms and conditions relating to the above financial instruments:

(i) Convertible Notes have a three year term, (unless redeemed) with a fixed interest rate of 9.5% payable 6 monthly in arrears. The convertible notes expire on 1 October 2006.

(ii) The finance lease has a remaining life of 1 year and 3 months.

(iii) Borrowings are secured by mortgages over real property and a fixed and floating charge over the assets and undertaking of the group.

	Consolidated 2004 $'000	Consolidated 2003 $'000	Austral Coal Limited 2004 $'000	Austral Coal Limited 2003 $'000
17. PROVISIONS (NON-CURRENT)				
Employee entitlements	**4,205**	-	**-**	**-**
Mine site rehabilitation	**200**	150	**-**	**-**
	4,405	150	**-**	-
(a) Movement in provisions (Note 15)				
Employee provisions current				
carrying amount at beginning of financial year	**7,453**			
transfer to non current provision	**4,271**		**-**	
additional provision	**4,480**		**588**	
amounts utilised during the year	**(2,900)**		**-**	
Carrying amount at end of financial year	**4,762**		**588**	
(b) Movement in provisions (Note 17)				
Employee provisions non-current				
carrying amount at beginning of financial year	**-**		**-**	
transfer from current provision	**4,271**			
additional provision	**1,878**		**-**	
amounts utilised during the year	**(1,944)**		**-**	
Carrying amount at end of financial year	**4,205**		**-**	
(c) Movement in restoration provision (Note 17)				
Employee provisions non-current				
carrying amount at beginning of financial year	**150**		**-**	
additional provision	**50**		**-**	
amounts utilised during the year	**-**		**-**	
Carrying amount at end of financial year	**200**		**-**	

A provision for restoration of the Tahmoor site for reclamation, waste disposal, plant closure and other costs associated with the restoration of a mining site. In determining the provision, it has been assumed no significant changes will occur in the relevant State and Federal legislations.

18. CONTRIBUTED EQUITY

(a) Issued and paid up capital

	Consolidated 2004 $'000	Consolidated 2003 $'000	Austral Coal Limited 2004 $'000	Austral Coal Limited 2003 $'000
233,002,420 ordinary shares fully paid (2003; 155,413,213)	**103,575**	61,311	**103,575**	61,311

(b) Movement in shares on issue

	2004 Number of shares	2004 $'000	2003 Number of shares	2003 $'000
Beginning of the financial year	**155,413,231**	**61,311**	154,547,599	31,348
Issued during the year				
- Placement	**77,001,576**	**43,885**	-	22,500
- Share Purchase Plan	**-**	**-**	-	9,028
- Executive performance share plan	**587,613**	**-**	865,632	12
Less share issue costs	**-**	**(1,621)**	-	(1,577)
End of the financial year	**233,002,420**	**103,575**	155,413,231	61,311

In addition performance hurdles have been met under the Executive Performance Share Plan and executives are entitled to be allotted a further 150,000 ordinary shares at an exercise price of $0.20 per share (2003: 737,611).

	Notes	Consolidated 2004 $'000	Consolidated 2003 $'000	Austral Coal Limited 2004 $'000	Austral Coal Limited 2003 $'000
19. RETAINED PROFITS					
Balance at beginning of the year		**4,626**	1,896	**1,295**	1,365
Net profit/(loss) attributable to members		**(30,263)**	2,730	**(26,932)**	(70)
Balance at end of year		**(25,637)**	4,626	**(25,637)**	1,295

20. STATEMENT OF CASH FLOWS
(a)Reconciliation of the net profit after tax to the net cash flows from operations:

	Consolidated 2004 $'000	Consolidated 2003 $'000	Austral Coal Limited 2004 $'000	Austral Coal Limited 2003 $'000
Operating profit/(loss) after tax	**(30,263)**	2,730	**(26,932)**	(70)
Non-cash items				
Depreciation of non-current assets	**5,655**	3,532	**-**	-
Amortisation of non-current assets	**19,140**	21,720	**-**	-
Amortisation of loan establishment fees	**1,988**	732	-	-
Amortisation of mining leases	**190**	132	-	-
Borrowing costs capitalised	**(3,952)**	(3,690)	-	-
Loss on disposal of property, plant and equipment	**2**	-	-	-
Writedown of investment in subsidiary	**-**	-	**26,284**	-
Changes in assets and liabilities				
(Increase)/decrease in trade receivables	**(331)**	13,559	**-**	**-**
(Increase)/decrease in other debtors	**-**	(734)	**-**	**-**
(Increase)/decrease in inventory	**(1,210)**	6,177	**-**	**-**
Increase/(decrease) in trade and other creditors	**7,517**	9,351	**(992)**	(255)
(Increase)/decrease in future income tax benefit	**-**	179	**58**	(45)
Increase/(decrease) in current tax payable	**270**	-	**-**	-
Decrease in foreign currency receivable	**8,304**	8,809	**-**	-
Increase/(decrease) in deferred income tax liability	**(3,151)**	1,032	**-**	-
(decrease) in deferred foreign currency	**(2,679)**	(13,652)	**-**	-
Increase/(decrease) in provisions	**1,926**	687	588	**-**
Net cash flow from/(used in) operating activities	**3,406**	50,564	**(994)**	(370)

	Consolidated		Austral Coal Limited	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
b) Reconciliation of cash				
- cash on hand	**1,285**	3,127	**7**	16
- cash on deposit	**10**	-	-	-
Closing cash balance	**1,295**	3,127	**7**	16

c) Financing facilities available
At balance date, the following financing facilities had been negotiated and were available:
Facilities used at balance date:

- Noble Group Limited	**7,500**	-	**-**	**-**
- Insurance premium finance	**4,120**	-	**-**	**-**
- Bank loans	**86,272**	51,537	**-**	**-**
- Foreign currency contracts	**US$67,250**	US$18,000	**-**	**-**
- Guarantee facility	**1,670**	1,670	**-**	**-**
- Stockpile facility	**US$1,426**	US$6,287	**-**	**-**
- Deferred premium facility	**588**	2,441	**-**	**-**
- Guarantee facility	**1,670**	1,670	**-**	**-**

The $86,272,000 in loans are disclosed in notes 14 and 16 as current, non current borrowings in accordance with the repayment terms in the loan agreement.

The facilities include a requirement for the company to repay the loans at specific times.

- Tranche A has an outstanding balance of $24,000,000 (nil undrawn) with quarterly repayments of $2,000,000, plus the deferred December 2004 repayment due in March 2005, ceasing in September 2007.
- Tranche A sub-limit has an outstanding balance of $10,000,000 (nil undrawn), with no scheduled repayment required and an expiry date of 31 March 2005.
- Tranche B has an outstanding balance of 35,271,776 (nil undrawn) with semi-annual repayments of $3,206,385 ceasing in March 2010.
- ANZ Bridge Loan has an outstanding balance of $17,000,000 ($3,000,000 undrawn) and is required to be repaid in full by 31 March 2005.
- Loan from shareholder Noble Group Limited has an outstanding balance of $7,500,000 (nil undrawn) with 4 quarterly repayments of $1,875,000 beginning March 2005.
- Premium Finance Loan has an outstanding balance of $4,120,000 (nil undrawn) with repayments in ten equal monthly instalments that commenced in November 2004.

Finance Lease Transactions
There were no non-cash financing activities during the current year.

21. EXPENDITURE COMMITMENTS

(a) Capital expenditure commitments Estimated capital expenditure contracted for at balance date but not provided for:				
- payable not later than one year	**9,920**	17,310	**-**	-
	9,920	17,310	**-**	-

21. EXPENDITURE COMMITMENTS (continued)

	Consolidated 2004 $'000	Consolidated 2003 $'000	Austral Coal Limited 2004 $'000	Austral Coal Limited 2003 $'000
(b) Lease expenditure commitments:				
(i) Operating leases (non-cancellable)				
- not later than one year	**912**	499	**-**	-
- later than one year, not later than five years	**3,039**	-	**-**	-
	3,951	499	**-**	-
(i) Finance leases				
- not later than one year	**1,817**	1,817	**-**	-
- later than one year, not later than five years	**606**	2,423	**-**	-
- total minimum lease payments	**2,423**	4,240	**-**	-
- future finance charges	**(144)**	(417)	**-**	-
- lease liability	**2,279**	3,823	**-**	-
current liability	**1,684**	1,544	**-**	-
non current liability	**595**	2,279	**-**	-
	2,279	3,823	**-**	-

22. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS

	Notes	Consolidated 2004 $'000	Consolidated 2003 $'000	Austral Coal Limited 2004 $'000	Austral Coal Limited 2003 $'000
Employee Entitlements					
The aggregate employee entitlement liability Is comprised of:					
Provisions (current)		**4,762**	7,453	**588**	-
Provisions (non-current)		**4,205**	-	**-**	-
		8,967	7,453	**588**	-

Executive Performance Share Plan

A total of 587,613 shares were issued under the Executive Performance Share Plan, approved by shareholders on 30 November 1999. Under the rules of the plan employees become eligible for allotment of shares subject to meeting performance targets established by the board.

Performance targets have been met under the Executive Performance Share Plan and executives are entitled to be allotted a further 150,000 ordinary shares (2003: 737,611). These shares will require a subscription of $0.20 per share.

Superannuation Commitments

All employees are entitled to varying levels of benefits on retirement, disability or death. Certain staff members and some deputies at Tahmoor colliery are members of the Austral Superannuation Fund, which includes both an accumulation division and a defined benefit division.

The economic entity contributes up to 11% of base salary to the accumulation fund on behalf of the accumulation fund members.

22. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS (continued)

The fund provides a defined benefit based on years of service and final average salary for defined benefit fund members. The economic entity contributes 27% of salary for defined benefit fund members. Details of the defined benefit fund as extracted from the most recent financial report are as follows:

	$'000
Accrued benefits as at 30 June 2004	2,192
Vested benefits as at 30 June 2004	2,198
Net market value of fund assets as at 30 June 2004	2,313

The balance of company employees are members of COALSUPER Retirement Income Fund. The company contributes to this fund on behalf of most employees at a fixed rate, currently $95.53 per person per week for all CFMEU members ($80.33 for non CFMEU union members). Contributions by the economic entity of up to 9% of employees' wages and salaries are legally enforceable in Australia.

23. CONTINGENT LIABILITIES

Security has been provided to the economic entity's bankers, including Fixed and Floating Charge, Mortgage and Guarantees, in respect of loan, bank guarantee and foreign exchange facilities. At the end of the financial year, bank guarantees to the value of $1,670,500 had been issued to secure contract performance. Directors do not anticipate that these guarantees will be called upon.

Tahmoor Coal Pty Ltd, "(Tahmoor") a wholly owned subsidiary of Austral Coal Limited let a contract to Roche Mining Pty Limited ("Roche") in February 2003 for the development of 18,300 metres of underground development at the Tahmoor Colliery. There are currently several disputed extension of time, variation and other claims made by Roche.

Arbitration proceedings have begun in relation to some of these claims. Relying on the advice of Tahmoor's legal and contract advisors, director's estimate that the contingent liability resulting from these claims may be $1.695 million. This amount does not take into consideration the amount likely to be won from counter claims by Tahmoor against Roche. Directors expect to achieve a significant amount from these counter claims to offset any potential liability.

Tahmoor let a contract to Roberts & Schaeffer (Australia) Pty Limited ("Roberts & Schaeffer") in 2003 for the upgrade of the Tahmoor Colliery coal preparation plant. Roberts & Schaeffer sought adjudication of a claim for $3,404,041.69 under the Building and Construction Industry Security of Payment Act 1999 NSW in December 2003 and was awarded $1,169,087.69. Roberts & Schaeffer has pursued the balance of the claim and has begun arbitration proceedings for the entire claim previously adjudicated. Relying on the advice of Tahmoor's legal and contract advisors directors do not expect any liability to result from these proceedings and may result in the refund of a portion of the previously awarded claim. Tahmoor has lodged a liquidated damages claim for $0.356 million against Roberts & Schaeffer and will be lodging further significant counter claims against Roberts & Schaeffer in respect of its performance of the contract.

Since balance date the company has entered into a Deed of Undertaking with Centennial Coal Company Limited in relation to a proposed scrip based merger of the two companies. Under the terms of the deed, if any director of the company does not recommend the offer by Centennial Coal Company Limited in a public announcement or adversely modifies an earlier recommendation or recommends a competing offer, a break fee of $2,790,000 will be payable to Centennial Coal Company Limited.

24. EARNINGS PER SHARE

	Consolidated 2004	2003
	$'000	**$'000**
The following income and share data was used in calculating earnings per share		
(a) Net profit / (loss)	**(30,263)**	2,730
	Number	Number
(b) Weighted average number of shares on issue used in calculating basic earnings per share	**209,112,915**	155,116,847
(c) Entitlement under Executive Performance Share Plan weighted average of diluted rights outstanding during the year	**183,528**	641,270
Weighted average number of shares used in calculating diluted earnings per share	**209,296,443**	**155,758,117**

25. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Specified Directors and Specified Executives

(i) Specified directors

V.H. Pendal	Chairman
U. Cario	Director and Managing Director
A.G. Sherlock	Director
M. Blackham	Director
V.Forbes	Director
M.Kiernan	Director (appointed 15 July 2004, resigned 5 November 2004)

(ii) Specified executives

R Johnson	General Manager Tahmoor Colliery
S.K.Peterson	Chief Financial Officer and Company secretary
J. Loughnan	General Manager Marketing
P.Wynne	Mine Manager
I. Sheppard	Manager Technical Services

25. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(b) Remuneration of Specified Directors and Specified Executives

(i) Remuneration Policy

The Remuneration Committee of the Board of Directors of Austral Coal Limited is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer and the executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as motor vehicles.

Key executives are entitled to annual bonuses payable upon the achievement of annual corporate profitability measures, the most important being return on shareholder's equity.

There are no loans to Specified Directors and Executives outstanding as at 31 December 2004, no loans were issued during the year ended 31 December 2004.

No Options were granted to Specified Directors or Executives listed during the year ended 31 December 2004.

	Primary				Equity	Other	Total
	Salary & Fees	Cash Bonus	Motor Vehicle	Super-annuation	Options	Bonuses	Total
Total Remuneration: Specified Directors							
V.H. Pendal							
2004	70,000	-	-	6,300	-	-	76,300
2003	70,000	-	-	6,300	-	-	76,300
U. Cario							
2004	257,500	40,906	25,000	45,000	-	-	368,406
2003	257,500	74,921	25,000	45,000	-	194,751	597,172
A.G. Sherlock							
2004	55,000	-	-	4,050	-	-	59,050
2003	45,000	-	-	4,050	-	-	49,050
M. Blackham							
2004	42,500	-	-	3,825	-	-	46,325
2003	41,250	-	-	3,600	-	-	44,850
V.Forbes							
2004	40,000	-	-	3,600	-	-	43,600
2003	3,333	-	-	300	-	-	3,633
M.Kiernan							
2004	7,500	-	-	-	-	-	7,500
2003	-	-	-	-	-	-	-
Total							
2004*	472,500	40,906	25,000	62,775	-	-	601,181
2003*	417,083	74,921	25,000	59,250	-	194,751	771,005

25. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

Non executive directors are entitled to a retirement benefit, the amount of which depends on the length of service on the board. Directors with more than 5 years service are entitled to a retirement benefit of three times the fees received in the 12 months prior to retirement. Directors with between 3 and 5 years of service are entitled to a retirement benefit of double the fees received in the 12 months prior to retirement. Directors with less than 3 years service are entitled to a retirement benefit equal to the fees received in the 12 months prior to retirement. All of the non-executive directors of the Company have served more than five years on the board with the exception of Mr Forbes who joined the board in November 2003.

No increase in retirement benefits was earned by any non-executive director as a result of service provided during 2004.

Total Remuneration: Specified Executives

	Base Fee	Super	Car	Bonus	Equity	Total
R. Johnson						
2004	202,807	-	40,000	29,562	-	272,369
2003	191,125	-	40,000	54,144	146,064	431,333
S. Peterson						
2004	195,383	27,000	-	24,893	-	247,276
2003	176,862	18,000	-	45,834	146,064	386,760
J. Loughnan						
2004	133,930	50,200	-	22,418	-	206,548
2003	125,310	50,200	-	41,301	121,720	338,531
P. Wynne						
2004	125,342	59,410	19,833	20,137	-	224,722
2003	90,641	85,593	21,500	39,249	77,901	314,884
I. Sheppard						
2004	115,159	12,081	40,600	16,449	-	184,289
2003	111,870	12,022	40,600	37,900	77,901	280,293
Total						
2004	772,621	148,691	100,433	113,459	-	1,135,204
2003	695,808	165,815	102,100	218,428	569,650	1,751,801

(c) Remuneration options: Granted and vested during the year

During the previous financial years options were granted as equity compensation to certain specified directors and specified executives as disclosed below. These options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share at the exercise price disclosed below. These options may only be exercised after vesting.

No options were granted or vested during 2004.

25. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(d) Shares issued on exercise of remuneration options

	Shares issued Number	Paid $ per share	Unpaid $ per share
Specified Directors			
V.H. Pendal	-	-	-
U. Cario	335,779	nil	nil
A.G. Sherlock	-	-	-
M. Blackham	-	-	-
V. Forbes	-	-	-
M. Kiernan	-	-	-
Specified Executives			
R. Johnson	-	-	-
S.K. Peterson	251,834	nil	nil
J. Loughnan	-	-	-
P. Wynne	-	-	-
I. Sheppard	-	-	-
Total	587,613		

(e) Option holdings of specified directors and specified executives

	Balance at period start 1 January 2004	Options exercised	Net change other	Balance at period end 31 December 2004	Vested at 31 December 2004		
					Total	Not exercisable	Exercisable
Specified Directors							
V.H. Pendal	-	-	-	-	-	-	-
U. Cario	335,779	335,779	-	nil	-	-	-
A.G. Sherlock	-	-	-	-	-	-	-
M. Blackham	-	-	-	-	-	-	-
V. Forbes	-	-	-	-	-	-	-
M. Kiernan	-	-	-	-	-	-	-
Specified Executives							
R. Johnson	-	-	-	-	-	-	-
S.K. Peterson	251,834	251,834	-	nil	-	-	-
J. Loughnan	-	-	-	-	-	-	-
P. Wynne	-	-	-	-	-	-	-
I. Sheppard	-	-	-	-	-	-	-
Total	587,613	587,613	-	-	-	-	-

25. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(f) Shareholdings holdings of specified directors and specified executives

Shares held in Austral Coal Limited (number)	Balance at beginning of period 1 January 2004	On exercise of options	Net change other	Balance at end of period 31 December 2004
Specified Directors				
V.H. Pendal	1,004,580	-	308,102	1,312,682
U. Cario	828,240	335,779	135,256	1,299,275
A.G. Sherlock	34,580	-	10,641	45,221
M. Blackham	1,209,160	-	372,050	1,581,210
V. Forbes	-		50,000	50,000
M. Kiernan	-	-	-	-
Specified Executives				
R. Johnson	48,510	-	60,000	108,510
S.K. Peterson	221,166	251,834	27,000	500,000
J. Loughnan	553,037	-	(309,875)	243,162
P. Wynne	262,524	-	(40,000)	222,524
I. Sheppard	417,944	-	(257,944)	160,000
Total	4,579,741	587,613	355,230	5,522,584

All equity transactions with specified directors and specified executives other than those from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted when dealing at arms length.

(g) Other transactions and balances with specified directors and specified executives

There were no other transactions with specified directors and executives that require disclosure in the financial statements.

	Notes	Consolidated 2004 $	Consolidated 2003 $	Austral Coal Limited 2004 $	Austral Coal Limited 2003 $
26. AUDITORS' REMUNERATION					
Amounts received or due and receivable by the auditors of Austral Coal Limited for:					
- an audit or review of the financial statements of entities within the economic entity		**126,450**	79,000	**-**	-
- other compliance services in relation to the entities within the economic entity.		**109,710**	4,000	**-**	-
		236,160	83,000	**-**	-

27. RELATED PARTY DISCLOSURES

Ultimate parent

Austral Coal Limited is the ultimate parent company.

Austral Coal Limited is an Australian resident company incorporated in Western Australia on 26 April 1995. The registered office of the company is Level 18, 25 Bligh Street Sydney. The principal activities of Austral Coal Limited and its controlled entities during the financial year were the mining and marketing of coal from the group's Tahmoor Colliery. The number of employees at 31 December 2004 including permanent and fixed term employees was 332 (2003; 266).

Wholly owned group transactions

(a) During the year Austral Coal Limited and Tahmoor Coal Pty Limited agreed to an arrangement to transfer loans from Austral Coal Limited to Tahmoor Pty Limited into equity. This resulted in a decrease in the intercompany loan balance of $115,000,000 and an increase in the investment in Tahmoor Coal Pty Limited held by Austral Coal Limited of $115,000,000. Prior to this transaction Austral Coal Limited had advanced a further $43,520,000 in loan funding to Tahmoor Coal Pty Limited in 2004.
The investment in Tahmoor coal was subject to diminution by a value of $26,284,000, the value of the investment was reduced to its recoverable amount.
(b) During the year Austral Coal Limited met the operating and capital expenses of Tahmoor Coal Pty Limited. The amount owing to Austral Coal Limited as at 31 December 2004 is $1,543,000 (2003; $73,023,000). These funds have been advanced to Tahmoor Coal Pty Limited, a fee commensurate with applicable interest rates is charged. The loan is repayable on demand.
(c) Austral Operations Pty Limited charged management fees to Tahmoor Coal Pty Limited of $6,061,000 (2003; $7,440,000). Austral Coal Limited charged Tahmoor Coal Pty Limited a management fee of $3,565, 000 (2003; $336,000).

Other related party transactions

(d) Mr VH Pendal is a director of Oakvale Capital Limited which has supplied treasury services to the economic entity during the year at a cost of $47,216 (2003; $42,350).
(e) Mr V Forbes is a Director of Common Sense Pty Limited which supplied technical services to the economic entity during 2004 at a cost of $8,432 (2003; $18,333)

28. SEGMENT INFORMATION

The economic entity operated solely in the Australian coal exploration and mining sector during the financial year.

29. FINANCIAL INSTRUMENTS

(a) Foreign Exchange Contracts

The Australian dollar amounts to be received from conversion of foreign sales revenue under foreign exchange contracts designated as specific hedges are as follows:

	Consolidated		Austral Coal Limited	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Under 12 months	**33,161**	103,260	**-**	-
Over 12 months	**-**	67,272	**-**	-
Unrealised exchange gains or losses resulting from these transactions are recorded at the date of sale of coal and included in the measurement of sales.				
Unrealised exchange gains relating to hedging transactions at balance date which have been included in receivables (note 5)	**5,830**	14,134	**-**	-
Average exchange rate on hedge contracts maturing				
Under 12 months	**0.66947**	0.66704	**-**	-
Over 12 months	**0.67264**	67264	**-**	-
Year end US$/A$ exchange rate used in calculating deferred exchange variation.	**0.75025**	0.56615	**-**	-

(b) Interest Rate Risk

Consolidated	Fixed Interest Rate	Variable Interest Rate	Non Interest Bearing	Total
	$000	$'000	$'000	$'000
As at 31 December 2004				
Financial assets				
Trade receivables	-	-	1,376	1,376
Cash	-	1,279	16	1,295
	-	1,279	1,392	2,671
Weighted average interest rate		3.76 %		
Financial Liabilities				
Trade creditors	-	-	32,491	32,491
Interest bearing liabilities	22,000	97,891	-	119,891
Finance Lease	-	2,279	-	2,279
Employee entitlements	-	-	8,379	8,379
	22,000	100,170	40,870	163,040
	9.50%	8.25%		

Austral Coal has issued convertible notes for $22,000,000. These instruments have a fixed interest rate of 9.5%.

29. FINANCIAL INSTRUMENTS (continued)

	Fixed Interest Rate $000	Variable Interest Rate $'000	Non Interest Bearing $'000	Total $'000
As at 31 December 2003:				
Financial assets				
Trade receivables	-	-	1,045	1,045
Cash	-	3,112	15	3,127
	-	3,112	1,060	4,172
Weighted average interest rate		3.33 %		
Financial Liabilities				
Trade creditors	-	-	22,164	22,164
Interest bearing liabilities	22,000	51,537	-	73,537
Finance Lease	-	3,823	-	3,823
Employee entitlements	-	-	7,453	7,453
	22,000	55,360	29,617	106,977
	9.50%	8.32%		

Terms and conditions relating to the above financial instruments:

i Trade receivables are non interest bearing and generally on less than 14 day terms

ii Trade creditors are non-interest bearing and generally on 30 day terms.

(c) Credit Risk

The entity's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the balance sheet. The economic entity is exposed to a relatively small number of debtors. Debtors are generally large entities with low risk. Letters of credit are used for smaller customers.

(d) Net Fair Values

The net fair value of financial assets and financial liabilities approximate the carrying amounts recorded in these Financial Statements except for the following.
Fixed interest convertible note securities. These have a carrying value of $22,000,000. The net fair value of these securities at 31 December 2004 was equal to $22,594,000 (2003: $23,502,000). The net fair value of these long term borrowings is estimated using discounted cash flow analysis, based on current incremental borrowings costs for similar types of borrowing arrangements.

30. SUBSEQUENT EVENTS

In January 2005 the company raised $14,549,000 through a placement to major shareholders and new institutional and professional investors.

On 23 February 2005 Austral Coal Limited and Centennial Coal Company Limited jointly announced that Centennial Coal Company Limited would bid for Austral Coal Limited offering 10 Centennial Coal Company Limited shares for every 37 Austral Coal Limited shares held. All directors of Austral Coal Limited have recommended the offer. If any director of the company does not recommend the offer by Centennial Coal Company Limited in a public announcement or adversely modifies an earlier recommendation or recommends a competing offer, a break fee of $2,790,000 will be payable to Centennial Coal Company Limited.

Since year end a further $2,000,000 has been drawn under the ANZ Bridge Loan facility.

The outstanding 150,000 options issued under the Senior Executive Performance Share Plan have been exercised since year end.

31. ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with the Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. Austral Coal Limited will be required to restate its 2004 financial performance and balance sheet for the purposes of comparatives to the 2005 Financial Year reporting.

This balance sheet restatement will form the basis of accounting for AIFRS in the future, and is required when Austral Coal prepares its first fully IFRS compliant financial report for the year ended 31 December 2005.

Set out below are the key areas where accounting policies will change and may have an impact on the financial report of Austral Coal. At this stage Austral Coal has not completed quantifying all impacts on the financial report. The disclosures below are estimates. These estimates are the best estimates as at the date of preparing the financial statements, amounts may change due to further work being undertaken by the Company and by potential amendments to the AIFRS and interpretations thereof being issued by the standard setters and the International Financial Reporting Interpretations Committee.

Classification of financial instruments

Under AASB 139 *Financial Instruments: Recognition and Measurement,* financial Instruments have been classified into one of five categories. Accounting treatment varies for each category.

Loans and receivables – measured at amortised cost
Held to maturity – measured at amortised cost
Held for trading – measured at amortised cost
Available for sale – measured at fair value, with fair value changes taken to equity.
Non-trading Liabilities – measured at amortised cost.

Currently borrowings, trade creditors and trade receivables are measured at amortised cost. With the exception of fixed interest liabilities whose fair value is disclosed in note 29(d) of these financial statements, the company does not anticipate any further financial statement impacts of this change in accounting policy. The company recognises deferred loan establishment fee on application of AASB139. These will be offset against the company's borrowings. They will continue to be amortised over the life of the loan. The investment in all subsidiary companies will be valued at amortised cost in the 2004 comparative Statement of Financial Position.

Hedge Accounting

Under AASB 139 *Financial Instruments: Recognition and Measurement* in order to achieve a qualifying hedge, the entity is required to meet the following criteria:

- Identify the type of hedge – fair value or cash flow;
- Identify the hedged item or transaction;
- Identify the hedging instrument;
- Identify the nature of the risk being hedged;
- Demonstrate that the hedge has and will continue to be highly effective; and
- Document the hedging relationship, including the risk management objectives and strategy for undertaking the hedge and how effectiveness will be tested.

Currently foreign currency contracts entered into by the company are designated to specific shipments and the gains or losses on the contract are deferred until delivery of coal.

Although the company recognises the more strict criteria to determine a qualifying hedge under AASB 139, it believes the existing methodology used to designate foreign currency contracts will meet these requirements.

31. ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

.The company believes the most significant impact of the change in accounting policy in relation to designated hedges will be the transfer of the deferred gain or loss from a liability or asset to being recorded directly in equity until the underlying transaction occurs and the gain or loss on the hedge is released to the profit and loss account.

Foreign currency options purchased by the company are currently treated as general hedges (the movements in their fair value are recorded in the profit and loss) because they are not able to be separately identified and documented in accordance with current AGAAP. It is not expected that this treatment will change on the transition to AASB 139.

Consequently, the company does not expect the impact of the change in accounting policy to have a significant impact on the financial statements. The company has elected not to apply the exemption to AASB 139 available under AASB 1.

Impairment of Assets

Under AASB 136 *Impairment of Assets* the recoverable amounts determined as the higher of the net selling price and value in use. This will result in a change in the group's current accounting policy which determines the recoverable amount of an asset on the basis of discounted cash flows.

Based on the carrying value of assets and forecast future cash flows the company does not anticipate any significant impacts on the carrying values of assets arising from this change in accounting policy.

Employee benefits

Under AASB 119 *Employee benefits*, employer sponsors are required to recognise the net surplus or deficit in their employer sponsored defined benefit funds as an asset or liability respectively.
The company has determined that the adjustment to the 2004 comparative opening Statement of Financial Position will be the recognition of a $202,000 liability which will be adjusted through retained earnings.

Share Based Payments

Under AASB 2 *Share Based Payments*, the company will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the statement of financial performance. This standard is not limited to options and also extends to other forms of equity based remuneration. It applies to all share based payments issued after 7 November 2002, which have not vested as at 1 January 2005. There will be no impact on the 2004 comparative operating result. There will be an adjustment to 2004 opening retained earnings. The company has not finalised the quantification of this impact.

Income taxes

Under AASB 112 *Income taxes,* the company will be required to use a balance sheet liability method, which focuses on the tax effects of transactions and other events that affect amounts recognised in either the Statement of Financial Position or a tax based balance sheet. Tax losses can be recognised provided it is "probable" that there will be sufficient future taxable income. This is a less stringent test than the current "virtually certain" test under Australian GAAP and may result in the company recognising more deferred tax assets and liabilities.

At present the company recognises tax losses arising from timing difference to the extent they offset deferred income tax liabilities. The company does not recognise any income tax benefit associated with accounting losses. Another significant impact will be the recognition of a DITL in relation to the asset revaluation reserve.

31. ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

It is not expected there will be any material impact as a result of adoption of this standard.

Rehabilitation and restoration costs

The accounting treatment for the provision for rehabilitation commitments under IFRS is prescribed under a combination of AASB 116 Property, Plant and Equipment and AASB 137 Provisions, Contingent Liabilities and Contingent Assets. On transition to IFRS an estimate of the present rehabilitation liability will be recorded, on a discounted basis, where a legal and constructive obligation to rehabilitate property exists. To the extent the activity that gives rise to the rehabilitation liability represents the construction of an asset, the corresponding cost is included in the asset and amortised over the life of the mine. Otherwise the provision is expensed as a period cost. The company currently accrues, over the life of the mine, an estimated amount for the future rehabilitation of the mine site. The future financial effect of this change in accounting policy is expected to be an increase in the provision for rehabilitation and an increase in fixed assets by equivalent amounts.

The company is presently seeking an independent estimate of the costs for rehabilitation of the minesite. The current provision has been determined using internal estimates.

Exploration Evaluation and Development Costs

The AASB issued AASB 6 "Exploration for and Evaluation of Mineral Resources" which deals with exploration and evaluation costs. The company has assessed the impacts of this standard and note that it is applicable from 1 January 2005. Costs carried forward under AASB 136 will be subject to impairment testing. The company does not anticipate any material financial statement impacts from the application of AASB 6.

At present the company defers exploration, evaluation costs, until such time that the area of interest associated with these costs is abandoned or proceeds to development. When the area of interest is abandoned the costs are expensed. As areas of interest reach the development stage, which permits a reasonable assessment of economically recoverable reserves, these costs are amortised over the life of the associated reserves on a unit of production basis.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Austral Coal Limited, we state that:

In the opinion of directors:

(a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2004 and of their performance for the year ended on that date; and

   (ii) complying with Accounting Standards and Corporations Regulations; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

VH Pendal Chairman	U Cario Managing Director

Sydney,
28 February 2005

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Independent audit report to members of Austral Coal Limited

Scope

The financial report and directors' responsibility
The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Austral Coal Limited (the company) and the consolidated entity, for the year ended 31 December 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach
We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion, the financial report of Austral Coal Limited is in accordance with:

(a) the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the financial position of Austral Coal Limited and the consolidated entity at 31 December 2004 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

Inherent Uncertainty Regarding the Continuation as a Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As disclosed in Note 1 of the financial statements *Uncertainty as to Going Concern*, the ability of Austral Coal Limited to continue as a going concern is dependent upon the events set out in Note 1 of the financial statements.

On the basis of these items described in Note 1(a)A, there is inherent uncertainty whether Austral Coal Limited will be able to continue as a going concern and therefore realise its assets and extinguish its liabilities in the normal course of business and at amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the company and the consolidated entity not continue as going concerns.

Ernst & Young

Ernst & Young

M. Elliott

Michael Elliott
Partner
Sydney
28 February 2005