

Appendix 4E

18 August 2005

Preliminary Final Report

AUSTRAL COAL LIMITED	
ABN:21 069 071 816	Financial Period – Six Months Ended 30 June 2005
For announcement to market:	
	A\$'000
Revenues from ordinary activities (previous full year revenue for 2004 \$83,810,000)	82,506
Loss from ordinary activities (previous full year loss for 2004 \$18,709,000)	(31,435)
Net loss for the period attributable to members (previous full year loss for 2004 \$18,709,000)	(31,435)
Net tangible assets per share (2004: \$0.346)	\$0.254

Dividends

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

Audit

The financial report is in the process of being audited.

Change of Financial Year

Directors resolved to change the financial year of the company to end on 30 June in order to synchronise with the financial year of its parent company, Centennial Coal Company Limited. Financial statements have been prepared for the 6 months ended 30 June 2005 to effect the transition from a calendar financial year to a fiscal year. Prior year comparative figures refer to the full year ended 31 December 2004.

Adoption of AIFRS

Financial statements for the period ended 30 June 2005 have been prepared in accordance with Australian equivalents to International Financial Reporting Standards ("A-IFRS"). Where necessary, prior period comparative figures have been restated in accordance with A-IFRS.

Results

The Directors of Austral Coal Limited ("Austral") announce that the Company recorded a net loss after tax of \$31.4 million for the six months to 30 June 2005. Following the scrip for scrip takeover of the Company by Centennial Coal Company Limited ("Centennial"), the Directors have resolved to change Austral's financial year to 30 June to synchronise with that of its parent. As a result, the current period's loss is not strictly comparable with the \$23 million incurred for the year to 31 December 2004.

In addition, shareholders should note that the loss incurred for the six months to 30 June 2005 included a charge of \$18 million (pre-tax) payable to one of the Company's bankers in respect of one-off facility fees and the provision of corporate finance services with regard to a proposed sell-down of part of the Company's principle asset, the Tahmoor coking coal mine. As a result of the agreed merger with Centennial, the Company's principle asset has not been sold down, but the corporate finance fee remained payable.

On 7 April 2005, Centennial achieved control of Austral and on 14 April the former directors of Austral resigned to be replaced by Dr Paul Moy, a non-executive director of Centennial, as chairman and Centennial's managing director together with three other Centennial senior executives as non-executive directors of the Company.

This report therefore largely covers a period when the new directors or Centennial's management team were not involved with the Company.

Since taking control of operations, the mine's management structure has been rearranged under a new General Manager, in accordance with Centennial's standard process management systems. A new Mine Manager, Technical Services Manager, Engineering Manager and Commercial Manager have been appointed and a general reorganisation of staff conducted. Line-managers and supervisors have now been given responsibility and accountability for their respective process areas.

Commentary / Operational Overview

At the beginning of the six month period ("period"), the Tahmoor Mine suffered from poor equipment availability attributable to technology compatibility and other engineering issues. As a result, production was severely restricted, affecting cashflow and employee morale as mining conditions deteriorated.

By the end of the March 2005 quarter, the main equipment issues had largely been addressed and production began to rise. However, as more coal was produced gas levels (mainly carbon dioxide) also started to rise resulting in considerable lost production.

Immediately following Centennial taking control of the mine, a comprehensive ventilation survey was undertaken to identify the airflow restrictions impacting production. As a result, short-term changes to the mine's ventilation system were implemented, immediately improving airflow along the longwall face and reducing downtime associated with raised gas levels.

Using the information gained from the ventilation survey, changes will be implemented over the longer-term that are expected to enhance the ventilation system across the whole mine. This includes the installation of a larger capacity mine fan that had already been planned and allowed for in the Company's capital budgeting.

In respect of development, a number of issues combined to restrict advance rates, particularly gas management. Management has now reorganised work practices and the development crews, integrating former contractor personnel with Tahmoor's own development operators and deputies. As a result, an uplift in performance is now apparent.

The mine is currently undergoing the first of three longwall changeovers required over the next twelve months before moving to longer blocks in the future. The first and third moves are the conventional "start" and "end" of the block, while the second is an additional "side-step" move to avoid a geological intrusion (sill). This intrusion only recently became evident during the gas drainage pre-drilling program carried out in advance of longwall extraction.

Overall, the Directors are pleased with the progress achieved since Centennial took management control in mid-April 2005.

AUSTRAL COAL LIMITED

INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Notes	Consolidated	
		2005 \$'000	2004* \$'000
Revenue	2(b)	82,506	83,810
Cost of coal sold		<u>(60,770)</u>	<u>(81,941)</u>
GROSS PROFIT		21,736	1,869
Other revenues from ordinary activities	2(b)	(2,981)	(171)
Distribution expenses		(10,693)	(15,738)
Administration expenses		(12,988)	(7,905)
Finance costs	2(a)	(18,325)	(8,666)
Other expenses		<u>(16,280)</u>	<u>(527)</u>
LOSS BEFORE INCOME TAX		(39,531)	(31,138)
Income tax benefit		<u>8,096</u>	<u>12,429</u>
LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY		(31,435)	(18,709)
Basic earnings/(loss) per share (cents per share)	7	(11.2)	(8.9)
Diluted earnings/(loss) per share (cents per share)	7	(11.2)	(8.9)

* Comparative 2004 figures refer to the full year ended 31 December 2004.

AUSTRAL COAL LIMITED
BALANCE SHEET
AS AT 30 JUNE 2005

	Notes	Consolidated	
		2005	2004*
		\$'000	\$'000
CURRENT ASSETS			
Cash and cash equivalents	4(b)	11,914	1,295
Trade and other receivables		7,695	7,206
Inventories		11,219	7,557
Other		29,514	26,305
TOTAL CURRENT ASSETS		60,342	42,363
NON-CURRENT ASSETS			
Other non cash financial assets		127	123
Property, plant and equipment		152,013	137,593
Exploration, evaluation and development		338	319
Deferred mining costs		65,513	67,671
Deferred tax asset		15,792	7,966
Other		2,844	2,723
TOTAL NON-CURRENT ASSETS		236,627	216,395
TOTAL ASSETS		296,969	258,758
CURRENT LIABILITIES			
Payables		33,294	34,812
Tax payable		-	270
Borrowings		13,662	61,789
Provisions		11,556	5,260
TOTAL CURRENT LIABILITIES		58,512	102,131
NON-CURRENT LIABILITIES			
Borrowings		138,989	62,247
Provisions		6,275	5,858
TOTAL NON-CURRENT LIABILITIES		145,264	68,105
TOTAL LIABILITIES		203,776	170,236
NET ASSETS		93,193	88,522
EQUITY			
Issued capital	3	139,681	103,575
Accumulated losses	5	(46,488)	(15,053)
TOTAL EQUITY		93,193	88,522

* Comparative 2004 figures as at 31 December 2004.

AUSTRAL COAL LIMITED

STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Notes	Consolidated	
		2005 \$'000	2004* \$'000
Cash flow hedges:			
Gain/(loss) taken to equity		-	-
Transferred to Income Statement	6	-	(5,061)
Transferred to initial carrying amount of hedged item		-	-
Income tax on items taken directly to or transferred from equity		-	-
NET INCOME RECOGNISED DIRECTLY IN EQUITY		<u>-</u>	<u>(5,061)</u>
Profit for the period		<u>(31,435)</u>	<u>(18,709)</u>
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE PERIOD		<u><u>(31,435)</u></u>	<u><u>(23,770)</u></u>
Attributable to:			
Equity holders of the parent		<u><u>(31,435)</u></u>	<u><u>(23,770)</u></u>

* Comparative 2004 figures refer to the full year ended 31 December 2004.

AUSTRAL COAL LIMITED

CASH FLOW STATEMENT

FOR THE PERIOD ENDED 30 JUNE 2005

	Notes	Consolidated	
		2005	2004*
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		82,017	83,478
Payments to suppliers and employees		(85,582)	(82,644)
Interest received		76	153
Interest and other costs of finance paid		(16,805)	(10,630)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	4(a)	(20,294)	(9,643)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(18,880)	(37,578)
Deferred mining costs		(14,929)	(38,218)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(33,809)	(75,796)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from share issues		14,579	43,885
Share issue expenses		(450)	(1,621)
Proceeds from borrowings		12,247	51,093
Proceeds from finance lease		7,948	-
Redemption of convertible notes		(23)	-
Repayment of finance lease principal		(1,017)	(1,544)
Repayment of borrowings		(100,934)	(8,206)
Proceeds of loan from related party		132,372	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		64,722	83,607
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		10,619	(1,832)
Cash and cash equivalents at the beginning of the financial period		1,295	3,127
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD	4(b)	11,914	1,295

* Comparative 2004 figures refer to the full year ended 31 December 2004.

1 Basis of Preparation

The financial report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of A-IFRS Directors are required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by Directors in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The consolidated entity changed its accounting policies on 1 January 2005 to comply with A-IFRS. The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 January 2004 as the date of transition. An explanation of how the transition from superseded policies to A-IFRS has affected the company's and consolidated entity's financial position, financial performance and cash flows is discussed in note 11.

The Directors have also elected under s.334(5) of the Corporations Act 2001 to apply Accounting Standard AASB 119 'Employee Benefits' (December 2004), even though the Standard is not required to be applied until annual reporting periods beginning on or after 1 January 2006.

The accounting policies set out below have been applied in preparing the financial statements for the period ended 30 June 2005, the comparative information presented in these financial statements for the year ended 31 December 2004, and in the preparation of the opening A-IFRS balance sheet at 1 January 2004 (as disclosed in note 11), the consolidated entity's date of transition, except for the accounting policies in respect of financial instruments. The consolidated entity has not restated comparative information for financial instruments, including derivatives, as permitted under the first-time adoption transitional provisions. The accounting policies for financial instruments applicable to the comparative information and the impact of changes in these accounting policies on 1 January 2005, the date of transition for financial instruments, is discussed further in note 11.

Going Concern

The continuing viability of Austral Coal Limited and its ability to continue as a going concern and meet debts and commitments as and when they fall due is dependent upon the continued financial support of the major shareholder, Centennial Coal Company Limited, who has provided

an amortising finance facility for the period to 31 March 2010. The Directors believe that Austral Coal Limited is a going concern and have prepared the financial report on this basis.

Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amount and classification of liabilities that may be necessary should Austral Coal Limited not continue as a going concern.

Significant Accounting Policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

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

(a) Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

(b) Foreign Currencies

All foreign currency transactions during the financial period are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise except that:

- i. exchange differences which relate to assets under construction for future productive use are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;

- ii. exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer note 1(m)); and
- iii. exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

(c) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts.

(d) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible 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.

(e) 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.

(f) 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:

	2005	2004
Buildings	Lesser of mine life and 40 years	Lesser of mine life and 40 years
Plant and Equipment (Depending on the nature of the asset)	5–15 years	5-15 years
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 are being amortised on a units of production basis over the appropriate reserves.

(g) 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.

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 reserves, 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.

Development Phase

Where the activities in the area of interest 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 Income Statement upon sale or other disposition of the area of interest.

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.

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.

(h) Maintenance and Repairs

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

(i) Employee Entitlements

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably. Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

(j) Income Tax*Current tax*

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow

from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax consolidation

The company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Austral Coal Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

Due to the intention to execute a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

(k) 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.

(l) 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.

(m) Derivative Financial Instruments

The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward foreign exchange contracts, interest rate swaps and cross currency swaps.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

(n) Financial Assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Subsequent to initial recognition, investments in subsidiaries are measured at cost. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

The consolidated entity has classified certain shares and options as financial assets at fair value through profit or loss. Financial assets held for trading purposes are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in profit or loss.

Held-to-maturity investments

Bills of exchange and debentures are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Available-for-sale financial assets

Certain shares and convertible notes held by the consolidated entity are classified as being available-for-sale and are stated at fair value less impairment. Gains and losses arising from changes in fair value are recognised directly in the available-for-sale revaluation reserve, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in profit or loss for the period.

Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

(o) 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.

(p) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

Onerous contracts

An onerous contract is considered to exist where the consolidated entity has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

Minesite rehabilitation

The cost to rehabilitate the Tahmoor minesite, had mining ceased on 30 June 2005, has been estimated and this amount has been escalated for the projected life of the mine at projected CPI rates and discounted to the present at the current government bond rate.

The resulting present value of the rehabilitation liability has been provided for. The liability will be reviewed at each balance date and any variation in the liability will result in an adjustment to the provision.

(q) 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.

(r) 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 shares.

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

(s) 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.

(t) Comparative information – financial instruments

The consolidated entity has elected not to restate comparative information for financial instruments within the scope of Accounting Standards AASB 132 'Financial Instruments: Disclosure and Presentation' and AASB 139 'Financial Instruments: Recognition and Measurement', as permitted on the first-time adoption of A-IFRS.

The accounting policies applied to accounting for financial instruments in the current financial period are detailed in notes 1(a) to (s). The following accounting policies were applied to accounting for financial instruments in the comparative financial year:

(a) Accounts payable

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

*(b) Derivative financial instruments**Foreign exchange contracts*

Exchange differences on forward foreign exchange contracts to hedge the purchase or sale of specific goods and services are deferred and included in the measurement of the purchase or sale. In the event of the early termination of a foreign currency hedge of an anticipated purchase or sale of goods and services, the deferred gains and losses that arose on the foreign exchange contract prior to its termination are:

- deferred and included in the measurement of the purchase or sale when it takes place, where the anticipated transaction is still expected to occur; or
- recognised in net profit or loss at the date of termination, if the anticipated transaction is no longer expected to occur.

*(c) Foreign currency**General hedging transactions*

Any costs or gains arising at the inception of a hedge are accounted for separately from the exchange differences on the hedging transactions. The costs or gains are deferred and recognised as assets or liabilities on entering the hedging transactions and amortised in profit or loss over the lives of the hedging transactions.

Hedging specific commitments

In relation to transactions intended to hedge specific purchases or sales:

- i. costs or gains arising at the time of entering into the transactions; and
- ii. exchange differences, to the extent that they arise up to the dates of purchase or sale, are deferred and included in the measurement of the purchases or sales.

	Consolidated	
	2005	2004
2. REVENUE & EXPENSE	\$'000	\$'000
(a) Expenses		
Amortisation of non-current assets		
- Borrowing costs	1,484	1,988
- Site rehabilitation	8	15
- Mining leases	467	190
- Development expenditure	18,330	19,140
	20,284	21,333
Depreciation of non-current assets		
- Plant and equipment	4,433	5,655
- Buildings	2	3
	4,435	5,658
Total depreciation and amortisation	24,724	26,991

	Consolidated	
	2005	2004
2. REVENUE & EXPENSE Cont'd	\$'000	\$'000
Finance costs expensed		
- facility fees	11,484	2,708
- interest expense on borrowings	5,216	7,017
- finance lease interest expense	106	905
	16,806	10,630
- other finance costs	1,519	1,988
Total finance costs	18,325	12,618
- Less finance costs capitalised	-	(3,952)
Total finance costs expensed	18,325	8,666
Government mining royalties incurred	5,384	2,578
Net loss/(profit) on disposal of property, plant and equipment	-	2
Superannuation contributions	1,092	2,166
Transfers to Provisions:		
- Employee Entitlements	3,877	5,253
Significant items		
- Corporate advisory fees	12,295	-
(b) Revenue		
Revenue from coal sales	76,941	67,745
Net realised foreign currency gains/(losses)	3,578	10,833
Agency fee from coal sales	1,987	5,232
	82,506	83,810
Other revenue		
- Unrealised foreign currency gain/(losses)	(3,122)	(5,519)
- Transfer from reserve	-	5,061
- Interest, other persons/corporations	76	153
- Sundry revenue	65	134
	(2,981)	(171)
Operating revenue	79,525	83,639

3 CONTRIBUTED EQUITY

(a) Issued and paid up capital		
304,588,873 ordinary shares fully paid (2004: 233,002,420)	139,681	103,575

3 CONTRIBUTED EQUITY Cont'd	Consolidated 2005		Consolidated 2004	
	Number of shares	\$'000	Number of shares	\$'000
(b) Movement in shares on issue				
Beginning of the period	233,002,420	103,575	155,413,231	61,311
Issued during the period				
- Placement	30,311,045	14,549	77,001,576	43,885
- Executive performance share plan	150,000	30	-	-
- Conversion of convertible notes	41,125,408	21,977	587,613	-
Less share issue costs		(450)		(1,621)
End of the period	304,588,873	139,681	233,002,420	103,575
	2005	2004		
	\$'000	\$'000		
4 STATEMENT OF CASH FLOWS				
(a) Reconciliation of the net loss after tax to the net cash flows from operations:				
Operating loss after tax	(31,435)	(18,709)		
Non-cash items				
Transfer from reserves	-	(5,061)		
Depreciation of non-current assets	4,435	5,658		
Amortisation of non-current assets	18,330	19,140		
Amortisation of loan establishment fees	1,484	1,988		
Amortisation of mining leases	467	190		
Amortisation of rehabilitation	8	15		
Borrowing costs capitalised	-	(3,952)		
Loss on disposal of property, plant and equipment	-	2		
Changes in assets and liabilities				
(Increase)/decrease in trade receivables	(6,319)	(331)		
(Increase)/decrease in inventory	(3,663)	(1,500)		
Increase/(decrease) in trade and other creditors	(1,518)	7,514		
(Increase)/decrease in deferred tax asset	(7,826)	(9,544)		
(Increase)/decrease in other assets	3,216	544		
(Increase)/decrease in current deferred mining cost	(9,746)	(12,760)		
Increase/(decrease) in current tax payable	(270)	270		
Decrease in foreign currency receivable	5,830	8,304		
Increase/(decrease) in deferred tax liability	-	(3,151)		
Increase/(decrease) in provisions	6,713	1,740		
Net cash flow used in operating activities	(20,294)	(9,643)		
b) Reconciliation of cash				
- cash on hand	11,904	1,285		
- cash on deposit	10	10		
Closing cash balance	11,914	1,295		

	Notes	Consolidated	
		2005	2004
		\$'000	\$'000
5 ACCUMMULATED LOSSES			
Balance at beginning of the period		(15,053)	3,656
Net loss attributable to members		(31,435)	(18,709)
Balance at end of the period		<u>(46,488)</u>	<u>(15,053)</u>

6 HEDGING RESERVE

Balance at beginning of the year	-	5,061
Transferred to Income Statement	-	(5,061)
Balance at end of the period	<u>-</u>	<u>-</u>

7 EARNINGS PER SHARE

The following income and share data was used in calculating earnings per share

(a) Net loss	<u>(31,435)</u>	<u>(18,709)</u>
	Number	Number
(b) Weighted average number of shares on issue used in calculating basic earnings per share	280,281,748	209,112,915
(c) Entitlement under Executive Performance Share Plan weighted average of diluted rights outstanding during the period	42,376	183,528
Weighted average number of shares used in calculating diluted earnings per share	280,324,124	209,296,443

8 SEGMENT INFORMATION

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

9 SUBSEQUENT EVENTS

There have been no significant events subsequent to the end of the financial period.

10 CONTINGENT LIABILITIES

Security has been provided to the economic entity's financiers under the Facilities Agreement 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 in respect of the cost of restoration of mining leases, given to government departments as required by statute. Directors do not anticipate that these guarantees will be called upon.

11 ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The consolidated entity changed its accounting policies on 1 January 2005 to comply with Australian equivalents to International Financial Reporting Standards ('A-IFRS'). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 January 2004 as the date of transition, except for financial instruments, including derivatives, where the date of transition is 1 January 2005 (refer note 1(m)). An explanation of how the transition from superseded policies to A-IFRS has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

11 EXPLANATION OF TRANSITION TO A-IFRS (cont'd)
Balance Sheet as at 1 January 2004

	Note	Consolidated		
		AGAAP \$'000	A-IFRS Impact \$'000	A-IFRS \$'000
Current Assets				
Cash and cash equivalents		3,127	-	3,127
Trade & other receivables		15,179	-	15,179
Inventories		4,480	1,577	6,057
Other		19,599	(427)	19,172
Total Current Assets		42,385	1,150	43,535
Non –Current Assets				
Other non cash financial assets		123	-	123
Property, plant and equipment		101,723	-	101,723
Deferred mining costs		37,761	-	37,761
Exploration, evaluation & development		319	-	319
Deferred tax assets		-	3,153	3,153
Other		3,829	214	4,043
Total Non-Current Assets		143,755	3,367	147,122
Total Assets		186,140	4,517	190,657
Current Liabilities				
Payables		24,432	-	24,432
Borrowings		10,878	1,578	12,456
Provisions		15,110	(10,869)	4,241
Deferred tax liabilities		-	7,881	7,881
Total Current Liabilities		50,420	(1,410)	49,010
Non-Current Liabilities				
Borrowings		66,482	-	66,482
Deferred tax liabilities		3,151	(3,151)	-
Provisions		150	4,987	5,137
Total Non-Current Liabilities		69,783	1,836	71,619
Total Liabilities		120,203	426	120,629
Net Assets		65,937	4,091	70,028
Equity				
Contributed equity		61,311	-	61,311
Reserves	g	-	5,061	5,061
Retained profits	h	4,626	(970)	3,656
Total Equity		65,937	4,091	70,028

11 EXPLANATION OF TRANSITION TO A-IFRS (cont'd)
Effect on the Income Statement for
the year ended 31 December 2004

	Note	Consolidated		
		AGAAP Actual	A-IFRS Impact	A-IFRS Actual
		\$'000	\$'000	\$'000
Sales revenue		84,098	(288)	83,810
Cost of coal sold		(82,401)	460	(81,941)
Gross Profit		<u>1,697</u>	<u>172</u>	<u>1,869</u>
Other revenue from ordinary activities		(2,008)	1,837	(171)
Distribution and selling expenses		(15,738)	-	(15,738)
Administration expenses		(7,905)	-	(7,905)
Borrowing costs		(8,666)	-	(8,666)
Other expenses from ordinary activities		(527)	-	(527)
Loss from Ordinary Activities Before IncomeTax		<u>(33,147)</u>	<u>2,009</u>	<u>(31,138)</u>
Income tax benefit relating to ordinary activities		2,884	9,545	12,429
Net Loss Attributable to Members of the Parent Entity		<u>(30,263)</u>	<u>11,554</u>	<u>(18,709)</u>

11 EXPLANATION OF TRANSITION TO A-IFRS (cont'd)
Balance Sheet as at 31 December 2004

	Note	Consolidated		
		AGAAP Actual	A-IFRS Impact	A-IFRS Actual
		\$'000	\$'000	\$'000
Current Assets				
Cash and Cash equivalents		1,295	-	1,295
Trade & other receivables		7,206	-	7,206
Inventories	d	5,691	1,866	7,557
Other	b	27,275	(970)	26,305
Total Current Assets		<u>41,467</u>	<u>896</u>	<u>42,363</u>
Non –Current Assets				
Other non cash financial assets		123	-	123
Property, plant and equipment		137,593	-	137,593
Deferred mining costs		67,671	-	67,671
Exploration, evaluation & development		319	-	319
Deferred tax assets	a		7,966	7,966
Other	c	2,524	199	2,723
Total Non-Current Assets		<u>208,230</u>	<u>8,165</u>	<u>216,395</u>
Total Assets		<u>249,697</u>	<u>9,061</u>	<u>258,758</u>
Current Liabilities				
Payables		34,812	-	34,812
Borrowings	d	59,923	1,866	61,789
Provisions	b,e,f	10,102	(4,842)	5,260
Current tax payable		270	-	270
Total Current Liabilities		<u>105,107</u>	<u>(2,976)</u>	<u>102,131</u>
Non-Current Liabilities				
Borrowings		62,247	-	62,247
Deferred tax liabilities		-	-	-
Provisions	c, f	4,405	1,453	5,858
Total Non-Current Liabilities		<u>66,652</u>	<u>1,453</u>	<u>68,105</u>
Total Liabilities		<u>171,759</u>	<u>(1,523)</u>	<u>170,236</u>
Net Assets		<u>77,938</u>	<u>10,584</u>	<u>88,522</u>
Equity				
Contributed equity		103,575	-	103,575
Accumulated Losses		(25,637)	10,584	(15,053)
Total Equity		<u>77,938</u>	<u>10,584</u>	<u>88,522</u>

11 EXPLANATION OF TRANSITION TO A-IFRS (Cont'd)

(a) Income Tax

Increases in deferred tax assets and deferred tax liabilities result from the recognition of deferred taxes associated with the adjustments detailed below in notes (b) to (h). Deferred tax assets have also resulted from the recognition of carried forward tax losses.

The cumulative impact on the financial position at 31 December 2004 was an increase in deferred tax assets by \$11,770,000 and an increase in deferred tax liabilities by \$3,804,000. The impact on the Income Statement for the financial year ended 31 December 2004 is an increase in tax credit of \$9,545,000.

(b) Financial Instruments and Hedging Activities

Directors have determined that hedging instruments held at 31 December 2004 did not qualify for hedge accounting under A-IFRS. The impact on the financial position at 31 December 2004 was a reduction in deferred costs of hedging carried as a current asset of \$970,000 and a reduction in provisions of \$4,978,000. The impact on the Income Statement for the financial year ended 31 December 2004 was a net loss of \$3,224,000.

(c) Mine site Rehabilitation

The current cost of mine site rehabilitation has been estimated and escalated at the projected cost inflation rate and discounted using the bond rate to the beginning of the mine life. The resulting value has been taken to the balance sheet as a rehabilitation asset and provisional liability. Notional changes through amortisation of the rehabilitation asset and increases in the provisional liability as the discount unwinds from the beginning of the mine life, have been taken to account.

The impact on the financial position at 31 December 2004 was an increase in non current assets of \$199,000 and an increase in provisional liabilities of \$1,790,000. The impact on the Income Statement for the financial year ended 31 December 2004 was an increase in costs of \$61,000.

(d) Revenue from Ordinary Activities

The adoption of A-IFRS resulted in some coal sale transactions being recorded as financing transactions.

The impact on the financial position at 31 December 2004 was an increase in borrowings of \$1,866,000 and an increase in coal stocks of \$1,866,000. There was no impact on the Income Statement for the financial year ended 31 December 2004.

(e) Defined Benefit Superannuation Plans

Under A-IFRS, the consolidated entity will be required to recognise the surplus or deficit of defined benefit plans as an asset or liability in the statement of financial position and has elected for all movements, including actuarial gains and losses, to be recognised in the Income Statement.

There was no cumulative movement in the employee benefit provision as result of the above requirement at 31 December 2004. Employee benefits expense decreased by \$202,000 for the financial year ended 31 December 2004.

(f) Employee Provisions

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

The impact on the financial position at 31 December 2004 was a decrease in employee provisions of \$201,000. The impact on the Income Statement for the financial year ended 31 December 2004 was a reduction in costs of \$31,000.

(g) Hedging Reserve

The net after tax gains on cash flow hedges held at 31 December 2003 have been taken to the hedging reserve account in the opening balance sheet at 1 January 2004. This amount has been transferred to the Income Statement as the underlying transactions settled. There was no impact on the financial position at 31 December 2004. The impact on the Income Statement for the financial year ended 31 December 2004 was a gain of \$5,061,000 as the reserve was transferred.

(h) Retained Earnings

With limited exceptions, adjustments required on first-time adoption of A-IFRS are recognised directly in retained earnings (or if appropriate another category of equity) at the date of transition to A-IFRS. The cumulative effect of these adjustments for the consolidated entity will be an increase in retained earnings of \$4,254,000.