30 June 2006
Preliminary Final Report

Rule 4.3.A Introduced 1/1/2003

Name of entity

GLOUCESTER COAL LTD

ABN

66 008 881 712

12 month Financial period ended:

30 June 2006

Corresponding financial period ended:

30 June 2005 (6 months)

Results for announcement to the market.

				$A'000
2.1) Revenues from ordinary activities *Explanation* Revenue increased, due primarily to increases in US$ Coking and Thermal coal selling prices and the comparative period being a six month period due to a change in the financial year end in June 2005.	up	284%	to	153,695
2.2) Profit (loss) from ordinary activities after tax attributable to members *Explanation* Increased revenue based on the higher US$ price per tonne on Coking Coal and Thermal Coal sales and the comparative period being a six month period due to a change in the financial year end in June 2005.	up	475%	to	40,339
2.3) Net profit (loss) for the period attributable to members *Explanation* Increased revenue based on the higher US$ price per tonne on Coking Coal and Thermal Coal sales and the comparative period being a six month period due to a change in the financial year end in June 2005.	up	475%	to	40,339

Dividends (distributions)	2006	2005
2.4) Ordinary Shares		
Interim dividend cents per share (unfranked)	11.0 cents	Not Applicable
Final dividend cents per share (unfranked)	12.0 cents	10.0 cents
2.5) Preference Shares	Not Applicable	Not Applicable
Explanation.		
Since the end of the financial year, the Directors have declared an unfranked final dividend of 12.0 cents (2005: 10 cents). This dividend has not been recognised as a liability at year end		
Record date for determining entitlements to the 2006 final dividend, Date on which dividend is payable	18 September 2006 6 October 2006	

3) Statement of Profit & Loss
Refer Attached Financial Report

4) Statement of Balance Sheet
Refer Attached Financial Report

5) Statement of Cash Flows
Refer Attached Financial Report

6) Details of Individual and total dividend payments
Refer Attached Financial Report

7) Details of dividend reinvestment plan
Refer attached Summary

8) Statement of retained earnings
Refer Attached Financial Report

9) Net tangible assets per security

	Current period	Previous Corresponding Period
Net Tangible asset backing per ordinary security	87.5 cents	44.7 cents

10) Details of entities over which control has been gained or lost
Not applicable

11) Details of associates and joint venture entities
Refer Attached Financial Report

12) Significant information
Refer Attached Financial Report

13) Foreign entities accounting standards
Not applicable

14) Commentary on results for the period
Refer Attached Financial Report

15) The report is based on accounts that have been audited.

This report is to be read in conjunction with the attached annual (year ended 30 June 2006) financial report.

Gloucester Coal Ltd

ABN 66 008 881 712

Financial Report

30 June 2006

Contents

Chairman's Report

Dear Shareholder

It is my great pleasure to report to shareholders that Gloucester Coal Ltd has capitalised on the strong commodity cycle and has successfully delivered a record annual net profit after tax of $40.3 million for the year ended 30 June 2006. This outcome has been the result of many years of careful planning and persistent effort by all the Company's employees and contractors. The net profit figure includes the recovery of $5.8 million of tax losses now recognised.

Directors have announced a final dividend of 12 cents per share (unfranked) payable on 6 October 2006 to shareholders registered as at 18 September. This brings the total dividend for the 2005/06 financial year to 23 cents (unfranked).

It is also pleasing to report that our operations at Gloucester have recorded a number of important achievements, including

- Company employees completion of another year without a lost time injury
- A further year of excellent environmental performance
- Contracted coal volumes delivered as per customers' requirements
- Novation of the mining contract from Henry Walker Eltin to Leighton Mining, after HWE entered administration during 2005
- Completion of a new two year EBA across the Gloucester sites

The Company has been active with corporate matters during the year, with the company purchasing the remaining 10% of the Stratford Joint Venture. This purchase was partly funded by the issue of 4.15 million shares, and Directors are pleased to welcome ITOCHU as a shareholder. The Company also executed a share buy back of $12.5 million and repaid bank loans of $10.4 million. Total debt at 30 June 2006 stood at $29.4 million, down from $39.5 million at the end of June 2005.

We have now clearly increased our focus on growth prospects for the Company. For the first time in many years, a significant amount of exploration was carried out within the Gloucester Basin, and this has delivered positive results. The discovery of the Clareval seam at Duralie was certainly the most exciting news Gloucester Coal delivered to the market this financial year, and will significantly increase the life of the mining operations at current production rates and may offer the opportunity to increase production in the near term. We have an extensive exploration programme planned for the coming years and are confident that this effort will continue to add coal resources and reserves to extend mine life in the Gloucester Basin.

Growth prospects outside the Gloucester Basin, including both greenfield and currently producing assets, are also a primary focus of attention going forward. The Company is committed to actively pursuing value enhancing growth opportunities, and I am pleased to announce that from mid September Dan Buckley will become our Executive Director for Business Development so that we can rapidly evaluate prospects.

Gloucester Coal will continue to operate a safe and robust business for the mutual benefit of all of the Company's stakeholders. Your Board has guided the strategy and growth plans to date and has set the tone for a robust view of capital management now and in the future. This positive attitude and our firm financial foundation have set the scene for a safe and profitable future.

On behalf of the Board I would like to thank the company's shareholders, employees and the Gloucester community for their contributions, support and encouragement to the Company's activities during 2006.

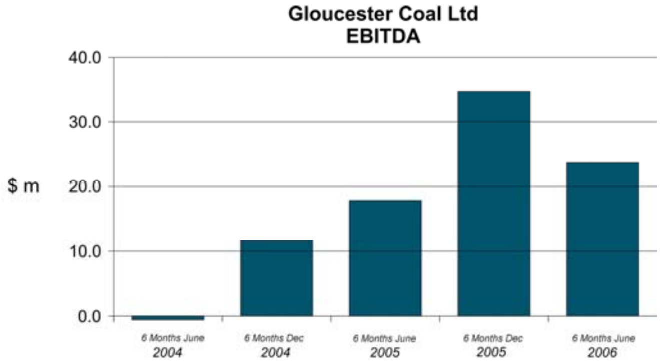
Andy J Hogendijk
Chairman

Chief Executive Officer's Report

Dear Shareholder

The Company's result of $40.3 million net profit after tax represents another step along the path to building a greater and more secure Gloucester Coal. The result is represented by an underlying operational profit of $34.5 million and the recovery of $5.8 million tax losses.

The Company recorded earnings before interest, tax, depreciation and amortisation (EBITDA) of $58.2 million for the year ended 30 June 2006.

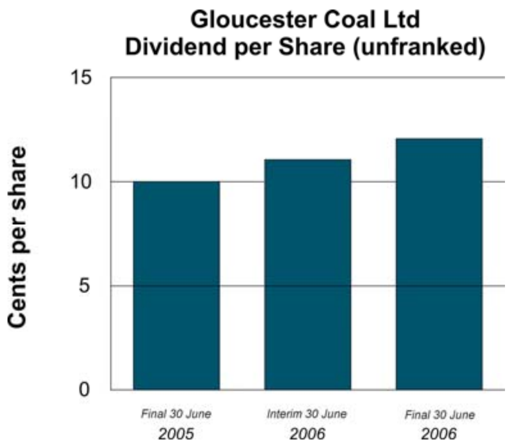


Throughout the year Gloucester Coal has stressed the importance of the three main targets the management team set out to achieve.

The aim was to achieve the following:

- Reliable production
- To be profitable and deliver dividends
- Growth – Develop a plan and commit to the process

Gloucester Coal believes it has achieved these three targets during this financial year.



Chief Executive Officer's Report (continued)

Over the past year we have spoken about the financial platform that we have built from which we plan to grow, but it is the underlying ability of the Gloucester Coal team to extract and blend the range of coal qualities and manage the whole of business activity that really forms the foundation of success.

The financial results are a positive reflection of the Gloucester Coal business plan. Gloucester Coal is wiser and stronger from having met the operational and financial challenges of the past.

The Year in Summary

- Produced 1.9 million tonnes of coking and thermal coal
- Gloucester Coal sold 1.9 million tonnes of coal with a total revenue of $154 million
- GCL managed operations were Lost Time Injury Free for the year
- Continued to acquire strategic freehold land – now hold in excess of 4,000 hectares
- GCL moved to 100% ownership of the Gloucester Basin assets with acquisition of ITOCHU's 10% share of the Stratford Joint Venture

Operational Performance - Introduction

The success of the Gloucester Coal business relies on two key strengths. Firstly, the Company's financial discipline and ability to operate low strip ratio open cut mines thereby maintaining the lowest possible mining cost. Secondly, the aligning of production and marketing schedules through the finessing and blending of a number of different coal chemistries to optimise the marketability of the final coal products.

Our shallow open cut mines with thick coal seams are low risk and provide reliable production.

- Thick Coal Seams –> Shallow Open Cut Mines – >Financial Discipline -> Low Cost
- Coal Chemistry and Quality –> Mining operations aligned to Marketing schedules

Gloucester Basin Assets

The Duralie and Bowens Road open cut operations were the foundation for the Gloucester Coal concept. This concept integrates the Company's coal resources and infrastructure assets to provide a sustainable coal mining business.

The primary mineable coal reserves at Stratford and Duralie are processed in the Stratford Coal preparation plant. Duralie and Stratford coals are blended to produce a marketable suite of coal products. The ratio has typically been 2 tonnes of raw Duralie coal to 1 tonne of Stratford ROM coal.

Within the Company's exploration authorisations (A311 and A315) and proximate to the present mining operations are significant future coal reserves and resources.

As a core asset, Gloucester Coal's extensive freehold land ownership secures access to present and future mining entitlements.

Duralie Open Cut Operation

The Duralie operation extracts the Weismantel Coal Member which is typically in excess of 12 metres thick. This coal seam is chemically different from top to bottom. The top third of the seam is mined as a high energy, moderate sulphur thermal coal and the remaining basal section comprises the low ash, high fluidity coking coal for which Duralie is best known for.

For much of the financial year the Duralie open cut mine was operated by a mining contractor under Administration. The ability of the workforce to continue safe and productive operations while under the cloud of future uncertainty is commendable.

In the third quarter Leighton Mining took control of the contract from the Administrator and immediately injected new capital and restaffed operations. After some early operational realignment, several new production records have been set. Lower production during the "transition" quarter has turned around with a rebound in production and performance in the fourth quarter.

In 2006, Gloucester Coal undertook a detailed optimisation review of the Duralie open cut. The study showed that a significant part of the area adjacent to the planned open cut also contained economic coal. Given that a portion of this area extended over the proposed trial underground area, management had a thorough understanding of the geology and coal quality in that area. The Company submitted a modification to the NSW Department of Planning (DoP) in April 2006 for an extension to the open cut which would allow an additional 3 million tonnes of economic coal to be extracted (Strip ratio < 4:1). This is equivalent to an additional one and a half years of mine life. Following a rigorous environmental and community assessment this modification was approved at the end of July 2006.

During the year Gloucester Coal also saw a significant improvement in coal quality as the operation completed mining the poorer quality coal in the southern extent of the deposit. We have noted an improvement in the ash content of the coal and a return to the usual high fluidity values.

Even though the Duralie mine extracts Weismantel Coal from a geologically complex open cut mine, only minor geotechnical issues were encountered throughout the year and these were safely managed with careful planning and diligent monitoring.

Bowens Road North Operation

The Bowens Road North operation mines the Bowens Road Coal Member which is a thick intersection of predominantly thermal coal. Like Duralie, the Bowens Road North workforce also operated under an Administrator for much of the year.

In 2005/06 GCL produced 0.9 million tonnes of ROM coal for processing and blending. The prime coking coal from the Bowens Road operation comes from the overlying Marker seams and the basal section of the Bowens Road Coal Member. These coking coals are an important part of Gloucester coking coal because of their lower sulphur content and a lower volatile content (higher carbon).

The operation at Bowens Road North has a lower strip ratio than the Duralie mine and the coal mined is predominately a lower priced thermal coal.

During the year the ground adjacent to the northern highwall experienced some minor instability as a result of proximity to a known fault. As a consequence some minor additional waste and coal was extracted throughout the year.

Roseville Extended Open Cut

Typically the Roseville coal seam dips to the west at 45 degrees and occurs as a 16 metre interval of coal and claystone bands. The coal is very high quality coking coal with low ash content and high fluidity. The coal is predominantly bright and brittle and is composed of more than 75% vitrinite. Vitrinite is the prime component of coal that is responsible for the coking properties. Roseville coal will be blended with Duralie and Bowens Road coal to further improve the quality and competitiveness of Gloucester coking coal.

The Roseville extended open cut is a continuation of the original Roseville open cut, which operated from 1996 to 1999 and extracted some 350,000 tonnes of ROM coal. The extended operation application extracts coal from the northern extension of the original open cut. This mining operation uses smaller plant to more efficiently and cleanly extract the numerous plies of coking coal. The smaller plant also has allowed a quieter operation.

Codisposal Operation

During the initial years of production (1995-2000) there was a greater focus on low ash products. Over that period, approximately 3 million tonnes of reject material was pumped to above ground storage cells. Since 2000 GCL has reprocessed approximately half of this material and recovered approximately 50% as a high ash, low sulphur thermal coal.

At the conclusion of recovery operations (planned around 2011) GCL aims to have completed restoration and rehabilitation of the above ground reject storage cells.

Chief Executive Officer’s Report (continued)

Stratford Coal Handling and Preparation Plant

Gloucester Coal has a team of approximately twenty five employees in the preparation plant which is safety and production focused. Over the past year the plant has demonstrated a capacity to make positive incremental process improvements, while maintaining a lost time injury free record.

During the year two major projects were undertaken. The first was a major expansion to the product stockpile area which cost $1.2 million. This expansion, was project managed with in house expertise, has allowed Gloucester Coal to increase stockpile capacity, reduce dozer operating hours and lower noise emissions. It has also improved product coal segregation and given the plant the ability to produce and stockpile another low ash thermal product.

The second project is a $1.2 million major upgrade of the reject pipeline. The preparation plant at Stratford operates with a co-disposal reject system where all reject material from the plant is pumped to the emplacement area in the depleted Stratford Main Deposit for storage and burial. This pipeline had become a bottle neck for any throughput capacity increase. The larger diameter pipe and upgraded pumping system allows a greater volume of material to be pumped to the emplacement area.

Cost of Operations

In an environment of rapidly escalating costs due to strong international demand for fuel and consumables, Gloucester Coal is partially insulated by low strip ratios and long term contract arrangements. Increases over the past 3 years have been primarily due to increases in royalties and fuel. Fuel costs translate directly to higher transportation and mining costs.

In addition to these increases the Company has made a deliberate decision to increase strip ratios at Duralie to recover additional economic coal. As the average strip ratio for the remaining reserve increases 17% from 2.4:1 up to 2.8:1 (Waste bcm: coal ROM tonne), there will also be an increase in the average cost of product coal.

Gloucester Coal is also seeing the flow through of higher wages as a result of increases at the workforce Enterprise Bargain level and an industry wide staff shortage. Corporate overheads have increased as the Company has grown and developed its capacity for further growth.

Marketing

Coking Coal

At the annual negotiation with Japanese coking coal customers (in the first quarter of 2006), the Company was able to maintain the sale price position of Gloucester coking coal mid way between the sale price of premium hard coking coal and semi soft coal with an average sale price of US$83 per tonne. This was a significant achievement and demonstrated the importance of Gloucester’s high fluidity coking coal for its customers. Even though Gloucester Coal suffered a price cut, price relativity and a significant cash operating margin were maintained. Contract volumes remain fairly similar to past years.

Thermal Coal

Thermal coal produced by the Company is a by-product of the primary coking coal production. We are regularly asked why our thermal coal is sold at a discount to the prevailing thermal benchmark price. This is because Gloucester Coal’s thermal coal typically has higher ash content than a standard thermal coal (22% vs 14% ash content). The sulphur content can also be higher than standard Hunter Valley thermal coals.

Throughout the 2005/06 year the thermal benchmark sale prices ranged from US$ 38 - $US54 a tonne. Gloucester Coal sold high ash thermal coal in a range of US$35 – $US43 over this period. Thermal coal was predominantly sold into the export market; however a small tonnage was railed to a NSW domestic power station at the end of June which was sold at an export parity price.

Chief Executive Officer's Report (continued)

At the end of the year the Company experimented with production of a low ash thermal coal. Using the flexibility of the preparation plant, the additional stockpile capacity and a different raw coal blending strategy, GCL was able to produce and sell a small quantity of high energy low ash thermal coal at the benchmark price of US$50 tonne

Growth Ambitions.

Organic Growth Prospects.

The growth path will be built on solid and optimised organic growth prospects. Incremental increases in coal resources and reserves as a result of exploration within GCL's Gloucester Basin exploration licenses have seen the Company steadily increase mine life and shareholder value. Future successes in the Gloucester Basin rely on land tenure, which is why a land acquisition strategy is fundamentally important for your Company.

"Over the horizon" growth is the phrase we use to communicate the expansion and diversification outside the Gloucester Basin. Gloucester Coal has a high level of in house expertise in coal mining, processing and marketing on which to explore acquisition and Greenfield opportunities. From mid September Dan Buckley will become our Executive Director for Business Development so that we can rapidly evaluate prospects.

Environmental and Community

Gloucester Coal strives to enhance community outcomes and achieve the highest level of protection for the environment. We have been operating in the Gloucester Basin and involved in its community for more than 11 years and consider ourselves, our operations, and workers to be significant contributors to the economic and social fabric of the Gloucester community.

The Company's corporate identity, resources (both mineral and human) and economic future are intrinsically linked to the Gloucester district and community. We are committed to maintaining and enhancing this link and Gloucester Coal is proud of the contributions it made during the year to local festivals and social events, educational and sporting activities and community infrastructure.

Operating coal mines in the Gloucester environment is a responsibility we take seriously. Over the year the Gloucester Coal operations management team has continued to supervise responsible mining operations, rehabilitation of mined ground, extend wildlife corridors, use mine water to irrigate the Company's crops and contribute towards positive community interaction.

Exploration Vision & Resource Development

In June 2006 Gloucester Coal released its exploration vision of sustainable coal operations to 2030. This statement elaborated on the potential that existed within the Gloucester Coal's exploration licenses. Exploration activity in the past has been concentrated around the existing operations. Gloucester Coal has now looked beyond the easily reachable and previously defined targets and is taking a strategic view of the Basin. Recently Gloucester Coal applied for an additional Exploration Licence to the east of the existing Exploration Licences, to look for prospective shallow Clareval and Weismantel coal. Evidence to date suggests the Gloucester Basin coals are best developed on the eastern side of the Basin.

Reserves and Resources

Gloucester Coal released a Reserves and Resources statement in March 2006 which showed in excess of 19 million tonnes of mineable reserves at Duralie at strip ratios less than 4:1. Subsequent to that statement GCL now has 1 million tonnes of additional resource to include as a result of exploration along less than 1 km of Clareval subcrop strike length.

In mid August the exploration team confirmed the presence of the Clareval seam on the Eastern side of the Gloucester Basin, when a drill hole intersected 16 metres of Clareval seam. Exploration drilling will now continue to extend the Clareval prospects on the eastern and western side of the Basin. Gloucester Coal will be looking to further increase its mineable reserves in 2007.

Chief Executive Officer’s Report (continued)

At Stratford, coal resources are typically smaller deposits than Duralie. Gloucester Coal has in excess of 4.5 Mt remaining in the Bowens Road North open cut at strip ratio < 1.2:1. An additional 4 million tonnes of shallow Avon and Bowens Road coal has been drilled adjacent to the Stratford preparation plant. Drilling will also continue to extend resources over recently acquired freehold land in the South Stratford area. Gloucester Coal will update the Reserves and Resources Statements at the completion of the current phase of exploration activity estimated to be around March 2007.

Land Acquisition Strategy

Gloucester Coal’s commitment to exploration and secure operations is backed by its extensive freehold land ownership. Managing more than 4,000 Ha of rural land requires attention and diligence and is core to the ongoing security of coal mining operations. The land acquisition strategy is closely aligned to our exploration vision.

Gavin P May
Chief Executive Officer

Chief Financial Officer's Review

The year ended 30 June 2006 was the Company's first full financial year since the change of balance date from December to June. The results are therefore reported against the prior six month reporting period 30 June 2005.

Key Points on Financial Performance

The Company reported a Net Profit after Tax of $40.3 million (6 months ended 30 June 2005: $8.5 million). The profit clearly illustrates the strong profit margins being achieved on the sale of the Company's coking and thermal coal products.

The profit equates to an earnings per share of 50.8 cents per share (prior six month period 10.9 cents per share).

The Company continued to generate strong sales growth, with record revenue from the sale of coal of $154 million, a substantial increase from the prior period and the result of continued demand for Gloucester Coking and Thermal coal.

Earnings before interest, tax and amortisation (EBITDA) amounted to $58.7 million (2005: $17.8 million).

The effective tax rate of the Company was 18.7%. The lower rate is principally due to the recognition of $5.8 million of tax losses recognised. After excluding the effect of tax losses recognised the effective tax rate is 30.3%.

Cash inflows from operations amounted to $160.9million, a record for the Company, which in turn generated net cash flows from operating activities of $58.1 million. In addition, the Company raised $13.8 million from the issue of 4.15 million shares to ITOCHU Corporation, which was used for the purchase of the remaining 10% share of the Stratford Joint Venture.

Financial Position

The financial position of the Company continues to get stronger. The net tangible asset per ordinary security is 88 cents per share, an increase of 100% from the same period last year (44 cents per share). During the year, net assets almost doubled from $38.7 million to $64.0 million. Net debt (Borrowings less cash) decreased from $39.5 million at 30 June 2005 to $15.9 million at 30 June 2006, and the Company's gross debt to market capitalisation is now approximately 11%. Maintenance of a low gearing level has been achieved on the back of strong cash flows, despite continued capital investment. The low gearing and stronger balance sheet has provided the Company with the ability to pursue future growth opportunities.

Responsible Capital Management

Strong cash flows and profitable operations have enabled the Company to deliver on promised capital management initiatives. The Company used free cash flow in a balance between operations, exploration and capital management as follows:

- Exploration within the Gloucester Basin — $1.0 million
- Purchase of the 10% share in the Stratford Joint Venture — $8.3 million
- Purchase of property, plant and equipment (including strategic land acquisitions) — $10.4 million
- Share buy-back — $12.5 million
- Dividends — $16.7 million
- Repayment of borrowings — $10.4 million

During the year 4,240,395 shares were bought back at an average price of $2.96 per share, reducing the number of ordinary shares on issue to levels approximating those prior to the September share issue.

The Company's responsible approach to capital management will continue into the 2006/07 financial year with the announcement of a final dividend of 12 cents per share, bringing the total dividend in respect of the 2005/06 year to 23 cents – a payout ratio of approximately 45%.

In addition, a Dividend Reinvestment Plan has been implemented for the current dividend, and a Share Purchase Plan will be announced to fund strategic growth and land acquisitions as opportunities arise.

Barry R Tudor
Chief Financial Officer

Directors' Report

The directors present their report together with the financial report of Gloucester Coal Ltd ('the Company"), and of the consolidated entity, being the Company and its controlled entities, for the financial year ended 30 June 2006 and the auditor's report thereon.

Directors

The names and details of the Company's directors in office at any time during or since the end of the financial year are as follows.

Name, qualifications and independence status	Experience and special responsibilities
Mr Andy J Hogendijk AAUQ, FCPA, FAICD Chairman Independent Non-Executive Director	Mr Hogendijk has extensive senior management and finance experience having previously been Chief Financial Officer, Suncorp Metway Ltd (1997 – 2000), Commonwealth Bank of Australia Limited (1991 – 1997) and John Fairfax Group (1989 – 1991). Mr Hogendijk has also held several senior positions with Shell Company Australia and Australian Paper Manufacturers. He is currently a director of Aditya Birla Minerals Limited. Mr Hogendijk held the following directorships in the previous three years: • Aditya Birla Minerals Limited (from March 2006) • Magnesium International Limited (November 2001 to March 2006) • The Hills Motorway Limited from July 2004 to May 2005. Chairman of the Remuneration Committee and member of the Audit Committee. Director and Chairman since August 2004.
Mr Gavin P May BSc (Geology), GAICD Chief Executive Officer and Marketing Director	Mr May has worked in the Australian coal industry for 25 years, including 9 years with Gloucester Coal. He started his career as a project geologist in 1981 exploring the Gloucester Basin. He has worked on exploration projects in the Bowen Basin, before moving into production and marketing roles in the NSW coal industry. Currently a director of the Australian Coal Association and a member of the NSW Minerals Council. Member of the Corporate Governance and Risk Committees. Director since January 2001.
Mr Daniel J Buckley BSc (Geology/GeoPhys), MMEE, GAICD Operations Director	Mr Buckley has more than 25 years experience in the Australian coal industry, 10 with Gloucester Coal in Business Development and Operations Management prior to his appointment as Operations Director. He has previously held positions in project development and mining operations as well as senior consultant positions in mining engineering and project consulting with Dames & Moore and Barlow Jonker. Mr Buckley has not held any other directorships in the previous 3 years. Director since January 2001.
Mr Gordon T Galt BCom, BEng (Mining Hons), MAICD, MAIMM Independent Non-Executive Director	Mr Galt has worked in the mining industry for 38 years with over 25 of this in the coal mining sector. He is currently a Director of New Holland Capital Pty Limited. Formerly he was Managing Director of Magnesium International Limited, Newcrest Mining Limited and Cumnock Mining. He also worked as Managing Director of the energy sector for ABN Amro bank in Australasia Mr Galt is Chairman of the Corporate Governance Committee and is a member of the Remuneration Committee. Mr Galt held the following directorships in the previous three years: • Magnesium International Limited (August 2002 – January 2006) • Electrometals Technologies Limited (to June 2004) Director since April 2004.

Name, qualifications and independence status	Experience and special responsibilities
Mr Ian W Levy BSc (Hons) (ANU), MSc (Dist) (London), Diploma of Imperial College (Royal School of Mines), FAusiMM, FAIG. Independent Non-Executive Director	Mr Levy is currently Chief Executive Officer of Allegiance Mining NL, a non-executive director of D'Aguilar Gold Limited. He has had 30 years experience in mining geology and mineral exploration including 12 years with Western Mining Corporation Limited and 11 years in mining business development positions. Mr Levy has also worked in development roles for mining exploration companies Pancontinental Mining Limited and Gympie Gold Limited. Mr Levy has been Federal President of the Australian Institute of Geoscientists and was a member of the Joint Ore Reserves Committee (JORC) for 10 years including four years as Vice Chairman. Mr Levy held the following directorships in the previous three years: • Southland Coal Limited from 1997 to 7 January 2004 • Doral Resources NL from 1997 to 7 January 2004 Chairman of the Audit Committee and member of the Remuneration and Risk Committees. Director since April 2004.
Dr John H Bryan B Sc (Hons), Ph D, FAusIMM Independent Non-Executive Director	Dr Bryan has worked for 36 years as a consulting geologist, principally involved with coal exploration and coal mining companies in New South Wales and Queensland. His experience in coal exploration also extends to Indonesia, New Zealand, Canada, Thailand and Antarctica. His expertise in coal exploration and resource evaluation is derived from experience gained over many years at numerous coal mines and coal deposits, both open cut and underground. Chairman of the Risk Committee and member of the Audit and Corporate Governance Committees. Director since April 2005.

Company Secretaries

Mr Barry R Tudor BEc, CA, MBA, MAICD	Mr Tudor was appointed Company Secretary in August 2005, and is currently the Company's Chief Financial Officer. Mr Tudor has over 20 years senior management experience in a variety of roles and industries. He worked with an international accounting firm for over ten years, followed by senior regional finance roles for US/UK listed companies.
Mr Robert Waring BEc, CA, FCIS, ASIA, FAICD, MAusIMM	Mr Waring was appointed Company Secretary in January 2001. Mr Waring's experience has been gained over 34 years in financial and corporate roles including 15 years in company secretarial roles for ASX listed companies and 11 years as a director of PlatSearch NL

Directors' Meetings

Director	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings		Corporate Governance Committee Meetings		Risk Committee Meetings	
	A	B	A	B	A	B	A	B	A	B
Mr Andy J Hogendijk	13	13	4	4	2	2	-	-	-	-
Mr Gavin P May	13	13	-	-	-	-	1	1	2	2
Mr Daniel J Buckley	13	13	-	-	-	-	-	-	-	-
Mr Gordon T Galt	12	13	1	1	2	2	1	1	-	-
Mr Ian W Levy	11	13	4	4	2	2	-	-	2	2
Dr John H Bryan	11	13	3	3	-	-	1	1	2	2

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the period.

Corporate governance statement

The Gloucester Coal Ltd Board of Directors ("the Board") is committed to achieving best practice in the area of corporate governance and business conduct. The Corporate Governance Statement and Compliance Table outline the main corporate governance principles and practices followed by Gloucester Coal Ltd.

The Company's corporate governance practices were in place throughout the year ended 30 June 2006. The Board is comfortable that practices are satisfactory for a company of Gloucester Coal's size. The below outlines the main corporate governance practices in place (unless otherwise stated) throughout the financial period, in relation to the corporate governance principles the ASX Corporate Council recommendations:

Principle 1. Lay solid foundations for management and oversight

The Company has a small board (four non-executive directors plus two executive directors) and a small management team, so while the roles and functions have to be flexible to meet specific requirements, the Board and management functions have been formalised in a Corporate Governance Compliance Manual compiled by the Corporate Governance Committee and approved by Board.

Principle 2. Structure the board to add value

The Board consists of six directors of whom four hold their position in a non- executive capacity. The Chairman is an independent non-executive director. The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report. Directors of Gloucester Coal Ltd are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement. There are procedures in place, agreed by the board, to enable directors, in furtherance of their duties, to seek independent professional advice at the Company's expense.

Principle 3. Promote ethical and responsible decision making

The Company has a formal code of conduct, approved by the Board. The Code requires directors and employees to conduct all business affairs legally, ethically and with integrity. The Code provides for reporting of breach of the Code by others.

The Company further has a policy and procedure, adopted by the Board, on dealing in the company's securities by directors, officers and employees.

Principle 4. Safeguard integrity in financial reporting

It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the consolidated entity to the audit committee.

The Company has an Audit Committee with a formal charter, approved by the Board. The audit committee consists of the three non-executive directors with the most applicable expertise and skills for this committee. The Chairman of the Audit Committee is not the Chairman of the Board. The Chief Executive Officer and the Chief Financial Officer are invited to audit committee meetings at the discretion of the Audit Committee.

The main responsibilities of the Audit Committee are to:

- Review and report to the Board on the annual report, the annual and half-year financial reports and all other financial information published by the Company or released to the market;
- Assist the Board in reviewing the effectiveness of the Company's internal control environment covering effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.
- Oversee the effective operation of the risk management framework – see Principle 7 below;
- Recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, and the scope and quality of the audit; and
- Review and assess the various risk factors that can impact on the Company's business – see Principle 7 below.

The Chief Executive Officer and the Chief Financial Officer have declared in writing to the Board that the financial records of the Company for the financial period have been properly maintained, the Company's financial reports for the period ended 30 June 2006 comply with accounting standards and present a true and fair view of the Company's financial condition and operational results. This statement is required annually. The external auditor is invited to Audit Committee meetings at the discretion of the committee. The external auditor met with the Audit Committee and the board of directors three times during the period.

Principle 5. Make timely and balanced disclosure

The Company, its directors and staff are acutely aware of continuous disclosure requirements and operate in an environment where strong emphasis is placed on full and appropriate disclosure. The Company has formal written policies regarding disclosure.

Principle 6. Respect the rights of shareholders

The Company provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX, posting them on the Company's website, and issuing media releases. The Company has a communications strategy to promote effective communication with shareholders. Subject to ASX rules on disclosure, the Company communicates regularly with shareholders, brokers and analysts and maintains a review of information provided on its website.

Principle 7. Recognise and manage risk

The Company believes that there is significant need for formal policies on risk oversight and management and accordingly risk matters are formally addressed at each Board meeting. Risk management arrangements are reviewed by the Board, senior management and the Risk Management Committee collectively with bi-annual review by the Audit Committee.

Principle 8. Encourage enhanced performance

The Company has a Remuneration Committee, which meets as and when required, to review performance matters relating to senior employees. A formal evaluation of the performance of the Board during the past financial period was carried out by the Corporate Governance Committee using external expert advisers.

Principle 9. Remunerate fairly and responsibly

The Company's Remuneration Committee reviews and makes recommendations to the board on remuneration packages and policies applicable to the executive officers and directors of the Company and other executives. It is also responsible for share option schemes, incentive performance packages, superannuation entitlements retirement and termination entitlements fringe benefits policies and professional indemnity and liability insurance policies.

The Board policy is that the remuneration committee will comprise entirely of independent non-executive directors. The Chief Executive Officer, Mr Gavin May, may be invited to remuneration committee meetings, as required, to discuss senior executive's performance and remuneration packages but does not attend meetings involving matters pertaining to him. The directors believe that the size of the Company makes individual salary negotiation more appropriate than formal remuneration policies. The Committee will and did seek independent external advice and market comparisons as necessary. In accordance with Corporations Act requirements, the Company discloses the fees or salaries paid to all directors.

Principle 10. Recognise the legitimate interests of stakeholders

The Company is committed to keeping shareholders informed and improving accessibility to shareholders. This is satisfied through company publications (including the Annual Report), the Annual General Meeting and the Company website.

Shareholders are encouraged to attend the Company's Annual General Meeting and use this opportunity to ask questions. The External Auditor attends the Annual General Meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Compliance to Best Practice Recommendations

		Compliance
Principle 1: Lay solid foundations for management and oversight		
1.1	Formalise and disclose the functions reserved to the Board and those delegated to management	✓
Principle 2 : Structure the Board to add value		
2.1	A majority of the Board should be Independent Directors.	✓
2.2	The Chairperson should be an Independent Director.	✓
2.3	The roles of Chairperson and Chief Executive Officer should not be exercised by the same individual.	✓
2.4	The Board should establish a Nomination Committee.	✓
2.5	Provide the information indicated in Guide to reporting on Principle 2.	✓
Principle 3: Promote ethical and responsible decision making		
3.1	Establish a code of conduct to guide Directors, the Chief Executive Officer (or equivalent), the Chief Financial Officer (or equivalent) and any other key executives as to: • the practices necessary to maintain confidence in the Company's integrity; and • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	✓
3.2	Disclose the policy concerning trading in Company securities by Directors, officers and employees.	✓
3.3	Provide the information indicated in Guide to reporting on Principle 3.	✓
Principle 4: Safeguard integrity in financial reporting		
4.1	Require the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) to state in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.	✓
4.2	The Board should establish an Audit Committee.	✓

Directors' Report (continued)

		Compliance
4.3	Structure the Audit Committee so that it consists of: • only Non-Executive Directors; • a majority of Independent Directors; • an independent Chairperson, who is not Chairperson of the Board; and • at least three members.	✓
4.4	The Audit Committee should have a formal charter.	✓
4.5	Provide the information indicated in Guide to reporting on Principle 4.	✓
Principle 5: Make timely and balanced disclosure		
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.	✓
5.2	Provide the information indicated in Guide to reporting on Principle 5.	✓
Principle 6: Respect the rights of Shareholders		
6.1	Design and disclose a communication strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	✓
6.2	Request the external auditor to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.	✓
Principle 7: Recognise and manage risk		
7.1	The Board or appropriate committee should establish policies on risk oversight and management.	✓
7.2	The Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) should state to the Board in writing that: • the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and • the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.	✓
7.3	Provide the information indicated in Guide to reporting on Principle 7.	✓
Principle 8: Encourage enhanced performance		
8.1	Disclose the process for performance evaluation of the Board, its committees and individual Directors, and key executives.	✓
Principle 9: Remunerate fairly and responsibly		
9.1	Provide disclosure in relation to the Company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.	✓
9.2	The Board should establish a Remuneration Committee.	✓
9.3	Clearly distinguish the structure of Non-Executive Directors' remuneration from that of executives.	✓
9.4	Ensure that payment of equity based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.	✓
9.5	Provide the information indicated in Guide to reporting on Principle 9.	✓
Principle 10: Recognise the legitimate interests of stakeholders		
10.1	Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.	✓

Principal Activities

During the year the principal activities of the consolidated entity consisted of the production and marketing of Gloucester Coking and Thermal coal from the Stratford site pits comprising the Bowens Road North pit and co-disposal pits, as well as the production and marketing of coal from the Duralie open pit coal mining operation.

There were no significant changes in the nature of the activities of the consolidated entity during the year.

Significant changes in the state of affairs

On 1 September 2005, the Company completed the acquisition of ITOCHU Corporation's ("ITOCHU") 10% interest in the Stratford Joint Venture. The consolidated entity now owns 100% of the Stratford Joint Venture. Consideration paid was $8,312,000, representing the fair value of the 10% joint venture holding.

There were no other significant changes in the state of affairs of the Group during the financial year

Review of Operations

The consolidated profit after tax for the financial year was $40.3 million (2005: $8.5 million) including the benefit of tax losses recognised of $5.8 million.

During the year the Company concentrated its efforts and financial resources on the production of 1.9 million tonnes of coking and thermal coal. The Company sold 1.9 million tonnes of coal with a total revenue of $153.7 million. In September 2005 the Company GCL moved to 100% ownership of the Gloucester Basin assets with its acquisition of ITOCHU's 10% share of the Stratford Joint Venture.

The Company strategic freehold land, to secure mining operations into the future, and now holds in excess of 4,100 hectares. Gloucester Coal has also spent approximately $1.0 million on exploration within the Gloucester Basin, resulting in the successful discovery of the Clareval seam, only 200 metres from the existing Weismantel seam.

The Company maintained an excellent safety record, with another year of no lost time injuries.

Environmental Performance

Environmental performance is recorded and reported through a comprehensive regime of monitoring, sampling and testing procedures utilising both in-house and external independent expertise. This regime is carried out in accordance with management plans prepared in consultation with relevant government agencies and approved by NSW Department of Planning (DoP). Reports are regularly submitted to regulators as well as presented to and reviewed with Community Consultative Committees. Both operations underwent Independent Environmental Audits of the Conditions of Development Consent with no significant non-compliance issues being identified.

Environmental highlights include:

Duralie:

- The mine water irrigation and evaporation system continued to successfully operate resulting in a significant decrease in stored water. University of Newcastle studies and site investigations have not identified any detrimental impact on the soils or vegetation.
- Stage 3 of the Coal Shaft Creek diversion around the planned northern progress of the open cut was completed. The diversion has been approved for use by the Department of Natural Resources.
- Successful management of Potential Acid Forming (PAF) waste continues in the mined out void in accordance with predetermined methods. Monitoring has shown no issues in relation to previous PAF management works.
- General compliance with relevant statutory approval instruments administered by Department of Primary Industries – Mineral Resources. Correspondence received following the Annual Environmental Inspection stated that *"there was general compliance with the relevant statutory approval instruments administered by DPI – Mineral*

Resources. It was pleasing to see the significant improvements on the site especially in sediment and erosion control. The Coal Shaft Creek diversions are now at a stage which has significantly reduced environmental risk."

- Approximately 40% of the out of pit waste dump has been shaped in preparation for topsoil spreading and revegetation.

Stratford / Bowens Road North:

- Incorporation of the new Roseville Extension operations into the Stratford Mine without incident.
- Approximately 40% of the Bowens Road North out of pit waste dump has been shaped in preparation for topsoil spreading and revegetation.
- Continued progress made in the control of self heating of carbonaceous material associated with the highwall of the Stratford Main Deposit (ceased mining in 2003).

Noise monitoring at Duralie recorded three exceedances of either evening or night time noise criteria. A total of seven complaints were received during the year regarding the Duralie Mine, all relating to night time noise.

The Company has initiated improved practices at Duralie to improve noise performance. These are:

- Revised operational practices for evening and night time waste
  Being discussed with the mining contractor, so that noise is more confined within the lower levels of the mine.
- Regular noise assessments of individual mining fleet components (trucks, excavators etc)
  For identification of specific noise issues for rectification as part of equipment maintenance.
- Alternate, lower frequency, reverse alarms
  Being trialled to determine if on site safe working requirements are achieved as well as off site noise being reduced. Following acceptable outcomes of these trials, implementation of the alternative alarms across the entire mining fleet will be considered.

Stratford / Bowens Road North noise monitoring recorded three exceedances of day time noise criteria at residences not included in specific Development Consent Conditions as being within the noise affectation zone. Night time exceedences were recorded at locations nearest to the Stratford Coal Handling and Preparation Plant. These occurrences were identified to be significantly influenced by dozer noise from coal stockpile management and train loading activities. Five complaints were received relating to noise.

The Company has completed construction of a product stockpile extension, reducing the dozing requirements for stockpile management as well as lowering the typical operating height of the dozer.

A further 16 complaints were received during the year regarding the Stratford / Bowens Road North operations. Two of those were determined to be unrelated to the mine.

Four complaints were regarding trafficability during wet weather on the public road crossing of the Bowens Road North Haul Road. Management practice for this crossing has been reviewed in consultation with the Community Consultative Committee.

Ten complaints were received from two households and were associated with the self heating of carbonaceous material associated with the highwall of the Stratford Main Deposit (ceased mining in 2003). Progressive covering of the heating areas with inert material from the Bowens Road North pit during the year has successfully controlled the self heating. DPI, DEC and the Community Consultative Committee have been regularly updated on the issue and report satisfaction with the progress.

Directors' Report (continued)

Dividends

Declared and paid during the year 2006

During the financial year, the directors declared and paid the following dividends.

	Cents per share	Total Amount $000's	Franked amount per share	Date of payment
2005 – Final - Ordinary	10 cents	8,207	-	30 September 2005
2006 – Interim - Ordinary	11 cents	8,692	-	28 February 2006

There are no franking credits available to the Company as at 30 June 2006.

Declared after year end

Since the end of the financial year, the directors declared the following dividend.

	Cents per share	Total Amount $000's	Franked amount per share	Date of payment
2006 – final - Ordinary	12 cents	9,341	-	6 October 2006

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2006 and will be recognised in subsequent financial reports.

Likely developments

The consolidated entity will continue the production and marketing of Gloucester Coking and Thermal coal from the Stratford site pits and Duralie pits.

Further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

Events subsequent to reporting date

On 21 August 2006, the Company announced that drilling of the Clareval Seam on the prospective Eastern side of the Gloucester Basin had successfully identified thick intersections of shallow coal. The Directors believe this could lead to a doubling of the reserves on the Eastern side of the Basin which are presently quoted at 6.5 million tonnes and increase mine reserves at Duralie to over 25 million tonnes.

Other than the dividend declared and the matter discussed above, since balance date, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

Directors’ Report (continued)

Directors’ interests

The relevant interest of each director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by the companies within the consolidated entity and other related bodies corporate, as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Gloucester Coal Ltd Ordinary Shares	Options over Ordinary Shares
Mr Andy J Hogendijk	60,000	-
Mr Gavin P May	200,500	1,000,000
Mr Daniel J Buckley	25,500	500,000
Mr Gordon T Galt	20,000	-
Mr Ian W Levy	-	-
Dr John H Bryan	22,000	-

Share Options

Options granted to directors, officers and executives of the Company

During or since the end of the financial year, the Company granted options for no consideration over unissued ordinary shares in Gloucester Coal Ltd to the following executives of the Company as part of their remuneration.

	Number of options granted	Exercise price	Expiry date
Key management personnel			
Mr Barry R Tudor	200,000	$3.17	21 June 2011
Mr Graham F Colliss	200,000	$3.17	21 June 2011

All options were granted since the end of the financial year.

Unissued shares under options

At the date of this report, unissued ordinary shares of the Company under option are:

Expiry date	Exercise price	Number of shares
18 May 2010	$4.00	2,100,000
21 June 2011	$3.17	700,000

During or since the financial year, no shares have been issued as a result of the exercise of options.

All options expire on the earlier of their expiry date of termination of the employee’s employment. Further details are included in the Remuneration report on pages 22 to 31.

Indemnification and insurance of officers and auditors

Indemnification

The Company has not, during or since the end of the financial period, in respect of any person who is or has been an officer of the Company or a related body corporate indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings.

Insurance Premiums

During the financial period the Company has paid premiums to insure each of the directors and officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

The premiums paid are not disclosed as such disclosure is prohibited under the terms of the contract.

Non-audit services

During the year KPMG, the Company’s auditor, has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those services during the year is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and

- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 *Professional independence*, as they did not involve reviewing or auditing the auditor’s own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amount paid to the auditor of the Company, KPMG and its related practices for audit and non-audit services provided during the year are set out below. In addition, amounts paid to other auditors for the statutory audit have been disclosed:

	Consolidated	
	30 June 2006 12 Months $	30 June 2005 6 Months $
Audit Services		
Auditors of the Company		
KPMG Australia:		
Audit and review of financial reports	90,471	57,500
Other Auditors:		
Audit and review of financial reports	12,000	-
	102,471	57,500
Services other than statutory audit:		
Other regulatory audit services		
Attestation services (KPMG Australia)	5,400	-
Other Services		
Taxation compliance services (KPMG Australia)	22,173	-
	27,573	-

Directors' Report (continued)

Remuneration Report

Remuneration is referred to as compensation throughout this report.

This report outlines the remuneration arrangements in place for key management personnel of Gloucester Coal Ltd.

A) Principles of compensation

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the consolidated entity, including directors of the Company and other executives. Key management personnel includes the most highly remunerated S300A directors and executives for the Company and consolidated entity, of which excluding executive directors, the Company and consolidated entity only has two executives.

The performance of the Company depends upon the quality of directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

To meet this objective, the Company has adopted the following principles in its compensation framework

- Provide competitive rewards to attract high calibre executives
- Link executive rewards to shareholder value
- Significant portion of executive compensation "at risk", dependant upon meeting pre-determined performance benchmarks
- Establish appropriate performance hurdles in relation to variable executive compensation

Remuneration committee

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the key management personnel.

The Remuneration Committee assesses the appropriateness of the nature and amount of compensation of key management personnel 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.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- the capability and experience of the key management personnel
- the key management personnel's ability to control the relevant operation's performance
- the Company's performance including earnings, growth in share price and returns on shareholder wealth
- the amount of incentives within each key management personnel's compensation

Compensation Structure

In accordance with best practice corporate governance, the structure of non-executive director and senior manager compensation is separate and distinct.

Non-executive director compensation

Objective

The Board seeks to set aggregate compensation at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Remuneration Report (continued)

Structure

The Constitution and the ASX Listing Rules specify that the aggregate compensation of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between directors as agreed. The latest determination was at the Annual General Meeting held in October 2005 when shareholders approved an aggregate compensation of $350,000 per year.

The amount of aggregate compensation sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually.

Each director receives a fee for being a director of the Company (Chairman $110,000 and non-executive directors $60,000 per annum). The above fees were increased from $100,000 for the Chairman and $40,000 for each non-executive director in April 2006 following a review of the fees being paid. The compensation of non-executive directors for the period ended 30 June 2006 is detailed in Table 1 of this note.

Key management personnel compensation

The Company aims to reward executives with a level and mix of compensation commensurate with their position and responsibilities within the Company so as to:

- reward executives for Company and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link reward with the strategic goals and performance of the Company; and,
- ensure total compensation is competitive by market standards.

Structure

In determining the level and make-up of key management personnel compensation, the Remuneration Committee considers comparable executive roles.

Compensation consists of the following key elements:

- Fixed Compensation
- Variable Compensation (consisting of Short Term Incentives ("STI") and Long Term Incentives ("LTI").

The proportion of fixed compensation and variable compensation (potential short term and long term incentives) is established for each key management personnel by the Remuneration Committee. Table 2 details the variable component (%) of the most highly remunerated executives.

Fixed Compensation

Objective

The level of fixed compensation is set so as to provide a base level of compensation which is both appropriate to the position and is competitive in the market.

Fixed compensation is reviewed annually by the Remuneration Committee and the process consists of a review of Companywide, business unit and individual performance, relevant comparative compensation in the market and internal and, where appropriate, external advice on policies and practices. As noted above, the Committee has access to external advice independent of management.

Key management personnel are given the opportunity to receive their fixed (primary) compensation in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

The fixed compensation component of the executive directors and the most highly compensated senior executives is detailed in Tables 1 and 2 of this report.

Remuneration Report (continued)

Variable Compensation — Short Term Incentive (STI)

Objective

The objective of the STI program is to link the achievement of the Company's operational targets with the compensation received by the key management personnel charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the key management personnel to achieve the operational targets and such that the cost to the Company is reasonable in the circumstances.

Structure

Actual STI payments granted to each key management personnel depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of Key Performance Indicators (KPIs) covering both financial and non-financial measures of performance. Typically included are measures such as cashflow, contribution to net profit after tax, return on equity, production cost targets, environmental and safety and individually tailored milestones. The predetermined benchmarks listed above must be met in order to trigger payments under the short term incentive scheme.

On an annual basis, after consideration of performance against KPIs, each executive is rated by the Remuneration Committee, incorporating an overall performance rating for the Company. These ratings determine the amount, if any, of the short term incentive is allocated to each executive. Payments made are usually delivered as a cash bonus.

Variable Pay — Long Term Incentive (LTI)

Objective

The objective of the LTI plan is to reward and retain key management personnel in a manner which aligns this element of compensation with the creation of shareholder wealth.

As such LTI grants are only made to key management personnel who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant long term performance hurdle.

Structure

LTI grants to executives are delivered in the form of options.

Table 3 provides details of options granted, the value of options, vesting periods and lapsed options under the LTI plan.

B) Employment contracts

Key management personnel are employed under contract as follows:

Mr Gavin May – Chief Executive Officer

Term of agreement:	3 years commencing 1 August 2004
Termination benefit:	Payment of termination benefit on early termination by the employer, other than misconduct equal to 12 months salary.
Salary:	Annual base salary, reviewed annually $420,000 (inclusive of superannuation)
STI:	Maximum amount of $210,000 thereof or 50% of the executives base compensation package. STI linked to a Key Performance Index (KPI) score total as set by the Company's Remuneration Committee.
LTI:	Options granted.

Remuneration Report (continued)

Mr Daniel Buckley – Operation Director

Term of agreement:	3 years commencing 1 December 2004
Termination benefit:	Payment of termination benefit on early termination by the employer, other than misconduct equal to 12 months salary.
Salary:	Annual base salary, reviewed annually $245,000 (inclusive of superannuation), plus fully maintained motor vehicle and living away from home allowance.
STI:	Maximum amount of $122,500 thereof or 50% of the executives base compensation package. STI linked to a Key Performance Index (KPI) score total as set by the Company's Remuneration Committee.
LTI:	Options granted.

Mr Barry Tudor – Chief Financial Officer

Term of agreement:	Unlimited in term – but capable of termination with 12 months notice.
Termination benefit:	Payment of termination benefit on early termination by the employer, other than misconduct equal to 12 months salary.
Salary:	Annual base salary, reviewed annually, $230,000 (inclusive of superannuation)
STI:	25% of the executives base compensation package. STI linked to a Key Performance Index (KPI) score total as set by the Company's Remuneration Committee.
LTI:	Options granted.

Mr Graham Colliss – General Manager - Projects

Term of agreement:	Unlimited in term – but capable of termination with 12 months notice.
Termination benefit:	Payment of termination benefit on early termination by the employer, other than misconduct equal to 12 months salary.
Salary:	Annual base salary, reviewed annually, $210,000 (inclusive of superannuation)
STI:	25% of the executives base compensation package. STI linked to a Key Performance Index (KPI) score total as set by the Company's Remuneration Committee.
LTI:	Options granted.

Directors' Report (continued)

Remuneration Report (continued)

C) Directors' and executive officers' remuneration (Company and Consolidated) - audited

Details of the nature and Amount of each major element of remuneration of each director of the Company and the five named Company and consolidated entity executives who received the highest remuneration are:

Table 1		Primary			Post employment	Share based payments			
Directors		Salary & fees $	Cash STI $ (2)	Non-monetary benefits $	Superannuation benefits $	Value of options $ (3)	Total $	Proportion of remuneration performance related %	Value of options as a proportion of remuneration %
Non-executive Directors									
Mr Andy J Hogendijk	2006	93,273	-	-	8,395	-	101,668	-	-
Chairman	2005(1)	45,872	-	-	4,128	-	50,000	-	-
Mr Gordon T Galt	2006	39,738	-	-	3,590	-	43,328	-	-
Non-executive Director	2005(1)	18,340	-	-	1,660	-	20,000	-	-
Mr Ian W Levy	2006	39,738	-	-	3,590	-	43,328	-	-
Non-executive Director	2005(1)	18,340	-	-	1,660	-	20,000	-	-
Dr John H Bryan	2006	39,738	-	-	3,590	-	43,328	-	-
Non-executive Director	2005(1) (4)	9,100	-	-	900	-	10,000	-	-
Executive Directors									
Mr Gavin P May	2006	335,848	134,356	52,000	29,926	200,000	752,130	17.9%	26.6%
Chief Executive Officer	2005(1)	159,053	100,000	24,000	14,300	54,719	352,072	28.4%	15.5%
Mr Daniel J Buckley	2006	222,833	80,635	45,000	19,712	100,000	468,180	17.2%	21.3%
Operations Director	2005(1)	101,226	65,000	19,200	9,082	27,360	221,868	29.3%	12.4%
Total specified directors	2006	771,168	214,991	97,000	68,803	300,000	1,451,962		
	2005(1)	351,931	165,000	43,200	31,730	82,079	673,940		

1) For the six month period ended 30 June 2005
2) The short-term cash incentive bonus is for performance during the financial year ended 30 June 2006 using the criteria set out in this note. The amount was determined on 17 August 2006 after performance reviews were completed and approved by the remuneration committee. Comparative period is for performance during the financial period ended 30 June 2005
3) See table 3 for details on the calculation of the fair value of options granted.
4) Appointed 7 April 2005

Remuneration Report (continued)

C) Directors' and executive officers' remuneration (Company and Consolidated) – audited (continued)

Details of the nature and amount of each major element of remuneration of each Company and consolidated entity executives who received the highest remuneration are:

Table 2

		Primary			Post employment	Share based payments				
Executives Company and Consolidated		Salary & fees $	Cash STI $ (2)	Non-monetary benefits $	Superannuation benefits $	Employee share scheme $	Value of options $ (3)	Total $	Proportion of remuneration performance related %	Value of options as a proportion of remuneration %
Mr Barry R Tudor	2006	205,335	57,289	-	17,143	1,000	40,000	320,767	17.9%	12.5%
Chief Financial Officer	2005(1) (4)	63,596	20,000	-	5,561	-	10,944	100,101	20.0%	10.9%
Mr Graham F Colliss	2006	161,666	52,307	30,000	14,320	1,000	40,000	299,293	17.5%	13.4%
General manager - Projects	2005(1)	71,195	18,400	12,000	6,408	1,000	10,944	119,947	15.3%	9.1%
Total specified executives	2006	367,001	109,596	30,000	31,463	2,000	80,000	620,060		
	2005(1)	134,791	38,400	12,000	11,969	1,000	21,888	220,048		

1) For the six month period ended 30 June 2005
2) The short-term cash incentive bonus is for performance during the financial year ended 30 June 2006 using the criteria set out in this note. The amount was determined on 17 August 2006 after performance reviews were completed and approved by the remuneration committee. Comparative period is for performance during the financial period ended 30 June 2005
3) See table 3 for details on the calculation of the fair value of options granted.
4) Appointed 21 February 2005

Remuneration Report (continued)

D) Analysis of bonuses included in remuneration

Details of the vesting profile of the short-term incentive cash bonuses awarded as remuneration to each director of the Company and each of the five named Company executives and relevant group executives are detailed below.

	Included in Remuneration* $	Vested in year %	Forfeited in year** %
Directors			
Mr Gavin P May	134,356	64.0%	36.0%***
Mr Daniel J Buckley	80,635	65.8%	34.2%***
Executives			
Mr Barry R Tudor	57,289	99.6%	0.4%
Mr Graham F Colliss	52,307	99.6%	0.4%

* Amounts included in remuneration in the financial period represent the amount that vested in the financial period based on achievement of personal goals and satisfaction of specified performance criteria. No amounts vest in future years in respect of the short term incentive bonus schemes for the year ended 30 June 2006.

** The amounts forfeited are due to performance service criteria not being met in relation to the current financial period. STI bonuses for Mr Gavin May and Mr Daniel Buckley are in respect of safety and environmental performance criteria, Company results and KPIs for the twelve month period ended 30 June 2006.

*** The targets set for achievement of 100% bonus for Executive Directors were "stretch" targets (i.e. not easily achieved in every respect). The Board believes that the Executive Directors achieved well against the budget targets, which were lower than the stretch targets.

Directors' Report (continued)

Remuneration Report (continued)

E) Equity Instruments

Options and rights over equity instruments granted as compensation

All options refer to options over ordinary shares of Gloucester Coal Ltd, which are exercisable on a one for one basis under the ESOP Plan. There were no options granted as part of remuneration for the year ended 30 June 2006 and details of options previously granted as remuneration are detailed below. Options granted subsequent to year end are detailed on page 20 of the annual report.

Table 3	Grant Date	Number of options granted during 2005	Vest	Expiry date	Exercise price	Value per option at grant date	Exercised Number	Value per option at exercise date	Value at date option lapsed
Mr Gavin P May	18 May 2005	1,000,000	23 March 2007	18 May 2010	$4.00	$0.40	N/a	N/a	N/a
Mr Daniel J Buckley	18 May 2005	500,000	23 March 2007	18 May 2010	$4.00	$0.40	N/a	N/a	N/a
Mr Barry R Tudor	18 May 2005	200,000	23 March 2007	18 May 2010	$4.00	$0.40	N/a	N/a	N/a
Mr Graham F Colliss	18 May 2005	200,000	23 March 2007	18 May 2010	$4.00	$0.40	N/a	N/a	N/a

Modification of terms of equity-settled share based payment transactions

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation) have been altered or modified by the issuing entity during the reporting period.

Exercise of options granted as compensation

During the reporting period, no shares were issued on the exercise of options previously granted as compensation.

Directors' Report (continued)

Remuneration Report (continued)

Analysis of options and rights over equity instruments granted as compensation

Details of vesting profile of the options granted as remuneration to each director of the company and each Company executive and relevant group executive is listed below.

	Options granted				Financial years	Value yet to vest	
Directors	Number	Date	Vested in year %	Vested in year %	In which grant vests	Min (A)	Max (B)
Mr Gavin P May	1,000,000	18 May 2005	-%	-%	30 June 2007	Nil	500,000
Mr Daniel J Buckley	500,000	18 May 2005	-%	-%	30 June 2007	Nil	250,000
Executives							
Mr Barry R Tudor	200,000	18 May 2005	-%	-%	30 June 2007	Nil	100,000
Mr Graham F Colliss	200,000	18 May 2005	-%	-%	30 June 2007	Nil	100,000

(A) The minimum value of options yet to vest is $nil as the performance criteria may not be met and consequently the option may not vest.

(B) The maximum value of options yet to vest is not determinable as it depends on the market price of shares of the Company on the Australian Stock Exchange at the date the option is exercised. The maximum values presented above are based on the assumptions that the share price on the date the option is exercised does not exceed $4.50 for grants issued on 18 May 2005.

Directors' Report (continued)

Remuneration Report (continued)

Analysis of movements in options (unaudited)

There was no movement during the reporting period, by value, of options over ordinary shares in the Company held by each Company director and each Company executive and relevant group executive.

Options granted as part of key management personnel remuneration have been valued using a Binomial option pricing model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option. See below for further details.

Fair values of options:

The following table summarises the factors and assumptions that were used in determining the fair value of options on grant date:

	2005 Issue
Grant date	18 May 2005
Service start date	23 March 2005
Expiry date	18 May 2010
Vesting Date	18 May 2007
Share price at time of grant	$3.02
Exercise price	$4.00
Estimated Volatility	44%
Expected life	3.5 years
Risk free rate	5.16%
Dividend yield	11.3%

Options have been independently valued. The dividend yield is based on the assumptions of analyst reports. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumptions that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

Directors' Report (continued)

Lead auditor's independence

The Lead Auditor's independence declaration is set out on page 33 and forms part of the directors' report for the financial year ended 30 June 2006.

Rounding off

The Company is of a kind referred to in ASIC Class Order 98/0100, dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made in accordance with a resolution of the directors.

G P May
Director

Dated at Sydney this 24th day of August 2006

KPMG

Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

To: the directors of Gloucester Coal Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Anthony Jones

Partner

Sydney, 24 August 2006

Income Statements

FOR THE YEAR ENDED 30 JUNE 2006	Notes	Consolidated		Parent	
		2006 12 Months $'000	2005 6 Months $'000	2006 12 Months $'000	2005 6 Months $'000
Revenue from sale of coal	2	153,695	53,947	123,025	41,800
Cost of sales		(97,848)	(38,361)	(120,675)	(38,724)
Gross profit		55,847	15,586	2,350	3,076
Other operating income	3	420	302	671	213
Marketing expenses		(144)	(142)	(115)	(111)
Administration expenses		(4,164)	(1,351)	(3,381)	(1,351)
Other operating expenses	5	(6)	(93)	(4)	(71)
Operating profit / (loss) before financing costs		51,953	14,302	(479)	1,756
Financial income		421	74	404	74
Financial expenses	4	(2,782)	(2,242)	(2,782)	(2,237)
Net financing costs		(2,361)	(2,168)	(2,378)	(2,163)
Profit / (loss) before tax		49,592	12,134	(2,857)	(407)
Income tax (expense) / benefit	7	(9,253)	(3,642)	6,483	120
Profit/ (loss) for the year		40,339	8,492	3,626	(287)
Profit / (loss) attributable to members of the parent		40,339	8,492	3,626	(287)
Earnings per share (cents per share)					
- Basic for continuing operations	8	50.8	10.9		
- Diluted for continuing operations	8	50.8	10.9		

The income statements should be read in conjunction with the accompanying notes.

Statements of Recognised Income and Expense

FOR THE YEAR ENDED 30 JUNE 2006	Notes	Consolidated		Parent	
		2006 12 Months $'000	2005 6 Months $'000	2006 12 Months $'000	2005 6 Months $'000
Cash flow hedges:					
Losses transferred to income statement		(339)	(1,660)	(339)	(1,660)
Gains taken to equity		563	339	563	339
Net income / (loss) recognised directly in equity		224	(1,321)	224	(1,321)
Profit / (loss) for the year		40,339	8,492	3,626	(287)
Total recognised income and (expense) for the year	22	40,563	7,171	3,850	(1,608)

The statements of recognised income and expense should be read in conjunction with the accompanying notes.

Balance Sheets

AS AT 30 JUNE 2006	Notes	Consolidated		Parent	
		2006	2005	2006	2005
		$'000	$'000	$'000	$'000
CURRENT ASSETS					
Cash and cash equivalents	10	13,593	603	13,456	464
Trade and other receivables	11	6,733	13,048	6,941	11,490
Inventories	12	7,348	4,875	5,621	3,777
Investments	17	-	200	-	200
TOTAL CURRENT ASSETS		27,674	18,726	26,018	15,931
NON-CURRENT ASSETS					
Receivables	13	-	-	-	16,494
Deferred tax asset	7	-	4,058	5,476	13,017
Property, plant and equipment	14	72,459	59,883	23,476	12,903
Intangible – exploration & evaluation	15	1,166	150	513	22
Waste in advance	16	18,284	13,650	8,687	7,581
Investments	17	177	176	16,690	16,731
TOTAL NON-CURRENT ASSETS		92,086	77,917	54,842	66,748
TOTAL ASSETS		119,760	96,643	80,860	82,679
CURRENT LIABILITIES					
Trade and other payables	18	16,504	14,761	25,964	12,391
Interest-bearing loans and borrowings	19	-	16,061	-	16,061
Employee benefits	21	371	266	325	238
TOTAL CURRENT LIABILITIES		16,875	31,088	26,289	28,690
NON-CURRENT LIABILITIES					
Trade and other payables	18	-	-	5,543	-
Interest-bearing loans and borrowings	19	29,401	23,470	29,401	23,470
Deferred tax liabilities	7	5,291	-	-	-
Provisions	20	4,068	3,384	2,768	2,371
Employee benefits	21	115	3	115	3
TOTAL NON-CURRENT LIABILITIES		38,875	26,857	37,827	25,844
TOTAL LIABILITIES		55,750	57,945	64,116	54,534
NET ASSETS		64,010	38,698	16,744	28,145
EQUITY					
Issued capital		122,143	120,875	122,143	120,875
Accumulated losses		(59,180)	(82,620)	(106,446)	(93,173)
Reserves		1,047	443	1,047	443
TOTAL EQUITY (attributable to equity holders of the parent)	22	64,010	38,698	16,744	28,145

The balance sheets should be read in conjunction with the accompanying notes.

Statements of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2006	Notes	Consolidated		Parent	
		30 Jun 2006 12 Months $'000	30 Jun 2005 6 Months $'000	30 Jun 2006 12 Months $'000	30 Jun 2005 6 Months $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		160,871	52,233	128,690	42,881
Payments to suppliers and employees		(100,935)	(35,655)	(108,267)	(41,350)
Cash generated from operations		59,936	16,578	20,423	1,531
Interest paid		(1,845)	(2,242)	(1,845)	(2,237)
Net cash from / (used) in operating activities	10	58,091	14,336	18,578	(706)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		17	-	14	-
Payments for property, plant and equipment		(10,430)	(1,944)	(7,425)	(205)
Payments for exploration & evaluation expenditure		(1,016)	(87)	(491)	(22)
Payments for interest in joint venture	29	(8,300)	-	(8,300)	-
Proceeds from related party loans		-	-	35,964	13,332
Interest received		421	74	404	74
Investment Income		3	-	3	-
Security deposits refunded		200	43	241	-
Net cash from / (used in) investing activities		(19,105)	(1,914)	20,410	13,179
CASH FLOWS FROM FINANCING ACTIVITIES					
Payments for share buy back		(12,547)	-	(12,547)	-
Proceeds from share placement		13,778	-	13,778	-
Dividends paid		(16,737)	-	(16,737)	-
Repayment of borrowings		(10,421)	(12,892)	(10,421)	(12,892)
Payment of loan establishment fees		(69)	-	(69)	-
Net cash from/(used in) financing activities		(25,996)	(12,892)	(25,996)	(12,892)
Net increase / (decrease) in cash and cash equivalents		12,990	(470)	12,992	(419)
Cash and cash equivalents at beginning of period		603	1,073	464	883
Cash and cash equivalents at end of period	10	13,593	603	13,456	464

The statements of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Gloucester Coal Ltd ("GCL") is a Company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2006 comprises the Company and its subsidiaries (together referred to as the "consolidated entity") and the consolidated entity's interest in jointly controlled entities.

The financial report was authorised for issue by the directors on 24 August 2006.

Change in year end

During the previous reporting period Gloucester Coal Ltd changed its balance date from 31 December to 30 June. Consequently comparatives are presented for the previous financial period, being the 6-month period ended 30 June 2005.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Australian Accounting Standards adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. International Financial Reporting Standards ("IFRSs") form the basis of Australian Accounting Standards adopted by AASB, being Australian equivalents to IFRS ("AIFRS").

(b) Basis of Preparation

The financial report is presented in Australian dollars. The entity has elected to early adopt the following accounting standards and amendments.

- AASB 119 Employee Benefits (December 2004)
- AASB 2004-3 Amendments to Australian Accounting Standards (December 2004) amending AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004), AASB 101 Presentation of Financial Statements and AASB 124 Related Party Disclosures
- AASB 2005-1 Amendments to Australian Accounting Standards (May 2005) amending AASB 139 Financial Instruments: Recognition and Measurement
- AASB 2005-3 Amendments to Australian Accounting Standards (May 2005) amending AASB 119 Employee Benefits (either July or December 2004)
- AASB 2005-4 Amendments to Australian Accounting Standards (June 2005) amending AASB 139 Financial Instruments: Recognition and Measurement, AASB 132 Financial Instruments: Disclosure and Presentation, AASB 1 First-time Adoption of Australian General Insurance Contracts and AASB 1038 Life Insurance Contracts
- AASB 2005-6 Amendments to Australian Accounting Standards (June 2005) amending AASB 3 Business Combinations
- AASB 2006-1 Amendments to Australian Accounting Standards (January 2006) amending AASB 121 The Effects of Changes in Foreign Exchange Rates (July 2004)
- UIG 4 Determining whether an Arrangement contain a Lease
- UIG 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- UIG 7 Applying the Restatement Approach under AASB 129 Financial Reporting in hyperinflationary Economics
- UIG 8 Scope of AASB 2.

The following standards and amendments were available for early adoption but have not been applied by the consolidation entity in these financial statements:

- AASB 7 Financial instruments: Disclosure (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2005-9 Amendments to Australian Accounting Standards (September 2005) requires that liabilities arising from the issue of financial guarantee contracts are recognizing in the balance sheet. AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006
- AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 Financial Instruments: Disclosures and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117 Leases, AASB 133 Earnings per share, AASB 139 Financial Instruments: Recognition and Measurement, AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards. AASB 1038 Life Insurance Contracts, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of Preparation (continued)

The consolidated entity plans to adopt AASB 7, AASB 2005-9, AASB 2005-10 in the 2007 financial year.

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Company and the consolidated entity as the standard and the amendment are concerned only with disclosure.

The initial application of AASB 2005-9 could have an impact on the financial results for the Company and the consolidated entity as the amendment could result in the liabilities being recognised for financial guarantee contracts that have been provided by the Company and the consolidated entity. However, the quantification of the impact is not know or reasonably estimable in the current financial year as an exercise to quantify the financial impact has not been undertaken by the Company and the consolidated entity to date.

The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments held for trading.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by Class Order 05/641 effective 28 July 2005 and Class Order 06/51 effective 3 January 2006) and in accordance with the Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. 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 judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

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 and future periods if the revision affects both current and future periods.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and by all entities in the consolidated entity.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken to account. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

(ii) Joint ventures (Jointly controlled operations)

Joint ventures are those entities over whose activities the consolidated entity has joint control, established by contractual agreement.

The interest of the Company and of the consolidated entity in unincorporated joint ventures and jointly controlled assets are bought to account by recognising in its financial statements the assets it controls and the liabilities that it incurs, and the expenses it incurs and its share of income that it earns from the sale of goods and services by the joint venture.

(iii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED

(d) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

(e) Derivative financial instruments

The consolidated entity uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational and financing activities. The consolidated entity does not hold or issue derivative financial instruments for speculative purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit and loss. However, where derivatives qualify for hedge accounting, recognition of any gain or loss depends on the nature of the item being hedged (see accounting policy f)

(f) Hedging

On entering into a hedging relationship, the consolidated entity formally designates and documents the hedge relationship and risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and hoe the entity will assess the hedging instruments effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

Cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecasted transaction the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecasted transaction subsequently results in the recognition of a non-financial asset, or the forecast transaction for a non-financial asset, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same periods during which the asset acquired effects profit and loss. For cash flow hedges, other than those described above, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedges forecast transaction effects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

(g) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy k). The cost of self constructed assets includes the cost of raw material, direct labour, the initial estimate, where relevant, of costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate portion of production overheads.

Mining property and development assets include costs transferred from exploration and evaluation assets once technical feasibility and commercial viability of an area of interest are demonstrable and subsequent costs to develop the mine to production phase.

Notes to the financial statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Property, plant and equipment (continued)

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Subsequent costs
The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefit embodied with the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iii) Depreciation
All assets, including intangibles, have limited useful lives and are depreciated/amortised using the straight line or diminishing value methods over their estimated useful lives, with the exception of freehold land (which is not depreciated), mining property, plant and equipment (which are amortised on a units of production basis over the life of the economically recoverable reserves).

The estimated useful lives (including useful life based on current production basis) in the current and comparative periods are as follows:

Freehold buildings	7-12 years
Plant and equipment	7-12 years
Office equipment, furniture and fittings	4-5 years
Motor vehicles	4-5 years
Mining property and development	7-12 years

The residual value, the effective life and the depreciation method applied to an asset are assessed at least annually.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

(i) Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses (see policy k)

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost is determined as follows:

(i) Coal Stocks are determined using a weighted average basis. Costs include direct material, overburden removal, mining, processing, labour, related transportation costs to the point of sale, mine rehabilitation costs incurred in the extraction process and other fixed and variable overhead costs directly related to mining activities.

(ii) Consumables – comprising average cost or purchase price plus freight and associated charges.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment

The carrying amounts of the consolidated entity's assets, other than inventories (see policy j) and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indications exist, the asset's recoverable amount is estimated, as described below.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of the consolidated entity's receivables carried at amortised costs is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Exploration, evaluation and development

Exploration and evaluation

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the consolidated entity has obtained the legal rights to explore and area are recognized in the income statement.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

(i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or

(ii) activities in the area of interest have not at the reporting date, reached a stage which permits reasonable assessment of the existence or other wise of economically recoverable reserves and active and significant operations, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment, accounting policy (k)). For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from intangible assets to mining property and development assets within property, plant and equipment.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

(m) Waste in advance

Expenditure incurred to remove overburden or waste material during the production phase of a mining operation is deferred to the extent it gives rise to future economic benefits and charged to operating costs on a units of production basis using the estimated average stripping ratio for the area being mined. Changes in estimates of average stripping ratios are accounted for prospectively.

For the purposes of assessing impairment, waste in advance is grouped with other assets of the relevant cash generating unit.

(n) Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, classified as available-for-sale are measured at fair value. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the consolidated entity has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date i.e. the date that the consolidated entity commits to purchase the asset.

(o) Interest-bearing loans and borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any differential between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(p) Provisions

Provisions are recognised when the consolidated entity has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

(p) Provisions (continued)

Dismantling
Provision is made for close-down and restoration costs (which include the dismantling and demolition of infrastructure and removal of residual materials) at the end of mine life in the accounting period when the obligation arises, based on the estimated future costs. At the time of establishing the provision, a corresponding asset is recognised (where it gives rise to a future benefit) and is depreciated in accordance with the policy set out in accounting policy (g).

The provision does not include allowances for unforeseeable events and is reviewed on an annual basis for changes in cost estimates or life of operations.

Rehabilitation
Provisions are made for site rehabilitation costs relating to areas disturbed during the mine's operation up to reporting date but not yet rehabilitated. The provision is based on estimated future costs in accordance with undiscounted security bonds lodged with the Department of Mineral Resources future cost calculations. These provisions are not discounted as the site is rehabilitated on a continual basis over the life of the mine. When the provision is recognised, the corresponding rehabilitation costs are recognised as part of mining property and development assets.

At each reporting date the rehabilitation liability is re-measured in line with changes in the timing or amount of the costs to be incurred. Changes in the liability relating to rehabilitation of mine infrastructure and dismantling obligations are added to or deducted from the related asset.

If the change in the liability results in a decrease in the liability that exceeds the carrying amount of the asset, the asset is written down to nil and the excess is recognized immediately in the income statement. If the change in the liability results in an addition to the cost of the asset, the recoverability of the new carrying value is considered. Where there is an indication that the new carrying amount is not fully recoverable, an impairment test is performed with the writedown recognized in the income statement in the period in which it occurs.

The amount of the provision relating to the rehabilitation of environmental disturbance caused by on-going production and extraction activities is recognized in the income statement as incurred. Changes in the liability are charged to the income statement as rehabilitation expense.

(q) Revenue

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 also be met before revenue is recognised:

(i) *Sale of coal*
Revenue from the sale of coal is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(ii) *Dividends*
Revenue is recognised when the shareholders' right to receive the payment is established.

(iii) *Rental income*
Rental income arising on land surrounding the mine sites are accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned.

(r) Income tax

Income tax on the profit and loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of prior years.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

(r) Income tax (continued)

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and the differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that the future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation

The Company is the head entity in a tax-consolidated group comprising the Company and all of its Australian wholly owned subsidiaries. The implementation date for the tax-consolidated group was 1 January 2004.

The current and deferred tax amounts for the tax-consolidated group are allocated among the entities in the group such that each entity in the tax-consolidated group measures its current and deferred taxes based on the group allocation method. Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of assets and liabilities in the respective entity's balance sheet and their tax values applied under the group allocation method.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the head entity from the subsidiaries in the tax consolidated group are recognised in conjunction with any tax funding arrangement amounts. Any difference between these amounts is recognised by the Company as an equity contribution to or distribution from the subsidiary. Distributions firstly reduce the carrying amount of the investment in the subsidiary and are then recognised as revenue.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that the future taxable profits of the tax-consolidated group will be available against which the asset can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

Nature of tax funding and tax sharing agreements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members or the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding agreement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The members of the tax-consolidated group have entered into a valid Tax Sharing Agreement under the tax consolidation legislation which sets out the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations and the treatment of entities leaving the tax consolidated group. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(s) Goods and services taxes

Revenues, expenses and assets are recognised net of the amount of GST except where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

(s) Goods and services taxes (continued)

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(t) Segment reporting

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(u) Employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages and salaries and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when liabilities are settled.

(ii) Defined contribution plans

The Company and other controlled entities contribute to several defined contribution pension plans. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

(ii) Share based payment transactions

The consolidated entity provides benefits to some employees and directors of the consolidated entity in the form of share-based payment transactions. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the binomial option-pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

(v) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method. Interest income is recognised in the income statement as it accrues, using the effective interest method.

(w) Share Capital

(i) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from total equity.

(ii) Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

(x) Trade and other payables

Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and normally settled within 60 days.

2. SEGMENT INFORMATION

The consolidated entity operates in one primary business segment, being coal mining. The coal mining activity is conducted within the Gloucester Basin of New South Wales, Australia and the related revenue is derived from the sale of coal to overseas and domestic customers.

	Consolidated		Parent	
	2006 12 months $'000	2005 6 months $'000	2006 12 months $'000	2005 6 months $'000
Sales revenue by destination for the period is broken up as follows:				
SALES REVENUE BY DESTINATION				
Australia	493	2,510	394	-
Asia	153,202	51,437	122,631	41,800
	153,695	53,947	123,025	41,800

3. OTHER OPERATING INCOME

Rental income	156	87	58	-
Unrealised foreign exchange gain	209	201	258	199
Other	55	14	355	14
	420	302	671	213

4. FINANCING EXPENSES

Interest paid or payable on interest bearing loans	2,376	2,045	2,376	2,045
Loan establishment fee	360	174	360	174
Interest expense (unwinding of effective discount on provisions)	46	23	46	18
	2,782	2,242	2,782	2,237

5. OTHER OPERATING EXPENSES

Net loss on disposal of Property, plant & equipment	6	93	4	71
	6	93	4	71

6. PERSONNEL EXPENSES

Wages and Salaries	5,595	2,210	4,893	1,937
Contributions to defined contribution plans	255	195	204	171
Equity settled transactions - Options	380	104	380	104
Equity settled transactions - Employee Share Plan	37	33	37	33
	6,267	2,542	5,514	2,245

	Consolidated 2006 12 Months $'000	Consolidated 2005 6 Months $'000	Parent 2006 12 Months $'000	Parent 2005 6 Months $'000
7. INCOME TAX EXPENSE				
Recognised in the income statement				
Current tax expense/(benefit)				
Current year	13,432	646	(626)	(1,947)
Deferred tax expense				
Origination and reversal of temporary differences	1,590	2,996	(88)	1,827
Benefit of tax losses recognised	(5,769)	-	(5,769)	-
Total Income tax expense/(benefit) in income statement	9,253	3,642	(6,483)	(120)
Numerical reconciliation between tax expense and pre-tax net profit				
Profit / (loss) before income tax	49,592	12,134	(2,858)	(407)
Income tax using the domestic corporation tax rate of 30%	14,878	3,640	(857)	(122)
Increase in income tax expense / (benefit)due to:				
Expenditure not allowable for income tax purposes	144	2	143	2
Decrease in income tax expense due to:				
Recognition of deferred tax assets	(5,769)	-	(5,769)	-
Income tax expense/(benefit) on pre-tax profit	9,253	3,642	(6,483)	(120)

7. INCOME TAX (CONTINUED)	Consolidated		Parent	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Deferred tax assets and liabilities				
Deferred tax assets and liabilities are attributable to the following:				
Deferred tax liabilities – amounts recognised in profit or loss				
Fair value of derivatives	-	70	-	70
Property, plant and equipment	8,343	7,850	51	470
Waste in advance	5,485	4,095	2,606	2,274
Revaluation of foreign currency receivables	4	-	4	-
	13,832	12,015	2,661	2,814
Deferred tax liabilities – amounts recognised directly in equity				
Fair value of derivatives	241	145	241	145
Deferred tax liabilities	14,073	12,160	2,902	2,959
Deferred tax assets – amounts recognised in profit or loss				
Employee benefits	146	81	132	72
Revaluation of foreign currency receivables	-	36	-	36
Provisions	1,220	1,022	830	789
Value of tax losses carried forward	7,416	15,079	7,416	15,079
Deferred tax assets	8,782	16,218	8,378	15,976
Net tax asset / (liability)	(5,291)	4,058	5,476	13,017

Recognised deferred tax assets and liabilities

At 30 June 2006, a deferred tax liability of $4,969,000 (2005: $4,969,000) relating to an investment in a subsidiary has not been recognised because the company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of tax losses for the consolidated entity of $497,000 (2005: $6,266,000). Tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised because it is not probable that future benefit will be realised from these losses.

Notes to the financial statements (continued)

8. EARNINGS PER SHARE

Basic earnings and dilutive earnings per share

The calculation of basic earnings per share at 30 June 2006 was based on profit attributable to ordinary shareholders of $40,339,000 (2005: $8,492,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2006 of 79,352,000 (2005: 77,914,000), calculated as follows:

	2006 000's	2005 000's
Issued ordinary shares at beginning of period	77,919	77,903
Effect of shares issued during the period (weighted average)	3,440	11
Effect of shares bought back during the period (weighted average)	(2,007)	-
Weighted average number of ordinary shares at the end of the period	79,352	77,914

	2006 12 months Cents	2005 6 months cents
Basic earnings per share		
From continuing operations	50.8	10.9
Diluted earnings per share	50.8	10.9
From continuing operations		

Options to purchase ordinary shares not exercised at 30 June 2006 have not been included in the determination of diluted earnings per share as the options are out of the money. Full details of options are set out in note 32.

9. DIVIDENDS PAID AND PROPOSED

During the financial year, the directors declared and paid the following dividends.

	Cents per share	Total Amount $000's	Franked amount per share	Date of payment
2005 – Final - Ordinary	10 cents	8,207	-	30 September 2005
2006 – Interim - Ordinary	11 cents	8,692	-	28 February 2006

There were no dividends paid or declared in the financial period ended 30 June 2005 and there are no franking credits available to the Company as at 30 June 2006.

Refer to note 27 for information on dividends declared subsequent to year end.

10. CASH AND CASH EQUIVALENTS

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Bank balances	13,593	603	13,456	464

Reconciliation of cash flows from operating activities

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Cash flows from operating activities				
Profit / (loss) after income tax	40,339	8,492	3,626	(287)
Adjustments for:				
(Profit)/loss on sale of assets	6	93	4	71
Depreciation and amortisation	6,271	3,541	5,274	1,076
Loan fee amortisation	360	146	360	146
Equity settled share based payment expenses	417	137	417	137
Increase in hedge reserve	224	-	224	-
Investment Income	(3)	-	(3)	-
Interest Income	(421)	(74)	(404)	(74)
Unrealised foreign exchange hedge gains	-	339	-	339
Operating profit before changes in working capital and provisions net of acquisitions				
Increase/(Decrease) in creditors and provisions	594	(1,792)	12,120	(2,381)
(Increase)/decrease in deferred tax asset	7,436	(1,212)	10,500	(2,487)
(Increase)/Decrease in receivables	6,439	1,872	4,673	1,599
(Increase)/Decrease in inventories	(1,933)	(733)	(1,304)	(560)
(Increase)/Decrease in waste in advance	(3,551)	(1,393)	(23)	(797)
Increase/(Decrease) in deferred tax liability	1,913	4,920	(2,959)	2,512
Increase in intercompany due to utilisation of taxation losses	-	-	(13,927)	-
Net cash (outflow) / inflow from operating activities	58,091	14,336	18,578	(706)

11. TRADE AND OTHER RECEIVABLES (CURRENT)

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Trade receivables and prepayments	5,929	12,331	6,137	10,773
Fair value derivatives	804	717	804	717
	6,733	13,048	6,941	11,490

12. INVENTORIES

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Coal stocks	6,319	4,002	4,798	3,102
Consumables	1,029	873	823	675
	7,348	4,875	5,621	3,777

13. NON-CURRENT ASSETS - RECEIVABLES

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Loans to controlled entities	-	-	-	16,494

Notes to the financial statements

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land $'000	Buildings $'000	Plant & equipment $'000	Office Equipment $'000	Motor Vehicles $'000	Mining property & development $'000	Total $'000
Consolidated							
Cost							
Balance 1 January 2005	9,371	442	43,649	525	341	46,235	100,563
Additions	-	-	538	8	108	1,290	1,944
Disposals	-	(3)	(190)	(382)	-	(174)	(749)
Balance 30 June 2005	9,371	439	43,997	151	449	47,351	101,758
Balance 1 July 2005	9,371	439	43,997	151	449	47,351	101,758
Acquired through business combinations	532	38	457	5	34	7,374	8,440
Additions	5,111	-	3,262	109	86	1,862	10,430
Disposals	-	-	(17)	-	(53)	-	(70)
Balance 30 June 2006	15,014	477	47,699	265	516	56,587	120,558
Depreciation and amortisation							
Balance 1 January 2005	-	215	19,186	392	93	19,104	38,990
Depreciation and amortisation for the period	-	12	1,370	14	30	2,115	3,541
Disposals	-	(2)	(105)	(375)	-	(174)	(656)
Balance 30 June 2005	-	225	20,451	31	123	21,045	41,875
Balance 1 July 2005	-	225	20,451	31	123	21,045	41,875
Depreciation and amortisation for the period	-	54	1,609	40	117	4,451	6,271
Disposals	-	-	(17)	-	(30)	-	(47)
Balance 30 June 2006	-	279	22,043	71	210	25,496	48,099
Carrying Amounts							
At 1 January 2005	9,371	227	24,463	133	248	27,131	61,573
At 30 June 2005	9,371	214	23,546	120	326	26,306	59,883
At 1 July 2005	9,371	214	23,546	120	326	26,306	59,883
At 30 June 2006	15,014	198	25,656	194	306	31,091	72,459

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold Land $'000	Buildings $'000	Plant & equipment $'000	Office Equipment $'000	Motor Vehicles $'000	Mining property & development $'000	Total $'000
Parent							
Cost							
Balance 1 January 2005	3,718	270	22,865	506	330	10,664	38,353
Additions	-	-	113	8	84	-	205
Disposals	-	-	(148)	(297)	-	(135)	(580)
Balance 30 June 2005	3,718	270	22,830	217	414	10,529	37,978
Balance 1 July 2005	3,718	270	22,830	217	414	10,529	37,978
Acquired through business combinations	532	38	457	5	34	7,374	8,440
Additions	5,110	-	2,105	98	68	44	7,425
Disposals	-	-	(16)	-	(43)	-	(59)
Balance 30 June 2006	9,360	308	25,376	320	473	17,947	53,784
Depreciation and amortisation							
Balance 1 January 2005	-	177	16,368	400	105	7,458	24,508
Depreciation and amortisation for the period	-	6	522	12	24	512	1,076
Disposals	-	-	(82)	(292)	-	(135)	(509)
Balance 30 June 2005	-	183	16,808	120	129	7,835	25,075
Balance 1 July 2005	-	183	16,808	120	129	7,835	25,075
Depreciation and amortisation for the period	-	43	1,374	56	159	3,642	5,274
Disposals	-	-	(16)	-	(25)	-	(41)
Balance 30 June 2006	-	226	18,166	176	263	11,477	30,308
Carrying Amounts							
At 1 January 2005	3,718	93	6,497	106	225	3,206	13,845
At 30 June 2005	3,718	87	6,022	97	285	2,694	12,903
At 1 July 2005	3,718	87	6,022	97	285	2,694	12,903
At 30 June 2006	9,360	82	7,210	144	210	6,470	23,476

15. INTANGIBLE ASSETS – EXPLORATION AND EVALUATION

	Consolidated $'000	Parent $'000
Balance 1 January 2005	63	-
Additions	87	22
Balance 30 June 2005	150	22
Balance 1 July 2005	150	22
Additions	1,016	491
Balance 30 June 2006	1,166	513

The recoverability of the carrying amounts of exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest.

	Consolidated		Parent	
	30 Jun 2006 $'000	30 Jun 2005 $'000	30 Jun 2006 $'000	30 Jun 2005 $'000
16. WASTE IN ADVANCE				
Waste in Advance	18,284	13,650	8,687	7,581
17. INVESTMENTS				
Current				
Security deposits	-	200	-	200
Non-current				
Shares in controlled entities (net of impairment losses)	-	-	16,565	16,565
Unlisted investments available for sale	49	49	49	49
Security deposit	128	127	76	117
	177	176	16,690	16,731
Impairment losses of $60,000 have been recorded in respect of the controlled entities				
18. TRADE AND OTHER PAYABLES				
Current				
Trade payables and accrued expenses	16,504	14,761	25,964	12,391
Non-Current				
Loans from controlled entities	-	-	5,543	-

19. INTEREST-BEARING LOANS AND BORROWINGS

This note provides information about contractual terms of the consolidated entity's interest-bearing loans and borrowings. For more information about the consolidated entity's exposure to interest rates and foreign currency risk, see note 23.

	Effective interest rate	Maturity	Consolidated 30 Jun 2006 $'000	Consolidated 30 Jun 2005 $'000	Parent 30 Jun 2006 $'000	Parent 30 Jun 2005 $'000
Current						
Bank Loans - Secured	-	30-08-05	-	2,210	-	2,210
Bank Loans - Secured	-	30-11-05	-	2,211	-	2,211
Bank Loans - Secured	-	30-09-05	-	5,820	-	5,820
Bank Loans - Secured	-	31-03-06	-	5,820	-	5,820
			-	16,061	-	16,061
Non-current						
Bank Loans – Secured (1)	6.9%	31-03-08	29,401	23,470	29,401	23,470

Secured bank loan
Bank loans are secured over the assets of the consolidated entity.
Bank loans represent bank facilities drawn down less capitalised facility establishment costs.

Financing facilities

	Consolidated 30 Jun 2006 $'000	Consolidated 30 Jun 2005 $'000	Parent 30 Jun 2006 $'000	Parent 30 Jun 2005 $'000
At reporting date, the following financing facilities had been negotiated and were available:				
Total facilities: - Bank loans	36,000	40,421	36,000	40,421
Total facilities: - Bank Guarantees	6,000	5,049	6,000	5,049
Facilities used at reporting date - Bank loans (2)	30,000	40,421	30,000	40,421
Facilities used at reporting date - Bank Guarantees	5,543	5,049	5,543	5,049
	35,543	-	35,543	-
Facilities unused at reporting date	457	-	457	-

(1) Included in the above bank loans are capitalised loan establishment fees of $599,000 (2005: $890,000) which are being amortised over the term of the loan.

(2) On 31 March 2006, the Company amended its loan facility. The primary effect of the amendment was to remove the obligation to make bi-annual principal repayments. The refinanced facility now has a maturity date of 31 March 2008.

20. PROVISIONS

	Consolidation Rehabilitation $'000	Consolidation Dismantling $'000	Consolidation Total $'000	Parent Rehabilitation $'000	Parent Dismantling $'000	Parent Total $'000
At 1 July 2005	2,934	450	3,384	1,921	450	2,371
Provisions made during the period	638	-	638	351	-	351
Unwinding of discount	-	46	46	-	46	46
At 30 June 2006	3,572	496	4,068	2,272	496	2,768
Current 2006	-	-	-	-	-	-
Non-current 2006	3,572	496	4,068	2,272	496	2,768
	3,572	496	4,068	2,272	496	2,768
Current 2005	-	-	-	-	-	-
Non-current 2005	2,934	450	3,384	1,921	450	2,371
	2,934	450	3,384	1,921	450	2,371

Site Restoration and dismantling

Provision is made for mine site restoration and dismantling of the mining infrastructure.

The provision for mine rehabilitation has been recognised in relation to the consolidated entity's coal mining operations. The basis for accounting is set out in note (o) of the significant accounting policies.

21. EMPLOYEE BENEFITS

	Consolidated 30 Jun 2006 $'000	Consolidated 30 Jun 2005 $'000	Parent 30 Jun 2006 $'000	Parent 30 Jun 2005 $'000
Current				
Liability for long service leave	7	-	7	-
Liability for annual leave	364	266	318	238
	371	266	325	238
Non-current				
Liability for long service leave	115	3	115	3
	115	3	115	3

Share based payments

All employees employed by the consolidated group were offered 386 shares each under a $1,000 Tax Exempt Employee Share Plan in February 2006 at a price of $2.59 per share, resulting in 14,668 ordinary shares being issued.

Employee Share option plan

On 18 May 2005, the consolidated entity established a share option program that entitles Executive Directors and other key management personnel to purchase shares in the entity. On 19 July 2006 a further grant on similar terms has been offered to these employees. In accordance with these programmes options are exercisable at prices specified by the Board at the date of issue were issued options in accordance with the schemes rules and regulations. For details of the options issued, refer to note 32.

21. EMPLOYEE BENEFITS (continued)

The terms and conditions of options granted under this plan are as follows:

Grant Date / employee entitled	Number of options	Vesting date	Vesting conditions	Contractual life of options
Options granted to key management at 18 May 2005	2,100,000	23 March 2007	2 Years of service	5 years

The number and weighted average exercise prices of share options is as follows:

	Weighted average exercise price 2006	Number of options 2006	Weighted average exercise price 2005	Number of options 2005
Outstanding at the beginning of the period	$4.00	2,100,000	-	-
Issued during the period	-	-	$4.00	2,100,000
Outstanding at the end of the period	$4.00	2,100,000	$4.00	2,100,000

The options outstanding at 30 June 2006 have an exercise price of $4.00 and a contractual life of 4.75 years.

On 19 July 2006, a further 700,000 share options were issued to key management personnel at an exercise price of $3.17, these options vest on 21 June 2008, subject to the vesting conditions of 2 years service and have a contractual life of 5 years.

The following table summarises the key assumptions adopted for options granted to key management personnel to 30 June 2006:

Grant date	18 May 2005
Expiry date	18 May 2010
Vesting Date	18 May 2007
Share price at time of grant	$3.02
Exercise price	$4.00
Estimated Volatility	44%
Expected life	3.5 years
Risk free rate	5.16%
Dividend yield	11.3%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Share options are granted under a service condition.

Equity settled employee expenses are as follows:

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Share options granted in 2005	380	104	380	104
Shares granted under Employee Share Plan	37	33	37	33
	417	137	417	137

Notes to the financial statements (continued)

22. ISSUED CAPITAL AND RESERVES

	Consolidated					Parent Entity				
	Share Capital $'000	Equity Reserve $'000	Hedge Reserve $'000	Accum. losses $'000	Total $'000	Share Capital $'000	Equity Reserve $'000	Hedge Reserve $'000	Accum. Losses $'000	Total $'000
At 1 January 2005	120,842	-	1,660	(91,112)	31,390	120,842	-	1,660	(92,886)	29,616
Share based payments – options	-	104	-	-	104	-	104	-	-	104
Share based payments – employees	33	-	-	-	33	33	-	-	-	33
Total recognised income and expense	-	-	(1,321)	8,492	7,171	-	-	(1,321)	(287)	(1,608)
At 30 June 2005	120,875	104	339	(82,620)	38,698	120,875	104	339	(93,173)	28,145
At 1 July 2005	120,875	104	339	(82,620)	38,698	120,875	104	339	(93,173)	28,145
Shares Issued	13,778	-	-	-	13,778	13,778	-	-	-	13,778
Share buy-back	(12,547)	-	-	-	(12,547)	(12,547)	-	-	-	(12,547)
Share based payments – options	-	380	-	-	380	-	380	-	-	380
Share based payments – employees	37	-	-	-	37	37	-	-	-	37
Total recognised income and expense	-	-	224	40,339	40,563	-	-	224	3,626	3,850
Dividends	-	-	-	(16,899)	(16,899)	-	-	-	(16,899)	(16,899)
At 30 June 2006	122,143	484	563	(59,180)	64,010	122,143	484	563	(106,446)	16,744

Movements in ordinary share capital

Date	Details	Number of Fully paid ordinary shares	$'000
1 July 2005	Balance	77,919,885	120,875
1 September 2005	Issued for cash	4,150,000	13,778
Various	Share buy back	(4,240,395)	(12,547)
3 February 2006	Employee Share Plan	14,668	37
30 June 2006	Balance	77,844,158	122,143

On 1 September 2005 the Company made a share placement to ITOCHU Corporation of 4,150,000 shares at a price of $3.32 per share, raising $13,778,000. Funds raised by the share placement have been principally utilised to acquire ITOCHU's share of the Stratford Joint Venture, (freehold land, facilities, coal handling plant, operations and resources).

On 7 September 2005 the Company announced that it would undertake an on market buy-back of up to 10% of its issued capital. During the year ended 30 June 2006, 4,240,395 shares were bought back at an average price of $2.96 per share. The current buy-back expires on 7 September 2006.

Ordinary Shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

22. ISSUED CAPITAL AND RESERVES (consolidated)

Hedge Reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred.

Equity Reserve

The equity reserve represents the value of shares held by an equity compensation plan that the consolidated entity is required to include in the consolidated financial statements. This reserve will be reversed against share capital when the underlying shares vest in the employee. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the consolidated entity's own equity instruments.

23. FINANCIAL INSTRUMENTS

Exposure to currency risks arises in the normal course of the consolidated entity's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates.

Foreign currency risk

The consolidated entity is exposed to foreign currency risk on sales that are denominated in a currency other the AUD. The currency giving rise to this risk is U.S. dollars.

The consolidated entity's Hedging Policy is to hedge no less than 80% and up to 100% of sales of each customer's contract at the time of execution, denominated in the currency of the contract, usually U.S. dollars. The consolidated entity uses forward exchange contracts to hedge its foreign currency risk. Most of the forward exchange contracts have maturities of less than one year after balance sheet date. Where necessary, the forward exchange contracts are rolled forward at maturity so as to mature at a later date.

In respect of other monetary assets and liabilities held in currencies other than AUD, the consolidated entity ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short term imbalances.

Forecasted transactions

The consolidated entity classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value.

The net fair value of forward exchange contracts used as hedges of forecasted transactions at 30 June 2006 was $804,000 (2005: $717,000) comprising assets that were recognised in fair value derivatives.

Commodity price risk

The consolidated entity is exposed to fluctuation in coal price. The consolidated entity does not hedge against the movement in the spot coal price but has entered into a small proportion of coal sales contracts for delivery periods exceeding 12 months, subject to the foreign currency risk management policies and procedures as detailed above.

Credit risk

The consolidated entity trades only with recognised, creditworthy third parties.

Receivable balances are monitored on an ongoing basis with the result that the consolidated entity's exposure to bad debts is not significant. There are no significant concentrations of credit risk within the consolidated entity.

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the consolidated entity's financial instruments that are carried in the financial statements.

23. FINANCIAL INSTRUMENTS (continued)

	Carrying amount 2006 $'000	Fair value 2006 $'000	Carrying amount 2005 $'000	Fair value 2005 $'000
CONSOLIDATED				
Financial assets				
Cash	13,593	13,593	603	603
Trade and other receivables	5,929	5,929	12,331	12,331
Derivatives	804	804	717	717
Other financial assets (current)	-	-	200	200
Other financial assets (non-current)	177	177	176	127
Financial liabilities				
Trade and other payables	16,504	16,504	14,761	14,761
Interest bearing loans and borrowings:				
Floating rate borrowings	29,401	29,401	39,531	39,531
PARENT				
Financial assets				
Cash	13,456	13,456	464	464
Trade and other receivables	6,137	6,137	10,773	10,773
Derivatives	804	804	717	717
Other financial assets (current)	-	-	200	200
Other financial assets (non-current)	125	125	176	127
Financial liabilities				
Trade and other payables	25,964	25,964	12,391	12,391
Interest bearing loans and borrowings:				
Floating rate borrowings	29,401	29,401	39,531	39,531

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Derivatives
Forward exchange contracts are marked to market using listed market prices.

Interest-bearing loans and borrowings
Fair value is calculated based on expected future principal and interest cash flows.

Trade and other receivables/payables
For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

23. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

The following table sets out the carrying amount, by maturity, of the financial instruments that are exposed to interest rate risk:

As at 30 June 2006	<1 year $'000	>1-<2 years $'000	>2-<5 years $'000	Total $'000	Effective interest rate
CONSOLIDATED					
Floating rate					
Cash assets	13,593	-	-	13,593	3.4%
Interest bearing liabilities	-	29,401	-	29,401	6.9%
PARENT					
Floating rate					
Cash assets	13,456	-	-	13,456	3.3%
Interest bearing liabilities	-	29,401	-	29,401	6.9%

As at 30 June 2005	<1 year $'000	>1-<2 years $'000	>2-<5 years $'000	Total $'000	Effective interest rate
CONSOLIDATED					
Floating rate					
Cash assets	603	-	-	603	4.5%
Interest bearing liabilities	16,061	11,735	11,375	39,531	7.2%
PARENT					
Floating rate					
Cash assets	464	-	-	464	4.5%
Interest bearing liabilities	16,061	11,735	11,375	39,531	7.2%

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year.

24. CONTINGENT LIABILITIES

	Consolidated		Parent	
	30 Jun 2006 $'000	30 Jun 2005 $'000	30 Jun 2006 $'000	30 Jun 2005 $'000
Secured guarantees for satisfactory contract performance	5,543	5,049	5,543	5,049

No material losses are expected in respect of any of the above contingent liabilities

25. INTEREST IN JOINT VENTURE OPERATION

The consolidated entity, via two legal entities, has a 100% (2005: 90%), and the Company an 80% (2005: 70%) participating interest in the Stratford Joint Venture, whose principal activity is coal mining. Included in the assets and liabilities of the consolidated entity's interest are the following assets and liabilities employed in the joint venture operation.

	Consolidated		Parent	
	30 Jun 2006 $'000	30 Jun 2005 $'000	30 Jun 2006 $'000	30 Jun 2005 $'000
Current assets				
Cash	548	435	439	338
Receivables	2,894	1,112	2,315	865
Inventories	7,026	4,856	5,620	3,777
Total current assets	10,468	6,403	8,374	4,980
Non-current assets				
Property, plant & equipment	16,881	16,617	13,505	12,925
Other – Waste in advance	10,859	9,747	8,687	7,581
Total non-current assets	27,740	26,364	22,192	20,506
Total assets	38,208	32,767	30,566	25,486
Current liabilities				
Payables	7,155	7,058	5,724	5,490
Provisions	-	-	-	-
Employee entitlements	230	140	184	109
Total Current liabilities	7,385	7,198	5,908	5,599
Non-current liabilities				
Provisions – site restorations	2,453	2,536	1,962	1,972
Total Liabilities	9,838	9,734	7,870	7,571
Net assets	28,370	23,033	22,696	17,915

Other than noted in note 30(a), there were no impairment losses or other commitments in the jointly controlled operation.

26. CONSOLIDATED ENTITES

The consolidated financial statements include the financial statements of Gloucester Coal Ltd and the subsidiaries listed in the following table.

Name	Country of incorporation	% Ownership interest	
		2006	2005
Parent Entity			
Gloucester Coal Ltd			
Significant subsidiaries			
Westralian Prospectors NL	Australia	100	100
Eucla Mining NL	Australia	100	100
CIM Duralie Pty Ltd	Australia	100	100
CIM Stratford Pty Ltd	Australia	100	100
CIM Services Pty Ltd	Australia	100	100
CIM Mining Pty Ltd	Australia	100	100
Stratford Coal Pty Ltd	Australia	100	90
Stratford Coal Marketing Pty Ltd	Australia	100	90
Duralie Coal Pty Ltd	Australia	100	100
Duralie Coal Marketing Pty Ltd	Australia	100	100

27. EVENTS AFTER THE BALANCE SHEET DATE

Dividends

Since the end of the financial year, the directors declared the following dividend.

	Cents per share	Total Amount $000's	Franked amount per share	Date of payment
2006 – final – Ordinary	12 cents	9,341	-	6 October 2006

The financial effect of the final dividend for June 2006 has not been brought to account in the financial statements for the period ended 30 June 2006 but will be recognised in subsequent financial reports.

Clareval Seam

On 21 August 2006, the Company announced that drilling of the Clareval Seam on the prospective Eastern side of the Gloucester Basin had successfully identified thick intersections of shallow coal. The Directors believe this could lead to a doubling of the reserves on the Eastern side of the Basin which are presently quoted at 6.5 million tonnes and increase mine reserves at Duralie to over 25 million tonnes.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future years.

28. AUDITORS REMUNERATION

	Consolidated		Parent Entity	
	30 June 2006 12 Months $	30 June 2005 6 Months $	30 June 2006 12 Months $	30 June 2005 6 Months $
Audit Services				
Auditors of the Company				
KPMG Australia				
Audit and review of financial reports	90,471	57,500	90,471	57,500
Other regulatory assurance services	5,400	-	5,400	-
Other Auditors:				
PricewaterhouseCoopers Australia	12,000	-	12,000	-
Audit and review of financial reports				
	107,871	57,500	107,871	57,500
Other Services				
Auditors of the Company				
KPMG Australia				
Taxation Services	22,173	-	22,173	-
	27,573	-	27,573	-

29. ACQUISITION OF INTEREST IN JOINT VENTURE

On 1 September 2005, the Company completed the acquisition of ITOCHU Corporation's ("ITOCHU") 10% interest in the Stratford Joint Venture. The consolidated entity now owns, through two separate legal entities, 100% of the Stratford Joint Venture. Consideration paid was $8,300,000, representing the fair value of the 10% joint venture holding. The acquisition had the following effect on the entity's assets and liabilities.

Interest in acquiree's net assets at the acquisition date

	Recognised Values $'000	Fair value adjustments $'000	Carrying Amounts $'000
Trade & other receivables	124	-	124
Inventories	540	-	540
Mine property, plant & equipment including (reserves /resources)	8,440	2,146	6,294
Waste in advance	1,083	-	1,083
Trade & other payables	(1,834)	-	(1,834)
Provisions	(53)	-	(53)
Net identifiable assets and liabilities	8,300	2,146	6,154

Consideration paid, satisfied in cash (1)	8,312
Cash acquired	(12)
Net Cash outflow	8,300

(1) Includes stamp duty and legal fees of $540,000

30. COMMITMENTS

a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	Consolidated		Parent	
	30 Jun 2006 $'000	30 Jun 2005 $'000	30 Jun 2006 $'000	30 Jun 2005 $'000
Property, plant and equipment payable within one year	632	-	506	-

30. COMMITMENTS (continued)

b) Operating lease commitments

During the year, the group leased office space under a non-cancellable operating lease expiring 31 May 2011. The lease has an escalation rate based on the consumer price index and option to renew for a further 5 years. The non-cancellable operating lease rentals are payable as follows

	Consolidated		Parent	
	30 Jun 2006 $'000	30 Jun 2005 $'000	30 Jun 2006 $'000	30 Jun 2005 $'000
Within one year	184	-	184	-
One year or later and no later than five years	719	-	719	-
	903	-	903	-

The lease includes a lease incentive of $212,000 which has been applied against the cost of fit out of the leased property with the residual being amortised against rental expense.

c) Exploration and expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the consolidated entity is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments. These obligations are subject to renegotiation when application for a mining lease is made and at other times. These obligations are not provided for in the financial report and are payable:

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Within one year	330	383	330	383
One year or later and no later than five years	78	408	78	408
	408	791	408	791

d) Employee compensation commitments

Key management personnel (Consolidated and the Company)

Commitments under non-cancellable employment contracts not provided for in the financial statements and payable:				
Within one year	1,105	1,004	1,105	1,004

The above commitments represent the minimum balances payable under employment contracts for key management personnel.

31. NON-DIRECTOR RELATED PARTIES

Loans are made by and to the Company with controlled entities for normal commercial business purposes. Loans by and to the Company with controlled entities are interest free and repayable on demand. As at 30 June 2006, the amount owed by the Company to controlled entities was $19,471,000 (2005: $16,494,000 balance due to the Company). These loans are not expected to be repaid in the next 12 months.

Other related party

Terms and conditions of transactions with related parties

Sales to and purchases from related parties within the wholly-owned group are made in arms length transactions at both normal market prices and normal commercial terms. Transactions include sale and purchase of coal and recharge of administrative and other costs. Outstanding balances at period-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables.

32. KEY MANAGEMENT PERSONNEL DISCLOSURES

The following persons were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-Executive Directors	
Andy J Hogendijk	Chairman
Gordon T Galt	Non-Executive Director
Ian W Levy	Non-Executive Director
John H Bryan	Non-Executive Director
Executive Directors	
Gavin P May	Chief Executive Officer and Marketing Director
Daniel J Buckley	Operations Director
Executives	
Barry R Tudor	Chief Financial Officer/Company Secretary, Gloucester Coal Ltd
Graham F Colliss	General Manager - Projects, Gloucester Coal Ltd

All key management personnel were employed during the entire previous financial period except for John Bryan who commenced on 7 April 2005 and Barry Tudor who commenced employment on 21 February 2005.

32. KEY MANAGEMENT PERSONNEL (continued)

Key management personnel compensation

The key management personnel compensation included in 'personnel expenses' (see note 6) are as follows:

	Consolidated		Parent Entity	
	2006 12 Months $'000	2005 6 Months $'000	2006 12 Months $'000	2005 6 Months $'000
Short-term employee benefits	1,590	745	1,590	745
Post-employment benefits	100	44	100	44
Equity compensation benefits – Options	380	104	380	104
Equity compensation benefits – Employee Share Plan	2	1	2	1
	2,072	894	2,072	894

Loans to key management personnel and their related parties

There were no loans to directors or specified executives during the financial period.

Other key management personnel transactions with the Company or its controlled entities

A director, Mr John Bryan, is a director and shareholder of McElroy Bryan Geological Services Pty Ltd and exercises significant influence over the financial and operational policies of that entity. McElroy Bryan Geological Services Pty Limited has provided geological surveys to Gloucester Coal Ltd and certain of its subsidiaries for several years.

The terms and conditions of the transactions with McElroy Bryan Geological Services Pty Ltd were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

The aggregate amounts that have been recognised as capitalised exploration costs during the year relating to key management personnel and their related parties were as follows:

		Consolidated		Parent Entity	
Key management persons	Transaction	2006 12 Months $'000	2005 6 Months $'000	2006 12 Months $'000	2005 6 Months $'000
J H Bryan	Geological surveys	295	149	176	-

There were no other transactions with directors and specified executives.

Compensation Structure

In accordance with best practice corporate governance, the structure of non-executive director and senior manager compensation is separate and distinct.

Non-executive director compensation

Objective

The Board seeks to set aggregate compensation at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

32. KEY MANAGEMENT PERSONNEL (continued)

Non-executive director compensation (continued)

Structure

The Constitution and the ASX Listing Rules specify that the aggregate compensation of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between directors as agreed. The latest determination was at the Annual General Meeting held in October 2005 when shareholders approved an aggregate compensation of $350,000 per year.

The amount of aggregate compensation sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually.

Each director receives a fee for being a director of the Company (Chairman $110,000 and non-executive directors $60,000 per annum). The above fees were increased from $100,000 for the Chairman and $40,000 for each non-executive director in April 2006 following a review of the fees being paid. The compensation of non-executive directors for the period ended 30 June 2006 is detailed in Table 1 of this note.

Key management personnel compensation

The Company aims to reward executives with a level and mix of compensation commensurate with their position and responsibilities within the Company so as to:

- reward executives for Company and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total compensation is competitive by market standards.

Structure

In determining the level and make-up of key management personnel compensation, the Remuneration Committee considers comparable executive roles.

Compensation consists of the following key elements:

- Fixed Compensation
- Variable Compensation (consisting of Short Term Incentives (“STI”) and Long Term Incentives (“LTI”).

The proportion of fixed compensation and variable compensation (potential short term and long term incentives) is established for each key management personnel by the Remuneration Committee. Table 2 details the variable component (%) of the most highly remunerated executives.

Fixed Compensation

Objective

The level of fixed compensation is set so as to provide a base level of compensation which is both appropriate to the position and is competitive in the market.

Fixed compensation is reviewed annually by the Remuneration Committee and the process consists of a review of Companywide, business unit and individual performance, relevant comparative compensation in the market and internal and, where appropriate, external advice on policies and practices. As noted above, the Committee has access to external advice independent of management.

Key management personnel are given the opportunity to receive their fixed (primary) compensation in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

The fixed compensation component of the executive directors and most highly compensated senior executives is detailed in Tables 1 and 2 of this note.

32. KEY MANAGEMENT PERSONNEL (continued)

Variable Compensation — Short Term Incentive (STI)

Objective

The objective of the STI program is to link the achievement of the Company's operational targets with the compensation received by the key management personnel charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the key management personnel to achieve the operational targets and such that the cost to the Company is reasonable in the circumstances.

Structure

Actual STI payments granted to each key management personnel depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of Key Performance Indicators (KPIs) covering both financial and non-financial measures of performance. Typically included are measures such as cashflow, contribution to net profit after tax, return on equity, production cost targets, environmental and safety and individually tailored milestones. The predetermined benchmarks listed above must be met in order to trigger payments under the short term incentive scheme.

On an annual basis, after consideration of performance against KPIs, each executive is rated by the Remuneration Committee, incorporating an overall performance rating for the Company. These ratings determine the amount, if any, of the short term incentive is allocated to each executive. Payments made are usually delivered as a cash bonus.

Variable Pay — Long Term Incentive (LTI)

Objective

The objective of the LTI plan is to reward and retain key management personnel in a manner which aligns this element of compensation with the creation of shareholder wealth.

As such LTI grants are only made to key management personnel who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant long term performance hurdle.

Structure

LTI grants to executives are delivered in the form of options.

Table 3 provides details of options granted, the value of options, vesting periods and lapsed options under the LTI plan.

B) Employment contracts

Key management personnel are employed under contract as follows:

Mr Gavin May – Chief Executive Officer

Term of agreement:	3 years commencing 1 August 2004
Termination benefit:	Payment of termination benefit on early termination by the employer, other than misconduct equal to 12 months salary.
Salary:	Annual base salary, reviewed annually $420,000 (inclusive of superannuation)
STI:	Maximum amount of $210,000 thereof or 50% of the executives base compensation package. STI linked to a Key Performance Index (KPI) score total as set by the Company's Remuneration Committee.
LTI:	Options granted.

32. KEY MANAGEMENT PERSONNEL (continued)

B) Employment contracts (continued)

Mr Daniel Buckley – Operation Director

Term of agreement:	3 years commencing 1 December 2004
Termination benefit:	Payment of termination benefit on early termination by the employer, other than misconduct equal to 12 months salary.
Salary:	Annual base salary, reviewed annually $245,000 (inclusive of superannuation), plus fully maintained motor vehicle and living away from home allowance.
STI:	Maximum amount of $122,500 thereof or 50% of the executives base compensation package. STI linked to a Key Performance Index (KPI) score total as set by the Company's Remuneration Committee.
LTI:	Options granted.

Mr Barry Tudor – Chief Financial Officer

Term of agreement:	Unlimited in term – but capable of termination with 12 months notice.
Termination benefit:	Payment of termination benefit on early termination by the employer, other than misconduct equal to 12 months salary.
Salary:	Annual base salary, reviewed annually, $230,000 (inclusive of superannuation)
STI:	25% of the executives base compensation package. STI linked to a Key Performance Index (KPI) score total as set by the Company's Remuneration Committee.
LTI:	Options granted.

Mr Graham Colliss – General Manager - Projects

Term of agreement:	Unlimited in term – but capable of termination with 12 months notice.
Termination benefit:	Payment of termination benefit on early termination by the employer, other than misconduct equal to 12 months salary.
Salary:	Annual base salary, reviewed annually, $210,000 (inclusive of superannuation)
STI:	25% of the executives base compensation package. STI linked to a Key Performance Index (KPI) score total as set by the Company's Remuneration Committee.
LTI:	Options granted.

32. KEY MANAGEMENT PERSONNEL (continued)

Directors and specified executives compensation disclosures

Details of the nature and Amount of each major element of remuneration of each director of the Company and the five named Company and consolidated entity executives who received the highest remuneration are:

Table 1		Primary			Post employment	Share based payments			
Directors		Salary & fees $	Cash STI $ (2)	Non-monetary benefits $	Superannuation benefits $	Value of options $ (3)	Total $	Proportion of remuneration performance related %	Value of options as a proportion of remuneration %
Non-executive Directors									
Mr Andy J Hogendijk	2006	93,273	-	-	8,395	-	101,668	-	-
Chairman	2005(1)	45,872	-	-	4,128	-	50,000	-	-
Mr Gordon T Galt	2006	39,738	-	-	3,590	-	43,328	-	-
Non-executive Director	2005(1)	18,340	-	-	1,660	-	20,000	-	-
Mr Ian W Levy	2006	39,738	-	-	3,590	-	43,328	-	-
Non-executive Director	2005(1)	18,340	-	-	1,660	-	20,000	-	-
Dr John H Bryan	2006	39,738	-	-	3,590	-	43,328	-	-
Non-executive Director	2005(1) (4)	9,100	-	-	900	-	10,000	-	-
Executive Directors									
Mr Gavin P May	2006	335,848	134,356	52,000	29,926	200,000	752,130	17.9%	26.6%
Chief Executive Officer	2005(1)	159,053	100,000	24,000	14,300	54,719	352,072	28.4%	15.5%
Mr Daniel J Buckley	2006	222,833	80,635	45,000	19,712	100,000	468,180	17.2%	21.4%
Operations Director	2005(1)	101,226	65,000	19,200	9,082	27,360	221,868	29.3%	12.3%
Total specified directors	2006	771,168	214,991	97,000	68,803	300,000	1,451,962		
	2005(1)	351,931	165,000	43,200	31,730	82,079	673,940		

1) For the six month period ended 30 June 2005
2) The short-term cash incentive bonus is for performance during the financial year ended 30 June 2006 using the criteria set out in this note. The amount was determined on 17 August 2006 after performance reviews were completed and approved by the remuneration committee. Comparative period is for performance during the financial period ended 30 June 2005
3) See table 3 for details on the calculation of the fair value of options granted.
4) Appointed 7 April 2005

32. KEY MANAGEMENT PERSONNEL (continued)

Directors and specified executives compensation disclosures (continued)

Details of the nature and amount of each major element of remuneration of each Company and consolidated entity executives who received the highest remuneration are:

Table 2		Primary			Post employment	Share based payments				
Executives Company and Consolidated		Salary & fees $	Cash STI $ (2)	Non-monetary benefits $	Superannuation benefits $	Employee share scheme $	Value of options $ (3)	Total $	Proportion of remuneration performance related %	Value of options as a proportion of remuneration %
Mr Barry R Tudor	2006	205,335	57,289	-	17,143	1,000	40,000	320,767	17.9%	12.5%
Chief Financial Officer	2005(1) (4)	63,596	20,000	-	5,561	-	10,944	100,101	20.0%	10.9%
Mr Graham F Colliss	2006	161,666	52,307	30,000	14,320	1,000	40,000	299,293	17.5%	13.4%
General manager - Projects	2005(1)	71,195	18,400	12,000	6,408	1,000	10,944	119,947	15.3%	9.1%
Total specified executives	2006	367,001	109,596	30,000	31,463	2,000	80,000	620,060		
	2005(1)	134,791	38,400	12,000	11,969	1,000	21,888	220,048		

1) For the six month period ended 30 June 2005
2) The short-term cash incentive bonus is for performance during the financial year ended 30 June 2006 using the criteria set out in this note. The amount was determined on 17 August 2006 after performance reviews were completed and approved by the remuneration committee. Comparative period is for performance during the financial period ended 30 June 2005
3) See table 3 for details on the calculation of the fair value of options granted.
4) Appointed 21 February 2005

Apart from the details disclosed in this note, no director has entered into a material contract with the company or the consolidated entity since the end of the previous and there were no material contracts involving directors' interests existing at year end.

32. KEY MANAGEMENT PERSONNEL (continued)

Options and rights over equity instruments granted as compensation

The movement during the reporting period in the number of options over ordinary shares in Gloucester Coal Ltd held, directly, indirectly, or beneficially, by each of the key management persons, including their related parties, is as follows:

	Held at 1 January 2005	Granted as compensation	Held at 1 July 2005	Granted as compensation	Exercised	Other changes	Held at 30 June 2006	Vested during the year	Vested and exercisable at 30 June 2006
Directors									
Mr Gavin P May	-	1,000,000	1,000,000	-	-	-	1,000,000	-	N/a
Mr Daniel J Buckley	-	500,000	500,000	-	-	-	500,000	-	N/a
Executives									
Mr Barry R Tudor	-	200,000	200,000	-	-	-	200,000	-	N/a
Mr Graham F Colliss	-	200,000	200,000	-	-	-	200,000	-	N/a

Notes to the financial statements (continued)

32. KEY MANAGEMENT PERSONNEL (continued)

Movements in shares

The movement during the reporting period in the number of ordinary shares in the Company, held during the financial period by each director of Gloucester Coal Ltd and each key management person, including their personally-related entities are set out below:

	Held at 1 January 2005	Purchases	Issued Employee Share Plan	Held at 30 June 2005	Held at 1 July 2005	Purchases	Issued Employee Share Plan	Held at 30 June 2006
Directors								
Mr Andy J Hogendijk	-	35,500	-	35,500	35,500	25,500	-	60,000
Mr Gordon T Galt	20,000	-	-	20,000	20,000	-	-	20,000
Mt Ian W Levy	-	-	-	-	-	-	-	-
Mr John H Bryan	-	12,000	-	12,000	12,000	10,000	-	22,000
Mr Gavin P May	150,500	-	-	150,500	150,500	50,000	-	200,500
Mr Daniel J Buckley	25,500	-	-	25,500	25,500	-	-	25,500
Executives								
Mr Barry R Tudor	-	4,000	-	4,000	4,000	7,750	386	12,136
Mr Graham F Colliss	20,000	20,000	515	40,515	40,515	-	386	40,901

Directors' Declaration

1. In the opinion of the directors of Gloucester Coal Ltd ("the Company"):

    a) the financial statements and notes, set out on pages 34 to 74, are in accordance with the Corporations Act 2001, including:

        (i) giving a true and fair view of the financial position of the Company and the consolidated entity as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the period ended on that date; and

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

2. The directors have been given the declarations required by the Chief Executive Officer and Chief Financial Officer for the financial period ended 30 June 2006 pursuant to Section 295A of the Corporations Act 2001.

Dated at Sydney this 24th day of August 2006

Signed in accordance with a resolution of the directors.

Gavin P May
Director

Independent Audit Report to the members of Gloucester Coal Ltd

Scope

The financial report and directors' responsibility

The financial report comprises the income statements, statements of changes in recognised income and expense, balance sheets, statements of cash flows, accompanying notes to the financial statements (notes 1 to 32) and the directors' declaration for both Gloucester Coal Ltd ("Company") and Gloucester Coal Ltd and its controlled entities ("the Consolidated Entity"), for the financial year ended 30 June 2006. The consolidated entity comprises both the Company and the entities it controlled during that financial year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report 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 in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards to provide reasonable assurance 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 Corporations Act 2001, Australian Accounting Standards and other mandatory professional reporting requirements in Australia, a view which is consistent with our understating of the Company's and the consolidated entity's financial position, and performances as represented by the results of their operations, changes in equity 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 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.

Audit opinion

In our opinion, the financial report of Gloucester Coal Ltd is in accordance with:

a) the Corporations Act 2001, including:

   (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the financial year ended on that date; and

   (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b) other mandatory financial reporting requirements in Australia.

KPMG

KPMG

Anthony Jones
Partner
Sydney, 24 August 2006

Shareholder Information

The shareholder information set out below was applicable as at 16 August 2006.

Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

Size of Shareholding			%	Number of shares	Number of shareholders
1	-	1,000	0.58	453,934	916
1,001	-	5,000	5.73	4,461,615	1,537
5,001	-	10,000	5.25	4,083,425	509
10,001	-	100,000	12.16	9,469,155	352
100,001	-	And over	76.28	59,376,029	49
Total			100.00	77,844,158	3,363

There were 209 holders of less than a marketable parcel of ordinary shares.

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below.

Name	Holding	%
Westpac Custodian Nominees Limited	15,253,982	19.60
National Nominees Limited	8,343,282	10.72
ANZ Nominees Limited (Cash Income)	5,553,133	7.13
ITOCHU Minerals & Energy of Australia Pty Ltd	4,150,000	5.33
Paway Limited	3,531,814	4.54
J P Morgan Nominees Australia Limited	3,257,724	4.18
Citicorp Nominees Pty Limited	2,484,919	3.19
HSBC Custody Nominees (Australia) Limited	2,303,896	2.96
UBS Nominees Pty Ltd	1,621,238	2.08
Citicorp Nominees Pty Limited (CFSIL CFS WS Small Comp A/C)	1,508,534	1.94
Cogent Nominees Pty Limited	816,225	1.05
Frank Handley Pty Ltd	768,643	0.99
RBC Dexia Investor Services Australia Nominees Pty Limited (PIIC A/C)	734,027	0.94
Neweconomy com au Nominees Pty Limited	640,000	0.82
Feta Nominees Pty Limited	609,811	0.78
RBC Dexia Investor Services Australia Nominees Pty Limited (PIPooled A/C)	574,479	0.74
Escor Investments Pty Ltd	549,000	0.71
Lippo Securities Nominees (Client A/C)	480,000	0.62
Le Grande Pty Limited	456,777	0.59
Citicorp Nominees Pty Limited (CFSIL CWLTH SML COS 2 A/C)	366,373	0.47
Total of top 20 shareholders	54,003,857	69.38
Other shareholders	23,840,301	30.62
Total shares on issue	77,844,158	100.00

Substantial holders

Substantial holders in the Company are set out below:

	Number held	Percentage
Ordinary shares		
ITOCHU Minerals & Energy of Australia Pty Ltd	4,150,000	5.36
Ausbil Dexia	3,969,129	5.10
Credit Suisse	3,954,785	5.08

Voting Rights

The voting rights attached to ordinary shares are on a show of hands every member present at a meeting shall have one vote and upon a poll each share shall have one vote.

General information

DIRECTORS

The following persons were directors of Gloucester Coal Ltd during the whole period (1 July 2005 to 30 June 2006) and up to the date of this report unless otherwise stated:

Andy J Hogendijk	Chairman
Gavin P May	Chief Executive Officer
Daniel J Buckley	Operations Director
Gordon T Galt	Non-Executive Director
Ian W Levy	Non-Executive Director
Dr John H Bryan	Non-Executive Director

COMPANY SECRETARIES

Barry R Tudor
Robert J Waring

REGISTERED OFFICE

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Telephone: 61 2 9413 2028
Facsimile: 61 2 9413 4802
Email: gcl@gloucestercoal.com.au
Web site: www.gloucestercoal.com.au
ABN: 66 008 881 712

SHARE REGISTER

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000
Telephone: 1300 131 749
Facsimile: 61 2 8235 8229
Web site: www.computershare.com

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Sydney NSW 2000

Commonwealth Bank of Australia
52 Martin Place
Sydney NSW 2000

Westpac Banking Corporation
Business Banking
Chatswood NSW 2067

AUDITORS

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