

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 1 - REPORTING ENTITY

Cockatoo Coal Limited (the 'Company') is a company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2009 comprises the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in jointly controlled entities.

### NOTE 2 - BASIS OF PREPARATION

#### Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The consolidated financial report of the Group and the financial report of the Company comply with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial report was authorised for issue by the Directors on 15 September 2009.

#### Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments and available for sale financial assets which are measured at fair value.

#### Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Company's and each of the entities in the Group's functional currency.

#### Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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 in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 8 - Income tax expense
- Note 11 - Trade and other receivables
- Note 14 - Investments
- Note 16 - Exploration and evaluation expenditure
- Note 20 - Provisions
- Note 22 - Controlled entities

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

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

#### **Basis of consolidation**

##### ***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 into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

##### ***Jointly controlled entities***

In the consolidated financial statements, investments in jointly controlled entities, including partnerships, are accounted for using equity accounting principles. Investments in joint venture entities are carried at the lower of the equity accounted amount and recoverable amount.

The Group's share of the jointly controlled entity's net profit or loss is recognised in the consolidated statement of financial performance from the date joint control commenced until the date joint control ceases. Other movements in reserves are recognised directly in the consolidated reserves.

##### ***Transactions eliminated and 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.

Where a controlled entity issues shares to minority interests which does not result in loss of control by the Group, any gain or loss arising on the Group's interest in the controlled entity is recognised directly in equity.

#### **Foreign currency**

##### ***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 cost 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.

#### **Available for sale financial assets**

The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are recognised directly as a separate component of equity.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

#### Property, plant and equipment

##### **Owned assets**

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see Impairment accounting policy below).

##### **Depreciation**

Depreciation is charged to the income statement using the reducing balance method from the date of acquisition.

Office equipment is depreciated at rates between 40% and 60%, buildings are depreciated at a rate of 4% and motor vehicles are depreciated at a rate of 22.5%. Land is not depreciated.

#### Business combination

Business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

#### Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and at call deposits.

#### Share capital

##### **Transaction costs**

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

##### **Dividends**

Dividends are recognised as a liability in the period in which they are declared.

#### Share based payment transactions

The fair value of options granted is measured at grant date and recognised as an expense over the period during which the Directors, officers and consultants of the Company become unconditionally entitled to the options. The fair value of the options granted is measured using a Black-Scholes formula, 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 options that vest.

#### Trade and other payables

Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are normally settled on 30-day terms.

#### Expenses

##### **Net financing costs**

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, and interest earned.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

Borrowing costs are expenses as incurred.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

#### Impairment

##### **Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

##### **Non-financial assets**

The carrying amounts of the Group's assets, other than exploration and evaluation expenditure, inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

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, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

##### **Calculation of recoverable amount**

The recoverable amount of 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 assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

##### **Reversals of impairment**

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. An impairment loss in respect of goodwill is not reversed.

#### Intercompany loans

Loans made to controlled entities which are interest free, unsecured, of no fixed term, and repayable only out of potential future profits are classified as investments.

#### Segment reporting

An operating segment is a component of the Group that is engaged in business activities for which it may earn revenues and incur expenses and whose operating results are reviewed by the entity's chief operating decision maker. The Group's primary format for segment reporting is on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

#### Income tax

Income tax on the income statement 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 previous years.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and 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 realisation 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 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.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

#### **Tax consolidation**

The Company and its wholly owned Australian resident entities have formed a tax consolidated group with effect from 28 January 2005 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Cockatoo Coal Limited.

Current tax expense/benefit, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'group allocation method' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax consolidated group). Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in the Company's balance sheet and their tax values applying under tax consolidation.

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 as amounts receivable or payable to other entities in the tax consolidated group in conjunction with any tax funding arrangement amounts (refer below). 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 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 arrangements and tax sharing agreements**

The members of the tax consolidated group have entered into a tax funding arrangement which sets out the funding obligations of members of 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 receivables (payables) in the separate financial statements of the members of the tax consolidated groups equal in amount to the tax liability (asset) assumed. The inter-entity receivables (payables) are at call.

The head entity recognises the assumed current tax amounts as current tax liabilities (assets), adding to its own current tax amounts, since they are also due to or from the same taxation authority. The current tax liabilities (assets) are equivalent to the tax balances generated by external transactions entered into by the tax consolidated group. Contributions to fund the current tax liabilities are payable as per the tax funding arrangement 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 also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. 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.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

#### Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

#### Employee benefits

##### **Wages, salaries, annual leave, sick leave and non-monetary benefits**

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

#### Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

#### Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on average costs over the relevant period of production, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

#### Coal sales revenue

Coal sales revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

#### Exploration, evaluation and development expenditure

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 an area are recognised in the income statement.

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

- the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or other wise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. 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.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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 exploration and evaluation expenditure to mining property and development assets within property, plant and equipment.

#### **Provisions**

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle 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, when appropriate, the risks specific to the liability.

#### **Site restoration**

In accordance with the Group's environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related expense, is recognised when the land is contaminated.

#### **Derivative financial instruments**

The Group holds derivative financial instruments, not held for trading, to hedge its foreign currency risk exposures. Derivatives are recognised initially at fair value, attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value and changes in its fair value are recognised immediately in profit or loss.

#### **Goodwill**

Goodwill arises on the acquisition of subsidiaries, associates and jointly controlled entities. Goodwill is measured at cost less accumulated impairment losses.

#### **Determination of fair values**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### ***Trade and other receivables***

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

#### ***Inventories***

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

#### ***Derivatives***

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

#### ***Share based payment transactions***

The fair value of the options granted is measured using a Black-Scholes formula, taking into account the terms and conditions upon which the options were granted. Measurement inputs include share price at grant date, exercise price of the instrument, expected volatility (based on historic share performance), risk-free interest rate (based on government bonds), and dividend yield.

#### ***Non-derivative financial liabilities***

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

#### New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2009, but have not been applied preparing this financial report:

- Revised AASB 3 *Business Combinations* (2008) incorporates the following changes that are likely to be relevant to the Group's operations:
  - The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
  - Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.
  - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised AASB 3, which becomes mandatory for the Group's 30 June 2010 financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statement.

- Amended AASB 127 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to AASB 127, which become mandatory for the Group's 30 June 2010 financial statements, are not expected to have a significant impact on the consolidated financial statements.
- Revised AASB 101 *Presentation of Financial Statements* (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement) or, in an income statement and a separate statement of comprehensive income. Revised AASB 101, which becomes mandatory for the Group's 30 June 2010 financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements. The Group plans to provide total comprehensive income in a single statement of comprehensive income in a single statement of comprehensive income for its 2010 consolidated financial statements.
- Revised AASB 123 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Group's 30 June 2010 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised AASB 123 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the Group's 30 June 2010 financial statements.
- AASB 2008-1 *Amendments to Australian Accounting Standard - Share-based Payment: Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to AASB 2 will be mandatory for the Group's 30 June 2010 financial statements, with retrospective application. The Group has not yet determined the potential effect of the amendment.
- AASB 2008-5 *Amendments to Australian Accounting Standards* arising from the Annual Improvements Process and 2008-6 *Further Amendments to Australian Accounting Standards* arising from The Annual Improvements Process affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2010 financial statements, are not expected to have any impact on the financial statements.
- AASB 2008-7 *Amendments to Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* changes the recognition and measurement dividend receipts as income and addresses the accounting of a newly formed parent entity in the separate financial statements. The amendments become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the amendments.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>NOTE 4 - OTHER INCOME</b>				
Call option fee	15,630	-	15,630	-
Royalties	-	-	93,814	-
	15,630	-	109,444	-
<b>NOTE 5 - OTHER EXPENSES</b>				
Audit fees - KPMG audit and review of financial reports	65,337	35,839	65,337	35,839
Depreciation	89,253	19,925	89,253	19,925
Option fee	112,956	-	112,956	-
Legal fees	740,143	102,388	740,143	102,388
Net foreign exchange loss	483,374	4,374	392,754	4,374
	1,491,063	162,526	1,400,443	162,526
<b>NOTE 6 - IMPAIRMENT LOSSES</b>				
Impairment loss on goodwill - refer note 22	51,842,803	-	-	-
Impairment loss on loans to subsidiaries - refer note 11	-	-	58,956,805	25,132,285
Impairment loss on investment in controlled entities - refer note 14	-	-	7,263,710	-
	51,842,803	-	66,220,515	25,132,285
<b>NOTE 7 - FINANCIAL INCOME</b>				
Interest income	2,287,185	2,929,623	2,282,005	2,924,149
Interest income - controlled entity	-	-	2,560,266	785,076
Interest paid	(551,213)	-	-	-
	1,735,972	2,929,623	4,842,271	3,709,225
Net change in fair value of derivative financial instruments	1,464,140	-	1,464,140	-
	3,200,112	2,929,623	6,306,411	3,709,225

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$

### NOTE 8 - INCOME TAX EXPENSE

#### Current tax expense

Current year	(5,400,587)	(2,808,654)	149,456	(199,902)
Adjustments for prior year	57,539	(538,889)	(175,339)	(539,782)
De-recognition of losses	5,343,048	3,347,543	25,883	739,685
Total income tax expense in income statement	-	-	-	-

#### Deferred tax expense

Current year	567,406	2,389,350	(17,411,057)	(639,021)
Adjustments for prior year	(376,925)	(4,500)	(376,925)	2,168,953
De-recognition of temporary differences	(190,481)	(2,384,850)	17,787,982	(1,529,932)
Deferred tax expense	-	-	-	-

#### Numerical reconciliation of income tax expense to prima facie tax payable

Loss before tax - continuing operations	(63,010,741)	(1,531,500)	(65,566,494)	(25,883,118)
Prima facie income tax expense at the Australian tax rate of 30% (2008 - 30%)	(18,903,222)	(459,450)	(19,669,948)	(7,764,935)
Increase in income tax expense due to:				
- Non-deductible expenses	15,782,241	40,146	2,408,348	6,926,012
- Effect of net deferred tax assets not brought to account	3,120,981	419,304	17,261,600	838,923
Income tax expense - current and deferred	-	-	-	-

#### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

Taxable temporary differences (net)	(7,035,346)	(6,514,340)	20,547,997	2,760,015
Tax losses	30,063,968	7,768,613	6,079,156	4,823,719
Net	23,028,622	1,254,273	26,627,153	7,583,734

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$

### NOTE 9 - LOSS PER SHARE

Basic and diluted earnings per share have been calculated using:

Net loss for the year attributable to equity holders of the parent	(63,010,741)	(1,531,500)
<b>Weighted average number of ordinary shares</b>		
- Issued ordinary shares at beginning of year	419,479,177	269,383,342
- Effect of shares issued in July 2007	-	10,915,301
- Effect of shares issued in September 2007	-	19,125,683
- Effect of shares issued in December 2007	-	8,859,016
- Effect of shares issued in January 2008	-	2,005,902
- Effect of shares issued in February 2009	12,126,974	-
- Effect of shares issued in May 2009	2,463,588	-
Weighted average ordinary shares at the end of the year	434,069,739	310,289,244

#### Weighted average number of ordinary shares (diluted)

- Weighted average ordinary shares at the end of the year	434,069,739	310,289,244
- Effect of share options on issue	-	-
Weighted average number of ordinary shares (diluted) at the end of the year	434,069,739	310,289,244

### NOTE 10 - TERM DEPOSITS

Balance at beginning of year	52,000,000	-	52,000,000	-
Deposits during the year	-	52,000,000	-	52,000,000
Redemptions during the year	(52,000,000)	-	(52,000,000)	-
Balance at end of year	-	52,000,000	-	52,000,000

There were no term deposits held at 30 June 2009.

Term deposits at 30 June 2008 are represented by:

Amount	Interest rate	Term	Maturity Date
\$	%		
25,000,000	7.54%	6 months	13 Aug 2008
6,000,000	8.10%	6 months	15 Oct 2008
21,000,000	8.25%	6 months	24 Dec 2008
52,000,000			

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$

### NOTE 11 - TRADE AND OTHER RECEIVABLES

#### Current

Interest receivable	31,568	840,918	31,568	840,918
GST receivable	2,595,172	213,284	216,347	211,163
Other	317,615	-	317,615	-
	<u>2,944,355</u>	<u>1,054,202</u>	<u>565,530</u>	<u>1,052,081</u>

#### Non-current

Loans to subsidiaries	-	-	67,999,316	9,042,512
Less cumulative impairment losses	-	-	(67,999,316)	(9,042,512)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The loans to subsidiaries are unsecured, have no fixed term of repayment and are repayable out of profits. The loan to Wonbindi Coal Pty Limited of \$12,454,115 (2008 - \$9,042,512) bears interest at 3% above the Bank Bill Swap Reference Rate, compounded monthly. The loan to Baralaba Coal Pty Ltd of \$55,545,201 (2008 - \$nil) bears interest at 8% per annum, compounded monthly.

#### Impairment loss

At 30 June 2009 and 30 June 2008 the Directors assessed the recoverability of the loan to Wonbindi Coal Pty Ltd. Given that the controlled entity is in the exploration phase of operations the Directors are unable to prepare discounted cash flow calculations to support the recoverability of the loan and as a result the full carrying value of the loan has been impaired in the Company's financial statements.

At 30 June 2009 the Directors assessed the recoverability of the loan to Baralaba Coal Pty Ltd. The full carrying value of the loan has been impaired in the Company's financial statements as a result of uncertainties relating to future cash flows of the Baralaba mine operations.

### NOTE 12 - INVENTORIES

Work in progress - coal stock	1,495,921	-	-	-
Finished goods - coal stock	9,089,860	-	-	-
	<u>10,585,781</u>	<u>-</u>	<u>-</u>	<u>-</u>

During the year ended 30 June 2009 the write-down of inventories to net realisable value amounted to \$310,402.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>NOTE 13 - OTHER</b>				
<b>Current</b>				
Prepayments	741,814	487,947	741,814	487,947
<b>Non-current</b>				
Security deposits	10,388,953	84,085	10,247,009	20,000
Prepayments	68,947	113,099	68,947	113,099
	10,457,900	197,184	10,315,956	133,099

### Security deposits

Security deposits for the Wiggins Island Coal Export Terminal project totalling \$10,222,489 will be forfeited if the development of the project does not proceed. The security deposits are refundable:

- upon the development of the project proceeding and successful refinancing of the project, or
- upon transfer of ownership of the development of the project, including transfer of ownership of a majority of shareholding in Gladstone Ports Corporation to a party that is not a governmental agency.

### NOTE 14 - INVESTMENTS

#### Non-current

Investment in controlled entities, at cost	-	-	38,298,182	31,034,472
Less cumulative impairment losses	-	-	(38,298,182)	(31,034,472)
	-	-	-	-
Investments in associates	-	-	100,000	-
Investments - available for sale	5,496,001	-	3,000,001	-
Derivatives not used for hedging	1,464,140	-	1,464,140	-
	6,960,141	-	4,564,141	-

### Impairment loss

At 30 June 2009 and 30 June 2008 the Directors assessed the recoverability of investments in controlled entities. Given that the controlled entities are in the exploration phase of operations and there are uncertainties relating to future cash flows of the Baralaba mine operations, the Directors are unable to prepare discounted cash flow calculations to support the recoverability of these investments and as a result the full carrying value of these investments have been impaired in the Company's financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 14 - INVESTMENTS (CONT.)

#### Investments - available for sale

During the year ended 30 June 2009:

- The Company completed the sale of its 25% coal to liquids joint venture interest, comprising the Company's title in or farm-in rights to EPCs 935, 936, 1076, 1137 and 1138 with Eastern Mining Corporation Pty Limited. The agreed sale price was 520,000 shares in Eastern Mining Corporation Pty Limited's parent company Ambre Energy Limited. The Company's shareholding in Ambre Energy Limited will be a passive minority holding of 1.9% and give the Company exposure to the potential success of the CTL technology. The fair value of the investment has been supported by a recent share transfer.
- The Company has subscribed for 324,324 fully paid ordinary shares, at an issue price of \$9.25 per share for a consideration totalling \$3.0 million, representing a 5.0% shareholding in Australian Transport & Energy Corridor Limited ('ATEC'). ATEC is an unlisted dedicated rail infrastructure development and investment company. The purchase consideration was supported by an independent valuation of ATEC at 30 June 2008 completed by Grant Thornton.

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$

### NOTE 15 - INVESTMENTS IN EQUITY ACCOUNTED INVESTEEES

Investments in equity accounted investees	100,000	-	-	-
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During the year ended 30 June 2009, as part of a share subscription agreement, a marketing joint venture, owned in equal parts and with equal board representation, between SK Australia Pty Ltd (or its nominee) and the Company, was formed to manage the sale and marketing of all the Company's existing and future coal production. Cockatoo Coal Marketing Company Pty Ltd was incorporated during the financial year.

Summary financial information for equity accounted investees at 30 June 2009, not adjusted for the percentage ownership held by the Group is as follows:

Ownership of Cockatoo Coal Marketing Company Pty Ltd	50%
Current assets - cash	200,000
Total assets	200,000

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$

### NOTE 16 - EXPLORATION AND EVALUATION EXPENDITURE

Opening balance	38,079,404	13,956,752	-	-
Additions	9,679,993	24,122,652	-	-
Disposals	(2,496,000)	-	-	-
Closing balance	45,263,397	38,079,404	-	-

The ultimate recoupment of these costs is dependent on the successful development and commercial exploitation, or alternatively sale of the respective areas of interest.

Mineral tenements, exploration and evaluation expenditure relate to the following projects:

Bowen Basin projects	17,277,605	14,462,027	-	-
Surat Basin projects	27,956,399	23,592,210	-	-
Other projects	29,393	25,167	-	-
	45,263,397	38,079,404	-	-

During the year ended 30 June 2008 the Company, via its wholly owned subsidiary SE QLD Coal Pty Ltd, acquired 100% of EPCs 796 (Horse Creek) and 813 (Dogwood Creek), covering an area of approximately 816 square kilometres located in the Surat Basin, for cash consideration totalling \$3.0 million.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$

### NOTE 17 - PROPERTY, PLANT AND EQUIPMENT

Land and buildings - cost	3,368,976	468,172	-	-
Accumulated depreciation	(88,202)	-	-	-
Net book value	3,280,774	468,172	-	-
Office equipment - cost	102,300	43,039	101,102	43,039
Accumulated depreciation	(23,446)	(4,398)	(23,343)	(4,398)
Net book value	78,854	38,641	77,759	38,641
Motor vehicles - cost	356,988	240,546	312,988	240,546
Accumulated depreciation	(103,560)	(15,528)	(85,836)	(15,528)
Net book value	253,428	225,018	227,152	225,018
Total property, plant and equipment	3,613,056	731,831	304,911	263,659

**Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below.**

#### Land and buildings

Carrying amount at beginning of year	468,172	-	-	-
Additions	2,537,697	468,172	-	-
Addition through acquisition of controlled entity	279,735	-	-	-
Depreciation	(4,830)	-	-	-
Net book value	3,280,774	468,172	-	-

#### Office equipment

Carrying amount at beginning of year	38,641	-	38,641	-
Additions	59,263	43,039	58,064	43,039
Addition through acquisition of controlled entity	-	-	-	-
Depreciation	(19,050)	(4,398)	(18,946)	(4,398)
Net book value	78,854	38,641	77,759	38,641

#### Motor vehicles

Carrying amount at beginning of year	225,018	-	225,018	-
Additions	82,442	240,546	72,441	240,546
Addition through acquisition of controlled entity	20,274	-	-	-
Depreciation	(74,306)	(15,528)	(70,307)	(15,528)
Net book value	253,428	225,018	227,152	225,018

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$

### NOTE 18 - TRADE AND OTHER PAYABLES

Accounts payable	8,542,496	1,169,454	474,440	1,035,172
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### NOTE 19 - BORROWINGS

#### Current

Interest bearing liabilities	7,500,000	-	-	-
Loan from SK Australia Pty Ltd	-	-	-	-
	7,500,000	-	-	-

#### Non-current

Interest bearing liabilities	5,000,000	-	-	-
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#### Interest bearing liabilities

During the year ended 30 June 2009, the Company completed the acquisition from Peabody Pacific Pty Limited ('Peabody') of all the shares in Peabody Baralaba Investments Pty Ltd (since renamed Cockatiel Coal Pty Ltd), which holds a 62.5% interest in Baralaba Coal Pty Ltd ('Baralaba').

Total consideration was \$1 and the refinance of a \$52.5 million debt payable by Baralaba to Peabody which will then be payable to the Company. At completion, \$40.0 million of the debt was paid to Peabody, \$7.5 million was paid on 1 July 2009 and \$5.0 million is payable by 1 July 2010. The debt bears interest at 8% per annum.

#### Loan from SK Australia Pty Ltd

During the year ended 30 June 2009, to partly finance the Baralaba mine acquisition, the Company entered into a subscription agreement with SK Australia Pty Ltd under which that company agreed to subscribe for 35,410,765 fully paid ordinary shares at \$0.706 per share for a subscription amount of \$25.0 million. These funds were received as a short term interest free loan prior to the completion of the marketing joint venture documentation described in the Review of Operations. The loan was repaid on 26 February 2009 through the issue of 35,410,765 fully paid ordinary shares.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>NOTE 20 - PROVISIONS</b>				
Rehabilitation provision	2,648,083	-	-	-
Opening balance	-	-	-	-
Addition through acquisition of controlled entity	2,584,002	-	-	-
Unwind of discount	64,081	-	-	-
Closing balance	2,648,083	-	-	-

The basis of accounting for rehabilitation costs is set out in note 3, Significant Accounting Policies.

The Group is required to rehabilitate the Baralaba mine site when mining is completed. Given the long term nature of the liability, there is significant uncertainty in relation to the estimates of the provision or the costs that could be incurred. The provision has been discounted at 7.85%.

## NOTE 21 - CAPITAL AND RESERVES

### Reconciliation of movement in capital and reserves

	Share capital	Option premium reserve	Retained losses	Total	Minority interest	Total equity
Consolidated	\$	\$	\$	\$	\$	\$
Balance at 1 July 2007	35,280,762	-	(336,361)	34,944,401	616	34,945,017
Issue of shares	58,380,000	-	-	58,380,000	-	58,380,000
Cost of issue	(125,000)	-	-	(125,000)	-	(125,000)
Equity settled transactions net of tax	-	2,140,318	-	2,140,318	-	2,140,318
Total recognised income and expense	-	-	(1,531,500)	(1,531,500)	-	(1,531,500)
Balance at 30 June 2008	93,535,762	2,140,318	(1,867,861)	93,808,219	616	93,808,835
Balance at 1 July 2008	93,535,762	2,140,318	(1,867,861)	93,808,219	616	93,808,835
Issue of shares	35,000,000	-	-	35,000,000	-	35,000,000
Cost of issue	-	-	-	-	-	-
Equity settled transactions net of tax	-	1,166,196	-	1,166,196	-	1,166,196
Total recognised income and expense	-	-	(63,010,741)	(63,010,741)	-	(63,010,741)
Balance at 30 June 2009	128,535,762	3,306,514	(64,878,602)	66,963,674	616	66,964,290

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 21 - CAPITAL AND RESERVES (CON'T)

Company	Share capital	Option premium reserve	Retained losses	Total equity
	\$	\$	\$	\$
Balance at 1 July 2007	35,280,762	-	(14,467,667)	20,813,095
Issue of shares	58,380,000	-	-	58,380,000
Cost of issue	(125,000)	-	-	(125,000)
Equity settled transactions net of tax	-	2,140,318	-	2,140,318
Total recognised income and expense	-	-	(25,883,118)	(25,883,118)
Balance at 30 June 2008	93,535,762	2,140,318	(40,350,785)	55,325,295
Balance at 1 July 2008	93,535,762	2,140,318	(40,350,785)	55,325,295
Issue of shares	35,000,000	-	-	35,000,000
Cost of issue	-	-	-	-
Equity settled transactions net of tax	-	1,166,196	-	1,166,196
Total recognised income and expense	-	-	(65,566,494)	(65,566,494)
Balance at 30 June 2009	128,535,762	3,306,514	(105,917,279)	25,924,997

### Dividends

There were no dividends paid or declared during the year ended 30 June 2009 or 30 June 2008.

### Option premium reserve

The issue of Company options results in a credit to the option premium reserve representing the fair value of the options granted. The exercise of Company options results in a debit to the option premium reserve. There were no options exercised during the year ended 30 June 2009 and 30 June 2008.

Share capital	Consolidated	
	2009	2008
	Number of shares	Number of shares
Ordinary shares on issue at 1 July - fully paid	419,479,177	269,383,342
Issue of shares	55,173,611	150,095,835
Ordinary shares on issue at 30 June - fully paid	474,652,788	419,479,177

During the year ended 30 June 2009:

- The Company issued 35,410,765 ordinary shares at \$0.706 per share totalling \$25,000,000 in satisfaction of the loan from SK Australia Pty Ltd. There were no amounts unpaid on the shares issued and there were no share issue costs.
- The Company issued 19,762,846 ordinary shares at \$0.506 per share for cash totalling \$10,000,000. There were no amounts unpaid on the shares issued and there were no share issue costs.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 21 - CAPITAL AND RESERVES (CONT.)

During the year ended 30 June 2008:

- The Company issued 40,000,000 ordinary shares at \$0.42 per share for cash totalling \$16,800,000. There were no amounts unpaid on the shares issued and there were no share issue costs.
- The Company issued 73,595,835 ordinary shares at \$0.3397 per share for cash totalling \$25,000,000. There were no amounts unpaid on the shares issued. Share issue costs totalled \$125,000.
- The Company issued 25,000,000 ordinary shares with fair value of \$0.47 per share for total amount of \$11,750,000 as consideration for the acquisition of SE QLD Coal Pty Ltd and SE QLD Energy Pty Ltd.
- The Company issued 11,500,000 ordinary shares at \$0.42 per share for cash totalling \$4,830,000. There were no amounts unpaid on the shares issued and there were no share issue costs.

### Options

The following options were on issue at 30 June 2009, each exercisable to acquire one fully paid ordinary share:

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Cancelled during the year	Balance at end of the year	Exercisable at end of the year
		\$	Number	Number	Number	Number	Number	Number
5 July 2007	30 June 2012	\$0.20	1,000,000	-	-	-	1,000,000	1,000,000
5 July 2007	30 June 2012	\$0.25	500,000	-	-	-	500,000	500,000
5 July 2007	30 June 2012	\$0.30	500,000	-	-	-	500,000	-
8 Jan 2008	30 June 2012	\$0.60	1,500,000	-	-	-	1,500,000	1,500,000
8 Jan 2008	30 June 2012	\$0.70	750,000	-	-	-	750,000	750,000
8 Jan 2008	30 June 2012	\$0.80	750,000	-	-	-	750,000	-
3 Feb 2009	30 Sep 2013	\$0.40	-	1,650,000	-	200,000	1,450,000	-
3 Feb 2009	30 Sep 2013	\$0.50	-	1,150,000	-	200,000	950,000	-
3 Feb 2009	30 Sep 2013	\$0.60	-	1,150,000	-	200,000	950,000	-
3 Feb 2009	30 Sep 2013	\$0.70	-	10,500,000	-	-	10,500,000	-
			5,000,000	14,450,000	-	600,000	18,850,000	3,750,000

The following options were on issue at 30 June 2008, each exercisable to acquire one fully paid ordinary share:

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Cancelled during the year	Balance at end of the year	Exercisable at end of the year
		\$	Number	Number	Number	Number	Number	Number
5 July 2007	30 June 2012	\$0.20	-	1,000,000	-	-	1,000,000	1,000,000
5 July 2007	30 June 2012	\$0.25	-	500,000	-	-	500,000	-
5 July 2007	30 June 2012	\$0.30	-	500,000	-	-	500,000	-
8 Jan 2008	30 June 2012	\$0.60	-	1,500,000	-	-	1,500,000	1,500,000
8 Jan 2008	30 June 2012	\$0.70	-	750,000	-	-	750,000	-
8 Jan 2008	30 June 2012	\$0.80	-	750,000	-	-	750,000	-
			-	5,000,000	-	-	5,000,000	2,500,000

Refer note 23, Share Based Remuneration, for further details.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 22 - CONTROLLED ENTITIES

Particulars in relation to controlled entities:

	Ordinary shares - Group interest	
	2009	2008
	%	%
<i>Parent Entity</i>		
Cockatoo Coal Limited		
<i>Controlled entities</i>		
Corella Coal Pty Limited	100	100
Dingo Coal Pty Ltd	100	100
Independent Coal Pty Limited	100	100
Surat Coal Pty Limited	100	100
Moreton Coal Pty Limited	100	100
SE QLD Coal Pty Ltd	100	100
SE QLD Energy Pty Ltd	100	100
Wonbindi Coal Pty Limited	80	80
Cockatiel Coal Pty Limited	100	-
Baralaba Coal Pty Ltd	62.5	-

All entities are incorporated in Australia

- Cockatiel Coal Pty Limited, Corella Coal Pty Limited, Independent Coal Pty Limited, Surat Coal Pty Limited, SE QLD Coal Pty Ltd and SE QLD Energy Pty Ltd are wholly owned controlled entities.
- Independent Coal Pty Limited holds a 98% interest in Dingo Coal Pty Ltd and the remaining 2% interest is held by the Company.
- Moreton Coal Pty Limited is a wholly owned controlled entity of Surat Coal Pty Limited.
- The Company holds an 80% interest in Wonbindi Coal Pty Limited.
- Cockatiel Coal Pty Limited holds a 62.5% interest in Baralaba Coal Pty Ltd.

#### Acquisition of controlled entities

During the year ended 30 June 2009, the Company completed the acquisition from Peabody Pacific Pty Limited ('Peabody') of all the shares in Peabody Baralaba Investments Pty Limited (since renamed Cockatiel Coal Pty Limited), which holds a 62.5% interest in Baralaba Coal Pty Ltd ('Baralaba').

The Company is now the major shareholder in, and manager of, the operating Baralaba mine, located near the town of Baralaba in the Bowen Basin, Queensland. The Baralaba mine is contiguous with the Company's existing Bowen Basin coal tenements.

Total consideration was \$1 for the acquisition of all the shares in Peabody Baralaba Investments Pty Limited and the refinance of a \$52.5 million debt payable by Baralaba to Peabody which will then be payable to the Company. At completion, \$40.0 million of the debt was paid to Peabody, \$7.5 million was paid on 1 July 2009 and \$5.0 million payable by 1 July 2010. The debt bears interest at 8% per annum.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 22 - CONTROLLED ENTITIES (CONT.)

For the period 12 December 2008 to 30 June 2009 the subsidiary contributed revenue of \$17,126,271 and a net loss of \$11,930,795. If the acquisition had occurred on 1 July 2008, management estimates that consolidated revenue would have been \$31,109,219 and consolidated loss for the period would have been \$72,745,319 which includes goodwill impairment amount of \$51,842,803. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 July 2008.

The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

	Recognised values on acquisition	Fair value adjustments	Pre-acquisition carrying amounts
Fair value of net assets of entity acquired:	\$	\$	\$
Cash and cash equivalents	641	-	641
Trade and other receivables	2,668,774	-	2,668,774
Inventories	6,196,257	(2,903,628)	9,099,885
Other current assets	2,676	-	2,676
Property, plant and equipment	300,009	(7,824,247)	8,124,256
Trade and other payables	(5,927,157)	-	(5,927,157)
Borrowings	(52,500,000)	-	(52,500,000)
Provisions	(2,584,002)	-	(2,584,002)
Goodwill	51,842,803	51,842,803	-
Net identifiable assets and liabilities	1	41,114,927	(41,114,926)
Consideration paid	(1)		
Cash acquired	641		
Net cash inflow	640		

The values of assets and liabilities recognised on acquisition are their estimated fair values.

The Baralaba mine, which had existing port and rail allocations, was acquired to gain synergies with the Company's existing tenements, resources and corporate plan, and any intangible assets recorded on acquisition have been allocated to goodwill as the intangible assets are not capable of being individually identified and separated as part of the business combination.

An impairment assessment was performed at 30 June 2009 in relation to goodwill. The Directors have performed a calculation of the recoverable amount and have resolved to fully impair the carrying value of goodwill at 30 June 2009 given the current economic environment, decreases in coal prices, movement in foreign exchange rates and uncertainties relating to future cash flows.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 22 - CONTROLLED ENTITIES (CONT.)

During the year ended 30 June 2008 the Company acquired Metallica Minerals Limited's ('Metallica') subsidiaries SE QLD Coal Pty Ltd and SE QLD Energy Pty Ltd which owned the following coal assets:

- The Surat project (EPCs 1041, 1135, 1136 and 1170).
- The Kingaroy project (EPC 882).
- The Condamine project (EPCs 963 and 1130).
- The Injune project (EPCs 1017 and 1018).
- A 20% interest in an underground coal gasification project with Cougar Energy Limited over EPC 1118. In addition, Cougar Energy Limited has the right to earn a 70% interest, with the Company retaining a 30% interest, in a designated area covering deeper coal (>130 metres depth) and outside the open cut coal potential of SE QLD Energy Pty Ltd's EPC 882.
- A 25% interest in a coal to liquids project with Eastern Mining Corporation Pty Limited over a portion of EPCs 935, 936, 1076, 1137 and 1138.

The coal projects covered a combined area of approximately 3,000 square kilometres of coal bearing strata, and include the Taabinga coal deposit which has a Measured and Indicated coal resource of 163.8 million tonnes of thermal coal (35.5 million tonnes Measured and 128.3 million tonnes Indicated). This acquisition strengthened the Company's existing Surat Basin holdings, adding to its already owned Woori project (MDL 187).

In accordance with the acquisition agreement, the Company:

- Made a cash payment of \$4.75 million in addition to a \$250,000 deposit paid in the previous financial year.
- Issued 25.0 million shares to Metallica. These shares were subject to a 12 month voluntary escrow.
- Will, in the future, issue the lesser of a further 5.0 million shares or shares to the value of \$1.0 million (based on the Company's average trading price over the preceding month) to Metallica upon commencement of production from any of the tenements acquired. These shares will be subject to a 12 month voluntary escrow.
- Will, in the future, pay a royalty of 40 cents per tonne to Metallica on production from the Kingaroy project (EPC 882) which includes the Taabinga coal deposit.

The above transaction has been accounted for as an acquisition of assets rather than a business combination as both SE QLD Coal Pty Ltd and SE QLD Energy Pty Ltd have no business operations and each of those company's sole asset is an interest in exploration areas.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 23 - SHARE BASED REMUNERATION

The Company has a share option program that entitles key management personnel, senior employees and consultants to be granted options in the entity.

The terms and conditions of the grants made during the year ended 30 June 2009 were as follows:

Grant date	Expiry date	Vesting date	Exercise price	Granted during the year	Balance at start of the year	Exercised during the year	Cancelled during the year	Balance at end of the year
			\$	Number	Number	Number	Number	Number
3 Feb 2009	30 Sep 2013	1 Jan 2010	0.40	1,650,000	-	-	200,000	1,450,000
3 Feb 2009	30 Sep 2013	1 Jan 2011	0.50	1,150,000	-	-	200,000	950,000
3 Feb 2009	30 Sep 2013	1 Jan 2012	0.60	1,150,000	-	-	200,000	950,000
3 Feb 2009	30 Sep 2013	1 Jan 2010	0.70	10,500,000	-	-	-	10,500,000
				14,450,000	-	-	600,000	13,850,000

The terms and conditions of the grants made during the year ended 30 June 2008 were as follows:

Grant date	Expiry date	Vesting date	Exercise price	Granted during the year	Balance at start of the year	Exercised during the year	Cancelled during the year	Balance at end of the year
			\$	Number	Number	Number	Number	Number
5 July 2007	30 June 2012	5 July 2007	0.20	1,000,000	-	-	-	1,000,000
5 July 2007	30 June 2012	5 July 2008	0.25	500,000	-	-	-	500,000
5 July 2007	30 June 2012	5 July 2009	0.30	500,000	-	-	-	500,000
8 Jan 2008	30 June 2012	8 Jan 2008	0.60	1,500,000	-	-	-	1,500,000
8 Jan 2008	30 June 2012	8 Jan 2009	0.70	750,000	-	-	-	750,000
8 Jan 2008	30 June 2012	8 Jan 2010	0.80	750,000	-	-	-	750,000
				5,000,000	-	-	-	5,000,000

All options are exercisable at any time after the vesting date and before the expiry date to acquire one fully paid ordinary share.

In the event that the employment or office of the option holder is terminated, any options which have not reached their vesting date will lapse and any options which have reached their vesting date may be exercised within one month from the date of termination of employment. Vesting conditions relate solely to service periods.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 23 - SHARE BASED REMUNERATION (CONT.)

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

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2009	2009	2008	2008
Outstanding at 1 July	\$0.50	5,000,000	-	-
Granted during the period	\$0.64	14,450,000	\$0.50	5,000,000
Exercised during the period	-	-	-	-
Cancelled during the period	\$0.50	(600,000)	-	-
Outstanding at 30 June	\$0.61	18,850,000	\$0.50	5,000,000
Exercisable at 30 June	\$0.47	3,750,000	\$0.44	2,500,000

The options outstanding at 30 June 2009 have an exercise price in the range of \$0.20 to \$0.70 and a weighted average contractual life of 4.66 years.

#### Fair value of options

The fair value of options granted is measured at grant date and recognised as an expense over the period during which the key management and senior employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black-Scholes formula, 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 options that vest.

The fair value of options granted on 3 February 2009 was \$1,227,721. The Black-Scholes formula model inputs were the Company's share price of \$0.285 at the grant date, a volatility factor of 57.56% based on historic share price performance, a risk free interest rate of 3.48% based on government bonds, and a dividend yield of 0%.

The fair value of options granted on 5 July 2007 was \$339,401. The Black-Scholes formula model inputs were the Company's share price of \$0.265 at the grant date, a volatility factor of 68.31% based on historic share price performance, a risk free interest rate of 6.33% based on government bonds, and a dividend yield of 0%.

The fair value of options granted on 8 January 2008 was \$1,800,917. The Black-Scholes formula model inputs were the Company's share price of \$0.85 at the grant date, a volatility factor of 82.26% based on historic share price performance, a risk free interest rate of 6.52% based on government bonds, and a dividend yield of 0%.

#### Expenses arising from share-based payment transactions

Total expenses arising from share based payment transactions recognised during the year ended 30 June 2009 as part of share based remuneration expense was \$956,480 (2008 - \$1,539,273).

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$

### NOTE 24 - STATEMENTS OF CASH FLOWS

#### (a) Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the year as shown in the Statements of Cash Flows is reconciled to the related items in the Balance Sheets as follows:

Bank balances	10,053,505	2,461,807	9,972,165	2,457,767
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#### (b) Reconciliation of net loss from ordinary activities after tax to net cash used in operating activities

Loss from ordinary activities after tax	(63,010,741)	(1,531,500)	(65,566,494)	(25,883,118)
<b>Non-cash items</b>				
Depreciation	89,253	19,925	89,253	19,925
Net change in fair value of derivatives financial instrument	(1,464,140)	-	(1,464,140)	-
Net foreign exchange loss	483,374	4,374	392,754	4,374
Impairment losses	51,842,803	-	66,220,514	25,132,285
Employee benefits	30,995	(27,643)	30,995	(27,643)
Share based remuneration	956,480	1,539,273	956,480	1,539,273
Write down of inventory to net realisable value	310,402	-	-	-
<b>Changes in assets and liabilities</b>				
Trade and other receivables	515,069	(921,658)	93,797	(921,581)
Inventories	(4,690,993)	-	-	-
Other	2,676	210	-	-
Exploration and evaluation expenditure	(9,679,993)	(4,273,536)	-	-
Trade and other payables	1,318,143	674,286	(559,271)	540,448
Provisions	64,081	-	-	-
<b>Net cash from/(used in) operating activities</b>	<b>(23,232,591)</b>	<b>(4,516,269)</b>	<b>193,888</b>	<b>403,963</b>

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 25 - KEY MANAGEMENT PERSONNEL DISCLOSURES

There are no key management personnel of the Company or Group that are not Directors. Information regarding individual key management personnel's compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 are provided in the Remuneration Report section of the Directors' Report.

#### Movement in shares

Key management personnel	Held at	Purchased	Sold	Held at
	1 July 2008			30 June 2009
Norman A. Seckold	19,750,002	-	-	19,750,002
Mark H. Lochtenberg	37,500,004	-	-	37,500,004
Peter J. Nightingale	13,010,002	-	-	13,010,002
J. Gillis Broinowski	1,500,000	-	-	1,500,000
Paul G. Chappell	570,000	-	-	570,000
Lindsay R. Flint	1,000,000	-	-	1,000,000
Hak Hee Lee	-	-	-	-
Sun Moon Woo	-	-	-	-
Robert A. Yeates	1,050,000	-	-	1,050,000

Key management personnel	Held at	Purchased	Sold	Held at
	1 July 2007			30 June 2008
Norman A. Seckold	19,750,002	-	-	19,750,002
Mark H. Lochtenberg	37,500,004	-	-	37,500,004
Peter J. Nightingale	13,010,002	-	-	13,010,002
J. Gillis Broinowski	1,500,000	-	-	1,500,000
Paul G. Chappell	-	570,000	-	570,000
Lindsay R. Flint	1,000,000	-	-	1,000,000
Hak Hee Lee	-	-	-	-
Sun Moon Woo	-	-	-	-
Robert A. Yeates	1,050,000	-	-	1,050,000

#### Movement in options

Key management personnel	Held at	Granted	Exercised	Held at
	1 July 2008			30 June 2009
Norman A. Seckold	-	1,000,000	-	1,000,000
Mark H. Lochtenberg	-	5,000,000	-	5,000,000
Peter J. Nightingale	-	3,000,000	-	3,000,000
J. Gillis Broinowski	-	500,000	-	500,000
Paul G. Chappell	-	-	-	-
Lindsay R. Flint	-	500,000	-	500,000
Hak Hee Lee	-	-	-	-
Sun Moon Woo	-	-	-	-
Robert A. Yeates	-	500,000	-	500,000

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 26 - RELATED PARTIES

During the year ended 30 June 2009, Norman A. Seckold and Peter J. Nightingale had an interest in an entity, Mining Services Trust, which provided full administrative services, including rental accommodation, administrative staff, services and supplies to the Group. Fees accrued by Mining Services Trust during the year, which were in the ordinary course of business and on normal terms and conditions, amounted to \$1,510,938 (2008 - \$655,033). There were no amount outstanding at 30 June 2009 (2008 - \$295,750).

During the year ended 30 June 2009, Robert A. Yeates had an interest in an entity, Rob Yeates and Associates Pty Limited, which rendered financial and geological services to the consolidated entity. Fees accrued by Rob Yeates and Associated Pty Limited during the year, which were in the ordinary course of business and on normal commercial terms and conditions, amounted to \$70,544 (2008 - \$45,959). There were no amount outstanding at 30 June 2009 (2008 - \$8,246).

#### Controlled entities

At balance date, the Company had amounts receivable from Dingo Coal Pty Limited of \$5,248,568 (2008 - \$5,061,882), Independent Coal Pty Limited of \$92,000 (2008 - \$2,623), SE QLD Coal Pty Ltd \$7,331,001 (2008 - \$5,010,054), SE QLD Energy Pty Ltd \$111,763 (2008 - \$4,861), and Surat Coal Pty Limited of \$6,764,668 (2008 - \$2,204,871). These amounts are classed as investments as they are interest free, unsecured, there is no fixed term of repayment and they are repayable out of profits.

At balance date, the Company had amounts receivable from Wonbindi Coal Pty Limited of \$12,454,115 (2008 - \$9,042,512). The amount receivable is unsecured and bears interest at 3% above the Bank Bill Swap Reference Rate, compounded monthly.

At balance date, the Company had amounts receivable from Baralaba Coal Pty Ltd of \$55,545,201 (2008 - \$nil). The amount receivable is unsecured and bears interest at 8% per annum, compounded monthly.

At 30 June 2009 and 30 June 2008 the Directors assessed the recoverability of the loan to Wonbindi Coal Pty Limited. Given that the controlled entity is in the exploration phase of operations the Directors are unable to prepare discounted cash flow calculations to support the recoverability of the loan and as a result the full carrying value of the loan has been impaired in the Company's financial statements.

At 30 June 2009 the Directors assessed the recoverability of the loan to Baralaba Coal Pty Ltd. The full carrying value of the loan has been impaired in the Company's financial statements as a result of uncertainties relating to future cash flows of the Baralaba mine operations.

At 30 June 2009 and 30 June 2008 the Directors assessed the recoverability of investments in controlled entities. Given that the controlled entities are in the exploration phase of operations and there are uncertainties relating to future cash flows of the Baralaba mine operations, the Directors are unable to prepare discounted cash flow calculations to support the recoverability of these investments and as a result the full carrying value of these investments has been impaired in the Company's financial statements.

During the year a total amount of \$2,029,534 was charged by the Company to Baralaba Coal Pty Ltd comprising management services related to the Baralaba mine operations totalling \$140,000, interest on loan totalling \$1,795,720 and royalties on coal sold totalling \$93,814. All amounts remain unpaid at year end.

During the year a total amount of \$964,547 was charged by the Company to Wonbindi Coal Pty Limited comprising management services related to exploration activities totalling \$200,000 and, interest on loan totalling \$764,547. All amounts remain unpaid at year end.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 27 - FINANCIAL INSTRUMENTS DISCLOSURE

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. These policies are informally reviewed from time to time to reflect changes in market conditions and the Group's activities.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, currency risk and interest rate risk. The summaries below present information about the Group's exposure to each of these risks, their objectives, policies and processes for measuring and managing risk, the management of capital and financial instruments.

#### Credit risk

Credit risk arises mainly from the risk of counterparties defaulting on the terms of their agreements. The carrying amounts of the following assets represent the Group's maximum exposure to credit risk in relation to financial assets:

		Consolidated		Company	
		2009	2008	2009	2008
		\$	\$	\$	\$
Cash and cash equivalents	24	10,053,505	2,461,807	9,972,165	2,457,767
Term deposits	10	-	52,000,000	-	52,000,000
Trade and other receivables	11	2,944,355	1,054,202	565,530	1,052,081
Security deposits	13	10,388,953	64,085	10,247,009	-
Derivatives not used for hedging	14	1,464,140	-	1,464,140	-
		24,850,953	55,580,094	22,248,844	55,509,848

The Group's maximum exposure to credit risk at the reporting date by geographic region was:

Australia	24,850,953	55,580,094	22,248,844	55,509,848
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The Group mitigates credit risk on cash and cash equivalents by dealing with regulated banks in Australia. Credit risk of trade and other receivables is very low as it consists predominantly of amounts recoverable from the Australian Taxation Authority and interest receivable from call deposits held with regulated banks.

#### Impairment losses

None of the Group's trade and other receivables are past due (2008 - \$nil).

At 30 June 2009 an impairment loss of \$58,956,805 relates to loans to subsidiaries and \$7,263,710 relates to investment in controlled entities, at cost.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 27 - FINANCIAL INSTRUMENTS DISCLOSURE (CONT.)

#### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	Carrying amount \$	Contractual cash flows \$	Less than one year \$	Between one and five years \$	More than five years \$
<b>Consolidated</b>					
<b>30 June 2009</b>					
Trade and other payables	8,542,496	(8,542,496)	(8,542,496)	-	-
Interest bearing liabilities	12,500,000	(12,900,000)	(7,900,000)	(5,000,000)	-
	<u>21,042,496</u>	<u>(21,442,496)</u>	<u>(16,442,496)</u>	<u>(5,000,000)</u>	<u>-</u>
<b>30 June 2008</b>					
Trade and other payables	1,169,454	(1,169,454)	(1,169,454)	-	-
	<u>1,169,454</u>	<u>(1,169,454)</u>	<u>(1,169,454)</u>	<u>-</u>	<u>-</u>
<b>Company</b>					
<b>30 June 2009</b>					
Trade and other payables	474,441	(474,441)	(474,441)	-	-
	<u>474,441</u>	<u>(474,441)</u>	<u>(474,441)</u>	<u>-</u>	<u>-</u>
<b>30 June 2008</b>					
Trade and other payables	1,035,172	(1,035,172)	(1,035,172)	-	-
	<u>1,035,172</u>	<u>(1,035,172)</u>	<u>(1,035,172)</u>	<u>-</u>	<u>-</u>

Ultimate responsibility for liquidity management rests with the Board of Directors. The Group manages liquidity risk by maintaining adequate funding and monitoring of future rolling cash flow forecasts of its operations, which reflect management's expectations of expected settlement of financial assets and liabilities.

#### Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is exposed to currency risk on coal sales and derivatives of financial instrument that are denominated in United States currency. The Group's exposure to credit risk at balance date totalled \$1,464,140.

The Company is exposed to currency risk on derivatives of financial instrument that are denominated in United States currency. The Company's exposure to credit risk at balance date totalled \$1,464,140.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 27 - FINANCIAL INSTRUMENTS DISCLOSURE (CONT.)

#### Interest rate risk

The Group's income statement is affected by changes in interest rates due to the impact of such changes on interest income and expenses from cash and cash equivalents.

At balance date, the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk that are not designated as cash flow hedges:

	Notes	Consolidated		Company	
		Carrying amount		Carrying amount	
		2009	2008	2009	2008
		\$	\$	\$	\$
<b>Financial Assets</b>					
Cash and cash equivalents	23	10,053,505	2,461,807	9,972,165	2,457,767
Term deposits	10	-	52,000,000	-	52,000,000
		<u>10,053,505</u>	<u>54,461,807</u>	<u>9,972,165</u>	<u>54,457,767</u>

#### Sensitivity analysis

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and loss for the period by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for the comparative period.

Loss for the period	374,574	494,616	373,357	494,578
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#### Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board ensures costs are not incurred in excess of available funds and will seek to raise additional funding through issues of shares for the continuation of the Group's operation. There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

#### Net fair values of financial assets and liabilities

The carrying amounts of financial assets and liabilities of the Company and the Group, for the year ended 30 June 2009 and 30 June 2008, approximate their net fair values, given the short time frames to maturity and or variable interest rates.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 28 - COMMITMENTS

#### Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Group is required to perform minimum exploration work to meet the minimum expenditure requirements specified by tenement licences and acquisition agreements. 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		Company	
	Carrying amount		Carrying amount	
	2009	2008	2009	2008
	\$	\$	\$	\$
Not later than one year	8,261,314	1,059,667	-	-
Later than one year but not later than two years	1,385,634	1,764,667	-	-
Later than two years but not later than five years	797,000	1,044,000	-	-
	10,443,948	3,868,334	-	-

### NOTE 29 - SUBSEQUENT EVENTS

Subsequent to the financial year end:

- The Company completed a capital raising initiative through a Share Purchase Plan ('SPP') raising a total amount of \$10.8 million. A total of 1,115 shareholders, representing 28.6% of all eligible shareholders, participated in the SPP subscribing for 32.6 million fully paid ordinary shares.
- Following the SPP, the Company completed placements to institutional and sophisticated investors totalling \$12.6 million by the issue of 38.2 million shares, and received a commitment for a further \$5.0 million placement for the issue of 15.2 million shares.
- The sale of the Company's 20% interest in the UCG technology joint venture was completed for consideration of 15 million shares in Cougar Energy Limited.

### NOTE 30 - CONTINGENCIES

Republic Coal Pty Limited ('Republic'), a 37.5% shareholder in Baralaba Coal Pty Ltd commenced legal proceedings in the New South Wales Supreme Court on 8 April 2009 against Cockatoo Coal Limited, Baralaba Coal Pty Ltd ('Baralaba'), Cockatoo Coal Marketing Company Pty Ltd, Mark Lochtenberg, Peter Nightingale and Norman Seckold.

The Company is defending Republic's claims and denies Republic's allegations. At year end, no material progress on this matter has been made.

The Company, Baralaba's principal creditor, continues to manage Baralaba's sole asset, the Baralaba mine. The Company does not expect that the proceedings initiated by Republic will have a material effect on the Group's financial position.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 31 - SEGMENT REPORTING

The Company has adopted *AASB 8 Operating Segments* with effect from 30 June 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (*AASB 114 Segment Reporting*) required an entity to identify two sets of segments (business or geographical), using a risks and rewards approach, with the Group's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. As a result, following the adoption of AASB 8, the process of identifying the Group's reportable segments has changed.

The Group has two reportable segments, as described below.

- Mining - production and sale of coal.
- Exploration and evaluation - exploration and evaluation activities of the Company.

Operating Segments	Mining \$	Exploration and evaluation \$	Unallocated \$	Consolidated Total \$
<b>30 June 2009</b>				
<b>Segment revenue</b>				
Revenues - external	17,126,271	-	15,630	17,141,901
Finance income	5,107	73	2,282,005	2,287,185
<b>Total revenue</b>	<b>17,131,378</b>	<b>73</b>	<b>2,297,635</b>	<b>19,429,086</b>
<b>Segment expenses</b>	<b>(29,218,652)</b>	<b>(29,521)</b>	<b>(53,191,654)</b>	<b>(82,439,827)</b>
<b>Segment result</b>	<b>(8,827,822)</b>	<b>(29,448)</b>	<b>(54,153,471)</b>	<b>(63,010,741)</b>
<b>Segment assets</b>	<b>15,765,655</b>	<b>48,460,386</b>	<b>26,493,908</b>	<b>90,719,949</b>
<b>Segment liabilities</b>	<b>22,920,611</b>	<b>295,526</b>	<b>539,522</b>	<b>23,755,659</b>
<b>30 June 2008</b>				
<b>Segment revenue</b>				
Finance income	-	5,474	2,924,149	2,929,623
<b>Total revenue</b>	<b>-</b>	<b>5,474</b>	<b>2,924,149</b>	<b>2,929,623</b>
<b>Segment expenses</b>	<b>-</b>	<b>(1,065)</b>	<b>(4,460,058)</b>	<b>(4,461,123)</b>
<b>Segment result</b>	<b>-</b>	<b>4,409</b>	<b>(1,535,909)</b>	<b>(1,531,500)</b>
<b>Segment assets</b>	<b>-</b>	<b>38,617,825</b>	<b>56,394,550</b>	<b>95,012,375</b>
<b>Segment liabilities</b>	<b>-</b>	<b>134,284</b>	<b>1,069,256</b>	<b>1,203,540</b>