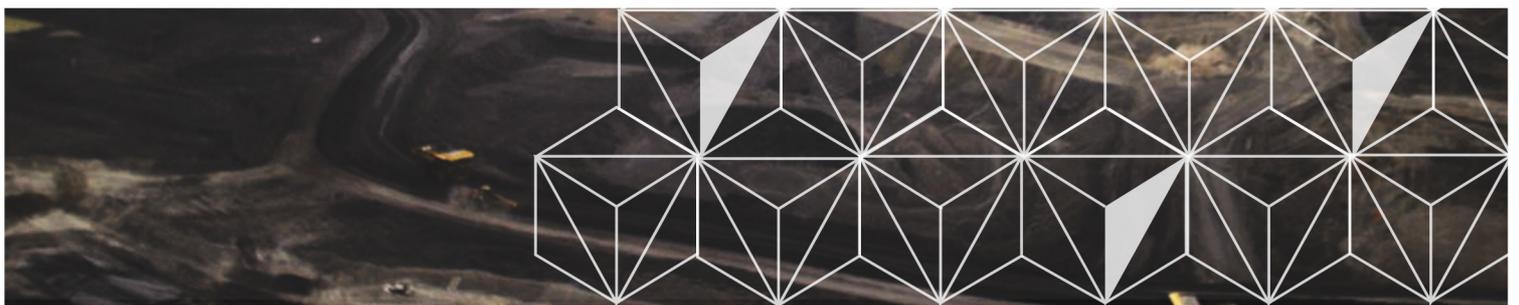


# ANNUAL REPORT | 2014

// AUSTRALIAN PACIFIC COAL



**Australian Pacific Coal**

ABN : 49 089 206 986 ASX CODE: AQC



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# CHIEF EXECUTIVE OFFICER'S REPORT

*Bowen Basin explorer focused on acquiring developing and value adding metallurgical coal prospects.*

Australian Pacific Coal Limited (AQC) holds a number of tier one projects. The 2014 financial year saw AQC maintain its focus on value adding those projects.

Shareholders should be aware that AQC owns two metallurgical coal projects, Cooroorah and Dingo, and one thermal coal target yet to be drilled. All have development potential and are believed to represent some of the best quality coal prospects in the Bowen and Wolfgang Basins.

The Company's Cooroorah project has advanced to a mineral development licence (MDL 453) following an exploration program identifying an in-ground 124.9Mt coal resource (69.6Mt Indicated and 55.3Mt Inferred in accordance with the JORC Code.) This project is surrounded by a number of operating coal mines. The most significant of which are the Curragh and Jellinbah mines. I believe its location in close proximity to established infrastructure assures its future.

Recently granted, our 100% owned "South Clermont" project abuts the 12 MT PA Glencore mine. Planning has been completed for an exploration drilling program during the drilling season in the first half of the 2015 calendar year. The target is the coal measures associated with the Wolfgang Basin. This is the same coal produced from the Glencore Clermont Mine where the main coal seam is up to 40 metres thick. If we are successful in discovering an economic coal resource in this part of the basin, we will be able to produce a premium quality, direct shipping, thermal coal. Coal within the Wolfgang Basin is possibly some of the best thermal coal produced in Queensland. It is of such a high quality, low ash and sulphur product that you do not have to wash it.

First stage drilling of Dingo within the Blackwater project area has identified seams from Rangel Coal Measures intersected with thicknesses up to 5m. Coal sampling has identified potential for a washed, high yielding Ultra Low Volatile (ULV) PCI coal. This project requires further interpretation and drilling to elevate to a resource.

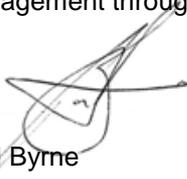
The Company's main joint venture is the Mt Hillalong project with Rio Tinto Exploration. Rio are currently conducting exploration of the project areas. Less than one year remains for Rio to exercise its option to proceed to the next stage of the agreement. Rio's exercise of their option will mean a cash injection into AQC. This will be a milestone occasion for AQC. We will have the option to either retain a carried equity of 25% in a joint venture with Rio Tinto reaping the rewards into the future or we have the ability to completely sell out our interest in this project.

The Cuesta Coal JV gives AQC a 10% free carried equity in the four projects they hold. Some of these projects contain JORC inferred coal resources. We are hopeful that in the future these assets may be valuable to AQC.

Our value-add strategy is ongoing across our portfolio of coal tenements, and while at times progress may appear to be gradual, we are confident that the Company's strategy of proving up valuable coal resources will deliver robust returns to shareholder in the long-term.

Your board, are focussed on the potential development of one or more of our coal projects as China and India have a strong desire for Australian premium thermal and coking coals. A potential partnership / joint venture is a definite possibility for AQC.

I would like to take this opportunity to thank you – our shareholders – for your ongoing support of the Company over the past 12 months. I would also like to acknowledge the dedication and efforts of the Board members and management throughout the year, and thank all our staff and contractors for their diligent efforts.



Paul Byrne  
Chief Executive Officer

# INFORMATION ON AUSTRALIAN PACIFIC COAL

Australian Pacific Coal Limited (AQC) is an ASX listed junior coal explorer focused on the Bowen Basin, Queensland.

Through a series of acquisitions, AQC has positioned itself with both metallurgical and thermal coal projects potentially suited for underground and open cut mining.

AQC has a built a portfolio of strategic holdings of coal exploration tenements located in Queensland's lucrative Bowen, Galilee, Surat and Clarence-Moreton basins. The philosophy of AQC's management has been to secure strategic tenure by identifying available tenements close to operating mines or in areas with proven or potential in-ground resources in regions suitable for short term development. The projects are located close to the existing network of rail and port infrastructure in the Bowen Basin.

The current focus of the company's operations is to value add the coal projects through evaluation of the resource potential of the projects followed up with drilling as required to prove up the resource. Early stage drilling has commenced on selected projects and will continue through the coming year.

Following on from the value add process, AQC's exploitation opportunities for individual coal projects include development of the project in its own right, farm-in, joint venture exploration, joint venture development or outright sale.

AQC's long term strategic focus is based on seeking out and identifying potentially lucrative resource investment opportunities. The success of the coal project acquisitions is a direct result of this long term strategy and the Company will continue to take advantage of low entry cost resource investment opportunities it identifies. Investing in these potentially lucrative resource plays is an important part of the Board's strategy to protect the future growth of the Company.



## BOARD OF DIRECTORS

**Mr Peter Ziegler** BCom (Hons), LLB (Hons), MFM, FCPA, CTA, ACA

Non-executive Chairman

Chairman of the Audit and Remuneration Committees

Mr. Ziegler is an experienced company director. He was a partner of one of the major international accounting firms, specialising in taxation and corporate structuring. He is also a solicitor of the Supreme Court of Victoria. Mr Ziegler is currently the principal of Ziegler Asset Partners, an asset management firm specialising in investments in listed and unlisted equities and special opportunities. Director since 29 November 2005.

**Mr Paul Byrne**

Managing Director, Chief Executive Officer

Mr. Byrne joined the Company as Executive Director, following the acquisition of the Ipoh group of companies. Mr. Byrne was a founder of the Ipoh group and has initiated environmental remediation projects in conjunction with CSIRO, University of South Australia and the Queensland Department of Primary industries. He has also been involved in the resources sector since 1985 in exploration and mining and has been a director of several Australian public listed companies. Director since 29 November 2005.

# INFORMATION ON AUSTRALIAN PACIFIC COAL

## BOARD OF DIRECTORS - continued

### Mr Paul Ingram B.AppSc.(Geology), AusIMM

Non-executive Director

Mr Ingram is a geologist with over thirty five years of experience in mineral exploration and mine development. Mr Ingram has been involved in several start-up public companies, mostly focussed in the Asian region. He has extensive experience in corporate M&A, and has been focussed on coal projects in Asia and Australia for the past eight years. Mr Ingram brings to the Board of AQC an extensive network of professional contacts, which, combined with close ties to the Chinese resource industry, will be of significant benefit to the Group as an emerging coal company in Queensland. Director since 17 March 2011.

Mr Ingram is currently a director of Consolidated Global Investments Limited, A-Cap Resources Ltd and Impact Minerals Limited.

### Mr Paul Ryan

Non-executive Director

Mr. Ryan is a businessman with over twenty years' experience as owner and manager of large scale privately held companies. He has been involved in operations management at the Manimbah gold mine, contract mining, and transport and logistics operations. Mr Ryan brings to the Board of AQC an extensive network of professional contacts which, combined with relevant industry experience, are of significant benefit to the Group as an emerging coal company in Queensland. Director since 29 November 2012.

## KEY COMPANY DATA

**Listing:** Australian Securities Exchange (ASX:AQC) – Listed in 1999

**Shares on Issue:** 920,897,748 AQC ORD as at 30 June 2014  
(approximately 1,700 shareholders)

**Options:** Nil outstanding

**Market Capitalisation:** \$3.68 million as at 30 June 2014

**Cash at bank:** \$451,226 as at 30 June 2014

### Quarterly Share Price Activity:

	High	Low	Last
June 2014	\$0.006	\$0.004	\$0.004
March 2014	\$0.009	\$0.005	\$0.006
December 2013	\$0.014	\$0.006	\$0.007
September 2013	\$0.016	\$0.008	\$0.015

## COAL EXPLORATION PROJECTS

Australian Pacific Coal Limited is an Australian public company focusing on acquiring and developing coking, PCI and thermal coal deposits in Queensland. The Company now owns interests in 28 coal tenements comprising 1 granted mineral development licence, 24 granted coal exploration permits, and 3 coal exploration applications one of which is currently proceeding to grant.

The Company has joint venture agreements in place with major miner Rio Tinto and Cuesta Coal.

Most of the coal tenements are in the Bowen Basin, a major source of supply of some of the world's best metallurgical, PCI and thermal coal. The Company also has coal tenements in the Surat, Galilee and Clarence-Moreton Basin. These basins contain large reserves of thermal coal and currently produce coal for export and domestic use.

The Company's coal tenements cover a combined area of 773km<sup>2</sup>. Many are close to rail and road infrastructure and some are down-dip or along strike of operating coal mines or known coal resources.

The tenements have been largely grouped into project areas which target similar coal seams within a close geographical proximity. AQC has an exploration priority on coking coal, and scoped underground targets with a resource potential greater than 50 million tonnes and open cut targets with a potential greater than 5 million tonnes.

Short term evaluation and exploration is focused on the most prospective targets. Priority targets include:

- MDL453 'Cooroorah' in the Blackwater project – an Inferred resource of 124.9Mt (69.6Mt Indicated and 55.3Mt Inferred) measured in accordance with the JORC Code. Potential for secondary shallower open cut coal in the north.
- EPC 1859 'Dingo' in the Blackwater project – seams from Rangal Coal Measures intersected with thicknesses up to 5m with potential for a washed, high yielding Ultra Low Volatile (ULV) PCI coal. Requires further interpretation and drilling to elevate to a resource.
- EPC 2011 "South Clermont" – targeting extension of the Clermont Basin south of the Clermont Coal Mine with potential for thick open cut mineable coal seams.
- EPC 1995 'Carlo Creek' in the Blackwater project – a geological target with prospectivity for shallow German Creek and Fort Cooper formation seams.

### COMPLIANCE STATEMENT

MDL 453 'Cooroorah' Resource Estimate

*The information is extracted from the report entitled EPC1827 "Cooroorah" Resource Estimate Update created on 20 November 2013 and is available to view on [www.aqcltd.com/irm/content/asx-announcements.aspx](http://www.aqcltd.com/irm/content/asx-announcements.aspx).*

EPC 1859 'Dingo' Coal Quality

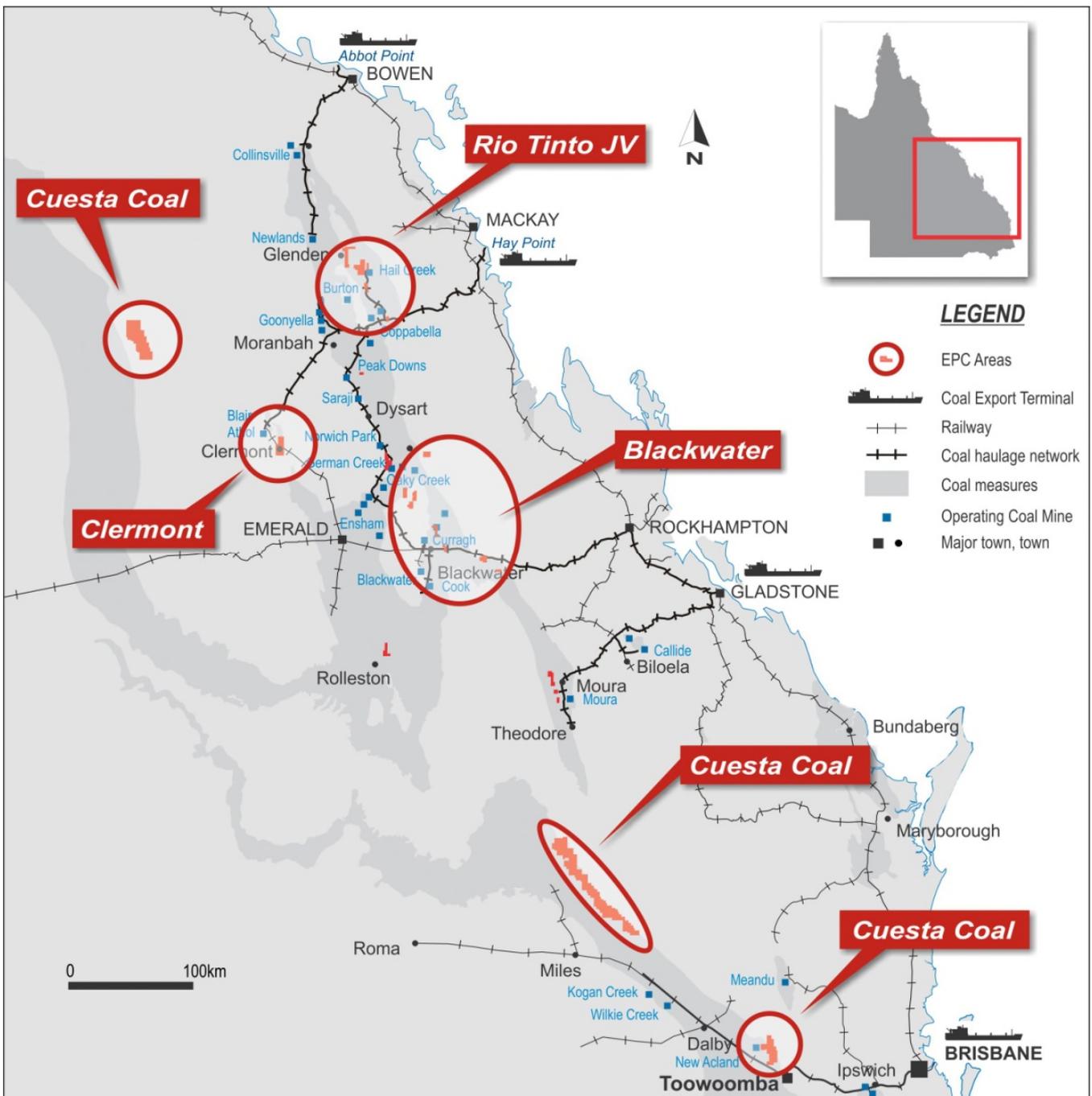
*The information is extracted from the report entitled EPC 1859 Dingo Exploration Update created on 20 August 2014 and is available to view on [www.aqcltd.com/irm/content/asx-announcements.aspx](http://www.aqcltd.com/irm/content/asx-announcements.aspx).*

*The company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.*

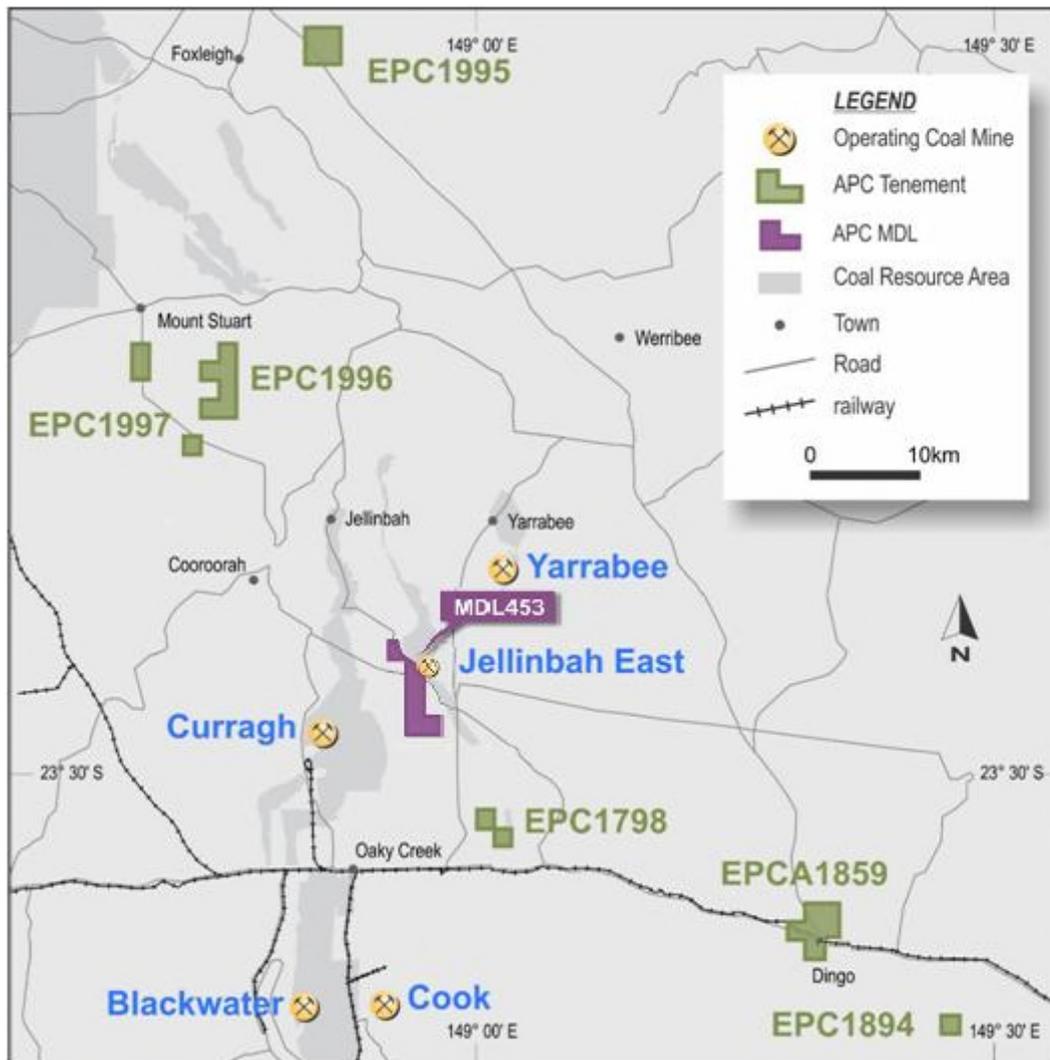
# Project Areas

The Company's current exploration activities are focused on its 100% owned Blackwater projects.

Joint venture partners Rio Tinto Exploration Pty Ltd and Cuesta Coal Limited's 100% owned subsidiary Blackwood Resources Pty Ltd are currently carrying out exploration of the JV project areas.



## Blackwater (AQC 100%)



### COOROORAH (MDL 453)

- 124.9 million tonne (69.6Mt Indicated & 55.3Mt Inferred) Resource\*
- Mineral Development Licence (MDL453) granted January 2014
- Targeting PCI and semi-soft coking coal
- Located near rail network and developed infrastructure

### DINGO (EPC 1859)

- 30 km east of operating Blackwater and Curragh mines, targeting Rangal Coal Measures
- Initial drilling program completed in Q2 2014. Ultra Low Volatile PCI coal quality potential identified
- Located on rail network

### CARLO CREEK (EPC 1995)

- Historical drill holes and seismic sections identified two potential coal target sequences

\* Statement of resource quantity is in accordance with The JORC Code 2012 Edition guidelines

# Cooroorah – MDL 453 (AQC 100%)

The target mineralisation is Late Permian Rangal Coal Measures coal within the Bowen Basin.

While coal is found in several seams within the Rangal Coal Measures, the project is targeting coal from the Aries, Castor, Pollux and Pisces seams.

The four coal seams are located at a depth of between 180m and 520m, with no subcrops within the tenement.

## RESOURCE ESTIMATE

124.9 Million tonnes resource

- 69.6 Mt Indicated
- 55.3 Mt Inferred

## RAW COAL STATISTICS

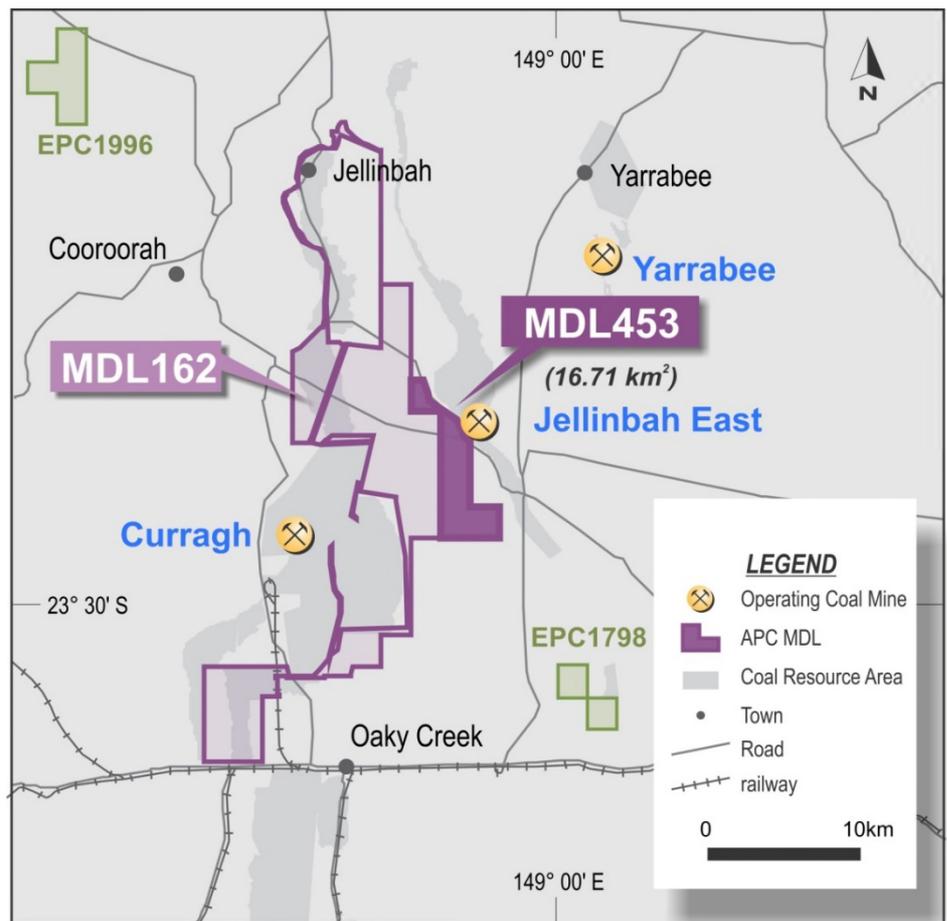
All seam plies exhibit low to moderate ash 9% to 39% (to 28% in target seams) and volatile matter between 13% and 22%

CSN typically range from 1-4 but are as high as 8 within the Airies seam in places

Sulphur ranges 0.02 – 0.07%

Phosphorus 0.04% and 0.19%

Specific Energy 24 to 32MJ/kg



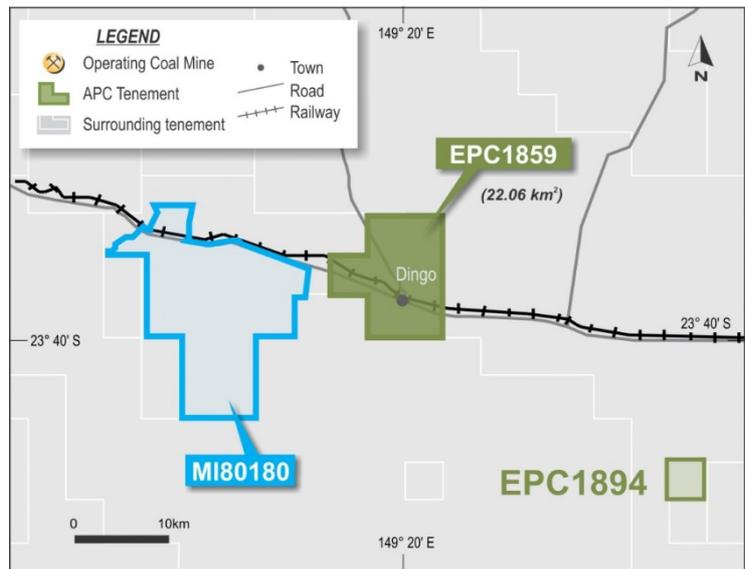
Seam	Resource Category (Mt)			
	Measured	Indicated	Inferred	Total
Aries	-	0.6	7.0	7.6
Castor	-	27.2	7.9	35.1
Pollux	-	17.5	10.4	27.9
Pisces	-	24.3	30.0	54.3
<b>All seams total</b>	-	<b>69.6</b>	<b>55.3</b>	<b>124.9</b>

# REVIEW OF OPERATIONS

## Dingo – EPC 1859 (AQC 100%)

### COAL QUALITY

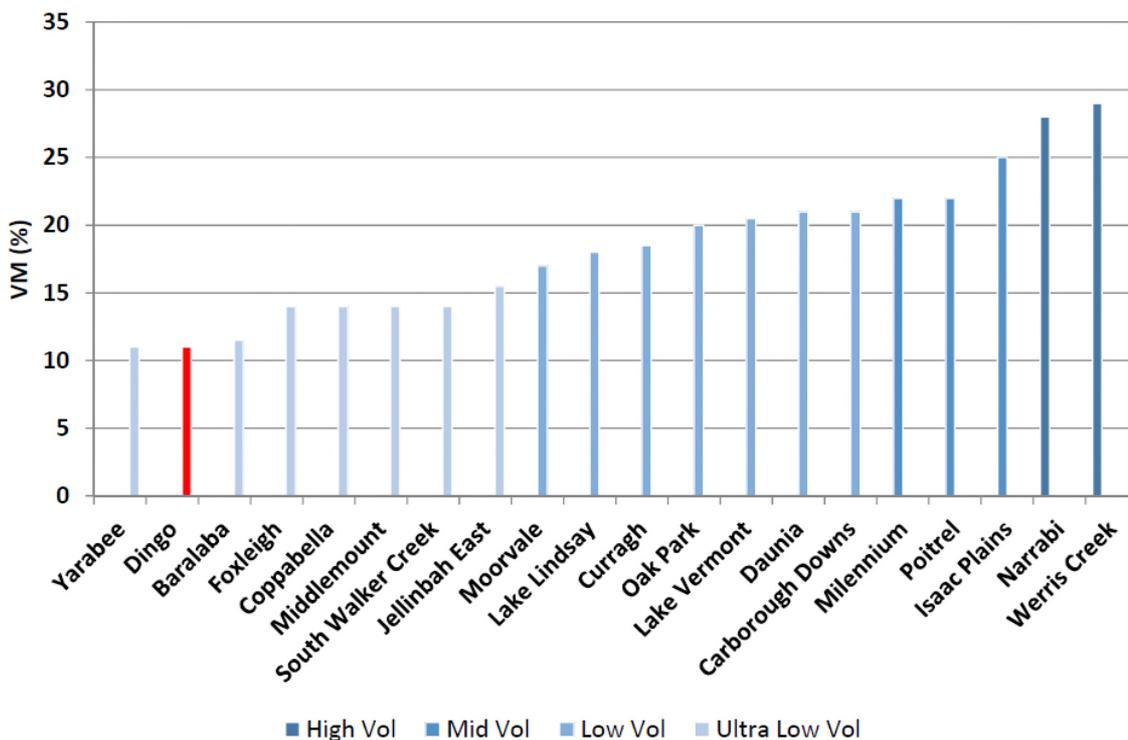
- Very Low Volatile
- Low Ash
- High Yield
- PCI Product



### Initial Washability

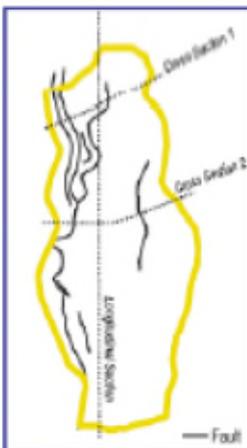
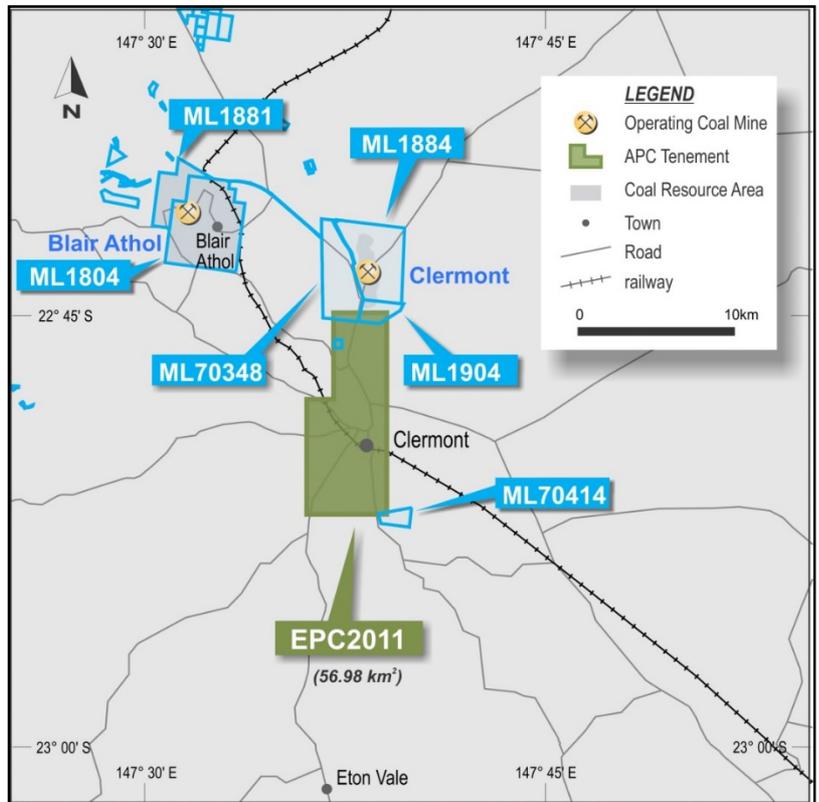
Hole ID	Seam	From(m)	To (m)	Thickness (m)	Yield %	Ash %
DDH013	Castor	148.34	151.36	3.02	84.7%	6.4%
DDH015	Pollux	78.66	81.33	2.67	87.7%	7.7%

### Volatile Content % for PCI Coals

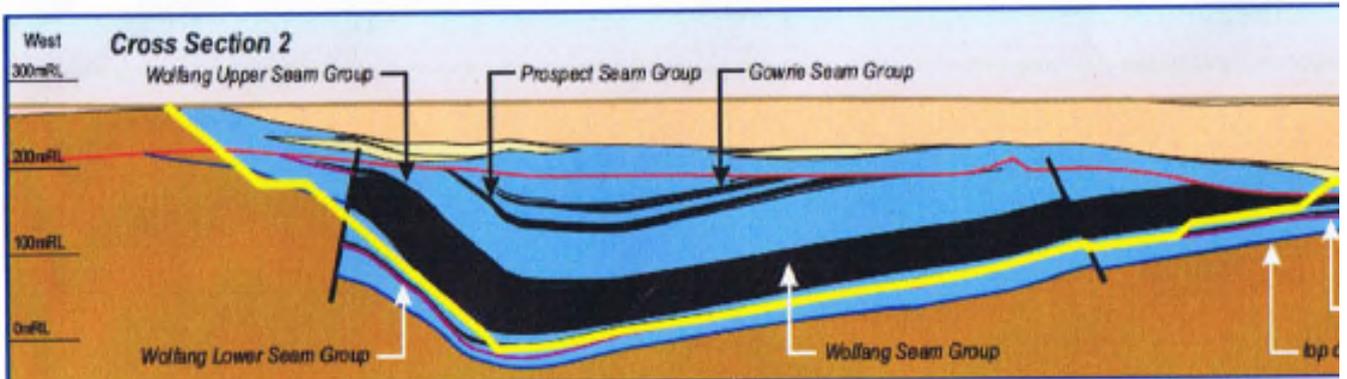
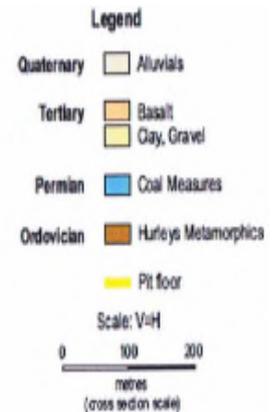
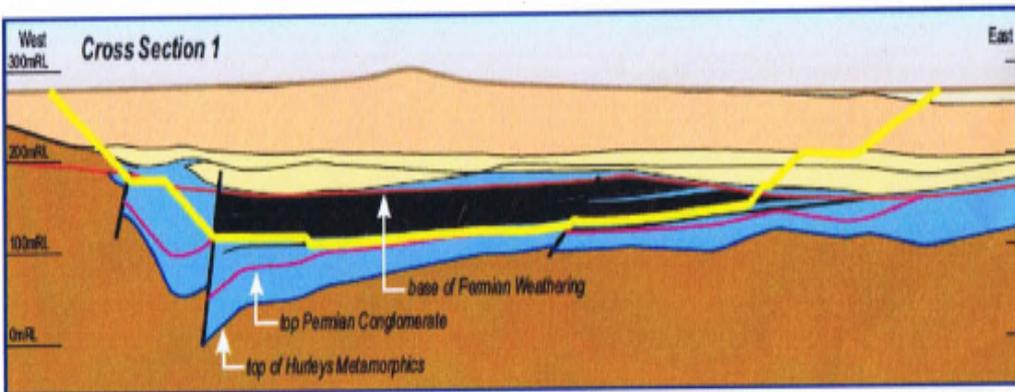


# South Clermont – EPC 2011 (AQC 100%)

Proposed drilling of the South Clermont target area aims to define the extension of the Clermont Mine deposit with potential for thick open cut mineable coal seams. (Illustrated below.)



Section Location

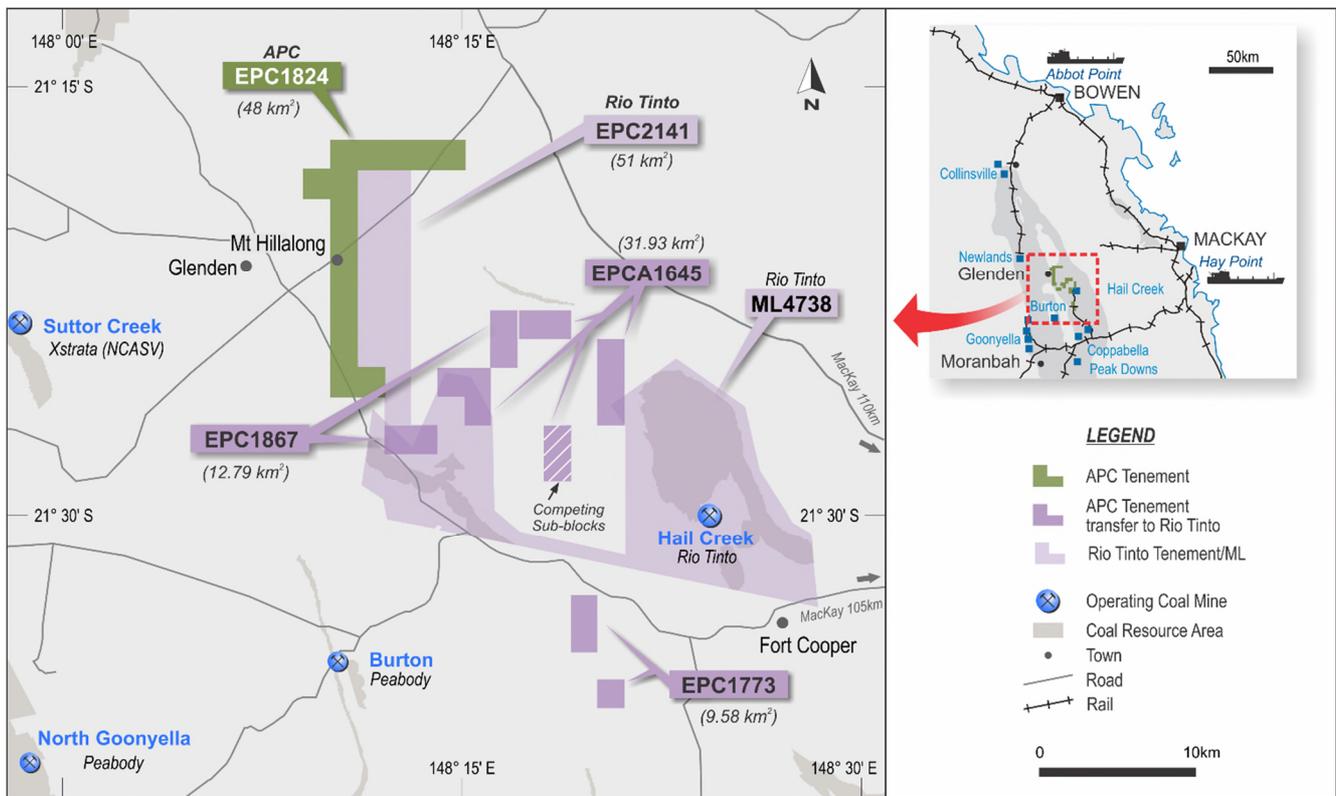


(Reference: N. September & R. Kirkwood, 2010. Clermont Coal Mine Project, Selection of Tailings Paste Thickener, AusIMM – Technical Meeting 17 February 2010, Sinclair Knight Merz)

## Exploration & Joint Venture Agreements

### Rio Tinto Exploration Pty Ltd – EPC 1824 “Mt Hillalong”

EPC1824 is located in the heart of the Bowen Basin in close proximity to Rio Tinto’s existing Hail Creek mine (see map below). The Company’s Exploration, Option and Joint Venture Agreement with Rio Tinto Exploration Pty Ltd provides the Company with a number of options in the event that Rio Tinto exercises its option to acquire a 75% interest in the tenement. Historical exploration conducted for the CRA Coal Group identified outcropping coal in the northern part of the tenement. The RTX exploration program will expand on their knowledge of the tenement and is focused on identifying a resource target in the central/southern areas of the tenement.



Note. This map does not display tenements held by other explorers.

RIO TINTO EXPLORATION PTY LTD - EXPLORATION OTION AND JOINT VENTURE AGREEMENT TENEMENTS					
EPC	Name	Holder	Status	Area (km²)	Location
EPC 1824	Mount Hillalong	Area Coal Pty Ltd	Granted	48	6km E of Glenden
EPC 1645	Mount Hess	Area Coal Pty Ltd (to be transferred to Rio Tinto Exploration Pty Ltd on grant)	Application	32	20km SE of Glenden
EPC 1773	Kemmis Creek	Rio Tinto Exploration Pty Ltd	Granted	6	32km SE of Glenden
EPC 1867	Mount Hess West	Rio Tinto Exploration Pty Ltd	Granted	13	16km SE of Glenden

# REVIEW OF OPERATIONS

Rio Tinto Exploration (RTX) have provided the following report on the initial outcomes and progress of their exploration program for AQC and Rio Tinto Exploration's Mt Hillalong JV project EPC1824.

*“Rio Tinto Exploration has completed its 2013 exploration program on the Hillalong Project (EPC1824). Two open holes and three 2D seismic lines were completed during September 2013 to assess the potential for Rangal Coal measures.*

*Drill results:*

- *HILL0002 intersected 12m net coal between 320m and 460m depth from the Leichhardt, Vermont and Girrah Seams.*
- *HILL0003 intersected 11m net coal between 155m and 185m depth from the Leichhardt and Vermont Seams.*

*Coal chip samples from the two holes have been submitted to the coal laboratories for petrography analysis and reflectance (RoMax) determination.*

*Final processing and interpretation of the seismic data has not yet been completed, however it confirms Rangal Coal Measures are present and continuous within EPC1824.*

*Rio Tinto Exploration is planning to return to the project next field season to follow up this work.”*

## **THE MT HILLALONG EXPLORATION, OPTION AND JOINT VENTURE AGREEMENT**

Australian Pacific Coal Limited through its 100% owned subsidiary Area Coal Pty Ltd (Area Coal) has an Exploration Option and Joint Venture Agreement (EOJVA) with Rio Tinto Exploration Pty Limited (RTX). This EOJVA sets out terms of an exploration agreement and RTX's potential acquisition or joint venture of the Company's Mt Hillalong project.

The key terms of the EOJVA are:

- An initial payment to the Company of \$2.3 million was received in August 2011.
- Area Coal transferred title to EPC 1773 and 1867 to RTX. EPC 1645 is to be transferred to RTX if granted to Area Coal.
- RTX must sole fund and manage an exploration program with a minimum expenditure of \$700,000 within the first 24 months of gaining access to explore EPC 1824. The 24 month term commenced on 23 August 2013 and expires on 23 August 2015.
- RTX has an option to acquire a 75% interest in EPC 1824 by making a defined payment to Area Coal at any time within the first 24 months of the exploration program (option). In the event of RTX's exercise of this option, the parties will form an unincorporated joint venture, in which Area Coal will retain a 25% free carried interest.
- If RTX exercises the option to acquire an interest in EPC 1824, Area Coal would then hold a put option (exercisable on the date that is 12 months after the joint venture's formation) (the first put option) enabling it to sell its 25% interest in the JV to RTX for an additional defined payment to Area Coal.
- If Area Coal does not exercise the first put option, it will have a second put option, exercisable within 180 days of the JV management committee commissioning a feasibility study, to sell its 25% interest in the joint venture to RTX for consideration calculated on the basis of EPC 1824's resource tonnage.
- If Area Coal does not exercise this second put option it will become liable for 25% of all future development and operational costs of the JV.
- Should RTX not exercise its option to acquire the aforementioned 75% interest in EPC 1824, Area Coal will retain its existing 100% ownership of this tenement. In addition, it can reacquire the other Mt Hillalong tenements that were transferred to RTX as part of this transaction.

# REVIEW OF OPERATIONS

The Mount Hillalong project targets the Rangal and Fort Cooper Coal Measures in the northern Bowen Basin. The project offers prospectivity for proving underground resources of metallurgical coal in the Rangals and open cut coal in the Fort Coopers. The project has limited previous exploration. However, past work has shown isolated drill hole intercepts within the tenements and geophysical surveys that defined good drilling targets as the basis for further exploration by the company.

EPC application 1824 comprises 15 sub-blocks (48 km<sup>2</sup>) centred on the Mount Hillalong homestead, 65 km North West of Nebo in central Queensland. The Burton and Hail Creek coal mines are 14 km south and 18 km south-southwest of Mt Hillalong, respectively. EPC 1824 was acquired by the Company to explore the underlying Rangal Coal Measures for near surface coal resources.

Historical exploration conducted for the CRA Coal Group identified outcropping coal in the northern part of the tenement. A coal target in the Rangals has been defined by historical seismic survey and indicated coal at between 300 and 500m. A drilling program is being undertaken by RTX to further evaluate this target with the aim to define a resource. Initial results have been summarised in the preceding pages.

The area is well served with infrastructure with major nearby coal mines located to the west, south and east. The Hail Creek railway is 18 km to the southeast and provides access to Mackay's export coal loading terminals.

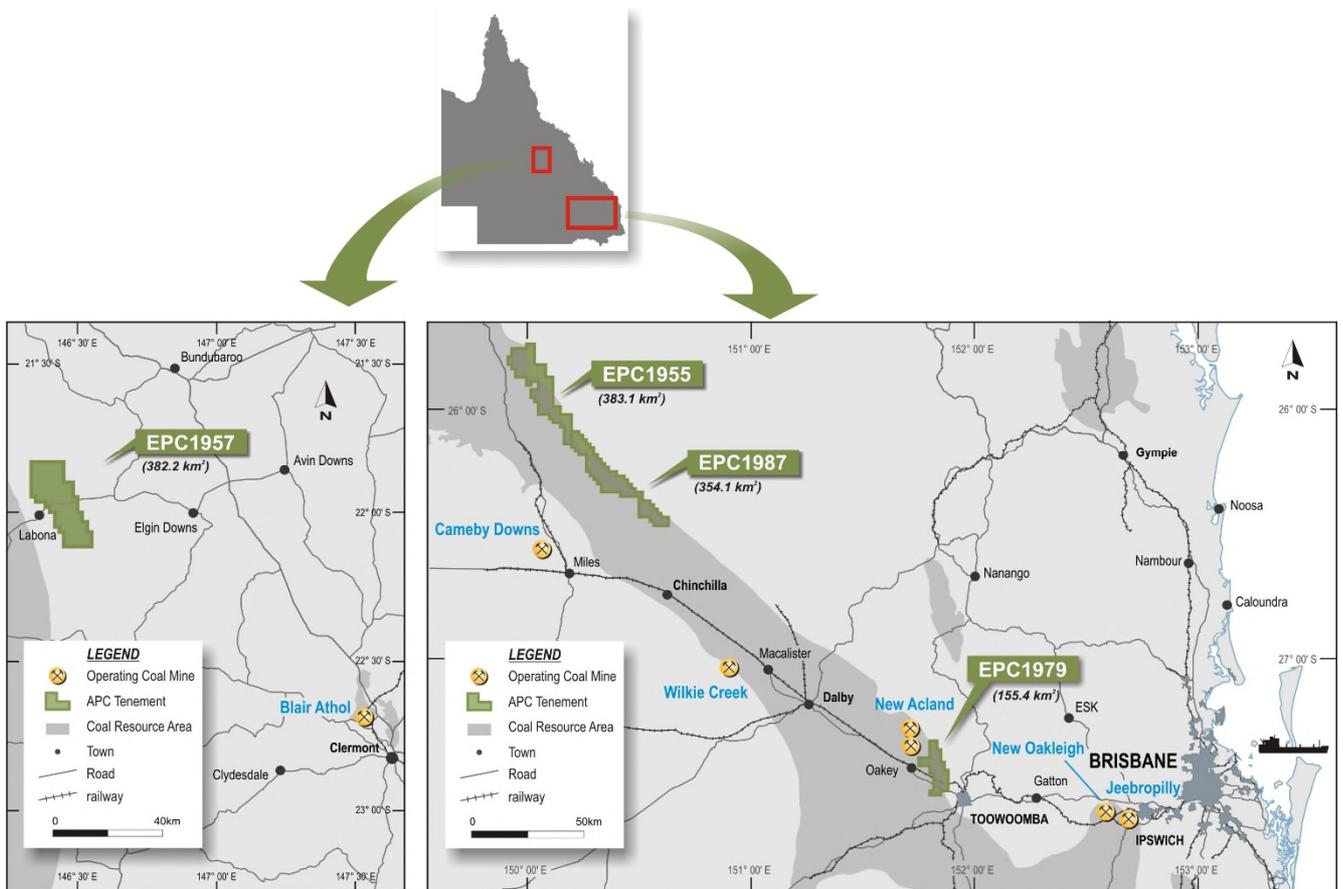
## Exploration & Joint Venture Agreements

### Blackwood Resources Pty Ltd (Cuesta Coal Limited)

Australian Pacific Coal Limited, through its 100% owned subsidiary Mining Investments One Pty Ltd, entered into a Tenement Sale and Joint Venture Agreement with Blackwood Resources Pty Ltd (Blackwood) in April 2010. Under the terms of the agreement, Blackwood acquired a 90% interest in EPCs 1979, 1955, 1987 and 1957 for a total cash consideration of \$500,000. Blackwood are required to expend at least the minimum exploration commitment with the aim to prove up a coal resource and complete a feasibility study for the project(s). AQC retains a 10% free carried interest up to bankable feasibility study stage. AQC will then have the option to enter into a joint venture agreement with Blackwood Resources to further explore and develop the tenements.

The joint venture tenements cover large areas over the Clarence-Moreton, Surat and Galilee Basin, prospective for shallow thermal coal.

Blackwood Resources Pty Ltd is a 100% owned subsidiary of Cuesta Coal Limited.



# REVIEW OF OPERATIONS

BLACKWOOD RESOURCES PTY LTD - TENEMENT SALE AND JOINT VENTURE AGREEMENT TENEMENTS						
EPC	Name	Holder	Cuesta Coal Project Area	Status	Area (km <sup>2</sup> )	Location
EPC 1955	Bungaban Creek	Blackwood Resources Pty Ltd	East Wandoan	Granted	197	100km N of Miles
EPC 1957	Laguna Creek	Mining Investments One Pty Ltd ( <i>Transfer to Blackwood Resources Pty Ltd in progress</i> )	Eastern Galilee	Granted	382	150km NW of Clermont
EPC 1979	Kingsthorpe	Blackwood Resources Pty Ltd	East Ackland	Granted	155	15km W of Toowoomba
EPC 1987	Quondong	Mining Investments One Pty Ltd ( <i>Transfer to Blackwood Resources Pty Ltd in progress</i> )	East Wandoan	Granted	354	50km N of Miles

Note: Mining Investments One Pty Ltd has retained a 10% equity interest in each of the above tenements.

## CUESTA COAL – EAST WANDOAN PROJECT

Over the period June-October 2011 Cuesta Coal carried out a 17 open hole, 3 Core hole programme in the southern corner of EPC 1955 immediately to the north of the Bottle Tree Deposit (35Mt resource, EPC 813) held by Cockatoo Coal. All holes were geophysically logged and Core samples sent away for analysis and an Inferred JORC resource of 23.9Mt was announced by the company on 6th of February 2011. In March/April 2012 Cuesta completed 39 holes for a total of 59 holes drilled in the southern section of EPC 1955. The drilling has resulted in the delineation of 44.6Mt (22.1Mt Indicated, 22.5Mt Inferred) of resource calculated in accordance with JORC guidelines, and is now referred to as the Thorn Hill Deposit. Follow-up drilling at the Thorn Hill Deposit will include step out drilling and large diameter coring to enable washability test work to be conducted to identify washability recovery and saleable product. Follow-up drilling will focus on the south-east corner and northern extensions of the deposit aimed to further increase the overall resource and understanding of the coal quality. There is potential to increase this to 60Mt with additional drilling. The Company has identified 4 other similar target areas which it will test in the next 12-18mth, priority targets will be identified through ongoing geophysical and desktop studies. - See more at: <http://www.cuestacoal.com.au/projects/east-wandoan>

## CUESTA COAL – EASTERN GALILIEE PROJECT, KARURA TARGET AREA (EPC 1957)

In conjunction with the 2012 exploration activities in Yellow Jacket, a detailed desktop review of Cuesta's 90% owned EPC 1957 has confirmed a target area of up to 50km<sup>2</sup> is present immediately south of the Adani Carmichael Project rail corridor. Historical regional seismic lines have been investigated and they indicate syncline structures present in both Yellow Jacket and Karura that have the potential to preserve the Permian coal measures of the Betts Creek Beds east of the known sub crop. This has been proven in Yellow Jacket through the drilling activities in 2011 and 2012. The syncline structure in Yellow Jacket match the gravity survey conducted earlier this year. There are very similar geological properties in the Karura Target area as there is in the Yellow Jacket Project, which warrant further exploration to verify the presence of coal. It is anticipated that a thirteen hole scout drilling campaign can test the presence of coal measures in the Karura Project area. - See more at: <http://www.cuestacoal.com.au/projects/eastern-galilee>

## Granted Tenements

100% AQC

- MDL 453 – Cooroorah
- EPC 1566 – Bee Creek
- EPC 1798 – Bluff Creek
- EPC 1859 – Dingo
- EPC 1894 – Rocky Creek
- EPC 1895 – Dawson River
- EPC 1896 – Bottle Tree Creek
- EPC 1920 – Comet River
- EPC 1965 – Kanga Creek
- EPC 1989 – Castlevale
- EPC 1995 – Carlo Creek
- EPC 1996 – Churchyard Creek
- EPC 1997 – Mt Stuart
- EPC 2011 – South Clermont
- EPC 2035 – Bee Creek
- EPC 2036 – Ripstone Creek
- EPC 2037 – Almoola
- EPC 2122 – Blackwater

## Exploration & Joint Venture Agreements

### Rio Tinto Exploration Pty Ltd

- EPC 1645\* – Mount Hess
- EPC 1773 – Kemmis Creek
- EPC 1824 – Mount Hillalong
- EPC 1867 – Mount Hess West

\* *Application Pending*

### Blackwood Resources Pty Ltd

- EPC 1955 – Bungaban Creek
- EPC 1957 – Laguna Creek
- EPC 1979 – Kingsthorpe
- EPC 1987 – Quondong

## Pending Applications - 100% AQC

- EPC 1638\*\* – Spear Creek
  - EPC 2016\*\* – Drummond
- \*\* *Competing Application*

## INDUSTRIAL MINERALS PROJECTS

AQC owns two substantial industrial minerals projects in central/south western Queensland. The projects form part of AQC's former industrial minerals business and are no longer part of the company's core business.

### **MANTUAN DOWNS BENTONITE**

AQC's Mantuan Downs calcium bentonite resource is located west of Springsure in Central Queensland.

The Mantuan Downs deposit comprises two main bentonite horizons that are essentially flat lying. The Upper Bentonite Zone is the best developed, with an average cation exchange capacity (CEC) quality of 102 meq/100g. Near the centre of the deposit, the upper bentonite zone is 4-4.5m thick. The lower bentonite zone similarly comprises good quality bentonite with an average CEC quality of around 90 meq/100g. This zone is continuous throughout the deposit and is at least 2-4m thick.

The company has developed a number of products based on bentonite for industrial, livestock, agricultural, soil improvement and composting applications. The project is currently on care and maintenance as new marketing opportunities are being evaluated.

### **GRAFTON RANGE SODIUM BICARBONATE**

Sodium bicarbonate (baking soda) is used extensively in food manufacture, pharmaceuticals, mineral processing and other industries. Major derivative products such as sodium carbonate (soda ash) and caustic soda are also key inputs into a number of industries including chemicals and glass manufacture.

The Grafton Range sodium bicarbonate project is located 15 km northeast of Roma in western Queensland. It covers part of the Surat Basin where elevated concentrations of sodium bicarbonate (NaHCO<sub>3</sub>) are present in the Precipice Sandstone aquifer, which in the Grafton Range area is about 1,100 m below surface. Using resource information obtained from petroleum and gas wells drilled in the area during 1969-93, independent experts engaged by the Company have prepared a preliminary commercial feasibility analysis of the project. The Company does not consider this project be a part of its core business and is seeking opportunities for divestment.

## Mineral Exploration Tenements - 100% AQC

### **Bentonite (Mantuan Downs)**

- ML 70360 – Mantuan Downs
- EPM 17644 – Fairview

### **Sodium Bicarbonate (Grafton Range)**

- ML 50207 – Grafton Range
- EPM 19039 – Grafton Range

## Bentonite Based Technologies

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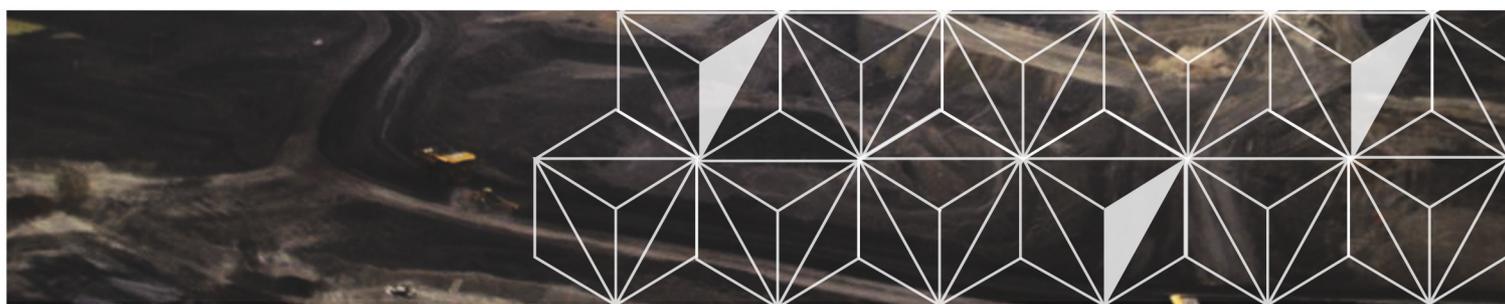
AQC has developed calcium bentonite based technologies for the improvement of our environment. These technologies include remediation of heavy metal contaminated soils, the removal of carcinogenic compounds from high temperature smoke, the global licence for absorption of oil spills in water, increasing agricultural productivity through bentonite blending for fertilizer, and the reduction of methane emissions in livestock.

The major market being targeted is excess fertilizer run-off from farming lands along the Queensland coast. Generally positive results from field trials have enhanced the long term prospects for use of AQC's calcium bentonite in this application. Commercial considerations for primary producers in these regions mean that changes to traditional farming practice are only likely to happen in response to Government pressure to fix this problem.

Based on prior research which highlighted the benefit of bentonite in enhancing soils and composts, AQC also focused on the agriculture sector end users in broad acre, high value market gardens, and feed lots. While feedback from field trials has generally been positive, the reticence of primary producers to change long term farming practice has slowed market take up.

# FINANCIAL REPORT | 2014

// AUSTRALIAN PACIFIC COAL



**Australian Pacific Coal**

ABN : 49 089 206 986 ASX CODE: AQC

# DIRECTORS' REPORT

Your directors present their report, together with the financial statements of the Group, being the company and its controlled entities, for the financial year ended 30 June 2014.

## Principal Activities and Significant Changes in Nature of Activities

The principal activities of the consolidated group during the financial year were:

- evaluating coal exploration tenements held in the Bowen, Galilee, Surat and Clarence-Moreton basins;
- identifying exploration opportunities on selected coal tenements including exploration by way of joint venture agreement;
- planning and initial implementation of exploration programs covering selected coal tenements;
- seeking opportunities for divestment or joint venture operation of industrial minerals projects; and
- reviewing other resource investment opportunities.

There were no significant changes in the nature of the consolidated group's principal activities during the financial year.

## Operating Results

The consolidated loss of the consolidated group amounted to \$1,790,492 (2013: \$1,876,561) after providing for income tax and eliminating minority equity interests.

## Review of Operations

Australian Pacific Coal is a coal focused exploration group with strategic tenement holdings located in Queensland's principal coal basins close to established infrastructure.

During the course of 2014 the Group further advanced its exploration program. First stage drilling was completed on its EPC1859 "Dingo" project area, and EPC1995 "Carlo Creek". The Group has a number of prospective tenement areas within its holdings in the Blackwater region. The four main exploration projects identified are Dingo, Carlo Creek, Churchyard Creek and South Clermont. Activities being undertaken are focused on drilling these target areas and improving the resource status of the tenements. Further drilling will be undertaken as funds become available.

The Group's flagship exploration project, MDL453 "Cooroora", advanced to a Mineral Development Licence following the completion of the projects exploration program. Exploration has upgraded the resource estimate for the project to 124.9Mt (69.6Mt Indicated and 55.3Mt Inferred).

The Group has an Exploration, Option and Joint Venture Agreement with Rio Tinto Exploration Pty Ltd covering four of the Group's Mt Hillalong tenements. Rio Tinto Exploration Pty Ltd commenced drilling of the joint venture tenement in August 2013. The agreement has the potential to provide substantial additional funding to the Group over the next two years.

The Group also holds a 10% free carried interest through to feasibility stage in four tenements that it transferred to Blackwood Resources Pty Ltd. Blackwood is a subsidiary of Cuesta Coal Limited. Cuesta has secured funding to complete its exploration program and is actively drilling the joint venture exploration tenements.

# DIRECTORS' REPORT

## Financial Position

The net assets of the consolidated group at 30 June 2014 are \$2,314,112 (2013: \$2,386,208). The following factors contributed to the consolidated group maintaining its net asset position:

- proceeds from share issues raising \$1,568,396 after costs;
- drilling costs for capitalised exploration expenditure being conducted under an agreement whereby the drilling contractor earns equity in the relevant exploration project; and
- operating expenditure controls.

The Group's working capital, being current assets less current liabilities, is \$900,899 deficit (2013: \$336,358 deficit). Current liabilities include \$175,000 of convertible securities. These convertible securities are expected to be converted to ordinary shares during the course of the 2015 financial year.

The Group holds a number of highly prospective coal tenements in Queensland's Bowen, Galilee, Surat and Clarence-Moreton basins. During the past year, the Group has expended funds in evaluating, planning and initial exploration of selected coal tenements held by the Group.

The directors believe the Group is in a stable financial position to expand, maintain and grow its current operations.

## Significant Changes in State of Affairs

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

Changes in capital structure:

- i. The company issued 57,525,000 ordinary shares under its July 2013 share purchase plan offer, raising \$575,250 before costs, to provide funds for exploration and additional working capital.
- ii. The company issued 168,432,539 ordinary shares to sophisticated and professional investors, raising \$975,000 before costs, to provide funds for exploration and additional working capital.
- iii. The company issued 10,815,759 ordinary shares to geological consultants in accordance with the plan rules for the Australian Pacific Coal Limited Officers, Executives, Consultants and Employee Share Plan.
- iv. During the financial year 21,428,571 ordinary shares were issued on conversion of convertible securities having a face value of \$150,000. The face value of outstanding convertible securities at 30 June 2014 is \$175,000 (2013: \$325,000).

The total number of ordinary shares issued during the financial year was 258,201,869 (2013: 97,701,953).

## Dividends Paid or Recommended

No dividends of the Company or any entity of the Group have been paid or declared or recommended since the end of the preceding year. The Directors do not recommend the payment of any dividend for the year ended 30<sup>th</sup> June 2014.

# DIRECTORS' REPORT

## Events after the Reporting Period

Other than the following the directors are not aware of any significant events since the end of the reporting period.

On 11 September 2014 the company announced a Share Purchase Plan Offer (SPP). The SPP will raise a maximum of \$925,000 with eligible shareholders able to take a maximum investment of \$15,000 representing 4,687,500 new shares at a price of 0.32 cents per share. The proposed closing date of the SPP is 2 October 2014 with issue and allotment of new shares under SPP to follow on 9 October 2014.

On 16 September 2014 the company issued two unlisted convertible securities to The Australian Special Opportunity Fund, LP. The face values of the convertible securities are \$50,000 and \$75,000 respectively, both expiring 24 months from issue. The company received cash consideration of \$125,000 (before costs) for the issue of the convertible securities.

No other matters or circumstances have arisen since the end of the financial year which significantly affected, or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

## Future Developments, Prospects and Business Strategies

Future developments in the operations of the Group and the expected results of those operations are discussed where appropriate in the Annual Report under Review of Operations.

The Group will remain focused on its current business strategies which are:

- evaluating and exploring its coal exploration tenements held in the Bowen, Galilee, Surat and Clarence-Moreton basins;
- seeking opportunities for divestment or joint venture operation of industrial minerals projects; and
- reviewing other resource investment opportunities.

There are no further developments of which the Directors are aware which could be expected to affect the results of the Group's operations in subsequent financial years other than information which the Directors believe comment on, or disclosure of, would prejudice the interests of the Group.

## Environmental Issues

The Group's operations are subject to significant environmental regulations under the laws of the Commonwealth and Queensland in respect of its Australian exploration activities. The Company is committed to undertaking all its operations in an environmentally responsible manner. The Group's projects in Queensland operate under granted Environmental Authorities issued under the Environmental Protection Act 1994 (Qld). The Group is not aware of any non-compliance matters in relation to environmental issues up to the date of this report.

The Group is not subject to the conditions imposed by the registration and reporting requirements of the National Greenhouse and Energy Reporting Act 2007.

The Group is not subject to the conditions imposed by the registration and reporting requirements of the Energy Efficiency Opportunities Act 2006 in the current financial year as its energy consumption was below the 0.5 petajoule registration threshold.

# DIRECTORS' REPORT

## Information on Directors

The names and details of the directors of the Company during the year and until the date of this report are:

**Mr. Peter Ziegler** B. Com (Hons), LL.B (Hons); MFM, FCPA, CTA, ACA (Chairman, Non-executive Director)

Appointed Chairman 29 November 2012, Director since 29 November 2005.

### *Experience and expertise*

Mr. Ziegler is an experienced company director. He was a partner of one of the major international accounting firms, specialising in taxation and corporate structuring. He is also a solicitor of the Supreme Court of Victoria. Mr Ziegler is currently the principal of Ziegler Asset Partners, an asset management firm specialising in investments in listed and unlisted equities and special opportunities.

### *Special responsibilities*

Chairman of the Audit and Remuneration Committees

### *Interests in shares and options*

10,233,333 ordinary shares in Australian Pacific Coal Limited

### *Directorships held in other listed entities in the three years prior to the current year*

Nil

**Mr. Paul Byrne** (Executive Director)

Director since 29 November 2005.

### *Experience and expertise*

Mr. Byrne joined the Company as Executive Director, following the acquisition of the Ipoh group of companies. Mr. Byrne was a founder of the Ipoh group and has initiated environmental remediation projects in conjunction with CSIRO, University of South Australia and the Queensland Department of Primary industries. He has also been involved in the resources sector since 1985 in exploration and mining and has been a director of several Australian public listed companies.

### *Special responsibilities*

Managing Director

### *Interests in shares and options*

94,312,907 ordinary shares in Australian Pacific Coal Limited

### *Directorships held in other listed entities in the three years prior to the current year*

Nil

## DIRECTORS' REPORT

**Mr. Paul Ingram** B.AppSc.(Geology), AusIMM (Non-executive Director)

Director since 17 March 2011.

*Experience and expertise*

Mr Ingram is a geologist with over thirty five years of experience in mineral exploration and mine development. Mr Ingram has been involved in several start-up public companies, mostly focussed in the Asian region. He has extensive experience in corporate M&A and has been focussed on coal projects in Asia and Australia for the past eight years. Mr Ingram brings to the Board of AQC an extensive network of professional contacts, which, combined with close ties to the Chinese resource industry, will be of significant benefit to the Group as an emerging coal company in Queensland.

*Special responsibilities*

Nil

*Interests in shares and options*

5,750,000 ordinary shares in Australian Pacific Coal Limited

*Directorships held in other listed entities in the three years prior to the current year*

Consolidated Global Investments Limited since September 2006

A-Cap Resources Limited since June 2009

Impact Minerals Limited since July 2009

**Mr. Paul Ryan** (Non-executive Director)

Appointed 29 November 2012

*Experience and expertise*

Mr. Ryan is a businessman with over twenty years' experience as owner and manager of large scale privately held companies. He has been involved in operations management at the Manimbah gold mine, contract mining, and transport and logistics operations. Mr Ryan brings to the Board of AQC an extensive network of professional contacts which, combined with relevant industry experience, are of significant benefit to the Group as an emerging coal company in Queensland.

*Special responsibilities*

Nil

*Interests in shares and options*

Nil

*Directorships held in other listed entities in the three years prior to the current year*

Nil

All directors were in office for the entire year and up to the date of this report unless otherwise noted.

# DIRECTORS' REPORT

## Company Secretary

**Mr. Kevin Mischewski** B Bus (Acc), CA

(Company Secretary since 30 June 2008, Joint Company Secretary 29 February 2008 to 30 June 2008.)

Chartered Accountant and Registered Tax Agent with extensive commercial experience in senior financial and management accounting roles. Previous positions include Chief Financial Officer, Company Secretary and Finance Director for large private manufacturing companies. Extensive experience with listed public company reporting and compliance requirements.

## Meetings of Directors

The number of meetings of directors and meetings of committees of directors held during the year, and the number of meetings including circulating resolutions attended by each director, was as follows:

	Directors' Meetings		Audit Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr. Peter Ziegler	9	9	1	1
Mr. Paul Byrne	9	9	**	**
Mr. Paul Ingram	9	8	**	**
Mr. Paul Ryan	9	8	**	**_

\*\* = Not a member of the relevant committee.

## Indemnifying Officers or Auditor

During the financial year, the Company paid a premium in respect of a contract of insurance indemnifying any past, present, or future director, secretary, officer or employee of the Company against liability, which payment or agreement to pay does not contravene the Corporations Act (Cth) 2001. The contract of insurance prohibits disclosure of the terms of the policy and the amount of the premium.

The Company has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer of the Company or any related body corporate against the liability incurred by such an officer.

## Options

At the date of this report, there were no unissued ordinary shares of the Company under option

There have been no unissued shares or interests under any option of any controlled entity within the Group during or since the end of the reporting period.

No options were issued to directors, officers or employees during the year as part of their remuneration.

No shares have been issued on the exercise of options granted during or since the end of the reporting period.

No person entitled to exercise any option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

# DIRECTORS' REPORT

## Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

## Non-audit Services

The Board of Directors, in accordance with advice from the Audit Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: *Code of Ethics for Professional Accountants* set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to the former auditors of the company, Sothertons Chartered Accountants (Brisbane), for non-audit services provided during the year ended 30 June 2014:

Taxation services	\$7,500
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## Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2014 has been received and can be found on page 12 of the Annual Financial Report.

## ASIC Class Order 98/100 Rounding of Amounts

The company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and directors' report have been rounded to the nearest dollar.

## Compliance Statement

### **Cooroorah (EPC1827/MDL453) Resource Estimate**

The information is extracted from the report entitled *EPC1827 "Cooroorah" Resource Estimate Update* created on 20 November 2013 and is available to view on [www.aqcltd.com/irm/content/asx-announcements.aspx](http://www.aqcltd.com/irm/content/asx-announcements.aspx). The company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

# DIRECTORS' REPORT

## Remuneration report

### Remuneration Policy

The remuneration policy ensures that contracts for services are reviewed on a regular basis and properly reflect the duties and responsibilities of the individuals concerned. The executive remuneration structure is based on a number of factors including length of service, relevant market conditions, knowledge and experience with the industry, organisational experience, performance of the Company and that the remuneration is competitive in retaining and attracting motivated people. There are no guaranteed pay increases included in the senior executives' contracts.

The Board's policy for determining the nature and amount of remuneration for key management personnel of the consolidated group is as follows:

- The Board of Director's is responsible for determining and reviewing compensation arrangements for the directors and the senior executives. The Board also reviews and ratifies the remuneration of key management and staff.
- All key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.
- Performance incentives are generally only paid once predetermined key performance indicators have been met.
- The Board reviews key management personnel packages periodically by reference to the consolidated group's performance, executive performance and comparable information from industry sectors.

Key management personnel receive a superannuation guarantee contribution required by the government, which is currently 9.5%, and do not receive any other retirement benefits. Individuals, however, may choose to sacrifice part of their salary to increase payments towards superannuation.

Upon retirement, key management personnel are paid employee benefit entitlements accrued to the date of retirement. Key management personnel are paid the mandated statutory amount of their salary in the event of redundancy.

All remuneration paid to key management personnel is valued at the cost to the company and expensed.

The Board's policy is to remunerate non-executive directors at no greater than market rates for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration periodically, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting and is currently set at \$250,000 per annum.

### Engagement of Remuneration Consultants

The company did not engage remuneration consultants to review the elements of key management personnel remuneration during the financial year.

### Performance-based Remuneration

Key management personnel remuneration comprises of a total fixed remuneration and does not comprise of any short-term incentive schemes or equity based remuneration.

### Relationship between Remuneration Policy and Company Performance

The Board do not consider that there is a direct relationship between the remuneration policy of the company and company performance. The Managing Director of the company is also a substantial shareholder and as such is sufficiently motivated to improve company performance.

# DIRECTORS' REPORT

## Employment Details of Members of Key Management Personnel and Other Executives

The following table provides employment details of persons who were, during the financial year, members of key management personnel of the consolidated group. The table also illustrates the proportion of remuneration that was performance and non-performance based.

Name	Position	Proportions of elements of remuneration related to performance	Proportions of elements of remuneration not related to performance
<i>Directors</i>			
Mr Peter Ziegler	Chairman, Non-executive	-	100%
Mr Paul Byrne	Managing Director, Executive	-	100%
Mr Paul Ingram	Non-executive	-	100%
Mr Paul Ryan	Non-executive	-	100%
<i>Other executives</i>			
Mr Kevin Mischewski	Company Secretary, Financial Accountant	-	100%

The employment terms and conditions of key management personnel and Group executives are not currently formalised in contracts of employment. Key management personnel contracts of employment are governed by applicable statutory provisions which may set out minimum notice period prior to termination of their contract. Statutory and common law termination provisions apply.

Terms of employment for employees of relevant group entities do not include termination provisions and do not provide an executive contracted person with a minimum notice period prior to termination of contract. A contracted person deemed employed on a permanent basis may terminate without notice. Statutory termination provisions apply. Termination payments are not payable on resignation or under the circumstances of unsatisfactory performance.

Non-executive directors are engaged in accordance with the company's Directors Terms of Engagement requiring no notice to be given on termination. Statutory termination provisions apply. Termination payments are at the discretion of the Board.

## Changes in Directors and Executives Subsequent to Year-end

Up to the date of signing of this report there have been no changes to directors and executives subsequent to year end.

# DIRECTORS' REPORT

## Remuneration Details for the Year Ended 30 June 2014

The following table of benefits and payments details in respect to the financial year the components of remuneration for each member of the key management personnel of the consolidated group and, to the extent different, the five Group executives and five company executives receiving the highest remuneration:

**Table of Benefits and Payments for the Year Ended 30 June 2014**

Group Key Management Personnel		Short-term benefits		Post-employment benefits		Total
		Base Remuneration	Consulting & Contractor Fees	Superannuation	Other	
		\$	\$	\$	\$	\$
Mr Peter Ziegler	2014	60,000	211,200	—	—	271,200
	2013	50,000	129,600	—	—	179,600
Mr Paul Byrne	2014	36,000	201,600	—	—	237,600
	2013	36,000	194,000	—	—	230,400
Mr Paul Ingram	2014	36,000	—	—	—	36,000
	2013	37,018	—	1,982	—	39,000
Mr Paul Ryan	2014	36,000	—	—	—	36,000
	2013	20,688	—	512	—	21,200
Mr Kevin Mischewski	2014	—	192,273	—	—	192,273
	2013	—	179,398	—	—	179,398
<b>Total Remuneration</b>	2014	<b>168,000</b>	<b>605,073</b>	<b>—</b>	<b>—</b>	<b>773,073</b>
	2013	143,706	502,998	2,494	—	649,198

Commencing on 1 February 2013, directors agreed that they would defer the receipt of payment of their remuneration. As at 30 June 2014 the amounts of directors' fees and consulting fees unpaid and payable to each director were: Peter Ziegler \$314,418; Paul Byrne \$272,018; Paul Ingram \$51,000 and Paul Ryan \$51,000. These amounts are included in the above table.

### Securities Received that are not Performance Related

No members of key management personnel are entitled to receive securities which are not performance-based as part of their remuneration package.

### Cash Bonuses, Performance-related Bonuses and Share-based Payments

No members of key management personnel are entitled to receive cash bonuses, performance-related bonuses or share based payments as part of their remuneration package.

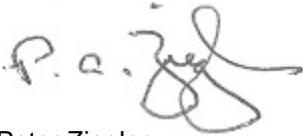
### Options and Rights Granted

No members of key management personnel were granted options or rights during the financial year.

# DIRECTORS' REPORT

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors, pursuant to section 298(2) of the Corporations Act 2001

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'P. Ziegler', with a stylized flourish at the end.

Peter Ziegler

Chairman

Brisbane, 30<sup>th</sup> September 2014

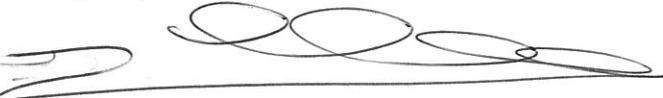
D. A. Lissauer B.Com., FCPA, Affiliate ICAA  
R. P. Lissauer B.Ec., M.Tax, CA, FTIA  
M. R. Lipson B.Bus., B.Ed., AI.Arb.A, CA

**AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT**

As lead auditor for the audit of Australian Pacific Coal Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Australian Pacific Coal Limited and the entities it controlled during the year.



D Lissauer  
Audit Partner  
Sothertons L.L.P.

Melbourne  
30 September 2014

# INCOME STATEMENT

For the year ending 30 June 2014

	Note	Consolidated Group	
		2014	2013
		\$	\$
<b>Revenue</b>	3	24,220	413,389
Raw materials and consumables		(20,757)	-
Exploration and evaluation costs of tenements sold		-	(156,608)
Loss on disposal of fixed assets		(381)	-
Employee benefits expense		(211,183)	(201,181)
Depreciation and amortisation expense		(48,350)	(113,073)
Exploration, evaluation and development expenses		(36,878)	(36,797)
Finance costs		-	(20,000)
Impairment of investments		(26,000)	-
Impairment of loans receivable		(181,950)	(383,125)
Impairment of exploration and evaluation		(71,171)	(68,108)
Administration and consulting expenses		(1,218,042)	(1,310,925)
<b>Profit before income tax</b>	4	(1,790,492)	(1,876,428)
Income tax expense (benefit)	5	-	(133)
<b>Profit/(Loss) for the period</b>		<u>(1,790,492)</u>	<u>(1,876,561)</u>
Profit/(Loss) attributable to:			
Members of the parent entity		(1,790,492)	(1,876,561)
		<u>(1,790,492)</u>	<u>(1,876,561)</u>
<b>Earnings per share</b>			
From continuing operations:			
Basic earnings per share (cents)	8	(0.22)	(0.31)
Diluted earnings per share (cents)	8	(0.22)	(0.31)

*The above income statement should be read in conjunction with the accompanying notes*

# STATEMENT OF COMPREHENSIVE INCOME

For the year ending 30 June 2014

	Note	Consolidated Group	
		2014	2013
		\$	\$
Profit/(Loss) for the period		(1,790,492)	(1,876,561)
<b>Other comprehensive income</b>			
Net gain on revaluation of land and buildings		-	-
Share of other comprehensive income of associates		-	-
Income tax relating to components of other comprehensive income		-	-
Other comprehensive income for the period, net of tax		-	-
<b>Total comprehensive income for the period</b>		<u>(1,790,492)</u>	<u>(1,876,561)</u>
Total comprehensive income attributable to:			
Members of the parent entity		<u>(1,790,492)</u>	<u>(1,876,561)</u>

*The above statement of comprehensive income should be read in conjunction with the accompanying notes*

# STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

		<b>Consolidated Group</b>	
		<b>2014</b>	<b>2013</b>
		<b>\$</b>	<b>\$</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	451,226	497,865
Trade and other receivables	10	102,589	16,632
Other assets	17	27,867	28,493
<b>Total current assets</b>		<u>581,682</u>	<u>542,990</u>
<b>Non-current assets</b>			
Trade and other receivables	10	213,646	385,363
Other financial assets	12	74,000	100,000
Property, plant and equipment	14	185,448	228,311
Exploration and evaluation expenditure	15	2,741,917	2,008,892
Intangible assets	16	-	-
<b>Total non-current assets</b>		<u>3,215,011</u>	<u>2,722,566</u>
<b>Total assets</b>		<u>3,796,693</u>	<u>3,265,556</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	18	1,307,581	554,348
Borrowings	19	175,000	325,000
<b>Total current liabilities</b>		<u>1,482,581</u>	<u>879,348</u>
<b>Total liabilities</b>		<u>1,482,581</u>	<u>879,348</u>
<b>Net assets</b>		<u>2,314,112</u>	<u>2,386,208</u>
<b>EQUITY</b>			
Issued capital	21	36,957,568	35,239,172
Retained earnings		(34,643,456)	(32,852,964)
<b>Total equity</b>		<u>2,314,112</u>	<u>2,386,208</u>

*The above statement of financial position should be read in conjunction with the accompanying notes*

# STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2014

## CONSOLIDATED GROUP

	Note	Issued Capital Ordinary \$	Retained Earnings \$	Total \$
<b>Balance at 1 July 2012</b>		34,310,319	(30,976,403)	3,333,916
<b>Comprehensive income</b>				
Profit/(Loss) for the period		-	(1,876,561)	(1,876,561)
Total other comprehensive income for the period		-	-	-
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>(1,876,561)</b>	<b>(1,876,561)</b>
<b>Transactions with owners, in their capacity as owners, and other transfers</b>				
Share issued during the period		1,170,000	-	1,170,000
Transaction costs on share issue		(241,147)	-	(241,147)
<b>Total transactions with owners and other transfers</b>		<b>928,853</b>	<b>-</b>	<b>928,853</b>
<b>Balance at 30 June 2013</b>		<b>35,239,172</b>	<b>(32,852,964)</b>	<b>2,386,208</b>
<b>Balance at 1 July 2013</b>		35,239,172	(32,852,964)	2,386,208
<b>Comprehensive income</b>				
Profit/(Loss) for the period		-	(1,790,492)	(1,790,492)
Total other comprehensive income for the period		-	-	-
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>(1,790,492)</b>	<b>(1,790,492)</b>
<b>Transactions with owners, in their capacity as owners, and other transfers</b>				
Share issued during the period		1,782,875	-	1,782,875
Transaction costs on share issue		(64,479)	-	(64,479)
<b>Total transactions with owners and other transfers</b>		<b>1,718,396</b>	<b>-</b>	<b>1,718,396</b>
<b>Balance at 30 June 2014</b>		<b>36,957,568</b>	<b>(34,643,456)</b>	<b>2,314,112</b>

*The above statement of changes in equity should be read in conjunction with the accompanying notes*

# STATEMENT OF CASH FLOWS

For the year ended 30 June 2014

	<b>Consolidated Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	2,864	-
Payments to suppliers and employees	(1,094,864)	(1,150,531)
Interest received	16,556	13,389
Finance costs	-	-
Income tax paid	-	(133)
Net cash (used in)/provided by operating activities	24a (1,075,444)	(1,137,275)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for exploration, evaluation and development assets	(451,098)	(1,013,254)
Proceeds from sale of exploration, evaluation and development assets	-	262,500
Payments for investments	-	-
Proceeds from sale of investments	-	110,000
Purchase of non-current assets	(5,868)	(720)
Net cash used in investing activities	(456,966)	(641,474)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	1,550,250	950,000
Capital raising costs	(64,479)	(241,147)
Proceeds from borrowings	-	525,000
Repayment of borrowings	-	-
Net cash used in/(provided by) financing activities	1,485,771	1,233,853
Net increase/(decrease) in cash held	(46,639)	(544,896)
Cash and cash equivalents at beginning of period	497,865	1,042,761
Cash and cash equivalents at end of period	9 451,226	497,865

*The above statement of cash flows should be read in conjunction with the accompanying notes*

These consolidated financial statements and notes represent those of Australian Pacific Coal Limited and Controlled Entities (the "consolidated group" or "Group")

The separate financial statements of the parent entity, Australian Pacific Coal Limited have not been presented within this financial report as permitted by the *Corporations Act 2001*.

The financial statements were authorised for issue on 29 September 2014 by the directors of the company.

## 1 BASIS OF PREPARATION

These general purpose financial statements have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

### **Going Concern**

This financial report has been prepared on a going concern basis as the Directors believe that the company and the consolidated entity will be able to realise its assets and settle its liabilities in the normal course of business and at the amounts stated in the financial report. The continuation of the company and the consolidated entity as a going concern is dependent upon their ability to achieve the following objectives:

- Development and exploitation of the coal tenements
- Realisation of surplus assets
- Capital raising

The company has entered into a Share Purchase and Convertible Security Agreement with The Australian Special Opportunities Fund, LP. The agreement provides ongoing capital raising to the company by way of monthly tranche payments continuing through to October 2014.

However, should the anticipated activities and capital raisings not generate sufficient revenues and cash flows as expected, the company and consolidated entity may not be able to pay their debts as and when they become due and payable and they may be required to realise assets and extinguish liabilities other than in the ordinary course of business and at amounts different from those stated in the financial statements. This report does not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the company and the consolidated entity not continue as going concerns.

## **(a) Principles of Consolidation**

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (Australian Pacific Coal Limited) and all of the subsidiaries (including any structured entities). Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 13.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as “non-controlling interests”. The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary’s net assets on liquidation at either fair value or at the non-controlling interests’ proportionate share of the subsidiary’s net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

### **Business Combinations**

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is obtained, whereby the fair value of the identified assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

### **Goodwill**

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- (i) the consideration transferred;
- (ii) any non-controlling interest (determined under either the full goodwill or proportionate interest method); and
- (iii) the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements.

Fair value remeasurements in any pre-existing equity holdings are recognised in profit or loss in the period in which they arise. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

The amount of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the non-controlling interest. The Group can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value (*full goodwill method*) or at the non-controlling interest’s proportionate share of the subsidiary’s identifiable net assets (*proportionate interest method*). In such circumstances, the Group determines which method to adopt for each acquisition and this is stated in the respective notes to these financial statements disclosing the business combination.

Under the full goodwill method, the fair value of the non-controlling interest is determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interests is recognised in the consolidated financial statements.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying values of goodwill.

## **(b) Income Tax**

The income tax expense/(income) for the year comprises current income tax expense/(income) and deferred tax expense/(income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities/(assets) are measured at the amounts expected to be paid to/(recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense/(income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. With respect to non-depreciable items of property, plant and equipment measured at fair value and items of investment property measured at fair value, the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of the asset will be recovered entirely through sale.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

## **(c) Fair Value of Assets and Liabilities**

The Group measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the Group would receive to sell an asset or would have to pay to transfer a liability in an orderly (ie unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (ie the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (ie the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the entity's own equity instruments (excluding those related to share-based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial instrument, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

#### **(d) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

The cost of mining stocks includes direct materials, direct labour, transportation costs and variable and fixed overhead costs relating to mining activities.

#### **(e) Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

##### ***Property***

Freehold land and buildings are recorded at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less accumulated depreciation for buildings.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised against fair value reserves directly in equity; all other decreases are recognised in profit or loss.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

##### ***Plant and equipment***

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(i) for details of impairment).

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in profit or loss during the financial period in which they are incurred.

## **Depreciation**

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

<b>Class of Fixed Asset</b>	<b>Depreciation Rate</b>
Buildings	4%
Leasehold improvements	20%
Plant and equipment	10–40%
Leased plant and equipment	12.5--20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

### **(f) Exploration and Development Expenditure**

Exploration, evaluation and development expenditures incurred are capitalised in respect of each identifiable area of interest. These costs are only capitalised to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to capitalise costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with local laws and regulations and clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

### **(g) Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

### **(h) Financial Instruments**

### **Initial recognition and measurement**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

### **Classification and subsequent measurement**

Finance instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost.

*Amortised cost* is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the *effective interest method*.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

#### **(i) Financial assets at fair value through profit or loss**

Financial assets are classified at 'fair value through profit or loss' when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

#### **(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit and loss through the amortisation process and when the financial asset is derecognised.

#### **(iii) Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit and loss through the amortisation process and when the financial asset is derecognised.

#### **(iv) Available-for-sale investments**

Available-for-sale investments are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with any remeasurements other than impairment losses and foreign exchange gains and losses recognised in other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are classified as non-current assets when they are expected to be sold after 12 months from then end of the reporting period. All other financial assets are classified as current assets.

#### **(v) Financial liabilities**

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit and loss through the amortisation process and when the financial asset is derecognised.

## **Impairment**

A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, Loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been recognised, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

## **Financial guarantees**

Where material, financial guarantees issued that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in the next reporting period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

Financial guarantees are subsequently measured at the higher of the best estimate of the obligation in accordance with AASB 137: *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: *Revenue*. Where the entity gives guarantees in exchange for a fee, revenue is recognised in accordance with AASB 118.

## **De-recognition**

Financial assets are derecognised when the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

### **(i) Impairment of Assets**

At each the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (eg in accordance with the revaluation model in AASB 116: *Property, Plant and Equipment*). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives and intangible assets not yet available for use.

#### **(j) Investments in Associates**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity but is not control or joint control of those policies. Investments in associates are accounted for in the consolidated financial statements by applying the equity method of accounting, whereby the investment is initially recognised at cost (including transaction costs) and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate company. In addition, the Group's share of the profit or loss of the associate is included in the Group's profit or loss.

The carrying amount of the investment includes, when applicable, goodwill relating to the associate. Any discount on acquisition, whereby the Group's share of the net fair value of the associate exceeds the cost of investment, is recognised in profit or loss in the period in which the investment is acquired.

Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group discontinues recognising its share of further losses unless it has incurred legal or constructive obligations or made payments on behalf of the associate. When the associate subsequently makes profits, the Group will resume recognising its share of those profits once its share of the profits equals the share of the losses not recognised.

#### **(k) Interests in Joint Arrangements**

Joint arrangements represent the contractual sharing of control between parties in a business venture where unanimous decisions about relevant activities are required.

Separate joint venture entities providing joint venturers with an interest to net assets are classified as a joint venture and accounted for using the equity method. Refer to Note 1(j) for a description of the equity method of accounting.

Joint venture operations represent arrangements whereby joint operators maintain direct interests in each asset and exposure to each liability of the arrangement. The Group's interests in the assets, liabilities, revenue and expenses of joint operations are included in the respective line items of the consolidated financial statements.

Gains and losses resulting from sales to a joint operation are recognised to the extent of the other parties' interests. When the Group makes purchases from a joint operation, it does not recognise its share of the gains and losses from the joint arrangement until it resells those goods/assets to a third party.

#### **(l) Intangibles Other than Goodwill**

##### ***Patents and trademarks***

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have an indefinite life and are carried at cost less any impairment losses.

##### ***Research and development***

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably.

Capitalised development costs have a finite useful life and are amortised on a systematic basis based on the future economic benefits over the useful life of the project.

#### **(m) Employee Benefits**

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries, annual leave and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Group's obligations for short-term employee benefits are recognised as a part of current trade and other payables in the statement of financial position.

Provision is made for employees' other long-term employee benefits that are not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Group's obligations for other long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

#### **(n) Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

#### **(o) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments that are readily converted to known amounts of cash and which are subject to insignificant risk of changes in value and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

#### **(p) Revenue and Other Income**

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. When the inflow of consideration is deferred, it is treated as the provision of financing and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method.

Dividend revenue is recognised when the right to receive a dividend has been established.

Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the end of the reporting period, where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

All revenue is stated net of the amount of goods and services tax.

#### **(q) Trade and Other Receivables**

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to Note 1(i) for further discussion on the determination of impairment losses.

#### **(r) Trade and Other Payables**

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remains unpaid. The balance is recognised as a current liability with the amount being normally paid within 30 days of recognition of the liability.

#### **(s) Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

#### **(t) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

#### **(u) Government Grants**

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

#### **(v) Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Where the Group has retrospectively applied an accounting policy, made a retrospective restatement of items in the financial statements or reclassified items in its financial statements, an additional statement of financial position as at the beginning of the earliest comparative period will be disclosed.

#### **(w) Rounding of Amounts**

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest \$1.

#### **(x) New and Amended Accounting Policies Adopted by the Group**

##### ***Consolidated Financial Statements***

The Group adopted the following Australian Accounting Standards, together with the relevant consequential amendments arising from related Amending Standards, from the mandatory application date of 1 January 2013:

- AASB 10: Consolidated Financial Statements;
- AASB 12: Disclosure of Interests in Other Entities; and
- AASB 127: Separate Financial Statements.

AASB 10 provides a revised definition of "control" and may result in an entity having to consolidate an investee that was not previously consolidated and/or deconsolidate an investee that was consolidated under the previous accounting pronouncements.

The Group's assessment is that these new and amended pronouncements have had no material impact on the Group's financial statements.

#### ***Employee Benefits***

The Group adopted AASB 119: Employee Benefits (September 2011) and AASB 2011-10: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) from the mandatory application date of 1 January 2013. The Group has applied these Standards retrospectively in accordance with AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors and the transitional provisions of AASB 119.

The Group's assessment is that these new and amended pronouncements have had no material impact on the Group's financial statements.

#### **(y) Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

##### ***Key estimates***

###### *Impairment - general*

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

##### ***Key judgments***

###### *Provision for impairment of receivables*

Included in trade and other receivables at the end of the reporting period are other amounts receivable amounting to \$904,148 (2013: \$904,148). The company has funded the purchase of shares issued in accordance with the terms of the Company's Officers, Executives, Consultants and Employee Share Plan by way of limited-recourse loans repayable from future dividends or out of proceeds when the allotted shares are sold. Impairment adjustments amounting to \$782,848 (2013: \$600,898) have been recorded where the market value of the shares held at 30 June 2014 was less than the gross amount of the associated limited-recourse loan.

###### *Exploration and Evaluation Expenditure*

The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been extracted, the directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded. Such capitalised expenditure is carried at the end of the reporting period at \$2,741,917 (\$2013: \$2,008,892).

###### *Intangible assets*

The Group capitalises expenditure relating to a class of intangible assets where it is considered likely to be recoverable. The useful lives of these intangible assets are assessed to be either finite or indefinite. Such capitalised expenditure is carried at the end of the reporting period at \$Nil.

#### **(z) New Accounting Standards for Application in Future Periods**

The Australian Accounting Standards Board has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's assessment is that these new and amended pronouncements will have no material impact on the Group's financial statements.

## NOTE 2: PARENT INFORMATION

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards.

	2014	2013
	\$	\$
<b>STATEMENT OF FINANCIAL POSITION</b>		
<b>Assets</b>		
Current assets	464,402	464,555
Non-current assets	496,776	614,476
<b>Total assets</b>	<u>961,178</u>	<u>1,079,031</u>
<b>Liabilities</b>		
Current liabilities	1,508,450	1,552,676
Non-current liabilities	-	-
<b>Total liabilities</b>	<u>1,508,450</u>	<u>1,552,676</u>
<b>Equity</b>		
Issued capital	36,957,568	35,239,172
Retained earnings	(37,504,840)	(35,712,817)
<b>Total equity</b>	<u>(547,272)</u>	<u>(473,645)</u>
<b>STATEMENT OF COMPREHENSIVE INCOME</b>		
Total profit	(1,792,023)	(2,006,732)
Total comprehensive income	<u>(1,792,023)</u>	<u>(2,006,732)</u>

### Guarantees

Australian Pacific Coal Limited has not entered into any guarantees, in the current or previous financial year, in relation to the debts of its subsidiaries.

### Contingent liabilities

Australian Pacific Coal Limited has no known contingent liabilities.

### Contractual commitments

At 30 June 2014, Australian Pacific Coal Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment (2013: Nil).

**NOTE 3: REVENUE AND OTHER INCOME**

	Note	Consolidated Group	
		2014	2013
		\$	\$
<b>Revenue from Continuing Operations:</b>			
Sale of goods		7,664	-
Other revenue:			
— interest received		16,556	13,389
<b>Total Revenue</b>		<b>24,220</b>	<b>13,389</b>
<b>Other Income</b>			
— sale of interest in tenements		-	400,000
<b>Total revenue and other income from continuing operations</b>		<b>24,220</b>	<b>413,389</b>
Attributable to members of the parent entity		24,220	413,389

**NOTE 4: PROFIT FOR THE YEAR**

	Note	Consolidated Group	
		2014	2013
		\$	\$
<b>a. Expenses</b>			
Interest expense on financial liabilities not at fair value through profit or loss		-	(20,000)
Rental expense on operating leases:			
— minimum lease payments		127,514	120,868
Employee benefits expense:			
— defined contribution superannuation expense		3,529	4,969
<b>b. Significant Revenue and Expenses</b>			
The following significant revenue and expense items are relevant in explaining the financial performance:			
Sale of interest in tenements		-	400,000
Exploration and evaluation costs of tenements sold		-	(156,608)
Impairment of loans receivable		(181,950)	(383,125)
Impairment of capitalised exploration expenditure		(71,171)	(68,108)

**NOTE 5: INCOME TAX EXPENSE**

	Note	Consolidated Group	
		2014 \$	2013 \$
a. The components of tax expense comprise:			
Current tax		-	133
Deferred tax	20	-	-
		-	133
b. The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:			
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2013: 30%)		(537,148)	(562,928)
Add:			
Tax effect of:			
— non-deductible depreciation and amortisation		14,505	33,922
— other non-allowable items		2,875	2,286
— write-downs to recoverable amounts		83,736	182,352
Less:			
Tax effect of:			
— other allowable items		(571,844)	(400,685)
— tax losses transferred from controlled entities		-	-
		(1,007,876)	(745,053)
Tax losses and temporary differences not brought to account		1,007,876	744,920
Income tax attributable to entity		-	133

## NOTE 6: INTERESTS OF KEY MANAGEMENT PERSONNEL (KMP)

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2014.

The totals of remuneration paid or payable to KMP of the company and the Group during the year are as follows:

	2014	2013
	\$	\$
Short-term employee benefits	773,073	672,104
Post-employment benefits	-	2,494
	<u>773,073</u>	<u>674,598</u>

### KMP Options and Rights Holdings

No options over ordinary shares were held by any KMP of the Group during the financial year.

### KMP Shareholdings

The number of ordinary shares in Australian Pacific Coal Limited held by each KMP of the Group during the financial year is as follows:

30 June 2014	Balance at beginning of year	Granted as remuneration during the year	Issued on exercise of options during the year	Other changes during the year	Balance at end of year
Mr Paul Byrne	72,292,061	-	-	22,020,846	94,312,907
Mr Peter Ziegler	10,233,333	-	-	-	10,233,333
Mr Paul Ingram	5,750,000	-	-	-	5,750,000
Mr Kevin Mischewski	1,500,000	-	-	-	1,500,000

30 June 2013	Balance at beginning of year	Granted as remuneration during the year	Issued on exercise of options during the year	Other changes during the year	Balance at end of year
Mr Paul Byrne	61,148,548	-	-	11,143,513	72,292,061
Mr Peter Ziegler	10,233,333	-	-	-	10,233,333
Mr Paul Ingram	5,750,000	-	-	-	5,750,000
Mr Kevin Mischewski	1,500,000	-	-	-	1,500,000

### Other KMP Transactions

There have been no other transactions involving equity instruments other than those described in the tables above.

For details of other transactions with KMP, refer to Note 30: Related Party Transactions.

**NOTE 7: AUDITORS' REMUNERATION**

	<b>Consolidated Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Remuneration of the auditor of the parent entity for:		
— auditing or reviewing the financial statements	60,995	60,050
— taxation services	-	8,500

**NOTE 8: EARNINGS PER SHARE**

	<b>Consolidated Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>No.</b>	<b>No.</b>
a. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	810,704,801	602,956,109
Weighted average number of dilutive options outstanding	-	-
Weighted average number of dilutive convertible notes on issue	-	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	810,704,801	602,956,109
b. Convertible notes are considered anti-dilutive as the consolidated group is loss making. Convertible notes potentially dilute earnings per share in the future.		

**NOTE 9: CASH AND CASH EQUIVALENTS**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2014</b>	<b>2013</b>
		<b>\$</b>	<b>\$</b>
Cash at bank and in hand		401,226	447,865
Short-term bank deposits		50,000	50,000
		<b>451,226</b>	<b>497,865</b>

The effective interest rate on short-term bank deposits was 3.73% (2013: 4.0%); these deposits have an average maturity of 180 days.

## NOTE 10: TRADE AND OTHER RECEIVABLES

	Note	Consolidated Group	
		2014 \$	2013 \$
<b>Current</b>			
Trade receivables		4,800	-
Other receivables		97,789	16,632
<b>Total current trade and other receivables</b>		<b>102,589</b>	<b>16,632</b>
<b>Non-current</b>			
Amounts receivable from related parties:			
— loans to directors		551,848	551,848
— loans to directors - provision for impairment	10a.(i)	(484,548)	(383,598)
— loans to key management personnel		28,950	28,950
— loans to key management personnel - provision for impairment	10a.(ii)	(22,950)	(13,950)
Other receivables		415,696	405,463
Other receivables - provision for impairment	10a.(iii)	(275,350)	(203,350)
<b>Total non-current trade and other receivables</b>		<b>213,646</b>	<b>385,363</b>

### a. Provision For Impairment of Receivables

Current trade and term receivables are non-interest bearing loans and generally on 30-day terms. Non-current trade and term receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired. These amounts have been included in the income statements.

Movement in the provision for impairment of receivables is as follows:

	Opening Balance	Charge for the Year	Amounts recovered	Closing Balance
	1.7.2013			30.6.2014
	\$	\$	\$	\$
<b>Consolidated Group</b>				
(i) Non-current related parties - directors	383,598	100,950	-	484,548
(ii) Non-current related parties – key management personnel	13,950	9,000	-	22,950
(iii) Non-current other receivables	203,350	72,000	-	275,350

	Opening Balance	Charge for the Year	Amounts Written Off	Closing Balance
	1.7.2012			30.6.2013
	\$	\$	\$	\$
<b>Consolidated Group</b>				
(i) Non-current related parties - directors	210,623	172,975	-	383,598
(ii) Non-current related parties – key management personnel	-	13,950	-	13,950
(iii) Non-current other receivables	7,150	196,200	-	203,350

### b. Credit Risk — Trade and Other Receivables

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties other than those receivables specifically provided for and mentioned within Note 10. The class of assets described as “trade and other receivables” is considered to be the main source of credit risk related to the

Group.

The following table details the Group's trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, with the terms and conditions agreed between the Group and the customer or counterparty to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

Consolidated Group	Gross amount \$	Past due and impaired \$	Past due but not impaired (days overdue)				Within initial trade terms and impaired \$	Within initial trade terms \$
			< 30 \$	31-60 \$	61-90 \$	> 90 \$		
<b>2014</b>								
Trade and term receivables	4,800	-	-	-	-	-	-	4,800
Amounts receivable from related parties	580,798	-	-	-	-	-	507,498	73,300
Other receivables	513,485	-	-	-	-	-	275,350	238,135
<b>Total</b>	<b>1,099,083</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>782,848</b>	<b>316,235</b>
<b>2013</b>								
Amounts receivable from related parties	580,798	-	-	-	-	-	397,548	183,250
Other receivables	422,095	-	-	-	-	-	203,350	218,745
<b>Total</b>	<b>1,002,893</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>600,898</b>	<b>401,995</b>

c. **Collateral Held as Security**

Included in amounts receivable from related parties is an amount owing to the parent company of \$580,798 at the end of the reporting period (2013: \$580,798). Included in other receivables is an amount owing to the parent company of \$323,350 at the end of the reporting period (2013: \$323,350). The company has funded the purchase of shares issued in accordance with the terms of the Company's Officers, Executives, Consultants and Employee Share Plan by way of limited-recourse loans repayable from future dividends or out of proceeds when the allotted shares are sold. Impairment adjustments have been recorded where the market value of the shares held at 30 June 2014 was less than the gross amount of the associated limited-recourse loan. Collateral is held by way of security over the shares issued. The shares are subject to a trading lock preventing disposal of the shares prior to the respective holders making suitable arrangements for repayment of any outstanding amounts payable on the associated loans.

**Consolidated Group**

**2014**                      **2013**  
\$                                      \$

d. **Financial Assets Classified as Loans and Receivables**

Trade and other receivables:

- total current	102,589	16,632
- total non-current	213,646	385,363
Financial assets	<u>316,235</u>	<u>401,995</u>

**NOTE 11: ASSOCIATED COMPANIES**

Interests are held in the following associated companies:

Name	Principal Activities	Country of Incorporation	Shares	Ownership Interest		Carrying amount of investment	
				2014	2013	2014	2013
				%	%	\$	\$
Unlisted:							
Spinafex Uranium Pty Ltd	Mineral exploration	Australia	Ord	-	-	-	-
Diamantina Uranium Pty Ltd	Mineral exploration	Australia	Ord	-	-	-	-
Frontier Uranium Pty Ltd	Mineral exploration	Australia	Ord	-	-	-	-
						-	-
						-	-
<b>Note</b>						<b>Consolidated Group</b>	
						<b>2014</b>	<b>2013</b>
						<b>\$</b>	<b>\$</b>

Movements during the year in equity accounted investment in associated companies;

Balance at beginning of the financial year	-	110,000
Disposals during the year	-	(110,000)
<b>Balance at end of the financial year</b>	<b>-</b>	<b>-</b>

On 30 June 2013 the Company disposed of its 20% interest in each of Spinafex Uranium Pty Ltd, Diamantina Uranium Pty Ltd and Frontier Uranium Pty Ltd.

**NOTE 12: OTHER FINANCIAL ASSETS**

	Note	Consolidated Group	
		2014 \$	2013 \$
NON-CURRENT			
Available-for-sale financial assets	13a	74,000	100,000
<b>Total non-current</b>		<b>74,000</b>	<b>100,000</b>
a. <b>Available-for-sale financial assets</b>			
Unlisted investments, at cost:			
— Shares in other corporations	13b	100,000	100,000
— Shares in other corporations – Provision for impairment		(26,000)	-
<b>Total available-for-sale financial assets</b>		<b>74,000</b>	<b>100,000</b>

b. **Shares in other corporations**

Unlisted investments:

Shares in other corporations include a shareholding of 1,000,000 ordinary shares in Scott Creek Coal Limited

Australian Pacific Coal Limited does not have the power to participate in the financial or operating decisions of the entity and therefore does not exercise significant influence over Scott Creek Coal Limited.

**NOTE 13: CONTROLLED ENTITIES****a. Controlled Entities Consolidated**

	Country of Incorporation	Percentage Owned (%)*	
		2014	2013
Subsidiaries of Australian Pacific Coal Limited:			
Area Coal Pty Ltd	Australia	100	100
Ipoh Pacific Resources Pty Ltd	Australia	100	100
Mining Investments One Pty Ltd	Australia	100	100
Mining Investments Two Pty Ltd	Australia	100	100
Mining Investments Three Pty Ltd	Australia	100	100
Mining Investments Four Pty Ltd	Australia	100	100
Mining Investments Six Pty Ltd	Australia	100	100
Kokstad Mining Pty Ltd	Australia	100	100
IPR Operations Pty Ltd	Australia	100	100
Ipoh Pacific Pty Ltd	Australia	100	100
Inter-Medteq Pty Ltd	Australia	100	100
Felix Street Pty Ltd	Australia	100	100
Medteq Holdings Pty Ltd	Australia	50	50
Medteq Innovations Pty Ltd	Australia	50	50

\* Percentage of voting power is in proportion to ownership

**b. Acquisition of Controlled Entities**

None

**c. Disposal of Controlled Entities**

None

**d. Controlled Entities with Ownership Interest of 50% or Less**

The parent entity holds 50% of the ordinary shares of Medteq Holdings Pty Ltd. Australian Pacific Coal Limited is required to make all the financial and operating policy decisions of Medteq Holdings Pty Ltd and to ensure that those policies are consistent with the policies of the economic entity.

The parent entity holds 50% of the ordinary shares of Medteq Innovations Pty Ltd. Australian Pacific Coal Limited is required to make all the financial and operating policy decisions of Medteq Innovation Pty Ltd and to ensure that those policies are consistent with the policies of the economic entity.

**NOTE 14: PROPERTY, PLANT AND EQUIPMENT**

	Note	Consolidated Group	
		2014 \$	2013 \$
<b>LAND AND BUILDINGS</b>			
Buildings at cost		148,924	148,924
Less accumulated depreciation		(30,291)	(24,334)
Total Buildings		118,633	124,590
Total Land and Buildings		118,633	124,590
<b>PLANT AND EQUIPMENT</b>			
Plant and equipment:			
At cost		609,444	604,297
Accumulated depreciation		(543,295)	(502,014)
		66,149	102,283
Leasehold improvements			
At cost		14,403	14,403
Accumulated amortisation		(13,737)	(12,965)
		666	1,438
Total Plant and Equipment		66,815	103,721
Total Property, Plant and Equipment		185,448	228,311

a. **Movements in Carrying Amounts**

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

	Buildings \$	Leasehold Improve- ments \$	Plant and Equipment \$	Total \$
<b>Consolidated Group:</b>				
<b>Balance at 30 June 2012</b>	<b>130,547</b>	<b>3,824</b>	<b>206,293</b>	<b>340,664</b>
Additions	-	-	720	720
Disposals	-	-	-	-
Depreciation expense	(5,957)	(2,386)	(104,730)	(113,073)
<b>Balance at 30 June 2013</b>	<b>124,590</b>	<b>1,438</b>	<b>102,283</b>	<b>228,311</b>
Additions	-	-	5,868	5,868
Disposals	-	-	(381)	(381)
Depreciation expense	(5,957)	(772)	(41,621)	(48,350)
<b>Balance at 30 June 2014</b>	<b>118,633</b>	<b>666</b>	<b>66,149</b>	<b>185,448</b>

**NOTE 15: EXPLORATION EXPENDITURE CAPITALISED**

	<b>Consolidated Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
NON-CURRENT		
Exploration and evaluation phases	2,741,917	2,008,892
<b>Total</b>	<b>2,741,917</b>	<b>2,008,892</b>

Recoverability of the carrying amount of exploration assets is dependent on successful exploration and sale of coal.

Capitalised exploration and evaluation costs amounting to \$451,098 (2013: 1,013,254) have been included in cash flows from investing activities in the statements of cash flow.

The company has engaged an exploration drilling contractor to provide exploration drilling services in exchange for an equity interest in specified exploration tenements. The drilling partner must complete a specified quantum of drilling, based on metres drilled, in order to secure their interest in the specified tenements. During the financial year, drilling valued at \$277,984 has been completed in accordance with the terms of the agreement. This non-cash amount has been included in capitalised Exploration and evaluation expenditure.

**NOTE 16: INTANGIBLE ASSETS**

	<b>Consolidated Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Goodwill</b>		
Cost	315,354	315,354
Accumulated impairment losses	(315,354)	(315,354)
<b>Net carrying value</b>	<b>-</b>	<b>-</b>
<b>Trademarks and licences</b>		
Cost	6,680,110	6,680,110
Accumulated impairment losses	(6,680,110)	(6,680,110)
<b>Net carrying value</b>	<b>-</b>	<b>-</b>
<b>Total intangibles</b>	<b>-</b>	<b>-</b>

There have been no additions or disposals of intangible assets during the current or previous financial years.

**NOTE 17: OTHER ASSETS**

	<b>Consolidated Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
CURRENT		
Prepayments	27,867	28,493
<b>Total</b>	<b>27,867</b>	<b>28,493</b>

## NOTE 18: TRADE AND OTHER PAYABLES

	Note	Consolidated Group	
		2014 \$	2013 \$
<b>CURRENT</b>			
Unsecured liabilities:			
Trade payables	18a	560,501	288,784
Amounts payable to related parties:			
— key management personnel related entities		747,080	265,564
<b>Total</b>		<b>1,307,581</b>	<b>554,348</b>
a. Trade payables includes \$277,984 for capitalised exploration and evaluation expenditure incurred under a drilling agreement whereby, on completion, payment will be settled by the drilling partner acquiring an equity interest in specified exploration projects.			
b. <b>Financial liabilities at amortised cost classified as trade and other payables:</b>			
Trade and other payables:			
- total current		1,307,581	554,348
- total non-current		-	-
		<b>1,307,581</b>	<b>554,348</b>

## NOTE 19: BORROWINGS

	Note	Consolidated Group	
		2014 \$	2013 \$
<b>CURRENT</b>			
<b>Secured liabilities:</b>			
Convertible security	19a.b	175,000	325,000
<b>Total current borrowings</b>		<b>175,000</b>	<b>325,000</b>
<b>Total borrowings</b>		<b>175,000</b>	<b>325,000</b>
a. <b>Total current and non-current secured liabilities:</b>			
Convertible security	19b.c	175,000	325,000
		<b>175,000</b>	<b>325,000</b>
b. <b>Convertible security</b>			
During the 2013 financial year, the parent entity issued convertible securities with a face value of \$545,000 to raise \$525,000. The securities are convertible into ordinary shares of the parent entity in accordance with the terms of the parent entity's Share Purchase and Convertible Security Agreement with The Australian Special Opportunities Fund, LP. During the financial year 21,428,571 (2013: 19,583,333) ordinary shares have been issued on conversion of convertible securities having a face value of \$150,000 (2013: \$220,000). The face value of outstanding convertible securities at 30 June 2014 is \$175,000 (2013: \$325,000).			
c. <b>Collateral Provided</b>			
Convertible security is secured by ordinary shares held as security in accordance with the parent entity's Share Purchase and Convertible Security Agreement with The Australian Special Opportunities Fund, LP.			

**NOTE 20: TAX**

	<b>Consolidated Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>CURRENT</b>		
<b>Income Tax Payable</b>	-	-

**NON-CURRENT****Consolidated Group**

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1 occur:

- temporary differences \$399,959 (2013: \$933,462)
- tax losses: operating losses \$8,865,183 (2013: \$7,642,398)
- tax losses: capital losses \$1,173,396 (2013: \$1,173,396)

**NOTE 21: ISSUED CAPITAL**

	<b>Consolidated Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
920,897,748 (2013: 662,695,879)	36,957,568	35,239,172
fully paid ordinary shares		

	<b>Consolidated Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>No.</b>	<b>No.</b>
<b>a. Ordinary Shares</b>		
At the beginning of reporting period	<b>662,695,879</b>	<b>564,993,926</b>
Shares issued during the year		
— 2/10/2012		17,569,378
— 31/10/2012		4,687,500
— 29/11/2012		10,937,500
— 31/12/2012		5,000,000
— 31/1/2013		6,250,000
— 1/3/2013		9,090,909
— 3/4/2013		10,000,000
— 26/4/2013		13,333,333
— 3/5/2013		12,500,000
— 4/6/2013		8,333,333
— 22/7/2013	57,525,000	
— 25/7/2013	12,500,000	
— 2/8/2013	3,500,000	
— 27/8/2013	14,285,714	
— 12/9/2013	21,428,571	
— 16/9/2013	992,064	
— 18/9/2013	10,000,000	
— 14/10/2013	992,063	
— 25/10/2013	11,111,111	
— 26/11/2013	14,285,714	
— 17/1/2014	20,000,000	
— 19/2/2014	15,000,000	
— 21/3/2014	15,000,000	
— 22/4/2014	18,750,000	
— 22/5/2014	18,750,000	
— 20/6/2014	24,081,632	
At the end of the reporting period	<b>920,897,748</b>	<b>662,695,879</b>

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

b. **Capital Management**

Management controls the capital of the Group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year. The gearing ratio's for the year ended 30 June 2014 and 30 June 2013 are as follows:

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2014</b>	<b>2013</b>
		<b>\$</b>	<b>\$</b>
Total borrowings	18,19	1,482,581	879,348
Less cash and cash equivalents	9	451,226	497,865
Net debt		1,031,355	381,483
Total equity		2,314,112	2,386,208
Total capital		3,345,467	2,767,691
Gearing ratio		<b>31%</b>	<b>14%</b>

**NOTE 22: CAPITAL AND LEASING COMMITMENTS**

	Note	Consolidated Group	
		2014	2013
		\$	\$
<b>a. Operating Lease Commitments</b>			
Non-cancellable operating leases contracted for but not capitalised in the financial statements.			
Payable — minimum lease payments:			
— not later than 12 months		109,933	127,514
— between 12 months and 5 years		-	109,933
— greater than 5 years		-	-
<b>Total</b>		<b>109,933</b>	<b>237,447</b>

The property lease is non-cancellable lease with a three year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreements require the minimum lease payments shall be increased annually by the greater of the consumer price index (CPI) or 4% per annum. An option exists to renew the lease at the end of the three year term for an additional term of three years. The leases allow for subletting of all lease areas.

**b. Exploration and Evaluation Expenditure Commitments**

The consolidated Group has certain obligations to perform exploration work and outlay minimum amounts of money in order to maintain the current rights of tenure over its exploration tenements. These outlays are subject to renegotiation on expiry of the leases or when application for a mining lease is made and have not been provided for in the financial statements.

Total expenditure commitments at balance date and not provided for in the financial statements are approximately:

	Note	Consolidated Group	
		2014	2013
		\$	\$
Payable:			
— not later than 12 months		950,851	715,015
— between 12 months and 5 years		1,983,918	2,237,230
— greater than 5 years		-	-
<b>Total</b>		<b>2,934,769</b>	<b>2,952,245</b>

## NOTE 23: OPERATING SEGMENTS

### Segment Information

#### Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of resource category. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics.

#### Types of products and services by segment

i. *Mining exploration and evaluation*

The mining exploration and evaluation segment seeks to identify prospective resource areas, secure tenure over the relevant tenements and manage the exploration and evaluation process.

ii. *Technology investments*

Technology investment operations are dormant and are no longer included separately within segment analysis as the segment assets have been impaired to \$Nil.

iii. *Bentonite Mining*

The bentonite mining segment mines for bentonite.

#### Basis of accounting for purposes of reporting by operating segments

a. **Accounting policies adopted**

Unless stated otherwise, all amounts reported to the Board of Directors, being the chief decision maker with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

b. **Inter-segment transactions**

An internally determined transfer price is set for all inter-segment sales. This price is based on what would be realised in the event the sale was made to an external party at arm's length. All such transactions are eliminated on consolidation of the Group's financial statements.

Corporate charges are allocated to reporting segments based on the segments' overall proportion of direct operating costs within the Group. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Inter-segment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

c. **Segment assets**

Where an asset is used across multiple segments, the asset is allocated to that segment that receives majority economic value from that asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

d. **Segment liabilities**

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

e. **Unallocated items**

The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Net gains on disposal of available-for-sale investments
- Impairment of assets and other non-recurring items of revenue or expense
- Income tax expense
- Deferred tax assets and liabilities
- Current tax liabilities
- Other financial liabilities
- Intangible assets
- Discontinuing operations
- Retirement benefit obligations

## i. Segment performance

	Exploration	Bentonite Mining	Unallocated	Total
	\$	\$	\$	\$
<b>2014</b>				
<b>Revenue</b>				
External sales	-	7,664	-	7,664
Interest revenue	2	3	16,551	16,556
Other revenue	-	-	-	-
<b>Total segment revenue</b>	<b>2</b>	<b>7,667</b>	<b>16,551</b>	<b>24,220</b>
Total group revenue				<b>24,220</b>
<b>Segment net profit from continuing operations before tax</b>				
	<b>(104,776)</b>	<b>(88,169)</b>	<b>(1,597,547)</b>	<b>(1,790,492)</b>
Net profit from continuing operations before tax				<b>(1,790,492)</b>
Amounts included in segment result and reviewed by the board:				
— depreciation and amortisation	-	34,285	14,065	<b>48,350</b>
— impairment of exploration and evaluation	62,179	8,992	-	<b>71,171</b>
— impairment of loans receivable	-	-	181,950	<b>181,950</b>
— impairment of investments	26,000	-	-	<b>26,000</b>
<b>2013</b>				
<b>Revenue</b>				
External sales	-	-	-	-
Interest revenue			13,389	<b>13,389</b>
Other revenue	400,000	-	-	<b>400,000</b>
<b>Total segment revenue</b>	<b>400,000</b>	<b>-</b>	<b>13,389</b>	<b>413,389</b>
Total group revenue				<b>413,389</b>
<b>Segment net profit from continuing operations before tax</b>				
	<b>159,176</b>	<b>(143,282)</b>	<b>(1,892,455)</b>	<b>(1,876,561)</b>
Net profit from continuing operations before tax				<b>(1,876,561)</b>
Amounts included in segment result and reviewed by the board:				
— finance charges	-	-	20,000	<b>20,000</b>
— depreciation and amortisation	-	89,712	23,362	<b>113,074</b>
— impairment of exploration and evaluation	53,887	14,221	-	<b>68,108</b>
— impairment of loans receivable	-	-	383,125	<b>383,125</b>

## ii. Segment assets

	Exploration	Bentonite Mining	Unallocated	Total
	\$	\$	\$	\$
<b>2014</b>				
<b>Segment assets</b>				
Segment asset increases for the period				
— capital expenditure	804,196	-	5,868	810,064
— acquisitions	-	-	-	-
	<u>804,196</u>	<u>-</u>	<u>5,868</u>	<u>810,064</u>
Included in segment assets are:				
Capitalised exploration and evaluation	2,741,917	-	-	2,741,917
Property, plant and equipment	-	160,359	25,089	185,448
Other financial assets	74,000	-	-	74,000
Other assets	110,671	28,188	656,469	795,328
Segment assets	<u>2,926,588</u>	<u>188,547</u>	<u>681,558</u>	<u>3,796,693</u>
<b>Total group assets</b>				<b><u>3,796,693</u></b>

## 2013

### Segment assets

Segment asset increases for the period

— capital expenditure	1,013,254	-	720	1,013,974
— acquisitions	-	-	-	-
	<u>1,013,254</u>	<u>-</u>	<u>720</u>	<u>1,013,974</u>

Included in segment assets are:

Capitalised exploration and evaluation	2,008,892	-	-	2,008,892
Property, plant and equipment	-	194,644	33,667	228,311
Other financial assets	-	-	100,000	100,000
Other assets	73,660	25,055	829,638	928,353
Segment assets	<u>2,182,553</u>	<u>219,699</u>	<u>863,304</u>	<u>3,265,556</u>
<b>Total group assets</b>				<b><u>3,265,556</u></b>

## iii. Segment liabilities

	Exploration	Bentonite Mining	Unallocated	Total
	\$	\$	\$	\$
<b>2014</b>				
<b>Segment liabilities</b>				
<i>Reconciliation of segment liabilities to group liabilities</i>				
Other financial liabilities	325,671	3,409	1,153,501	1,482,581
<b>Total group liabilities</b>				<b><u>1,482,581</u></b>

## 2013

### Segment liabilities

*Reconciliation of segment liabilities to group liabilities*

Other financial liabilities	69,528	472	809,347	879,347
<b>Total group liabilities</b>				<b><u>879,347</u></b>

**NOTE 24: CASH FLOW INFORMATION****Consolidated Group**

2014	2013
\$	\$

**a. Reconciliation of Cash Flow from Operations with Profit after Income Tax**

Profit/(Loss) after income tax	(1,790,942)	(1,876,561)
Sale of interests in tenements	-	(400,000)
Exploration and evaluation costs of tenements sold	-	156,608
Gain/(Loss) on disposal of assets	381	-
Depreciation and amortisation	48,350	113,073
Impairment loss	279,291	451,233
Finance costs	-	20,000
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase)/decrease in trade and term receivables	(88,679)	76,151
(Increase)/decrease in other assets	626	(2,000)
Increase/(decrease) in trade payables and accruals	475,249	324,221
<b>Cash flows from operations</b>	<b>(1,075,444)</b>	<b>(1,137,275)</b>

**b. Non-cash Financing and Investing Activities****i. Share issue:**

21,428,571 (2013: 19,583,333) ordinary shares were issued for a total consideration of \$150,000 (2013: \$220,000). The company issued the shares on conversion of convertible securities issued to the Australian Special Opportunity Fund, LLC.

**ii. Payments for exploration and evaluation:**

The company has engaged an exploration drilling contractor to provide exploration drilling services in exchange for an equity interest in specified exploration tenements. The drilling partner must complete a specified quantum of drilling, based on metres drilled, in order to secure their interest in the specified tenements. During the financial year, drilling valued at \$277,984 has been completed in accordance with the terms of the agreement.

The company has issued 10,815,759 fully paid ordinary shares for a total consideration of \$82,625. The shares were issued as full payment for geological services provided by geological consultants during the financial year.

## NOTE 25: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

### Rio Tinto Exploration Pty Ltd – Exploration, Option and Joint Venture Agreement

On 22<sup>nd</sup> August 2011 the Company announced that its 100% owned subsidiary Area Coal Pty Ltd (Area Coal) had executed an Exploration, Option and Joint Venture Agreement (“the agreement”) with Rio Tinto Exploration Pty Ltd (RTX) covering four of its Mt Hillalong tenements. The Group has received an initial cash payment of \$2,300,000 in the 2012 financial year in accordance with the agreement. In addition to the cash payment the agreement terms include that:

- title to EPC 1773 and EPCs 1867 and 1645 will be transferred to RTX;
- RTX will sole fund and manage an exploration program for EPC 1824 with a minimum expenditure of \$700,000 within the first 24 months of gaining access to the tenement;
- RTX has an option to acquire a 75% interest in EPC 1824 by making a defined payment to Area Coal at any time within the first 24 months of the exploration program. In the event of RTX’s exercise of this option, the parties will form an unincorporated joint venture in which Area Coal would retain a 25% free carry interest;
- if RTX exercises the option to acquire an interest in EPC 1824, Area Coal would then hold a put option (exercisable on the date that is 12 months after the formation of the joint venture) enabling it to sell its 25% interest in the joint venture to RTX for an additional defined payment to Area Coal;
- if Area Coal does not exercise the above put option, it will have a further put option, exercisable within 180 days of the joint venture management committee commissioning a feasibility study, to sell its 25% interest in EPC1824 to RTX for consideration calculated on the basis of resource tonnage;
- if Area Coal does not exercise its second put option it will become liable for 25% of all future development and operational costs of the joint venture; and
- should RTX not exercise its option to acquire the 75% interest in the project, Area Coal will retain its existing 100% ownership of EPC 1824 and can reacquire the other three Mt Hillalong tenements originally transferred to RTX under the agreement.

RTX secured all approvals, thereby gaining access to EPC 1824 on 23 August 2013 triggering the start of the RTX 75% option period. The expiry date of the option is 23 August 2015.

## NOTE 26: EVENTS AFTER THE REPORTING PERIOD

Other than the following the directors are not aware of any significant events since the end of the reporting period.

On 11 September 2014 the company announced a Share Purchase Plan Offer (**SPP**). The SPP will raise a maximum of \$925,000 with eligible shareholders able to take a maximum investment of \$15,000 representing 4,687,500 new shares at a price of 0.32 cents per share. The proposed closing date of the SPP is 2 October 2014 with issue and allotment of new shares under SPP to follow on 9 October 2014.

On 16 September 2014 the company issued two unlisted convertible securities to The Australian Special Opportunity Fund, LP. The face values of the convertible securities are \$50,000 and \$75,000 respectively, both expiring 24 months from issue. The company received cash consideration of \$125,000 (before costs) for the issue of the convertible securities.

No other matters or circumstances have arisen since the end of the financial year which significantly affected, or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

## NOTE 27: RELATED PARTY TRANSACTIONS

### a. The Group's main related parties are as follows:

i. *Entities exercising control over the group:*

The ultimate parent entity, which exercises control over the Group, is Australian Pacific Coal Limited.

ii. *Key management personnel:*

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered Key Management Personnel (KMP).

iii. *Entities subject to significant influence by the Group:*

An entity which has the power to participate in the financial and operating policy decisions of an entity, but does not have control over those policies, is an entity which holds significant influence. Significant influence may be gained by share ownership, statute or agreement.

For details of interests held in associated companies, refer to Note 13: Controlled Entities.

iv. *Other related parties:*

Other related parties include entities controlled by the ultimate parent entity and entities over which key management personnel exercise significant influence.

### b. Transactions with related parties:

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Other than key management personnel compensation disclosed in the Remuneration Report, there have been no transactions between the consolidated group and related parties.

### c. Amounts outstanding from related parties:

*Trade and other receivables:*

Unsecured loans are made to the parent entity, subsidiaries, directors, key management personnel and other related parties.

The following transactions occurred with related parties:

	<b>Consolidated Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<i>i. Key management personnel:</i>		
The company issued Nil (2013: Nil) ordinary shares to KMP in accordance with the Company's Officers, Executives, Consultants and Employee Share Plan. The terms of the plan enabled the company to fund the purchase by way of limited-recourse loans totalling \$Nil (2013: \$Nil) repayable from future dividends or out of proceeds when the allotted shares are sold. Collateral is held by way of security over the shares issued. The shares are subject to a trading lock preventing disposal of the shares prior to the respective holders making suitable arrangements for repayment of any outstanding amounts payable on the associated loans. Interest is not payable.		
Balance at beginning of year	580,798	741,548
No longer included as related party loan	-	(160,750)
Loans advanced	-	-
Loan repayment received	-	-
Balance at end of year	<b>580,798</b>	<b>580,798</b>
Provision for impairment	<b>(507,498)</b>	<b>(397,548)</b>
Interest not charged (on an arms-length basis)	36,540	46,304
The number of KMP who have received loans during the period	0	0

The highest level of indebtedness during the reporting period for each KMP who received loans:

	<b>Consolidated Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Mr Peter Ziegler	121,500	121,500
Mr Paul Byrne	165,848	165,848
Mr Paul Ingram	264,500	264,500
Mr Kevin Mischewski	28,950	28,950
KMP Loans exceeding \$100,000:		

Included in the loan balances above are loans to Mr Paul Byrne (Director) Details of the loans are outlined below:

Balance at beginning of year	165,848	165,848
Loans advanced	-	-
Loan repayment received	-	-
Balance at end of year	<b>165,848</b>	<b>165,848</b>

Interest not charged (on an arms-length basis)	10,434	11,817
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Included in the loan balances above is a loan to Mr Peter Ziegler (Director) which represents a loan to Wellton Holdings Pty Ltd, a related entity associated with Mr Ziegler. Details of the loan are outlined below:

Balance at beginning of year	121,500	121,500
Loans advanced	-	-
Loan repayment received	-	-
Balance at end of year	<b>121,500</b>	<b>121,500</b>
Interest not charged (on an arms-length basis)	7,644	8,657

Included in the loan balances above is a loan to Mr Paul Ingram (Director). Details of the loan are outlined below:

Balance at beginning of year	264,500	264,500
Loans advanced	-	-
Loan repayment received	-	-
Balance at end of year	<b>264,500</b>	<b>264,500</b>
Interest not charged (on an arms-length basis)	16,640	18,846

## NOTE 28: FINANCIAL RISK MANAGEMENT

The Group's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable, loans to and from subsidiaries and convertible securities.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Note	Consolidated Group	
		2014	2013
		\$	\$
<b>Financial assets</b>			
Cash and cash equivalents	9	451,226	497,865
Loans and receivables	10	316,235	401,995
Available-for-sale financial assets:			
— unlisted investments at cost	12	74,000	100,000
<b>Total financial assets</b>		<b>841,461</b>	<b>999,860</b>
<b>Financial Liabilities</b>			
Financial liabilities at amortised cost:			
— trade and other payables	18	1,307,581	554,348
— borrowings	19	175,000	325,000
<b>Total financial liabilities</b>		<b>1,482,581</b>	<b>879,348</b>

### Financial Risk Management Policies

The Board of Directors, amongst other issues, monitor and manage financial risk exposures of the Group. The Board monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to identified areas of risk.

The Board's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, while minimising potential adverse effects on financial performance. Its functions include the review of credit risk policies and future cash flow requirements.

### Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk, and equity price risk

#### a. Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Credit risk is managed through the maintenance of procedures (such procedures include the utilisation of systems for the approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and monitoring of the financial stability of significant customers and counterparties), ensuring to the extent possible, that customers and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. Depending on the division within the Group, credit terms are generally 14 to 30 days from the invoice date.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating, or in entities that the Board has otherwise cleared as being financially sound.

#### *Credit Risk Exposures*

The maximum exposure to credit risk by class of recognised financial assets at balance date, excluding the value of any collateral or other security held, is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the statement of financial position.

The Group has no significant concentration of credit risk with any single counterparty or group of counterparties.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed in Note 10.b.

Credit risk related to balances with banks and other financial institutions is managed by management in accordance with approved Board policy. The counterparty to these financial assets are large financial institutions with strong credit ratings. The credit quality of these financial assets that are neither past due nor impaired is considered strong.

## b. Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

### (i) Financing arrangements

The company has entered into a funding agreement with The Australian Special Opportunity Fund, LP. The agreement commenced in October 2012 and expires in October 2014. The company may terminate the agreement at its discretion prior to October 2014. Under the agreement the company may receive tranche prepayments of between \$75,000 and \$225,000, as monthly share subscriptions. The undrawn minimum balance of the facility as at 30 June 2014 is \$300,000 (2013: \$1,125,000).

### (ii) Maturities of financial liabilities

The following table sets out the contractual maturities of financial liabilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

	<b>Carrying amount</b>	<b>Less than 1 month</b>	<b>1-6 months</b>	<b>More than 6 months</b>
<b>30 June 2014</b>				
Trade and other payables	1,307,581	-	1,307,581	-
Borrowings	175,000	-	175,000	-
	1,482,581	-	1,482,581	-
<b>30 June 2013</b>				
Trade and other payables	554,348	-	554,348	-
Borrowings	325,000	-	325,000	-
	879,348	-	879,348	-

## c. Market Risk

Market risk arises from the use of interest bearing financial, tradeable and foreign currency instruments. It is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

### i. Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is exposed to earnings volatility on floating rate instruments and is limited to its cash and cash equivalent assets.

As at 30 June 2014, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Post Tax Profit	Consolidated Group Higher/(Lower)	
	2014	2013
+1.00% (100 basis points)	4,438	2,976
-1.00% (100 basis points)	(4,438)	(2,976)

Equity	Consolidated Group Higher/(Lower)	
	2014	2013
+1.00% (100 basis points)	4,438	2,976
-1.00% (100 basis points)	(4,438)	(2,976)

#### d. Fair Value Estimation

Fair value is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgment and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

Differences between fair values and carrying amounts of financial instruments with fixed interest rates are due to the change in discount rates being applied by the market since their initial recognition by the Group. Most of these instruments, which are carried at amortised cost (ie term receivables, held-to-maturity assets and loan liabilities), are to be held until maturity and therefore the fair value figures calculated bear little relevance to the Group.

The fair values of the consolidated entities have been determined based on the following methodologies:

- (i) Cash and cash equivalents, trade and other receivables, and trade and other payables are short-term instruments in nature whose carrying amount is equivalent to fair value. Trade and other payables exclude amounts provided for annual leave, which is outside the scope of AASB 139.
- (ii) Term receivables generally reprice to a market interest rate every six months, and fair value therefore approximates carrying amount.
- (iii) In determining the fair values of the unlisted available-for-sale financial assets, the directors use inputs that are observable either directly (as prices) or indirectly (derived from prices).

The directors have determined that the fair values of the existing available-for-sale financial assets carried at cost and at recoverable amount cannot be reliably measured. The directors have made an estimate of the fair value at the end of the reporting period based on the reported financial results of the underlying investment. There is no active market for these investments, and there is no present intention to dispose of these investments.

These available-for-sale financial assets are represented by the company's holding of 1,000,000 ordinary shares in Scott Creek Coal Limited. The shares were acquired on as part settlement for the sale of tenement EPC1548 on 2 April 2013 at an acquisition cost of \$100,000.

#### Financial Instruments Measured at Fair Value

Financial instruments recognised at fair value in the statement of financial position are analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted prices in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Within the hierarchy, the consolidated entity's investment in Scott Creek Coal Limited is classified at level 3.

## NOTE 29: SHARE-BASED PAYMENTS

The Company has issued 10,815,759 fully paid ordinary shares to geological consultants in accordance with the plan rules for the Australian Pacific Coal Limited Officers, Executives, Consultants and Employee Share Plan. The shares were issued as full payment at the market rate for services provided by the consultants. Details of each payment are set out in the following table:

<b>Date of issue</b>	<b>Amount payable for services provided</b>	<b>Number of shares issued</b>	<b>Issue Price (cents per share)</b>
2 Aug 2013	31,500	3,500,000	0.90
16 Sep 2013	12,500	992,064	1.26
14 Oct 2013	12,500	992,063	1.26
20 Jun 2014	26,125	5,331,632	0.49
<b>Total</b>	<b>82,625</b>	<b>10,815,759</b>	

The amounts payable measure directly the fair value of the services provided. The total amount payable is included in Non-current assets in Exploration and evaluation expenditure and has no effect on the company's profit or loss for the financial year.

## NOTE 30: REGISTERED OFFICE AND PRINCIPAL OFFICE

The registered and principal office of the Australian Pacific Coal Limited (ABN 49 089 206 986) and its controlled entities is;

Level 7, 10 Felix Street, Brisbane Qld 4000

# DIRECTORS' DECLARATION

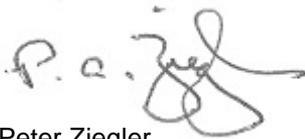
In the opinion of the directors of Australian Pacific Coal Limited:

1. the financial statements and notes, as set out on pages 13 to 56, are in accordance with the *Corporations Act 2001* including:
  - a. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory reporting requirements; and
  - b. give a true and fair view of the consolidated group's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
2. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Note 1 confirms that the financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and the chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Board of Directors.



Peter Ziegler

Chairman

Dated this 30<sup>th</sup> day of September 2014

**INDEPENDENT AUDITOR'S REPORT**  
**To the Members of Australian Pacific Coal Limited**

D. A. Lissauer B.Com., FCPA, Affiliate ICAA  
R. P. Lissauer B.Ec., M.Tax, CA, FTIA  
M. R. Lipson B.Bus., B.Ed., AI.Arb.A, CA

**Report on the Financial Report**

We have audited the accompanying financial report of Australian Pacific Coal Limited (the company), which comprises the statement of financial position as at 30 June 2014 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration for the Australian Pacific Coal Limited group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### *Auditor's Opinion*

In our opinion,

- (a) the financial report of Australian Pacific Coal Limited is in accordance with the *Corporations Act 2001*, including
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

### *Emphasis of Matter*

Without modifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the company incurred a net loss of \$1,790,492 during the year ended 30 June 2014 and, as of that date, the company's current liabilities exceeded its current assets by \$900,899. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

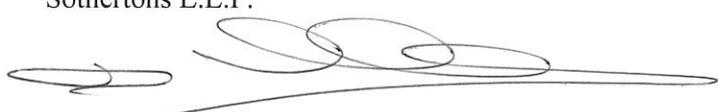
### **Report on the Remuneration Report**

We have audited the remuneration report included in pages 8 to 10 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Auditor's Opinion*

In our opinion, the remuneration report of Australian Pacific Coal Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Sothertons L.L.P.



D Lissauer  
Partner

Melbourne  
30 September 2014

# CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Australian Pacific Coal Limited (“the Company”) is responsible for establishing the corporate governance framework of the Group having regard to the ASX Corporate Governance Council (“CGC”) Second Edition of the Corporate Governance Principles and Recommendations and published guidelines. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders.

The Board seeks, where appropriate to adopt without modification, the CGC recommendations. Where there has been any variation from the CGC recommendations, it is because the Board believes the Company is not as yet of size, nor are its financial affairs of such complexity, to justify some of these recommendations. The Board is of the view that with the exception of the departures to the CGC Corporate Governance Principles and Recommendations as are set out below, it otherwise complied with all of the CGC Corporate Governance Principles and Recommendations.

The following table summarises the Company’s compliance with the CGC recommendations and states whether the Company has complied with each recommendation.

Recommendation	Summary of the Company’s Compliance
<b>Principle 1 – Lay solid foundations for management and oversight</b>	
Companies should establish and disclose respective roles and responsibilities for Board and management	
1.1: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	The Board Charter clearly defines the respective roles and responsibilities of the Board and establishes functions that are reserved to the Board and functions delegated to senior executives. The responsibilities for the operation and administration of the Company have been delegated by the Board to the executive management team.
1.2: Companies should disclose the process for evaluating the performance of senior executives.	The performance criteria for evaluating senior management are aligned with objectives of the Company against a formalised set of qualitative performance criteria established and monitored by the Board.
1.3: Companies should provide the information indicated in the Guide to reporting on Principle 1.	The Board reviews the performance of senior executives periodically.
<b>Principle 2 – Structure the board to add value</b>	
Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties	
2.1: A majority of the board should be independent directors.	The board consists of four directors. Three of those directors, Mr Peter Ziegler (Chairman), Mr Paul Ingram and Mr Paul Ryan are considered independent.
2.2: The chair should be an independent director.	The Chair, Mr Peter Ziegler, is considered independent.
2.3: The roles of chair and chief executive officer should not be exercised by the same individual.	Mr Peter Ziegler holds the position of Chair. Mr Paul Byrne holds the position of CEO.
2.4: The board should establish a nomination	The Company does not have a nomination committee. The Board decides the selection of

## CORPORATE GOVERNANCE STATEMENT

committee.	members of the Board and makes recommendations to shareholders for election of Directors. Each Board member is responsible for assessing the necessary competencies of the Board members to add value to the Company, reviewing Board succession plans and evaluating the Board's performance.
2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors	The Board conducts its own evaluation of the skills, performance and remuneration of existing Directors from time to time. Individual Directors may recommend changes to the composition of the Board.
2.6: Companies should provide the information indicated in the Guide to reporting on Principle 2.	<p>The skills, expertise and experience relevant to the position of each director in office at the date of the Annual Report are included in the Directors' Report.</p> <p>Directors are considered to be independent when they are independent of management and free from any business or relationship that could interfere with or reasonably interfere with their independent judgement.</p> <p>The materiality thresholds for director independence are assessed on a case by case basis taking into account the relevant Director's specific circumstances, rather than referring to a general materiality threshold.</p> <p>Directors having a personal material interest in relation to a particular item of business must absent themselves from the Board meeting before commencement of discussion on the topic.</p> <p>Procedures are in place for directors to seek independent professional advice, at the expense of the Company, concerning any aspect of the Company's operations or undertakings to fulfil their duties and responsibilities as directors.</p>

# CORPORATE GOVERNANCE STATEMENT

<b>Principle 3 – Promote ethical and responsible decision-making</b>	
Companies should actively promote ethical and responsible decision-making	
<p>3.1: Companies should establish a code of conduct and disclose the code or a summary of the code as to:</p> <ul style="list-style-type: none"> <li>• the practices necessary to maintain confidence in the company's integrity;</li> <li>• the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and</li> <li>• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	<p>The Company Code of Conduct Policy and Ethics Policy endeavours to foster a culture requiring that directors and officers act with the utmost integrity, objectivity and in compliance with the spirit of the law and Company policies.</p>
<p>3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measureable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.</p>	<p>The Company has not adopted a formal Diversity Policy as it has a small number of employees and has limited opportunity to adopt formalised policy guidelines. The Board is committed to developing diversity in its workplace to assist the Company to meet its goals and objectives by providing an environment whereby appointments, advancement and opportunities are considered on a fair and equitable basis. The Company is committed to promoting a corporate culture which embraces diversity when determining the composition of the Board, senior management and employees and considered during its recruitment and selection process.</p> <p>The Company will ensure that recruitment and selection decisions are based on the principle of merit, skills and qualifications and regardless of age, gender, nationality, cultural background or any other factor not relevant to the position. Past skills and experience in the mining and exploration industries will be a key determinant in the selection process.</p>
<p>3.3: Companies should disclose in each annual report the measureable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.</p>	<p>The Company does not have measurable objectives for achieving gender diversity. Given the Company's size, and stage of development, the Board does not consider it is appropriate to include measurable objectives in relation to gender.</p>
<p>3.4 Companies should disclose in each annual report the proportion of women employees in the whole organization, women in senior executive positions and women on the board.</p>	<p>The percentage of woman in the whole organisation as a whole organisation, senior management, and the Board are as follows:-</p> <ul style="list-style-type: none"> <li>• Whole organisation: 20%</li> <li>• Senior Management: Nil</li> <li>• Board: Nil</li> </ul>
<p>3.5 Companies should provide the information indicated in the Guide to reporting on Principle 3.</p>	<p>Explanation of departures from Principle 3 recommendations are included in this Corporate Governance Statement.</p>

# CORPORATE GOVERNANCE STATEMENT

<p><b>Principle 4 – Safeguard integrity in financial reporting</b></p> <p>Companies should have a structure to independently verify and safeguard the integrity of their financial reporting</p>	
4.1: The board should establish an audit committee.	The Board has established an Audit Committee.
<p>4.2: The audit committee should be structured so that it:</p> <ul style="list-style-type: none"> <li>• consists only of non-executive directors</li> <li>• consists of a majority of independent directors</li> <li>• is chaired by an independent chair, who is not chair of the board</li> <li>• has at least three members.</li> </ul>	<p>The Audit Committee consists of Mr Peter Ziegler (Chairman) and Mr Kevin Mischewski (Company Secretary).</p> <p>The Chairman Mr Peter Ziegler represents the board as independent director, is financially literate and has the relevant qualifications and experience.</p> <p>The company considers that due to the size, nature and level of complexity of the Company, sourcing directors in strict compliance with Principle 4.2 would defeat the purpose of a board audit committee for focusing on issues relevant to the company's financial reporting.</p> <p>Ultimate responsibility for the integrity of the company's financial reporting rests with the board and the current composition of the Audit Committee ensures that the Board has processes in place to raise issues that are ordinarily considered by the Audit Committee.</p>
4.3: The audit committee should have a formal charter	The Audit Committee operates under a Charter approved by the Board.
4.4: Companies should provide the information indicated in the Guide to reporting on Principle 4.	<p>In accordance with the Audit Committee Charter, the Audit Committee is responsible for reviewing the integrity of the company's financial reporting and oversees the independence of the external auditors.</p> <p>The Audit Committee meets at least annually and is required to report to the Board on all matters relevant to its roles and responsibilities.</p>
<p><b>Principle 5 – Make timely and balanced disclosure</b></p> <p>Companies should promote timely and balanced disclosure of all material matters concerning the company</p>	
5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	The Company has written policies and procedures in place to ensure compliance with ASX listing rule disclosure requirements and accountability at a senior executive level for that compliance. The directors and senior management are made aware of their disclosure requirements and obligations prior to their engagement and regularly at Board and Management meetings.
5.2: Companies should provide the information indicated in the Guide to reporting on Principle 5.	The Company will report and address any departures from Principle 5 recommendations as soon as it becomes aware of departure.

# CORPORATE GOVERNANCE STATEMENT

## Principle 6 – Respect the rights of shareholders

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights

6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

The Company is committed to:

- Communicating effectively with its shareholders and ensuring that it is easy for shareholders to communicate with the Company;
- Complying with its continuous disclosure obligations applicable to the ASX listing rules and other regulators; and
- Ensuring that the shareholders and other stakeholders are provided with timely and full information about the Company's activities.

6.2: Companies should provide the information indicated in the Guide to reporting on Principle 6.

To promote effective communications with shareholders and to encourage participation by shareholders the Company ensures that information is communicated to its shareholders through:

- An email based communications system;
- Posting information on the Company's web site at [www.aqcltd.com](http://www.aqcltd.com)
- The distribution of Notice of Meetings and other information directly to shareholders through letters and other forms of communications;
- Ensuring that auditors are invited to the Annual General Meeting to consider questions regarding the conduct of the audit and the preparation and content of the auditor report;
- Allowing shareholders the opportunity at meetings to discuss resolutions; and
- Ensuring timely release of information to the market through the ASX.

The shareholder communication policy is designed to ensure equal and timely access to information for shareholders.

# CORPORATE GOVERNANCE STATEMENT

<b>Principle 7 – Recognise and manage risk</b>	
Companies should establish a sound system of risk oversight and management and internal control	
<p>7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.</p>	<p>The Company has established policies for the oversight of material business risks and believes that risk management and recognition is integral to the Company meeting its objectives. The Board is responsible for reviewing the Company's policy on risk management and risk oversight. The Audit Committee also separately assesses management of the Company's risks and makes recommendations to the Board.</p>
<p>7.2: The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.</p>	<p>The Company has designed and implemented a risk management and internal control system to manage the Company's material business risks and report to it on whether the risks are being effectively managed. The Company has reviewed its risk management procedures and considered the "Guide for small-mid market capitalised companies on Principle 7: Recognise and Manage Risk" released under the ASX Markets Supervision Education and Research Program. The Company continues to review its existing risk management procedures, the material business risks affecting the Company and where necessary delegated further responsibilities for those material business risks to senior staff members. The updated risk management system has been designed to effectively manage and report on the consolidated entity's material business risks.</p> <p>The Company has developed risk management procedures including revised Risk Management Policy, Risk Register, Risk Tolerance Review and a Risk Management Framework which forms the basis of the Company's risk management and internal control system.</p>
<p>7.3: The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.</p>	<p>In accordance with section 259A of the Corporations Act 2001, the Managing Director and Chief Financial Officer have provided a declaration to the Board that:</p> <ul style="list-style-type: none"> <li>• their view provided in the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board; and</li> <li>• the Company's risk management and internal compliance and control system is operating effectively in all material respects.</li> </ul> <p>It is noted that the assurance from the Managing Director and Chief Financial Officer can only be reasonable and not absolute due to the level of</p>

## CORPORATE GOVERNANCE STATEMENT

	judgement required, the limitations of sampling and the difficulty in designing systems to detect all weaknesses in internal control procedures.
7.4: Companies should provide the information indicated in the Guide to reporting on Principle 7.	Management provides reports to the board on the effectiveness of the Company's management of its material business risks.
<p><b>Principle 8 – Remunerate fairly and responsibly</b></p> <p>Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear</p>	
8.1: The board should establish a remuneration committee.	The full Board performs the function of the Remuneration Committee. Given the size of the Company it is considered that this function is better performed at Board level.
<p>8.2: The Remuneration committee should be structured so that it:</p> <ul style="list-style-type: none"> <li>• consists of a majority of independent directors</li> <li>• is chaired by an independent chair, and</li> <li>• has at least three members</li> </ul>	The full Board performs the function of the remuneration committee.
8.3: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	<p>The Board considers the procedures, policies and key performance indicators used to measure the performance of key executives and directors. Any equity based executive remuneration may be made in accordance with thresholds approved by shareholders and developed over time.</p> <p>Non-executive directors' remuneration is generally fee based.</p> <p>Full discussion of the Company's remuneration philosophy and framework and remuneration received by directors and executives in the current financial year is contained in the Remuneration Report section of the Directors' Report. Further details of the structure of the remuneration procedures can be found in the Remuneration Committee Charter.</p>
8.4: Companies should provide the information indicated in the Guide to reporting on Principle 8.	There is no scheme to provide retirement benefits to Directors, except for their entitlement to the Superannuation Guarantee Contribution.

This Corporate Governance Statement and other corporate governance documents can be found in the Corporate Governance section of the Company's website at [www.aqcltd.com](http://www.aqcltd.com)

# ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. This information is current as at 30 September 2014.

## 1. Shareholding

a. <b>Distribution of Shareholders – Ordinary Securities</b>	<b>Number</b>	<b>Number</b>
	<b>of holders</b>	<b>of shares held</b>
Category (size of holding)		
1 – 1,000	172	25,137
1,001 – 5,000	111	390,045
5,001 – 10,000	108	864,538
10,001 – 100,000	623	31,811,788
100,001 – and over	688	948,020,525
Total	1,702	981,112,033

b. The number of shareholdings held in less than a marketable parcel of 166,667 shares (\$0.003 on 30 September 2014) is 1,134 and they hold 49,177,967 shares.

c. The names of the substantial shareholders listed in the holding company's register as at 30 September 2014 are:

<b>Shareholder</b>	<b>Number of shares held</b>
Mr Paul James Byrne	98,649,011

## d. **Voting Rights**

The voting rights attached to each class of equity security are as follows:

Ordinary shares:

- Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

## ASX ADDITIONAL INFORMATION

### e. 20 Largest Shareholders — Ordinary Shares

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1. Mr Paul Byrne	77,807,345	7.93
2. Mr Boutros Saad & Mrs Mariam Saad	43,105,047	4.39
3. Mr Peter Graham Wells	30,233,536	3.08
4. Dr Elizabeth Anne Byrne Henderson	29,306,553	2.99
5. Gordon Holdings (Qld) Pty Ltd	22,081,716	2.25
6. Moray Holdings (Qld) Pty Ltd	20,841,666	2.12
7. Shemariah Pty Ltd <Kirkwood Family Super A/C>	20,000,000	2.04
8. Mr Simon Raffoul	16,500,000	1.68
9. Cape Coal Pty Ltd	15,545,917	1.58
10. Shemariah Pty Ltd	15,000,000	1.53
11. ITR Investments Pty Limited	13,002,700	1.33
12. Mr John Lawrence Mcintyre	12,500,000	1.27
13. Wellton Holdings Pty Ltd	11,733,333	1.20
14. BBY Nominees Limited	11,150,442	1.14
15. Rosart Investments Pty Ltd	10,872,499	1.11
16. Mr Heath Barry Bourke	10,000,000	1.02
17. Mr Jing Sha & Mrs Zin Zhang	8,359,606	0.85
18. Mr Paul Kearney	8,000,000	0.82
19. Mr Paul Gerard Hislop & Mrs Linda Jane Hislop	7,985,000	0.81
20. Mr James Glen Foley & Mrs Karen Veronica Ruby Foley	7,630,000	0.78
	391,655,360	39.92

### 2. Stock Exchange Listing

Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Stock Exchange Limited.

# CORPORATE DIRECTORY

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## DIRECTORS

Peter Alexander Ziegler (Chairman)  
Paul James Byrne (Chief Executive Officer)  
Paul Anthony Ingram  
Paul Bradley Ryan

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## COMPANY SECRETARY

Kevin Mischewski

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## LAWYERS

HopgoodGanim Lawyers  
Level 8, Waterfront Place  
1 Eagle Street  
Brisbane QLD 4000

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## AUDITORS

Sothertons L.L.P. Chartered Accountants  
Level 6, 468 St Kilda Road  
Melbourne VIC 3004

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## BANKERS

National Australia Bank Limited  
100 Creek Street  
Brisbane QLD 4000

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## SHARE REGISTRY

Link Market Services Limited  
Level 15, 324 Queen Street  
Brisbane QLD 4000

Phone: 1300 554 474 or  
+61 2 8280 7111  
[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

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## REGISTERED OFFICE

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