# 2011 HALF-YEAR **REPORT**

## 31 December 2010

Australian Pacific **Coal**

## CONTENTS


**2011 HALF-YEAR REPORT**

| | |
|---|---|
| CEO's Report | 2 |

**STATUTORY REPORT**

| | |
|---|---|
| Contents | 3 |
| Directors' Report | 4 |
| 2011 Half-Year Financial Statements | 8 |

**SHAREHOLDER INFORMATION**

| | |
|---|---|
| Appendix 4D Statement | 24 |
| Corporate Directory | 25 |



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# CEO's Report 1st July to 31st December 2010

Australian Pacific Coal Limited, which changed its name from Pacific Enviromin Limited in November 2010, has continued to focus on the exploration of its strategic coal holdings, predominantly in the Bowen basin, during the period 1st July to 31st December, 2010. Reflecting its focus on coal exploration activities, the Company has strengthened its coal exploration team with the addition of Mr Tim Prowse to the board as an executive director of the Company. Mr Prowse has significant experience in the mining and exploration industry and is an experienced mining engineer. He will lead the management of the Company's coal exploration programme.

Significant events over the 2011 half year include the 29 November 2010 announcement of an inaugural coal resource on the Company's 100% owned Cooroorah coal project, EPC 1827. EPC 1827 is located in the central Bowen basin adjacent to the Jellinbah coal mine to the east and the Curragh coal mine to the west. Subsequent to the end of the half year, the Company lodged an application for a Mineral Development Licence over EPC 1827 with the Queensland Department of Mines & Energy. Under the tenure of a Mineral Development Licence, Australian Pacific Coal plans further drilling to elevate the resource status of Cooroorah from an inferred to an indicated resource and to commence the initial phases of a feasibility study for a future mining operation. The Queensland Department of Mines & Energy has given the Mineral Development Licence application for EPC 1827 the identifier number of MDL 453.

All of Australian Pacific Coal's coal tenements in the Bowen basin continue to be the subject of detailed and rigorous geological evaluation. Assessment of the Company's coal projects is being undertaken both internally and through outsourced geological consultants who are making recommendations and producing exploration models and programmes for the Company. The Company's projects include both open cut and underground coal targets. Results will be released progressively when each assessment is completed and evaluated. At this time, we are finalising the identification of those projects that we intend exploration drilling over the 2011 calendar year.

Australian Pacific Coal's joint venture agreement with Blackwood Coal Pty Ltd, covering four exploration tenements (EPCs 1955, 1957, 1979 and 1987) in the Clarence-Moreton and Surat basins, is progressing well. As previously announced to the market, under the joint venture agreement with Blackwood Coal, Australian Pacific Coal has a 10% free carried equity in these tenements through to bankable feasibility stage.

Finally, Australian Pacific Coal is assessing the geological and economic potential of other assets held by the Company including the Grafton Range sodium bicarbonate project and the Mantuan Downs bentonite mine. It is the Company's intention to dispose of these projects in due course through an orderly realisation process.

Australian Pacific Coal looks forward to updating the market as further data and information becomes available and expects to be in a position to announce news on drilling programmes and results over the coming months.

Paul Byrne

# 2011 HALF-YEAR FINANCIAL STATEMENTS

## AUSTRALIAN PACIFIC COAL LIMITED AND ITS CONTROLLED ENTITIES
## ABN 49 089 206 986


| | |
|---|---|
| Directors' Report | 4 |
| Auditors Independence Declaration | 7 |
| Consolidated Income Statement | 8 |
| Consolidated Statement of Comprehensive Income | 9 |
| Consolidated Balance Sheet | 10 |
| Consolidated Statement of Changes in Equity | 11 |
| Consolidated Statement of Cash Flows | 12 |
| Notes to the Half-Year Financial Statements | 13 |
| Directors' Declaration | 21 |
| Independent Auditor's Review Report | 22 |

Your directors submit the financial report of the consolidated group for the half-year ended 31 December 2010.

**Directors**

The names of directors who held office during or since the end of the half-year:

John Bovard *(Chairman, Non-executive)*
Peter Alexander Ziegler *(Deputy Chairman, Non-executive)*
Paul James Byrne *(Executive Director)*
Alan Timothy Prowse *(Executive Director) Appointed 30 November 2010*
John William Laurie *(Non-executive) Retired 30 November 2010*

**Results and Review of Operations**

The consolidated group recorded a loss for the half-year of$439,155 (half-year 2009, loss $2,264,327).

*Coal Exploration Projects*

During the half year Australian Pacific Coal (AQC) added to its strategic holding of coal exploration tenements. 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.

An ongoing review of the projects identifying prospective areas for further exploration has been completed. The Company's geologists are identifying exploration targets in each of the project areas and are preparing proposals for further exploration of these target areas.

Exploitation opportunities include joint venture development, joint venture exploration or outright sale. It is expected that a number of development opportunities will arise from the Company's strategic holdings.

| Tenement | Location | Status |
|---|---|---|
| EPC 1548 | West German Creek | Granted 29 March 2010 |
| EPC 1566 | Bee Creek | Competing application |
| EPC 1638 | Spear Creek | Competing application |
| EPC 1645 | Mount Hess | Competing application |
| EPC 1685 | Therese Creek | Competing application |
| EPC 1773 | Kemmis Creek | Granted 29 October 2010 |
| EPC 1798 | Bluff Creek | Granted 19 February 2010 |
| EPC 1824 | Mt Hillalong | Exploration Permit Proposal (proceeding to grant) |
| EPC 1827<br>MDLA 453 | Cooroorah | EPC Granted 25 November 2009<br>MDLA lodged 8 March 2011 |
| EPC 1859 | Dingo | Exploration Permit Proposal (proceeding to grant) |
| EPC 1866 | Lake Elphinstone | Competing application |
| EPC 1867 | Mount Hess West | Exploration Permit Proposal (proceeding to grant) |
| EPC 1894 | Pocky Creek | Granted 29 March 2010 |
| EPC 1895 | Dawson River | Granted 29 March 2010 |
| EPC 1896 | Bottle Tree Creek | Application |
| EPC 1920 | Comet River | Granted 18 February 2010 |
| EPC 1965 | Kanga Creek | Exploration Permit Proposal (proceeding to grant) |
| EPC 2011 | North Copperfield | Competing application |
| EPC 2014 | Blair Athol | Competing application |
| EPC 2157 | | Competing application |
| EPC 1955[i] | Bungaban Creek | Granted 30 March 2010 |

| | | |
|---|---|---|
| EPC 1957[(i)] | Laguna Creek | Exploration Permit Proposal (proceeding to grant) |
| EPC 1979[(i)] | Kingsthorpe | Granted 12 October 2010 |
| EPC 1989 | Castlevale | Exploration Permit Proposal (proceeding to grant) |
| EPC 1987[(i)] | Quandong | Exploration Permit Proposal (proceeding to grant) |
| EPC 1995 | Carlo Creek | Granted 25 May 2010 |
| EPC 1996 | Churchyard Creek | Granted 24 May 2010 |
| EPC 1997 | Mt Stuart | Granted 24 May 2010 |
| EPC 2012 | Clermont | Competing application |
| EPC 2016 | Drummond | Competing application |
| EPC 2035 | Bee Creek | Granted 12 October 2010 |
| EPC 2036 | Ripstone Creek | Granted 12 October 2010 |
| EPC 2037 | Almoola | Exploration Permit Proposal (proceeding to grant) |

(i) The Company, through its 100% owned subsidiary Mining Investments One Pty Ltd has entered into a Joint Venture Exploration and Development agreement with Blackwood Resources Pty Ltd. Under the agreement Blackwood Resources acquires a 90% interest in EPC's 1979, 1955, 1987 and 1957 for a total cash consideration of $500,000. AQC will hold a 10% free carried interest in the tenements up until bankable feasibility. AQC will have the option to enter into a joint venture agreement with Blackwood Resources to further explore and develop these tenements.

*Industrial Minerals Projects*

The Group holds the following industrial minerals assets

| Tenement | Mineral | Location | Status | Uses |
|---|---|---|---|---|
| EPM 13886<br>ML 70360<br>EPM 17644 | Calcium Bentonite | Springsure Central Qld | Mining commenced, processing plant installed and product being sold | Multiple uses including clarification of food oils, livestock feed, compost enhancing. |
| EPM 16629<br>EPMA19039<br>ML 50207 | Sodium Bicarbonate | Roma Qld | Consulting hydro geologists appointed to supervise process. | Baking Soda and Soda Ash. Food and other industries, glass manufacture |

**Options**

At the date of this report, the unissued ordinary shares of Australian Pacific Coal Limited under option are as follows:

| Grant Date | Date of Expiry | Exercise Price | Number under Option |
|---|---|---|---|
| 8/11/2010 | 8/4/2012 | $0.06 | 15,000,000 |
| 7/12/2010 | 7/5/2012 | $0.06 | 15,000,000 |
| | | | 30,000,000 |

Option holders do not have any rights to participate in any issues of shares or other interests in the company or any other entity.

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

During the half-year ended 31 December 2010, no ordinary shares of Australian Pacific Coal Limited were issued on the exercise of options granted. No further options have been issued since year-end. No amounts are unpaid on any of the options.

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

***Rounding of Amounts***

The consolidated group has applied the relief available to it in ASIC Class Order 98/100 and accordingly certain amounts in the financial report and the directors' report have been rounded off to the nearest $1.

***Auditor's Declaration***

The lead auditor's independence declaration under s 307C of the *Corporations Act 2001* is set out on page 7 for the half-year ended 31 December 2010.

This report is signed in accordance with a resolution of the Board of Directors.

JBovard

John Bovard
Chairman
Dated this 16th day of March 2011

SOTHERTONS
CHARTERED ACCOUNTANTS

PARTNERS
Linda E. Timms
Anthony C. Bryen
Geoffrey J. Read

ASSOCIATES
Sara J. Crevillén
James Theologidis
Susan J. Mortimer

**Lead Auditor's Independence Declaration**
**To the Directors of Australian Pacific Coal Limited**

In accordance with Section 307C of the Corporations Act 2001 I declare that, to the best of my knowledge and belief, in relation to the audit of Australian Pacific Coal Limited for the half-year ended 31 December 2010 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

Sotherton

**Sothertons - Brisbane Partnership**

A C Bryen

**A C Bryen**
**Lead Audit Partner**

Dated at Brisbane this sixteenth day of March 2011



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# Consolidated Income Statement
# for the Half-Year Ended 31 December 2010

| | Note | Consolidated Group | |
|---|---|---|---|
| | | 31.12.2010 | 31.12.2009 |
| | | $ | $ |
| **Revenue** | | 265,053 | 31,338 |
| Changes in inventories of finished goods and work in progress | | (5,000) | (11,547) |
| Raw materials and consumables used | | (969) | (23,340) |
| Employee benefits expense | | (249,035) | (311,215) |
| Depreciation and amortisation expense | | (57,524) | (118,625) |
| Exploration and evaluation | | (6,261) | (1,355,961) |
| Finance costs | | (8,896) | (27,351) |
| Impairment of assets | | 5,000 | (54,400) |
| Administration expenses | | (377,833) | (350,923) |
| Other expenses | | (3,690) | (815) |
| **Profit before income tax** | | (439,155) | (2,222,839) |
| Income tax expense (benefit) | | - | - |
| **Profit/(Loss) from continuing operations** | | (439,155) | (2,222,839) |
| Profit/(Loss) from discontinued operations | | - | (41,488) |
| **Profit/(Loss) for the period** | 2 | (439,155) | (2,264,327) |
| | | | |
| Profit/(Loss) attributable to: | | | |
| Members of the parent entity | | (439,155) | (2,264,327) |
| Non-controlling interest | | - | - |
| | | (439,155) | (2,264,327) |
| | | | |
| **Earnings per share** | | | |
| From continuing and discontinued operations: | | | |
| Basic earnings per share (cents) | | (0.10) | (0.59) |
| Diluted earnings per share (cents) | | (0.09) | (0.59) |
| From continuing operations: | | | |
| Basic earnings per share (cents) | | (0.10) | (0.58) |
| Diluted earnings per share (cents) | | (0.09) | (0.58) |

The accompanying notes form part of these financial statements.

# Consolidated Statement of Comprehensive Income
# for the Half-Year Ended 31 December 2010

| | Note | Consolidated Group | |
|---|---|---|---|
| | | 31.12.2010 | 31.12.2009 |
| | | $ | $ |
| Profit/(Loss) for the period | | (439,155) | (2,264,327) |
| | | | |
| **Other comprehensive income** | | | |
| 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 | | - | - |
| **Total comprehensive income for the period** | | (439,155) | (2,264,327) |
| | | | |
| Total comprehensive income attributable to: | | | |
| Members of the parent entity | | (439,155) | (2,264,327) |
| Non-controlling interest | | - | - |
| | | (439,155) | (2,264,327) |

The accompanying notes form part of these financial statements.

# Consolidated Statement of Financial Position
## as at 31 December 2010

| | Consolidated Group | |
|---|---|---|
| | 31.12.2010 | 30.06.2010 |
| | $ | $ |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 1,434,232 | 828,782 |
| Trade and other receivables | 829,361 | 83,051 |
| Inventories | - | - |
| Other financial assets | 95,733 | 85,733 |
| TOTAL CURRENT ASSETS | 2,359,326 | 997,566 |
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 486,563 | 541,092 |
| Exploration and evaluation expenditure | 1,188,621 | 1,056,603 |
| Intangible assets | - | - |
| Other financial assets | - | - |
| TOTAL NON-CURRENT ASSSETS | 1,675,184 | 1,597,695 |
| TOTAL ASSETS | 4,034,510 | 2,595,261 |
| CURRENT LIABILITIES | | |
| Trade and other payables | 211,892 | 316,931 |
| Borrowings | 196,231 | 96,745 |
| Provisions | 106 | - |
| TOTAL CURRENT LIABILITIES | 408,229 | 413,676 |
| NON-CURRENT LIABILITIES | | |
| Borrowings | - | 98,988 |
| TOTAL NON-CURRENT LIABILITIES | - | 98,988 |
| TOTAL LIABILITIES | 408,229 | 512,664 |
| NET ASSETS | 3,626,281 | 2,082,597 |
| EQUITY | | |
| Issued capital | 33,232,257 | 31,249,418 |
| Retained earnings | (29,605,976) | (29,166,821) |
| Parent entity interest | 3,626,281 | 2,082,597 |
| Non-controlling interest | - | - |
| TOTAL EQUITY | 3,626,281 | 2,082,597 |

The accompanying notes form part of these financial statements.

## Consolidated Statement of Changes in Equity for the Half-Year Ended 31 December 2010

| | Note | Issued Capital Ordinary | Revaluation Surplus | Non-controlling Interests | Retained Earnings | Total |
|---|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Balance at 1 July 2009** | | 30,288,201 | - | (2,914,350) | (22,284,055) | 5,089,796 |
| Profit attributable to members of the parent entity | | | | | (2,264,327) | (2,264,327) |
| Profit attributable to non-controlling interests | | | | | | |
| Total other comprehensive income for the period | | | | | | |
| Share issued during the period | | 280,000 | | | | 280,000 |
| Transaction costs on share issue | | (10,450) | | | | (10,450) |
| **Subtotal** | | 30,557,751 | - | (2,914,350) | (24,548,382) | 3,095,019 |
| Dividends paid or provided for | | - | | | - | - |
| **Balance at 31 December 2009** | | 30,557,751 | - | (2,914,350) | (24,548,382) | 3,095,019 |
| | | | | | | |
| **Balance at 1 July 2010** | | 31,249,418 | - | (2,914,350) | (26,252,471) | 2,082,597 |
| Profit attributable to members of the parent entity | | | | | (439,155) | (439,155) |
| Profit attributable to non-controlling interests | | | | | - | - |
| Total other comprehensive income for the period | | | | | - | - |
| Share issued during the period | | 2,047,497 | - | - | - | 2,047,497 |
| Transaction costs on share issue | | (64,658) | - | | | (64,658) |
| **Subtotal** | | 33,232,257 | - | (2,914,350) | (26,691,626) | (3,626,281) |
| Dividends paid or provided for | | - | - | - | - | - |
| **Balance at 31 December 2010** | | 33,232,257 | - | (2,914,350) | (26,691,626) | (3,626,281) |

The accompanying notes form part of these financial statements.

# Consolidated Statement of Cash Flows for the Half-Year Ended 31 December 2010

| | Consolidated Group | |
|---|---|---|
| | 31.12.2010 | 31.12.2009 |
| | $ | $ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | 100,000 | 30,074 |
| Payments to suppliers and employees | (859,160) | (606,702) |
| Payments for exploration and evaluation | (166,166) | (52,040) |
| Interest received | 12,469 | 9,583 |
| Finance costs | (8,896) | (27,351) |
| Income tax paid | - | - |
| Net cash (used in)/provided by operating activities | (921,753) | (646,436) |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of non-current assets | - | 773 |
| Purchase of non-current assets | (3,295) | (13,548) |
| Loans to subsidiaries | - | - |
| Payment for subsidiary, net of cash acquired | - | (56,733) |
| Net cash used in investing activities | (3,295) | (69,508) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issue of shares | 1,530,000 | 280,000 |
| Proceeds from borrowings | 46,869 | - |
| Repayment of borrowings | (46,371) | (47,396) |
| Net cash used in/(provided by) financing activities | 1,530,498 | 232,604 |
| | | |
| Net decrease in cash held | 605,450 | (483,340) |
| Cash and cash equivalents at beginning of period | 828,782 | 965,751 |
| Cash and cash equivalents at end of period | 1,434,232 | 482,411 |

The accompanying notes form part of these financial statements.

NOTE 1: BASIS OF PREPARATION

These general purpose financial statements for the interim half-year reporting period ended 31 December 2010 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standards including AASB 134: Interim Financial Reporting. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Australian Pacific Coal Ltd and its controlled entities (the Group). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2010, together with any public announcements made during the half-year.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements except for the adoption of the following new and revised Accounting Standards.

**Accounting Standards not previously applied**

The Group has adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current interim period. Disclosures required by these Standards that are deemed material have been included in this financial report on the basis that they represent a significant change in information from that previously made available.

*Presentation of Financial Statements*

AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in this financial report include:

- the replacement of income statement with statement of comprehensive income. Items of income and expense not recognised in profit or loss are now disclosed as components of ‘other comprehensive income’. In this regard, such items are no longer reflected as equity movements in the statement of changes in equity;
- the adoption of the separate income statement/single statement approach to the presentation of the statement of comprehensive income;
- other financial statements are renamed in accordance with the Standard; and
- presentation of a third statement of financial position as at the beginning of a comparative financial year where relevant amounts have been affected by a retrospective change in accounting policy or material reclassification of items.

*Operating Segments*

From 1 July 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the Group’s chief operating decision maker which, for the Group, is the Board of Directors. In this regard, such information is provided using different measures to those used in preparing the statement of comprehensive income and statement of financial position. Reconciliations of such management information to the statutory information contained in the interim financial report have been included.

As a result of the adoption of the revised AASB 8, certain cash-generating units have been redefined having regard to the requirements in AASB 136: Impairment of Assets.

*Business Combinations and Consolidation Procedures*

Revised AASB 3 is applicable prospectively from 1 July 2009. Changes introduced by this Standard, or as a consequence of amendments to other Standards relating to business combinations which are expected to affect the Group, include the following:

- All business combinations, including those involving entities under common control, are accounted for by applying the acquisition method which prohibits the recognition of contingent liabilities of the acquiree at acquisition date that do not meet the definition of a liability. Costs incurred that relate to the business combination are expensed instead of comprising part of the goodwill acquired on consolidation. Changes in the fair value of contingent consideration payable are not regarded as measurement period adjustments and are recognised through profit or loss unless the change relates to circumstances which existed at acquisition date.
- Unrecognised deferred tax assets of the acquiree may be subsequently realised within 12 months of acquisition date on the basis of facts and circumstances existing at acquisition date with a consequential reduction in goodwill. All other deferred tax assets subsequently recognised are accounted for through profit or loss.

NOTE 1: BASIS OF PREPARATION

- The proportionate interest in losses attributable to non-controlling interests is assigned to non-controlling interests irrespective of whether this results in a deficit balance. Previously, losses causing a deficit to non-controlling interests were allocated to the parent entity.
- If the Group holds less than 100% of the equity interests in an acquiree and the business combination results in goodwill being recognised, the Group can elect 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'). The Group elects which method to adopt for each acquisition.
- Where control of a subsidiary is lost, the balance of the remaining investment account shall be remeasured to fair value at the date that control is lost.

*Revenue Recognition*

Dividends received from a subsidiary, joint venture or associate shall be recognised as dividend revenue in the profit or loss irrespective of whether such dividends may have been paid out of pre-acquisition profits. Previously, such dividends were treated as a return of capital invested. Such dividends may be an indicator of impairment where the carrying amount of the investment exceeds the consolidated net assets relating to that investment or where the dividend exceeds the total comprehensive income of the respective investee in the period the dividend is declared.

*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

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.

**NOTE** 2: REVENUE AND OTHER INCOME

| | Note | Consolidated Group | |
|---|---|---|---|
| | | **31.12.2010** | **31.12.2009** |
| | | **$** | **$** |
| **Revenue from continuing operations:** | | | |
| Sales revenue: | | | |
| - Sale of goods | | 2,584 | 21,755 |
| Other revenue: | | | |
| - Interest received | | 12,469 | 9,583 |
| - Government subsidies received | | - | - |
| - Rental revenue | | - | - |
| **Total revenue** | | **15,053** | **31,338** |
| **Other income:** | | | |
| - Gain on sale in interest in tenements | | 250,000 | - |
| - Gain on disposal of property, plant and equipment | | - | - |
| **Total revenue and other income from continuing operations** | | **265,053** | **31,338** |
| Attributable to members of the parent entity | | 265,053 | 31,338 |

**NOTE 3**: PROFIT FOR THE YEAR

| | | Note | Consolidated Group | |
|---|---|---|---|---|
| | | | **31.12.2010** | **31.12.2009** |
| | | | **$** | **$** |
| a. | **Expenses** | | | |
| | Cost of sales | | 5,969 | 34,887 |
| | Interest expense on financial liabilities not at fair value through profit or loss | | 8,896 | 27,351 |
| | Write-down of capitalised exploration expenditure | | 6,261 | 1,355,961 |
| | Impairment of trade receivables | | | |
| | - Bad and doubtful debts | | - | 4,400 |
| | Write-down (write-back) of inventories to net realisable value | | (5,000) | 50,000 |
| b. | **Significant revenue and expenses** | | | |
| | The following significant revenue and expense items are relevant in explaining the financial performance: | | | |
| | Write-off of capitalised exploration expenditure | | (3,690) | (790) |
| | Impairment of investments in subsidiaries | | - | - |
| | Net gain/(loss) on the disposal of investment in controlled entity | | - | (41,488) |

NOTE 4: 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 product category and service offerings since the diversifications of the Group's operations inherently have notably different risk profiles and performance assessment criteria. 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 and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the manufacturing process;
- the type or class of customer for the products or service;
- the distribution method; and
- external regulatory requirements.

**Types of products and services by segment**

(i) *Exploration*

The exploration segment is responsible for identifying, costing and financing potential exploration tenement opportunities, developing acquisitions and finding buyers for completed developments.

(ii) *Bentonite mining*

The bentonite mining segment mines, processes and sells calcium bentonite. Segment assets, including extraction machinery, handling machinery and primary crushers are reported on in this segment.

(iii) *Technology development*

The technology development segment is responsible for identifying, financing and costing potential technology development opportunities, securing any associated intellectual property rights, developing acquisitions and finding buyers for completed projects.

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

*Accounting policies adopted*

Unless stated otherwise, all amounts reported to the Board of Directors as 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.

*Inter-segment transactions*

An internally determined transfer price is set for all inter-entity sales. This price is re-set quarterly and 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 for the Group's financial statements.

Corporate charges are allocated to reporting segments based on the segments' overall proportion of revenue generation 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 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.

*Segment assets*

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

NOTE 4: OPERATING SEGMENTS (CONTINUED)

*Segment liabilities*

Liabilities are allocated to segments where there is 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.

*Unallocated items*

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

- derivatives;
- 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; and
- retirement benefit obligations.

*Comparative information*

This is the first reporting period in which AASB 8: Operating Segments has been adopted. Comparative information has been stated to conform to the requirements of the Standard.

NOTE 4: OPERATING SEGMENTS (CONTINUED)

### i. Segment performance

| | Exploration | Bentonite Mining | Technology | All Other Segments | Total |
|---|---|---|---|---|---|
| **Six months ended 31.12.2010** | **$** | **$** | **$** | **$** | **$** |
| **Revenue** | | | | | |
| External sales | 250,000 | 2,584 | - | - | **252,584** |
| Interest revenue | - | 3,873 | - | - | **3,873** |
| **Total segment revenue** | 250,000 | 6,457 | - | - | **256,457** |
| Total group revenue | | | | | **265,053** |
| **Segment net profit before tax** | **245,194** | **(23,549)** | **(3,530)** | - | **218,115** |
| *Reconciliation of segment result to group net profit/loss before tax* | | | | | |
| i. Amounts not included in segment result but reviewed by Board | | | | | |
| — Impairment of property, plant and equipment | | | | | (1,261) |
| Ii Unallocated items | | | | | |
| — Finance costs | | | | | (747) |
| — Other | | | | | (655,262) |
| **Net profit before tax from continuing operations** | | | | | **(439,155)** |
| **Six months ended 31.12.2009** | | | | | |
| **Revenue** | | | | | |
| External sales | - | 21,755 | - | - | 21,755 |
| Interest revenue | - | 5,078 | - | - | 5,078 |
| **Total segment revenue** | **-** | **26,833** | **-** | **-** | **26,833** |
| **Total group revenue** | | | | | **31,338** |
| **Segment net profit before tax** | **(23,784)** | **(180,137)** | **(42,339)** | **-** | **(246,260)** |
| *Reconciliation of segment result to group net profit/loss before tax* | | | | | |
| i. Amounts not included in segment result but reviewed by Board | | | | | |
| — Impairment of property plant and equipment | | | | | (1,410,361) |
| ii. Unallocated items | | | | | |
| — Finance costs | | | | | (27,351) |
| — Other | | | | | (580,355) |
| **Net profit before tax from continuing operations** | | | | | **(2,264,327)** |

NOTE 4: OPERATING SEGMENTS (CONTINUED)

| | Exploration | Bentonite Mining | Technology | All Other Segments | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Segment assets** | | | | | |
| Opening balance 30 June 2010 | 113,336 | 1,481,329 | - | - | 1,592,665 |
| Segment asset increases for the period | | | | | |
| — capital expenditure | 132,018 | - | - | - | |
| Segment asset decreases for the period | | | | | |
| — impairment, depreciation & amortisation | - | (48,677) | - | - | (48,677) |
| Closing balance 31 December 2010 | 245,354 | 1,481,329 | - | - | 1,726,683 |
| Included in segment assets are: | | | | | |
| Capitalised exploration and evaluation | 188,621 | 1,000,000 | - | - | 1,188,621 |
| Property, plant and equipment | - | 432,652 | - | - | 432,652 |
| *Reconciliation of segment assets to group assets* | | | | | |
| Unallocated assets: | | | | | 2,413,237 |
| **Total group assets** | | | | | **4,034,510** |

NOTE 4: OPERATING SEGMENTS (CONTINUED)

**(v) Revenue by geographical region**

All revenue attributable to external customers is earned in Australia

**(vi) Assets by geographical region**

All segment assets are geographically located in Australia.

**(vii) Major customers**

The Group has a number of customers to which it provides both products and services.

NOTE 5: CONTINGENT LIABILITIES

.There have been no other changes in contingent liabilities since the end of the last annual reporting period.

NOTE 6: EVENTS SUBSEQUENT TO REPORTING DATE

No matters or circumstances that have significantly affected, or may affect, the company's operations in future financial years, or the company's state of affairs during future financial years occurred after the balance date.

# Directors' Declaration

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 4 to 20 are in accordance with the *Corporations Act 2001*, including:
   a. complying with Accounting Standard AASB 134: Interim Financial Reporting; and
   b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

J Bovard

John Bovard

Chairman

Dated this 16th day of March 2011

PARTNERS
Linda E. Timms
Anthony C. Bryen
Geoffrey J. Read

ASSOCIATES
Sara J. Crevillén
James Theologidis
Susan J. Mortimer

*INDEPENDENT AUDITOR'S REVIEW REPORT*

To the members of Australian Pacific Coal Limited

**Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Australian Pacific Coal Limited and controlled entities (the consolidated entity), which comprises the consolidated condensed statement of financial position as at 31 December 2010, and the consolidated condensed statement of comprehensive income, consolidated condensed statement of changes in equity and consolidated condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of Australian Pacific Coal Limited the company are responsible for the preparation and fair presentation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001*, including giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date and complying with Accounting Standard ASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001. As the auditor of Australian Pacific Coal Limited and co0nteolled entites, ASRE 2410 required that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Matters Relating to the Electronic Presentation of the Audited Financial Report*

This review report relates to the financial report of Australian Pacific Coal Limited and controlled entities for the half-year ended 31 December 2010 included on the website of Australian Pacific Coal Limited. The directors of the company are responsible for the integrity of the website and we have not been engaged to report on its integrity. This review report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial report. If users of this report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the reviewed financial report to confirm the information contained in this website version of the financial report.



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Email: sothbris@sothertons.com.au
Website: www.sothertons.com.au

*Independence*

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

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Australian Pacific Coal Limited and controlled entities is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date, and

(b) complying with AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

**Inherent Uncertainty**

Without qualification to the conclusion above, attention is drawn to the following matter:

*Continuation as a Going Concern*

As described on page 14 in Note 1 "Going Concern" there is significant uncertainty whether the company and the consolidated entity will be able to continue as a going concern and therefore whether it will be able to pay its debts as and when they fall due and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report of the company and the consolidated entity does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company and the consolidated entity not continue as a going concern.

Sothertons

**Sothertons - Brisbane Partnership**

AC Bryen

**A C Bryen**
**Lead Audit Partner**

Dated at Brisbane this sixteenth day of March 2011

# Appendix 4D

Name of entity

# Australian Pacific Coal Limited

| ABN or equivalent company reference | Half Year ended ('current period') |
|---|---|
| ABN 49 089 206 986 | 31 December 2010 |

## Results for announcement to the market

| | | | | A$ |
|---|---|---|---|---|
| Total Revenues | Up | 746% | to | **265,053** |
| Net profit/(loss) for the period attributable to members | Up | | to | **(439,155)** |

| **Dividends (distributions)** | Amount per security | Franked amount per security |
|---|---|---|
| **Current period** | | |
| Final dividend | Nil | Nil |
| Interim dividend | Nil | Nil |
| **Previous corresponding period** | | |
| Final dividend | Nil | Nil |
| Interim dividend | Nil | Nil |

**Record date for determining entitlements to the dividend** N/A

**Brief explanation of any of the figures reported above:**

Refer to review of operations in the attached documents.

| Net tangible asset backing | Current year | Previous year |
|---|---|---|
| Net tangible asset backing per ordinary security | **0.68 cents** | 0.75 cents |

| Earnings per share | Current year | Previous year |
|---|---|---|
| Basic profit/(loss) per share (cents) | **(0.10)** | (0.58) |
| Diluted profit/(loss) per share (cents) | **(0.09)** | (0.58) |
| Weighted average number of shares used in calculating basic profit or loss per share | **459,703,845** | 383,136,152 |
| Weighted average number of shares used in calculating diluted profit or loss per share | **465,981,019** | 383,136,152 |
| The amount used in the numerator in calculating basic earnings per share is the same as the net loss attributable to members reported in Income Statement. | | |
| The calculation of diluted earnings per share involves adjusting basic earnings per share to reflect the existence of dilutive securities. This implies adjustments to increase the denominator to reflect that more shares would be on issue if conversion occurred. | | |

### Change in composition of entity

### Details of associates and joint venture entities

# Corporate Directory

## Directors

John Bovard
*Non-executive Chairman*
Peter Ziegler
*Non-executive Deputy Chairman*
Paul Byrne
*Chief Executive Officer*
Tim Prowse
*Executive Director*

## Company Secretary and Chief Financial Officer

Kevin Mischewski

## Listing

Australian Securities Exchange (ASX: AQC)

## Share on Issue

Shares: 533,118,926 as at 31 Dec 2010
Options: 30,000,000

## Market Capitalisation

$22,390,995 million as at 31 Dec 2010

## Share Price Activity

| 2010 | High | Low | Last |
|---|---|---|---|
| December | $0.042 | $0.016 | $0.042 |
| September | $0.027 | $0.015 | $0.020 |
| June | $0.031 | $0.015 | $0.016 |
| March | $0.035 | $0.010 | $0.011 |

## Substantial Shareholders

Mr Paul Byrne 9.46%
Ms Elizabeth Byrne Henderson 6.72%

## Native Title & Heritage Consultant

Red Centre Consultancy Pty Ltd
PO Box 241 Fortitude Valley, Qld 4006

## Principal Office

Level 7
10 Felix Street
Brisbane QLD 4000

## Registered Office

Level 7
10 Felix Street
Brisbane QLD 4000

## Postal Address

PO Box 16330
City East QLD 4002

## Share Registry

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

## Auditor

Sothertons Chartered Accountants
10 Market Street
Brisbane QLD 4000

## Solicitors

Hopgood Ganim
L8 Waterfront Place
Eagle St Brisbane Qld 4000

## Geological Consultants

Global Ore Discovery Ltd
15a Tate St Albion Qld 4010

Minserve Pty Ltd
L1, 1 Swann St Taringa, Qld 4068

Geological Solutions Pty Ltd
10/13 Garnet St Cooroy, Qld 4563

Ausmec Geoscience
Level 4, 190 Edward St, Qld 4000