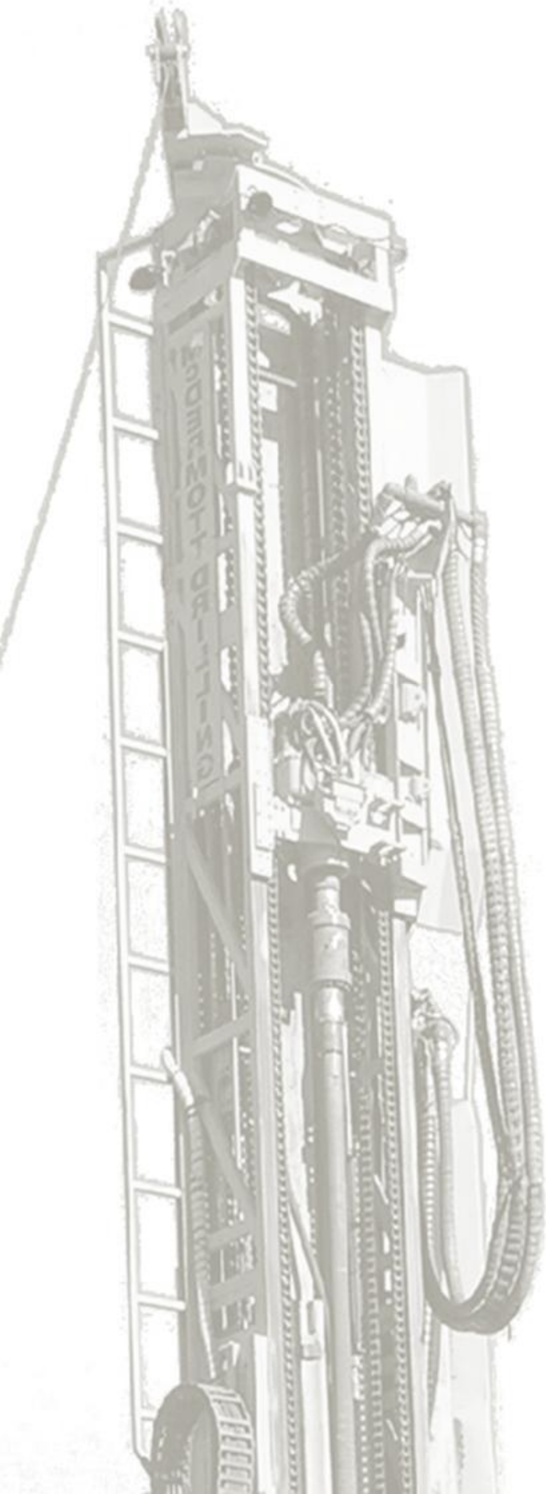
Australian Pacific Coal



Annual Report

for the year ended 30 June 2012

Current reporting period: Financial year ended 30 June 2012
Previous corresponding period: Financial year ended 30 June 2011

Australian Pacific Coal Limited

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ASX Code: AQC

Australian Pacific Coal

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CHIEF EXECUTIVE OFFICER'S REPORT

Your company has progressed steadily in the 2011/12 financial year, with a strong focus on adding value to our strategic holding of coal projects in the Bowen, Galilee, Surat and Clarence – Moreton basins in Queensland. Our strategy of evaluating the resource potential of projects followed by drilling as required to prove up the resource is robust and has seen Australian Pacific Coal (AQC) grow and develop into a strong participant in the junior mining and exploration sector.

The Company has maintained a strategic focus and healthy financial position over the past 12 months despite the prevailing global economic and capital markets environment. We are well placed for the year to come given our unique position in the value-add chain of the coal business – from the initial exploration stage through to the establishment of a JORC-compliant Resources and Reserves, where we believe we can add the most value for shareholders.

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. The medium-to-long term outlook for both thermal and metallurgical coal remains buoyant, particularly with the expected sustained demand growth from Asian markets, and this bolsters our confidence in the Company's strategy.

Highlights of the year include the commencement of drilling at Cooroorah at our 100%-owned Blackwater Project, where the Company is targeting the conversion of Inferred Resources to the Indicated category. Further drilling to bring Cooroorah and its northern and eastern areas to Indicated and Measured categories will provide AQC with the confidence to assess all available options for the commercialisation of Blackwater.

The Blackwater drilling campaign for the remainder of 2012 is fully funded from the Company's existing cash position; and as such, the planned Blackwater exploration phase in 2012 will progress unconstrained.

AQC continues to seek expressions of interests in the Company's extensive and prospective coal tenement holdings on an ongoing basis to add value for shareholders where appropriate. Our existing Joint Ventures have proven successful, providing immediate cash flow to AQC while establishing very encouraging progress to date, funded by our partners – namely Blackwood Resources Pty Ltd (which was acquired by Cuesta Coal Limited earlier in 2012) for the Blackwood Joint Venture and Rio Tinto Exploration Pty Ltd for the Mt Hillalong Exploration, Option and Joint Agreement (EOJV).

At the Blackwood Joint Venture, where AQC retains a 10 per cent free-carried interest up to bankable feasibility study stage, an initial drilling campaign confirmed a maiden Inferred JORC Resource for the East Wandoan tenements. This was subsequently upgraded in June 2012 with an 87 per cent increase in the Indicated and Inferred Resources, for a total coal resource of 44.6 million tonnes. The Company continues to assess options for the monetisation of our interest holding.

For the remainder of 2012 AQC's near-term exploration focus will continue to target coal Resources at the Blackwater Project, as the Company strongly believes that there are realistic opportunities for the rapid commercialisation of the Blackwater asset. The forward drilling program also comprises targets across the project at Dingo, Mt Stuart, Carlo Creek and Cooroorah prospects which is consistent with our core strength of adding value to early stage coal exploration prospects.

While we target short-term development potential in shallow coking coal targets, we will continue to assess appropriate opportunities in the acquisition, exploration and development of highly prospective coal resources within our geographic focus of the central Queensland basins; the premier coal producing region of Australia.

CHIEF EXECUTIVE OFFICER'S REPORT

The Company's coal tenements, and those surrounding ours, continue to be highly active with participation by major mining companies. This should bode well for further opportunities to exploit the commercial value of AQC's tenements via farm-in agreements, joint ventures or outright sales from our tenement portfolio. We continue to keep a close watch on the ongoing developments of our tenement neighbours to assess if there are any potential operational synergies on offer as another way of adding value for our shareholders.

I would 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. Finally, I would like to thank you – our shareholders – for your ongoing support of the Company over the past 12 months. I look forward to reporting to you over the next year with drilling results and additional value-adding opportunities for your Company.

Paul Byrne
Chief Executive Officer
Brisbane

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 John Bovard FAICD, FAusIMM, BE(Civil)

Non-executive Chairmain

Member of the Remuneration Committee

Mr Bovard joined the Company on 30 October 2009. He has more than 40 years experience in the mining industry. He has been involved in the development of several major projects and has held prominent positions with many Australian and international companies including Western Mining Inc, OK Tedi and Placer Pacific. In addition, Mr Bovard has fullfilled numerous advisory roles over many years providing consulting advice on mining, construction and infrastructure.

Mr Bovard is the Non-executive Chairman of Mt Isa Metals Limited and a Non-executive Director of Australian Solomons Gold Limited.

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

Non-executive Deputy 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. 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. He is also a solicitor of the Supreme Court of Victoria. Director since 29 November 2005.

INFORMATION ON AUSTRALIAN PACIFIC COAL

Mr Paul Byrne

Managing Director

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.

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

Non-executive Director

Appointed to the Board on 17 March 2011, Mr Ingram is a geologist with over thirty five years' experience in mineral exploration and mine development. Paul has been involved in several startup 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. Paul 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 AQC as an emerging coal company in Queensland.

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

KEY COMPANY DATA

Listing:	Australian Securities Exchange (ASX:AQC) – Listed in 1999
Shares on Issue:	564,993,926 AQC ORD (approximately 1,700 shareholders)
Options:	Nil outstanding
Market Capitalisation:	$13.0 million as at 30 June 2012
Cash at bank:	$1,042,004 as at 30 June 2012

Quarterly Share Price Activity:

	High	Low	Last
June 2012	$0.040	$0.020	$0.023
March 2012	$0.044	$0.032	$0.036
December 2011	$0.044	$0.028	$0.032
September 2011	$0.063	$0.034	$0.035

Coal Exploration Projects

Australian Pacific Coal Limited (AQC) is an Australian public company focusing on acquiring and developing coking, PCI and thermal coal deposits in Queensland. The Company now owns interests in 34 coal tenements comprising 22 granted exploration permits (EPCs), and 12 EPC applications (EPCAs). In addition, a mineral development application (MDL453) over EPC1827 has been submitted.

AQC 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.

AQC's coal tenements cover a combined area of over 2,200km^2. 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:

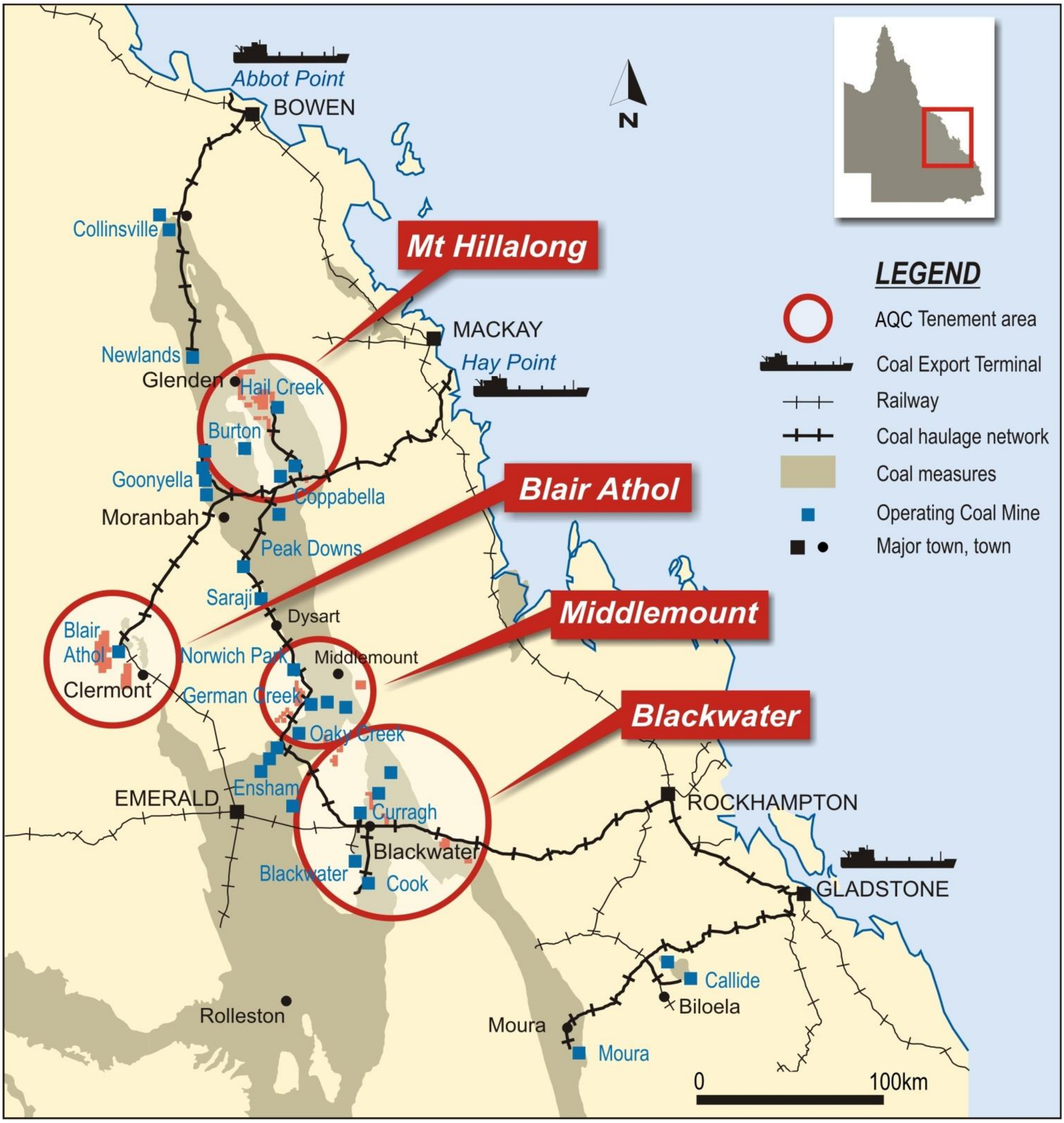
- EPC 1827 'Cooroorah' in the Blackwater project – an Inferred resource of 107Mt measured in accordance with the JORC Code. Exploration is focused on elevating the primary resource status to enable grant of MDL 453. Potential for secondary shallower open cut coal in the north.
- EPC 1859 'Dingo' in the Blackwater project – shallow coal intercepts from previous drilling. Requires further interpretation and drilling to elevate to a resource.
- EPC 1995 'Carlo Creek' in the Blackwater project – a geological target with prospectivity for shallow German Creek and Fort Cooper formation seams.

COMPETENT PERSON STATEMENT OF COMPLIANCE

This report has been prepared in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves "The JORC Code" (2004) and reviewed by Mr S.W (Bill) Hayes of S.W Hayes and Associates who consents to the inclusion in this announcement of the matters based on his information in the form and context in which it appears.

Mr Hayes, a member of the AusIMM, is a coal geologist with approximately 42 years' experience relevant to the style of mineralisation and type of deposit under consideration and qualifies as a Competent Person as defined by the Australian Code for Reporting of Exploration Results.

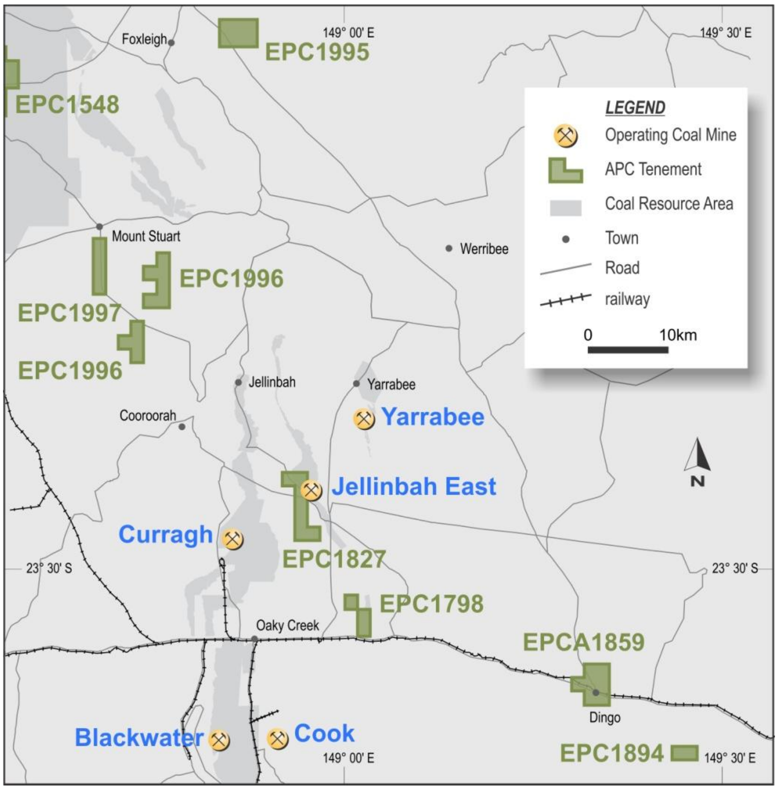
REVIEW OF OPERATIONS



Blackwater

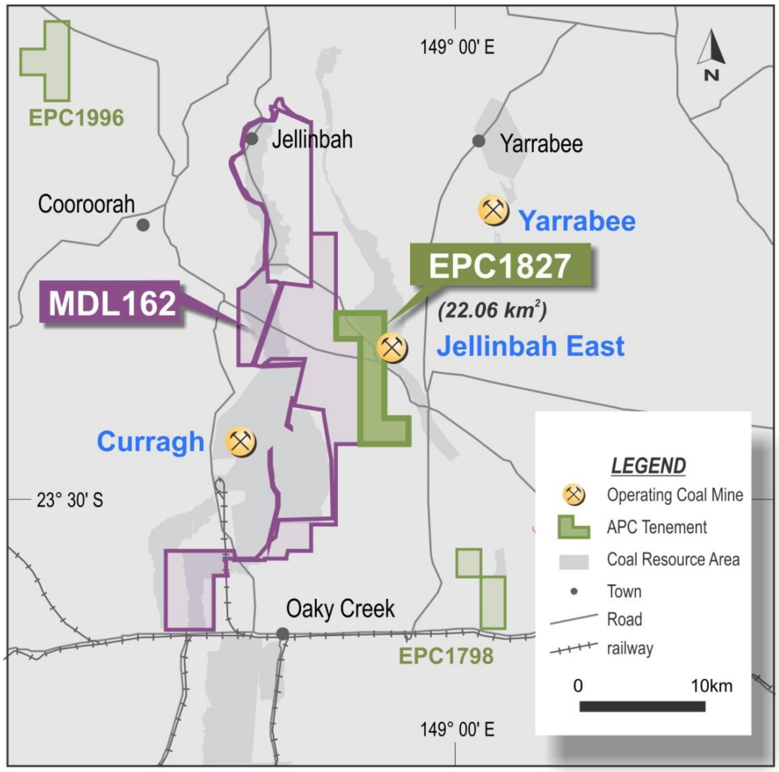
Project area overview

- 100% working interest
- 107 Mt Inferred Resource* at Cooroorah (EPC 1827)
- Near-term exploration focus
  - Cooroorah (EPC 1827)
  - Carlo Creek (EPC1995)
  - Dingo (EPC 1859)
- Other coal exploration tenements
  - Churchyard Ck (EPC1996)
  - Bluff (EPC1798)
  - Rocky Creek (EPC1894)



Cooroorah (EPC1827)

- 107 Mt Inferred Resource*
- Located near rail network and developed infrastructure, linking it to Gladstone and major coal ports
- Infill drilling program in Q4 2012 to Q1 2013 to move to Indicated and Measured Resources
- Adjacent to Jellinbah, Currugh, Yarrabee and BMA opencut & underground mine.

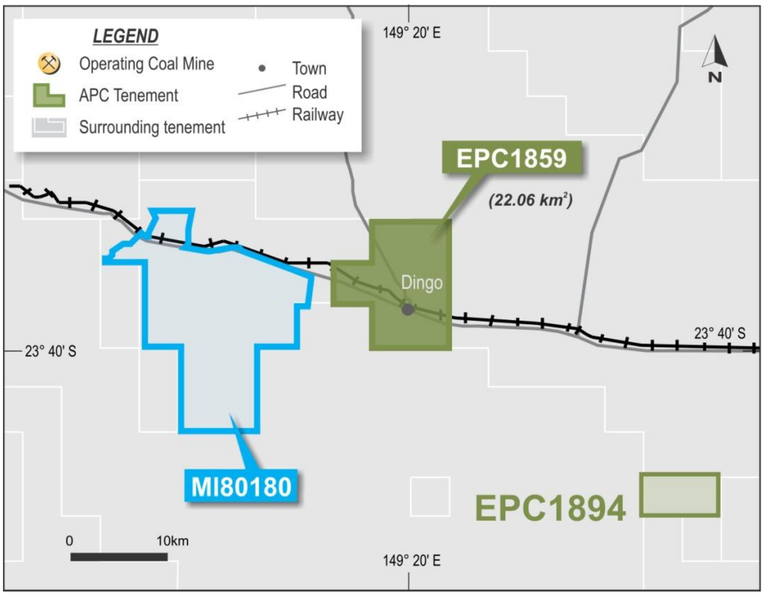


* Statement of resource quantity is in accordance with the JORC Code Guidelines

Blackwater

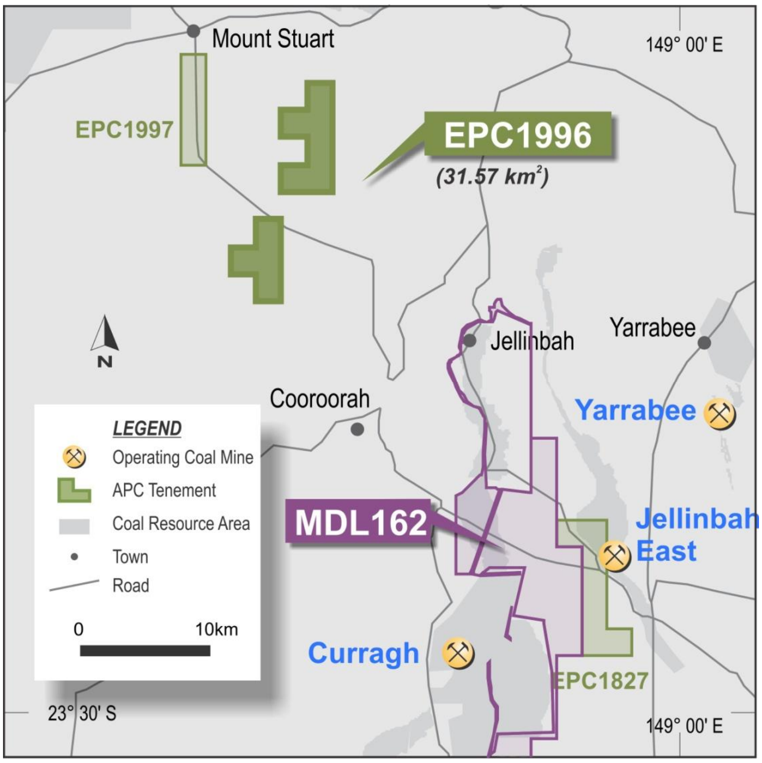
Dingo (EPC 1859)

- Located on rail network
- Infill drilling program proposed in Q4 2012 - Q1 2013 to elevate to a Resource
- Targeting Rangal Coal Measures
- 30km east of operating Blackwater and Curragh coal mines
- Surrounded by Bandanna Energy, Peabody Energy (Macarthur Coal) and Aquila Resources



Churchyard Creek (EPC 1996)

- Drilling of northern tenement during Q2 2012 intersected three target seams including the Canis, Lepus and Fairhill Seams
- Initial indications of low yielding Canis Seam with higher yields in the Fairhill Seam
- Recycoal sample results are pending



* Statement of resource quantity is in accordance with the JORC Code Guidelines

Granted Tenements 100% AQC	Exploration & Joint Venture Agreements

- EPC 1548 - West German Creek
- EPC 1798 - Bluff Creek
- EPC 1827 - Cooroorah
- EPC 1859 -Dingo
- EPC 1894 - Rocky Creek
- EPC 1895 - Dawson River
- EPC 1920 - Comet River
- EPC 1965 - Kanga Creek
- EPC 1989 - Castlevale
- EPC 1995 - Carlo Creek
- EPC 1996 - Churchyard Creek
- EPC 1997 - Mt Stuart
- EPC 2035 - Bee Creek
- EPC 2036 - Ripstone Creek
- EPC 2037 - Almoola

Rio Tinto Exploration Pty Ltd

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

Blackwood Resources Pty Ltd

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

* *Application Pending*

Pending Applications - 100% AQC

- EPC 1566** – Bee Creek
- EPC 1638** - Spear Creek
- EPC 1866** - Lake Elphinstone
- EPC 1896 - Bottle Tree Creek
- EPC 2011** - North Copperfield
- EPC 2012** - Clermont
- EPC 2014** - Blair Athol
- EPC 2016** - Drummond
- EPC 2157**
- EPC 2826** - Clermont
- EPC 2128** - Clermont

** Competing Application

Proposed Drilling Program 2012-2013

Drilling Schedule	2012		2013	
	Q3	Q4	Q1	Q2
Cooroorah (EPC1827)				
Carlo Creek (EPC1995)				
Dingo (EPC1859)				

EPC Assessment and Target Generation

- EPC 1895 - Dawson River
- EPC 1920 - Comet River
- EPC 1965 - Kanga Creek
- EPC 2035 - Bee Creek
- EPC 2036 - Ripstone Creek

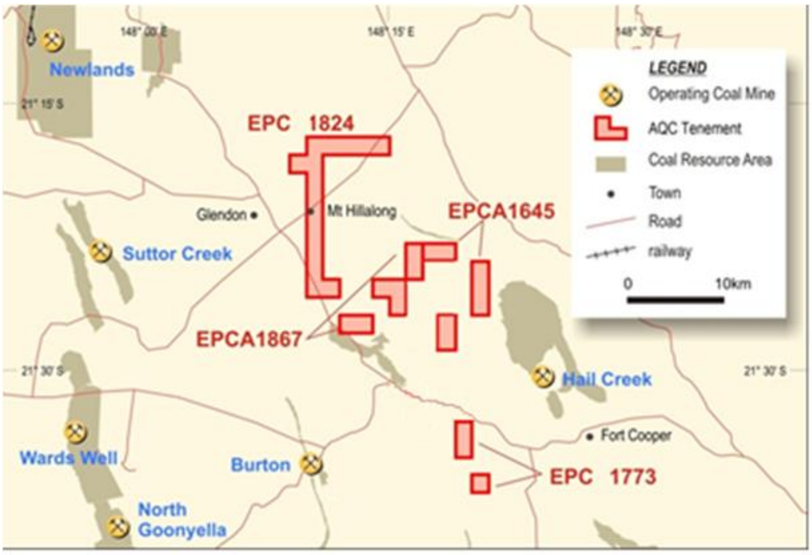
The Listed EPCs are currently undergoing review and assessment to identify target potential and to make drilling recommendations.

Exploration & Joint Venture Agreements

Rio Tinto Exploration Pty Ltd

- Mt Hillalong project area
- EPC 1645* - Mount Hess
- EPC 1773 - Kemmis Creek
- EPC 1824 - Mount Hillalong
- EPC 1867 - Mount Hess West

* *Application Pending*



On 22nd 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 accordance with the agreement. In addition to the cash payment, the agreement terms include that:

- title to EPC 1773, EPC’s 1867 and 1645 (if granted) 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 aforementioned 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.

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 km2) 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.

Previous exploration has been superficial and of a regional nature with no drilling being undertaken within EPC 1824. 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 planned by RTX to further evaluate this target with the aim to define a resource.

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.

EPC	Name	Status	Area (km^2)	Location	Target Coal	Coal Type	Depth	Potential
EPC 1645	Mount Hess	Application	70	20km SE of Glenden				test drilling required
EPC 1773	Kemmis Creek	Granted	10	32km SE of Glenden	Fort Cooper	coking & thermal	to 120m	4 holes with coal intercepts 25 to 150m depths. O/C potential
EPC 1824	Mount Hillalong	Granted	48	6km E of Glenden	Rangal	metallurgical & thermal	300 to 500m	90Mt expl’n target defined by seismic and nearby drilling
EPC 1867	Mount Hess West	Granted	13	16km SE of Glenden				No work to date – project in application

Exploration & Joint Venture Agreements

Blackwood Resources Pty Ltd (Cuesta Coal Limited)

AQC, through its 100% owned subsidiary Mining Investments One Pty Ltd, entered into a Joint Venture Exploration and Development agreement with Blackwood Resources Pty Ltd (Blackwood) in April 2010. Under the terms of the agreement, Blackwood acquires a 90% interest in EPCs 1979, 1955, 1987 and 1957 for a total cash consideration of $500,000 of which $125,000 is payable on grant of each EPC. 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 EPCs cover large areas over the Clarence-Moreton, Surat and Galilee Basin, prospective for shallow thermal coal.

EPC	Name	Status	Area (km^2)	Location	Target Coal	Coal Type	Depth	Potential
EPC 1955	Bungaban Creek	Granted	383	100km N of Miles	Walloon coal measures	thermal	<150m	44.6Mt of total coal resource identified (22.1Mt Indicated, 22.5Mt Inferred)
EPC 1957	Laguna Creek	Granted	382	150km NW Clermont	Galilee Basin	thermal	<200m	drilling testing required
EPC 1979	Kingsthorpe	Granted	155	15km W of Toowoomba	Walloon coal measures	thermal	<200m	drilling testing required
EPC 1987	Quondong	Granted	354	50km N of Miles	Taroom coal measures	thermal	<100m	drilling testing required

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.

Tenure	Name	Status	Area (km^2)	Location	Commodity	Mineral-isation	Depth	Mining & processing
ML 70360	Mantuan Downs	Granted	3	78km S of Alpha	bentonite	17Mt Inferred+ resource	1-2m overburden, 0.5m weathered, 3m bentonite	shallow open cut, on site screening and bagging
EPM 17644	Fairview	Granted	75	78km S of Alpha	bentonite	bentonite outcrop		large potential resource
EPM 13886	Mantuan Downs	Granted	56	78km S of Alpha	bentonite	bentonite outcrop		large potential resource
ML 50207	Grafton Range	Granted	1	12km N of Roma	sodium bicarbonate	2Mt in situ bicarbonate in brine	1,200m	solution mining, pumped thru RO plant, selective crystalisation
EPM 16629	Mount Bassett	Granted	178	12km N of Roma	sodium bicarbonate	>5,000ppm bicarbonate		
EPM 19039	Grafton Range	Granted	315	12km N of Roma	sodium bicarbonate	>5,000ppm bicarbonate		

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.

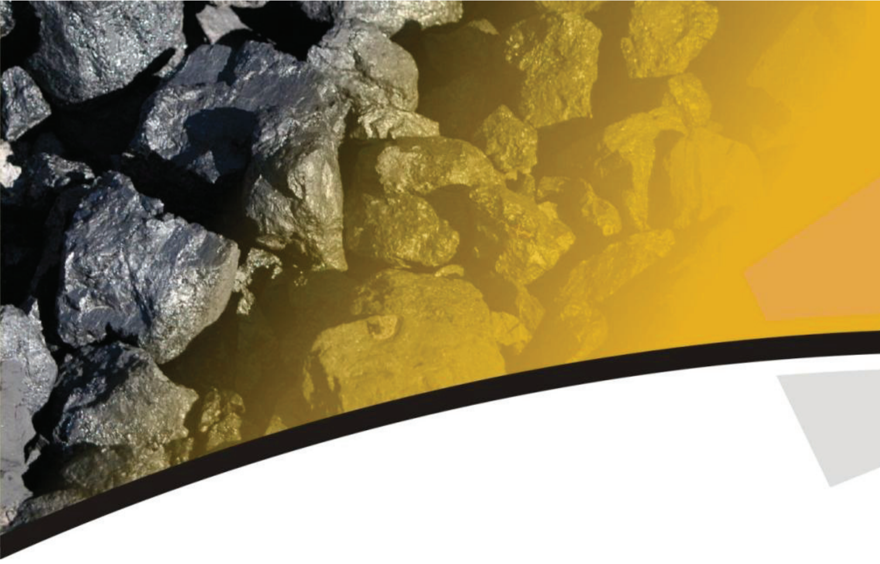
The Grafton Range sodium bicarbonate project is located 15 km northeast of Roma in western Queensland. It covers part of the Surat Basin where elevated concentrations of sodium bicarbonate ($NaHCO_3$) are present in the Precipice Sandstone aquifer, which in the Grafton Range area is about 1,100 m below 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.

Bentonite Based Technologies

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.



Australian Pacific Coal

Annual Financial Report

for the year ended 30 June 2012

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Australian Pacific Coal Limited

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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 2012.

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 profit of the consolidated group amounted to $653,118 (2011: loss $2,462,700) after providing for income tax and eliminating minority equity interests.

The significant improvement was largely a result of the receipt of a payment of $2,300,000 following the execution of an Exploration, Option and Joint Venture Agreement with Rio Tinto Exploration Pty Ltd covering four of the Group's Mt Hillalong tenements.

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 2012 the Group advanced its exploration program completing drilling on two of its project areas and completing entry requirements for three additional project areas. Evaluation of drilling results and collation with historical data has progressed and the company has identified 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 Mt Stuart. Activities being undertaken are focused on drilling these target areas and improving the resource status of tenements tenements. Planning and entry requirements have been completed to enable further drilling on EPC 1827 "Cooroorah" in order to improve the resource status and move the tenement towards grant of a mining development licence.

Significantly, during the early part of the financial year the Group finalised its agreement with Rio Tinto Exploration Pty Ltd covering 4 of the Group's Mt Hillalong tenements. The Group retains a 25% free carry interest in the projects through the exploration stage which is expected to be completed within the next two years. 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 carry interest through to feasibility stage in four tenements that it transferred to Blackwood Resources Pty Ltd. Blackwood is a subsidiary of the newly listed Cuesta Coal Limited. Cuesta has secured funding to complete its exploration program and is actively drilling te joint venture exploration tenements.

DIRECTORS' REPORT

Financial Position

The net assets of the consolidated group at 30 June 2012 are $3,333,916 (2011: $1,600,979). This increase arises taking account of the following factors:

- proceeds from sale of interest in tenements $2,425,000
- proceeds from share issues raising $700,000;
- increases in capitalised exploration expenditure; and
- operating expenditure.

The Group's working capital, being current assets less current liabilities, is $865,770 (2011: $99,584).

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 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 an additional 21,875,000 ordinary shares to various sophisticated and professional investors raising $700,000 to provide additional working capital.
ii. The company issued 10,000,000 ordinary shares to qualifying persons in accordance with the Company's Officers, Executives, Consultants and Employee Share Plan to raise $425,250. The terms of the plan enabled the company to fund the purchase by way of limited-recourse loans totalling $425,250 repayable from future dividends or out of proceeds when the allotted shares are sold.

Changes in controlled entities and divisions:

i. Deregistration of dormant subsidiaries:
    - Inter-Ironbar Pty Ltd
    - Eyebionics Pty Ltd
    - Home and Garden Waterwise Pty Ltd
    - Sportzwhistle Pty Ltd
    - SW2 Pty Ltd

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 30th June 2012.

Events after the Reporting Period

No matters or circumstances have risen 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.

DIRECTORS' REPORT

Future Developments, Prospects and Business Strategies

Future developments in the operations of the Group in future years 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 of 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 regulation 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.

Clean Energy Legislative Package

The Clean Energy Legislative Package, which included the Clean Energy Act 2011, was passed by the Australian Government in November 2011. It sets out the way that the government will introduce a carbon price to reduce Australia's carbon pollution and move to a clean energy future.

There is presently uncertainty in relation to the impacts of this carbon pricing mechanism, which could potentially affect the assumptions underlying value-in-use calculations used for asset impairment testing purposes. The company has not incorporated the effect of any carbon price implementation in its impairment testing at 30 June 2012.

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. John Bovard FAICD, FAusIMM BE (Civil) (Chairman, Non-executive Director) – Appointed 30 October 2009

Experience and expertise

Mr. Bovard has more than forty years of experience in the mining industry. He has been involved in several major projects and has held prominent positions with many Australian and international companies including Western Mining Inc, OK Tedi and Placer Pacific.

Mr. Bovard is Non-executive Chairman of Mt Isa Metals Limited and Non-executive Director of Australian Solomons Gold Limited

Special responsibilities

Chairman of the Board and member of the Audit and Remuneration Committees

Interests in shares and options

5,00,000 ordinary shares in Australian Pacific Coal Limited

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

Mt Isa Metals Limited since 2008

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

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. Director since 29 November 2005.

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)

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. Director since 29 November 2005.

Special responsibilities

Managing Director

Interests in shares and options

61,148,548 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 Ingram B.AppSc.(Geology), AusIMM (Non-executive Director) Appointed 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 AQC as an emerging coal company in Queensland.

DIRECTORS' REPORT

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

Caledon Resources PLC from February 2003 to March 2008

West Australian Metals Limited from July 2009 to November 2009

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

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		Remuneration Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr. John Bovard	11	11	2	2	1	1
Mr. Peter Ziegler	11	11	2	2	1	1
Mr. Paul Byrne	11	11	**	**	**	**
Mr. Paul Ingram	11	11	**	**	**	**

** = 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.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or 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 Sothertons Chartered Accountants for non-audit services provided during the year ended 30 June 2012:

Taxation services	$10,145

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2012 has been received and can be found on page 11 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.

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 Remuneration Committee is responsible for determining and reviewing compensation arrangements for the directors and the senior executives. The Board also reviews and ratifies the Remuneration Committee's recommendations on 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 Remuneration Committee reviews key management personnel packages annually 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%, 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 Remuneration Committee determines payments to the non-executive directors and reviews their remuneration annually, 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.

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, and to the extent different, among the five Group executives or company executives receiving the highest remuneration. 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
Directors			
Mr John Bovard	Chairman, Non-executive	-	100%
Mr Peter Ziegler	Deputy chairman, Non-executive	-	100%
Mr Paul Byrne	Managing Director, Executive	-	100%
Mr Paul Ingram	Non-executive	-	100%
Other executives			
Mr Kevin Mischewski	Company Secretary, Financial Accountant	-	100%

The employment terms and conditions of key management personnel and Group executives are formalised in contracts of employment.

Terms of employment require that the relevant group entity does 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 subject to similar contracts requiring no notice to be given on termination. Statutory termination provisions apply. Termination payments are at the discretion of the Remuneration Committee.

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.

Remuneration Details for the Year Ended 30 June 2012

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 2012

		Short-term benefits		Post-employment benefits		
Group Key Management Personnel		Base Salary $	Consulting & Contractor Fees $	Superannuation $	Other $	Total $
Mr John Bovard	**2012**	**60,000**	**—**	**—**	**—**	**60,000**
	2011	53,333	—	—	—	53,333
Mr Peter Ziegler	**2012**	**36,000**	**115,200**	**—**	**—**	**151,200**
	2011	35,000	151,000	—	—	186,000
Mr Paul Byrne	**2012**	**36,000**	**204,000**	**—**	**—**	**240,000**
	2011	35,000	184,000	—	—	219,000
Mr Paul Ingram	**2012**	**33,027**	**—**	**2,973**	**—**	**36,000**
	2011	6,880	—	619	—	7,500
Mr Tim Prowse	**2012**	**—**	**—**	**—**	**—**	**—**
	2011	11,500	88,200	—	—	99,700
Mr John Laurie	**2012**	**—**	**—**	**—**	**—**	**—**
	2011	12,500	—	—	—	12,500
Mr Kevin Mischewski	**2012**	**—**	**167,064**	**—**	**—**	**167,064**
	2011	—	101,818	—	—	101,818
Total Remuneration	**2012**	**165,027**	**486,264**	**2,973**	**—**	**654,264**
	2011	154,214	525,018	619	—	679,851

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

Bovard

John Graham Bovard

Chairman

Brisbane, 28th September 2012

SOTHERTONS L.L.P.
CHARTERED ACCOUNTANTS

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

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 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 year ended 30 June 2012 there have been:

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

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

Sothertons LLP
Chartered Accountants
Level 6, 468 St Kilda Road
MELBOURNE VIC 3004

Partner: David Lissauer

Dated this 28th day of September 2012

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INCOME STATEMENTS

For the year ending 30 June 2012

	Note	Consolidated Group 2012 $	Consolidated Group 2011 $
Revenue	3	2,488,047	287,386
Changes in inventories of finished goods and work in progress		-	(5,000)
Raw materials and consumables used		-	(969)
Loss on disposal of assets		-	(27,508)
Employee benefits expense		(523,619)	(616,460)
Depreciation and amortisation expense		(120,778)	(113,070)
Exploration, evaluation and development expenses		(2,261)	(20,454)
Finance costs		(2,615)	(17,395)
Impairment of goodwill		-	(1,999)
Impairment of Investments		-	-
Impairment of loans receivable		(214,931)	-
Impairment of exploration and evaluation		(109,890)	(1,080,025)
Impairment of inventory		-	5,000
Administration and consulting expenses		(860,835)	(872,206)
Other expenses		-	-
Profit before income tax	4	653,118	(2,462,700)
Income tax expense (benefit)	5	-	-
Profit/(Loss) from continuing operations		653,118	(2,462,700)
Profit/(Loss) from discontinued operations		-	-
Profit/(Loss) for the period		653,118	(2,462,700)
Profit/(Loss) attributable to:			
Members of the parent entity		653,118	(2,462,700)
Non-controlling interest		-	-
		653,118	(2,462,700)
Earnings per share			
From continuing and discontinued operations:			
Basic earnings per share (cents)	9	0.12	(0.50)
Diluted earnings per share (cents)	9	0.12	(0.48)
From continuing operations:			
Basic earnings per share (cents)	9	0.12	(0.50)
Diluted earnings per share (cents)	9	0.12	(0.48)

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

STATEMENTS OF COMPREHENSIVE INCOME

For the year ending 30 June 2012

	Note	Consolidated Group	
		2012	**2011**
		$	**$**
Profit/(Loss) for the period		653,118	(2,462,700)
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		653,118	(2,462,700)
Total comprehensive income attributable to:			
Members of the parent entity		653,118	(2,462,700)
Non-controlling interest		-	-
		653,118	(2,462,700)

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

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2012

		Consolidated Group	
		2012	2011
		$	$
ASSETS			
Current assets			
Cash and cash equivalents	10	1,042,761	585,444
Trade and other receivables	11	64,163	54,216
Inventories	12	-	-
Other financial assets	15	-	-
Other assets	20	26,493	17,783
Total current assets		1,133,497	657,443
Non-current assets			
Trade and other receivables	11	797,108	582,131
Investments accounted for using the equity method	13	110,000	110,000
Other financial assets	15	-	-
Property, plant and equipment	17	340,664	420,110
Exploration and evaluation expenditure	18	1,220,354	389,154
Intangible assets	19	-	-
Total non-current assets		2,468,126	1,501,395
Total assets		3,601,543	2,158,838
LIABILITIES			
Current liabilities			
Trade and other payables	21	267,727	431,587
Borrowings	22	-	126,272
Total current liabilities		267,727	557,859
Non-current liabilities			
Borrowings	22	-	-
Total non-current liabilities		-	-
Total liabilities		267,727	557,859
Net assets		3,333,916	1,600,979
EQUITY			
Issued capital	24	34,310,319	33,230,500
Retained earnings		(30,976,403)	(31,629,521)
Parent entity interest		3,333,916	1,600,979
Non-controlling interest		-	-
Total equity		3,333,916	1,600,979

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

STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2012

CONSOLIDATED	Note	Issued Capital Ordinary	Revaluation Surplus	Non-controlling Interests	Retained Earnings	Total
		$	$	$	$	$
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		-	-	-	(2,462,700)	(2,462,700)
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		(66,415)	-	-	-	(66,415)
Subtotal		33,230,500	-	(2,914,350)	(28,715,171)	1,600,979
Dividends paid or provided for		-	-	-	-	-
Balance at 30 June 2011		33,230,500	-	(2,914,350)	(28,715,171)	1,600,979
Balance at 1 July 2011		33,230,500	-	(2,914,350)	(28,715,171)	1,600,979
Profit attributable to members of the parent entity		-	-	-	653,118	653,118
Profit attributable to non-controlling interests		-	-	-	-	-
Total other comprehensive income for the period		-	-	-	-	-
Share issued during the period		1,125,250	-	-	-	1,125,250
Transaction costs on share issue		(45,431)	-	-	-	(45,431)
Subtotal		34,310,319	-	(2,914,350)	(28,062,053)	3,333,916
Dividends paid or provided for		-	-	-	-	-
Balance at 30 June 2012		33,230,500	-	(2,914,350)	(28,715,171)	3,333,916

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

STATEMENTS OF CASH FLOW

For the year ended 30 June 2012

	Note	Consolidated Group 2012 $	Consolidated Group 2011 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		2,675,130	277,842
Payments to suppliers and employees		(2,799,208)	(1,904,171)
Interest received		55,747	34,802
Finance costs		(2,615)	(17,395)
Income tax paid		-	-
Net cash (used in)/provided by operating activities	28a	(70,946)	(1,608,921)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for investments		-	(111,999)
Proceeds from sale of non-current assets		-	-
Purchase of non-current assets		45,465	(21,556)
Loans to subsidiaries		-	-
Repayment of loans to subsidiaries		-	38,600
Net cash used in investing activities		45,465	(94,955)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		700,000	1,529,999
Proceeds from borrowings		-	46,378
Repayment of borrowings		(126,272)	(115,839)
Net cash used in/(provided by) financing activities		573,728	1,460,538
Net increase/(decrease) in cash held		457,317	(243,338)
Cash and cash equivalents at beginning of period		585,444	828,782
Cash and cash equivalents at end of period	10	1,042,761	585,444

The above cash flow statements 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 28 September 2012 by the directors of the company.

1 BASIS OF PREPARATION

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The Group is a for-profit entity for financial reporting purposes under the Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of this financial report 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

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 the assets, liabilities and results of entities controlled by Australian Pacific Coal Limited at the end of the reporting period. A controlled entity is any entity over which Australian Pacific Coal Limited has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 16 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are shown separately within the Equity section of the consolidated Statement of Financial Position and Statement of Comprehensive Income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

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 expensed to the statement of comprehensive income.

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; 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 uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. 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.

Refer to Note 16 for information on the goodwill policy adopted by the Group for acquisitions.

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 (revenue) 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 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.

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.

Tax consolidation

The company and its wholly owned Australian subsidiaries have formed a tax consolidated group with effect from 30 July 2004. The head entity within the group is Australian Pacific Coal Limited.

Current income tax expenses/income and deferred tax liabilities and assets are recognised in the separate financial statements of members of the tax consolidated group using the separate taxpayer within the group approach. This approach determines the tax obligations of entities within the tax consolidated group after accounting for any consolidation adjustments.

Any current tax liabilities/(assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax consolidated group and are recognised as amounts payable/(receivable) to/(from) other entities in the tax consolidated group in conjunction with the tax funding arrangement referred to below. The difference between these amounts is recognised by the head entity as an equity injection or distribution.

Tax funding arrangement

Australian Pacific Coal Limited in conjunction with its wholly owned subsidiaries has entered into a tax funding arrangement from 30 July 2004. The tax funding arrangement requires subsidiaries within the tax consolidated group to make payments/(receipts) based on the assumption of tax obligations/(deferred tax assets) by the head entity.

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

(c) 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.

(d) 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. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of comprehensive income and depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

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(h) 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 charged to the statement of comprehensive income 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:

Class of Fixed Asset	Depreciation Rate
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.

(e) 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.

(f) 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.

(g) 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.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Amortised cost is 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

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset has been impaired. A financial asset or a group of financial assets is determined 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 under 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.

(h) 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). 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.

(i) Investments in Associates

Associates are companies in which the Group has significant influence through holding, directly or indirectly, 20% or more of the voting power of the associate company. Investments in associates are accounted for in the financial statements by applying the equity method of accounting whereby the investment is initially recognised at cost 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 company is included in the Group's profit or loss.

The carrying amount of the investment includes 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 the recognition of its share of those profits once its share of the profits equals the share of the losses not recognised.

Details of the Group's investments in associates are provided in Note 14

(j) Interests in Joint Ventures

The Group's share of the assets, liabilities, revenue and expenses of jointly controlled operations have been included in the appropriate line items of the consolidated financial statements.

The Group's interests in joint venture entities are recorded using the equity method of accounting (refer to Note 1(i) for details) in the consolidated financial statements.

Where the Group contributes assets to the joint venture or if the Group purchases assets from the joint venture, only the portion of the gain or loss that is not attributable to the Group's share of the joint venture shall be recognised. The Group recognises the full amount of any loss when the contribution results in a reduction in the net realisable value of current assets or an impairment loss.

(k) 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 will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

(l) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional currency.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the gain or loss is recognised in other comprehensive income, otherwise the exchange difference is recognised in profit or loss.

Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at exchange rates prevailing at the end of the reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. These differences are recognised in profit or loss in the period in which the operation is disposed of.

(m) Employee Benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wages increases and the probability that the employee may satisfy vesting requirements. Those cash outflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

(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.

(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 with original maturities of three months or less, 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. Any consideration deferred is treated as the provision of finance 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, which, for floating rate financial assets, is the rate inherent in the instrument.

All dividends received shall be recognised as revenue when the right to receive the dividend has been established.

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 and 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 (GST)

(q) 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.

(r) 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.

(s) 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.

(t) 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.

(u) 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.

(v) 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.

(w) 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.

Impairment – carbon price

There is presently uncertainty in relation to the impacts of the carbon pricing mechanism recently introduced by the Australian Government. This carbon pricing system could potentially affect the assumptions underlying value-in-use calculations used for asset impairment testing purposes. The consolidated entity has not incorporated the effect of any carbon price implementation in its impairment testing at 30 June 2012.

Key judgments

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 $1,220,354.

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.

(x) New Accounting Standards for Application in Future Periods

The AASB 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 of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

– AASB 9: Financial Instruments (December 2010) and AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applicable for annual reporting periods commencing on or after 1 January 2013).

  These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

  The key changes made to accounting requirements include:

  - simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
  - simplifying the requirements for embedded derivatives;
  - removing the tainting rules associated with held-to-maturity assets;
  - removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
  - allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
  - requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
  - requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

  The Group has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

– AASB 2010–8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] (applies to periods beginning on or after 1 January 2012).

This Standard makes amendments to AASB 112: Income Taxes and incorporates Interpretation 121: Income Taxes – Recovery of Revalued Non-Depreciable Assets into AASB 112.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments are not expected to significantly impact the Group.

– AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and AASB 2011–7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009–11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17] (applicable for annual reporting periods commencing on or after 1 January 2013).

  AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees. The Group has not yet been able to reasonably estimate the impact of this Standard on its financial statements.

  AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either "joint operations" (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or "joint ventures" (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed).

  AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a "structured entity", replacing the "special purpose entity" concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will affect disclosures only and is not expected to significantly impact the Group.

  To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. These Standards are not expected to significantly impact the Group.

– AASB 13: Fair Value Measurement and AASB 2011–8: Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009–11, 2010–7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132] (applicable for annual reporting periods commencing on or after 1 January 2013).

  AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

  AASB 13 requires:

- inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and
- enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) to be measured at fair value.

These Standards are not expected to significantly impact the Group.

– AASB 2011–9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049] (applicable for annual reporting periods commencing on or after 1 July 2012).

The main change arising from this Standard is the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently.

This Standard affects presentation only and is therefore not expected to significantly impact the Group.

– AASB 119: Employee Benefits (September 2011) and AASB 2011–10: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASB 1, AASB 8, AASB 101, AASB 124, AASB 134, AASB 1049 & AASB 2011–8 and Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards introduce a number of changes to accounting and presentation of defined benefit plans. The Group does not have any defined benefit plans and so is not impacted by the amendment.

AASB 119 (September 2011) also includes changes to the accounting for termination benefits that require an entity to recognise an obligation for such benefits at the earlier of:

(i) for an offer that may be withdrawn – when the employee accepts;

(ii) for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and

(iii) where the termination is associated with a restructuring of activities under AASB 137: Provisions, Contingent Liabilities and Contingent Assets, and if earlier than the first two conditions – when the related restructuring costs are recognised.

The Group has not yet been able to reasonably estimate the impact of these changes to AASB 119.

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.

	2012 $	2011 $
STATEMENT OF FINANCIAL POSITION		
Assets		
Current assets	1,116,362	598,493
Non-current assets	1,123,961	1,217,514
Total assets	2,240,323	1,816,007
Liabilities		
Current liabilities	1,636,089	544,754
Non-current liabilities	-	-
Total liabilities	1,636,089	544,754
Equity		
Issued capital	34,310,319	33,230,500
Retained earnings	(33,706,085)	(31,959,247)
Total equity	604,234	1,271,253
STATEMENT OF COMPREHENSIVE INCOME		
Total profit	(1,746,838)	(2,177,479)
Total comprehensive income	(1,746,838)	(2,177,479)

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 2012, Australian Pacific Coal Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment (2011: Nil).

NOTE 3: REVENUE AND OTHER INCOME

	Note	Consolidated Group 2012 $	2011 $
Revenue from Continuing Operations:			
Sales revenue:			
— sale of goods		-	2,584
Other revenue:			
— interest received		55,747	34,802
— government subsidies received		4,000	-
— rental revenue		3,300	-
Total Revenue		**63,047**	**37,386**
Other Income			
— sale of interest in tenements		2,425,000	250,000
— gain on disposal of property, plant and equipment		-	-
Total revenue and other income from continuing operations		**2,488,047**	**287,386**
Attributable to members of the parent entity		2,488,047	287,386

NOTE 4: PROFIT FOR THE YEAR

		Note	Consolidated Group 2012 $	2011 $
a.	**Expenses**			
	Cost of sales		-	5,969
	Interest expense on financial liabilities not at fair value through profit or loss		(2,615)	(17,395)
	Impairment of non-current investments – Bad and doubtful debts:			
	— trade receivables		-	-
	Rental expense on operating leases:			
	— minimum lease payments		119,684	125,691
	— contingent rents		-	3,011
	Write-off of capitalised exploration expenditure		-	20,454
	Write-down of inventories to net realisable value		-	(5,000)
b.	**Significant Revenue and Expenses**			
	The following significant revenue and expense items are relevant in explaining the financial performance:			
	Sale of interest in tenements		2,425,000	250,000
	Impairment of loans receivable		(214,931)	-
	Impairment of capitalised exploration expenditure		(109,890)	(1,080,025)

NOTE 5: INCOME TAX EXPENSE

		Note	Consolidated Group	
			2012	**2011**
			$	**$**
a.	The components of tax expense comprise:			
	Current tax		-	-
	Deferred tax	23	(121,893)	(563,650)
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% (2011: 30%)		195,935	(738,810)
	Add:			
	Tax effect of:			
	— non-deductible depreciation and amortisation		36,233	16,504
	— other non-allowable items		3,605	12,468
	— write-downs to recoverable amounts		32,967	324,608
	Less:			
	Tax effect of:			
	— other allowable items		(390,633)	(178,420)
	— tax losses transferred from controlled entities		-	-
	Recoupment of prior year tax losses not previously brought to account		-	-
	Income tax attributable to entity		(121,893)	(563,650)
	The applicable weighted average effective tax rates are as follows:		**(18.66%)**	**(22.89%)**

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 2012.

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

	2012 $	2011 $
Short-term employee benefits	651,291	679,231
Post-employment benefits	2,973	619
	654,264	679,851

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 2012	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 John Bovard	2,500,000	-	-	2,500,000	5,000,000
Mr Paul Byrne	50,633,944	-	-	10,514,604	61,148,548
Mr Peter Ziegler	10,233,333	-	-	-	10,233,333
Mr Paul Ingram	750,000	-	-	5,000,000	5,750,000
Mr Kevin Mischewski	1,500,000	-	-	-	1,500,000

30 June 2011	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 John Bovard	-	-	-	2,500,000	2,500,000
Mr Paul Byrne	41,588,944	-	-	9,075,000	50,633,944
Mr Tim Prowse	-	-	-	475,000	475,000
Mr John Laurie	2,000,000	-	-	1,430,988	3,430,988
Mr Peter Ziegler	5,233,333	-	-	5,000,000	10,233,333
Mr Paul Ingram	-	-	-	750,000	750,000
Mr Kevin Mischewski	58,334	-	-	1,441,666	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

	Consolidated Group	
	2012 $	2011 $
Remuneration of the auditor of the parent entity for:		
— auditing or reviewing the financial statements	58,050	66,625
— taxation services	10,145	7,895

NOTE 8: DIVIDENDS

No dividends of the parent entity or any entity within the consolidated entity have been 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 June 2012.

NOTE 9: EARNINGS PER SHARE

		Consolidated Group	
		2012 $	2011 $
a.	Reconciliation of earnings to profit or loss		
	Profit	653,118	(2,462,700)
	Profit attributable to minority equity interest	-	-
	Earnings used to calculate basic EPS	653,118	(2,462,700)
	Earnings used in the calculation of dilutive EPS	653,118	(2,462,700)
b.	Reconciliation of earnings to profit or loss from continuing operations		
	Profit from continuing operations	653,118	(2,462,700)
	Profit attributable to minority equity interest in respect of continuing operations	-	-
	Earnings used to calculate basic EPS from continuing operations	653,118	(2,462,700)
	Earnings used in the calculation of dilutive EPS from continuing operations	653,118	(2,462,700)
c.	Reconciliation of earnings to profit or loss from discontinuing operations		
	Profit from discontinuing operations	-	-
	Profit attributable to minority equity interest	-	-
	Earnings used to calculate basic EPS from discontinuing operations	-	-
			No.
d.	Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	538,364,828	496,068,584
	Weighted average number of dilutive options outstanding	-	18,041,096
	Weighted average number of dilutive converting preference shares on issue	-	-
	Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	538,364,828	514,109,680
e.	Diluted earnings per share is not reflected for discontinuing operations as the result is anti-dilutive in nature	-	-
f.	Anti-dilutive options on issue not used in dilutive EPS calculation	-	-

NOTE 10: CASH AND CASH EQUIVALENTS

	Note	Consolidated Group 2012 $	2011 $
Cash at bank and in hand		1,028,886	558,576
Short-term bank deposits		13,875	26,868
		1,042,761	**585,444**

The effective interest rate on short-term bank deposits was 5.5% (2011: 5.5%); these deposits have an average maturity of 90 days.

Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

	Consolidated Group 2012 $	2011 $
Cash and cash equivalents	1,042,761	585,444
Bank overdrafts	-	-
	1,042,761	**585,444**

NOTE 11: TRADE AND OTHER RECEIVABLES

	Note	Consolidated Group 2012 $	2011 $
Current			
Trade receivables		1,980	2,842
Provision for impairment	11a(i)	-	(2,842)
Amounts receivable from related parties:			
— loans to director related entities		-	-
Other receivables		62,183	54,216
Total current trade and other receivables		**64,163**	**54,216**
Non-current			
Amounts receivable from related parties:			
— loans to directors		712,598	420,998
— loans to key management personnel		28,950	28,950
— loans to controlled entities		-	-
— provision for impairment	11a(ii)	(210,623)	-
Other receivables		273,333	132,183
Other receivables - provision for impairment	11a(iii)	(7,150)	-
Total non-current trade and other receivables		**797,108**	**582,131**

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
		1.7.2011			30.6.2012
		$	$	$	$
	Consolidated Group				
(i)	Current trade receivables	2,842	-	(2,842)	-
(ii)	Non-current related parties	-	210,623	-	210,623
(ii)	Non-current other receivables	-	7,150	-	7,150

		Opening Balance	Charge for the Year	Amounts Written Off	Closing Balance
		1.7.2010			30.6.2011
		$	$	$	$
	Consolidated Group				
(i)	Current trade receivables	6,101	2,342	(5,601)	2,842

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 11. 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) < 30 $	31–60 $	61–90 $	> 90 $	Within initial trade terms and impaired $	Within initial trade terms $
2012								
Trade and term receivables	1,980	-	-	-	-	-	-	1,980
Amounts receivable from related parties	741,548	-	-	-	-	-	(210,623)	530,925
Other receivables	335,516	-	-	-	-	-	(7,150)	328,366
Total	**1,079,044**	**-**	**-**	**-**	**-**	**-**	**(217,773)**	**861,271**
2011								
Trade and term receivables	2,842	(2,842)	-	-	-	-	-	-
Amounts receivable from related parties	449,948	-	-	-	-	-	-	449,948
Other receivables	186,399	-	-	-	-	-	-	186,399
Total	**639,189**	**(2,842)**	**-**	**-**	**-**	**-**	**-**	**636,347**

c. **Collateral Held as Security**

Included in amounts receivable from related parties is an amount owing to the parent company of $741,548 at the end of the reporting period (2011: $449,948). Included in other receivables is an amount owing to the parent company of $28,950 at the end of the reporting period (2011: $28,950). 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 2012 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.

NOTE 12: INVENTORIES

	Note	Consolidated Group 2012 $	2011 $
CURRENT			
At cost:			
Raw materials and stores		-	-
Finished goods		-	-
Total		-	-

NOTE 13: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Note	Consolidated Group 2012 $	2011 $
NON-CURRENT			
Associated companies	14	110,000	110,000
Total non-current		**110,000**	**110,000**

NOTE 14: ASSOCIATED COMPANIES

Interests are held in the following associated companies:

Name	Principal Activites	Country of Incorporation	Shares	Ownership Interest 2012 %	Ownership Interest 2011 %	Carrying amount of investment 2012 $	Carrying amount of investment 2011 $
Unlisted:							
Spinafex Uranium Pty Ltd	Mineral exploration	Australia	Ord	20	20	36,667	36,667
Diamantina Uranium Pty Ltd	Mineral exploration	Australia	Ord	20	20	36,667	36,667
Frontier Uranium Pty Ltd	Mineral exploration	Australia	Ord	20	20	36,666	36,666
						110,000	110,000

	Note	Consolidated Group 2012 $	2011 $
Movements during the year in equity accounted investment in associated companies;			
Balance at beginning of the financial year		110,000	-
New investments during the year		-	110,000
Balance at end of the financial year		**110,000**	**110,000**

On 30 June 2011 the Company acquired a 20% interest in each of Spinafex Uranium Pty Ltd, Diamantina Uranium Pty Ltd and Frontier Uranium Pty Ltd. The Company did not exercise significant influence over any of the associated companies prior to 1 July 2012. The investment in associated companies represents the Company's proportionate (20%) share of the fair value of the tenement applications held by the associated companies.

NOTE 15: OTHER FINANCIAL ASSETS

	Note	Consolidated Group	
		2012	**2011**
		$	**$**
NON-CURRENT			
Investments in subsidiaries at cost		-	-
Accumulated impairment losses			
Total non-current		**-**	**-**

a. **Provision For Impairment of Other Financial Assets**

Non-current other financial assets are assessed for recoverability based on an assessment of the fair value of the investment. A provision for impairment is recognised when there is objective evidence that an individual investment is impaired. These amounts have been included in the income statements.

Movement in the provision for impairment of other financial assets are as follows:

		Opening Balance	Charge for the Year	Amounts Written Off	Closing Balance
		1.7.2011			**30.6.2012**
		$	**$**	**$**	**$**
	Parent Entity				
(i)	Non-current investments in subsidiaries	-	-	-	-

		Opening Balance	Charge for the Year	Amounts Written Off	Closing Balance	
		1.7.2010			**30.6.2011**	
		$	**$**	**$**	**$**	
	Parent Entity					
(i)	Non-current investments in subsidiaries	2,050,010	1,000,000	(1,000,000)	-	-

NOTE 16: CONTROLLED ENTITIES

a. **Controlled Entities Consolidated**

	Country of Incorporation	Percentage Owned (%)*	
		2012	2011
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-ironbar Pty Ltd	Australia	-	100
Inter-medteq Pty Ltd	Australia	100	100
Inter-whistle Pty Ltd	Australia	100	100
Eyebionics Pty Ltd	Australia	-	100
Home and Garden Waterwise Pty Ltd	Australia	-	100
Felix Street Pty Ltd	Australia	100	100
Medteq Holdings Pty Ltd	Australia	50	50
Medteq Innovations Pty Ltd	Australia	50	50
SportzWhistle Pty Ltd	Australia	-	61.2
SW2 Pty Ltd	Australia	-	61.2

* Percentage of voting power is in proportion to ownership

b. **Acquisition of Controlled Entities**

None

c. **Disposal of Controlled Entities**

The following subsidiary companies were de-registered during the financial year:

- Inter-Ironbar Pty Ltd
- Eyebionics Pty Ltd
- Home and Garden Waterwise Pty Ltd
- Sportzwhistle Pty Ltd
- SW2 Pty Ltd

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 17: PROPERTY, PLANT AND EQUIPMENT

	Note	Consolidated Group	
		2012	2011
		$	$
LAND AND BUILDINGS			
Buildings at cost		148,924	148,924
Less accumulated depreciation		(18,377)	(12,420)
Total Buildings		130,547	136,504
Total Land and Buildings		130,547	136,504
PLANT AND EQUIPMENT			
Plant and equipment:			
At cost		603,577	255,359
Accumulated depreciation		(397,284)	(120,788)
Accumulated impairment losses		-	-
		206,293	134,571
Leasehold improvements			
At cost		14,403	3,861
Accumulated amortisation		(10,579)	(879)
		3,824	2,982
Leased plant and equipment			
Capitalised leased assets		-	317,428
Accumulated depreciation		-	(171,375)
		-	146,053
Total Plant and Equipment		210,117	283,606
Total Property, Plant and Equipment		340,664	420,110

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 Improvements	Plant and Equipment	Leased Plant and Equipment	Total
	$	$	$	$	$
Consolidated Group:					
Balance at 30 June 2010	**142,461**	**23,809**	**168,156**	**206,666**	**541,092**
Additions	-	2,230	17,366	-	19,596
Disposals	-	(17,930)	(9,578)	-	(27,508)
Depreciation expense	(5,957)	(5,127)	(41,373)	(60,613)	(113,070)
Balance at 30 June 2011	**136,504**	**2,982**	**134,571**	**146,053**	**420,110**
Additions	-	10,542	176,843	-	187,385
Disposals	-	-	-	(146,053)	(146,053)
Depreciation expense	(5,957)	(9,700)	(105,121)	-	(120,778)
Balance at 30 June 2012	**130,547**	**3,824**	**206,293**	**-**	**340,664**

NOTE 18: EXPLORATION EXPENDITURE CAPITALISED

	Consolidated Group	
	2012	**2011**
	$	**$**
Exploration and evaluation phases	1,220,354	389,154
Total	**1,220,354**	**389,154**

NOTE 19: INTANGIBLE ASSETS

	Consolidated Group 2012 $	2011 $
Research and Development		
Cost	-	-
Accumulated impairment losses	-	-
Net carrying value	-	-
Goodwill		
Cost	315,354	315,354
Accumulated impairment losses	(315,354)	(315,354)
Net carrying value	**-**	**-**
Trademarks and licences		
Cost	6,680,110	6,680,110
Accumulated impairment losses	(6,680,110)	(6,680,110)
Net carrying value	**-**	**-**
Total intangibles	**-**	**-**

	Research and Development $	Goodwill $	Trademarks and Licences $
Consolidated Group:			
Balance at 1 July 2010	**-**	**-**	**-**
Additions	-	1,999	-
Disposals	-	-	-
Impairment losses	-	(1,999)	-
Balance at 30 June 2011	**-**	**-**	**-**
Additions	-	-	-
Disposals	-	-	-
Impairment losses	-	-	-
Balance at 30 June 2012	**-**	**-**	**-**

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the statement of comprehensive income. Goodwill has an infinite life.

NOTE 20: OTHER ASSETS

	Consolidated Group	
	2012	2011
	$	$
CURRENT		
Prepayments	26,493	17,783
Total	**26,493**	**17,783**

NOTE 21: TRADE AND OTHER PAYABLES

	Note	Consolidated Group	
		2012	2011
		$	$
CURRENT			
Unsecured liabilities:			
Trade payables		232,418	351,890
Amounts payable to related parties:			
— controlled entities		-	-
— key management personnel related entities		35,209	79,697
Total		**267,627**	**431,587**

a. **Financial liabilities at amortised cost classified as trade and other payables:**

	2012	2011
Trade and other payables:		
- total current	267,627	431,587
- total non-current	-	-
	267,627	431,587
Less annual leave entitlements	-	(873)
Financial liabilities as trade and other payables	**267,627**	**430,714**

NOTE 22: BORROWINGS

	Note	Consolidated Group 2012 $	2011 $
CURRENT			
Secured liabilities:			
Lease liability	22a	-	116,679
Mortgage loans	22a	-	9,593
Total current borrowings		**-**	**126,272**
NON-CURRENT			
Secured liabilities:			
Lease Liability	22a	-	-
Total non-current borrowings		**-**	**-**
Total borrowings		**-**	**126,272**

a. **Total current and non-current secured liabilities:**

	2012 $	2011 $
Lease Liability	-	184,201
Mortgage loans	-	11,532
	-	**126,272**

c. **Collateral Provided**

Lease liabilities are secured by the underlying leased assets.

Mortgage liabilities are secured by the underlying asset

NOTE 23: TAX

	Consolidated Group 2011 $	2010 $
CURRENT		
Income Tax Payable	**-**	**-**

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 $2,143,788 (2011: $2,288,025)

— tax losses: operating losses $6,710,937 (2011: $6,877,860)

— tax losses: capital losses $1,170,147 (2011: $812,721)

NOTE 24: ISSUED CAPITAL

	Consolidated Group	
	2012	2011
	$	$
594,993,926 (2011: 533,118,926) fully paid ordinary shares	34,310,319	33,230,500

		Consolidated Group	
		2012	2011
		No.	No.
a.	**Ordinary Shares**		
	At the beginning of reporting period	**533,118,926**	**446,793,926**
	Shares issued during the year		
	— 28/9/2010		5,000,000
	— 8/11/2010		15,000,000
	— 2/12/2010		17,325,000
	— 7/12/2010		15,000,000
	— 24/12/2010		34,000,000
	— 27/4/2012	26,875,000	
	— 21/5/2012	5,000,000	
	At the end of the reporting period	**564,993,926**	**533,118,926**

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 2012 and 30 June 2011 are as follows:

	Note	Consolidated Group	
		2012	2011
		$	$
Total borrowings	21,22	267,627	557,859
Less cash and cash equivalents	10	1,042,761	585,444
Net debt		(775,134)	(27,585)
Total equity		3,333,916	1,600,979
Total capital		2,558,782	1,573,394
Gearing ratio		**(30%)**	**(2%)**

NOTE 25: CAPITAL AND LEASING COMMITMENTS

	Note	Consolidated Group 2012 $	2011 $
a. **Finance Lease Commitments**			
Payable — minimum lease payments:			
— not later than 12 months		-	119,018
— between 12 months and 5 years		-	-
— greater than 5 years		-	-
Minimum lease payments		-	119,018
Less future finance charges		-	2,339
Present value of minimum lease payments		**-**	**116,679**

	Note	Consolidated Group 2012 $	2011 $
b. **Operating Lease Commitments**			
Non-cancellable operating leases contracted for but not capitalised in the financial statements.			
Payable — minimum lease payments:			
— not later than 12 months		20,236	121,956
— between 12 months and 5 years		-	20,326
— greater than 5 years		-	-
Total		**20,236**	**142,282**

The property leases are non-cancellable, 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 a specified percentage. The leases allow for subletting of all lease areas.

Lease A: - expires on 31/08/2012
- specified percentage 4.5%

Lease B: - expires on 30/08/2012
- specified percentage 5.0%

c. **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 2012 $	2011 $
Payable:			
— not later than 12 months		944,023	511,462
— between 12 months and 5 years		2,011,383	1,711,607
— greater than 5 years		260,197	281,303
Total		**3,215,604**	**2,504.371**

NOTE 26: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

On 22nd 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 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.

NOTE 27: 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 and technology investments. 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 largely dormant with focus being maintained on retaining the rights to secured technologies.

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	Technology	All Other Segments	Total
	$	$	$	$	$
2012					
Revenue					
External sales	-	-	-	3,300	**3,300**
Interest revenue	160	-	-	55,587	**55,747**
Other revenue	2,425,000	-	-	-	**2,425,000**
Total segment revenue	**2,425,160**	**-**	-	**62,887**	**2,488,047**
Total group revenue					**2,488,047**
Segment net profit from continuing operations before tax	**2,314,556**	**(121,300)**	**(1,882)**	**(1,538,256)**	**653,118**
Net profit from continuing operations before tax					**653,118**
Amounts included in segment result and reviewed by the board:					
— finance charges	102	2,339	-	174	**2615**
— depreciation and amortisation	-	93,130	-	27,648	**120,778**
— impairment of exploration and evaluation	102,962	6,928	-	-	**109,890**
2011					
Revenue					
External sales	-	2,584	-	-	**2,584**
Interest revenue	-	3,873	-	30,929	**34,802**
Other revenue	250,000	-	-	-	**250,000**
Total segment revenue	**250,000**	**6,457**	-	**30,929**	**287,386**
Total group revenue					**287,386**
Segment net profit from continuing operations before tax	**35,861**	**(1,148,075)**	**(2,609)**	**(1,347,877)**	**(2,462,700)**
Net profit from continuing operations before tax					**2,462,700**
Amounts included in segment result and reviewed by the board:					
— finance charges	-	14,749	-	2,646	**17,395**
— depreciation and amortisation	-	96,111	-	16,959	**113,070**
— impairment of exploration and evaluation	74,672	5,353	-	-	**80,025**

ii. Segment assets

	Exploration	Bentonite Mining	Technology	All Other Segments	Total
2012	**$**	**$**	**$**	**$**	**$**
Segment assets					
Segment asset increases for the period					
— capital expenditure	831,200	-	-	41,332	872,532
— acquisitions	-	-	-	-	-
	831,200	-	-	41,332	872,532
Included in segment assets are:					
Capitalised exploration and evaluation	1,220,354	-	-	-	1,220,354
Property, plant and equipment	-	284,356	-	56,308	340,664
Investments accounted for using the equity method	110,000	-	-	-	110,000
Other assets	91,104	23,233	-	1,816,189	1,930,526
Segment assets	1,311,457	307,589	-	1,982,496	3,601,543
Total group assets					**3,601,543**
2011					
Segment assets					
Segment asset increases for the period					
— capital expenditure	332,551	-	-	19,596	352,147
— acquisitions	110,000	-	-	1,999	111,999
	442,551	-	-	21,595	464,146
Included in segment assets are:					
Capitalised exploration and evaluation	389,154	-	-	-	389,154
Property, plant and equipment	-	377,487	-	42,623	420,110
Reconciliation of segment assets to group assets	110,000	-	-	-	110,000
Unallocated assets:	211,592	26,464	36,500	965,018	1,239,574
Total group assets	710,746	403,951	36,500	1,007,641	2,158,838
					2,158,838

iii. Segment liabilities

	Exploration	Bentonite Mining	Technology	All Other Segments	Total
	$	**$**	**$**	**$**	**$**
2012					
Segment liabilities					
Reconciliation of segment liabilities to group liabilities					
Other financial liabilities	44,766	2,706	-	220,255	267,727
Total group liabilities					**267,727**
2011					
Segment liabilities	43,650	118,412	-	395,797	557,859
Reconciliation of segment liabilities to group liabilities					
Other financial liabilities					-
Total group liabilities					**557,859**

NOTE 28: CASH FLOW INFORMATION

	Consolidated Group	
	2012	2011
	$	$
a. Reconciliation of Cash Flow from Operations with Profit after Income Tax		
Profit/(Loss) after income tax	653,118	(2,462,700)
Non-cash flows in profit		
Depreciation and amortisation	120,778	113,070
Net loss/(gain) on disposal of property, plant and equipment	-	27,508
Impairment loss	324,821	1,082,024
Capital raising costs	(45,431)	(66,415)
Other	4,133	1,960
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase)/decrease in trade and term receivables	(14,605)	(9,240)
(Increase)/decrease in other assets	(8,710)	2,792
(Increase)/decrease in inventories	-	-
(Increase)/decrease in exploration and evaluation expenditure	(941,090)	(412,576)
(Increase)/decrease in other financial assets	-	-
Increase/(decrease) in trade payables and accruals	(163,960)	113,783
Increase/(decrease) in provisions	-	873
Cash flows from operations	**(70,946)**	**(1,608,921)**

b. **Non-cash Financing and Investing Activites**

i. Share issue:

10,000,000 ordinary shares were issued for a total consideration of $425,250. 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.

NOTE 29: EVENTS AFTER THE REPORTING PERIOD

No other matters or circumstances have risen 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.

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 balance date.

NOTE 30: 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 14: Associated Companies.

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.

The following transactions occurred with related parties:

	Consolidated Group	
	2012 $	2011 $
i. Other related parties		
Rent paid to Felix Street Pty Ltd, a subsidiary of the parent entity.	147,994	23,755
ii. Key management personnel:		
Rent paid to Felix Street Pty Ltd, a company that was previously owned by Mr Paul Byrne.		
- Rental amounts paid (prior to 22 April 2011)	-	107,723

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:

	Consolidated Group	
	2012	2011
	$	$

i. Loans to parent entity:

Repayment terms are not set for subsidiary loans to the parent entity. Interest is not payable.		
Balance at beginning of year	162,121	36,827
Loans advanced	2,143,726	219,613
Loan repayment received	(840,671)	(94,319)
Write back on debt forgiveness	(36,273)	-
Balance at end of year	**1,428,903**	**162,121**

ii. Key management personnel:

The office premises occupied by Australian Pacific Coal Limited are sub-let from Felix Street Pty Ltd a company previously owned by Mr Paul Byrne. On 21 April 2011 Australian Pacific Coal Limited acquired 100% of the equity in Felix Street Pty Ltd from Paul Byrne for $Nil consideration. Prior to the acquisition Australian Pacific Coal Limited provided loan funds to enable the company to meet its short term working capital requirements. These loan funds are offset against rent amounts payable. Interest is not payable.		
Balance at beginning of year	-	12,186
Loans advanced	-	56,250
Loan repayment received	-	(68,436)
Balance at end of year	**-**	**-**
Interest not charged (on an arms-length basis)	**-**	**-**
The company issued 10,000,000 (2011: 20,325,000) 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 $425,250 (2011: $478,898) 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	449,948	-
No longer included as related party loan	(72,900)	-
Loans advanced	364,500	478,898
Loan repayment received	-	(28,950)
Balance at end of year	**741,548**	**449,948**
Provision for impairment	**(210,623)**	**-**
Interest not charged (on an arms-length basis)	32,416	20,169
The number of KMP who have received loans during the period	3	5

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

	Consolidated Group	
	2012	**2011**
	$	**$**
Mr John Bovard	160,750	60,750
Mr Peter Ziegler	121,500	121,500
Mr Paul Byrne	165,848	165,848
Mr Paul Ingram	264,500	-
Mr Kevin Mischewski	28.950	57,900
Mr John Laurie	-	72,900

KMP Loans exceeding $100,000:

Included in the loan balances above are loans to Mr Paul Byrne (Director) and a loan to Felix Street Pty Ltd which, prior to 22 April, was a related entity associated with Mr Paul Byrne. Details of the loans are outlined below:

Balance at beginning of year	165,848	12,186
Loans advanced	-	222,098
Loan repayment received	-	(68,436)
Balance at end of year	**165,848**	**165,848**
Interest not charged (on an arms-length basis)	12,737	6,785

Included in the loan balances above is a loan to Mr John Bovard (Director) which represents a loan to John Bovard personally and SMG Nominees Pty Ltd, a related entity associated with Mr Bovard. Details of the loan are outlined below:

Balance at beginning of year	60,750	-
Loans advanced	100,000	60,750
Loan repayment received	-	-
Balance at end of year	**160,750**	**60,750**
Interest not charged (on an arms-length basis)	5,951	2,485

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	-
Loans advanced	-	121,500
Loan repayment received	-	-
Balance at end of year	**121,500**	**121,500**
Interest not charged (on an arms-length basis)	9,331	4,971

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	-	-
Loans advanced	264,500	-
Loan repayment received	-	-
Balance at end of year	**264,500**	**-**

Interest not charged (on an arms-length basis)	2,145	2,145

d. Amounts payable to related parties:

Trade and other payables:

Unsecured, at-call loans are provided by the parent entity, subsidiaries, directors, key management personnel and other related parties. Interest is not payable.

	Consolidated Group	
	2012	**2011**
	$	**$**
i. Loans from parent entity		
Balance at beginning of year	587,493	138,995
Loans advanced	566,834	681,703
Loan repayment received	(600,568)	(391,321)
Provision for impairment	(233,163)	158,116
Balance at end of year	**320,597**	**587,493**
ii. Loans from subsidiaries of the parent entity		
Balance at beginning of year	162,121	36,827
Loans advanced	2,143,726	219,613
Loan repayment received	(840,671)	(94,319)
Write back on debt forgiveness	(36,273)	-
Balance at end of year	**1,428,903**	**162,121**

NOTE 31: 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 leases.

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. Credit risk also arises through the provision of financial guarantees, as approved at Board level, given to parties securing the liabilities.

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 12.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 insitutions 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.

The contractual maturity of financial liabilities is set out in detail in Note 21.

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 2012, 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)	
	2012	2011
+1.00% (100 basis points)	13,936	8,701
-1.00% (100 basis points)	(13,936)	(8,701)

Equity	Consolidated Group Higher/(Lower)	
	2012	2011
+1.00% (100 basis points)	13,936	8,701
-1.00% (100 basis points)	(13,936)	(8,701)

d. Fair Value Estimation

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The net fair value of financial assets and liabilities of the Group approximate their carrying amounts.

The Group has no financial assets and liabilities where the carrying amount exceeds the net fair value at balance date.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of financial position and notes to the financial statements.

NOTE 32: 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

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 45 to 96, are in accordance with the *Corporations Act 2001* and:
    a. comply with Accounting Standards; which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
    b. give a true and fair view of the financial position as at 30 June 2012 and of the performance for the year ended on that date of the company and consolidated group;

2. the Chief Executive Officer and Chief Finance Officer have each declared that:
    a. the financial records of the company for the financial year have been properly maintained in accordance with s 286 of the *Corporations Act 2001*;
    b. the financial statements and notes for the financial year comply with the Accounting Standards; and
    c. the financial statements and notes for the financial year give a true and fair view;

3. 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.

Bovard

John Bovard

Chairman

Dated this 28th day of September 2012

SOTHERTONS L.L.P.
CHARTERED ACCOUNTANTS

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

AUSTRALIAN PACIFIC COAL LIMITED

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
AUSTRALIAN PACIFIC COAL LIMITED**

Report on the Financial Report

We have audited the accompanying financial report of Australian Pacific Coal Limited and Controlled Entities (the consolidated entity) which comprises the statement of financial position as at 30 June 2012, the income statement, the 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 of the consolidated entity comprising 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 and fair presentation 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 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 (IFRS).

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. Those 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 of 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.

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Sothertons: An association of independent accounting firms throughout Australasia
SOTHERTONS L.L.P. ABN 41 134 806 025
REGISTERED COMPANY AUDITORS
Liability limited by a scheme approved under Professional Standards Legislation

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 Opinion

In our opinion:

a) the financial report of Australian Pacific Coal Limited and Australian Pacific Coal Limited and Controlled Entities is in accordance with the Corporations Act 2001, including:

   i. giving a true and fair view of the company and consolidated entity's financial position as at 30 June 2012 and of their 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.

Inherent Uncertainty

Without qualification to the statement above, attention is drawn to the following matters:

Continuation as a Going Concern.

As described in Note 1 "Going Concern" there is uncertainty whether the consolidated group 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 at the amounts stated in the financial report. The financial report of 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.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 9 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with s300A 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 2012, complies with s300A of the Corporations Act 2001.

Sothertons LLP
Chartered Accountants
Level 6, 468 St Kilda Road
MELBOURNE VIC 3004

Partner: David Lissauer

Dated this 28th day of September 2012

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 Corporate Governance Principles and Recommendations and published guidelines relating to the eight core corporate governance principles (the Principles) and recommendations. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders.

The following table summarises the Company's compliance with the CGC recommendations and states whether the Company has complied with each recommendation. Where the Company considered it was not appropriate to comply with a particular recommendation the reasons are set out in the notes relating to the relevant Principle referred to in the table.

Recommendation	Compliance Yes/No	Refer Page No.
Principle 1 – Lay solid foundations for management and oversight		
1.1: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Yes	64
1.2: Companies should disclose the process for evaluating the performance of senior executives.	Yes	65
1.3: Companies should provide the information including departure from recommendations and whether performance appraisals took place and in accordance with the process disclosed.	Yes	65
Principle 2 – Structure the board to add value		
2.1: A majority of the board should be independent directors.	Yes	65
2.2: The chair should be an independent director.	Yes	65
2.3: The roles of chair and chief executive officer should not be exercised by the same individual.	Yes	65
2.4: The board should establish a nomination committee.	No	66
2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors	Yes	66
2.6: Companies should provide the information indicated in the Guide to reporting on Principle 2.	Yes	66
Principle 3 – Promote ethical and responsible decision-making		
3.1: Companies should establish a code of conduct and disclose the code or a summary of the code as to:		
• the practices necessary to maintain confidence in the company's integrity;	Yes	66
• the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and	Yes	66
• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Yes	66

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 asses annually both the objectives and progress in achieving them.	Yes	67
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.	Yes	67
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.	Yes	67
3.5 Companies should provide an explanation of any departures from recommendations 3.1 to 3.5 in the corporate governance statement in the annual report.	Yes	67
Principle 4 – Safeguard integrity in financial reporting		
4.1: The board should establish an audit committee.	Yes	67
4.2: The audit committee should be structured so that it:		
• consists only of non-executive directors	Yes	67
• consists of a majority of independent directors	Yes	67
• is chaired by an independent chair, who is not chair of the board	Yes	67
• has at least three members.	No	67
4.3: The audit committee should have a formal charter	Yes	67
4.4: Companies should provide the information indicated in the Guide to reporting on Principle 4.	Yes	67
Principle 5 – Make timely and balanced disclosure		
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.	Yes	67
5.2: Companies should provide the information indicated in the Guide to reporting on Principle 5.	Yes	67
Principle 6 – Respect the rights of shareholders		
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.	Yes	68
6.2: Companies should provide the information indicated in the Guide to reporting on Principle 6.	Yes	68

Principle 7 – Recognise and manage risk		
7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	68
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.	Yes	68
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.	Yes	69
7.4: Companies should provide the information indicated in the Guide to reporting on Principle 7.	Yes	69
Principle 8 – Remunerate fairly and responsibly		
8.1: The board should establish a remuneration committee.	Yes	69
8.2: The Remuneration committee should be structured so that it:		
• consists of a majority of independent directors	Yes	69
• is chaired by an independent chair, and	Yes	69
• has at least three members	No	69
8.3: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes	69
8.4: Companies should provide the information indicated in the Guide to reporting on Principle 8.	Yes	69

Corporate Governance Documents including the Corporate Governance Statement, Board Charter, Audit Committee Charter, and Remuneration Committee Charter, Risk Management Policy, Communications Policy, Code of Conduct Policy and Ethics Policy are publicly available and can be found in the Corporate Governance section of the Company's website at www.aqcltd.com

Principle 1 – Lay solid foundations for management and oversight

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.

The Board has a number of responsibilities including input into the development of the Company's corporate strategy, understanding and monitoring the budget and identifying areas of material business risk and ensuring arrangements are in place to adequately manage those risks. The Company has established functions reserved to the Board and matters delegated to senior executives which are outlined in the Board Charter and other corporate governance documents which are publicly available on the Company's website.

Even though the Board is responsible for guiding and monitoring the Group, the Audit Committee and Remuneration Committee provides focus on particular areas of responsibility and reports to the Board. Overall risk management roles and responsibilities have been identified in the Risk Management Policy which is publicly available on the Company's website.

The existing directors have been provided with a formal letter of appointment that sets out the terms and conditions of their appointment, any special duties attaching to their position, details of their duties, functions and responsibilities, company policies on dealing with conflicts of interest, trading securities, access to professional advice and relevant company records. The directors are required to adhere to the Code of Conduct Policy and Ethics Policy which has been made publicly available on the Company's web site. All existing directors have entered into a director's disclosure deed with the Company that requires directors to provide the Company with the information required to be disclosed in relation to the trading of securities.

There are procedures in place for directors to seek independent professional advice at the expense of the Company. Individual directors have the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings to fulfill their duties and responsibilities as directors. The engagement of an outside adviser by individual directors is subject to the prior approval of the Board, which will not be unreasonably withheld.

The directors are subject to re-election by shareholders. All directors, apart from the Managing Director, are subject to re-election by rotation within every three years. The Company's Constitution provides that one-third of the directors retire by rotation at each Annual General Meeting (AGM). Those directors who are retiring may submit themselves for re-election by shareholders, including any director appointed to fill a casual vacancy or recruited since the date of the last AGM.

The Remuneration Committee has been established to review the performance of senior management against a formalised set of qualitative performance criteria. Formal performance evaluations are completed annually after each senior manager has completed one year's service. The Remuneration Committee reports its findings from the performance evaluation to the Board. The performance criteria for evaluating senior management are aligned with objectives of the Company. During the financial year the Remuneration Committee conducted performance evaluations of the Managing Director, Non-executive Directors, and the Company Secretary against the formalised performance criteria.

Principle 2 – Structure the Board to add value

The skills, expertise and experience relevant to each position of director in office at the date of the Annual Report are included in the Directors' Report. The 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.

In the context of director independence, "Materiality" is considered from both the consolidated entity and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 5% of the appropriate base amount. Qualitative factors considered in determining "Materiality" include previous employment by the Company, shares held in the Company and any previous contractual and other relationships that the director has held with the Company.

In accordance with the concept of independence outlined above, the Board has considered the independence of directors as follows:

Name of Director	Position	Independence	Date of Appointment
Mr John Bovard	Non-executive Chairman	Considered independent	30 October 2009
Mr Peter Ziegler	Non-executive Deputy Chairman	Considered independent	29 November 2005
Mr Paul Byrne	Executive Director	Not consider independent as employed in an executive capacity and a substantial shareholder of the Company	29 November 2005
Mr Paul Ingram	Non-executive Director	Considered independent	17 March 2011

The Board has adopted a number of measures to ensure that independent judgement is achieved and maintained in respect of its decision-making processes. It is an effective Board that facilitates discussion, allows debate, adds value and ensures that the directors discharge their duties required by the law. The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report. Information regarding the director's attendance at meetings of the Remuneration Committee can also be found in the Directors' Report.

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.

Due to its size and nature of business, the Company does not have a nomination committee. The Board decides the selection of members of the Board and makes recommendations to shareholders for election of Directors. In considering membership of the Board, directors take into account the appropriate skills and characteristics needed by the Board to maximise its effectiveness and the blend of skills, knowledge and experience for the present and future needs of the Company. Each Board member is responsible for assessing the necessary competencies of Board members to add value to the Company, reviewing the Board succession plans and evaluating the Board's performance.

Principle 3 – Promote ethical and responsible decision-making

The Company endeavours to foster a culture requiring that the directors and officers act with the utmost integrity, objectivity and in compliance with the spirit of the law and Company policies.

The Code of Conduct Policy and Ethics Policy provides practices necessary to maintain confidence in the Company's integrity practices necessary to take into account legal obligations and reasonable expectations of stakeholders and outlines the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Code of Conduct and Ethics Policy also outlines the policy concerning trading in its securities by directors, senior executives and other employees. The Company has taken reasonable steps to ensure compliance with the share trading policy. Directors, officers, senior executives and certain employees are required to advise the Chairman of their intentions prior to undertaking any transaction in the Company's securities. If a Director, officer, senior executive and employee is considered to hold material non-public information, they will be precluded from making a security transaction until that information has become publicly available. The trading policy also precludes Directors and Senior Management from trading in the Company's securities during the period from when the books are closed until the next day after the release of the financial results.

CORPORATE GOVERNANCE STATEMENT

Details of the policy concerning the trading of securities, terms of code of conduct and ethics can be found in the Code of Conduct Policy and Ethics Policy which is publicly available in the Corporate Governance section of Company's website at www.aqcltd.com.

The Company had adopted a Diversity Policy and is committed to developing diversity in its workplace to assist the Company to meet its goals and objectivities by providing an environment whereby appointments, advancement andopportunities 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.

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. The Diversity Policy publicly available in the Corporate Governance section of Company's website at www.aqcltd.com.

The percentage of woman in the whole organisation as a whole organisation, senior management, and the Board are as follows:-

- Whole organisation 20%
- Senior Management Nil
- Board Nil

Principle 4 – Safeguard integrity in financial reporting

The Company has established an Audit Committee which operates under a Charter approved by the Board. The Audit Committee comprises only two non-executive directors being Mr. Peter Ziegler (Chairman of the Audit Committee) and Mr John Bovard. Mr Ziegler and Mr Bovard are considered to be independent.

Details of the qualifications of those appointed to the Audit Committee, their attendance at Audit Committee meetings and the number of meetings of the Audit Committee are contained in the Directors' Report.

The membership of the audit committee is a departure from Best Practice Recommendation 4.2 that requires that the Audit Committee consist of a majority of independent directors, chaired by an independent director and has at least three members. Due to the size, nature and level of complexity of the Company, the Board does not believe that it is necessary to have that the Audit Committee should consist of at least three members.

The Audit Committee through its own investigations and in consultation with its external auditors ensures that the Company has met the ASX guidelines regarding the selection and appointment of the external auditor and the rotation of external audit engagement partners. Details of the procedures for the engagement of the external auditor can be found in the Code of Conduct Policy and Ethics Policy. The Audit Committee Charter is publicly available on the Company's website at www.aqcltd.com.

Principle 5 – Make timely and balanced disclosure

The Board is committed to the promotion of investor confidence by ensuring that trading in the Company's securities is undertaken in an efficient, competitive and informed market. There are 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.

Details of the continuous disclosure policy can be found in the Code of Conduct Policy and Ethics Policy which is publicly available on the Company's website at www.aqcltd.com.

Principle 6 – Respect the rights of shareholders

The Company has designed a Communications Policy for promoting effective communication with shareholders and encouraging shareholder participation at Annual General Meetings of members.

Shareholder Communications Policy

The Company believes that the promotion of effective communication with its shareholders at all times is integral to ensuring the Company respects the rights of its shareholders.

Australian Pacific Coal Limited 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;
- Ensuring that the shareholders and other stakeholders are provided with timely and full information about the Company's activities.

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
- 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.

Principle 7 – Recognise and manage risk

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.

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.

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.

The Risk Register has identified risk in the broad categories of operations management, asset management, environment, compliance/financial reporting, strategic management, ethical conduct, reputation, occupational health and safety/human resources, IT/technology, finance/business continuity, tenements/resource statements and stakeholder communications. The Company's material business risks have been identified. A copy of the Risk Management Policy is publicly available on the Company's web site at www.aqcltd.com.

The Company has a number of mechanisms in place to ensure that management regularly report on matters relating to risks. During the year, the Board has received reports from management as to the effectiveness of the company's management of its material business risks. The reports by management to the Board have been provided under the former system of risk management and internal control. The Company has updated its risk management procedures and the Board has recently received reports from management as to the effectiveness of the company's updated system for managing its material business risks.

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:

- 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
- the Company's risk management and internal compliance and control system is operating effectively in all material respects.

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 judgement required, the limitations of sampling and the difficulty in designing systems to detect all weaknesses in internal control procedures.

Principle 8 – Remunerate fairly and responsibly

The Company has established a Remuneration Committee. The remuneration policies are included in the Remuneration Charter which is posted on the Company's website. The Remuneration Committee 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. The Remuneration Committee makes recommendations to the Board on performance and remuneration which is ultimately responsible for reviewing compensation agreements for the directors and the executive management.

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. There is no scheme to provide retirement benefits to non-executive directors, except for their entitlement to the nine (9) percent Superannuation Guarantee. Further details of the structure of the remuneration procedures can be found in the Remuneration Committee Charter.

Due to size, nature and complexity of the Company the Remuneration Committee only has two members including the Chairman of the Company and is chaired by a non-executive director. The Chairman of the Board is not the chairman of the Remuneration Committee.

The Company does not allow its directors or senior management to enter in transactions in associated products which limits the risk of participating in unvested entitlements under any equity based remuneration schemes.

The members of the Remuneration Committee are Mr Peter Ziegler (Chairman) and Mr John Bovard. Details of the qualifications of the members of the Remuneration Committee, number of meetings held during the year and the attendees at those meetings are found in the Directors' Report. A copy of the Remuneration Committee Charter can be found at the Company's website at 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 2012.

1. **Shareholding**

a. **Distribution of Shareholders**

Category (size of holding)	Number of holders	Number of shares held
1 – 1,000	169	26,988
1,001 – 5,000	114	396,007
5,001 – 10,000	115	924,349
10,001 – 100,000	699	34,382,654
100,001 – and over	558	529,263,928
Total	1,655	564,993,926

b. The number of shareholdings held in less than a marketable parcel of 27,778 shares ($0.018 on 30 September 2012) is 629 and they hold 5,563,002 shares.

c. The names of the substantial shareholders listed in the holding company's register as at 30 September 2012 are:

Shareholder	Number Shares
Elizabeth Anne Byrne Henderson	82,127,374
Paul James Byrne	61,148,548

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.

Unlisted Options:

— No unlisted option is entitled to any vote prior to its conversion to an ordinary share at which time the voting rights attached to the issued ordinary share applies.

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	45,540,215	8.06%
2.	Dr Elizabeth Anne Byrne Henderson	29,306,553	5.19%
3.	Mr Peter Graham Wells	23,333,536	4.13%
4.	Westpearl Pty Ltd	18,180,327	3.22%
5.	Moray Holdings Pty Ltd	15,608,333	2.76%
6.	Shemariah Pty Ltd	13,514,742	2.39%
7.	ITR Investments Pty Ltd	13,002,700	2.30%
8.	Wellton Holdings Pty Ltd	10,233,333	1.81%
9.	Gordon Holdings (Qld) Pty Ltd	7,496,628	1.33%
10.	JP Morgan Nominees Australia Limited	6,282,000	1.11%
11.	PG Binet Pty Ltd	6,062,500	1.07%
12.	HSBC Custody Nominees (Australia) Limited	6,044,120	1.07%
13.	Mr Paul Gerard Hislop & Mrs Linda Jane Hislop	5,750,000	1.02%
14.	Mr Heath Barry Bourke	5,500,000	0.97%
15.	Shemariah Pty Ltd atf Kirkwood Family Super A/c	5,150,000	0.91%
16.	Polylux Pty Ltd	5,000,000	0.88%
17.	Paul Ingram	5,000,000	0.88%
18.	Demycoal Pty Ltd	5,000,000	0.88%
19.	ABN Amro Clearing Sydney Nominees Pty Ltd	4,897,453	0.87%
20.	Winform Nominees Pty Ltd	4,889,108	0.87%
		235,791,548	41.72%

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

DIRECTORS

John Graham Bovard
Paul James Byrne
Peter Alexander Ziegler
Paul Anthony Ingram

COMPANY SECRETARY

Kevin Mischewski

LAWYERS

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

AUDITORS

Sothertons Chartered Accountants
10 Market Street
Brisbane QLD 4000

BANKERS

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