

INTERNATIONAL COAL LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2014

**International Coal Limited ABN 65 149 197 651
and Controlled Entities**

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**International Coal Limited ABN 65 149 197 651
and Controlled Entities**

International Coal – a pathway to mine

CORPORATE DIRECTORY

ABN 65 149 197 651

Directors

Mr John Lester – Non Executive Chairman

Mr Hugh Dai – Executive Director

Mr Noel Halgreen – Non Executive Director

Company Secretary

Ms Kate O'Donohue

Registered Office

ANZ Bank Building
Level 15, 324 Queen Street
Brisbane
Queensland 4000

Principal Place of Business

ANZ Bank Building
Level 15, 324 Queen Street
Brisbane
Queensland 4000

Share Registry

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000

Solicitors

Hemming & Hart Lawyers
Level 5
307 Queen Street
Brisbane,
Queensland 4000

Auditors

Hall Chadwick
Level 40
2 Park Street
Sydney
NSW 2000

Bankers

Commonwealth Bank of Australia Ltd

Website

www.intercoal.com.au

**International Coal Limited ABN 65 149 197 651
and Controlled Entities**

Dear Shareholder

The past year has been an extremely difficult time for all small cap. exploration companies, most particularly those involved in the search for coal. The Board and Management of International Coal Limited have concentrated their efforts on the development of the Company's coal projects while making every effort to preserve cash.

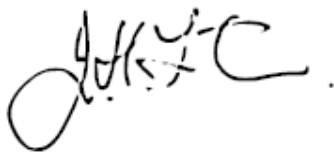
Our Joint Venture with Queensland Coal Investments Pty Ltd (QCI) to explore EPC 2196 (Bundaberg Project) concluded a successful drilling program last year and this year has been devoted to conducting studies to ascertain the economic viability of the project. The Company commissioned a study by a major mining company to look into the potential for development of the resources uncovered by the exploration drilling. This study concluded there was potentially an economic resource on EPC 2196 but that more exploration would need to be undertaken to conclusively demonstrate this and define the parameters for development of a mine. International Coal has the leadership position in the Joint Venture and is managing the project. The current position is that QCI has a 25% interest in the project and International Coal a 75% interest.

The sharp fall in the price of thermal coal has impacted negatively on the whole coal industry with a number of mines closing and others being put on a care and maintenance basis. However, International Coal has continued with studies on its Consuelo Joint Venture with Coal Face Resources Pty Ltd on the design of an exploration program to demonstrate the presence of shallow, high grade thermal/semi-soft coking coal. The weak coal price and poor conditions for raising finance make it difficult to undertake major exploration projects at this time and financial prudence has meant that the Board and Management of International Coal has confined its exploration efforts to desk top studies and interpretation of seismic work previously conducted. We are confident that Consuelo will prove to be a large scale economically viable project.

Work done by Noble Group and East Energy Limited putting a value on their resource in the Eromanga Basin has underpinned the importance of the 1.24 billion tonne inferred resource uncovered by International Coal on its South Blackall Project EPC 2197. International Coal is exploring ways of working with other parties for the long term development of what will prove to be an enormous and important coal province.

We thank our shareholders for their support in what has proved to be an extremely difficult environment and look to the future with renewed confidence.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Lester', with a large loop at the start and a trailing flourish.

John Lester

Non-Executive Chairman

DIRECTORS' REPORT

The directors of International Coal Ltd ("ICX") present their report on the consolidated entity (Group or consolidated group), consisting of International Coal Limited and the entities it controlled at the end of, and during, the financial year ended 30 June 2014.

Principal Activities

The principal activity of the Group during the financial year was the use of capital to explore and develop the company's tenure holdings in Queensland.

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

Operating Results and Review of Operations for the Year

Operating Results

The consolidated loss of the Group amounted to \$671,345 (2013: \$1,264,330) after providing for income tax. This includes a refund of income tax of \$285,828 relating to the prior financial year. Further discussion on the Group's operations now follows.

Review of Operations

The Board of ICX is pleased to report to shareholders the following summary of the work undertaken in developing the group during the year ended 30 June 2014.

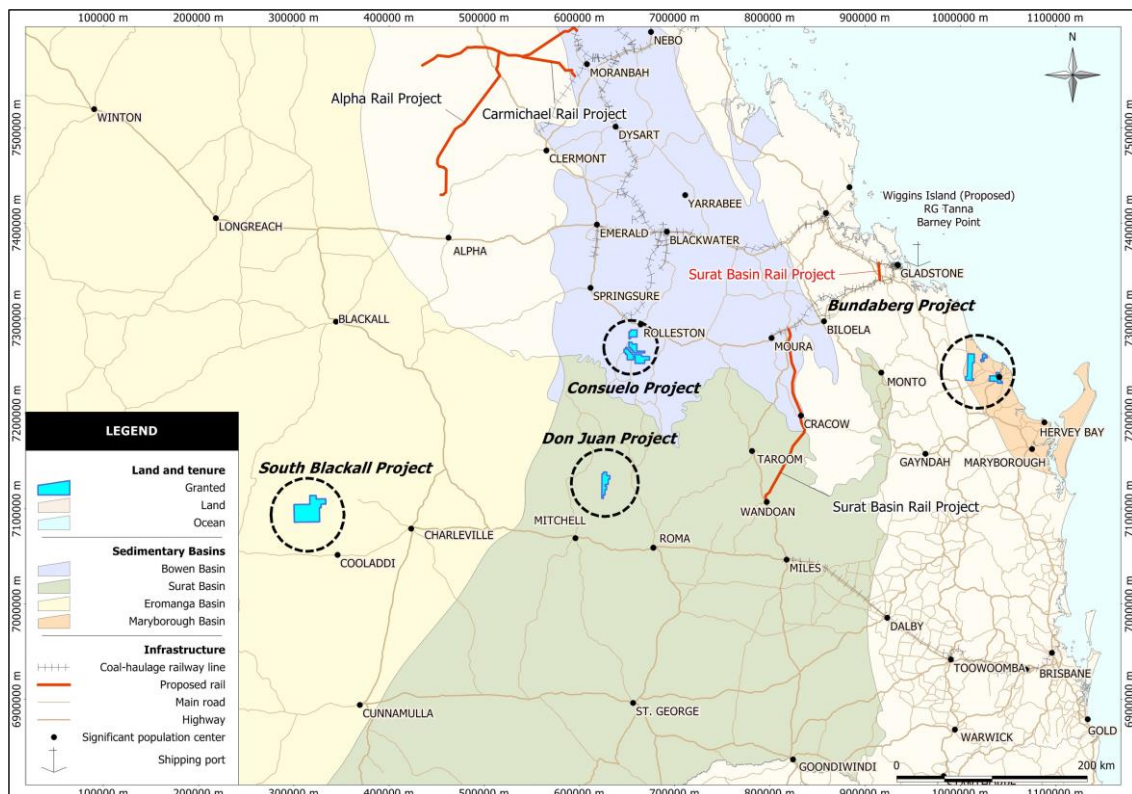


Figure 1 – Location of Key International Coal Projects

DIRECTORS' REPORT (CONTINUED)

Bundaberg Project

The Bundaberg Project includes EPC 2194, 2195, and 2196. The project is located approximately 20 to 30km northwest of Bundaberg on Queensland's coast. EPC 2196 has been the main focus to date.

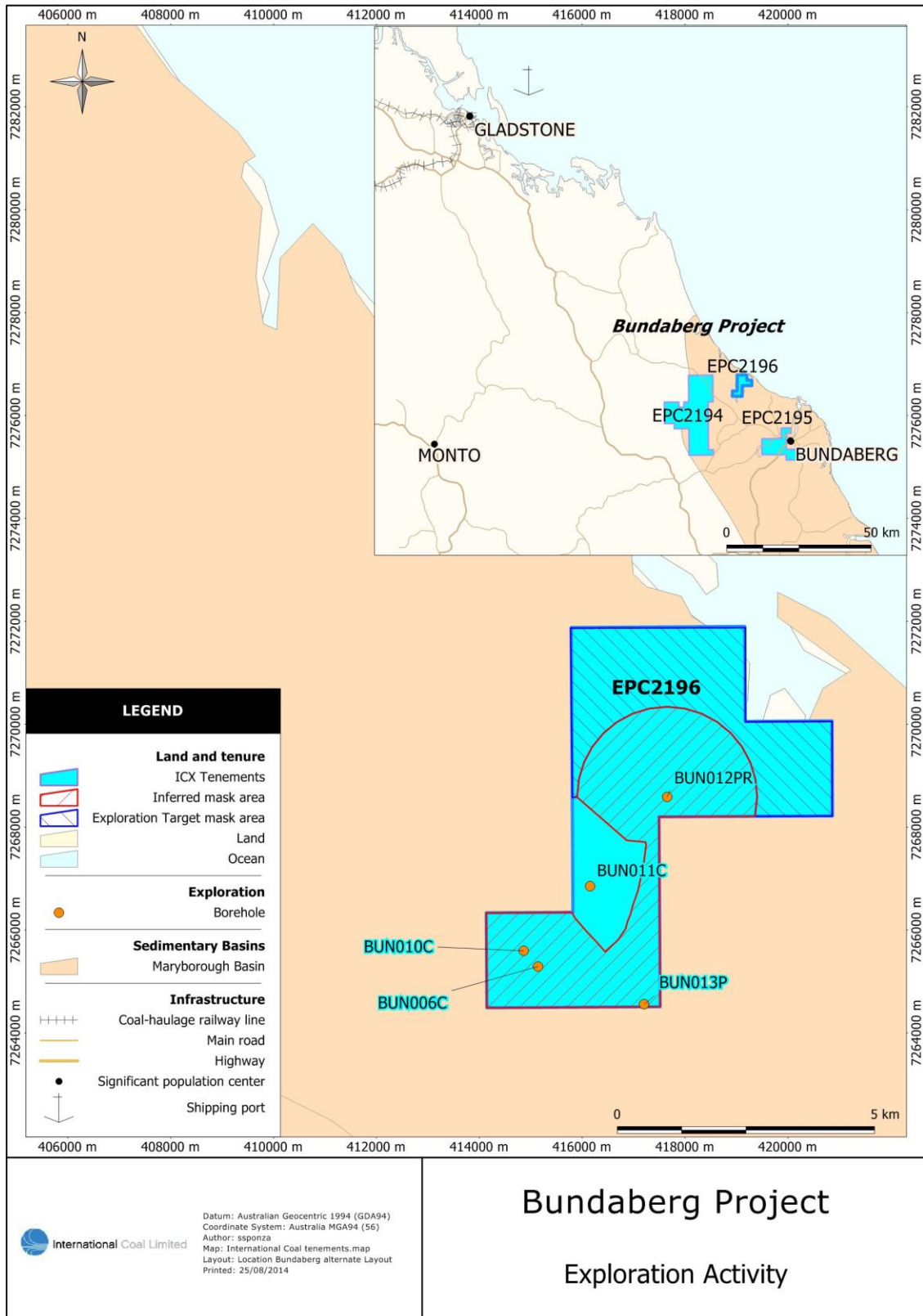


Figure 2 – Location of Bundaberg Project (EPC 2194, 2195 and 2196)

DIRECTORS' REPORT (CONTINUED)

During 2013-14FY progress at the Bundaberg Project included:

- i) New exploration drilling (holes BUN012PR and BUN013P) resulting in an Inferred Resource of 37.9Mt (increase from 28.5Mt) being announced in December 2013. This exploration was undertaken within Queensland Coal Investments Pty Ltd's (QCI) obligation to earn a 25% joint venture interest in the project.
- ii) An Inferred Resource of 41.3Mt was reported on 2nd April 2014, following the inclusion of results from a data sharing arrangement with Fox Resources (holder of the adjacent EPC 1523 tenement). The results showed the correlation of the GU, GL1 and GL2 seams across the tenement boundaries, and continue to show hard coking coal characteristics.

ICX has continued to examine the exploration results, and worked with geological and mining contractors to better understand the development potential. This work has identified a potential mineable working section and suitable underground mining method.

Consuelo Project

The Consuelo Project (EPC 2332, 2318 and 2327) is located in the Bowen Basin, south-east of Glencore PLC's Rolleston Mine and south-west of Bandanna Energy Limited's Arcadia Project. The project is targeting seams of the Bandanna Formation. These seams are reported to have the potential for washing to a semi-soft coking coal product. Modelling based on historical evidence suggest the seams may occur at shallow (less than 250m) to intermediate depths (less than 500m), with the shallowest occurrences likely to occur in the northwest portion of EPC 2327.

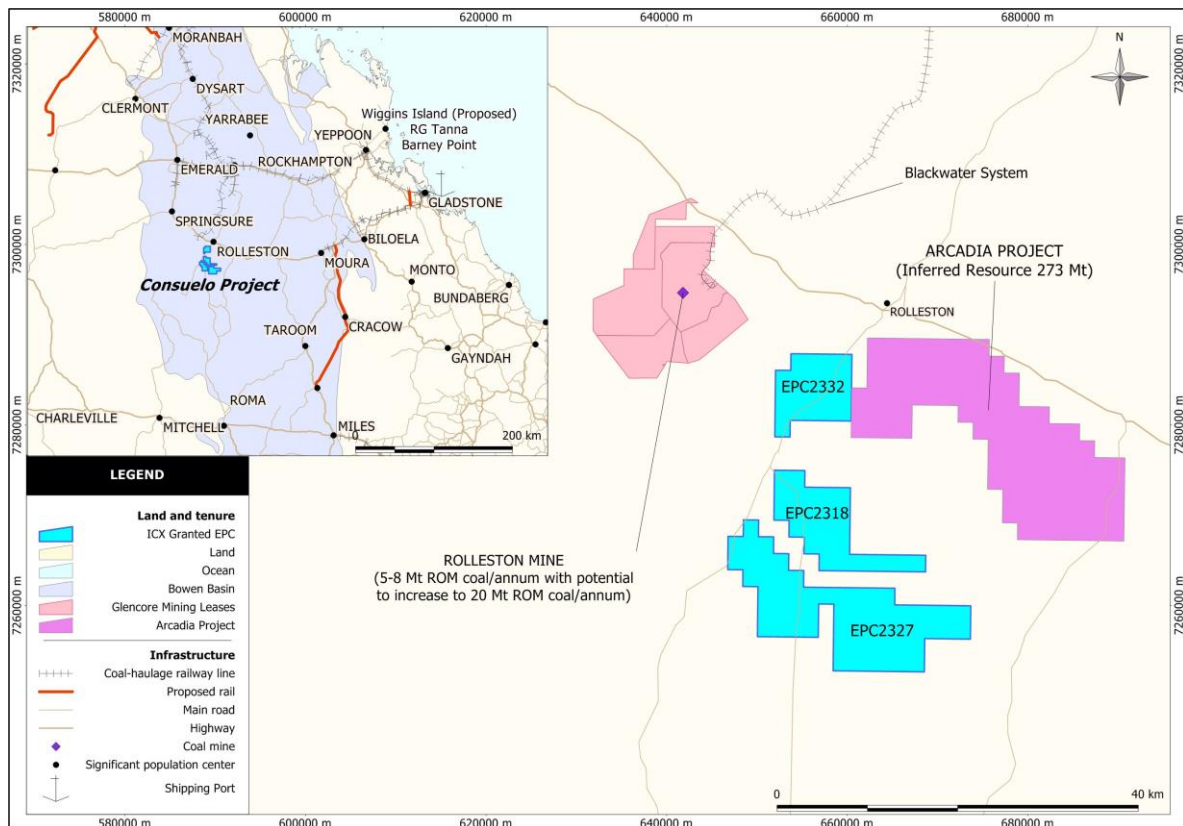


Figure 3 - Location map of the Consuelo Project (EPC 2332, 2318 and 2327)

DIRECTORS' REPORT (CONTINUED)

On 21 November 2012 ICX and Coal Face Resources Pty Ltd ("Coal Face") agreed a Joint Venture arrangement, providing ICX with an initial 20% interest in the Consuelo Project, and the potential to earn an interest of 71% following completion of the farm in phases.

On 29 July 2013, EPCs 2318 and 2332 were granted, and subsequently EPC 2327 was granted on 30 January 2014.

Desktop studies indicate that EPC 2327 has the highest potential for coal at open cut depths of all the Consuelo Project tenements. The studies uncovered drilling and seismic information that suggests there is potential for coal seam(s) up to 4m thick to occur between 45m and 100m in the northwest of the tenement.

Planning for exploration is well advanced and work is underway on attaining appropriate clearances for exploration (expected Q4 2014).

South Blackall

The South Blackall Project incorporates EPC 2197 south of Blackall.

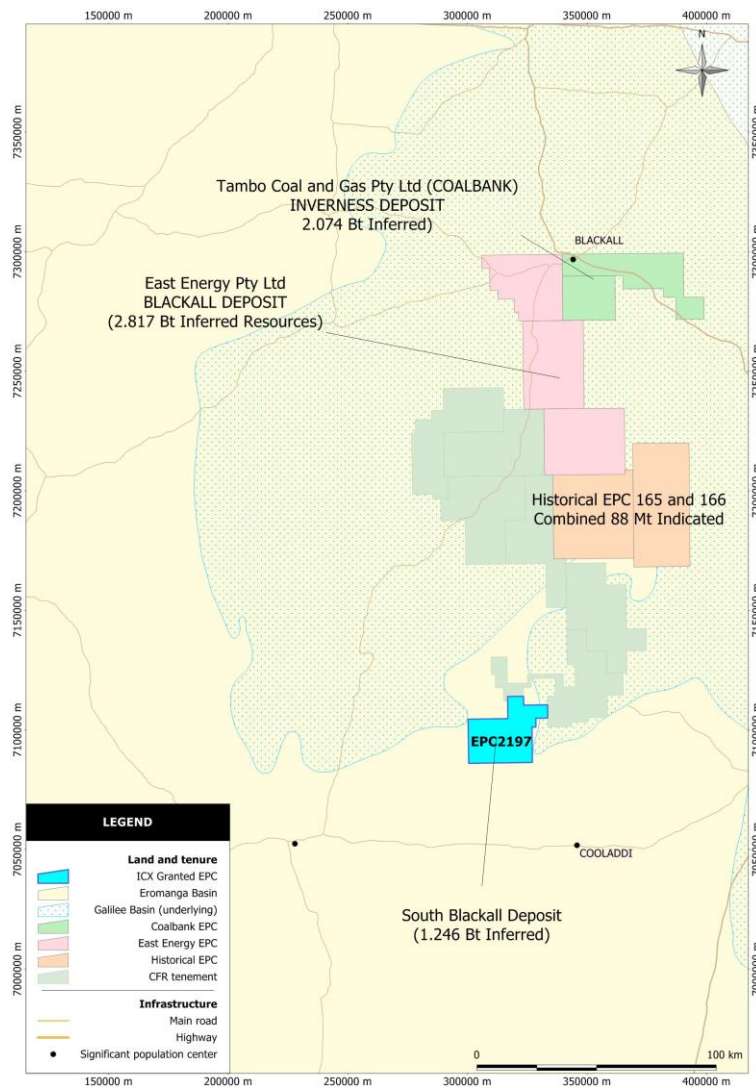


Figure 4 – Location of EPC 2197 (South Blackall Project) relative to other large coal deposits in the eastern Eromanga Basin

DIRECTORS' REPORT (CONTINUED)

During the 2012-13FY exploration and laboratory testing identified 1.246 billion tonne Inferred Resource at EPC2197. A majority of coal seams were encountered between 35 and 150 metres. Washing and treatment of raw coal could be expected to increase Gross Calorific Values by around 10-20% from raw/unwashed values.

During the 2013-14FY period work focussed on the commercialisation options for the large deposit, while minimising expenditure.

Don Juan Project

In November 2012 ICX signed a Terms Sheet with Coal Face to acquire a 20% interest in the Don Juan Project (EPC 2286) in the Surat Basin. The project is located west of the Glencore PLC's Wandoan deposits, and west of other Surat projects and producing thermal coal mines.

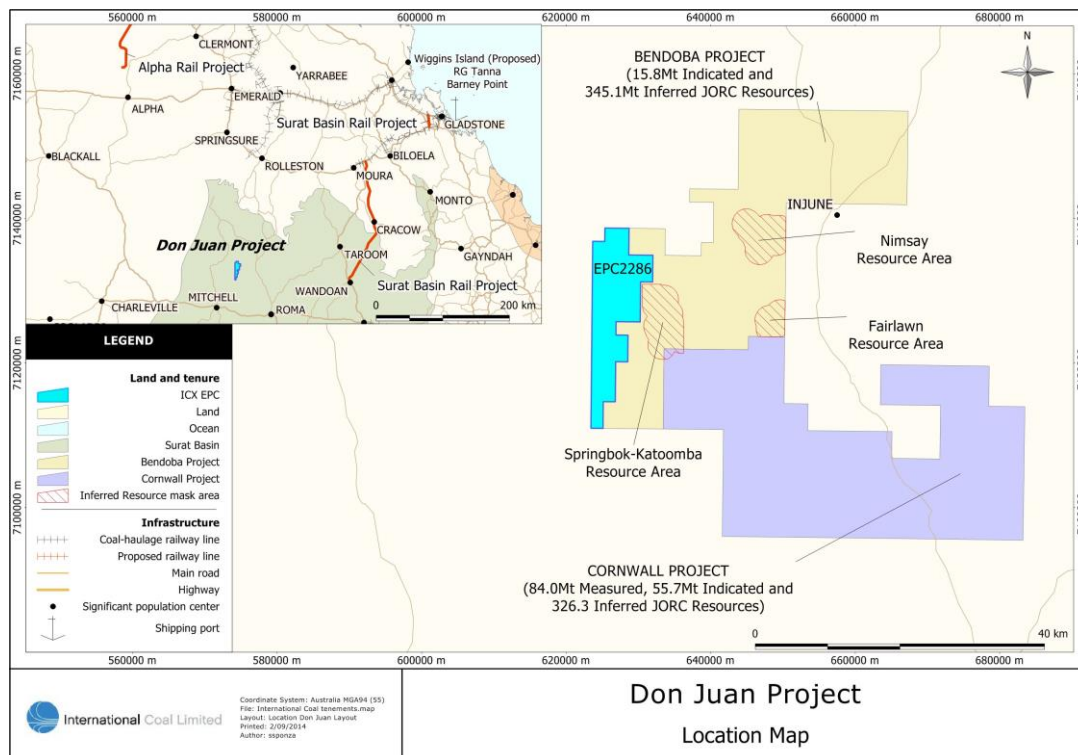


Figure 5 – Location of EPC 2286 (Don Juan Project)

In October 2013 ICX repositioned its involvement in the Don Juan project, increasing its interest to 46%, while allowing company focus on the Consuelo and Bundaberg projects.

Other

An option for purchase was negotiated with Blackall Capital Pty Ltd for non-core assets (EPC 2702 and 2861) near Emerald following the grant of EPC 2702. EPC 2702 was subsequently sold to Blackall Capital and EPC 2861 remains under option for sale.

In March 2014 ICX was accepted as a B Class Shareholder in WICET – the consortium developing the Wiggins Island Export Terminal near Gladstone. This status ensures ICX is considered in future planning activities for WICET as exploration of the Bundaberg and Consuelo projects progresses.

DIRECTORS' REPORT (CONTINUED)

Resource Summary, Competent Person Statement and Notes

A. Bundaberg

On 2nd April 2014 ICX announced a JORC Inferred Resource estimate of 41.3Mt at EPC 2196. This estimate was based on previously announced estimates (ASX announcements in March, October and December 2013), and the inclusion of data from the neighbouring EPC 1523 held by Fox Resources Limited.

Inferred Resource estimates on EPC 2196 (75% ICX, 25% QCI), 17 March 2014.

Tenement	Formation	Inferred Tonnage (Mt)	Raw Ash % adb	Raw Volatile Matter % adb	Crucible Swell Number	Raw Total Sulphur % adb
EPC 2196	Burrum Coal Measures	41.3	18.4	22.9	8.5	0.69

As reported on 25 March 2013, clean coal composite results (at CF1.50) from the key target seams, GU, GL1 and GL2 showed crucible swell numbers (CSN) between 8-9, maximum Gieseler Fluidity of 2500ddpm, average ash of 9.5%, average calorific value of 7,450kcal/kg at yields of 40%-80%. These results compare favourably to recognised Bowen Basin benchmark coking coals.

The estimate was made under the Joint Ore Reserve Committee (JORC) Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves 2012 Edition.

1) *JORC Note 1. Constraints on the Inferred Resources are as follows: Coal seams not intruded or not outside the tenure boundaries; coal thicknesses <0.2m excluded; depth range of calculation was from the base of weathering to 520m below natural topography; coal seams where the GL1 and GL2 ash (adb) >55% are excluded from the calculations; discount factor of 12% has been subtracted from the initial calculation for unexpected geological losses. This accounts for unexpected conditions such as seam thinning, splitting, or seams missing in barren zones around faults. The geological modelling package used was Minescape and seam structure and thickness contours were generated using standard modelling algorithms and methodologies. Inferred masks were generated from base circles drawn 3,500m between Points of Observation; Points of Observation were defined as those boreholes that had known surveyed positions, detailed lithological logs and coverage of the target coal seams with a suite of downhole geophysical logs that must include density in units of kg/m³.

**International Coal Limited ABN 65 149 197 651
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DIRECTORS' REPORT (CONTINUED)

B. Consuelo

Summary Consuelo Exploration Targets by EPC (Depths <750m)

EPC Tenure	Formation, Seams	Depth Range (m)	Gross Insitu Coal (Mt) ¹	Unexpected Geological Loss (%vol) ²	Exploration Target – Lower Bound (Mt) ³	Exploration Target – Upper Bound (Mt)
Mt Panorama	Bandanna, X-E seams	0 - 750	640.1	15	200	650
Wild Horse Swamp	As above	0 - 750	538.2	15	300	500
Christmas Creek	As above	0 - 750	614.5	15	300	550
			Totals		800	1,700

N.B. The Consuelo Exploration Target estimate is dated as at 7th June 2013, and has been prepared in accordance with the Australasian Code for Reporting of Coal Resources and Coal Reserves published in 2004 (JORC Code).

1 The Bandanna Formation has been given an average density of 1.4 g/cc. Mantuan seam excluded; total in situ tonnes with no constraints.

2 Unexpected geological loss mainly due to seam splitting and thinning over large distances between boreholes.

3 It should be noted that the tonnages quoted above are conceptual in nature and there has been insufficient exploration to define a coal resource. No coal quality data within the project area was uncovered in previous reports. Although a preliminary analysis was undertaken, insufficient data exists to confidently correlate coal seams and generate a grid mesh model. It is uncertain whether further exploration may lead to the reporting of a JORC-standard resource however there is some evidence to support the current exploration tonnage calculations, and the sufficient coal thicknesses interpreted from historic drilling to warrant further investigation in some areas.

Summary Consuelo Exploration Targets (Mantuan Fm) by Depth

EPC Tenure	Formation, Seams	Depth Range (m)	Gross Insitu Coal (Mt) ¹	Unexpected Geological Loss (%vol) ²	Exploration Target – Lower Bound (Mt) ³	Exploration Target – Upper Bound (Mt)
All	Mantuan, MAN1-2 seams	0 - 250	15.5	15	0	10
All	As above	250 -500	0	15	-	-
All	As above	500 - 750	77.2	20	20	60
			Totals		20	70

1 The Mantuan Formation has been given an average density of 1.50 g/cc; total in situ tonnes with no constraints.

2 Unexpected geological loss mainly due to seam splitting and thinning over large distances between boreholes.

3 It should be noted that the tonnages quoted above are conceptual in nature and there has been insufficient exploration to define a coal resource. No coal quality data within the project area was uncovered in previous reports. Although a preliminary analysis was undertaken, insufficient data exists to confidently correlate coal seams and generate a grid mesh model. It is uncertain whether further exploration may lead to the reporting of a JORC-standard resource however there is some evidence to support the current exploration tonnage calculations, and the sufficient coal thicknesses interpreted from historic drilling to warrant further investigation in some areas.

**International Coal Limited ABN 65 149 197 651
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DIRECTORS' REPORT (CONTINUED)

C. South Blackall

A tonnage estimate of 1.25 Bt for the South Blackall Project (EPC 2197) was previously announced in 2012 (effective date 26th November 2012). The estimate was prepared in accordance with the Australasian Code for Reporting of Coal Resources and Coal Reserves published in 2004 (JORC Code).

EPC 2197 Inferred Resource Estimate

Mask	Formation	Seam	Area	Grid Averaged Seam Thickness	Volume	Wet, insitu Relative Density	Mass	Unexpected Geological Loss	Residual Insitu Mass
			km ²	m	km ³	kg/m ³	Mt	%vol	Mt
GUMB_INF1	Winton Formation	WN01	42.50	0.55	23.38	1.45	33.894	15.0	28.81
GUMB_INF1	Winton Formation	WN02	52.40	0.61	31.96	1.45	46.348	15.0	39.40
GUMB_INF1	Winton Formation	WN03	90.80	1.65	149.82	1.45	217.239	15.0	184.65
GUMB_INF1	Winton Formation	WN04	105.90	0.91	96.37	1.45	139.735	15.0	118.77
GUMB_INF1	Winton Formation	WN05	78.20	0.73	57.09	1.45	82.775	15.0	70.36
GUMB_INF1	Winton Formation	WN06	57.20	0.41	23.45	1.45	34.005	15.0	28.90
GUMB_INF1	Winton Formation	WN07	58.50	0.74	43.29	1.45	62.771	15.0	53.35
GUMB_INF1	Winton Formation	WN08	63.50	0.83	52.71	1.45	76.422	15.0	64.96
GUMB_INF1	Winton Formation	WN09	67.60	0.91	61.52	1.45	89.198	15.0	75.82
GUMB_INF1	Winton Formation	WN10	69.90	0.47	32.85	1.45	47.637	15.0	40.49
GUMB_INF1	Winton Formation	WN11	103.70	0.81	84.00	1.45	121.796	15.0	103.53
GUMB_INF1	Winton Formation	WN12	120.50	0.50	60.25	1.45	87.363	15.0	74.26
GUMB_INF1	Winton Formation	WN13	124.60	0.62	77.25	1.45	112.015	15.0	95.21
GUMB_INF1	Winton Formation	WN14	126.30	0.70	88.41	1.45	128.195	15.0	108.97
GUMB_INF1	Winton Formation	WN15	78.10	0.31	24.21	1.45	35.106	15.0	29.84
GUMB_INF1	Winton Formation	WN16	77.40	0.64	49.54	1.45	71.827	15.0	61.05
GUMB_INF1	Winton Formation	WN17	89.10	0.62	55.24	1.45	80.101	15.0	68.09
GUMB_INF1	Winton Formation	WN18	64.70	0.19	12.29	1.45	17.825	15.0	-
GUMB_INF1	Winton Formation	WN19	50.60	0.17	8.60	1.45	12.473	15.0	-
GUMB_INF1	Winton Formation	WN20	23.20	0.17	4.02	1.45	5.828	15.0	-
GUMB_INF1	Mackunda Formation	MAK01	34.10	0.28	9.55	1.50	14.322	20.0	-
GUMB_INF1	Mackunda Formation	MAK02	41.60	0.29	12.06	1.50	18.096	20.0	-
GUMB_INF1	Mackunda Formation	MAK03	3.05	0.67	2.03	1.50	3.042	20.0	-
GUMB_INF1	Mackunda Formation	MAK04	2.85	0.18	0.50	1.50	0.748	20.0	-
GUMB_INF1	Mackunda Formation	MAK05	2.23	0.25	0.55	1.50	0.820	20.0	-
							1539.580		1246.462

Constraints on the Inferred Resources are as follows:

1. Coal seams not intruded or not outside the tenure boundaries;
2. Coal thicknesses <0.2m excluded;
3. The depth range of calculation was from the base of weathering to 450m below natural topography;
4. Coal seams >50% adb from coal quality or estimated from downhole density logs (in g/cc) excluded from the calculations;
5. A discount factor varying from 10-20% has been subtracted from the initial calculation for unexpected geological losses. This accounts for unexpected conditions such as seam thinning, splitting, or seams missing in barren zones around faults;
6. The mine planning package used was Minescape and seam structure and thickness contours were generated using standard modelling algorithms and methodologies. Inferred masks were generated from base circles drawn 2,600m between Points of Observation;
7. Points of Observation were defined as those boreholes that had known surveyed positions, detailed lithological logs and coverage of the target coal seams with a suite of downhole geophysical logs that must include density in units of kg/m³.

**International Coal Limited ABN 65 149 197 651
and Controlled Entities**

DIRECTORS' REPORT (CONTINUED)

D. Don Juan

Summary Don Juan Exploration Targets by EPC (Depths <200m)

Formation	Depth Range (m)	Average Area (km ²)	Average Cumulative Seam Thickness (m)	Gross Coal (Mt)	Unexpected Geological Loss (%vol)	Exploration Target – Lower Bound (Mt)	Exploration Target – Upper Bound (Mt)
Juandah Coal Measures	0 - 100	10.45	9.36	183.9	35	10	210
	100 - 200	15.75	9.54	255.2	35	10	200
Taroom Coal Measures	0 - 100	0.14	0.60	0.3	35	-	-
	100 - 200	3.92	6.33	38.7	35	0	25
Springbok Sandstone Formation	0 - 100	32.45	2.50	125.7	75	0	30

N.B. The Don Juan Exploration Target estimate was announced on 22 November 2012, and has been prepared in accordance with the Australasian Code for Reporting of Coal Resources and Coal Reserves published in 2004 (JORC Code).

1 Assumed density of 1.55 g/cc; total in situ tonnes with no constraints.

2 Unexpected geological loss mainly due to seam splitting and thinning over large distances between boreholes.

3 It should be noted that the tonnages quoted above are conceptual in nature and there has been insufficient exploration to define a coal resource. No coal quality data within the project area was uncovered in previous reports. Although a preliminary analysis was undertaken, insufficient data exists to confidently correlate coal seams and generate a grid mesh model. It is uncertain whether further exploration may lead to the reporting of a JORC-standard resource however there is some evidence to support the current exploration tonnage calculations, and the sufficient coal thicknesses interpreted from historic drilling to warrant further investigation in some areas.

Note: Some of the information above was prepared and first disclosed under the JORC Code 2004 (in regards the Consuelo, South Blackall and Don Juan projects). This information has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported.

Declaration

The information in this report that relates to Exploration Targets, Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mark Biggs, a Competent Person who is a Member or Fellow of The Australasian Institute of Mining and Metallurgy.

QUALIFICATIONS AND EXPERIENCE

This Report has been prepared by Mark Biggs for and on behalf of International Coal Limited (ASX: ICX). Mark Biggs has over 33 years of experience in base metal, industrial mineral, coal exploration and mine evaluation throughout Australia. He has worked extensively within the Bowen and Surat Basins and was resident at several Central Queensland coal mines for 22 years. He has held a number of roles in these mines' Technical Services, including Senior Geologist, Chief Geologist, Coal Quality and Scheduling Superintendent and Acting Technical Services Manager. He is a Competent Person for coal as defined by the JORC Code and has extensive experience in open cut and underground exploration techniques, geophysical techniques, coal quality, geotechnical and structural modelling, mining, and scheduling.

**International Coal Limited ABN 65 149 197 651
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DIRECTORS' REPORT (CONTINUED)

Mark is the Principal Geologist for consultancy ROM Resources Pty Ltd (trading as ROM Resources), which has been operating since January 2013. His principal qualifications are a B. App. Sci. from the Queensland University of Technology and a M. App. Sci. from the same institution. Mark is a Member of The Australasian Institute of Mining & Metallurgy and a Member of the Geological Society of Australia.

LIMITATION

The views expressed in this JORC Resource Estimate are solely those of ROM Resources and Mark Biggs, unless specifically identified within the report as those of other parties. To the extent permitted by law, Mark Biggs and ROM Resources disclaims all liability for loss or damage (whether foreseeable or not and whether indirect or not) suffered by any person acting on the report or arising as a consequence of the information in the JORC Resource estimates of the Coal Projects listed above, whether such loss or damages arises in connection with any negligence, default or lack of care on behalf of other parties associated with the preparation of the report.

CONSENT

ROM Resources hereby consents to the inclusion of this JORC Resource Estimate in any subsequent ICX reporting, in both electronic and hard copy format, in the form and context in which it appears. As at the date of JORC Resource Estimate set out above ROM Resources has not withdrawn consent.

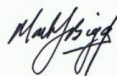
ROM Resources was only commissioned to prepare the JORC Resource Estimate and has only authorised issue of this JORC Resource Estimate on International Coal's exploration tenements specified in the JORC Resource Estimate. It has not been involved in the preparation of, or authorised issue of, any other part of their exploration portfolio in which this JORC Resource Estimate is included.

DISCLAIMER

This Report is to be read as a whole, and sections or parts thereof should therefore not be read or relied upon out of context. This disclaimer must accompany every copy of the Report, which is an integral document and must be read in its entirety.

COMPETENT PERSON'S STATEMENT

The estimates of the Coal Resources presented in this Report are considered to be a true reflection of the Coal Resources as at the various dates listed, and have been carried out in accordance with the principles and guidelines of the JORC Australasian Code for Reporting of Coal Resources and Coal Reserves 2004 Edition and 2012 Edition, as listed. If quoted, it should be noted that where Exploration Target tonnages are calculated and documented in the report they are considered non-JORC and are conceptual in nature. There has been insufficient exploration to define a Coal Resource and that it is uncertain if further exploration will result in the determination of a Coal Resource.

Name	Job Title	Registration	Experience (Years)	Signed
M Biggs	Principal Geologist ROM Resources	AusIMM 107188	33	

DIRECTORS' REPORT (CONTINUED)

Financial Position

The net assets of the Group as at 30 June 2014 are \$13,406,285 (2013: \$12,610,630).

The cash reserves have reduced to \$1,213,352 from \$1,459,231 with the monies being spent on exploration at the projects discussed above. The exploration and evaluation assets have changed to \$3,158,979 from \$3,270,778 in the prior year.

No capital raisings have occurred in the current year with the focus being on the exploration programs that were occurring. It is the director's intention to turn their focus to capital raising in the coming months to ensure that funds are available when required to further progress the projects at hand.

Significant Changes in State of Affairs

No significant changes in the state of affairs of the parent entity occurred during the financial year.

Dividends Paid or recommended

No Dividends were paid or declared for payment during the financial year.

Events after the Reporting Period

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

Future Developments, Prospects and Business Strategies

The group intends on focusing on the core projects that have been entered into during the previous financial year. Drill programmes have been developed for both Consuelo and Don Juan projects with the initial focus being on Consuelo.

The company is seeking strategic investors to accelerate the exploration of these projects and continue with the long term development of the South Blackall project.

Environmental Regulation

The Group's operations are subject to significant environmental regulation under Commonwealth, State and Territory legislation in relation to the discharge of hazardous waste and minerals arising from exploration activities conducted by the Group on any of its tenements. At the date of this report there have been no known breaches of any environmental obligations.

**International Coal Limited ABN 65 149 197 651
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DIRECTORS' REPORT (CONTINUED)

Board of Directors

The following persons were directors of ICX during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mr John Lester	-	Non-Executive Chairman
Appointed	-	8 February 2011
Qualifications	-	MA
Experience	-	John has extensive experience in mining and corporate financing. He graduated from Oxford University with a degree in natural science before being trained as a mining analyst at Joseph Sebag & Co. brokers. John spent a number of years as a stockbroker and corporate financier in Sydney and has held positions in senior management and on the Boards of mining companies in Australia and overseas.
Interest in Shares and Options	-	2,429,021 ordinary shares in International Coal Ltd and options held to acquire a further 2,000,000 ordinary shares.
Special Responsibilities	-	Member of the Audit Committee
Directorships held in other listed-entities during the three years prior to the current year	-	Previously a director of Golden West Resources Ltd from 21 March 2008 to 21 November 2011.
Mr Hugh Shao Dai	-	Executive Director and acting Chief Executive Officer
Appointed	-	8 February 2011
Qualifications	-	BEcon., MA, MAICD
Experience	-	Hugh has over 25 years' experience in the mining and resources, finance and international trade sector businesses in both China and Australia. This gives him a vital understanding and awareness of the practices of the relevant regulatory bodies, financial institutions and government agencies in both countries and how these can be brought to bear in regard to the Company's operations. He has regularly played key roles in negotiating international trade and mining agreements, particularly in the formation of investment ventures between Chinese corporations and Australian mining companies.
Interest in Shares and Options	-	5,000,001 ordinary shares in International Coal Ltd and options held to acquire a further 2,000,000 ordinary shares.
Special Responsibilities	-	-
Directorships held in other listed-entities during the three years prior to the current year	-	N/A

**International Coal Limited ABN 65 149 197 651
and Controlled Entities**

DIRECTORS' REPORT (CONTINUED)

Mr Noel Halgreen	-	Non-Executive Director
Appointed	-	21 November 2012
Qualifications	-	B Eng. (Mining), B Eng Hons. (Industrial), M Eng. (Industrial), MBA, Harvard University Program for Management Development, Advanced Financial Management Program, Registered Professional Engineer, Mine Manager's Certificate of Competence – Metalliferous Mining & Coal Mining.
Experience	-	Noel has more than 30 years' experience in the coal business and brings a strong record of achievement on major coal resource project developments, mergers, acquisitions and commercial negotiations across the Australian and international coal resources industry. He has held a range of senior positions within companies in the mining industries in Australia and overseas, such as: Vice President Business Development – BHP Billiton Coal (2001-2005), Executive Director Business Development – Billiton Coal (1995 – 2001), Executive Director – Trans Natal Coal Corporation (1991 – 1995), Chief Operating Officer – Sasol Coal (1986 – 1991).
Interest in Shares and Options	-	Options held to acquire 2,000,000 ordinary shares.
Special Responsibilities	-	Chairman of Audit Committee
Directorships held in other listed-entities during the three years prior to the current year	-	Non-Executive Director of Winmar Resources Limited (since January 2013), Managing Director of Kimberley Diamonds Limited (since May 2014). Also served as Non-executive Chairman of Bligh Resources Limited.

Company Secretary

The following person held the position of company secretary at the end of the financial year:

Ms Kate O'Donohue was appointed as company secretary on 26 February 2014 subsequent to Ms Rachel Teo vacating the position. Ms O'Donohue has a Masters of Corporate Governance and is a Fellow of the Governance Institute of Australia. Ms O'Donohue has over ten years' experience working within company secretariat departments of listed and unlisted companies in both Australia and the United Kingdom.

Meetings of Directors

The number of meetings of the board of directors (including board committees) held during the year ended 30 June 2014, and the number of meetings attended by each director is set out below:

	Board		Audit Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended
Mr J Lester	5	5	1	1
Mr H Dai	5	5	-	-
Mr N Halgreen	5	5	1	1

**International Coal Limited ABN 65 149 197 651
and Controlled Entities**

DIRECTORS' REPORT (CONTINUED)

Share Options

At the date of this report, the unissued ordinary shares of International Coal Ltd under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
5 April 2011	7 April 2015	\$0.20	26,500,000
5 April 2011	1 February 2016	\$0.20	1,000,000
28 April 2011	31 December 2015	\$0.30	4,500,000
28 April 2011	31 December 2015	\$0.50	3,500,000
21 November 2011	21 November 2015	\$0.35	2,000,000
21 November 2011	21 November 2015	\$0.40	1,000,000
10 January 2012	12 January 2017	\$0.35	3,200,000
13 November 2013	31 December 2015	\$0.30	1,000,000
13 November 2013	31 December 2015	\$0.50	1,000,000
10 October 2013	10 October 2018	\$0.20	2,750,000
19 June 2014	18 June 2019	\$0.20	7,250,000
			53,700,000

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

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

For details of options issued to directors and executives as remuneration, refer to the remuneration report.

Remuneration Report - Audited

Remuneration Policy

The remuneration policy of International Coal Limited has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. Key management personnel are those employees that have authority and responsibility for planning, directing and controlling the activities of the Group. The Board of International Coal Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the Group, as well as create goal congruence between directors, executives and shareholders.

The Board has determined that due to its size it is not appropriate to establish a formal Remuneration Committee. The policy for determining the nature and amount of remuneration for employees is developed and approved by the Board after professional advice is sought, where appropriate, from independent external consultants. The central tenets of the remuneration policy are as follows:

- Key management personnel receive a base salary (determined after taking into account factors such as capability and experience), superannuation, fringe benefits and performance linked long term incentives.
- Incentives are designed to reward key management personnel following measurement of achievement against previously agreed key performance indicators.

DIRECTORS' REPORT (CONTINUED)

Remuneration Report – Audited (Continued)

- Incentives paid in the form of options are intended to align the interests of the directors and company with those of the shareholders. In this regard, key management personnel are prohibited from limiting risk attached to those instruments by use of derivatives or other means.
- Key management personnel remuneration packages are reviewed annually by reference to the Group's performance, individual performance and comparable information from industry sectors.

The performance of key management personnel is measured against criteria agreed annually with each individual and is based predominantly on the forecast growth of the Group's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance results leading to long-term growth in shareholder wealth.

Key management personnel receive a superannuation guarantee contribution required by the government, which was 9.25% for the current financial year, and do not receive any other retirement benefits.

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 market rates for time, commitment and responsibilities. The board 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.

Key management personnel are also entitled and encouraged to participate in the employee share and option arrangements to align directors' interests with shareholders' interests.

Options granted under the arrangement do not carry dividend or voting rights. Each option is entitled to be converted into one ordinary share once the interim or final financial report has been disclosed to the public and is valued using the Black-Scholes methodology.

Key management personnel who are subject to the arrangement are subject to a policy governing the use of external hedging arrangements. Such personnel are prohibited from entering into hedge arrangements, i.e. put options on unvested shares and options which form part of their remuneration package. Terms of employment signed by such personnel contain details of such restrictions.

Despite the board having the ability to use external consultants to obtain advice regarding remuneration none were utilised during the year.

Performance-based Remuneration

The key performance indicators (KPIs) are set annually, with a certain level of consultation with key management personnel. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the group and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the Board in light of the desired and actual outcomes, and their efficiency is assessed in relation to the group's goals and shareholder wealth, before the KPIs are set for the following year.

DIRECTORS' REPORT (CONTINUED)

Remuneration Report – Audited (Continued)

Key Management Personnel

The following persons were key management personnel of the group during the financial year:

Name	Position	
Mr John Lester	Non-Executive Chairman	
Mr Hugh Dai	Executive Director	Acting CEO from 6 June 2014
Mr Noel Halgreen	Non-Executive Director	
Mr Glenn Simpson	Chief Executive Officer	Resigned: 6 June 2014

Service Contracts

Service contracts have been entered into by the group with all key management personnel, describing the components and amounts of remuneration applicable on their initial appointment, including terms and performance criteria for performance-related cash bonuses and entitlements to options under the International Coal Limited Employee Option Scheme. These contracts do not fix the amount of remuneration increases from year to year. Remuneration levels are reviewed generally each year by the Board to align with changes in job responsibilities and market salary expectations. All contracts are for an ongoing period.

Details of the contracts are as follows:

Mr John Lester

Contract term: Ongoing until termination by either party.
Base salary: \$80,000 p.a. plus GST and superannuation.
Termination payments: 12 months' salary and entitlements.
Termination notice: 3 months written notice

Mr Lester's agreement was with his nominated company John Lester Management Pty Ltd. During the current financial year Mr Lester has been receiving some of his entitlement via the payroll system as an employee rather than a contractor under the same terms as his consultancy agreement.

Mr Hugh Dai

Contract term: Ongoing until termination by either party
Base salary: \$175,000 p.a. plus superannuation.
Termination payments: 6 months' salary payable on termination by ICX.
Termination notice: 12 months' notice or payment of 6 months' salary with no notice.

Mr Dai's agreement is an employee agreement which commenced on 1 August 2011.

Mr Noel Halgreen

Mr Halgreen does not have a written agreement for his services provided to International Coal Ltd. The terms were agreed between the Directors at the date of his appointment and are as follows:

Contract term: Ongoing until termination by either party
Base salary: \$50,400 p.a. plus GST, no superannuation.
Termination payments: Outstanding payments up to date of termination.
Termination notice: 14 days written notice.

Mr Halgreen is paid via his nominated company Carianto Pty Ltd.

**International Coal Limited ABN 65 149 197 651
and Controlled Entities**

DIRECTORS' REPORT (CONTINUED)

Remuneration Report – Audited (Continued)

Service Contracts (Continued)

Mr Glenn Simpson

Contract term: Ongoing until termination by either party

Base fee: \$220 per hour plus GST.

Termination payments: Outstanding payments up to date of termination.

Termination notice: Written notice in advance.

Fees paid for Mr Simpson's services were paid to Coal Face Resources Pty Ltd, of which he was an employee. He was seconded from his current role with Coal Face Resources Pty Ltd as JV project manager and undertook the role of CEO with ICX as and when required. Mr Simpson resigned from employment with Coal Face Resources Pty Ltd, and therefore International Coal, on 6 June 2014.

International Coal Limited ABN 65 149 197 651
and Controlled Entities

DIRECTORS' REPORT (CONTINUED)

Remuneration Report – Audited (continued)

Remuneration Details for the Year Ended 30 June 2014 and commitments

The following table of benefits and payments details, in respect of the financial year, the components of remuneration for each member of the key management personnel of the Group:

	Short-term Benefits			Post-employment Benefits	Share-based payment options	Total	% total performance related	% total issued as options
	Cash salary and fees	Cash bonus	Non-monetary benefits	Termination Payments	Superannuation			
	\$	\$	\$		\$	\$	%	%
Group Key Management Personnel								
John Lester (1)	80,000	-	-	-	1,888	-	81,888	-
Hugh Dai	175,000	-	-	-	16,515	-	191,515	-
Noel Halgreen (2)	50,400	-	-	-	-	11,100	61,500	18
Glenn Simpson (3)	149,534	-	-	-	-	-	149,534	-
	454,934	-	-	-	18,403	11,100	484,437	

Notes in relation to the above report:-

(1) Of the amount paid to Mr Lester \$60,000 was paid to John Lester Management Pty Ltd a company that Mr Lester is a director of.

(2) Fees paid to Mr Halgreen were paid to Cariato Pty Ltd a company that Mr Halgreen is a director of. The options were granted to a related entity of Mr Halgreen.

(3) Mr Simpsons fees paid were paid to Coal Face Resources Pty Ltd, being his employer, for his services provided as CEO in accordance with the employment agreement between Coal Face Resources Pty Ltd and ICX. Mr Simpson resigned from Coal Face Resources Pty Ltd, and therefore International Coal, on 6 June 2014.

International Coal Limited ABN 65 149 197 651
and Controlled Entities

DIRECTORS' REPORT (CONTINUED)

Remuneration Report – Audited (Continued)

Remuneration Details for the Year Ended 30 June 2013 and commitments

The following table of benefits and payments details, in respect of the financial year, the components of remuneration for each member of the key management personnel of the Group:

	Short-term Benefits				Post-employment Benefits	Share-based payment options	Total	% total performance related	% total issued as options
	Cash salary and fees	Cash bonus	Non-monetary benefits	Termination Payments	Superannuation				
	\$	\$	\$		\$	\$	\$	%	%
Group Key Management Personnel									
John Lester (1)	80,000	-	-	-	7,200	-	87,200	-	-
Hugh Dai	175,000	-	9,840	-	15,750	-	200,590	-	-
Noel Halgreen (2)	31,500	-	-	-	-	-	31,500	-	-
David Round (3)	135,375	-	-	180,000	5,250	-	320,625	-	-
Glenn Simpson (4)	113,113	-	-	-	-	3,500	116,613	-	3.0
	534,988	-	9,840	180,000	28,200	3,500	756,528		

Notes in relation to the above report:-

(1) Of the amount paid to Mr Lester \$76,667 was paid to John Lester Management Pty Ltd a company that Mr Lester is a director of.

(2) Fees paid to Mr Halgreen were paid to Cariant Pty Ltd a company that Mr Halgreen is a director of. Mr Halgreen was appointed to the Board of the Company on 21 November 2012.

(3) Of the amount paid to Mr Round, \$59,041 was paid to Resource Corporate Pty Ltd a company that Mr Round is a director of. Mr Round resigned as director on 21 November 2012, however continued in the capacity of CFO until 31 October 2012 when he was made redundant and resigned as company secretary on 1 March 2013.

(4) Mr Simpson was appointed as CEO on 16 January 2013. The fees paid were paid to Coal Face Resources Pty Ltd, being his employer, for his services provided as CEO in accordance with the employment agreement between Coal Face Resources Pty Ltd and ICX. The options were granted to Mr Simpson personally.

**International Coal Limited ABN 65 149 197 651
and Controlled Entities**

DIRECTORS' REPORT (CONTINUED)

Remuneration Report – Audited (Continued)

Options granted as part of remuneration

Details of the terms and conditions of options granted to key management personnel as compensation during the reporting period are as follows:

	No. options granted	No. options vested	Fair value per option at grant date \$	Exercise price \$	Amount paid or payable	Expiry date	Date exercis- eable
Year ended 30 June 2014							
Key Management Personnel							
Noel Halgreen	1,000,000	1,000,000	0.0088	0.30	-	31/12/15	N/A
Noel Halgreen	1,000,000	1,000,000	0.0023	0.50	-	31/12/15	N/A
Total	2,000,000	2,000,000			-		

These options do not have any vesting conditions and have vested on the grant date. The fair value of the options was determined using the Black-Scholes model.

Equity instruments issued on exercise of remuneration options

There were no equity instruments issued during the period to key management personnel as a result of options exercised that had previously been granted as compensation.

Value of options to key management personnel

Details of the value of options granted, exercised and lapsed during the year to key management personnel as part of their remuneration are summarised below:

	Value of options at grant date * \$	Value of options exercised at exercise date** \$	Value of options lapsed at date of lapse *** \$
Year ended 30 June 2014			
Key Management Personnel			
Noel Halgreen	11,100	-	-
Total	11,100	-	-

* The value of options granted during the period may differ to the expense recognised as part of each key management personnel's remuneration in the remuneration section above because this value is the grant date fair value calculated in accordance with AASB 2 Share-based Payment.

** The value of options exercised at exercise date has been determined as the intrinsic value of the options at exercise date, i.e. the excess of the market value at exercise date over the strike price of the option.

*** Options lapsed due to vesting conditions not being satisfied. The value of options at date of lapse is determined assuming that the vesting condition has been satisfied.

This is the end of the audited remuneration report.

DIRECTORS' REPORT (CONTINUED)

Indemnification of Directors and Officers

The company is required to indemnify Directors and other Officers of the company against certain liabilities which they may incur as a result of or by reason of (whether solely or in part) being or acting as an Officer of the company.

The Company has also agreed to pay a premium in respect of a contract insuring the directors and officers of the Company. Full details of the cover and premium are not disclosed in this report as the insurance policy prohibits the disclosure.

The company provides no indemnity to the auditor.

Proceedings on behalf of the 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 of those proceedings. The Company was not a party to any such proceedings in the year.

Non-Audit Services

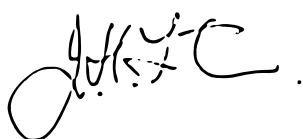
The Board is satisfied that the provision of non-audit services by the auditor during the period is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 and do not compromise the general principles relating to audit independence as set out in APES110: Code of Ethics for Professional Accountants set by the Accounting Profession and Ethical Standards Board.

No non audit services were provided during the year.

Auditors Independence Declaration

In accordance with section 307C of the Corporations Act 2001 the auditors' independence declaration for the year ended 30 June 2014 has been received and can be found at page 26 of the Annual Report and forms part of this report.

This director's report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.



John Lester

Chairman

Dated: 26 September 2014

**INTERNATIONAL COAL LIMITED
ABN 65 149 197 651
AND CONTROLLED ENTITIES**

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF INTERNATIONAL COAL LIMITED
AND CONTROLLED ENTITIES**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2014 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.



Hall Chadwick
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Drew Townsend
Partner

Date: 26 September 2014

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and consulting firms

**International Coal Limited ABN 65 149 197 651
and Controlled Entities**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

	Note	Consolidated Group	
		2014	2013
		\$	\$
Revenue	3	54,521	158,254
Compliance expenses		(50,382)	(44,670)
Consultancy and professional services expenses		(287,693)	(793,520)
Employee benefit expense		(386,803)	(785,249)
Occupancy expenses		(24,309)	(238,444)
Other expenses		(243,933)	(171,359)
Exploration expenditure		(18,574)	(89,709)
Interest expense		-	(87)
Loss before income tax		(957,173)	(1,964,784)
Income tax benefit	7	285,828	700,454
Loss for the year		(671,345)	(1,264,330)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(671,345)	(1,264,330)
Earnings per share for loss for the year			
Basic and diluted earnings per share (cents per share)	5	(0.003)	(0.007)

These financial statements should be read in conjunction with the accompanying notes.

International Coal Limited ABN 65 149 197 651
and Controlled Entities

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

	Note	<i>Consolidated Group</i>	
		2014	2013
		\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	9	1,213,352	1,459,231
Trade and other receivables	10	39,200	47,131
Income tax receivable	7	285,829	708,227
Other current assets		11,332	22,572
TOTAL CURRENT ASSETS		<u>1,549,713</u>	<u>2,237,161</u>
NON-CURRENT ASSETS			
Plant and equipment	11	564	1,341
Intangible assets	12	583	1,360
Exploration and evaluation assets	13	3,158,979	3,270,778
Mineral assets	14	9,245,984	7,790,084
TOTAL NON-CURRENT ASSETS		<u>12,406,110</u>	<u>11,063,563</u>
TOTAL ASSETS		<u>13,955,823</u>	<u>13,300,724</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17	549,538	690,094
TOTAL CURRENT LIABILITIES		<u>549,538</u>	<u>690,094</u>
TOTAL LIABILITIES		<u>549,538</u>	<u>690,094</u>
NET ASSETS		<u>13,406,285</u>	<u>12,610,630</u>
EQUITY			
Contributed equity	18	15,674,904	14,309,154
Reserves		2,052,850	1,951,600
Accumulated losses		(4,321,469)	(3,650,124)
TOTAL EQUITY		<u>13,406,285</u>	<u>12,610,630</u>

These financial statements should be read in conjunction with the accompanying notes.

International Coal Limited ABN 65 149 197 651
and Controlled Entities

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2014**

<i>Consolidated Group</i>	Contributed equity	Share- based payments reserve	Accumulated losses	Total equity
	\$	\$	\$	\$
Balance at 1 July 2012	13,574,004	1,948,100	(2,385,794)	13,136,310
Loss for the year	-	-	(1,264,330)	(1,264,330)
Total comprehensive income for the year	-	-	(1,264,330)	(1,264,330)
Transactions with owners, in their capacity as owners				
Issue of share capital	737,084	-	-	737,084
Costs attributable to share capital issue	(1,934)	-	-	(1,934)
Share-based payments for the supply of services	-	3,500	-	3,500
Total transactions with owners, in their capacity as owners	735,150	3,500	-	738,650
Balance at 30 June 2013	14,309,154	1,951,600	(3,650,124)	12,610,630
Balance at 1 July 2013	14,309,154	1,951,600	(3,650,124)	12,610,630
Loss for the year	-	-	(671,345)	(671,345)
Total comprehensive income for the year	-	-	(671,345)	(671,345)
Transactions with owners, in their capacity as owners				
Issue of share capital	1,365,750	-	-	1,365,750
Share-based payments for the supply of services	-	101,250	-	101,250
Total transactions with owners, in their capacity as owners	1,365,750	101,250	-	1,467,000
Balance at 30 June 2014	15,674,904	2,052,850	(4,321,469)	13,406,285

These financial statements should be read in conjunction with the accompanying notes.

**International Coal Limited ABN 65 149 197 651
and Controlled Entities**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014**

	Note	Consolidated Group	
		2014	2013
		\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		48,674	108,534
GST refunded		77,539	172,331
Rent received		-	25,005
Sale of Tenement		6,100	-
Income tax refund received		708,227	5,158
Payments to suppliers and employees		(970,356)	(1,738,922)
Finance costs paid		-	(87)
Net cash used in operating activities	22	(129,816)	(1,427,980)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant and equipment		-	(5,531)
Payments for mineral assets		-	(100,000)
Payments for exploration and evaluation assets		(116,063)	(970,484)
Net cash used in investing activities		(116,063)	(1,076,015)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of share issue costs		-	(1,934)
Net cash (used in) financing activities		-	(1,934)
Net (decrease) in cash held		(245,879)	(2,505,929)
Cash and cash equivalents at beginning of financial year		1,459,231	3,965,160
Cash and cash equivalents at end of financial year	9	1,213,352	1,459,231

These financial statements should be read in conjunction with the accompanying notes.

**International Coal Limited ABN 65 149 197 651
and Controlled Entities**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

International Coal Limited is a listed company, limited by shares, incorporated and domiciled in Australia.

The financial statements cover the group, International Coal Limited, and its subsidiaries (the “consolidated group” or “group”). Separate financial statements for International Coal Ltd as an individual entity have not been presented. However, limited financial information for International Coal Limited as an individual entity is included in Note 2.

The financial statements were authorised for issue on 26 September 2014 by the directors of the company.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. International Coal Limited is a for-profit entity for the purpose of preparing the financial statements under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements 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 these financial statements are presented below and have been consistently applied unless otherwise stated.

Basis of preparation

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. The financial statements are presented in Australian dollars. The following significant accounting policies have been adopted in the preparation and presentation of the financial statements:

a. Principles of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of the parent International Coal Ltd and all of the subsidiaries. Subsidiaries are entities that the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 16.

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. 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 attained, whereby the fair value of the identifiable 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 profit or loss when incurred.

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

c. Income tax

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

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

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

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

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

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Income tax (continued)

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.

The Group has not adopted the tax consolidation legislation.

d. Revenue and other income

Revenue is recognised at the fair value of consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. The following specific recognition criteria must also be met before revenue is recognised:

Interest

Revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

Rental income

Rental income is earned as a result of subletting office space and is accounted for on a straight-line basis over the lease term. Contingent rentals are recognised as income in the periods when they are earned.

e. Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of 12 months or less, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the statement of financial position.

f. Exploration, evaluation and mineral assets

Exploration and evaluation expenditure incurred is capitalised in respect of each identifiable area of interest. Mineral assets represent coal exploration permits acquired. These costs are only capitalised to the extent that they are expected to be recovered 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 commenced the accumulated costs for the relevant area of interest are transferred to mine development and 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 carry forward costs in relation to that area of interest.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Plant and equipment

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation and accumulated impairment losses. The carrying amount of plant and equipment is reviewed to ensure it is not in excess of the recoverable amount from these assets.

The depreciable amount of all fixed assets, excluding freehold land, is depreciated on a straight line or declining balance basis to allocate their cost, net of their residual values, over their estimated useful lives to the group commencing from the time the asset is held ready for use, as follows:

Plant and equipment	3 years
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The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

h. Financial assets and liabilities

Initial recognition and measurement

Financial assets and 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 group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial assets and liabilities are measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

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

Amortised cost is 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.

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.

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.

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. Loans and receivables are included in current assets, where they are expected to mature within 12 months.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Financial assets and liabilities (continued)

Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

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.

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in profit or loss. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire 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 where the related obligations are discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

i. Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Impairment of non-financial assets (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

j. Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the year end and which are unpaid. These amounts are unsecured and have 30-60 day payment terms. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

k. Employee benefits

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled. The Group's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position.

The Groups obligations for employees' annual leave entitlements have also been recognised as other payables in the statement of financial position.

No provision is necessary for other long-term employee benefits.

l. 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 Australian Taxation Office (ATO).

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.

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

m. Contributed equity

Ordinary shares are recognised at the fair value of the consideration received by the Group and are classified as equity.

Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. Share-based payments

Equity settled share-based payments with employees and directors are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The fair value determined at the grant date of the share-based payments is expensed on a straight line basis over the vesting period with a corresponding increase in equity.

No expense is recognised for awards that do not ultimately vest because internal conditions were not met. An expense is still recognised for options that do not ultimately vest because a market condition was not met. Where options are cancelled, they are treated as if it had vested on the date of cancellation and any unrecognised expenses are taken immediately to profit or loss. However, if new options are substituted for the cancelled options and designated as a replacement on grant date, the combined impact of the cancellation and replacement option are treated as if they were a modification.

Equity settled share-based payment transactions with other parties are measured at fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date goods or services were obtained.

o. Earnings per share ("EPS")

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends;
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares.

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

p. Adoption of new and revised accounting standards

The Consolidated Group has applied all new accounting standards and amendments mandatory for accounting periods commencing on or after 1 July 2013. The significant new standards adopted as of 1 July 2013 are detailed below:

- AASB 10: Consolidated Financial statements
- AASB 11: Joint Arrangements
- AASB 12: Disclosure of Interests in Other Entities
- AASB 13: Fair Value Measurement
- AASB 119: Employee Benefits (2011)
- AASB 2012-2: Amendments to Australian accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities

The adoption of these standards has not had a material impact on the financial statements of the Consolidated Group. Where required new disclosures introduced by these standards have been included.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p. Adoption of new and revised accounting standards (continued)

The adoption of AASBs 10, 13 and 119 resulted in changes in accounting policies for the Consolidated Group. These are explained below:

- Adoption of AASB 10 resulted in a change in the definition of control. Under the new definition, the Consolidated Group controls an entity when the Consolidated Group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Consolidated Group has reviewed its investments in other entities to assess whether the consolidated conclusion in relation to these entities is different under AASB 10 compared to AASB 127. No differences were found and therefore no adjustments to any of the carrying amounts in the financial statements are required as a result of the adoption of AASB 10.

- The Adoption of AASB 13 has clarified that fair value is an exit price notion and, as such, the fair value of financial liabilities should be determined based on a transfer value to a third-party market participant. The fair value of financial liabilities was measured on the basis that the financial liability would be settled or extinguished with the counterparty.

The Consolidated Group has reviewed its Accounting Policy and there is no material effect on the financial statements

- The adoption of the revised AASB 119 has not changed the accounting obligations for the Consolidated Group. The Company continues to expect all annual leave will be taken within twelve months after the end of the reporting period and continues to classify as other payables.

q. New and amended accounting standards and interpretations not yet adopted

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below.

Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

- AASB 1031: *Materiality*

Revised AASB 1031 is an interim standard that cross-references to other standards and the Framework for the Preparation and Presentation of Financial Statements (issued December 2013) that contain guidance on materiality. AASB 1031 will be withdrawn once the references to AASB 1031 in all standards and interpretations are removed.

The standard is effective for year ending 30 June 2014 and will not have any impact on the financial statements.

- AASB 9: *Financial Instruments* and associated Amending Standards (applicable for annual reporting periods commencing on or after 1 January 2017).

The Standard will be applicable retrospectively (subject to the comment on hedge accounting below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and de-recognition requirements for financial instruments and simplified requirements for hedge accounting.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q. New and amended accounting standards and interpretations not yet adopted (continued)

The key changes made to the Standard that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of AASB 9, the application of such accounting would be largely prospective.

The directors anticipate that AASB 9 will have no impact on the Group's financial statements

- AASB 2012-3: *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities* (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard provides clarifying guidance relating to the offsetting of financial instruments, which is not expected to impact the Group's financial statements.

- Interpretation 21: *Levies* (applicable for annual reporting periods commencing on or after 1 January 2014).

Interpretation 21 clarifies the circumstances under which a liability to pay a levy imposed by a government should be recognised, and whether that liability should be recognised in full at a specific date or progressively over a period of time. This Interpretation is not expected to significantly impact the Group's financial statements

- AASB 2013-3: *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets* (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard amends the disclosure requirements in AASB 136: *Impairment of Assets* pertaining to the use of fair value in impairment assessment and is not expected to significantly impact the Group's financial statements.

- AASB 2013-4: *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting* (applicable for annual reporting periods commencing on or after 1 January 2014).

AASB 2013-4 makes amendments to AASB 139: *Financial Instruments: Recognition and Measurement* to permit the continuation of hedge accounting in circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. This Standard is not expected to significantly impact the Group's financial statements.

- AASB 2013-5: *Amendments to Australian Accounting Standards – Investment Entities* (applicable for annual reporting periods commencing on or after 1 January 2014).

AASB 2013-5 amends AASB 10: *Consolidated Financial Statements* to define an "investment entity" and requires, with limited exceptions, that the subsidiaries of such entities be accounted for at fair value through profit or loss in accordance with AASB 9 and not be consolidated. Additional disclosures are also required. As neither the parent nor its subsidiaries meet the definition of an investment entity, this Standard is not expected to significantly impact the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r. Significant accounting judgements, estimates and assumptions

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. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of certain assets and liabilities made within the next annual reporting period are:

Exploration and Evaluation

The directors determine when an area of interest should be abandoned. When a decision is made that an area of interest is not commercially viable, all costs that have been capitalised in respect of that area of interest are written off. The directors' decisions are made after considering the likelihood of finding commercially viable outcomes balanced with acceptable political and environmental assessments.

The ultimate recoupment of the value of exploration and evaluation assets is dependent on the successful development and commercial exploitation of the exploration and evaluation assets.

Impairment tests are carried out on a regular basis to identify whether the assets carrying value exceeds their recoverable amounts. There is significant estimation and judgement in determining the inputs and assumptions used in determining the recoverable amounts.

The Group does not believe there were any reasons to impair the carrying value of the exploration and evaluation assets as at 30 June 2014.

Acquisition and divestments – Accounting for Farm-ins

Farm-ins generally occur in the exploration and development phase and are characterised by the transferor giving up future economic benefits, in the form of reserves, in exchange for reduced future funding obligations. In the exploration phase the Group accounts for farm-ins on a historical cost basis. As such no gain or loss is recognised. Refer to note 16 (ii) and (iii) for further details.

**International Coal Limited ABN 65 149 197 651
and Controlled Entities**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s. Going Concern

The Group has recorded a net loss of \$671,345 (2013: \$1,264,330), had net cash outflows from operations of \$129,816 (2013: \$1,427,980) for the year ended 30 June 2014, and has no ongoing source of operating income. At 30 June 2014 the Group had net assets of \$13,406,285 (2013: \$12,610,630).

The financial report has been prepared on a going concern basis which assumes the realisation of assets and extinguishment of liabilities in the normal course of business and at the amounts stated in the financial statements.

The directors believe the going concern basis is appropriate for the following reasons:

- At 30 June 2014 the Group had cash and cash equivalents of \$1,213,352.
- The directors have prepared cash flow forecasts which include a further capital raising planned for the second half of 2014 to meet all planned expenditure programs.

Based on the above, the directors are satisfied that the Group will be able to fund its operations and continue as a going concern, and it is appropriate that the financial statements have been prepared on that basis.

In the event that the assumptions underpinning the basis of preparation do not occur as anticipated, there is significant uncertainty whether the Group and company will continue to operate as a going concern. If the Group and company are unable to continue as going concerns they may be required to realise their assets and extinguish their liabilities other than in the normal course of business and at amounts different to those stated in the financial statements.

No adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the classification of liabilities that might be necessary should the Group not continue as a going concern.

t. Interests in Joint Arrangements

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

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

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

Gains and losses resulting from sales to a joint operation are recognised to the extent of the other parties' interests. When the Group makes purchases from a joint operation, it does not recognise its share of the gains and losses from a joint arrangement until it resells those goods/assets to a third party. Refer to Note 16 (i) for further details.

u. Fair Value of Assets and Liabilities

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

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

**International Coal Limited ABN 65 149 197 651
and Controlled Entities**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

u. Fair Value of Assets and Liabilities (continued)

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

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

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

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

**International Coal Limited ABN 65 149 197 651
and Controlled Entities**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 2: PARENT ENTITY INFORMATION

The *Corporations Act 2001* requirement to prepare parent entity financial statements where consolidated financial statements are prepared has been removed and replaced by regulation 2M.3.01 which requires the following limited disclosure in regards to the parent entity International Coal Limited. The consolidated financial statements incorporate the assets, liabilities and results of the parent entity in accordance with the accounting policies described in Note 1.

	2014	2013
	\$	\$
ASSETS		
Current assets	1,549,716	2,237,165
Non-Current Assets	12,406,106	11,063,559
TOTAL ASSETS	13,955,822	158,254
LIABILITIES		
Current liabilities	(549,537)	(690,094)
TOTAL LIABILITIES	(549,537)	(690,094)
NET ASSETS	13,406,285	12,610,630
EQUITY		
Contributed equity	15,674,904	14,309,154
Accumulated losses	(4,321,469)	(3,650,124)
Share-based payments reserve	2,052,850	1,951,600
TOTAL EQUITY	13,406,285	12,610,630
Loss for the year	(671,345)	(1,264,330)
Total comprehensive loss for the year	(671,345)	(1,264,330)

Guarantees

No guarantees have been entered into by the parent entity in relation to debts of its subsidiaries.

Contractual commitments

There were no contractual commitments for the acquisition of property, plant and equipment entered into by the parent entity at 30 June 2014 (2013 - \$nil).

Contingent liabilities

The parent entity has no known contingent liabilities.

**International Coal Limited ABN 65 149 197 651
and Controlled Entities**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 3: REVENUE AND OTHER INCOME

	<i>Consolidated Group</i>	
	2014	2013
Revenue	\$	\$
– Interest received	54,521	133,527
– Rent received	-	24,727
Total revenue	54,521	158,254

NOTE 4: EXPENSES

Loss before income tax includes the following specific expenses:

– Rental expense	1,490	197,033
– Superannuation contributions (defined contribution)	25,385	43,972
– Non cash share-based payments	11,100	3,500
– Depreciation and amortisation expense	1,554	2,672
– Loss on disposal of plant and equipment	-	6,604
– Impairment expense – exploration and evaluation assets	18,574	89,709
– Impairment expense – receivables	-	2,899
– Introductory fee	-	175,000

NOTE 5: EARNINGS PER SHARE

Loss attributable to the owners of International Coal Ltd	(671,345)	(1,264,330)
Basic and diluted loss per share (cents per share)	(0.003)	(0.007)
	No.	No.
Weighted average number of ordinary shares and options used in calculating basic and diluted loss per share	213,430,003	180,430,003

NOTE 6: AUDITORS' REMUNERATION

	<i>Consolidated Group</i>	
	2014	2013
	\$	\$
Remuneration of the auditor of the parent entity for:		
- auditing or reviewing the financial statements	46,500	46,500
	46,500	46,500

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 7: INCOME TAX EXPENSE

		Consolidated Group	
		2014	2013
		\$	\$
a. The components of tax benefit comprise:			
Current tax benefit		(285,829)	(700,454)
Total income tax expense/(benefit) in profit and loss		(285,829)	(700,454)
b. Reconciliation:			
Loss before income tax		(957,173)	(1,964,784)
Income tax expense/(benefit) calculated at 30% (2012: 30%)		(287,152)	(589,435)
Tax effect of:			
– Exploration and evaluation expenditure		5,572	-
– Share based payments		3,330	1,050
– Refundable research and development tax offset not brought to account in the prior year		(278,520)	(695,296)
– Effect of unused tax losses and tax offsets not recognised as deferred tax assets		270,941	583,227
Total income tax expense/(benefit) in profit and loss		(285,829)	(700,454)
c. Unrecognised deferred tax assets:			
Prior year tax losses brought forward		10,607,360	8,663,270
Current year tax losses		903,138	1,944,090
Unrecognised tax losses		11,510,498	10,607,360

A temporary difference relating to investments in subsidiaries for which deferred tax liabilities have not been recognised.

The taxation benefit of tax losses and temporary differences not brought to account will only be obtained if:

- i) the group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be recognised;
- ii) the group continues to comply with the conditions for deductibility imposed by law; and
- iii) no change in tax legislation adversely affects the group in realising the benefits from deducting the losses.

d. There are no franking credits available.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 8: 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 end 30 June 2014.

The directors and the Chief Executive Officer are considered to be KMP.

	Consolidated Group	
a. KMP compensation	2014	2013
	\$	\$
Short-term employee benefits	454,934	724,828
Post-employment benefits	18,403	28,200
Share-based payments	11,100	3,500
	484,437	756,528

b. KMP options holdings

The number of options over ordinary shares held by each KMP of the Group during the financial year is as follows:

	Opening balance 1 July 2013	Granted as remuneration	Options exercised	Closing balance 30 June 2014	Exercisable at 30 June 2014
30 June 2014					
John Lester	2,000,000	-	-	2,000,000	2,000,000
Noel Halgreen	-	2,000,000	-	2,000,000	2,000,000
Hugh Dai	2,000,000	-	-	2,000,000	2,000,000
Glenn Simpson (1)	1,000,000	-	-	1,000,000	1,000,000
Total	5,000,000	2,000,000	-	7,000,000	7,000,000

(1) Resigned on 6 June 2014.

	Opening balance 1 July 2012	Granted as remuneration	Options exercised	Closing balance 30 June 2013	Exercisable at 30 June 2013
30 June 2013					
John Lester	2,000,000	-	-	2,000,000	2,000,000
Noel Halgreen (1)	-	-	-	-	-
Hugh Dai	2,000,000	-	-	2,000,000	2,000,000
David Round (2)	2,000,000	-	-	2,000,000	2,000,000
Glenn Simpson (3)	-	1,000,000	-	1,000,000	1,000,000
Total	6,000,000	1,000,000	-	7,000,000	7,000,000

(1) Appointed on 21 November 2012

(2) Resigned on 21 November 2012

(3) Appointed on 16 January 2013

The options are only exercisable in the exercise period being the date from which the options are issued, following achievement of defined share price requirements, up to the date of expiry, 31 December 2015.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 8: INTERESTS OF KEY MANAGEMENT PERSONNEL (KMP) (CONTINUED)

c. KMP Shareholdings

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

	Opening balance 1 July 2013	Granted as Remuneration	Issued on Exercise of Options	Other Changes during the Period (1)	Closing balance 30 June 2014	Held nominally at 30 June 2014
30 June 2014						
John Lester	2,429,021	-	-	-	2,429,021	-
Noel Halgreen	-	-	-	-	-	-
Hugh Dai	4,300,001	-	-	700,000	5,000,001	-
Glenn Simpson	-	-	-	-	-	-
Total	6,729,022	-	-	700,000	7,429,022	-

(1) The above shares were acquired on market during the year

	Opening balance 1 July 2012	Granted as Remuneration	Issued on Exercise of Options	Other Changes during the Period (1)	Closing balance 30 June 2013	Held nominally at 30 June 2013
30 June 2013						
John Lester	2,000,001	-	-	429,020	2,429,021	-
Noel Halgreen	-	-	-	-	-	-
Hugh Dai	3,300,001	-	-	1,000,000	4,300,001	-
David Round(2)	25,000	-	-	(25,000)	-	-
Glenn Simpson	-	-	-	-	-	-
Total	5,325,002	-	-	1,404,020	6,729,022	-

(1) The above shares were acquired through an off market trade during the year at a consideration of 10 cents per share

(2) The above shares were disposed on market during the year.

All equity transactions with directors other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

d. Other KMP Transactions

There were no other transactions with key management personnel (2013: nil).

At year end, the following amounts were owing to key management personnel and their entities:

John Lester \$ 61,425 ; Noel Halgreen \$ 37,800 ; Hugh Dai \$ 143,718; \$17,727 owing to Coal Face Resources Pty Ltd of this \$17,600 related to the services of Glenn Simpson as Chief Executive Officer.

(2013) \$28,758 owing to Coal Face Resources Pty Ltd. Of this \$3,569 related to the services of Glenn Simpson as Chief Executive Officer. There were no other amounts due to other key management personnel

**International Coal Limited ABN 65 149 197 651
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 9: CASH AND CASH EQUIVALENTS

Consolidated Group

	2014	2013
	\$	\$
Cash at bank and in hand	1,213,352	1,459,231
	<u>1,213,352</u>	<u>1,459,231</u>

NOTE 10: TRADE AND OTHER RECEIVABLES

CURRENT

Goods and services tax receivable	32,544	35,068
Accrued interest	6,656	12,063
Total current trade and other receivables	<u>39,200</u>	<u>47,131</u>

- (i) Other receivables are non-interest bearing and have repayment terms between seven and ninety days.
- (ii) No receivables are past due or impaired at year end.

NOTE 11: PLANT AND EQUIPMENT

Office furniture and equipment

Cost	3,041	3,041
Accumulated depreciation	<u>(2,477)</u>	<u>(1,700)</u>
	<u>564</u>	<u>1,341</u>
Written down value at 1 July	1,341	4,114
Additions	-	5,531
Disposals	-	(6,604)
Depreciation	<u>(777)</u>	<u>(1,700)</u>
Written down value at 30 June	<u>564</u>	<u>1,341</u>

NOTE 12: INTANGIBLE ASSETS

Software

Cost	2,332	2,332
Accumulated amortisation	<u>(1,749)</u>	<u>(972)</u>
	<u>583</u>	<u>1,360</u>
Written down value at 1 July	1,360	2,332
Additions	-	-
Amortisation	<u>(777)</u>	<u>(972)</u>
Written down value at 30 June	<u>583</u>	<u>1,360</u>

**International Coal Limited ABN 65 149 197 651
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 13: EXPLORATION AND EVALUATION ASSETS

Consolidated Group

	2014	2013
	\$	\$
Exploration expenditure capitalised:		
– exploration and evaluation phase – at cost	3,158,979	3,270,778
Total exploration expenditure	<u>3,158,979</u>	<u>3,270,778</u>

Movement:

Balance at beginning of the year	3,270,778	2,165,279
Net current year expenditure (reversal)	(93,045)	1,195,208
Impairment of area of interest	(18,754)	(89,709)
Balance at end of the year	3,158,979	3,270,778

The recoverability of the carrying amount of exploration asset is dependent on the successful exploration and development of projects or alternatively through the sale of the areas of interest.

NOTE 14: MINERAL ASSETS

Mineral Assets capitalised:

- Acquisition of Coal Exploration Permits	2,000,000	2,000,000
- Consideration for Mineral Assets acquired	7,245,984	5,790,084
Total Mineral Assets	<u>9,245,984</u>	<u>7,790,084</u>

Movement:

Balance at beginning of the year	7,790,084	7,128,000
Acquisitions	1,455,900	662,084
Balance at end of the year	<u>9,245,984</u>	<u>7,790,084</u>

The value of the mineral assets recognised for the acquisition of coal exploration permits relates to EPC's 2194, 2195, 2196 and 2197 acquired from Birmanie Nominees Pty Ltd and pursuant to two tenement acquisition agreements.

The consideration for mineral assets acquired during the year comprise of the following transactions:

- (i) The issue of 15,000,000 shares and 10,000,000 options by International Coal Ltd to Coal Face Resources Pty Ltd as part of the consideration outlined in the term sheet for the Consuelo Project
- (ii) The issue of 6,000,000 shares by International Coal Ltd to Coal Face Resources Pty Ltd as part of the consideration outlined in the term sheet for the Don Juan Project

The recoverability of the carrying amount of Mineral Assets is dependent on the successful exploration and development of projects relating to these assets and relevant licenses or alternatively through the sale of the areas of interest.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 15: CONTROLLED ENTITIES

a. Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned (%)*	
		2014	2013
Subsidiaries of International Coal Ltd:			
Great White Nominees Pty Ltd	Australia	100%	100%
Gen Resources Pty Ltd	Australia	100%	100%

** Percentage of voting power is in proportion to ownership*

**International Coal Limited ABN 65 149 197 651
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 16: JOINT VENTURE

a. Interest in Joint Venture Operations

The following joint venture agreements have been entered into by the Group:

- (i) The Group entered into a Joint Venture and Farm-in agreement with Queensland Coal Investments Pty Ltd (QCI) on 21 June 2012. \$133,354 was incurred as part of this agreement in the financial year ended 30 June 2014 (2013: \$nil). The consolidated group share of assets employed and interest in the joint venture was 100%. Under the Agreement, QCI have a right to earn a 25% interest in this project.

For the period ended 30 June 2014, Queensland Coal Investments Pty Ltd had incurred costs of \$1,623,377 as part of their JV/Farm-in arrangement with the Group over tenements in the Bundaberg region. QCI is required to spend \$1,500,000 in order to earn a 25% interest in the tenements as part of the JV/Farm-in.

- (ii) The Group entered into a Joint Venture and Farm-in agreement with Coal Face Resources Pty Ltd (CFR) on 12 April 2013. This joint venture is in relation to the Don Juan project. \$68,174 has been incurred as part of this agreement in the financial year ended 30 June 2014. The consolidated group share of assets employed was \$438,000 and interest in the joint venture was 46%.

On 10 October 2013, the company announced that it had executed a Deed of Variation to the original Terms Sheet with CFR that increases International Coal Ltd's stake in EPC 2286 (Don Juan) from 20% to 46% following the issue of a further 6.0 mill shares for a value of \$78,000.

- (iii) On 20 September 2012, the company announced it had signed a Terms Sheet with Coal Face Resources Pty Ltd (CFR) to acquire a 20% interest in the project referred to as the Consuelo Project upon granting of the tenements. The terms of the Joint Venture / Farm-in agreement offer International Coal Ltd (ICL) the opportunity to earn up to 71% of the Consuelo Project within 3 years from the date of the grant of the tenements. The consolidated group share of assets employed was \$1,719,900 and interest in the joint venture was 20%.

On 10 October 2013, the company announced that it had executed a Deed of Variation to the original terms sheet with CFR that increases ICL's stake in EPCs 2318 and 2332 (Consuelo Project) to acquire a 20% interest from CFR following the issue of 8.25 mill shares and 2.75 mill options at an exercise price of 20c (expiry date of 10 October 2018) for a value of \$734,250.

On 19 June 2014, the company announced that it had executed a further Deed of Variation to increase ICL's stake in EPC 2327 to 20% following the issue of a further 6.75 mill shares as well as the issue of 7.25 mill options at an exercise price of 20c (expiry date of 18 June 2019) for a value of \$553,500.

For the period ended 30 June 2014 the Group had incurred costs of \$110,482 as part of their JV/Farm-in arrangement with CFR over tenements in the Don Juan and Consuelo regions. The Group has the opportunity to spend \$6,600,000 in order to earn a further 51% interest in the Consuelo tenements.

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 17: TRADE AND OTHER PAYABLES

Consolidated Group

	2014	2013
	\$	\$
CURRENT		
Unsecured liabilities:		
Other payables	521,986	656,945
Annual leave accrual	27,552	33,149
	<u>549,538</u>	<u>690,094</u>

- (i) Other receivables are non-interest bearing and have repayment terms between seven and ninety days.
- (ii) No receivables are past due or impaired at year end.

Consolidated Group

NOTE 18: CONTRIBUTED EQUITY

	2014	2013
	\$	\$
a. Issued and paid up capital		
Fully paid ordinary shares	15,674,904	14,309,154
	<u>15,674,904</u>	<u>14,309,154</u>

	2014	2014
	No.	\$
b. Movements in shares on issue		
At the beginning of the reporting year:	138,730,003	14,309,154
Shares issued during the year		
- 10 October 2013 - pursuant to Consuelo & Don Juan Farm-in and Joint Venture agreements.	14,250,000	812,250
- 19 June 2014 - pursuant to Consuelo Farm-in and Joint Venture agreement.	6,750,000	553,500
At the end of the reporting year	<u>159,730,003</u>	<u>15,674,904</u>

	2013	2013
	No.	\$
At the beginning of the reporting year:	132,730,003	13,574,004
Shares issued during the year		
- 20 November 2012 - pursuant to Don Juan Farm-in and Joint Venture agreement.	3,000,000	337,250
- 20 November 2012 - pursuant to Consuelo Farm-in and Joint Venture agreement.	2,000,000	224,834
- 18 February 2013 – fee charged by Subiaco Capital Pty Ltd for introducing International Coal Limited to Queensland Coal Investments Pty Ltd.	1,000,000	175,000
Less - Cost of shares issued	-	(1,934)
At the end of the reporting year	<u>138,730,003</u>	<u>14,309,154</u>

**International Coal Limited ABN 65 149 197 651
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 18: CONTRIBUTED EQUITY (CONTINUED)

Capital Risk Management

The consolidated entities objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issues new shares or sell assets to reduce debt.

The group would look to raise capital when an opportunity to invest in an asset was seen as value adding relative to the current parent entity's share price at the time of investment or at a time where the group believes further cash reserves are required.

NOTE 19: RESERVES

Share based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued to employees or service providers.

NOTE 20: SHARE-BASED PAYMENTS

Consolidated Group

	2014	2013
	\$	\$
Share based payment expense recognised during the financial year	11,100	3,500
	<u>11,100</u>	<u>3,500</u>

Share-based payment arrangements

Options are granted at the discretion of the Board. Information with respect to the number of options granted is as follows:

	2014		2013	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of year	41,700,000	0.26	40,700,000	0.26
- granted	12,000,000	0.23	1,000,000	0.30
- forfeited	-	-	-	-
- exercised	-	-	-	-
Balance at end of year	<u>53,700,000</u>	<u>0.25</u>	<u>41,700,000</u>	<u>0.26</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 20: SHARE-BASED PAYMENTS (CONTINUED)

Options held at the beginning and end of the reporting year:

At 30 June 2014

No. of options	Grant date	Vesting date	Expiry date	Weighted av exercise price \$	Fair value at grant date \$
26,500,000	5 April 2011	5 April 2011	7 April 2015	0.20	0.0263
1,000,000	5 April 2011	5 April 2011	1 February 2016	0.20	0.0308
4,500,000	28 April 2011	28 April 2011	31 December 2015	0.30	0.0239
3,500,000	28 April 2011	28 April 2011	31 December 2015	0.50	0.0205
2,000,000	21 November 2011	21 November 2011	31 December 2015	0.35	0.1042
1,000,000	21 November 2011	21 November 2011	31 December 2015	0.40	0.0927
3,200,000	10 January 2012	10 January 2012	12 January 2017	0.35	0.2560
1,000,000	14 November 2013	14 November 2013	31 December 2015	0.30	0.0088
1,000,000	14 November 2013	14 November 2013	31 December 2015	0.50	0.0023
2,750,000	10 October 2013	10 October 2013	10 October 2018	0.20	0.0167
7,250,000	19 June 2014	19 June 2014	18 June 2019	0.20	0.0061
<u>53,700,000</u>					

At 30 June 2013

No. of options	Grant date	Vesting date	Expiry date	Weighted av exercise price \$	Fair value at grant date \$
26,500,000	5 April 2011	5 April 2011	7 April 2015	0.20	0.0263
1,000,000	5 April 2011	5 April 2011	1 February 2016	0.20	0.0308
3,500,000	28 April 2011	28 April 2011	31 December 2015	0.30	0.0239
3,500,000	28 April 2011	28 April 2011	31 December 2015	0.50	0.0205
2,000,000	21 November 2011	21 November 2011	31 December 2015	0.35	0.1042
1,000,000	21 November 2011	21 November 2011	31 December 2015	0.40	0.0927
3,200,000	10 January 2012	10 January 2012	12 January 2017	0.35	0.2560
1,000,000	12 June 2013	12 June 2013	31 December 2015	0.30	0.0035
<u>41,700,000</u>					

At year end all options were exercisable.

The fair value of the options were determined using the Black-Scholes model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 20: SHARE-BASED PAYMENTS (CONTINUED)

Key inputs used in the calculation of the value of options granted during the year ended 30 June 2014 are:

Grant date	Expiry date	Spot price	Volatility	Risk free rate
		\$	%	%
10 October 2013	10 October 2018	0.20	50	3.00
19 June 2014	18 June 2019	0.20	50	3.00

Expected volatility was determined based on historic volatility adjusted for any expected changes to future volatility based on publicly available information. All options granted during the year vested on grant date. None of the options issued have vesting conditions attached.

NOTE 21: RELATED PARTY TRANSACTIONS

The Group's main related parties are as follows:

(a) Entities exercising control over the Group:

The ultimate parent entity that exercises control over the Group is International Coal Limited which is the Australian parent Company.

(b) Key management personnel:

Any person 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.

Information on transactions with key management personnel is disclosed in Note 8.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 22: CASH FLOW INFORMATION

	Consolidated Group	
	2014	2013
	\$	\$
a. Reconciliation of Cash Flow from Operations with Loss after Income Tax		
Loss after income tax	(671,345)	(1,264,330)
Cash flows excluded from loss attributable to operating activities:		
Non-cash flows in loss:		
– Share based payments	11,100	3,500
– Depreciation expense	1,553	2,672
– Loss on disposal of fixed assets	-	6,604
– Impairment of exploration assets	18,574	89,709
– Introductory fee non-cash equity settled	-	175,000
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
– (increase)/decrease in trade and other receivables	228,461	15,917
– (increase)/decrease in other current assets	-	(1,772)
– (increase)/decrease in other non-current assets	-	1,000
– (increase)/decrease in income tax receivable	422,399	(708,227)
– increase/(decrease) in trade payables and other payables	(140,558)	251,947
Net cash used in operating activities	<u>(129,816)</u>	<u>(1,427,980)</u>

NOTE 23: SEGMENT INFORMATION

Identification of reportable segments

Operating segments have been determined on the basis of reports reviewed by the Board. The Board is considered to be the chief operating decision maker of the group. The Board considers the business on a whole of group basis and assesses performance and allocates resources based on these reports.

The Group's operations are confined to Australia only and more specifically mainly in Queensland where the tenements are held. Some employees are located in New South Wales however these employees provide a small amount of administrative support only.

As such there are no separately identifiable reportable segments due to this holistic approach taken by the board.

NOTE 24: FINANCIAL RISK MANAGEMENT

(a) Financial Risk Management Policies

The Board of Directors has the responsibility for, among other issues, monitoring and managing 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 counterparty credit risk, financing risk and interest rate 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 the use of credit risk policies and future cash flow requirements.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 24: FINANCIAL RISK MANAGEMENT (CONTINUED)

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

(b) Categories of financial instruments

	Note	Consolidated Group	
		2014	2013
		\$	\$
Financial assets			
Cash and cash equivalents	9	1,213,352	1,459,231
Loans and receivables		336,361	777,930
Total financial assets		1,549,713	2,237,161
Financial liabilities			
Trade and other payables at amortised cost	17	549,538	690,094
Total financial liabilities		549,538	690,094

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 24: FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) 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.

i. 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. 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. Where the Group is unable to ascertain a satisfactory credit risk profile in relation to a customer or counterparty, the risk may be further managed through title retention clauses over goods or obtaining security by way of personal or commercial guarantees over assets of sufficient value which can be claimed against in the event of any default.

Credit risk exposures

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period 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.

There is one significant receivable at year end being the Australian Taxation Office for \$285,829. In the prior year there was a receivable from the Australian Taxation Office of \$708,829. This was received in full during 2014. The Group did not have any customers during the current or prior years.

Trade and other receivables that are neither past due nor impaired are considered to be of high credit quality.

The Group manages its credit risk associated with funds on deposit and cash at bank by only dealing with reputable financial institutions. At year end the Group has one material exposure of \$1,213,352 (2013: \$1,459,231) to the Commonwealth Bank of Australia relating to funds on deposit and cash at bank.

ii. 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;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets; and
- only investing surplus cash with major financial institutions.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 24: FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Specific Financial Risk Exposures and Management (continued)

iii. Market risk

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 also exposed to earnings volatility on floating rate instruments.

Consolidated Group	Weighted average interest rate	Floating interest rate \$	Fixed interest maturing in:			Non- interest bearing \$	Total \$
			1 year or less \$	over 1 to 5 years \$	5 years or more \$		
30 June 2014							
Financial assets							
Cash and deposits	4.0%	117,836	1,095,516	-	-	-	1,213,352
Trade and other receivables	N/A	-	-	-	-	336,361	336,361
		117,836	1,095,516			336,361	1,549,713
Financial liabilities							
Trade and other payables	N/A	-	-	-	-	(549,538)	(549,538)
		117,836	1,095,516	-	-	(213,177)	1,000,175

Consolidated Group	Weighted average interest rate	Floating interest rate \$	Fixed interest maturing in:			Non- interest bearing \$	Total \$
			1 year or less \$	over 1 to 5 years \$	5 years or more \$		
30 June 2013							
Financial assets							
Cash and deposits	4.2%	150,889	1,275,837	-	-	32,505	1,459,231
Trade and other receivables	N/A	-	-	-	-	777,930	777,930
		150,889	1,275,837			810,435	2,237,161
Financial liabilities							
Trade and other payables	N/A	-	-	-	-	(690,094)	(690,094)
		150,889	1,275,837	-	-	120,341	1,547,067

N/A – not applicable for non-interest bearing financial instruments.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date. At 30 June 2014, if interest rates had moved, as illustrated in the table below, with all other variables held constant, net loss and other comprehensive income would have been affected as follows:

Consolidated Group	Net loss Higher/(Lower)		Other comprehensive income Higher/(Lower)	
	2014 \$	2013 \$	2014 \$	2013 \$
+0.20% (80 basis points)	10,904	12,841	-	-
-0.20% (80 basis points)	(10,904)	(12,841)	-	-

**International Coal Limited ABN 65 149 197 651
and Controlled Entities**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 25: COMMITMENTS

	<i>Consolidated Group</i>	
	2014	2013
a. Capital expenditure commitments	\$	\$
Not later than one year	614,000	1,159,468
Later than one year but not later than two years	950,000	1,679,850
Later than two years but not later than five years	797,000	1,875,000
	2,361,000	4,714,318

b. Non-cancellable operating lease commitments

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Not later than one year	-	96,020
	-	96,020

Capital Commitments

There are capital and rental commitments on tenements ranging from \$2,000 to \$100,000 per annum with expiry terms of between 1 to 18 years.

Non-cancellable operating lease commitments

Operating lease commitments comprised a lease over an office space in Perth Australia, the corporate office premises prior to moving to Brisbane, Australia. This lease has now been finalised in full.

NOTE 26: FAIR VALUE MEASUREMENT

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis after initial recognition:

- Mineral assets

The Group does not subsequently measure any liabilities at fair value on a non-recurring basis.

Fair Value Hierarchy

AASB 13: *Fair Value Measurement* requires the disclosure of fair value information by level of the fair hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

Level 1	Level 2	Level 3
Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	Measurements based on inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly.	Measurements based on unobservable inputs for the asset or liability.

**International Coal Limited ABN 65 149 197 651
and Controlled Entities**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 26: FAIR VALUE MEASUREMENT (CONTINUED)

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

The Company's available for sale financial assets are valued using Level 2, as follows:

	Note	Consolidated Group	
		2014	2013
		\$	\$
<i>Mineral assets</i>			
- Consideration for mineral assets acquired	14	1,455,900	662,084

NOTE 27: EVENTS AFTER THE REPORTING PERIOD

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

**International Coal Limited ABN 65 149 197 651
and Controlled Entities**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR END 30 JUNE 2014

NOTE 28: COMPANY DETAILS

The registered office of the company is:

ANZ Bank Building
Level 15, 324 Queen Street
Brisbane
Queensland 4000

The principal places of business are:

ANZ Bank Building
Level 15, 324 Queen Street
Brisbane
Queensland 4000

Unit 7/ 3 Gibbes St
Chatswood NSW 2067

CORPORATE GOVERNANCE STATEMENT

The Board of Directors believes there is a strong link between high standards of corporate governance and equity performance. Accordingly the Board is committed to operating in accordance with ICX's corporate governance policies in all aspects of the business.

The Board of Directors is responsible for the overall strategy, governance and performance of International Coal Ltd (the Company). The Board has adopted a corporate governance framework which it considers to be suitable given the size, history and strategy of the Company.

ICX ensures, wherever possible, that its practices are consistent with the 2nd Edition of the Australian Securities Exchange (ASX) *Corporate Governance Council's Principles and Recommendations* (ASX Principles). In certain circumstances, due to the size and stage of development of ICX, it may not be practicable or necessary to implement the ASX Principles in their entirety. ICX's statement of conformity to the ASX Principles is set out below and areas of divergence are noted. The Board notes that in March 2014 the ASX Corporate Governance Council released the 3rd edition of the ASX Principles which Companies will be required to report on for periods beginning 1 July 2015. The Board undertakes to report against the 3rd edition of the ASX Principles in the Company's next Annual Report.

Further details relating to the Company's corporate governance practices can be found on the Company's website at www.intercoal.com.au under "Corporate Governance".

Principle 1: Lay solid foundations for management and oversight

The Board of Directors is responsible for the overall strategy, governance and performance of the Company.

Board Charter

The Board has adopted a formal Board Charter which clearly details its functions and responsibilities and delineates the role of the Board from that of the senior executives. The Board's function and responsibilities include strategy and planning, corporate governance, appointment of the Chief Executive Officer (CEO) and Company Secretary, remuneration, capital expenditure and financial reporting, performance monitoring, risk management, audit and compliance, developing and monitoring diversity policies and objectives.

Executive Directors are provided with executive contracts of employment and Non-executive Directors are provided with service agreements setting out the key terms and conditions relative to that appointment.

A copy of the Board Charter is available on the International Coal website under "Corporate Governance".

Delegation to CEO and senior executives

Day to day management of the Company's affairs and the implementation of the corporate strategy and policy initiatives have been formally delegated by the Board to the CEO as set out in the Board Charter

Performance of senior executives

During his period of employment, Glenn Simpson, the CEO, had an employment contract describing his term of office, rights and responsibilities and entitlements on termination. When new senior executives are appointed they undergo induction programmes to allow them to participate fully and actively in management decision-making.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The Board's policy is to annually review the performance of the CEO, particularly in regard to execution of the Company's strategy and qualitative and quantitative measurement of achievement against performance objectives. A review did not take place for the year ended 30 June 2014 due to Mr Simpson's departure.

Principle 2: Structure the board to add value

Structure of the Board

The Board currently consists of three directors including, an Independent Non-executive Chairman, an additional Independent Non-executive Director and an Executive Director:

Mr John Lester, Chair – Independent, Non-executive Director

Mr Noel Halgreen – Independent, Non-executive Director

Mr Hugh Dai – Executive Director and acting CEO

The qualifications, experience and expertise of each Director are set out on in the 2014 Directors' Report.

Director rotation requirements in the Company's Constitution require that one-third of Directors, or if the number is not a multiple of three, a number nearest to one-third but not exceeding one-third must retire from office. Subject to the provisions of the Company's Constitution, prior to the Board proposing re-election of Non-executive Directors, their performance will be informally evaluated by the Board to ensure that they continue to contribute effectively to the Board.

Chairman's responsibilities and independence

The Board Charter provides that the Chairman of the Board is responsible for the leadership of the Board, ensuring the Board is effective, setting the agenda of the Board, conducting the Board meetings and conducting the shareholder meetings.

The Chairman of the Board, John Lester, is an Independent Non-executive Director.

Board independence

An independent Director is one who is independent of management and free from any business or other relationship, which could, or could reasonably be perceived, to materially interfere with, the exercise of independent judgement. Any independent Director will meet the definition of what constitutes independence as set out in the ASX Recommendations. The materiality thresholds are assessed on a case-by-case basis, taking into account the relevant Director's specific circumstances, rather than referring to a general materiality threshold.

At this time there are two Directors the Board has classified as independent - the Non-Executive Chairman Mr John Lester and Mr Noel Halgreen.

The Board Charter states that, where practical, the majority of the Board is comprised of Non-executive Directors and where practical, at least 50% of the Board will be independent. At this stage a majority of the Board are Independent Non-executive Directors. The Board will review its composition at regular intervals.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board committees

To assist the Board in carrying out its functions, the Board has established an Audit and Risk committee. The Audit and Risk Committee is established according to a Charter that is approved by the Board. The Committee is entitled to the resources and information it requires to discharge its responsibilities, including direct access to senior executives, employees and advisers as needed.

The accountabilities and responsibilities of a Remuneration and Nomination committee are carried out by the Board. The Board does not consider a Remuneration and/or Nomination Committee is warranted given the size of the group and the small number of directors and executives that it currently has. The nomination related responsibilities of the Board include assessing the skills, diversity and necessary industry, technical or functional experience required by the Board, recommending directors for re-election and conducting searches for new Board members when required. The remuneration related responsibilities are set out on pages 70 to 71 of this Corporate Governance Statement.

Director selection process and Board renewal

The composition of the Board is reviewed regularly to ensure the appropriate mix of skills, diversity and expertise is present to facilitate successful strategic direction.

As detailed in the Board Charter, in appointing new members to the Board, consideration is given to the ability of the appointee to contribute to the ongoing effectiveness of the Board, to exercise sound business judgement, to commit the necessary time to fulfil the requirements of the role effectively and to contribute to the development of the strategic direction of the Company. Consideration will also be given to achieving a Board with a diverse range of backgrounds.

The process used for selecting new members for the Board, as set out in the Board Charter, may be assisted by the use of external search organisations as appropriate. An offer of a Board appointment will be made by the Chairman of the Board only after having consulted all Directors. Background checks are carried out and detailed background information, in relation to a potential candidate, is provided to all Directors.

Board and Director performance evaluation

The Board has adopted a Board Performance Evaluation Policy with the aim of ensuring individual directors and the Board, as a whole, work efficiently and effectively in achieving their functions. The Chairman has met with each non-executive director separately to discuss individual and collective performance.

Induction

Upon appointment to the Board, new Directors are provided with information regarding the Company's strategy and operations and corporate governance practices and policies.

Continuing education

Directors are provided with continuing education opportunities to update and enhance their skills and knowledge. This consists of regular updates for the Board from management, separate to Board meetings to ensure Non-executive Directors are well-informed of the Company's operations and any recent developments.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Access to information, indemnification and independent advice

The Company Secretary provides assistance to the Board, and Directors also have access to staff at any time to request any relevant information. The Board Charter provides that:

- all Directors have unrestricted access to company records and information except where the Board determines that such access would be adverse to the Company's interests;
- all Directors may consult management and employees as required to enable them to discharge their duties as Directors; and
- the Board, Board Committees or individual Directors may seek independent external professional advice as considered necessary at the expense of the Company, subject to prior consultation with the Chairman. A copy of any such advice received is made available to all members of the Board.

Conflicts of interest

The Constitution and Code of Conduct set out the obligations of Directors in dealing with any conflicts of interest. In addition, a Related Party Transactions/Conflicts section of the Board Charter provides further guidance to Directors regarding any potential related party transactions. Pursuant to the above named documents, Directors are obliged to:

- disclose to the Board any actual or potential conflicts of interest which may exist as soon as they become aware of the issue;
- take any necessary and reasonable measures to resolve the conflict; and
- comply with all law in relation to disclosure of interests and restrictions on voting.

Unless the Board determines otherwise, a Director with any actual or potential conflict of interest in relation to a matter before the Board, does not:

- receive any Board papers in relation to that matter; and
- participate in any discussion or decision making in relation to that matter.

The Company Secretary also maintains a register of any potential conflicts of interests of Directors.

Principle 3: Promote ethical and responsible decision making

Corporate Code of conduct

The Company has implemented a Corporate Code of Conduct (the Code) which applies to Directors and employees. The Code provides a framework for decisions and actions in relation to ethical conduct in employment. It underpins the Company's commitment to integrity and fair dealing in its business affairs and to a duty of care to all employees, clients and stakeholders. The Code sets out the principles covering appropriate conduct in a variety of contexts and outlines the minimum standard of behaviour expected from Directors and employees.

A copy of the Code is available on the Company's website at www.intercoal.com.au

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Dealings in securities

The Company has implemented a Securities Trading Policy which covers dealings in the Company's securities by its Key Management Personnel. The Securities Trading Policy sets out the guidelines for trading in the Company's securities, including closed periods, exceptions and approval and notification requirements.

A copy of the Securities Trading Policy is available on the Company's website at www.intercoal.com.au

Diversity

Diversity includes, but is not limited to, gender, age, ethnicity and cultural background. The Company is committed to diversity and recognises the benefits arising from employee and board diversity and the importance of benefiting from all available talent. The Board did not have a Diversity Policy in place for the year ended 30 June 2014 because it is the Board's view that the Company does not have enough employees to warrant such a Policy. It is the Board's view that diversity in the Company has not been affected by the absence of a formal policy.

At this stage the Company only employs a small number of staff (3). The Board will consider appropriate objectives and strategies for diversity as the Company's staff levels grow.

As at 30 June 2014 none of the Company's executive managers are female, however the Company Secretary is female. Of the total Company employees 2 of those employed are female. There were no female board members as at 30 June 2014.

Principle 4: Safeguard integrity in financial reporting

Audit and Risk Committee

The Board has established an Audit and Risk Committee governed by the Audit and Risk Committee Charter, which is available on the Company's website at www.intercoal.com.au.

The objective of the Audit and Risk Committee is to assist the Board in monitoring and reviewing any matters of significance affecting financial reporting and compliance. The Audit and Risk Committee's responsibilities include:

- review of financial reports;
- review and monitoring of risk management systems, practices and procedures;
- external audit; and
- any special reviews or investigations requested by the Board.

Audit and Risk Committee composition

The Audit and Risk Committee consists of 2 Independent Non-executive Directors. The members of the Audit and Risk Committee are Mr Noel Halgreen, Chair of the Committee and Mr John Lester.

The composition does not comply with the ASX Recommendations in that the Audit and Risk Committee does not have three members. The Board has determined that it is inappropriate to have Executive Directors as members of the Committee and hence there are only 2 members.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The Board is satisfied that the composition of the Audit and Risk Committee is appropriate for the size and stage of development of the Company and the issues the Company is facing in this area. The composition will be reviewed on a regular basis as circumstances change.

Details of meeting attendance of members of the Committee can be found on page 17.

Audit

The Audit and Risk Committee is responsible for:

- the performance of the external auditor;
- ensuring rotation of the lead engagement partner;
- approving the audit plans and proposed fees for audit work;
- meeting with the external auditors as required without management present; and
- monitoring independence of the external auditor.

Principle 5: Make timely and balanced disclosure

The Company is committed to ensuring:

- compliance with the requirements of the ASX Listing Rules, all relevant regulations and the ASX Recommendations;
- accountability at Chief Executive Officer level for that compliance; and
- facilitation of an efficient and informed market in the Company's securities by keeping the market apprised through ASX announcements of all material information.

The Company has implemented a Continuous Disclosure Policy which is designed to support the commitment to a fully informed market in the Company's securities by ensuring that announcements are:

- made to the market (via the ASX Company Announcements platform) in a timely manner, are factual and contain all relevant material information; and
- expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

A copy of the Continuous Disclosure Policy is available on the Company's website at www.intercoal.com.

Principle 6: Respect the rights of shareholders

The Company has adopted a Shareholder Communications Policy which aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated to shareholders through:

1. Quarterly and Annual Reports;
2. disclosures and announcements made to the Australian Securities Exchange (**ASX**);
3. notices and explanatory memoranda of Annual General Meetings and Extraordinary General Meetings and addresses or presentations made at those meetings;
4. the Company's website; and
5. the auditor's lead engagement partner being present at the AGM to answer questions from shareholders about the conduct of the audit and the preparation and content of the auditor's report.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The Board encourages participation by shareholders at all shareholder meetings.

A copy of the Shareholder Communications Policy is available on the Company's website at www.intercoal.com.

Principle 7: Recognise and manage risk

The Company is committed to ensuring that:

- its culture, processes and structures facilitate realisation of the Company's business objectives whilst material risks are identified, managed, monitored and wherever appropriate and possible, mitigated; and
- to the extent practicable, its systems of risk oversight, management and internal control complies with the ASX Recommendations.

The Board determines the Company's risk profile and is responsible for overseeing and approving the Company's risk management strategy and policies, internal compliance and internal control.

The Board has delegated to the Audit and Risk Committee responsibility for implementing the risk management system and reporting to the Board.

The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required to assess risk management and associated internal compliance and control procedures and report regularly to the Audit and Risk Committee.

In accordance with the ASX *Recommendations (recommendation 7.2)*, the CEO states to the Board on an annual basis that the management of the Company's material business risks is effective. This declaration was received for the year ended 30 June 2014.

In accordance with section 295A of the Corporations Act and the ASX *Recommendations (recommendation 7.3)*, the CEO attested to the Board that the Company's financial reporting is based on a sound system of risk management and internal controls.

A copy of the Company's risk management strategy is available on the Company's website at www.intercoal.com.

Principle 8: Remunerate fairly and responsibly

The Board has determined that, due to its size, it is not appropriate to establish a separate Remuneration Committee and, therefore, those responsibilities are undertaken by the Board as a whole.

In regard to remuneration, the Board fulfils its responsibilities to shareholders by:

- reviewing and approving the executive remuneration policy to enable the Company to attract and retain executives and Directors who will create value for shareholders;
- ensuring that the executive remuneration policy demonstrates a clear relationship between key executive performance and remuneration;
- recommending to the Board the remuneration of executive Directors;
- fairly and responsibly rewarding executives having regard to the performance of the Company, the performance of the executive and the prevailing remuneration expectations in the market;
- reviewing the Company's recruitment, retention and termination policies and procedures for senior management; and
- reviewing and approving any equity based plans and other incentive schemes.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Remuneration policy

Information on the Company's remuneration policies and practices is set out in the remuneration report starting on page 18-24 in the Directors' report.

The remuneration of Non-executive Directors is fixed. Non-executive Directors do not participate in other remuneration components such as performance related short-term or long-term incentives, options or variable remuneration and do not receive retirement benefits other than superannuation. Information relating to the remuneration of Non-executive Directors is disclosed in the remuneration report on pages 18 to 24. The structure of executive remuneration is distinctly different to that of Non-executive Directors which is detailed in the Remuneration Report.

The ICX Personnel Securities Trading Policy states that executives are not permitted to enter into transactions in financial products, securities or derivatives which limit the economic risk of participating in unvested entitlements under equity-based remuneration schemes.

Conclusion

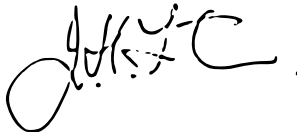
The Board is satisfied with its level of compliance and corporate governance requirements for the current stage of development and size of International Coal. However, the Board recognises that processes and procedures require continual monitoring and improvement and this will continue to occur.

**International Coal Limited ABN 65 149 197 651
and Controlled Entities**

DIRECTORS' DECLARATION

1. In the opinion of the directors of International Coal Limited:
 - a. The consolidated financial statements, comprising the statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and accompanying notes, are in accordance with the *Corporations Act 2001* and:
 - i. comply with Accounting Standards and the *Corporations Regulations 2001*; and
 - ii. give a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of the performance for the year ended on that date.
 - b. There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chair and the Chief Executive Officer for the financial year ended 30 June 2014.
3. The directors draw attention to Note 1 to the consolidated financial statements, which include a statement of compliance with International Financial Reporting Standards.

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



Chairman

John Lester

Dated: 26 September 2014

**INTERNATIONAL COAL LIMITED
ABN 65 149 197 651
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
INTERNATIONAL COAL LIMITED AND CONTROLLED ENTITIES**

Report on the Financial Report

We have audited the accompanying financial report of International Coal Limited which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated 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 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 on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirement of the Corporation Act 2001.

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**INTERNATIONAL COAL LIMITED
ABN 65 149 197 651
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
INTERNATIONAL COAL LIMITED AND CONTROLLED ENTITIES**

Auditor's Opinion

In our opinion:

- a. the financial report of International Coal Limited is in accordance with the Corporations Act 2001 including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 in the financial report which indicates that the consolidated entity incurred a net loss of \$671,345 and incurred net cash outflows from operations of \$129,816 during the year ended 30 June 2014. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the remuneration report included in pages 22 to 24 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the remuneration report of International Coal Limited for the year ended 30 June 2014 complies with Section 300A of the Corporations Act 2001.



Hall Chadwick
Level 40, 2 Park Street
Sydney NSW 2000



Drew Townsend
Partner

Date: 26 September 2014

**International Coal Limited ABN 65 149 197 651
and Controlled Entities**

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following information is current as at 23 September 2014:

1. Shareholding

a. Distribution of Shareholders

Category (size of holding):	Number	
	Ordinary	Redeemable
1 – 1,000	9	-
1,001 – 5,000	49	-
5,001 – 10,000	57	-
10,001 – 100,000	268	-
100,001 – and over	160	-
	543	-

b. The number of shareholdings held in less than marketable parcels is 149.

c. The names of the substantial shareholders listed in the holding company's register are:

Shareholder:	Number	
	Ordinary	Preference
Natalie Horsefield	26,000,000	-

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.

e. 20 Largest Shareholders – Ordinary Shares

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1. Natalie Olive Horsefield	26,000,000	16.28
2. JBO Assets Pty Ltd	7,166,667	4.49
3. TWW Assets Pty Ltd	7,166,667	4.49
4. Trust Company (Australia) Limited	6,500,000	4.07
5. Xiao Jianmin	5,000,000	3.13
6. VTech Holdings Pty Ltd	4,925,000	3.08
7. Delwood Holdings Pty Ltd	3,327,021	2.08
8. Yilgarn Infrastructure Ltd	3,231,480	2.02
9. Jungle Creek Gold Mines Pty Ltd	3,204,949	2.01
10. KAL Capital Pty Ltd	3,015,211	1.89
11. Tang Si	2,645,922	1.66
12. Baita Holdings Pty Ltd	2,550,000	1.60
13. Donrose Investments Pty Ltd	2,255,000	1.41

**International Coal Limited ABN 65 149 197 651
and Controlled Entities**

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES (CONTINUED)

1. Shareholding (continued)

e. 20 Largest Shareholders – Ordinary Shares (continued)

14. Seefeld Investments Pty Ltd	2,255,000	1.41
15. Trust Co. Super Ltd	2,070,000	1.30
16. Guomei Shi	2,009,420	1.26
17. Himer Holding Pty Ltd	2,000,000	1.25
18. John Andrew Rodgers	2,000,000	1.25
19. Red Apple Superannuation Pty Ltd	1,900,000	1.19
20. Bearded Rooster Nominees Pty Ltd	1,775,000	1.11
	91,292,337	57.15

2. Company Secretary

The name of the company secretary is Kate O'Donohue.

The address of the principal registered office in Australia is

ANZ Bank Building

Level 15, 324 Queen Street

Brisbane

Queensland 4000

Telephone (07) 3320 2233.

3. Register of Securities

Registers of securities are held at the following addresses:

Level 12, 680 George Street Sydney NSW 2000

4. Stock Exchange Listing

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

5. Unquoted Securities as at 23 September 2014

Options over Unissued Shares.

A total of 53,700,000 options are on issue to directors and third parties for services rendered. All options are issued in accordance with the company's option plan.

Exercise Price	Expiry Date	Number on Issue	Number of Holders
\$0.20	1 February 2016	1,000,000	1
\$0.20	7 April 2015	26,500,000	11
\$0.20	10 April 2018	2,750,000	1
\$0.20	18 June 2019	7,250,000	1
\$0.30	31 December 2015	3,500,000	4
\$0.30	31 December 2015	2,000,000	2
\$0.35	21 November 2015	2,000,000	1
\$0.35	12 January 2017	3,200,000	4
\$0.40	21 November 2015	1,000,000	1
\$0.50	31 December 2015	4,500,000	5

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ADDENDUMS

Schedule of Tenements held at 30 June 2014

Tenure	No	Project	Notes
EPC	2194	Bundaberg	1
EPC	2195	Bundaberg	1
EPC	2196	Bundaberg	1
EPC	2197	South Blackall	
EPC	2861	Emerald	
EPC	2286	Don Juan	
EPC	2318	Consuelo	2
EPC	2327	Consuelo	2
EPC	2332	Consuelo	2

Notes

¹ These tenements are held 100% by Gen Resource Pty Ltd (subsidiary of International Coal Limited) but is subject to a joint venture with Queensland Coal Investment Pty Ltd (QCI) which enables QCI to earn into the project to up to 51%.

² These tenements are held by Coal Face Resources Pty Ltd subject to a joint venture arrangement which currently provides International Coal Limited with a 20% interest in the tenements.

BUSINESS OBJECTIVES

The company believes that its application and spending of funds since admission to the ASX is consistent with its objectives previously stated in the company's prospectus.

Company expenses on the development of its key tenements and projects have exceeded the expenditure anticipated in its prospectus at the time of admission to the ASX.

The company continues to seek ways to reduce its administrative overheads and improve its operations and productivity. The Board and management are committed to continuously improving the efficiency and productivity of the company to deliver optimal results for shareholders.