NEW HORIZON Coal Ltd

ABN 61 143 932 110

Annual Report

30 June 2012

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Corporate Directory

Directors	Gary Steinepreis Non-Executive Chairman Michael Placha Executive Carl Coward Non-Executive
Company Secretary	Gary Steinepreis
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Share Register	Computershare Investor Services Pty Ltd Reserve Bank Building Level 2 45 St George's Terrace Perth Western Australia 6000 Investor enquiries: 1300 557 010 Telephone: 08 9323 2000 Facsimile: 08 9323 2033
Auditor	BDO Audit (WA) Pty Ltd 38 Station Street Subiaco Western Australia 6008 Telephone: 08 6382 4600 Facsimile: 08 6382 4601
Bankers	Westpac Banking Corporation 109 St Georges Terrace Perth WA 6000
Stock Exchange Listing	New Horizon Coal Ltd's shares and options are listed on the Australian Securities Exchange (ASX), home branch, Perth. Code: NHO Shares – NHOO Options
Website	www.newhorizoncoal.com.au

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of New Horizon Coal Ltd, (formerly New Horizon Minerals Ltd), and the entities it controlled at the end of, or during, the financial year ended 30 June 2012 (New Horizon Coal or the Company or Group).

Directors

The name of each person who has been a director during the reporting period and to the date of this report are:

Gary Steinepreis appointed 4 June 2010

Michael Placha appointed 2 December 2011

Carl Coward appointed 2 December 2011

Robert Hodby appointed 4 June 2010 and resigned 2 December 2011

Patrick Burke appointed 4 June 2010 and resigned 2 December 2011

Company Secretary

The company secretary is Gary Steinepreis who was appointed 4 June 2010.

Principal Activity

The principal continuing activity of the Group is exploration for coal.

The Group's exploration work programme is to review, evaluate and develop the Kinney Coal Project located in Utah, USA and as part of the working capital budget, pursue new projects in the minerals sector by way of acquisition or investment.

During the year the Company acquired Delta Coal Fund Pty Ltd (Delta Coal). The successful acquisition of Delta Coal saw a change to the nature and scale of the Company's activities which was approved by shareholders at the annual general meeting held on 9 November 2011. The change in the nature and scale of activities required that the Company re-comply with Chapters 1 and 2 of the ASX Listing Rules. A prospectus was issued to assist the Company to re-comply with these requirements. Re-compliance was satisfied on 6 December 2011 and the Company's securities were re-instated to trading on that date.

The Company changed its name to New Horizon Coal Ltd on 9 November 2011.

Review of Operations

Delta Coal Fund Pty Ltd

Delta Coal Fund Pty Ltd, pursuant to an option agreement between Delta Coal and Carbon Resources, dated 17 March 2011, purchased a 100% interest in the Kinney Coal Project, a thermal coal project located near Scofield in Utah, USA.

Delta Coal exercised its right to acquire the Kinney Coal Project from Carbon Resources via an asset purchase agreement.

In accordance with the asset purchase agreement Delta Coal acquired 100% of the Kinney Coal Project and assigned its interest in the Kinney Coal Project to its wholly owned subsidiary, Wasatch Natural Resources LLC.

Review of Operations (continued)

Delta Coal Fund Pty Ltd (continued)

The strategic objective of the Company is to increase shareholder value by advancing the Kinney Coal Project toward possible commercial production and growing the project area through acquisition or lease of further land or projects as and when they become available.

The Kinney Coal Project lies in the Eastern Wasatch Plateau which is within the Uinta Basin Coal Field in Utah, USA, a mature coal producing region which has historically produced over 30 million tonnes of coal per annum.

The acquisition of the Kinney Coal Project includes the following:

(a) land from Carbon Resources known as the Kinney #2 thermal coal project with mining permit number C0070047, located in Utah, USA;
(b) the Carbon Resources Sublease;
(c) the Telonis Lease; and
(d) all of the Surface Fee Land.

The consideration payable for the acquisition is as follows:

Initial consideration at settlement of the asset purchase agreement	US$7 million (Paid)
First deferred consideration	US$3 million, payable on or before 1 June 2012 (Paid)
Second deferred consideration – non recourse If the bankable feasibility study is not completed and the positive decision to mine is not made within 36 months of closing of the asset purchase agreement, then the Kinney Project will be returned to Carbon Resources in accordance with the asset purchase agreement and the Company will retain no interest in the Kinney Project.	US$15 million, which is payable upon the first to occur of: • completion of a bankable feasibility study with New Horizon's Board making a positive decision to mine; or • 1 December 2014.

During the year the Company successfully completed a capital raising under a prospectus, whereby $11,550,000 was raised via the issue of 52,500,000 shares at an issue price of 22 cents in order to complete the acquisition of the Kinney Coal Project and following the completion of the acquisition, Mike Placha and Carl Coward were appointed as Directors of the Company (2 December 2011). The Kinney Project is managed by Mike Placha, who is USA based and has over 35 years' experience in the USA coal industry.

Following settlement of the acquisition the Group has changed its focus to coal exploration and development.

Overview of "Kinney Coal Project"

The Kinney Coal Project consists of the Carbon County Sublease with the main "Kinney Parcel" (3,620 acres; 1,465 hectares) positioned adjacent to open Federal Land that together form a logical mining unit accessible only through the planned Kinney portals.

With data from over seventy drill holes, covering the Kinney Coal Project and the adjacent open Federal Land, the coal deposit on the Kinney Coal Project land is well characterised with a significant amount of detailed geological and engineering work completed by Carbon Resources over the last 10 years.

Review of Operations (continued)

Overview of "Kinney Coal Project" (continued)

The coal seams are within the Blackhawk Formation which overlies the Star Point Sandstone in the lower part of the Cretaceous age Mesa Verde Group. The majority of the coal resources in the region are found in the Hiawatha Seam which directly overlies the Spring Canyon Member of the Star Point Sandstone and is the dominant seam throughout the Eastern Wasatch Plateau. Locally the Hiawatha Seam was historically named the Kinney Seam and caps a 100 foot (+/-) stratigraphic interval of economic interest.

Within the Kinney Coal Project the Hiawatha seam ranges from 5 to 11 feet (1.5 to 3.3 m) in thickness and dips an average 3.5 degrees north-east. Several N-S normal faults partition the deposit into multiple mining blocks.

The Kinney Coal Project plan involves underground mining of two major coal seams using conventional, continuous miner sections. Entry will be via an exposed coal seam outcrop within the already permitted mine site area. The project benefits from world-class infrastructure including three class 1 rail carriers within 30km of the proposed portal, paved roads and state highway maintenance facility directly adjacent to the mine and an experienced local workforce. The project is well positioned to meet demand for coal in the domestic and export markets with a high calorific, low sulphur product.

Work completed and commenced during the financial year included:

(a) Converting the exploration target to a JORC Code compliant resource (completed);
(b) The commencement of a drilling program in July 2012 to supplement the 129 drill holes of historical data currently available. A total of over 2,000 metres in eight (8) holes has been completed using rotary/air foam methods, with approximately 250 metres of core recovered. Results will supplement existing quality data for the Hiawatha and UP seams and will be used in the ongoing pre-feasibility and bankable feasibility study;
(d) The commencement of a pre-feasibility as part of the bankable feasibility study in relation to the Kinney Coal Project;
(e) Commenced detailed discussions with port facilities located on the west coast and Gulf of Mexico to secure annual port allocation at a key deep-water port facility. These facilities provide ready access to proven markets for a high calorific value thermal coal to Europe, Mexico, Latin America and Asia. The Company has received positive feedback and discussions are ongoing;
(f) The successful submission of a lease-by-application for Federal coal tracts adjacent to the Kinney Coal Project. The U.S. Bureau of Land Management has approved an Environmental Assessment, as required under the Federal leasing process. The Environmental Assessment is expected to be completed by the March 2013. The tract, known as the Long Canyon LBA, contains over 2,100 hectares of mineral rights and would greatly expand the Kinney Coal Project's coal resource; and
(g) The commencement of discussions with a major electric utility in the region of the Kinney Coal Project. Initial feedback was positive, and the Company and the utility will continue to hold informal discussions.

Mount Drysdale and Hora Bore Gold and Base Metal Projects

The Company reviewed the existing data for both the Hora Bore and the Mount Drysdale gold and base metal projects. Based on this review it was decided to undertake a high-resolution ground-based magnetic survey with the assistance of consultant geophysicists.

Review of Operations (continued)

Mount Drysdale and Hora Bore Gold and Base Metal Projects (continued)

The Company completed the high-resolution ground-based magnetic survey of the Hora Bore project in July and August 2011. The Hora Bore magnetic survey comprised approximately 15 lines at 200m wide spacings for 67.5km and has provided detailed resolution with respect to the dominant magnetic anomaly in the area, plus added some additional control for modeling. Ground access issues meant that the planned Mt. Drysdale magnetic survey has been deferred.

The Company and Drysdale Resources undertook a further review of the Mount Drysdale and Hora Bore gold and base metal projects to determine the immediate future exploration work required and an estimate of the cost to undertake that work. As a result of this review and based on the work done to date the Company took the decision to withdraw from the farm-in arrangement with Drysdale Resources and thereby relinquishing its 20% interest in the projects. The Company has no further commitments having withdrawn from the joint venture and relinquishing its interests in the projects.

Operating Result

The loss from operations as at the 30 June 2012 after providing for income tax was $417,900 (2011:$85,672). Additional information on the operations and financial position of the Group and its business strategies and prospects is set out in this directors' report and the annual financial report.

Dividends

No dividends were paid or are proposed to be paid to members during the financial year.

Future Developments, Prospects and Business Strategies

The Group's business strategies and prospects for growth in future financial years have not been included in this report, as the inclusion of this information is likely to result in an unreasonable prejudice to the Group.

Environmental Issues

The Group's operations are subject to the environmental regulation under the laws of the state of Utah, USA. The Board is of the view that all requirements have been met.

After Reporting Date Events

There has been no matter or circumstance that has arisen that has significantly affected, or may significantly affect:

1. the Group's operations in future financial years, or
2. the results of those operations in future financial years, or
3. the Group's state of affairs in future financial years.

Information on Current Directors

Gary Steinepreis (Non-executive chairman, age 46)

Experience and Expertise

Mr Steinepreis holds a Bachelor of Commerce degree from the University of Western Australia and is a Chartered Accountant. He provides corporate, management and accounting advice to a number of companies involved in the resource, technology and leisure industries.

Information on Current Directors (continued)

Gary Steinepreis (Non-executive chairman, age 46) (continued)

Other Current Directorships

Monto Minerals Ltd since 16 June 2009;
Norseman Gold Plc since 3 December 2007; and
WAG Limited since 2 November 2006.

Former Directorships in the Last Three Years

Laguna Resources NL 11 October 2007 to 15 October 2009;
Minerals Corporation Limited 17 February 2011 to 14 October 2011;
Agri Energy Limited 22 June 2009 to 11 June 2012;
Sirius Resources NL 12 July 2007 to 31 August 2009;
Avalon Minerals Ltd 20 December 2006 to 1 March 2011;
RMG Limited 31 January 2006 to 30 April 2011; and
Black Fire Energy Ltd 29 November 2006 to 8 September 2009.

Special Responsibilities

Company Secretary

Carl Coward (Non-Executive director, age 30)

Experience and Expertise

Mr Coward's qualifications include a Bachelor of Commerce from Curtin University of Technology in Perth, Western Australia. Mr Coward has several years' experience in investment banking with a particular focus on the natural resources sector. He has recently been involved in thermal coal projects in Indonesia, South Africa and North America. He is currently an Associate Director of corporate advisor Delta Capital and was instrumental in identifying and managing the acquisition of the Kinney Coal project.

Other Current Directorships

None

Former Directorships in the Last Three Years

None

Special Responsibilities

None

Michael Placha (Executive director, age 57)

Experience and Expertise

Mr Placha has worked on various international projects throughout his 35-year career in the USA, Australia, Canada, Indonesia, China, Russia, Germany and Italy. Mr Placha earned his Bachelor of Science degree in extractive metallurgy from The Pennsylvania State University.
Mr Placha was Senior Vice President of Signal Peak Energy/Global Rail Group from 2006 through 2010 responsible for the financing and development of a $350 million underground long-wall mine, rail and surface facilities in Montana. He led the design and construction of a 58 Km rail spur and 15MTPY coal handling, processing and loadout facilities.

From 2004 until 2006 as President of Sedgman, Canada, Mr Placha was responsible for design and construction of two metallurgical facilities in British Columbia. Prior to this, Mr Placha spent 16 years with Cyprus Coal and its successor companies working in operations, engineering and sales and marketing.

Information on Current Directors (continued)

Michael Placha (Executive director, age 57) (continued)

Other Current Directorships

None

Former Directorships in the Last Three Years

None

Special Responsibilities

Managing Director and Chief Executive Officer

Information on Former Directors

Patrick Burke (Non-Executive director, age 43)

Experience and Expertise

Patrick Burke holds a Bachelor of Laws degree from the University of Western Australia. He has approximately fifteen years' experience working in law firms and companies in Australia and Ireland. His expertise is in corporate, commercial and securities law with an emphasis on capital raisings and mergers and acquisitions. He contributes general corporate and legal skills along with a strong knowledge of the Australian Stock Exchange requirements.

Robert Hodby (Non-Executive director, age 43)

Experience and Expertise

Mr Hodby holds a Bachelor of Commerce degree from Murdoch University and is a member of CPA Australia and Chartered Secretaries Australia. He provides corporate, management and accounting advice to a number of public and private companies involved in the resource and energy industries.

Meetings of Directors

The number of meetings of the Company's Board of Directors held during the financial year up to and including 30 June 2012 and the numbers of meetings attended by each director were:

Name of Director	Number of Meetings - A	Number of Meetings - B
Gary Steinepreis	9	9
Carl Coward	7	7
Michael Placha	7	7
Patrick Burke	2	2
Robert Hodby	2	2

A = Number of meetings attended

B = Number of meetings held during the time the Director held office during the year

Remuneration Report (Audited)

The principles adopted by the Board are set out under the following main headings:

(1) Principles used to determine the nature and amount of remuneration

(2) Details of remuneration

(3) Employment contracts of Directors and Senior Executives

(4) Performance based remuneration

The information provided under headings 1 to 4 above includes remuneration disclosures that are required under section 300A of the Corporations Act 2001.

1 Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered.

The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms to market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

(i) competitiveness and reasonableness;

(ii) acceptability to shareholders;

(iii) performance linkage / alignment of executive compensation;

(iv) transparency; and

(v) capital management.

The Group has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' and program participants' interests:

(i) focuses on sustained growth in shareholder wealth;
(ii) attracts and retains high calibre executives;
(iii) rewards capability and experience; and
(iv) provides a clear structure for earning rewards.

Executive and non-executive directors and key management personnel

Fees and payments to directors and key management personnel reflect the demands and responsibilities of the positions and are in line with the market. Non-executive directors' fees are not linked to performance as it is not currently considered appropriate given the size of the Group and the nature of its operations. Executive personnel remuneration is linked to performance by way of bonus payments and option issues.

2 Details of Remuneration

The key management personnel of the Group, during the year, were:

Directors:	**Position:**	**Date Appointed**	**Date Resigned**
Gary Steinepreis	Director / Secretary	4 June 2010	-
Michael Placha	Managing Director	2 December 2011	-
Carl Coward	Director	2 December 2011	-
Patrick Burke	Director	4 June 2010	2 December 2011
Robert Hodby	Director	4 June 2010	2 December 2011
Executives:		**Date Commenced**	
Greg Hunt	Chief operating officer	1 December 2011	-

Remuneration Report (Audited) (continued)

2 Details of Remuneration (continued)

The amount of remuneration of the key management personnel is set out below:

2012 Name	**Salary**	**Fees**	**Super**	**Bonus**	**Medical**	**Share Based**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Directors:							
G Steinepreis	-	76,000	-	-	-	-	**76,000**
M Placha	114,572	66,655	-	47,037	9,206	137,504	**374,974**
C Coward	19,266	20,000	1,734	-	-	-	**41,000**
P Burke	-	5,000	-	-	-	-	**5,000**
R Hodby	-	5,000	-	-	-	-	**5,000**
Executives:							
G Hunt	74,516	-	-	47,037	4,703	137,504	**263,760**
TOTAL	**208,354**	**172,655**	**1,734**	**94,074**	**13,909**	**275,008**	**765,734**

2011 Name	**Salary $**	**Fees $**	**Superannuation $**	**Total $**
G Steinepreis	-	29,000#	-	**29,000**
R Hodby	-	9,000	-	**9,000**
P Burke	-	9,000	-	**9,000**
TOTAL	**-**	**47,000**	**-**	**47,000**

\# Ascent Capital Holdings Pty Ltd an entity associated with Gary Steinepreis was paid $20,000 for management services rendered in the listing of the Company on the ASX.

3 Employment Contracts of Directors and Senior Executives

(i) **Michael Placha** has an executive services agreement with Wasatch as its chief executive officer. The material terms of the agreement are as follows:

(a) the agreement has a term of 1 year commencing on 1 August 2011 and at the election of Wasatch, the term may be extended for a further period of 1 year;

(b) Wasatch will pay Mr Placha a salary of $197,600 (or US$200,000 at a foreign exchange rate of A$/US$1.012) (exclusive of superannuation and GST) (Salary), which is payable in equal monthly instalments and which will be reviewed annually;

(c) subject to proof, Wasatch will reimburse Mr Placha for all reasonable expenses incurred in the performance of his duties;

(d) Mr Placha will be eligible for the following performance based bonuses:

(i) a bonus of $49,400 (or US$50,000 at a foreign exchange rate of A$/US$1.012) if Wasatch publicly announces that a measured JORC Code compliant resource of at least 20,000,000 tonnes has been discovered within 12 months of the Kinney Project Acquisition Date;

(ii) a bonus of $247,000 (or US$250,000 at a foreign exchange rate of A$/US$1.012) if Wasatch completes the Bankable Feasibility Study that results in the board of Wasatch making a decision to mine within 36 months of the Kinney Project Acquisition Date; and

Remuneration Report (Audited) (continued)

3 Employment Contracts of Directors and Senior Executives (continued)

***(i)* Michael Placha (Director and CEO)** (continued)

(iii) a bonus of $988,000 (or US$1 million at a foreign exchange rate of A$/US$1.012) for every 50,000,000 tonnes of indicated JORC Code compliant resource that is discovered or acquired through exploration on a project that is introduced by Mr Placha;

(e) Mr Placha has received 5 million Options exercisable at $0.50 per Option within 5 years of the Options being issued. The Options will only vest on the date on which the Bankable Feasibility Study on the Kinney Coal Project results in a Positive Decision to Mine the Kinney Coal Project, provided that date is within 36 months after the Kinney Coal Project Acquisition Date; and

(f) the agreement contains termination provisions that are customary for an agreement of this type.

(ii) Carl Coward (Director) was appointed a director of New Horizon Coal on 2 December 2011. The Company has entered into an executive services agreement with Mr Coward pursuant to which he will serve as a non-executive director. The material terms of the agreement are as follows:

(a) the agreement has a term of 3 years from the date of re-election;

(b) the Company will pay Mr Coward a salary of $36,000 (including superannuation) from the pool of Non-Executive Director fees which may be varied by the Board from time to time. Additional fees are paid for participation on Board Committees and any special duties;

(c) work undertaken on additional executive duties will be paid a commercial rate and will not form part of the Non-Executive Director fees;

(d) Mr Coward is entitled to enter into a Deed of Indemnity and Access, covering the subjects of indemnity of Directors, Directors' and Officers' insurance and access to Company documentation; and

(e) Mr Coward may resign at any time upon giving 1 month's written notice.

(iii) Gary Steinepreis (Director and Company Secretary) was appointed a director of the Company on 4 June 2010. Mr Steinepreis is the sole director and a potential beneficiary of Leisurewest Consulting Pty Ltd as trustee for the Leisurewest Trust (Leisurewest). Leisurewest provided the services of Gary Steinepreis on a month to month basis and was paid fees for service in the amount of $1,000 per month. Upon the conclusion of the transaction to acquire the Kinney Coal Project on 30 November 2011 the Company entered into an executive services agreement with Mr Steinepreis pursuant to which he will serve as a non-executive chairman. The material terms of the agreement are as follows:

(a) the agreement has a term of 3 years from the date of re-election;

(b) the Company will pay Mr Steinepreis $36,000 (including superannuation) from the pool of Non-Executive Director fees which may be varied by the Board from time to time. Additional fees are paid for participation on Board Committees and any special duties;

(c) work undertaken on additional executive duties will be paid a commercial rate and will not form part of the Non-Executive Director fees;

Remuneration Report (Audited) (continued)

3 Employment Contracts of Directors and Senior Executives (continued)

(iii) Gary Steinepreis (Director and Company Secretary) (continued)

(d) Mr Steinepreis is entitled to enter into a Deed of Indemnity and Access, covering the subjects of indemnity of Directors, Directors' and Officers' insurance and access to Company documentation;

(e) Mr Steinepreis may resign at any time upon giving 1 month's written notice.

(iv) Greg Hunt entered into an Executive Services Agreement with Wasatch Natural Resources pursuant to which Mr Hunt will serve as Chief Operating Officer of Wasatch. Upon the conclusion of the acquisition of the Kinney Coal Project New Horizon Coal became the 100% owner of Wasatch. The material terms of the agreement are as follows:

(a) the agreement has a term of 2 year commencing on the Kinney Coal Project Acquisition Date and at the election of Wasatch, the term may be extended for a further period of 1 year;

(b) Wasatch will pay Mr Hunt a salary of $128,440 (or US$130,000 at a foreign exchange rate of A$/US$1.012) (exclusive of superannuation and GST) (Salary), which is payable in equal monthly instalments and which will be reviewed annually;

(c) subject to proof, Wasatch will reimburse Mr Hunt for all reasonable expenses incurred in the performance of his duties;

(d) Mr Hunt will be eligible for the following performance based bonuses:

(i) a bonus of $49,400 (or US$50,000 at a foreign exchange rate of A$/US$1.012) if Wasatch publicly announces that a measured JORC Code compliant resource of at least 20,000,000 tonnes has been discovered within 12 months of the Kinney Project Acquisition Date;

(ii) a bonus of $247,000 (or US$250,000 at a foreign exchange rate of A$/US$1.012) if Wasatch completes the Bankable Feasibility Study that results in the board of Wasatch making a decision to mine within 36 months of the Kinney Project Acquisition Date; and

(iii) a bonus of $988,000 (or US$1 million at a foreign exchange rate of A$/US$1.012) for every 50,000,000 tonnes of indicated JORC Code compliant resource that is discovered or acquired through exploration on a project that is introduced by Mr Hunt;

(e) Mr Hunt has received 5 million Options exercisable at $0.50 per Option within 5 years of the Options being issued. The Options will only vest on the date on which the Bankable Feasibility Study on the Kinney Coal Project results in a Positive Decision to Mine the Kinney Coal Project, provided that date is within 36 months after the Kinney Coal Project Acquisition Date; and

(f) the agreement contains termination provisions that are customary for an agreement of this type.

Remuneration Report (Audited) (continued)

4 Performance-based Remuneration

The amount of performance based remuneration paid to directors and key management personnel is set out below:

2012 Name	Bonus * $	%#	Share Based * $	%#	Total Performance Based $	%#	Total Remuneration $
Directors:							
G Steinepreis	-	-	-	-	-	-	**76,000**
M Placha	47,037	11.3	137,504	36.6	184,541	49.2	**374,974**
C Coward	-	-	-	-	-	-	**41,000**
P Burke	-	-	-	-	-	-	**5,000**
R Hodby	-	-	-	-	-	-	**5,000**
Executives:							
G Hunt	47,037	17.8	137,504	52.1	184,541	70.0	**263,760**
TOTAL	**94,074**	**12.3**	**275,008**	**35.9**	**369,082**	**48.2**	**765,734**

The value of total performance based remuneration as a percentage of total remuneration.

* Mr Placha and Mr Hunt received the following performance based bonuses:

(i) a cash bonus of $47,037 (US$50,000) was paid upon the public announcement that a measured JORC Code compliant resource of more than 20,000,000 tonnes had been discovered within 12 months of the Kinney Coal Project Acquisition Date. Announcement made to ASX on 2 February 2012.

(ii) the issue of 5,000,000 unlisted incentive options exercisable at $0.50 per option within 5 years of the options being issued. The options will only vest on the date on which the bankable feasibility study on the Kinney Coal Project results in a positive decision to mine the Kinney Coal Project, provided that date is within 36 months after the Kinney Coal Project acquisition date. As at the date of this report the options have been issued but have not yet vested. The calculated value for the options will be written off over the vesting period.

The share based payments made to Mr Placha ($137,504) and Mr Hunt ($137,504) are at risk in that they will only be able to be realised if a bankable feasibility study is completed and a positive decision to mine is made by the Company within 36 months of the acquisition date of the Kinney Project. Added to this is the risk that the share price, which currently trades in the range of 8 to 11 cent's will need to increase to 50 cents before the options are at a break-even price with the exercise price and the fact that the options have a finite life of 5 years from the date of issue. The options are unlisted and therefore untradeable.

All other payments ($490,726 or 64.1%) made to directors and executives were made in cash and hence are not at risk.

Analysis of share based payments:

During the period the Company issued 10,000,000 incentive options to executives. As at the date of this report the options have been issued but have not yet vested. The calculated value for the options will be being written off over the vesting period.

Date of grant	Number of options	Fair value at date of grant - cents	Award value at date of grant - $	Expiry date	First vesting date	Last vesting date	Vested %	Forfeited %	Maximum total value of grant yet to vest - $
9/11/11	10,000,000	12.86	1,285,753	9/11/16	*	9/11/14	-	-	1,285,753
	10,000,000		**1,285,753**						**1,285,753**

Remuneration Report (Audited) (continued)

4 Performance-based Remuneration (continued)

Analysis of share based payments (continued)

* The options will only vest if a bankable feasibility study is completed and a positive decision to mine is made by the Company within 36 months of the acquisition date of the Kinney Project.

In calculating the value of the options issued the following inputs were used:

Underlying stock price	22 cents	Expiry date	9 Nov 2016
Exercise price	50 cents	Dividend yield	0%
Risk free rate	4.25%	Number of options	10,000,000
Volatility	90%	Calculated value	$1,285,753
Approval date	9 Nov 2011	Vesting period	36 months

There was no performance based remuneration paid during the period ended 30 June 2011.

Terms and Conditions of Unlisted Incentive Options

The incentive options entitle the holder to subscribe for shares on the following terms and conditions:

(a) Each incentive option gives the incentive option-holder the right to subscribe for one fully paid ordinary share in New Horizon Coal Ltd.

(b) The incentive options will vest on the date on which the last of the following conditions are satisfied:
  (i) Completion of a bankable feasibility study that results in a positive decision to mine to enable production to commence in relation to the Kinney Coal Project; and
  (ii) this occurs within 36 months of the Coal Kinney Project acquisition date.
  The vesting conditions must be satisfied within 36 months of the Kinney Coal Project acquisition date. If the vesting conditions are satisfied, the incentive options will immediately vest.

(c) If the executive ceases to be engaged by the Company pursuant to the terms of this agreement prior to the expiration of the vesting date and without any of the vesting conditions being satisfied, all of the incentive options will be cancelled for nil consideration and the executive agrees to execute any documentation to give effect to this.

(d) Prior to the vesting date, the incentive options may not be exercised, transferred or otherwise dealt with.

(e) The incentive options will expire at 5.00pm (WST) on the date which is 5 years after the incentive options are issued. Any incentive option not exercised before the expiry date will automatically lapse on the expiry date.

(f) The amount payable upon exercise of each incentive option will be AUD$0.50.

(g) The incentive options held by each incentive option-holder may be exercised in whole or in part, and if exercised in part, multiples of 1,000 must be exercised on each occasion.

(h) An incentive option-holder may exercise their incentive options by lodging with the Company, before the expiry date:
  (i) a written notice of exercise of incentive options specifying the number of incentive options being exercised; and

Remuneration Report (Audited) (continued)

4 Performance-based Remuneration (continued)

Terms and Conditions of Unlisted Incentive Options (continued)

(ii) a cheque or electronic funds transfer for the exercise price for the number of incentive options being exercised.

(i) An exercise notice is only effective when the Company has received the full amount of the exercise price in cleared funds.

(j) Within 10 business days of receipt of the exercise notice accompanied by the exercise price, the Company will allot the number of shares required under these terms and conditions in respect of the number of incentive options specified in the exercise notice.

(k) If a change in control event occurs the incentive options will immediately vest upon the parties to the change in control event entering into a binding contract to sell, merge, transfer, swap or otherwise modify New Horizon's interest in the Kinney Coal Project. For the purposes of this clause (k), a change in control event means:

(i) the occurrence of:

(A) the offeror under a takeover offer in respect of all shares announcing that it has achieved acceptances in respect of 50.1% or more of the shares and that takeover bid has become unconditional (except any condition in relation to the cancellation or exercise of the incentive options);

or (B) completed sale agreement between New Horizon or a successor in interest and another party under which 100% of the shares will be purchased by a third party; or

(ii) the announcement by the Company that shareholders of New Horizon have at a court convened meeting of shareholders voted in favour, by the necessary majority, of a proposed scheme of arrangement under which all shares are to be either:

(A) cancelled; or (B) transferred to a third party, and the court, by order, approves the proposed scheme of arrangement; or

(iii) any other transaction in which New Horizon's interest in the Kinney Coal Project is modified;

(l) The incentive options are not transferable.

(m) All shares allotted upon the exercise of incentive options will upon allotment rank pari passu in all respects with other shares.

(n) The Company will not apply for quotation of the incentive options on ASX. However, the Company will apply for quotation of all shares allotted pursuant to the exercise of incentive options on ASX within 10 business days after the date of allotment of those shares.

(o) If at any time the issued capital of the Company is reconstructed, all rights of an incentive option-holder are to be changed in a manner consistent with the *Corporations Act 2001* (Cth) and the ASX Listing Rules at the time of the reconstruction.

(p) There are no participating rights or entitlements inherent in the incentive options and incentive option-holders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the incentive options.

However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 6 business days after the issue is announced. This will give incentive option-holders the opportunity to exercise their incentive options prior to the date for determining entitlements to participate in any such issue.

Remuneration Report (Audited) (continued)

4 Performance-based Remuneration (continued)

Terms and Conditions of Unlisted Incentive Options (continued)

(q) An incentive option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the incentive option can be exercised.

(r) Subject to the discretion of the Board of the Company, if:
   (i) the executive terminates the employment: or
   (ii) the executive's employment is terminated with cause by the Company,
   any outstanding incentive options which have not been exercised will immediately lapse and have no further force or effect.

End of the audited remuneration report.

Directors' Interests in Shares and Options

At 30 June 2012, Directors, in office, held a relevant interest in the following securities of the Company:

2012 Name	Ordinary Shares	Performance Shares Class B & C	Options Listed	Options Unlisted
Gary Steinepreis	5,562,186	-	4,912,186	-
Michael Placha	654,546	-	454,546	5,000,000
Carl Coward	9,679,777	4,000,000	1,336,364	-

Gary Steinepreis holds his interests in shares and options directly in his own name and indirectly through: Jacqueline Steinepreis his spouse; LeisureWest Consulting Pty Ltd as trustee of the LeisureWest Trust of which he is sole director and potential beneficiary; Oakhurst Enterprises Pty Ltd of which he is sole director and 50% shareholder; Ascent Capital Holdings Pty Ltd (ACH), of which, he is sole director and Oakhurst Enterprises Pty Ltd is a 50% shareholder; Ascent Capital Pty Ltd, of which, he is sole director and is a subsidiary of ACH; and Ascent Minerals Pty Ltd, of which, he is sole director and is a subsidiary of ACH.

Carl Coward holds his interests in shares and options directly in his own name and indirectly through Budo HO A/C.

Michael Placha holds his interests in shares and options directly in his own name.

2011 Name	Ordinary Shares	Options
Gary Steinepreis	3,275,000	3,275,000
Robert Hodby	200,000	200,000
Patrick Burke	130,000	130,000

(a) Options

Details of options held directly, indirectly or beneficially by directors and their related parties and movements in those holdings are as follows:

Directors' Interests in Shares and Options (continued)

(a) Options (continued)

2012 Options **Name**	**Held at 1/7/2011**	**Options acquired**	**Share based payments**	**Held at 30/6/2012**	**Vested and exercisable at 30/6/2012**
Directors:					
Gary Steinepreis	3,275,000	1,637,186	-	4,912,186	4,912,186
Michael Placha	-	454,546	5,000,000	5,454,546	454,546
Carl Coward	-	1,336,364	-	1,336,364	1,336,364
Robert Hodby	*	-	-	-	-
Patrick Burke	*	-	-	-	-
Total	**3,275,000**	**3,428,096**	**5,000,000**	**11,703,096**	**6,703,096**

* Robert Hodby and Patrick Burke resigned as directors on 2 December 2011 and as such are no longer required to report their security holdings.

2011 Options **Name**	**Held at 4/6/2010**	**Options acquired**	**Share based payments**	**Held at 30/6/2011**	**Vested and exercisable at 30/6/2011**
Gary Steinepreis	-	3,275,000	-	3,275,000	3,275,000
Robert Hodby	-	200,000	-	200,000	200,000
Patrick Burke	-	130,000	-	130,000	130,000
Total	-	**3,605,000**	-	**3,605,000**	**3,605,000**

(b) Ordinary Shares

Details of equity instruments (other than options and performance shares) held directly, indirectly, or beneficially by directors and their related parties are as follows:

2012 Ordinary Shares **Name**	**Held at 1/7/2011**	**Shares acquired**	**Other changes**	**Balance 30/6/2012**
Directors:				
Gary Steinepreis	3,275,000	2,287,186	-	5,562,186
Michael Placha	-	654,546	-	654,546
Carl Coward	-	9,679,777	-	9,679,777
Robert Hodby	*	-	-	-
Patrick Burke	*	-	-	-
Total	**3,275,000**	**12,621,509**	-	**15,896,509**

* Robert Hodby and Patrick Burke resigned as directors on 2 December 2011 and as such are no longer required to report their security holdings.

2011 Ordinary Shares **Name**	**Held at 4/6/2010**	**Shares acquired**	**Other changes**	**Balance 30/6/2011**
Gary Steinepreis	-	3,275,000	-	3,275,000
Robert Hodby	-	200,000	-	200,000
Patrick Burke	-	130,000	-	130,000
Total	-	**3,605,000**	-	**3,605,000**

(c) Performance Shares

Details of equity instruments (other than ordinary shares and options) held directly, indirectly, or beneficially by directors and their related parties are as follows:

Directors' Interests in Shares and Options (continued)

(c) Performance Shares (continued)

2012 Performance Shares Name	**Held at 1/7/2011**	**Allotted**	**Converted**	**Balance 30/6/2012**
Directors:				
Gary Steinepreis	-	-	-	-
Michael Placha	-	-	-	-
Carl Coward	-	6,000,000	(2,000,000)	4,000,000
Robert Hodby	*	-	-	-
Patrick Burke	*	-	-	-
Total	**-**	**6,000,000**	**(2,000,000)**	**4,000,000**

* Robert Hodby and Patrick Burke resigned as directors on 2 December 2011 and as such are no longer required to report their security holdings.

Performance shares were issued to the shareholders of Delta Coal Fund Pty Ltd as part of the purchase price of the Kinney Coal Project. Mr Coward is a shareholder of Delta Coal Fund and the performance shares issued to him do not form part of his remuneration.

Mr Coward has an interest in 2,000,000 class B and 2,000,000 class C performance shares. The details, terms and conditions of the performance shares on issue are located in note 14(h) and (i).

The class A performance shares converted to ordinary shares upon the release of a public announcement that an indicated JORC code compliant resource of at least 20 million tonnes has been discovered on the Kinney Project (Coal Product) within 12 months of the acquisition date of the project, being 1 December 2011 (project acquisition date) (Milestone A).

The class B performance shares will convert to ordinary shares if the Company completes a bankable feasibility study and the board makes a positive decision to mine within 36 months of the project acquisition date (Milestone B).

The class C performance shares will convert to ordinary shares if the Company undertakes the development and commercial production of coal within 48 months of the project acquisition date (Milestone C).

Options

At the date of this report, share options on issue to take up fully paid Ordinary Shares in the capital of the Company are as follows:

2012 Listed Options Date of Issue	**No. of Options Outstanding**	**Expiry Date**	**Exercise Price**
8/6/2011	20,500,000	31/12/2014	$0.20
TOTAL	**20,500,000**		

2012 Unlisted Options Date of Issue	**No. of Options Outstanding**	**Expiry Date**	**Exercise Price**
	10,000,000		
TOTAL	**10,000,000**		

Options (continued)

2011 Date of issue	**No. of Options Outstanding**	**Expiry Date**	**Exercise Price**
8/6/2011	20,500,000	31/12/2014	$0.20
TOTAL	**20,500,000**		

The names of persons who currently hold options are entered in a register kept by the Company pursuant to Section 170 of the Corporations Act 2001, which may be inspected free of charge. No person entitled to exercise any option has or had, by virtue of the option, a right to participate in any share issue of the Company or any other corporation. Subsequent to year end no options have been exercised. The options are quoted on ASX.

Indemnifying of Officers or Auditor

The Company does not have directors and officers insurance. The Company does not have auditor insurance.

Proceedings on Behalf of the Company

No person has applied to the court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. No proceedings have been brought or intervened in on behalf of the Company with leave of the court under section 237 of the *Corporations Act 2001*.

Corporate Governance

The directors of the Company support and adhere to the principles of corporate governance, recognising the need for the highest standard of corporate behaviour and accountability. Please refer to the corporate governance statement included with this report.

Auditor

BDO (Audit) WA Pty Ltd continues in office in accordance with section 327 of the *Corporations Act 2001.*

Non-Audit Services

During the reporting period $21,850 (2011:$Nil) was paid or is payable for non-audit services provided by BDO (Corporate Finance) WA Pty Ltd.

The Board of Directors are satisfied that the provision of any non-audit services during the current or future periods is / will be compatible with the general standard of independence for auditors imposed by APES 110 code of ethics for professional accountants.

Audit Services

During the reporting period $28,554 (2011:$25,000) was paid or is payable for audit services provided by the auditor.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 20 of this financial report.

Signed in accordance with a resolution of the board of directors

Gary Steinepreis
Director
28 September 2012

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38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

28 September 2012

The Directors
New Horizon Coal Ltd
33 Ord Street,
West Perth WA 6005

Dear Sirs,

DECLARATION OF INDEPENDENCE BY PETER TOLL TO THE DIRECTORS OF NEW HORIZON COAL LTD

As lead auditor of New Horizon Coal Ltd for the period ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of New Horizon Coal Ltd and the entities it controlled during the period.

Peter Toll
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia

	Note	Consolidated 2012 $	Company 2011 $
Revenue from operations	5	148,803	87,366
Other income	6	240,584	-
Other expenses	7	(11,312)	(15,458)
Administration costs	7	(183,001)	-
Finance expense	7	(32,258)	-
Corporate compliance costs		(34,404)	(15,944)
Corporate management fees		(106,000)	(27,000)
Salaries and superannuation paid		(21,000)	-
Audit and non-audit service fees		(33,574)	(28,625)
Occupancy costs		(73,157)	(66,313)
Exploration expenditure		(36,334)	(19,698)
Share based payments expense	14(f)	(275,008)	-
Loss before income tax		**(416,661)**	**(85,672)**
Income tax expense	8	(1,239)	-
Loss after tax from operations		**(417,900)**	**(85,672)**
Other comprehensive income		12,717	-
Total comprehensive loss for the period attributable to the members of New Horizon Coal Ltd		**(405,183)**	**(85,672)**
		Cents	**Cents**
Loss per share for loss from continuing operations attributable to the ordinary equity holders of the Company:			
Basic loss per share	22	(0.46)	(0.51)
Diluted loss per share	22	(0.46)	(0.51)

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

ASSETS	**Note**	**Consolidated 30 June 2012 $**	**Company 30 June 2011 $**
Current assets			
Cash and cash equivalents	9	1,415,820	2,369,292
Trade and other receivables	10	11,108	6,039
Prepayments	10	3,500	-
Total current assets		**1,430,428**	**2,375,331**
Non-current assets			
Exploration and evaluation expenditure	11	19,406,980	-
Other assets	11	-	10,000
Total non-current assets		**19,406,980**	**10,000**
Total assets		**20,837,408**	**2,385,331**
LIABILITIES			
Current liabilities			
Trade and other payables	13	174,303	41,751
Total current liabilities		**174,303**	**41,751**
Total liabilities		**174,303**	**41,751**
NET ASSETS		**20,663,105**	**2,343,580**
EQUITY			
Contributed equity	14(a)(b)(c)	17,395,140	2,245,440
Option premium reserve	14(d)(e)	183,812	183,812
Performance share reserve	14(h)(i)	3,300,000	-
Share based payment reserve	14(f)(g)	275,008	-
Foreign currency translation reserve		12,717	-
Accumulated losses	16	(503,572)	(85,672)
TOTAL EQUITY		**20,663,105**	**2,343,580**

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

2012	**Equity**	**Option reserve**	**Share reserve**	**FCTR**	**Total losses**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Balance 1 July 2011	2,245,440	183,812	-	-	(85,672)	**2,343,580**
Loss for the year	-	-	-	-	(417,900)	**(417,900)**
Comprehensive income for year	-	-	-	12,717	-	**12,717**
Comprehensive loss for year	-	-	-	12,717	(417,900)	**(405,183)**
Transactions with owners in their capacity as owners						
Shares issued placement	11,550,000	-	-	-	-	**11,550,000**
Shares issued acquisition	2,200,000	-	-	-	-	**2,200,000**
Share issue - Conversion class A performance shares	2,200,000	-	-	-	-	**2,200,000**
Option issue	-	-	275,008	-	-	**275,008**
Performance shares	-	-	3,300,000	-	-	**3,300,000**
Transaction costs	(800,300)	-	-	-	-	**(800,300)**
Balance 30 June 2012	**17,395,140**	**183,812**	**3,575,008**	**12,717**	**(503,572)**	**20,663,105**

2011	**Equity**	**Option reserve**	**Total losses**	**Total**
	$	**$**	**$**	**$**
Balance 4 June 2010	-	-	-	-
Loss for the period	-	-	(85,672)	**(85,672)**
Total comprehensive loss for the period	-	-	(85,672)	**(85,672)**
Transactions with owners in their capacity as owners				
Shares issued	2,456,000	-	-	**2,456,000**
Options issued	-	205,000	-	**205,000**
Transaction costs	(210,560)	(21,188)	-	**(231,748)**
Balance 30 June 2011	**2,245,440**	**183,812**	**(85,672)**	**2,343,580**

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

	Note	Consolidated 2012 $	Company 2011 $
Cash flow from operating activities			
Interest received		145,577	87,366
Payments to suppliers and employees		(446,907)	(156,920)
Net cash outflow from operations	21	**(301,330)**	**(69,554)**
Cash flows from investing activities			
Payments for interests in mining leases		-	(10,000)
Payments for computer equipment		(4,152)	-
Cash acquired on acquisition of mining interests		126,808	-
Payment of first deferred settlement on acquisition		(2,837,565)	-
Payments for exploration and development		(809,766)	-
Payments for costs associated with acquisitions		(596,836)	-
Payments for acquisition of mining interests		(6,664,196)	-
Net cash outflow from investing activities		**(10,785,707)**	**(10,000)**
Cash flows from financing activities			
Loan repayments		(594,390)	-
Proceeds from the issue of shares		11,550,000	2,456,000
Proceeds from the issue of options		-	205,000
Costs associated with capital raising		(819,894)	(212,154)
Net cash inflow from financing activities		**10,135,716**	**2,448,846**
Net increase in cash and cash equivalents		**(951,321)**	**2,369,292**
Foreign currency movement		(2,151)	-
Cash and cash equivalents at the beginning of the period		2,369,292	-
Cash and cash equivalents at the end of the period		**1,415,820**	**2,369,292**

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

1 Summary of significant accounting policies

(a) Basis of preparation

The financial statements include the financial statements and notes of New Horizon Coal Ltd (formerly New Horizon Minerals Ltd), a public limited entity, and its controlled entities for the year ended 30 June 2012. The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in the financial statements containing relevant and reliable information about transactions, events and conditions to which they apply. The financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of the financial statements are presented below. They have been consistently applied unless otherwise stated. The financial statements have been prepared on an accruals basis and are based on historical costs.

The comparative financial information covers the period from the date of incorporation on 4 June 2010 to 30 June 2011.

(b) Going Concern Basis of Accounting

The consolidated financial statements have been prepared on the basis of a going concern.

The Directors are of the opinion that the Group has sufficient funds to adequately meet the Group's planned exploration budget and short term working capital requirements.

However, the Group will require further financing in order to meet its obligations under the asset purchase agreement.

The initial consideration of USD$7,000,000 and the first deferred consideration of USD$3,000,000 have been paid. The second deferred consideration, a non-recourse consideration amount of USD$15,000,000 has not been paid, however is payable upon the first to occur of:

1) Wasatch Natural Resources completing a bankable feasibility study on the Kinney Coal Project that results in a positive decision to mine the Kinney Coal Project; or

2) 36 months after the asset purchase agreement completion date, and in the event that the bankable feasibility study does not result in a positive decision to mine and 36 months has expired then the Kinney Coal Project will be transferred back to Carbon Resources in accordance with the asset purchase agreement and the Company will retain no interest in the Kinney Coal Project, forfeit the consideration paid to Carbon Resources as at that date and any funds expended on the project to that date will be lost; and

Further to the above the Surface Mining Control and Reclamation Act of 1977 of the USA provides that, as a prerequisite for obtaining a coal mining permit, a person must post a reclamation bond to ensure that the regulatory authority will have sufficient funds to reclaim the site if the permittee fails to complete the reclamation plan approved in the permit. The amount of the reclamation to be lodged is USD$2.2 million. The development of the Kinney Project depends, amongst other things, upon the Group being granted a permit to mine the coal resource.

1 Summary of significant accounting policies (continued)

(b) Going Concern Basis of Accounting (continued)

The Directors are aware that the Group will need to obtain additional financing as needed and if unable to do so may be required to reduce the scope of its operations and scale back its exploration programmes, which may adversely affect the business and financial condition of the Group and its performance and further, may need to extinguish their liabilities and recognise their assets at amounts other than those stated in the interim financial report should they fail to raise the required funding to meet the ongoing needs of the Group. Funding requirements will be met by way of equity or debt funding or a combination of both.

At 30 June 2012, the Group had cash funds available of $1,415,820. It incurred an operating loss of $417,900 for the 12 months to 30 June 2012 and had current liabilities of $174,303.

(c) Principles of Consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of New Horizon Coal Ltd as at 30 June 2012 and the results of all subsidiaries for the period then ended. New Horizon Coal Ltd and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction proves evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries are accounted for in the parent entity financial statements at cost.

(d) Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated using the straight line method to write off the net cost of each item of plant and equipment over its expected useful life, being 1 to 5 years.

(e) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Interest income is recognised on a time proportion basis using the effective interest method.

(f) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

1 Summary of significant accounting policies (continued)

(f) Income Tax (continued)

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction.

The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability.

No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(g) Asset Acquisition

The acquisition method of accounting is used to account for all business combinations. Consideration is measured at the fair value of the assets transferred, liabilities incurred and equity interests issued by the group on acquisition date.

Consideration also includes the acquisition date fair values of any contingent consideration arrangements, any pre-existing equity interests in the acquiree and share-based payment awards of the acquiree that are required to be replaced in a business combination.

The acquisition date is the date on which the group obtains control of the acquiree.

Where equity instruments are issued as part of the consideration, the value of the equity instruments is their published market price at the acquisition date unless, in rare circumstances it can be demonstrated that the published price at acquisition date is not fair value and that other evidence and valuation methods provide a more reasonable measure of fair value.

Identifiable assets acquired and liabilities and contingent liabilities assumed in business combinations are, with limited exceptions, initially measured at their fair values at acquisition date. Goodwill represents the excess of the consideration transferred and the amount of the non-controlling interest in the acquiree over fair value of the identifiable net assets acquired. If the consideration and non-controlling interest of the acquiree is less than the fair value of the net identifiable assets acquired, the difference is recognised in profit or loss as a bargain purchase price, but only after a reassessment of the identification and measurement of the net assets acquired.

For each business combination, the group measures non-controlling interests at either fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed when incurred. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

1 Summary of significant accounting policies (continued)

(g) Asset Acquisition (continued)

Where the Group obtains control of a subsidiary that was previously accounted for as an equity accounted investment in associate or jointly controlled entity, the group remeasures its previously held equity interest in the acquiree at its acquisition date fair value and the resulting gain or loss is recognised in profit or loss. Where the Group obtains control of a subsidiary that was previously accounted for as an available-for-sale investment, any balance on the available-for-sale reserve related to that investment is recognised in profit or loss as if the group had disposed directly of the previously held interest.

Where settlement of any part of the cash consideration is deferred, the amounts payable in future are discounted to present value at the date of exchange using the entity's incremental borrowing rate as the discount rate.

Assets and liabilities from business combinations involving entities or businesses under common control are accounted for at the carrying amounts recognised in the Group's controlling shareholder's consolidated financial statements.

When an asset acquisition does not constitute a business combination, the assets and liabilities are assigned a carrying amount based on their relative fair values in an asset purchase transaction and no deferred tax will arise in relation to the acquired assets and assumed liabilities as the initial recognition exemption for deferred tax under AASB 112 applies. No goodwill will arise on the acquisition and transaction costs of the acquisition will be included in the capitalised cost of the asset.

(h) Impairment of Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired.

If such an indication exists, the recoverable amount of the asset being the higher of the asset’s fair value less costs to sell and value in use, is compared to the asset’s carrying value. Any excess of the asset’s carrying value over its recoverable amount is expensed to the profit and loss statement.

(i) Cash and Cash Equivalents

For statement of cash flow presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(j) Trade and Other Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. Trade receivables are due for settlement within 30 days from the date of recognition. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off.

An allowance account for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to receivables are not discounted if the effect of discounting is immaterial.

1 Summary of significant accounting policies (continued)

(j) Trade and Other Receivables (continued)

The amount of the provision is recognised in the statement of comprehensive income. When a trade receivable for which an impairment allowance has been recognised becomes uncollectable in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(k) Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the period which are unpaid. They are recognised initially at fair value and subsequently at amortised cost. The amounts are unsecured and are usually paid within 30 days of recognition.

(l) Contributed Equity

Ordinary shares are classified as equity. Costs associated with capital raisings (exclusive of GST) directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds. If the entity reacquires its own equity instruments, eg as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable costs associated with capital raisings (net of income taxes) is recognised directly in equity.

(m) Earnings Per Share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit / (loss) attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(n) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated exclusive of the amount of GST receivable or payable.

The net amount of GST recoverable from, or payable to, the taxation authority 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 taxation authority, are presented as operating cash flow.

1 Summary of significant accounting policies (continued)

(o) Exploration and Evaluation Expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on a discounted basis. Any changes in the estimates for the costs are accounted for on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly, the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

(p) Employee Benefits

Provision is made for the company’s liability for employee benefits arising from services rendered by employees to the reporting date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, are measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employee benefits payable later than one year are measured at the present value of the estimated future cash outflows to be made for those benefits.

(q) Share Based Payment Transactions

The Group may provide benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (‘equity-settled transactions’). The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted.

The fair value of these payments is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option. The fair value of the options granted is adjusted to reflect market conditions, but excludes the impact of any non-market vesting conditions. Non-market vesting conditions, if any, are included in assumptions about the number of options likely to be exercisable.

The grant date fair value of performance shares granted under asset acquisition agreements is recognised as an increase in the cost of the investment with a corresponding increase in equity. The Group has issued performance shares as part of the acquisition of Delta Coal Fund as outlined in note 14(h). The Group follows the guidelines of AASB 2 ‘Share based payments’ and takes into account the probability of achieving these performance conditions.

1 Summary of significant accounting policies (continued)

(r) Provisions

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

(s) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Fair value

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.

Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in profit and loss.

(t) Jointly Controlled Interest

The proportionate interest in, assets, liabilities and expenses, of any joint interest activity, have been incorporated in the annual financial statements under the appropriate headings.

(u) Accounting Estimates and Judgements

In the process of applying the accounting policies, management makes certain judgements or estimations which have an effect on the amounts recognised in the financial statements.

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimate and assumptions that may have a significant risk causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period is:

Capitalised exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the company decides to exploit the related lease itself, or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, costs of drilling and production, production rates, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

(v) Foreign Currency Translation

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1 Summary of significant accounting policies (continued)

(v) Foreign Currency Translation (continued)

(i) Assets and liabilities for each statement of financial position are translated at the closing rate at the date of the statement of financial position;

(ii) Income and expenses for each income statement are translated at the average exchange rate for the period being reported on; and

(iii) All resulting exchange differences are recognised in the forging currency translation reserve in equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in the foreign currency translation reserve. When a foreign operation is sold the associated exchange differences are reclassified to the income statement as part of the gain or loss on sale.

(w) New Accounting Standards and Australian Accounting Interpretations

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2012, but have not been applied in preparing this financial report.

AASB 9 Financial Instruments (issued December 2009 and amended December 2010). Amends the requirements for classification and measurement of financial assets, the available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated.

AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.

The application date of the standard is for periods beginning on or after 1 January 2015. The application date for the Group will be 1 July 2015. Adoption of AASB 9 is only mandatory for the year ending 30 June 2016. The Group has not yet made an assessment of the impact of these amendments.

AASB 10 Consolidated Financial Statements (issued August 2011). Introduces a single 'control model' for all entities, including special purpose entities, whereby all of the following conditions must be present:

- Power over investee (whether or not power used in practice)
- Exposure, or rights, to variable returns from investee
- Ability to use power over investee to affect the returns from investee.

AASB 10 introduces the concept of 'defacto' control for entities with less than 50% ownership interest in an entity, but which have a large shareholding compared to other shareholders. This could result in more instances of control and more entities being consolidated.

The application date of the standard is for annual reporting periods commencing on or after 1 January 2013. The application date for the Group is 1 July 2013. When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the Group does not have any special purpose entities. The 'Entity' does not have 'defacto' control of any entities with less than 50% ownership interest in an entity.

1 Summary of significant accounting policies (continued)

(w) New Accounting Standards and Australian Accounting Interpretations (continued)

AASB 11 Joint Arrangements (issued August 2011). Joint arrangements will be classified as either 'joint operations' (where parties with joint control have rights to assets and obligations for liabilities) or 'joint ventures' (where parties with joint control have rights to the net assets of the arrangement).

The application date of standard will be for annual reporting periods commencing on or after 1 January 2013. The application date for the Group will be 1 July 2013. When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the Group has not entered into any joint arrangements.

AASB 12 Disclosure of Interests in Other Entities (issued August 2011). Combines existing disclosures from AASB 127, *Consolidated and Separate Financial Statements*, AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures.* AASB 12 introduces new disclosure requirements for interests in associates and joint arrangements, as well as, new requirements for unconsolidated structured entities.

The application date of standard will be for annual reporting periods commencing on or after 1 January 2013. The application date for the Group will be 1 July 2013. As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required for interests in associates and joint arrangements, as well as for unconsolidated structured entities.

AASB 13 Fair Value Measurement (issued September 2011). AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements. Additional disclosures required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements. There are extensive additional disclosure requirements for items measured at fair value that are 'level 3' valuations in the fair value hierarchy that are not financial instruments.

The application date of standard will be for annual reporting periods commencing on or after 1 January 2013. The application date for the Group will be 1 July 2013. When this standard is adopted for the first time for the year ended 30 June 2014, additional disclosures will be required regarding fair values.

AASB 119 Employee Benefits (reissued September 2011). Employee benefits expected to be settled (as opposed to due to settled under current standard) wholly within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used wholly within 12 months of end of reporting period will in future be discounted when calculating leave liability.

The application date of standard will be for annual reporting periods commencing on or after 1 January 2013. The application date for the Group will be 1 July 2013. When this standard is first adopted for 30 June 2014 year end, annual leave liabilities will be recalculated on 1 July 2012 as long-term benefits because they are not expected to be settled wholly within 12 months after the end of the reporting period. This will result in a reduction of the annual leave liabilities recognised on 1 July 2012, and a corresponding increase in retained earnings at that date.

1 Summary of significant accounting policies (continued)

(w) New Accounting Standards and Australian Accounting Interpretations (continued)

AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets (AASB 112) (issued December 2010). For investment property measured using the fair value model, deferred tax assets and liabilities will be calculated on the basis of a rebuttable presumption that the carrying amount of the investment property will be recovered through sale.

The application date of standard will be for annual reporting periods commencing on or after 1 January 2012. The application date for the Group will be 1 July 2012. The Group does not have any investment property measured using the fair value model. There will therefore be no impact on the financial statements when these amendments are first adopted.

AASB 2011- Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements 4 (issued July 2011). Amendments to remove individual key management personnel (KMP) disclosure requirements from AASB 124 to eliminate duplicated information required under the *Corporation Act 2001*.

The application date of standard will be for annual reporting periods commencing on or after 1 July 2013. The application date for the Group will be 1 July 2013. When this standard is first adopted for the year ended 30 June 2014 the Group will show reduced disclosures under the Key Management Personnel note to the financial statements.

AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income (issued September 2011). These amendments align the presentation of items of other comprehensive income (OCI) with US GAAP.
Various name changes of statements in AASB 101 as follows:

- 1 statement of comprehensive income – to be referred to as 'statement of profit or loss and other comprehensive income'
- 2 statements – to be referred to as 'statement of profit or loss' and 'statement of comprehensive income'.
- OCI items must be grouped together into two sections: those that could subsequently be reclassified into profit or loss and those that cannot.

The application date of standard will be for annual reporting periods commencing on or after 1 July 2012. The application date for the Group will be 1 July 2012. When this standard is first adopted for the year ended 30 June 2013, there will be no impact on amounts recognised for transactions and balances for 30 June 2013 or any comparatives.

Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine (issued November 2011). Interpretation 20 clarifies the cost of removing mine waste materials (overburden) to gain access to mineral ore deposits during the production phase of a mine. Such costs must be capitalised as inventories under AASB 102 *Inventories* if the benefits from stripping activity are realised in the form of inventory produced. Otherwise, if stripping activity provides improved access to the ore, stripping costs must be capitalised as a non-current, stripping activity asset if certain recognition criteria are met.

The application date of standard will be for annual reporting periods commencing on or after 1 January 2013. The application date for the Group will be 1 July 2013. The Group does not operate a surface mine. There will therefore be no impact on the financial statements when this interpretation is first adopted.

1 Summary of significant accounting policies (continued)

(w) New Accounting Standards and Australian Accounting Interpretations (continued)

AASB 2012-5 Annual Improvements to Australian Accounting Standards 2009-2011 Cycle (issued June 2012). These are non-urgent changes but necessary changes to IFRSs (IAS1, IAS 16 & IAS 32).

The application date of standard will be for annual reporting periods commencing on or after 1 January 2013. The application date for the Group will be 1 July 2013. When this standard is first adopted for the year ended 30 June 2013, there will be no material impact.

IFRS Mandatory Effective Date of IFRS 9 and Transition Disclosures (issued December 2011). Entities are no longer required to restate comparatives on first time adoption. Instead, additional disclosures on the effects of transition are required.

The application date of standard will be for annual reporting periods commencing on or after 1 January 2015. The application date for the Group will be 1 July 2015. As comparatives are no longer required to be restated, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required on transition, including the quantitative effects of reclassifying financial assets on transition.

2 Financial Risk Management

The Group’s financial instruments consist mainly of deposits with banks and accounts receivable and payable. The Group's activities expose it to a variety of financial risks; market risk (including fair value and interest rate risk), credit risk, liquidity risk, foreign exchange fluctuations, cash flow and interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out by the board of directors under policies approved by the Board. The board identifies and evaluates financial risks for overall risk management.

Interest Rate Risk

As the Group has no significant interest-bearing assets other than cash at bank, the Group’s income and operating cash flows are not materially exposed to changes in market interest rates.

The risk arises due to changes in interest rates offered by the bank. The risk is managed by seeking alternative quotes from competing banks.

2012 **Financial Instruments**	**Floating interest rate**	**Non-interest bearing**	**Total**	**Weighted average effective interest rate**
	$	**$**	**$**	**%**
(i) Financial assets				
Cash assets	1,329,652	86,168	1,415,820	3.50
Trade and other receivables	-	11,108	11,108	
Total financial assets	**1,329,652**	**97,276**	**1,426,928**	
(ii) Financial liabilities				
Trade and other payables	-	174,303	174,303	
Total financial liabilities	**-**	**174,303**	**174,303**	

The net fair value of financial assets and liabilities are materially in line with their carrying values.

2 Financial Risk Management (continued)

Interest Rate Risk (continued)

2011 **Financial Instruments**	**Floating interest rate** **$**	**Non-interest bearing** **$**	**Total** **$**	**Weighted average effective interest rate %**
(i) Financial assets				
Cash assets	2,369,292	-	2,369,292	4.60
Trade and other receivables	-	6,039	6,039	
Total financial assets	**2,369,292**	**6,039**	**2,375,331**	
(ii) Financial liabilities				
Trade and other payables	-	41,751	41,751	
Total financial liabilities	**-**	**41,751**	**41,751**	

Sensitivity Analysis – Interest Rate Risk

The Group has performed a sensitivity analysis relating to its exposure to interest rate risk at the reporting date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result in a change in interest rates.

	2012 **$**	**2011** **$**
Change in loss:		
Increase by 1%	13,297	23,693
Decrease by 1%	(13,297)	(23,693)
Change in equity:		
Increase by 1%	13,297	23,693
Decrease by 1%	(13,297)	(23,693)

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash to meet commitments as and when they fall due. The Group has no long term or short term debt and its risk with regard to liquidity relates to its ability to maintain its current operations prior to the generation of future income streams. The Group's ability to raise equity funding in the market is paramount in this regard. The Group manages liquidity by ensuring that it has at least sufficient cash to meet its budgeted commitments for at least 12 months.

As at 30 June 2012	Less than 6 months $	6-12 months	1-5 years	Over 5 years	Total contractual $	Carrying amount $
Trade and other payables	174,303	-	-	-	174,303	174,303

As at 30 June 2011	Less than 6 months $	6-12 months	1-5 years	Over 5 years	Total contractual $	Carrying amount $
Trade and other payables	41,751	-	-	-	41,751	41,751

Credit Risk

The Group has no significant concentrations of credit risk. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings.

2 Financial Risk Management (continued)

Credit Risk (continued)

Cash at bank and short term bank deposits	**2012**
	$
Westpac Banking Corporation - AA	1,329,652
Washington Financial Bank	86,168
	1,415,820

Cash at bank and short term bank deposits	**2011**
	$
Westpac Banking Corporation - AA	2,369,292

Price risk

The Group is not exposed to commodity price risk.

3 Critical Accounting Estimates, Judgements and Assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

No critical accounting estimates and/or assumptions have been made during the preparation of the financial statements other than as disclosed elsewhere in this financial report.

Exploration and evaluation assets

The Group's accounting policy for exploration and evaluation expenditure is set out at Note 1(o). The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under the policy, it is concluded that the expenditures are unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount will be written off to the statement of comprehensive income.

Share-based payment transactions

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes model. Should the assumptions used in these calculations differ, the amounts recognised could significantly change.

The Group issued performance based options and performance shares during the year based upon conditions outlined in note 14(g)(h). The Group follows the guidelines of AASB2 '*Share Based Payments*' and takes into account vesting and non-vesting conditions and estimates the probability and expected timing of achieving the performance conditions.

No critical accounting estimates and/or assumptions have been made during the preparation of the financial statements other than as disclosed elsewhere in this financial report.

4 Segment Information

The Group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The Group currently operates in one operating segment being the mining and exploration sector and two geographic locations, those being, Australia and the United States of America. The chief operating decision makers look at areas of interest when reviewing exploration activities and the allocation of resources. The areas of interest are contained within separate operating entities and geographic locations and are reported on accordingly.

4 Segment Information (continued)

The directors are of the opinion that the current financial position and performance of the Group is equivalent to the operating segments identified. There are no comparatives to the 30 June 2011 numbers as the USA project was acquired during the period.

30 June 2012	New Horizon Coal - Australia	Kinney Coal Project – USA	Inter Segment Adjustments	Consolidated
	$	$	$	$
Income	389,387	-	-	389,387
Expenses	(687,752)	(118,296)	-	(806,048)
Income tax expense	(1,239)	-	-	(1,239)
Operating profit / (loss)	**(299,604)**	**(118,296)**	**-**	**(417,900)**

Assets	New Horizon Coal - Australia	Kinney Coal Project – USA	Inter Segment Adjustments	Consolidated
	$	$	$	$
Cash & cash equivalents	1,329,652	86,168	-	1,415,820
Other receivables	11,108	-	-	11,108
Prepayments	3,500	-	-	3,500
Capitalised exploration	-	19,406,980	-	19,406,980
	1,344,260	**19,493,148**	**-**	**20,837,408**
Liabilities				
Other payables	29,122	145,181	-	174,303
	29,122	**145,181**	**-**	**174,303**
Net Assets	**1,315,138**	**19,347,967**	**-**	**20,663,105**

5 Revenue from operations

	Consolidated June 2012	**Company June 2011**
	$	**$**
Interest received	148,803	87,366
	148,803	**87,366**

6 Other income

	Consolidated June 2012	**Company June 2011**
	$	**$**
Shareholder loan defeased	240,584	-
	240,584	**-**

In January 2012 it was agreed with the shareholders of Delta Coal Fund to settle the loan account balances owing to them as the vendors of the Kinney Project.

The agreement was to pay the option fee amount of US$500,000 (AUD$495,835) plus the closing bank balance of AUD$97,746 after payment of all committed due diligence costs.

The total amount repaid to the Delta Coal Fund shareholders was AUD$593,581. The actual balance of the loans owing was $834,165 the resulting difference of $240,584 was booked to the statement of comprehensive income as shareholder loans defeased.

7 Other expenses from operations

	Consolidated June 2012 $	Company June 2011 $
Admin & accounting consultancy fees	(34,752)	(7,400)
General legal fees	(5,597)	(3,844)
Advertising & marketing costs	(842)	(911)
Information technology costs	(10,705)	(3,000)
Corporate advisory fees	(53,958)	-
Employment on-costs	(46,483)	-
Project generation costs	(11,312)	-
Telecommunication costs	(2,270)	-
Meetings & conferences	(7,181)	-
Depreciation expense	(4,105)	-
Finance expense	(32,258)	-
General insurance costs	(16,222)	-
Other	(886)	(303)
Other expenses	**(226,571)**	**(15,458)**

8 Income Tax Expense

		Consolidated 2012 $	Company 2011 $
a.	**The components of tax expense comprise:**		
	Current tax	914	-
	Deferred tax	-	-
	Under provision from prior year	325	-
		1,239	-
b.	**The prima facie tax benefit on loss from ordinary activities before income tax is reconciled to income tax as follows:**		
	Prima facie tax benefit on loss from ordinary activities before income tax at 30% (2011:30%)	(124,998)	(25,702)
	Add tax effect of:		
	- Revenue losses not recognised	125,159	34,103
	- Share based payments	82,502	
	- Other non-allowable items	36,409	
	- Under provision from prior year	325	
		119,397	8,401
	Less tax effect of:		
	- Other deferred tax balances not recognised	(45,982)	(8,401)
	- Non-assessable items	(72,176)	-
	Income tax	**1,239**	-
c.	**Deferred tax recognised:**		
	Deferred tax liabilities:		
	Exploration expenditure	-	(3,000)
	Deferred tax assets:		
	Carry forward revenue losses	-	3,000
	Net deferred tax	-	-
d.	**Unrecognised deferred tax assets:**		
	Carry forward revenue losses	159,271	34,103
	Capital raising costs	246,737	55,619
	Provisions and accruals	5,742	4,800
	Other	2,751	704
		414,501	**95,226**

8 Income Tax Expense (continued)

The tax benefits of the above deferred tax assets will only be obtained if the Group:

(a) derives future assessable income of a nature and amount sufficient to enable the benefits to be utilised;
(b) continues to comply with the conditions for deductibility imposed by law; and
(c) there are no changes in income tax legislation which adversely affect utilising benefits.

9 Current assets – Cash and cash equivalents	2012 $	2011 $
Opening balance cash at bank and in hand	2,369,292	-
Net outflow from operating activities	(301,330)	(69,554)
Net outflow from investing activities	(10,785,707)	(10,000)
Net inflow from financing activities	10,135,716	2,448,846
Net cash outflow due to foreign currency movement	(2,151)	-
Closing balance cash at bank and in hand	**1,415,820**	**2,369,292**

The Group's exposure to interest rate risk is discussed in note 2. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of cash at bank and in hand.

10 Trade and other receivables - current	2012 $	2011 $
Trade and other receivables	11,108	6,039
Prepayments	3,500	-
	14,608	**6,039**

Refer to note 2 for the risk management policy of the Group. As at 30 June 2012, no trade receivables were past due or impaired.

Prepayments are office rent paid in advance. The Company's July corporate office rent was paid in June.

11 Exploration and evaluation expenditure	Consolidated 30 June 2012 $	Company 30 June 2011 $
Opening net book amount – Kinney project	-	-
Acquisition of Kinney Coal project	18,731,191	-
Exploration additions	675,789	-
Closing net book amount – Kinney project	**19,406,980**	**-**
Opening net book amount – Mt Drysdale and Hora Bore projects	10,000	-
Acquisition - Mt Drysdale and Hora Bore projects		10,000
Impairment expense	(10,000)	-
Closing net book amount – Mt Drysdale and Hora Bore projects	**-**	**10,000**
Total exploration and evaluation expenditure	**19,406,980**	**10,000**

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.

12 Property, Plant and Equipment	**Consolidated 30 June 2012 $**	**Company 30 June 2011 $**
Office Equipment		
Opening net book value	-	-
Plus acquisitions during the period	4,104	-
	4,104	-
Less depreciation expense during the period	(4,104)	-
Closing net book amount	-	-

13 Trade and other payables	**2012 $**	**2011 $**
Trade and other payables – current and unsecured	174,303	41,751
	174,303	**41,751**

Refer to note 2 for the risk management policy of the Group.

14 Contributed Equity

(a) Share Capital	**30 June 2012 Shares**	**30 June 2012 $**	**30 June 2011 Shares**	**30 June 2011 $**
Ordinary shares fully paid	**93,000,000**	**17,395,140**	**20,500,000**	**2,245,440**

(b) Issued Securities	**Shares**	**Escrowed to date**
Quoted securities	66,950,000	
Restricted securities	6,050,000	20/10/2012
Restricted securities	16,000,000	23/11/2012
Restricted securities	4,000,000	7/12/2013
	93,000,000	

(c) Movement in Ordinary Share Capital

2012 Date	**Details**	**Number of shares**	**Issue price**	**Amount $**
01/07/2011	Opening balance	20,500,000		2,245,440
23/11/2011	Issue of shares placement	52,500,000	$0.22	11,550,000
23/11/2011	Issue of shares acquisition	10,000,000	$0.22	2,200,000
02/02/2012	Issue of shares conversion of class A performance shares	10,000,000	$0.22	2,200,000
	Cost of share issues	-		(800,300)
30/06/2012	**Balance**	**93,000,000**		**17,395,140**

2011 Date	**Details**	**Number of shares**	**Issue price**	**Amount $**
04/06/2010	Issue of shares on incorporation	6,000,000	$0.001	6,000
30/06/2010	Issue of shares	4,500,000	$0.100	450,000
13/10/2010	Issue of shares	10,000,000	$0.200	2,000,000
	Cost of share issue	-		(210,560)
30/06/2011	**Balance**	**20,500,000**		**2,245,440**

14 Contributed Equity (continued)

(c) Movement in Ordinary Share Capital (continued)

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Group in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Options	**30 June 2012 Number**	**30 June 2012 $**	**30 June 2011 Number**	**30 June 2011 $**
	83,000,000	**183,812**	**20,500,000**	**183,812**

(e) Movement in Options

2012 Date	**Details**	**Number of shares**	**Issue price**	**Amount $**
01/07/2011	Opening balance	20,500,000		183,812
23/11/2011	Issue of options - Listed	52,500,000	$0.00	-
23/11/2012	Issue of options - Unlisted	10,000,000		-
30/06/2012	**Balance**	**83,000,000**		**183,812**

2011 Date	**Details**	**Number of shares**	**Issue price**	**Amount $**
04/06/2010	Opening balance	-		-
08/06/2011	Issue of options	20,500,000	$0.01	205,000
	Cost of option issue	-		(21,188)
30/06/2011	**Balance**	**20,500,000**		**183,812**

Terms and Conditions of Listed Options

The options entitle the holder to subscribe for shares on the following terms and conditions:

(a) Each option gives the holder the right to subscribe for one share.

(b) The options will expire at 5.00pm (WST) on 31 December 2014. Any options not exercised before the expiry date will automatically lapse on the expiry date.

(c) The amount payable upon exercise of each option will be $0.20.

(d) The options held by each option-holder may be exercised in whole or in part, and if exercised in part, multiples of 1,000 must be exercised on each occasion.

(e) An option-holder may exercise their options by lodging with the Company, before the expiry date:
  (i) a written notice of exercise of options specifying the number of options being exercised; and
  (ii) a cheque or electronic funds transfer for the exercise price for the number of options being exercised;

(f) An exercise notice is only effective when the Company has received the full amount of the exercise price in cleared funds.

(g) Within 10 business days of receipt of the exercise notice accompanied by the exercise price, the Company will allot the number of shares required under these terms and conditions in respect of the number of options specified in the exercise notice.

(h) The options are not transferable.

14 Contributed Equity (continued)

(e) Movement in Options (continued)

Terms and Conditions of Listed Options (continued)

(i) All shares allotted upon the exercise of options will upon allotment rank pari passu in all respects with other shares.

(j) The Company will apply for quotation of the options on ASX.

(k) If at any time the issued capital of the Company is reconstructed, all rights of an option-holder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.

(l) There are no participating rights or entitlements inherent in the options and option-holders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 7 business days after the issue is announced.

This will give option-holders the opportunity to exercise their options prior to the date for determining entitlements to participate in any such issue.

(m) A free attaching option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the free attaching option can be exercised.

(f) Share Based Payments	**30 June 2012 Number**	**30 June 2012 $**	**30 June 2011 Number**	**30 June 2011 $**
Unlisted incentive options	**10,000,000**	**275,008**	-	-

During the period the Company issued 10,000,000 incentive options to executives for nil consideration. As at the date of this report the options have been issued but have not yet vested. The calculated value for the options will be being written off over the vesting period. In calculating the value of the options issued the following inputs were used:

Underlying stock price	22 cents	Expiry date	9 Nov 2016
Exercise price	50 cents	Dividend yield	0%
Risk free rate	4.25%	Number of options	10,000,000
Volatility	90%	Calculated value	$1,285,753
Approval date	9 Nov 2011	Vesting period	36 months

(g) Movement in Share Based Payments

2012 Date	**Details**	**Number of options**	**Amount $**
01/07/2011	Opening balance	-	-
23/11/2011	Issue options incentive unlisted	10,000,000	275,008
30/06/2012	**Balance**	**10,000,000**	**275,008**

2011 Date	**Details**	**Number of options**	**Amount $**
04/06/2010	Opening balance	-	-
30/06/2011	**Balance**	-	-

14 Contributed Equity (continued)

(g) Movement in Share Based Payments (continued)

Terms and Conditions of Unlisted Incentive Options

The incentive options entitle the holder to subscribe for shares on the following terms and conditions:

(a) Each incentive option gives the incentive option-holder the right to subscribe for one fully paid ordinary share in New Horizon Coal Ltd.

(b) The incentive options will vest on the date on which the last of the following conditions are satisfied:

  (i) Completion of a bankable feasibility study that results in a positive decision to mine to enable production to commence in relation to the Kinney Project; and

  (ii) this occurs within 36 months of the Kinney Project acquisition date.

  The vesting conditions must be satisfied within 36 months of the Kinney Project acquisition date. If the vesting conditions are satisfied, the incentive options will immediately vest.

(c) If the executive ceases to be engaged by the Company pursuant to the terms of this agreement prior to the expiration of the vesting date and without any of the vesting conditions being satisfied, all of the incentive options will be cancelled for nil consideration and the executive agrees to execute any documentation to give effect to this.

(d) Prior to the vesting date, the incentive options may not be exercised, transferred or otherwise dealt with.

(e) The incentive options will expire at 5.00pm (WST) on the date which is 5 years after the incentive options are issued. Any incentive option not exercised before the expiry date will automatically lapse on the expiry date.

(f) The amount payable upon exercise of each incentive option will be AUD$0.50.

(g) The incentive options held by each incentive option-holder may be exercised in whole or in part, and if exercised in part, multiples of 1,000 must be exercised on each occasion.

(h) An incentive option-holder may exercise their incentive options by lodging with the Company, before the expiry date:

  (i) a written notice of exercise of incentive options specifying the number of incentive options being exercised; and

  (ii) a cheque or electronic funds transfer for the exercise price for the number of incentive options being exercised.

(i) An exercise notice is only effective when the Company has received the full amount of the exercise price in cleared funds.

(j) Within 10 business days of receipt of the exercise notice accompanied by the exercise price, the Company will allot the number of shares required under these terms and conditions in respect of the number of incentive options specified in the exercise notice.

(k) If a change in control event occurs the incentive options will immediately vest upon the parties to the change in control event entering into a binding contract to sell, merge, transfer, swap or otherwise modify New Horizon’s interest in the Kinney Project. For the purposes of this clause (k), a change in control event means:

  (i) the occurrence of:

  (A) the offeror under a takeover offer in respect of all shares announcing that it has achieved acceptances in respect of 50.1% or more of the shares and that takeover bid has become unconditional (except any condition in relation to the cancellation or exercise of the incentive options);

14 Contributed Equity (continued)

(g) Movement in Share Based Payments (continued)

Terms and Conditions of Unlisted Incentive Options (continued)

or (B) completed sale agreement between New Horizon or a successor in interest and another party under which 100% of the shares will be purchased by a third party; or

(ii) the announcement by the Company that shareholders of New Horizon have at a court convened meeting of shareholders voted in favour, by the necessary majority, of a proposed scheme of arrangement under which all shares are to be either:

(A) cancelled; or (B) transferred to a third party, and the court, by order, approves the proposed scheme of arrangement; or

(iii) any other transaction in which New Horizon's interest in the Kinney Project is modified;

(l) The incentive options are not transferable.

(m) All shares allotted upon the exercise of incentive options will upon allotment rank pari passu in all respects with other shares.

(n) The Company will not apply for quotation of the incentive options on ASX. However, the Company will apply for quotation of all shares allotted pursuant to the exercise of incentive options on ASX within 10 business days after the date of allotment of those shares.

(o) If at any time the issued capital of the Company is reconstructed, all rights of an incentive option-holder are to be changed in a manner consistent with the *Corporations Act 2001* (Cth) and the ASX Listing Rules at the time of the reconstruction.

(p) There are no participating rights or entitlements inherent in the incentive options and incentive option-holders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the incentive options.
However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 6 business days after the issue is announced. This will give incentive option-holders the opportunity to exercise their incentive options prior to the date for determining entitlements to participate in any such issue.

(q) An incentive option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the incentive option can be exercised.

(r) Subject to the discretion of the Board of the Company, if:
(i) the executive terminates the employment: or
(ii) the executive's employment is terminated with cause by the Company,
any outstanding incentive options which have not been exercised will immediately lapse and have no further force or effect.

(h) Performance Shares

30,000,000 performance shares were issued, in three classes of 10,000,000 each, to the shareholders of Delta Coal Fund Pty Ltd as part of the purchase price of the Kinney Coal Project.

	30 June 2012 Shares	30 June 2012 $	30 June 2011 Shares	30 June 2011 $
Class B	10,000,000	1,650,000	-	-
Class C	10,000,000	1,650,000	-	-
Performance shares	**20,000,000**	**3,300,000**	-	-

14 Contributed Equity (continued)

(h) Performance Shares (continued)

In calculating the value of the performance shares issued the following inputs were used:

	Class A	Class B	Class C
Number of shares	10,000,000	10,000,000	10,000,000
Underlying share price	22 cents	22 cents	22 cents
Probability of achieving milestone	100%	75%	75%
Value of performance share	22 cents	17 cents	17 cents
Calculated value	$2,200,000	$1,650,000	$1,650,000

(i) Movement in Performance Shares

2012 **Date**	**Details**	**Number of shares**	**Issue price**	**Amount $**
01/07/2011	Opening balance	-		-
23/11/2011	Issue of shares – Class A	10,000,000	$0.220	2,200,000
23/11/2011	Issue of shares – Class B	10,000,000	$0.165	1,650,000
23/11/2011	Issue of shares – Class C	10,000,000	$0.165	1,650,000
02/02/2012	Conversion of Class A	(10,000,000)	$0.220	(2,200,000)
30/06/2012	**Balance**	**20,000,000**		**3,300,000**

2011 **Date**	**Details**	**Number of shares**	**Issue price**	**Amount $**
04/06/2010	Opening balance	-		-
30/06/2011	**Balance**	-		-

Terms and Conditions of Performance Shares

The terms of the class A, B and C performance shares are as follows:

(a) Each performance share is a share in the capital of the Company.

(b) The performance shares shall confer on the holder the right to receive notices of general meetings and financial reports and accounts of the Company that are circulated to shareholders of the Company. The holder has the right to attend general meetings of shareholders.

(c) The performance shares do not entitle the holder to vote on any resolutions proposed at a general meeting of shareholders.

(d) The performance shares do not entitle the holder to any dividends.

(e) The performance shares participate in the surplus profits or assets of the Company upon winding up only to the extent of $0.000001 per performance share.

(f) The performance shares are not transferable.

(g) If at any time the issued capital of the Company is reconstructed, all rights of the holder will be changed to the extent necessary to comply with the applicable ASX Listing Rules at the time of reorganisation.

(h) The performance shares will not be quoted on ASX. However, upon conversion of the performance shares into fully paid ordinary shares the Company must within 7 days after the conversion, apply for the official quotation of the ordinary shares arising from the conversion on ASX.

(i) The performance shares give the holder no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.

(j) Holders of performance shares will not be entitled to participate in new issues of capital offered to holders of ordinary shares such as bonus and entitlement issues.

14 Contributed Equity (continued)

(i) Movement in Performance Shares (continued)

Terms and Conditions of Performance Shares (continued)

(k) Reconstruction

- (i) If there is a reconstruction (including, consolidation, subdivision, reduction or return) of the issued capital of the Company, the basis for adjustment of the conversion of performance shares into ordinary shares will be reconstructed in the same proportion as the issued capital of the Company is reconstructed and in a manner which will not result in any additional benefits being conferred on the holder which are not conferred on the shareholders, (subject to the same provisions with respect to rounding of entitlements as sanctioned by the meeting of shareholders approving the reconstruction of capital) but in all other respects the terms for conversion of the performance shares will remain unchanged.
- (ii) The adjustments of this term will, subject to the ASX Listing Rules, be determined by the Company.

(l) Redemption if Milestones not Achieved

- (i) If the milestone in relation to the Class A performance shares, as set out in schedule 2, is not achieved within a 12 month period commencing on the date of issue of the Class A performance shares then the 10 million Class A performance shares held by the Vendors will automatically be redeemed by the Company for the sum of $0.000001 per Class A performance share within 10 business days of the Class A milestone determination date;
- (ii) If the milestone in relation to the Class B performance shares, as set out in schedule 2, is not achieved within a 24 month period commencing on the date of issue of the Class B Performance Shares then the 10 million Class B performance shares held by the Vendors will automatically be redeemed by the Company for the sum of $0.000001 per Class B performance share within 10 business days of the Class B milestone determination date; and
- (iii) If the milestone in relation to the Class C performance shares, as set out in schedule 2, is not achieved within a 36 month period commencing on the date of issue of the Class C performance shares then the 10 million Class C performance shares held by the Vendors will automatically be redeemed by the Company for the sum of $0.000001 per Class C performance share within 10 business days of the Class C milestone determination date.
- (iv) The Company will issue Delta Coal Fund Pty Ltd with a new holding statement for the ordinary shares as soon as practicable following the conversion of the performance shares into ordinary shares in accordance with schedule 2.
- (v) The ordinary shares into which the performance shares will convert will rank pari passu in all respects with existing ordinary shares.
- (vi) Subject to clause (l)(vii) below, if prior to a the milestone C determination date a change in control event occurs, then each Class C performance share will convert into 1 ordinary share. This clause does not apply to the Class A or Class B performance shares.
- (vii) Takeover Provisions
  - (i) If the conversion of performance shares (or part thereof) would result in any person being in contravention of Section 606(1) of the *Corporations Act 2001* (Cth) (Act) then the conversion of each performance share that would cause the contravention shall be deferred until such time or times thereafter that the conversion would not result in a contravention of Section 606(1) of the Act.

14 Contributed Equity (continued)

(i) Movement in Performance Shares (continued)

Terms and Conditions of Performance Shares (continued)

(ii) The holders shall give notification to the Company in writing if they consider that the conversion of performance shares (or part thereof) may result in the contravention of Section 606(1) of the Act failing which the Company shall assume that the conversion of performance shares (or part thereof) will not result in any person being in contravention of Section 606(1) of the Act.

(iii) The Company shall (but is not obliged to) by written notice request the holders to give notification to the Company in writing within 7 days if they consider that the conversion of performance shares (or part thereof) may result in the contravention of Section 606(1) of the Act.

If the holders do not give notification to the Company within 7 days that they consider the conversion of performance shares (or part thereof) may result in the contravention of Section 606(1) of the Act then the Company shall assume that the conversion of performance shares (or part thereof) will not result in any person being in contravention of Section 606(1) of the Act.

(j) Nature and Purpose of Reserves

Option Reserve

The option reserve is used to recognise funds received from options issued to shareholders. The reserve is recognised in contributed equity when the options are exercised and converted to ordinary share capital.

Share Based Payment Reserve

The share based payment reserve is used to recognise the fair value of unlisted options issued to employees but not converted into ordinary shares. The reserve is recognised in contributed equity when and if the relevant milestone is attained within the specified period and as a result the unlisted options concerned convert to ordinary shares.

Performance Share Reserve

The performance share reserve is used to recognise the fair value of performance shares issued to the vendors of the Kinney Project but not converted into ordinary shares. The reserve is recognised in contributed equity when and if the relevant milestone is attained within the specified period and as a result the performance shares concerned convert to ordinary shares.

Foreign Currency Translation Reserve

The foreign currency translation reserve is used to record exchange differences arising on consolidation of subsidiaries with different functional currencies from that of the parent entity.

(k) Capital Risk Management

The Group's objective when managing capital is to safeguard the ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the return of capital to shareholders, issue new shares or sell assets to reduce debt.

14 Contributed Equity (continued)

(k) Capital Risk Management (continued)

The Group defines capital as cash and cash equivalents plus equity.

The board of directors monitors capital on an ad-hoc basis. No formal targets are in place for return on capital. There are no gearing ratios as the Group has not derived any income from their mineral exploration and currently has no debt facilities in place.

(15) Acquisition of Delta Coal Fund Pty Ltd

Summary of Acquisition

Delta Coal Fund Pty Ltd, pursuant to an option agreement between Delta Coal and Carbon Resources, dated 17 March 2011, held an exclusive right to purchase a 100% interest in the Kinney Project, a thermal coal project located near Scofield in Utah in the USA.

Delta Coal exercised its right to acquire the Kinney Project from Carbon Resources via an asset purchase agreement.

In accordance with the asset purchase agreement Delta Coal acquired 100% of the Kinney Project and assigned its interest in the Kinney Project to its wholly owned subsidiary, Wasatch Natural Resources LLC.

The date on which New Horizon Coal Limited acquired 100% interest in Delta Coal Fund Pty Ltd, Wasatch Natural Resources and the Kinney Coal Project was 30 November 2011.

Details of the fair value of the assets and liabilities acquired as at 30 November 2011 are as follows:

Details	**Number**	**Price**	**$**
Purchase consideration comprises:			
Ordinary shares	10,000,000	$0.220	2,200,000
Performance shares	30,000,000	$0.183	5,500,000
			7,700,000
Net assets acquired:			
Cash			126,808
Other receivables			2,768
Exploration expenditure			18,731,191
Trade and other payables			(10,325,793)
Shareholder loans			(834,165)
Other loans			(809)
Net identifiable assets			**7,700,000**

16 Accumulated Losses

	Consolidated 2012	**Company 2011**
Movements in accumulated losses:	**$**	**$**
Balance at the beginning of the period	(85,672)	-
Net loss from continuing operations	(417,900)	(85,672)
Balance at the end of the year	**(503,572)**	**(85,672)**

17 Dividends

There were no dividends recommended or paid during the financial year.

18 Directors and Key Management Personnel Disclosures

(a) Directors

The following persons were directors during the reporting period:

Gary Steinepreis appointed 4 June 2010
Michael Placha appointed 2 December 2011
Carl Coward appointed 2 December 2011
Robert Hodby appointed 4 June 2010 and resigned 2 December 2011
Patrick Burke appointed 4 June 2010 and resigned 2 December 2011

(b) Key Management

Wasatch Natural Resources entered into an Executive Services Agreement on 17 October 2011 with **Greg Hunt** pursuant to which Mr Hunt will serve as Chief Operating Officer of Wasatch. Upon the conclusion of the acquisition of the Kinney Coal Project New Horizon Coal became the 100% owner of Wasatch.

The amount of remuneration paid to key management personnel, other than directors, during the year is set out below:

30 June 2012	**Salary**	**Share based options**	**Bonus payment**	**Medical insurance**	**Total**
	$	**$**	**$**	**$**	**$**
Greg Hunt	74,516	137,504	47,037	4,703	263,760
TOTAL	**74,516**	**137,504**	**47,037**	**4,703**	**263,760**

30 June 2011	**Salary**	**Share based options**	**Bonus payment**	**Medical insurance**	**Total**
	$	**$**	**$**	**$**	**$**
TOTAL	-	-	-	-	-

(c) The total payments made to directors and key management personnel during the year are set out below:

Services provided by directors and key management personnel and recognised as an expense	**2012 $**	**2011 $**
Short term employee benefits	488,992	47,000
Post-employment benefits	1,734	-
Share based payments	275,008	-
	765,734	**47,000**

Detailed remuneration disclosures with regard to amounts paid to directors are provided in the audited remuneration report in the directors' report.

(d) Equity Instrument Disclosures Relating to Directors and Key Management Personnel

(i) Options holdings

Details of options held directly, indirectly or beneficially by directors and key management personnel and their related parties are as follows: (Terms and Conditions note 14(e))

18 Directors and Key Management Personnel Disclosures (continued)

(d) Equity Instrument Disclosures Relating to Directors and Key Management Personnel (continued)

(i) Options holdings (continued)

2012 **Name**	**Held at 1/7/2011**	**Options acquired**	**Share based payments**	**Held at 30/6/2012**	**Vested and exercisable at 30/6/2012**
Directors:					
Gary Steinepreis (1)	3,275,000	1,637,186	-	4,912,186	4,912,186
Michael Placha (2)	-	454,546	5,000,000	5,454,546	454,546
Carl Coward (3)	-	1,336,364	-	1,336,364	1,336,364
Robert Hodby	*	-	-	-	-
Patrick Burke	*	-	-	-	-
Key Management:					
Greg Hunt (4)	-	-	5,000,000	5,000,000	-
Total	**3,275,000**	**3,428,096**	**10,000,000**	**16,703,096**	**6,703,096**

* Robert Hodby and Patrick Burke resigned as directors on 2 December 2011 and as such are no longer required to report their security holdings.

2011 **Name**	**Held at 4/6/2010**	**Options acquired**	**Share based payments**	**Held at 30/6/2011**	**Vested and exercisable at 30/6/2011**
Gary Steinepreis (1)	-	3,275,000	-	3,275,000	3,275,000
Robert Hodby	-	200,000	-	200,000	200,000
Patrick Burke	-	130,000	-	130,000	130,000
Total	**-**	**3,605,000**	**-**	**3,605,000**	**3,605,000**

(ii) Ordinary shareholdings

Details of equity instruments (other than options and performance shares) held directly, indirectly, or beneficially by directors and key management personnel and their related parties are as follows:

2012 **Name**	**Held at 1/7/2011**	**Shares acquired**	**Other changes**	**Balance 30/6/2012**
Directors:				
Gary Steinepreis (1)	3,275,000	2,287,186	-	5,562,186
Michael Placha (2)	-	654,546	-	654,546
Carl Coward (3)	-	9,679,777	-	9,679,777
Robert Hodby	*	-	-	-
Patrick Burke	*	-	-	-
Key Management:				
Greg Hunt (4)	-	-	-	-
Total	**3,275,000**	**12,621,509**	**-**	**15,896,509**

* Robert Hodby and Patrick Burke resigned as directors on 2 December 2011 and as such are no longer required to report their security holdings.

18 Directors and Key Management Personnel Disclosures (continued)

(d) Equity Instrument Disclosures Relating to Directors and Key Management Personnel (continued)

(ii) Ordinary shareholdings (continued)

2011 Name	**Held at 4/6/2010**	**Shares acquired**	**Other changes**	**Balance 30/6/2011**
Gary Steinepreis (1)	-	3,275,000	-	3,275,000
Robert Hodby	-	200,000	-	200,000
Patrick Burke	-	130,000	-	130,000
Total	**-**	**3,605,000**	**-**	**3,605,000**

(1) **Gary Steinepreis** holds his interests in shares and options directly in his own name 10,000 and indirectly 3,265,000 through: Jacqueline Steinepreis his spouse; LeisureWest Consulting Pty Ltd as trustee of the LeisureWest Trust of which he is sole director and potential beneficiary; Oakhurst Enterprises Pty Ltd of which he is sole director and 50% shareholder; Ascent Capital Holdings Pty Ltd (ACH), of which, he is sole director and Oakhurst Enterprises Pty Ltd is a 50% shareholder; Ascent Capital Pty Ltd, of which, he is sole director and is a subsidiary of ACH; and Ascent Minerals Pty Ltd, of which, he is sole director and is a subsidiary of ACH.

(2) **Michael Placha** holds his interests in shares and options in his own name.

(3) **Carl Coward** holds his interests in shares and options directly in his own name and indirectly through Budo HO A/C.

(4) **Greg Hunt** holds his interests in shares and options in his own name.

(iii) Performance Shareholdings

Details of equity instruments (other than ordinary shares and options) held directly, indirectly, or beneficially by directors and key management personnel and their related parties are as follows: (Terms and Conditions note 14(i))

2012 Name	**Held at 1/7/2011**	**Performance Shares allotted**	**Conversion performance shares**	**Balance 30/6/2012**
Directors:				
Gary Steinepreis (1)	-	-	-	-
Michael Placha (2)	-	-	-	-
Carl Coward (3)	-	6,000,000	(2,000,000)	4,000,000
Robert Hodby	*	-	-	-
Patrick Burke	*	-	-	-
Key Management:				
Greg Hunt (4)	-	-	-	-
Total	**-**	**6,000,000**	**(2,000,000)**	**4,000,000**

* Robert Hodby and Patrick Burke resigned as directors on 2 December 2011 and as such are no longer required to report their security holdings.

18 Directors and Key Management Personnel Disclosures (continued)

(d) Equity Instrument Disclosures Relating to Directors and Key Management Personnel (continued)

(iii) Performance Shareholdings (continued)

Performance shares were issued to the shareholders of Delta Coal Fund Pty Ltd as part of the purchase price of the Kinney Coal Project. Mr Coward is a shareholder of Delta Coal Fund and the performance shares issued to him do not form part of his remuneration.

Mr Coward has an interest in 2,000,000 class B and 2,000,000 class C performance shares. The details, terms and conditions of the performance shares on issue are located in note 14(h) and (i).

(e) Other Transactions with Directors and Key Management Personnel

Office accommodation – Provided by Ascent Capital Holdings Pty Ltd, an entity owned by interests associated with Gary Steinepreis, on commercial terms and conditions.

Services provided by directors and key management personnel and recognised as an expense	**2012 $**	**2011 $**
Short term benefits – Fees for IPO listing	-	20,000
Short term benefits – Office accommodation	42,000	42,000
Short term benefits – Office costs and outgoings	31,157	24,313
	73,157	**86,313**

(f) Performance based remuneration of Directors and Key Management Personnel

Mr Placha and Mr Hunt received the following performance based bonuses:

(i) a cash bonus of $47,037 (US$50,000) was paid upon the public announcement that a measured JORC Code compliant resource of more than 20,000,000 tonnes had been discovered within 12 months of the Kinney Coal Project Acquisition Date. Announcement made to ASX on 2 February 2012.

(ii) the issue of 5,000,000 unlisted incentive options exercisable at $0.50 per option within 5 years of the options being issued. The options will only vest on the date on which the bankable feasibility study on the Kinney Coal Project results in a positive decision to mine the Kinney Coal Project, provided that date is within 36 months after the Kinney Coal Project acquisition date. As at the date of this report the options have been issued but have not yet vested. The calculated value for the options will be written off over the vesting period. Refer to note 13(f) to review the inputs used in calculating the value of the options issued.

The share based payments made to Mr Placha ($137,504) and Mr Hunt ($137,504) are at risk in that they will only be able to be realised if a bankable feasibility study is completed and a positive decision to mine is made by the Company within 36 months of the acquisition date of the Kinney Coal Project. Added to this is the risk that the share price, which currently trades in the range of 8 to 11 cent's will need to increase to 50 cents before the options are at a break-even price with the exercise price and the fact that the options have a finite life of 5 years from the date of issue. The options are unlisted and therefore untradeable.

All other payments ($490,726 or 64.1%) made to directors and executives were made in cash and hence are not at risk.

19 Related Party Transactions

Ascent Capital Holdings Pty Ltd (Ascent Capital) is a company owned 50% by Oakhurst Enterprises Pty Ltd of which Gary Steinepreis is the sole director and 50% shareholder. Ascent Capital is paid fees for the provision of office accommodation including all outgoings.

19 Related Party Transactions (continued)

The amount of remuneration paid to related parties during the financial year is set out in note 18.

There are no loans to or from related parties.

There are no outstanding balances arising from sales / purchases of goods and services to or from related parties.

Wasatch Natural Resources LLC and Delta Coal Fund Pty Ltd are wholly owned subsidiaries (100%) of New Horizon Coal Limited. Transactions between the entities are eliminated upon consolidation.

20 Remuneration of Auditors

Assurance Services	**2012**	**2011**
Audit Services	**$**	**$**
Amounts paid/payable to BDO (Audit) WA Pty Ltd (BDO) for audit and review of the financial reports	28,554	25,000
Non-Audit Services		
Amounts paid/payable to BDO (Corporate Finance) WA Pty Ltd (BDO) for independent accountants report for inclusion in a prospectus	21,850	8,000

It is the Company’s policy to employ BDO on assignments additional to their statutory audit duties where BDO’s expertise and experience with the Company are important. These assignments are principally tax advice and due diligence reporting on acquisitions, or where BDO are awarded assignments on a competitive basis. It is the Company’s policy to seek competitive tenders for all major material consulting projects.

21 Reconciliation of Loss After Income Tax to Net Cash Outflow from Operating Activities	**2012** **$**	**2011** **$**
Loss for the year	(417,900)	(85,672)
Non-cash operating items		
Impairment expense	10,000	-
Share based payments	275,008	-
Depreciation	4,105	-
Shareholder loans defeased	(240,584)	-
Foreign currency movement	(55,942)	-
Changes in operating assets and liabilities:		
Net movement in trade receivables and payables		
(Increase) / decrease in trade and other receivables	(8,569)	(6,039)
Increase / (decrease) in trade and other payables	132,552	22,157
Net cash outflow from operating activities	**(301,330)**	**(69,554)**

22 Loss Per Share

(a) Basic and Diluted Loss Per Share

	2012 Cents	2011 Cents
Loss from operations attributable to the ordinary equity holders of the Company	(0.46)	(0.51)
Total loss attributable to the ordinary equity holders of the Company	**(0.46)**	**(0.51)**

(b) Reconciliation of Loss used in Calculating Loss Per Share

	2012 $	2011 $
Loss attributable to the ordinary equity holders of the Company used in calculating basic and diluted loss per share	**(417,900)**	**(85,672)**

(c) Weighted Average Number of Shares Used as the Denominator

	2012 Number	2011 Number
Weighted average number of ordinary shares used as the denominator in calculating basic loss per share	**90,268,293**	**16,850,384**

(d) Information Concerning the Classification of Securities

Options and Performance Shares

Options and performance shares are considered to be potential ordinary shares. The options and performance shares have not been included in the determination of basic earnings per share or diluted earnings per share as the company is in a position of loss.

23 Contingent Liabilities

There are no contingent liabilities.

24 Commitments

Kinney Coal Project

Under the asset purchase agreement to acquire the Kinney Coal Project a further deferred settlement (second deferred settlement) of USD$15,000,000 is payable via a non-recourse promissory note, to be delivered to Carbon Resources upon the first to occur of:

(1) Wasatch Natural Resources LLC completing a bankable feasibility study on the Kinney Project that results in a positive decision to mine the Kinney Project; or

(2) 36 months after the asset purchase agreement completion date, and in the event that the bankable feasibility study does not result in a positive decision to mine and 36 months has expired then the Kinney Coal Project will be transferred back to Carbon Resources in accordance with the asset purchase agreement and the Company will retain no interest in the Kinney Coal Project, forfeit the consideration paid to Carbon Resources as at that date and any funds expended on the project to that date will be lost.

Further to the above the Surface Mining Control and Reclamation Act of 1977 of the USA provides that, as a prerequisite for obtaining a coal mining permit, a person must post a reclamation bond to ensure that the regulatory authority will have sufficient funds to reclaim the site if the permittee fails to complete the reclamation plan approved in the permit. The amount of the reclamation to be lodged is USD$2.2 million. The development of the Kinney Coal Project depends, amongst other things, upon the Group being granted a permit to mine the coal resource.

25 Events Occurring After Reporting Date

Other than as disclosed in these Financial Statements, there has been no matter or circumstance that has arisen that has significantly affected, or may significantly affect:

1. the Company's operations in future financial years, or
2. the results of those operations in future financial years, or
3. the Company's state of affairs in future financial years.

26 New Horizon Coal Ltd Parent Company Information

Financial Position	**2012** **$**	**2011** **$**
Current assets		
Cash and cash equivalents	1,329,652	2,369,292
Prepayments	3,500	-
Trade and other receivables	7,855	6,039
Total current assets	**1,341,007**	**2,375,331**
Non-current assets		
Loans to subsidiaries	11,516,234	-
Investment in subsidiary	7,700,000	-
Other assets	-	10,000
Total non-current assets	**19,216,234**	**10,000**
Total assets	**20,557,241**	**2,385,331**
Current liabilities		
Provisions	15,500	16,000
Trade and other payables	12,383	25,751
Total liabilities	**27,883**	**41,751**
Net Assets	**20,529,358**	**2,343,580**
Equity		
Contributed equity	17,395,140	2,245,440
Option premium reserve	183,812	183,812
Performance share reserve	3,300,000	-
Share based payment reserve	275,008	-
Accumulated losses	(624,602)	(85,672)
Total Equity	**20,529,358**	**2,343,580**

Financial Performance	**2012** **$**	**2011** **$**
Revenue from operations	144,526	87.336
Expenses from operations	(683,456)	(173,038)
Loss before income tax	**(538,930)**	**(85,702)**
Income tax expense	-	-
Loss for the year	**(538,930)**	**(85,702)**
Other comprehensive income net of tax	-	-
Total comprehensive loss attributable to the members of New Horizon Coal Ltd	**(538,930)**	**(85,702)**

The Directors’ of the Company declare that:

1 The financial statements and notes as set out on pages 21 to 56 are in accordance with the *Corporations Act 2001*, and

(i) comply with Accounting Standards and the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) give a true and fair view of the financial position of the Group as at 30 June 2012 and of its performance for the year ended on that date.

2 The Managing Director has given the declarations required by S295A of the Corporations Act 2001.

3 The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

4 In the opinion of the directors’ there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

G Steinepreis

Gary Steinepreis
Director
West Perth
28 September 2012

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF NEW HORIZON COAL LTD

We have audited the accompanying financial report of New Horizon Coal Ltd, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of 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 period's end or from time to time during the financial period.

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 (a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 judgement, 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 of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of New Horizon Coal Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of New Horizon Coal Ltd 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 2012 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 (a).

Emphasis of Matter

Without modifying our opinion, we draw attention to note 1 (b) in the financial report which indicates that the consolidated entity incurred a net loss of $417,900 for the year ended 30 June 2012 and that the consolidated entity has commitments to post a reclamation bond of USD$2.2 million and deferred consideration of USD$15 million, both in relation to the Kinney Project. These conditions along with other matters as set forth in note 1 (b) of the financial report indicate the existence of a material uncertainty which may cast significant doubt on the consolidated entity's ability to continue as a going concern and therefore whether it will realise its assets and extinguish 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 the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with 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.

Opinion

In our opinion, the Remuneration Report of New Horizon Coal Ltd for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

Peter Toll
Director

Perth, Western Australia
Dated this 28th day of September 2012

Corporate Governance Statement

New Horizon Coal Ltd and its wholly owned subsidiaries (the Group) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review the framework and practices to ensure they meet the interests of shareholders.

The disclosure of corporate governance practices can be viewed on the Company website at www.newhorizonminerals.com.au.

The directors are responsible to the shareholders for the performance of the Group in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are undertaken by the Board.

Corporate Governance Compliance

A description of the Group's main corporate governance practices are set out below. The Group has considered the ASX Corporate Governance Principles and the corresponding Recommendations to determine an appropriate system of control and accountability to best fit its business and operations commensurate with these guidelines.

Disclosure of Corporate Governance Practices
Summary Statement

	ASX Principles and Recommendations	"If not, why not"
Recommendation 1.1	✓	
Recommendation 1.2	✓	
Recommendation 2.1		✓
Recommendation 2.2		✓
Recommendation 2.3	✓	
Recommendation 2.4		✓
Recommendation 2.5	✓	
Recommendation 2.6	✓	
Recommendation 3.1	✓	
Recommendation 3.2		✓
Recommendation 3.3		✓
Recommendation 3.4		✓
Recommendation 4.1		✓
Recommendation 4.2		✓
Recommendation 4.3	✓	
Recommendation 4.4		✓
Recommendation 5.1	✓	
Recommendation 6.1	✓	
Recommendation 7.1	✓	

Disclosure – Principles & Recommendations – period ended 30 June 2011

Principle 1 – Lay solid foundations for management and oversight

Recommendation 1.1:

Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

Disclosure:

The Directors are responsible to the shareholders for the performance of the Group in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are undertaken by the Board and the Managing Director who acts in the capacity as CEO.

The matters that the Board has specifically reserved for its decision are:

- the appointment and management of the CEO;
- approval of the overall strategy and annual budgets of the business; and
- compliance with constitutional documents.

The CEO is delegated the authority to ensure the effective day-to-day management of the business and the Board monitors the exercise of these powers. The CEO is required to report regularly to the Board on the performance of the Business.

Some Board functions are handled through Board Committees. These committees are appointed when the size and scale of operations requires. However, the Board as a whole is responsible for determining the extent of powers residing in each Committee and is ultimately responsible for accepting, modifying or rejecting Committee recommendations.

Recommendation 1.2:

Companies should disclose the process for evaluating the performance of senior executives.

Disclosure:

The Board is responsible for evaluating the senior executives. Induction procedures are in place and senior executives have formal job descriptions which includes the process for evaluating their performance.

There was no formal performance evaluation of the senior executives during the financial year.

Principle 2 – Structure the board to add value

Recommendation 2.1:

A majority of the Board should be independent directors.

Disclosure:

The Group does not have a majority of independent directors.

Principle 2 – Structure the board to add value (continued)

Recommendation 2.1: (continued)

Disclosure: (continued)

Consistent with the size of the Group and its activities, the Board is comprised of three (3) directors, none of whom are currently considered to be independent directors.

The Board's policy is that the majority of directors shall be independent, non-executive directors. The composition of the Board does not currently conform to its policy. It is the Board's intention to comply with its policy at a time when the size of the Group and its activities warrants such a structure.

Recommendation 2.2:

The Chair should be an independent director.

Disclosure:

Gary Steinepreis acts as Chair of the Board, he is not independent. It is the Board's intention to comply with its policy at a time when the size of the Group and its activities warrants such a structure.

Recommendation 2.3:

The roles of the Chair and CEO should not be exercised by the same individual.

Disclosure:

The role of the Chairman and the CEO are exercised by the same person.

The division of responsibilities between the Chairman and the CEO is set out in the Board Charter. It is the Board's intention to comply with its policy at a time when the size of the Group and its activities warrants such a structure.

Recommendation 2.4:

The Board should establish a Nomination Committee.

Disclosure:

A nomination committee has not been established.

The role of the Nomination Committee has been assumed by the full Board operating under the Nomination Committee Charter adopted by the Board.

Recommendation 2.5:

Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.

Disclosure:

The Chairman is responsible for evaluation of the CEO, the Board and the committees.

The review is currently informal but is based on a review of goals for the Board and individual Directors.

Principle 2 – Structure the board to add value (continued)

Recommendation 2.5: (continued)

Disclosure: (continued)

The goals are based on corporate requirements and any areas for improvement that may be identified. The Chairman will provide each Director with confidential feedback on his or her performance.

Induction procedures are in place for all directors and senior executives report to the Board as to their area of responsibility at each Board meeting, if required.

Recommendation 2.6:

Companies should provide the information indicated in the *Guide to reporting on Principle 2*.

Disclosure:

Skills, Experience, Expertise and term of office of each Director and re-election procedure

A profile of each director containing their skills, experience and expertise is set out in the Directors' Report.

In accordance with the Constitution, one third of the directors retire by rotation each year and may offer themselves for re-election.

In determining candidates for the Board the Nomination Committee considers the procedure as detailed in the Board Charter and the skills and qualifications of potential candidates that will best enhance the Board's effectiveness taking into consideration the current composition of the Board.

Identification of Independent Directors

There are no independent directors of the Group. Independence is measured having regard to the relationships listed in Box 2.1 of the Principles & Recommendations.

Statement concerning availability of Independent Professional Advice

To assist directors with independent judgement, it is the Board's policy that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director then, provided the director first obtains approval for incurring such expense from the Chairman, the Group will pay the reasonable expenses associated with obtaining such advice.

Principle 3 – Promote ethical and responsible decision-making

Recommendation 3.1:

Companies should establish a Code of Conduct and disclose the code or a summary of the code as to:

- the practices necessary to maintain confidence in the Group's integrity;
- the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Principle 3 – Promote ethical and responsible decision-making (continued)

Disclosure:

The Group has a Code of Conduct that applies to all Directors, senior executives, employees and contractors.

Recommendation 3.2:

Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.

Disclosure:

The Board supports diversity but the Group has not yet developed a policy. It is the Board's intention to develop a policy at a time when the size of the Group and its activities warrants such a structure.

Recommendation 3.3:

Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.

Disclosure:

The Board supports diversity but the Group has not yet developed a policy.

Recommendation 3.4:

Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.

Disclosure:

There are no women employees in the organization or in senior executive positions or on the Board.

Principle 4 – Safeguard integrity in financial reporting

Recommendation 4.1

The Board should establish an Audit Committee.

Disclosure:

An audit committee has not been established.

The role of the Audit Committee has been assumed by the full Board operating under the Audit Committee Charter adopted by the Board.

Recommendation 4.2:

The Audit Committee should be structured so that it:

- consists only of non-executive directors;
- consists of a majority of independent directors;
- is chaired by an independent Chair, who is not Chair of the Board; and
- has at least three members.

Principle 4 – Safeguard integrity in financial reporting (continued)

Recommendation 4.2: (continued)

Disclosure:

There is no audit committee. However, if one was established the Board policy is that it would have two (2) members who are non-executive directors. This structure would comply with the structure set out in the Board Charter adopted by the Group but not with the ASX Corporate Governance Principles and the corresponding Recommendations.

Recommendation 4.3:

The Audit Committee should have a formal charter.

Disclosure:

The Group has an Audit Committee Charter although this is currently administered by the Board.

Recommendation 4.4:

Companies should provide the information indicated in the *Guide to reporting on Principle 4.*

Disclosure:

There is no Audit Committee and the whole Board acts in this capacity in accordance with the Board Charter.

When established, the Audit Committee plans to hold a minimum of 3 meetings per year. It is intended that the Group's auditor will be invited to attend all Audit Committee meetings held during the financial year.

The Group has established procedures for the selection, appointment and rotation of its external auditor. The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises, as recommended by the Audit Committee. Candidates for the position of external auditor must demonstrate independence from the Group through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Group's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Board.

Principle 5 – Make timely and balanced disclosure

Recommendation 5.1:

Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

Disclosure:

The Board Charter contains the policies designed to ensure compliance with ASX Listing Rule disclosure and accountability at a senior executive level for that compliance.

Principle 6 – Respect the rights of shareholders

Recommendation 6.1:

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

Disclosure:

The Group has a Shareholder Communications Policy contained within the Policy on Continuous Disclosure and a website for making information available to shareholders. Shareholders are encouraged to attend and participate in general meetings.

Principle 7 – Recognise and manage risk

Recommendation 7.1:

Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

Disclosure:

The Board has adopted a Risk Management Policy. As detailed in 7.2 no risk management committee has been formed and this role is undertaken by the Board, however, the overall basis for risk management is to provide recommendations about:

1. Assessing the internal processes for determining and managing key risk areas, particularly:
   - non-compliance with laws, regulations, standards and best practice guidelines, including environmental and industrial relations laws;
   - litigation and claims; and
   - relevant business risks other than those that are dealt with by other specific Board Committees.
2. Ensuring that the Group has an effective risk management system and that major risks to the Group are reported at least annually to the Board.
3. Receiving from management reports on all suspected and actual frauds, thefts and breaches of laws.
4. Evaluating the process the Group has in place for assessing and continuously improving internal controls, particularly those related to areas of significant risk.
5. Assessing whether management has controls in place for unusual types of transactions and/or any potential transactions that may carry more than an acceptable degree of risk.
6. Meeting periodically with key management, internal and external auditors and compliance staff to understand and discuss the Group’s control environment.

Recommendation 7.2:

The Board should require management to design and implement the risk management and internal control system to manage the Group's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Group's management of its material business risks.

Principle 7 – Recognise and manage risk (continued)

Recommendation 7.2: (continued)

Disclosure:

Management designs, implements and maintains risk management and internal control systems to manage the Group's material business risks. As part of the monthly reporting procedure, management report to the Board confirming that those risks are being managed effectively.

The Group policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

A Risk Management Committee has not been formed and no internal audit function exists. All functions, roles and responsibilities with regard to risk oversight and management and internal control are undertaken by Management as at the date of this report.

Recommendation 7.3:

The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Disclosure:

Due to the size of the Group, the Board signed the declaration in accordance with section 295A of the Corporations Act. The declaration is made and is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial risk.

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.1:

The Board should establish a Remuneration Committee.

Disclosure:

A Remuneration Committee has not been established.

The role of the Remuneration Committee has been assumed by the full Board operating under the Remuneration Committee Charter adopted by the Board.

Recommendation 8.2:

Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

Principle 8 – Remunerate fairly and responsibly (continued)

Recommendation 8.2: (continued)

Disclosure:

Non-executive directors are remunerated at a fixed fee for time, commitment and responsibilities. Remuneration for non-executive directors is not linked to the performance of the Group. There are no documented agreements providing for termination or retirement benefits to non-executive directors (other than for superannuation). There are currently no options issued to non-executive directors.

Executive directors and senior executives are offered a competitive level of base pay at market rates and are reviewed annually to ensure market competitiveness. Long term performance incentives may include performance and production bonus payments, shares / options granted at the discretion of the Board and subject to obtaining the relevant approvals.

The shareholder information set out below was applicable as at the dates specified.

1 Distribution of Equity Securities (Current as at 26 September 2012)

Analysis of numbers of security holders by size of holding:

			Number of Share-holders	Number of Shares	Number of Option-holders	Number of Options
1	-	1,000	10	1,165	1	999
1,001	-	5,000	9	32,001	1	5,000
5,001	-	10,000	131	1,304,000	84	834,429
10,001	-	100,000	203	10,594,310	142	8,488,956
100,001	-	and over	124	81,068,524	115	63,670,616
			477	**93,000,000**	**343**	**73,000,000**

There were 16 holders of less than a marketable parcel of ordinary shares.

2 Substantial Holders (Current as at 26 September 2012)

Substantial holders of equity securities, ordinary shares, in the Company are set out below:

Ordinary Shares (Holders with 5% or more)

Name	Number held	Percentage of issued shares
Mr Carl Coward; Mr Carl Coward <BUDO HO A/C> and Mr Carl Philip Coward.	9,679,777	10.41
Lujeta Pty Ltd <The Margaret Account>	8,200,000	8.82
Ms Anastasios Arima; Mr Anastasios Arima and Moshos Family Investments Pty Ltd <Moshos Family A/C>	6,528,861	7.02
Ascent Capital Holdings Pty Ltd, David Steinepreis and Gary Steinepreis and associated entities	5,562,186	5.98
	29,970,824	**32.23**

3 Listing Rule 4.10.19

The Company confirms that it has used the cash assets and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives.

4 Unlisted Option Holders (Current as at 26 September 2012)

Unlisted option holders are set out below:

Unlisted Options (Holders with 5% or more)

Name	Number held	Percentage of issued shares
Michael Placha	5,000,000	50
Greg Hunt	5,000,000	50
	10,000,000	**100**

5 Voting Rights

The voting rights attaching to each class of equity securities are set out below:

1 Ordinary Shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

2 Options

These securities have no voting rights.

6 Restricted Securities

Ordinary Shares	**Number**
Date restricted to:	
20 October 2012	6,050,000
23 November 2012	16,000,000
7 December 2013	4,000,000
	26,050,000

Options	**Number**
Date restricted to:	
23 November 2012	5,000,000
	5,000,000

Performance Shares	**Number**	**Date restricted to:**
Class B	8,000,000	23 November 2012
Class C	8,000,000	23 November 2012
Class B	2,000,000	7 December 2013
Class C	2,000,000	7 December 2013
	20,000,000	

7 Equity Security Holders (Current as at 26 September 2012)

The names of the twenty largest holders of ordinary shares are listed below:

Ordinary Shares

Rank	Name	Number of shares	%
1	LUJETA PTY LTD <THE MARGARET ACCOUNT>	8,200,000	8.82
2	MR CARL COWARD <BUDO HO A/C>	4,734,413	5.09
3	MS ANASTASIOS ARIMA	4,000,000	4.30
4	JOGCHUM BRINKSMA	4,000,000	4.30
5	MR CARL PHILIP COWARD	4,000,000	4.30
6	EDF TRADING LIMITED	4,000,000	4.30
7	J P MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	3,000,000	3.23
8	WALL STREET NOMINEES PTY LTD <BRENNAN SUPERANNUATION FUND A/C>	3,000,000	3.23
9	ASCENT CAPITAL HOLDINGS PTY LTD	2,830,000	3.04
10	MR ANASTASIOS ARIMA	1,392,497	1.50
11	TWO TOPS PTY LTD	1,363,636	1.47
12	COLBERN FIDUCIARY NOMINEES PTY LTD	1,296,364	1.39
13	OAKHURST ENTERPRISES PTY LTD	1,192,186	1.28
14	MR CARL COWARD	1,136,364	1.22
15	MOSHOS FAMILY INVESTMENTS PTY LTD <MOSHOS FAMILY A/C>	1,136,364	1.22
16	PACIFIC ROAD PROVIDENT PTY LTD	1,136,364	1.22
17	MRS JULIE ANN BRENNAN	1,100,000	1.18
18	MR TIMOTHY JAMES FLAVEL <THE FLAVEL INVESTMENT A/C>	1,085,000	1.17
19	MR JASON PETERSON + MS LISA PETERSON <J & L PETERSONS S/F A/C>	1,050,000	1.13
20	GOLDSHORE INVESTMENTS PTY LTD <THE GOLDSHORE A/C>	1,020,088	1.10
	TOTAL FOR TOP 20:	**50,673,276**	**54.49**

8 Equity Security Holders (Current as at 26 September 2012)

The names of the twenty largest holders of quoted options are listed below:

Options

Rank	Name	Number of options	%
1	LUJETA PTY LTD <THE MARGARET ACCOUNT>	6,850,000	9.38
2	J P MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	4,952,652	6.78
3	TROCA ENTERPRISES PTY LTD <COULSON SUPER A/C>	4,268,182	5.85
4	ASCENT CAPITAL HOLDINGS PTY LTD	2,830,000	3.88
5	GLENNDON PTY LTD <PROBERT INVESTMENT A/C>	2,252,644	3.09
6	WALL STREET NOMINEES PTY LTD <BRENNAN SUPERANNUATION FUND A/C>	1,700,000	2.33
7	MR JASON PETERSON + MS LISA PETERSON <J & L PETERSONS S/F A/C>	1,650,000	2.26
8	MR TIMOTHY JAMES FLAVEL <THE FLAVEL INVESTMENT A/C>	1,585,000	2.17
9	J P MORGAN NOMINEES AUSTRALIA LIMITED	1,536,364	2.10
10	TOPSFIELD PTY LTD	1,363,636	1.87
11	OAKHURST ENTERPRISES PTY LTD	1,192,186	1.63
12	MR CARL COWARD	1,136,364	1.56
13	MOSHOS FAMILY INVESTMENTS PTY LTD <MOSHOS FAMILY A/C>	1,136,364	1.56
14	PACIFIC ROAD PROVIDENT PTY LTD	1,136,364	1.56
15	CELTIC CAPITAL PTY LTD <THE CELTIC CAPITAL A/C>	1,087,541	1.49
16	TM CONSULTING PTY LTD <TM CONSULTING SUPER FUND A/C>	975,000	1.34
17	GOLDSHORE INVESTMENTS PTY LTD <THE GOLDSHORE A/C>	909,091	1.25
18	HARGRAVE STREET PTY LTD	900,000	1.23
19	BANNABY INVESTMENTS PTY LTD <BANNABY SUPER FUND A/C>	750,000	1.03
20	TT NICHOLS PTY LTD <SUPER A/C>	750,000	1.03
	TOTAL FOR TOP 20:	**38,961,388**	**53.37**

9 On-Market Buy-Back

There is no current on-market buy-back.

10 Tenement Schedule

Kinney Coal Project – Permit number C0070047