Endocoal Limited

ABN 13 132 183 281

Annual report
for the year ended 30 June 2012

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Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as "the group") consisting of Endocoal Limited (“the company”) and the entities it controlled at the end of, or during, the year ended 30 June 2012.

Directors

The following persons were directors of Endocoal Limited during the whole of the financial year and up to the date of this report:

Rodney John Austin
Herbert Gavin Solomon
Philip James McCarthy
William Alexander Hansen
Frederick Yu

Frederick Yu was appointed to the board on 17 June 2011 and was subject to reappointment at the 2011 annual general meeting held in November 2011. Mr Yu was reappointed by shareholders at that meeting.

Alan John Broome was a director from the beginning of the financial year until his resignation on 24 July 2012.

Principal activities

The group's principal activities during the period focused on the exploration of hard-coking, thermal and PCI coal projects in the Bowen Basin of Queensland.

Dividends - Endocoal Limited

No dividends were paid during the period and no recommendation is made as to the payment of dividends.

Review of operations

Information on the operations and financial position of the group and its business strategies and prospects is set out in the review of operations and activities in the Shareholder Review.

Significant changes in the state of affairs

Significant changes in the state of affairs of the group during the financial year were as follows:

Contributed equity increased by approximately $20,000,000 (prior to costs) through two capital raisings during the year. The first in August 2011 raised $8,000,000, and the second in February 2012 raised $12,000,000. Details of the changes in equity are disclosed in note 17 to the financial statements. The contributed equity was used primarily for further exploration activity on the company's tenements in the Bowen Basin in Queensland. The company has increased its JORC Resources 569% from 87.6 million tonnes to 498.5 million tonnes.

Matters subsequent to the end of the financial year

Since 30 June 2012, Endocoal Limited have been granted by the State of Queensland four new tenements known as Exploration Permit for Coal ("EPC") 2253 Mt Inglis, EPC 2025 Overlander, EPC 2822 Carfax West and EPC 2854 Thirty Mile Creek. The Overlander and Mt Inglis tenements are located on the southern boundary of Endocoal's existing EPC 1517 Orion Downs tenement, which contains the Meteor Downs South mining lease application (MLA70452). Carfax West and Thirty Mile Creek are located north-east of Dysart in Central Queensland. The company has also received notification from the State of Queensland of their intention to grant EPC 2461 Twelve Mile Creek.

Matters subsequent to the end of the financial year (continued)

On 5th July 2012, the company announced the appointment of a new chief financial officer ("CFO"), Peter Edwards, who is based in Brisbane and who commenced employment with the company on 21 May 2012. On the 17th August 2012, the company further announced the resignation of Justin Clyne as company secretary and the appointment of Peter Edwards to company secretary, completing the transition of the company's corporate office from Sydney to Brisbane.

On 24 July 2012 the company announced the resignation of Alan Broome from his position as chairperson and the appointment of Rodney Austin as the interim chairperson.

Also on 24 July 2012 the company announced a notice of extraordinary general meeting ("EGM") to be held on 29 August 2012. The EGM was called following a requisition under section 249D of the Corporations Act 2001 by HSBC Nominees (Australia) Limited to arrange a general meeting to remove two directors. The requisition was withdrawn by HSBC Nominees (Australia) Limited on 15 August 2012, and the EGM was cancelled. Shareholders were advised to take no further action on the EGM documents sent to them.

The directors are currently considering a range of strategic options, including merger / takeover, project divestment, tenement divestment, debt funding and equity raising in order to raise additional funds. Endocoal, via their corporate advisor, are in active dialogue with a number of parties to pursue the most advantageous outcome for the Company. The Company will continue to keep shareholders fully informed in a timely manner as and when there are material developments.

Likely developments and expected results of operations

Further information on likely developments in the operations of the group and the expected results of operations have not been included in this Financial Report because the directors believe it would be likely to result in unreasonable prejudice to the group.

Environmental regulation

The group is subject to significant environmental regulation in respect of its activities. The group cannot commence any project until such time as appropriate approval has been obtained from the relevant government environment authorities. There have been no known breaches of these requirements during the period.

Information on directors

Alan John Broome AM, IEng; F.AusIMM; FAICD; FICM
Chairperson (age 62) - *(Resigned 24 July 2012)*

Experience and expertise
Independent non executive director and chairperson since 17 July 2008. Alan is a qualified metallurgist with over 20 years experience in the secondary metals industry, and 20 years of direct experience in the mining industry. Alan also has an extensive background in metal casting and steel production, and was previously managing director of the Australian Coal Industry Research Laboratory (ACIRL) and AMP Control Pty Ltd.

Other current directorships
Alan is currently a director of mining and mine related technology companies including Micromine Pty Ltd, Austmine Ltd, Buccaneer Energy Ltd, Carbonxt Ltd, CRL Energy Ltd (NZ), Workpac Group Ltd, Solid Energy New Zealand Ltd and Nepean Mining Limited.

Former directorships in the last 3 years
Non executive director and chairperson of Jupiter Mines Limited from 2003 to 2009; Non-executive director and chairperson of Nimrodel Resources Limited from 2007 to 2011. Non-executive director of JAT Energy Limited to 2012.

Special responsibilities
Member of the remuneration committee.
Member of the health, safety, environment and community committee.

Information on directors (continued)

Interest in shares and options
189,129 ordinary shares in Endocoal.
1,000,000 converting preference shares in Endocoal. (lapsed 1 July 2012).
2,000,000 options over ordinary shares in Endocoal.

Rodney John Austin BA, MAICD
Interim Chairperson - *(Appointed 24 July 2012)*
Non-executive director (age 63)

Experience and expertise
Managing director from 16 July 2008 to 30 April 2011, finance director from 1 May 2011 to 9 January 2012, and non-ececutive director from 10 January 2012. Rod has over 20 years experience in the finance and resources industries. He was previously chief executive of Oceanic Coal Australia Limited, an operator of 5 coal mines in the Hunter Valley and Queensland, with production in excess of 5Mtpa.

Other current directorships
Orion Downs Pty Limited (from 8 March 2011). (A wholly owned subsidiary of Endocoal Limited).

Former directorships in the last 3 years
None.

Special responsibilities
Finance Director (from 1 May 2011 to 09 January 2012).

Interest in shares and options
2,050,000 ordinary shares in Endocoal.
6,000,000 converting preference shares in Endocoal. (lapsed 1 July 2012)
1,200,000 options over ordinary shares in Endocoal.

William Alexander (Lex) Hansen BSc, MBA, FAusIMM, FAICD
Non-executive director (age 72)

Experience and expertise
Independent non executive director since 4 February 2010. Lex has more than 48 years experience in the mining industry. He was previously an executive director of corporate finance (mining) at HSBC Bank Australia Limited, where he had regional responsibility for debt and equity investment appraisals and underwriting transactions in the resources sector. Lex has broad experience in all aspects of the coal industry.

Other current directorships
Heemskirk Consolidated Limited and Nessgrove Pty Limited.

Former directorships in the last 3 years
Director of Platinum Australia Limited *(resigned 11 May 2012)*

Special responsibilities
Chairperson of the health, safety, environment and community committee.
Member of audit and risk management committee.
Member of the remuneration committee.

Interest in shares and options
338,462 ordinary shares in Endocoal.
1,500,000 options over ordinary shares in Endocoal.

Information on directors (continued)

Phillip James McCarthy FAusIMM, FAICD
Non-executive director (age 65)

Experience and expertise
Independent non executive director since 4 February 2010. Phillip has 40 years experience working in the Australian coal industry in both senior management and industry strategic roles. For 10 years he was CEO and managing director of Powercoal Pty Ltd, an 11Mtpa underground coal producer (before the company was acquired by Centennial Coal Company Limited). He has also served as a director of Jellinbah Resources Pty Ltd, a 4Mtpa open cut PCI coal mine in the Bowen Basin, Queensland, and has been a member of the Australian Coal Association executive committee and the NSW Mineral Council.

Other current directorships
Mine Site Technologies Pty Ltd (chairperson).

Former directorships in the last 3 years
Non Executive Director of WDS Limited.

Special responsibilities
Chairperson of audit and risk management committee.
Member of the health, safety, environment and community committee.

Interest in shares and options
138,462 ordinary shares in Endocoal.
1,500,000 options over ordinary shares in Endocoal.

Herbert Gavin Solomon BCom, LLB, MAICD
Non-executive director (age 57)

Experience and expertise
Independent non executive director since 16 July 2008. Gavin is the managing director and founder of Helmsec Global Capital Limited and has over 30 years experience in Australian capital markets. Gavin has been a director of a number of ASX listed companies as well as many unlisted public and private companies in a number of areas including mining and resources exploration.

Other current directorships
Helmsec Global Capital Limited, Estrella Resources Limited (ASX: ESR) Non-executive Chairperson.

Former directorships in the last 3 years
None.

Special responsibilities
Chairperson of the remuneration committee.
Member of audit and risk management committee.

Interest in shares and options
1,375,962 ordinary shares in Endocoal.
2,980,000 options over ordinary shares in Endocoal.

Information on directors (continued)

Frederick Yu, Business Degree, Chinese University Hong Kong
Non-executive director (age 65)

Experience and expertise
Mr Yu graduated with a business degree from the Chinese University of Hong Kong and has worked for a number of investment banks in Hong Kong over a 15 year period. Prior to establishing Hidili Asset Management Co Limited in 2009, Mr Yu was investment director for Microsoft in the Greater China region.

Other current directorships
Hidili Asset Management Co., Ltd., Hong Kong, Sichuan Leshan Fuhua Tongda Agro-Chemical Technology Co., Ltd., China, Hong Kong Kaiyuan Mining Group Co., Ltd., Hong Kong, Glory Faith Capital Ltd., BVI, Pacific Crown Capital Ltd., BVI, China Champion Worldwide Ltd., BVI, Citi Man Investment Ltd., BVI.

Former directorships in the last 3 years
None.

Special responsibilities
None.

Interest in shares and options
None

Justin Bradley Clyne, LLM (UNSW), GradDipACG.
Company secretary (age 39) - *(Resigned 17 August 2012)*

Experience and expertise
Justin was appointed to the position of company secretary in July, 2008. He was admitted as a solicitor of the Supreme Court of New South Wales and the High Court of Australia in 1996 before gaining admission as a barrister in 1998. He has 15 years experience in the legal profession acting for a number of Australia's largest corporations. He has significant experience and knowledge of the Corporations Act, the ASX listing rules and general corporate regulatory requirements. Justin holds a masters degree in international law and is a qualified chartered company secretary.

Peter John Edwards, BCA, CA(NZ).
Company secretary (age 54) - *(Appointed 17 August 2012)*

Experience and expertise
Peter was appointed to the position of company secretary in August, 2012. Peter holds a Bachelor of Commerce and Administration degree from the University of Wellington, New Zealand. He is a Chartered Accountant and member of the New Zealand Institute of Chartered Accountants. He has over 30 years experience in commerce and held CFO roles in listed entities in Australia, New Zealand and the United Kingdom.

Meetings of directors

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2012, and the numbers of meetings attended by each director were:

	Full meetings of directors		Meetings of committees: Audit and risk management committee		Health, safety, environment and community committee		Remuneration committee	
	A	B	A	B	A	B	A	B
A. Broome**	15	15	-	-	1	1	1	1
R. Austin	15	15	3 *	3 #	-	-	1 *	2 #
W. Hansen	14	15	3	3	2	2	2	2
P. McCarthy	15	15	3	3	2	2	2 *	2 #
G. Solomon	15	15	3	3	-	-	2	2
F. Yu	11	15	-	-	-	-	-	-

A - Number of meetings attended
B - Number of meetings held during the time the director held office or was a member of the committee during the year.
** Resigned 24 July 2012
* Not a member of the relevant committee
# Attended as an invitee of either the board or committee.

Retirement, election and continuation in office of directors

Mr Austin, moved from the role of finance director to non-executive director on 9 January 2012. Mr Austin retires as a director at the annual general meeting, and being eligible, offers himself for re-election.

Remuneration report

The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

a. 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 with market practice for delivery of reward. The board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management.

In consultation with external remuneration consultants, the group has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' interests:
- has economic profit as a core component of plan design
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant return on assets as well as focusing the executive on key non financial drivers of value
- attracts and retains high calibre executives.

Alignment to participants' interests:
- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short and long term incentives. As executives gain seniority with the group, the balance of this mix shifts to a higher proportion of ''at risk'' rewards.

The board has established a remuneration committee which makes recommendations to the board on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non executive directors. The corporate governance statement provides further information on the role of this committee.

Non executive directors

Fees and payments to non executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non executive directors' fees and payments are reviewed annually by the board. The chairpersons fees are determined independently to the fees of non executive directors based on comparative roles in the external market. The chairperson is not present at any discussions relating to determination of his own remuneration.

Non executive directors do not receive performance based pay.

Remuneration report (continued)

a. Principles used to determine the nature and amount of remuneration (continued)

Directors' fees

The current base fees were last reviewed in April 2011 at the company's board meeting with effect from 1 May 2011.

Non executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $360,000 per annum and was approved by shareholders at the Extraordinary General Meeting on 4 February 2010.

The following annual fees have been applied:

	From 1 May 2011 to 30 June 2012 $	From 1 July 2010 to 30 April 2011 $
Base fees		
Chairperson	95,000	80,000
Other non-executive directors	70,000	60,000
Additional fees		
Chairperson of audit and risk management committee.	10,000	-
Chairperson of the health, safety, environment and community committee.	10,000	-

Retirement allowances for directors'

The board does not permit retirement allowances for non executive directors appointed, in line with guidance from the ASX Corporate Governance Council on non executive directors' remuneration. Superannuation contributions required under the Australian superannuation guarantee legislation continue to be made and are deducted from the directors' overall fee entitlements.

Executive pay

The executive pay and reward framework has three components:
- base pay and benefits, including superannuation
- short and long term performance incentives
- through the issue of converting preference shares or rights to acquire options.

The combination of these comprises an executive's total remuneration.

Base pay and benefits

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases included in any executives' contracts.

Superannuation

Retirement benefits are contribution based and rights of election applies on which fund the defined contributions are made.

Long-term incentives

Short and Long term incentives are provided to certain employees via the issue of converting preference shares or rights to acquire options.

Remuneration report (continued)

a. Principles used to determine the nature and amount of remuneration (continued)

Performance of Endocoal Limited

Endocoal is yet to implement a short term incentive (STI) or long term incentive (LTI) plan other than the issue of converting preference shares or rights to acquire options as disclosed in the company's prospectus.

Amounts of remuneration

Details of the remuneration of the directors, the key management personnel of the group (as defined in AASB 124 Related Party Disclosures) and the five highest paid executives of Endocoal Limited and the Endocoal Limited group are set out in the following tables.

The key management personnel of the group are the directors of Endocoal Limited (see pages 4 to 7), Tim Hedley the chief executive officer, and those executives that report directly to the chief executive officer being:
• D Walker – Exploration manager
• J Clyne – Company secretary
• J Wynn – Chief financial officer until 11 April 2011
• K Scott – Chief financial officer from 12 April 2011 to 14 December 2011
• P Edwards – Chief financial officer from 15 May 2012

b. Details of remuneration

Details of the nature and amount of remuneration of the directors and key management personnel of the company and the group are provided in the tables on the following pages.

	Short-term employee benefits			Post-employment benefits	Long-term benefits		Share-based payments	
2012	**Cash salary, consulting & directors' fees $**	**Cash bonus $**	**Non-monetary benefits $**	**Super-annuation $**	**Long service leave $**	**Termi-nation benefits $**	**Equity settled options $**	**Total $**
Non-executive directors								
A. Broome	95,000	-	-	-	-	-	77,000	172,000
W. Hansen	74,220	-	-	5,780	-	-	77,000	157,000
P. McCarthy	74,220	-	-	5,780	-	-	77,000	157,000
G. Solomon	64,220	-	-	5,780	-	-	-	70,000
R. Austin * (from 9 January 2012)	30,439	-	-	2,740	-	-	-	33,178
F. Yu		-	-	-	-	-	-	-
Sub-total non-executive directors	338,099	-	-	20,080	-	-	231,000	589,178
Executive directors								
R. Austin * (to 09 January 2012)	130,166	-	-	9,439	-	-	-	139,605
Other key management personnel								
T. Hedley	323,754	-	-	-	-	-	173,024	496,778
D. Walker	219,633	10,800	-	19,767	-	-	33,264	283,464
J. Clyne	94,500	3,861	-	-	-	-	-	98,361
K. Scott (to 14 December 2011)	67,242	-	-	-	-	-	-	67,242
P. Edwards (from 21 May 2012)	21,642	-	-	1,948	-	-	-	23,590
Total	1,195,034	14,661	-	51,234	-	-	437,288	1,698,217

* R. Austin's status changed to non-executive director on 9 January 2012. Between 1 May 2011 and 9 January 2012 Mr Austin was an executive director performing the role of finance director. Mr Austin's remuneration is split between his non-executive director role and his executive director role.

Remuneration report (continued)

b. Details of remuneration (continued)

There have been no other post-employment benefits paid to directors and key management personnel other than those disclosed in the tables.

	Short-term employee benefits			Post-employment benefits	Long-term benefits		Share-based payments	
2011	**Cash salary, consulting & directors' fees $**	**Cash bonus $**	**Non-monetary benefits $**	**Super-annuation $**	**Long service leave $**	**Termi-nation benefits $**	**Equity settled options $**	**Total $**
Non-executive directors								
A. Broome	84,750	-	-	-	-	-	-	84,750
W. Hansen	56,573	-	-	5,023	-	-	-	61,596
P. McCarthy	56,573	-	-	4,954	-	-	-	61,527
G. Solomon	56,573	-	-	5,092	-	-	-	61,665
F. Yu	-	-	-	-	-	-	-	-
Sub-total non-executive	254,469	-	-	15,069	-	-	-	269,538
Executive directors								
R. Austin	263,762	-	-	23,738	-	-	-	287,500
Other key management personnel								
T. Hedley (from 4 April 2011)	87,500	-	-	-	-	-	62,256	149,756
D. Walker	206,999	9,500	-	18,814	-	-	-	235,313
J. Clyne	82,150	-	-	-	-	-	-	82,150
J. Wynn (until 11 April 2011)	166,375	-	-	-	-	-	-	166,375
K. Scott (from 12 April 2011)	17,388	-	-	1,565	-	-	-	18,953
Total	1,078,643	9,500	-	59,186	-	-	62,256	1,209,585

* R. Austin was appointed finance director on 1 May 2011. Before the appointment he was the company's managing director. Amounts shown above include all Mr Austin's remuneration during the reporting period, whether as finance director or managing director.

** Superannuation contributions are made in accordance with Commonwealth Government Legislation into a defined contribution scheme elected by each employee. The amounts disclosed as remuneration represent each person's share of the current service cost of the plan, measured in accordance with AASB 119 Employee Benefits.

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

	Fixed remuneration	
	2012	**2011**
Directors		
A. Broome	100%	100%
W. Hansen	100%	100%
P. McCarthy	100%	100%
G. Solomon	100%	100%
R. Austin	100%	100%
F. Yu	100%	100%
Other key management personnel		
T. Hedley	100%	100%
D. Walker	100%	100%
J. Clyne	100%	100%
K. Scott (to 14 December 2011)	100%	100%
P. Edwards (from 21 May 2012)	100%	-
J. Wynn (to 11 April 2011)	-	100%

Remuneration report (continued)

c. Service agreements

On appointment to the board, all non executive directors entered into a service agreement with the company in the form of a letter of appointment. The letter of appointment summarises the board policies and terms, including compensation, relevant to the office of director.

Remuneration and other terms of employment for the chief executive officer, company secretary and the other key management personnel are also formalised in service agreements. Other major provisions of the agreements relating to remuneration are set out below.

All contracts with executives may be terminated early by either party with three months notice, subject to termination payments as detailed below.

Name	Term of agreement	Base salary including superannuation * $	Termination benefits
T. Hedley - CEO	On-going	350,000	3 months base salary
D. Walker - Exploration manager	On-going	225,000	3 months base salary
P. Edwards - CFO	Six months	218,000	1 months base salary

* Base salaries quoted are for the year ended 30 June 2012, they are reviewed annually by the remuneration committee.

** Termination benefits are payable on early termination by the company, other than for gross misconduct; unless otherwise indicated, they are equal to the base salary for the remaining term of the agreement.

d. Share based payments

Options

Details of options over ordinary shares in the company provided as remuneration to each director of Endocoal Limited and each of the key management personnel of the parent entity and the group are set out below. When exercisable, each option converts into one ordinary share of Endocoal Limited. Further information on the options is set out in note 27 to the financial statements.

	Number of options granted during the year	Value of options at grant date* $	Number of options vested during the year	Number of options lapsed during the year	Value at lapse date** $
Directors					
A. Broome	500,000	77,000	500,000	-	-
W. Hansen	500,000	77,000	500,000	-	-
P. McCarthy	500,000	77,000	500,000	-	-
G. Solomon	-	-	-	-	-
R. Austin	-	-	-	-	-
F. Yu	-	-	-	-	-
Other key management personnel					
T. Hedley	1,500,000	173,024	1,250,000	500,000	62,256
D. Walker	350,000	33,264	-	-	-
J. Clyne	-	-	-	-	-
K. Scott (to 14 December 2011)	-	-	-	-	-
P. Edwards (from 21 May 2012)	-	-	-	-	-
J. Wynn (to 11 April 2011)	-	-	-	-	-

* The value at grant date is calculated in accordance with AASB 2 Share-based Payment of options granted during the year as part of remuneration.

Remuneration report (continued)

d. Share based payments (continued)

Options (continued)

** The value at lapse date of options that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

Of the options issued to Mr T Hedley during the year 250,000 options will vest on 30 November 2012 provided Mr T Hedley remains in full time employment with Endocoal.

Options issued to Mr D Walker during the year are assessed in 3 tranches and will vest if the following hurdles are successfully achieved:

1. There were two conditions relating to the first tranche of 210,000 options. The first condition relating to JORC resource has been met and so the 210,000 options will vest on 31 October 2012 provided Mr D Walker remains in full time employment with Endocoal at that time.

2. The second tranche of 52,500 options will vest on 31 December 2012 provided Mr D Walker remains in full time employment with Endocoal at that time.

3. The third tranche of 87,500 options will vest on 31 December 2013 provided Mr D Walker remains in full time employment with Endocoal at that time.

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently 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.

Shares provided on exercise of remuneration options

There were no options exercised during the reporting period.

Details of remuneration: share based compensation benefits (options)

Name	Year granted	Vested %	Forfeited %
Directors			
A. Broome	2012	100	-
	2010	100	-
	2009	100	-
W. Hansen	2012	100	-
	2010	100	-
P. McCarthy	2012	100	-
	2010	100	-
G. Solomon	2010	100	-
	2009	100	-
R. Austin	2010	100	-
Other key management personnel			
T. Hedley	2012	83	-
	2011	-	100
D. Walker	2012	-	-
J. Clyne	2010	100	-

Remuneration report (continued)

d. Share based payments (continued)

Loans to directors and executives

There were no loans advanced to directors and executives.

Shares under option

Unissued ordinary shares of Endocoal Limited under option at the date of this report are as follows:

Date options granted	Expiry Date	Issue price of shares $	Number under option
16 July 2008	16 July 2013	0.500	10,000,000
2 December 2008	2 December 2013	0.500	2,500,000
11 December 2009	2 December 2013	0.500	500,000
4 February 2010	4 February 2015	0.720	3,900,000
10 August 2011	10 August 2014	0.468	1,500,000
8 September 2011	23 August 2013	0.400	250,000
8 September 2011	23 August 2013	0.460	1,000,000
16 March 2012	16 March 2014	0.400	250,000
16 March 2012	16 March 2014	0.600	350,000
5 April 2012	30 March 2014	0.600	200,000
			20,450,000

No option holder has any right under the options to participate in any other share issue of the group or any other entity.

Insurance of officers

During the financial year, Endocoal Limited paid a premium of $18,660 (2011: $20,008) to insure the directors and secretary of the company and its controlled entities.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Indemnity of auditors

The company has not agreed to indemnify the auditor under certain circumstances as permitted in the Corporations Act 2001.

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 group with leave of the Court under section 237 of the Corporations Act 2001.

Proceedings on behalf of the company (company)

Non-audit services

The group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the group are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for non audit services provided during the year are set out below.

The board of directors has considered the position and, in accordance with advice received from the audit and risk management committee, is satisfied that the provision of the non audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non audit services have been reviewed by the audit and risk management committee to ensure they do not impact the impartiality and objectivity of the auditor.
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the year the following fees were paid or payable for non audit services provided by the auditor of the parent entity, its related practices and non related audit firms:

	Consolidated	
	2012	**2011**
	$	**$**
Taxation services		
PricewaterhouseCoopers Australian firm:		
Tax compliance services	8,450	35,740
Total remuneration for non-audit services	8,450	35,740

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included in this annual report.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors.

Interim chairperson

Sydney
28 September 2012

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Endocoal Limited for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

This declaration is in respect of Endocoal Limited and the entities it controlled during the period.

Craig Thomason
Partner
PricewaterhouseCoopers

Brisbane
28 September 2012

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Corporate governance statement

This corporate governance statement sets out the company's current compliance with the ASX Corporate Governance Council's Corporate Governance Principles and Best Practice Recommendations ("Best Practice Recommendations"). The best practice recommendations are not mandatory. However, the company is required to provide a statement in its annual reports disclosing the extent to which the company has followed the recommendations.

Principle 1 : Lay solid foundations for management and oversight

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

The company's corporate governance plan includes a board charter, which discloses the specific responsibilities and functions of the board and provides that the board shall delegate responsibility for the day-to-day operations and administration of the company to the chief executive officer. The board charter also specifically outlines the role of the company's directors. Each function and its responsibility is outlined in the board charter which is available on the company's website.

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

The board will monitor the performance of senior management, including measuring actual performance against planned performance.

The board charter sets out the process to be followed in evaluating the performance of senior executives. Each senior executive is required to participate in a formal review process which assesses individual performance against predetermined objectives.

1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1.

The board charter is publicly available on the company's website. The board charter discloses the specific responsibilities of the board and provides that the board shall delegate responsibility for the day-to-day operations and administration of the company to the chief executive officer. The board charter also specifically outlines the role of the company's chairperson, Individual directors and chief executive officer.

An evaluation of senior executives against the specified criteria occurred in December 2011 and in July 2012.

Principle 2 : Structure the board to add value

2.1 A majority of the board should be independent directors.

Three of the five members of the current board (Mr P McCarthy, Mr G Solomon and Mr W Hansen) are considered to be independent directors and the remaining two directors are not. The independent directors are not substantial shareholders of the company and they are not associated directly with a substantial shareholder of the company.

As stated above, the majority of the board are independent directors. All current board members are non-executive directors. Mr R Austin became a non-executive director on 9 January 2012 after previously holding the positions of finance director and managing director.

The board is of the view that it is currently structured in such a way so as to add value and is appropriate for the complexity of the business at this time.

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

2.2 The chairperson should be an independent director.

The interim chairperson of the board is Mr R Austin. Mr R Austin was appointed interim chairperson on 24 July 2012. Mr Austin is considered not to be an independent director as he has previously been employed in an executive capacity by the company and there has not been a period of at least three years between ceasing such employment and serving on the board. The previous chairperson Mr A Broome AM who resigned on 24 July 2012 was an independent non-executive director.

2.3 The roles of chair and chief executive officer should not be exercised by the same individual.

The chief executive officer (CEO) is separate from the chairperson. The CEO is responsible for the day to day operations and administration of the company and is not a member of the board.

2.4 The board should establish a nomination committee.

The board, as a whole, currently serves as the company's nomination committee. Terms and conditions of employees are negotiated by the CEO for recommendation to the board. As the company grows in size it is planned that the company will implement a separate nomination committee with its own separate nomination committee charter.

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

The performance of the board and the various board committees are evaluated by the board. The performance of each committee is measured against the scope and responsibilities detailed in their respective charters and the process for evaluating the performance of the board, its committees and individual directors.

The board is responsible for the evaluation and review of the performance of the chairperson and the effectiveness and programme of board meetings. The position of chairperson will be reviewed by the board at the first board meeting following the annual general meeting each year.

The programme of board meetings has been reviewed and modified to ensure timely information is reviewed by the board.

The company's corporate governance policies set out the process to be followed in evaluating the performance of senior executives. Each senior executive is required to participate in a formal review process which assesses individual performance against predetermined objectives.

2.6 Companies should provide the information indicated in the guide to reporting on principle 2.

A description of the skills and experience of each of the current directors, except Mr Yu, is contained in the company's Prospectus dated 24 March 2010. Mr Yu's experience is outlined in the Annual Report herein. Three of the five members of the current board (Mr McCarthy, Mr Solomon and Mr Hansen) are considered to be independent directors in accordance with the definition of an independent director as contained in the company's board charter. Mr Austin is not considered to be independent as he has been employed by the comany as an executive within the last three years and Mr Yu is not considered to be independent as he is a director of the company's largest shareholder, Hidili Asset Management Company Ltd. The board is of the view that it is currently structured in such a way so as to add value and is appropriate for the complexity of the business at this time.

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

2.6 Companies should provide the information indicated in the Guide to reporting on Principle 2. (continued)

The board, board committees or individual directors may seek independent external professional advice as considered necessary at the expense of the company, subject to prior consultation with the chairperson.

The board, as a whole, will serve as the company's nomination committee. The Board will determine the procedure for the selection and appointment of new directors and the re-election of incumbents in accordance with the company's constitution and having regard to the ability of the individual to contribute to the ongoing effectiveness of the board, to exercise sound business judgement, to commit the necessary time to fulfil the requirements of the role effectively and to contribute to the development of the strategic direction of the company. The policy for the appointment of new directors is set out in the company's board charter which is publicly available on the company's website.

Mr Solomon and Mr Austin were appointed on 16 July 2008, Mr Broome was appointed on 17 July 2008 and resigned 24 July 2012, Mr McCarthy and Mr Hansen were appointed on 4 February 2010 and Mr Yu was appointed on 17 June 2011.

Principle 3 : Promote ethical and responsible decision making

3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to:
- **the practices necessary to maintain confidence in the company's integrity**
- **the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders**
- **the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.**

The company's corporate governance plan includes the following policies which provide a framework for decisions and actions in relation to ethical conduct in employment.
- Board charter
- Securities trading – directors and executives
- Continuous disclosure
- Remuneration committee
- Audit and risk management committee
- The company's obligations to stakeholders
- Code of conduct for directors and key officers
- Health, safety, environment and community committee charter

All 8 of the company's corporate governance policies are publicly available on the company's website.

3.2 Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.

The company has established a policy concerning trading in the company's securities by directors, senior executives and employees.

The policy is titled "Corporate Governance Policy - Securities Trading – Directors and Executives" and is publicly available on the company's website. The policy was reviewed in the last year and a new securities trading policy was lodged with the ASX on 23 December 2010.

The company has not yet introduced a formal policy on diversity but this will be considered as the company grows in size.

Principle 3 : Promote ethical and responsible decision making (continued)

3.3 Companies should provide the information indicated in the Guide to reporting on Principle 3.

The corporate code of conduct and the trading policy of the company are set out in the company's corporate governance policies which are publicly available on the company's website.

3.4 Proportion of women employees, senior executive positions and on the board

The company currently employs a total of 5 women representing 36% of the company. At present there are no women senior executives or board members.

Principle 4 : Safeguard integrity in financial reporting

4.1 The board should establish an audit and risk committee.

The company has established an audit and risk management committee and a copy of the policy titled "Charter of the Audit and Risk Management Committee" is publicly available on the company's website.

4.2 The board should establish an audit and risk committee.
- **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**
- **has at least three members.**

The audit and risk management committee has three members all being non-executive directors and all being independent. The committee is chaired by Mr P McCarthy who is not chairperson of the board and the members are Mr W Hansen and Mr G Solomon. All three members are considered independent directors.

4.3 The audit and risk committee should have a formal charter.

The company's corporate governance plan includes a formal charter for the audit and risk management committee.

4.4 Companies should provide the information indicated in the guide to reporting on Principle 4.

The committee will meet at least twice a year and at least twice each year with the company's auditors. The committee has powers under the charter including unrestricted access to the company's external auditors and all company records for the purposes of carrying out its responsibilities under the charter. The committee will recommend to the board procedures for the selection and appointment of external auditors and for the rotation of external auditor partners.

Principle 5 : Make timely and balanced disclosure

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

The company has a continuous disclosure program in place designed to ensure compliance with the ASX Listing Rule on continuous disclosure and to ensure accountability at a senior executive level for compliance and factual presentation of the company's financial position.

Principle 5 : Make timely and balanced disclosure (continued)

5.2 Companies should provide the information indicated in Guide to Reporting on Principle 5.

The continuous disclosure policy of the company is set out on the company's website.

Principle 6 : Respect the rights of shareholders

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

The company's corporate governance plan includes a shareholder communications strategy, which aims to ensure that the shareholders are informed of all major developments affecting the company's state of affairs. This is contained within the company's policies titled "Code of Conduct – the Company's Obligations to Stakeholders" and "Corporate Governance Policy – Continuous Disclosure".

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

The shareholder communication policy of the company is set out in the company's policies titled "Code of Conduct – the Company's Obligations to Stakeholders" and "Corporate Governance Policy – Continuous Disclosure" which are publicly available on the company's website.

Principle 7 : Recognise and manage risk

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

The board in conjunction with the audit and risk management committee determines the company's "risk profile" and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control.

The company has established policies for the oversight and management of material business risks. The audit and risk management charter of the company is set out on the company's website.

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

The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to the board in conjunction with the audit and risk committee. The board and audit and risk management committee are required to assess risk management and associated internal compliance and control procedures and will be responsible for ensuring the process for managing risks is integrated within business planning and management activities.

Reports on risk management are to be provided to the board by the audit and risk management committee at the first board meeting subsequent to each audit and risk committee meeting.

Principle 7 : Recognise and manage risk (continued)

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.

Reports on risk management are to be provided to the board by the audit and risk management committee.

The board will seek the relevant assurance from the management and the executive directors (or their equivalents) at the relevant time.

7.4 Companies should provide the information indicated in Guide to Reporting on Principle 7.

Reports on risk management are to be provided to the board by the audit and risk management committee.

The board will ensure that the report under Recommendation 7.2 is provided in at the relevant time.

The board will ensure that the management or the executive director(s) provide the assurance under recommendation 7.3 at the relevant time.

Principle 8 : Remunerate fairly and responsibly

8.1 The board should establish a remuneration committee.

The board has established a separate remuneration committee.

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

The remuneration committee distinguishes the structure of non-executive director's remuneration from that of executive directors and senior executives. The company's constitution and the Corporations Act also provides that the remuneration of non-executive directors will be not be more than the aggregate fixed sum determined by a general meeting.

The board is responsible for determining the remuneration of the executive directors (without the participation of the affected director).

8.3 Companies should provide the information indicated in the Guide to reporting on Principle 8.

The remuneration committee will meet twice a year. A copy of the remuneration committee charter is available on the company's website. The members of the remuneration committee are Mr G Solomon (Chairperson) and Mr W Hansen. Mr A Broome AM was on the committee until he resigned on 24 July 2012.

A summary of the company's policy on prohibiting transactions in associated products which operate to limit the risk of participating in unvested entitlements under any equity based remuneration scheme is contained within the charter.

ENDOCOAL LIMITED
Consolidated statement of comprehensive income
For the year ended 30 June 2012

	Notes	2012 $	2011 $
Revenue from continuing operations	5	534,664	615,382
Accountancy and audit expenses	19	(102,784)	(108,868)
Corporate consultants and secretarial expenses		(1,412,231)	(561,171)
Corporate office		(741,012)	(521,755)
Depreciation	13	(55,228)	(42,432)
Employee benefit expenses		(912,074)	(720,166)
Finance costs		(109,270)	(87,230)
Legal fees		(99,505)	(85,398)
Share based payments	27	(354,917)	(62,256)
Share of net loss of associate	25	(6,076)	(28,082)
Exploration and evaluation expenses written off	14	(62,875)	(125,253)
Travel and accommodation expenses		(113,110)	(90,930)
Other expenses		(217,363)	(84,091)
Loss before income tax		(3,651,781)	(1,902,250)
Income tax (expense) / benefit		-	-
Loss for the year		(3,651,781)	(1,902,250)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year attributable to the owners of Endocoal Limited		(3,651,781)	(1,902,250)

Earnings per share for profit attributable to the ordinary equity holders of the company		**Cents**	**Cents**
Basic loss per share	30	(2.1)	(1.5)
Diluted loss per share	30	(2.1)	(1.5)

The above consolidated financial statements should be read in conjunction with the accompanying notes.

ENDOCOAL LIMITED
Consolidated balance sheet
As at 30 June 2012

	Notes	2012 $	2011 $
ASSETS			
Current assets			
Cash and cash equivalents	8	5,799,815	11,601,508
Trade and other receivables	9	343,102	536,119
Total current assets		6,142,917	12,137,627
Non-current assets			
Receivables	10	628,403	270,851
Intangibles	11	400,000	400,000
Investment accounted for using the equity method	12	46,124	52,200
Property, plant and equipment	13	259,538	195,684
Exploration and evaluation expenditure	14	35,014,872	13,977,979
Total non-current assets		36,348,937	14,896,714
Total assets		**42,491,854**	**27,034,341**
LIABILITIES			
Current liabilities			
Trade and other payables	15	2,619,641	2,898,679
Provisions	16	87,641	60,288
Total current liabilities		2,707,282	2,958,967
Total liabilities		**2,707,282**	**2,958,967**
Net assets		**39,784,572**	**24,075,374**
EQUITY			
Contributed equity	17	47,822,323	28,816,261
Reserves	18	3,233,776	2,878,859
Accumulated losses	18	(11,271,527)	(7,619,746)
Total equity		**39,784,572**	**24,075,374**

The above consolidated financial statements should be read in conjunction with the accompanying notes.

ENDOCOAL LIMITED

Consolidated statement of changes in equity

For the year ended 30 June 2012

	Notes	Contributed equity $	Reserves $	Accumulated losses $	Total equity $
Opening balance at 1 July 2010		**22,263,339**	**2,816,603**	**(5,717,496)**	**19,362,446**
Total comprehensive income for the year ending 30 June 2011		-	-	(1,902,250)	(1,902,250)
Contributions of equity	17	6,937,808	-	-	6,937,808
Share issue costs	17	(384,886)	-	-	(384,886)
Directors and employee share options	27	-	62,256	-	62,256
Closing balance at 30 June 2011		**28,816,261**	**2,878,859**	**(7,619,746)**	**24,075,374**
Total comprehensive income for the year ending 30 June 2012		-	-	(3,651,781)	(3,651,781)
Contributions of equity	17	19,999,998	-	-	19,999,998
Share issue costs	17	(993,936)	-	-	(993,936)
Directors and employee share options	27	-	354,917	-	354,917
Closing balance at 30 June 2012		**47,822,323**	**3,233,776**	**(11,271,527)**	**39,784,572**

The above consolidated financial statements should be read in conjunction with the accompanying notes.

ENDOCOAL LIMITED
Consolidated statement of cash flows
For the year ended 30 June 2012

	Notes	2012 $	2011 $
Cash flows from operating activities			
Interest received		516,302	582,402
Finance costs paid		(109,270)	-
Payments to suppliers and employees		(3,748,588)	(2,523,128)
Net cash outflow from operating activities	28	(3,341,556)	(1,940,726)
Cash flows from investing activities			
Payments for property, plant and equipment		(121,388)	(137,727)
Payments for Wiggins Island Coal Export Terminal (WICET)		(308,112)	(150,000)
Payments for tenement development costs		(20,973,566)	(8,307,660)
Payments for investment in joint venture partnership		(64,224)	-
Proceeds from sale of plant and equipment		1,091	-
Net cash outflow from investing activities		(21,466,199)	(8,595,387)
Cash flows from financing activities			
Proceeds from borrowings		3,000,000	4,000,000
Repayment of borrowings		(3,000,000)	(4,000,000)
Net proceeds from issue of shares net of share issue costs		19,006,062	6,552,922
Net cash inflow from financing activities		19,006,062	6,552,922
Net decrease in cash and cash equivalents		(5,801,693)	(3,983,191)
Cash and cash equivalents at the beginning of the year		11,601,508	15,584,699
Cash and cash equivalents at the end of the year	8	5,799,815	11,601,508

The above consolidated financial statements should be read in conjunction with the accompanying notes.

Notes to the financial statements

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements comprise the consolidated financial statements of Endocoal Limited and its wholly owned subsidiaries Endocoal Finance Services Pty Limited and Orion Downs Pty Limited (from 8 March 2011).

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

Compliance with IFRS
The consolidated financial statements of the Endocoal Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Early adoption of standards
The group has not early adopted any standards.

Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

Critical accounting estimates
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(b) Going concern basis of accounting

Endocoal is an exploration company that relies on the availability of funds from the market to finance its operations. The group has experienced an operating loss of $3.7 million and a negative cashflow of $5.8 million in the current period, as expected during the exploration phase of its operations.

During the period ended 30 June 2012 the group's current tenement package included over 5,000 sq km in the highly prized Bowen Basin region of Queensland and which is immediately adjacent to many existing coal producing mines. At 30 June 2012, 13 of the group's 26 tenements had been granted by the Queensland Department of Mines and Energy which will position the group well for the future. The group's strategy is to develop at least two new high quality coal mines over the next three years.

In April 2011 a Mining Lease Application was lodged for Meteor Downs South ("MDS") for a proposed 1.5Mtpa open cut thermal coal mine. In June 2011, the Queensland Government Department of Environment and Resource Management announced that Endocoal will be required to prepare an Environmental Management Plan ("EMP") for MDS to support the Environmental Authority Application required to be lodged and considered prior to the grant of a Mining Lease. Endocoal expects that the EMP process will be complete and a Mining Lease granted for MDS in Q4 of 2012.

It was announced in July 2012 that Endocoal's total JORC Resources have increased to 498.5 million tonnes.

The continuing viability of Endocoal and its ability to continue as a going concern and meet its debts and commitments as they fall due, and meet its future exploration commitments and project development aspirations is dependent upon the Company being successful in securing additional funds.

1. Summary of significant accounting policies (continued)

(b) Going concern basis of accounting (continued)

The directors are currently considering a range of strategic options, including merger / takeover, project divestment, tenement divestment, debt funding and equity raising in order to raise additional funds. Endocoal, via their corporate advisor, are in active dialogue with a number of parties to pursue the most advantageous outcome for the Company. The Company will continue to keep shareholders fully informed in a timely manner as and when there are material developments.

As none of the strategic options noted above have yet been secured, there is a material uncertainty that may cast significant doubt on whether the Group will continue as a going concern therefore, whether it will realise its assets and settle its liabilities in the normal course of business and at the amounts as stated in the financial report.

The group continually monitors its cashflow requirements to ensure that it has sufficient funds available to meet its contractual commitments and expenses as they fall due. The group adjusts its spending requirements progressively to ensure that it continues to satisfy its going concern obligations. The group does not commit to expenditure unless it has sufficient cash reserves to meet the expenditure.

Endocoal has a successful track record of raising new capital from the market. This was demonstrated by the $20m capital raised during this reporting period (refer to note 17). The significant JORC resource upgrade which was announced in July 2012 further enhances Endocoal's ability to attract funding to commercialise these resources.

On this basis the directors are confident that the Group will be successful in one of the above matters and, therefore, have prepared the financial report on a going concern basis. At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report as at 30 June 2012. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amount or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

(c) Principles of consolidation

(i) *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of the subsidiaries of Endocoal Limited (''company'' or ''parent entity'') as at 30 June 2012 and the results of the subsidiaries for the year then ended. Endocoal Limited 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 converting 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 business combinations by the group (refer to note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides 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.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

1. Summary of significant accounting policies (continued)

(c) Principles of consolidation (continued)

(ii) *Associates*

Associates are entities over which the group has significant influence but not control or joint control, generally accompanying a shareholding between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity accounting method of accounting, after initially being recognised at cost. The group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (refer to note 25).

The group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying value amount of the investment. Dividends receivable from associates are recognised as reduction in the carrying amount of the investment.

When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment to the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

(iii) *Joint ventures*

Joint controlled assets - the proportionate interest in the assets, liabilities and expenses of a joint venture activity have been incorporated into the financial statements under the appropriate headings. Details of the joint venture are set out in note 25.

(iv) *Changes in ownership interests*

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received in recognised in a separate reserve within equity attributable to owners of Endocoal Limited.

When the group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Chief Executive Officer is responsible for allocating resources and assessing performance of the operating segments.

1. Summary of significant accounting policies (continued)

(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, rebates and amounts collected on behalf of third parties.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) *Interest income*
Interest income is recognised using the effective interest method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate.

(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 applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in Australia. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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 liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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 is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

1. Summary of significant accounting policies (continued)

(f) Income tax (continued)

(i) *Investment allowance*
Companies within the group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

(ii) *Tax consolidation*
Endocoal Limited and its wholly-owned Australian controlled entity have implemented the tax consolidation legislation.

The head entity, Endocoal Limited, and the controlled entity in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Endocoal Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from the controlled entity in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details about the tax funding agreement are disclosed in note 7(g).

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(g) Leases

Leases of property, plant and equipment where the group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases (note 21 (b)). Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss on a straight-line basis over the period of the lease.

1. Summary of significant accounting policies (continued)

(h) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree’s net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(i) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(j) Cash and cash equivalents

For the purpose of presentation in the statements of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities that are readily converting to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

1. Summary of significant accounting policies (continued)

(k) Trade receivables (continued)

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in paymenst (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of the discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance has been recognised becomes uncollectible 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.

(l) Investments and other financial assets

Classification
The group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting date.

(i) *Financial assets at fair value through profit or loss*
Financial assets at fair value through profit or loss are financial assets held-for-trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are classified as held-for-trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) *Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 9) in the balance sheet.

(iii) *Held-to-maturity investments*
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. If the group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

(iv) *Available-for-sale financial assets*
Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long-term.

1. Summary of significant accounting policies (continued)

(l) Investments and other financial assets (continued)

Recognition and derecognition
Regular purchases and sales of financial assets are recognised on trade-date - the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

Subsequent measurement
Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise. Details on how the fair value of financial instruments is determined are disclosed in note 2.

Impairment
The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is reclassified from equity and recognised in the profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

(m) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation is calculated using the straight-line method to allocate the net cost of each item of property, plant and equipment over their estimated useful lives, as follows:

- Leasehold improvements and office equipment – over 3 to 8 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit and loss.

1. Summary of significant accounting policies (continued)

(n) Intangible assets

(i) *Goodwill*
Goodwill is measured as described in note 1(h). Goodwill on acquisitions is included in intangible assets. Goodwill on acquisitions of associates is included in investment in associates. Goodwill is not amortised but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purposes of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which goodwill arose, identified according to operating segments (note 4).

(ii) *Rights in projects*
Costs incurred on rights in projects are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits. Costs capitalised on rights in projects are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

(o) Tenement exploration, evaluation and development expenditure

Exploration, evaluation and development expenditure costs are accumulated in respect of each separate area of interest. These costs include the costs of mapping, drilling, analysis and testing in an area of interest. They include administrative and general expenses where those costs are directly attributable to the exploration and evaluation activity.

Exploration and evaluation costs, recognised at cost, are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through the sale or successful development and exploration of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Development costs related to an area of interest are carried forward to the extent that they are expected to be recouped either through sale or successful exploitation of the area of interest. When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made.

Carried forward costs will be amortised over the life of the underlying operation for successful exploitation of the area of interest or offset against revenue through the sale of the area of interest.

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment of liquidity services and amortised over the period of the facility to which it relates.

1. Summary of significant accounting policies (continued)

(q) Borrowings (continued)

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash asset transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(r) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in profit or loss as finance costs.

(s) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(t) Employee benefits

(i) *Short-term obligations*
Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) *Other long-term employee benefit obligations*
The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) *Retirement benefit options*
The group makes contributions to a complying superannuation fund equal to or in excess of the superannuation guarantee levy requirements. Contributions are recognised as an expense as they become payable.

(iv) *Bonus plans*
The group recognises a liability and an expense for bonuses in the period in which they are determined by the Remuneration Committee or where contractually obliged.

1. Summary of significant accounting policies (continued)

(t) Employee benefits (continued)

(v) *Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(vi) *Share based payments*

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 27.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share based payments reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

(u) Contributed equity

Ordinary shares and converting preference shares are classified as equity (note 17).

Share based payments are recognised at fair value at the date of issue.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, for example 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 incremental costs (net of income taxes) is recognised directly in equity.

(v) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the reporting period.

1. Summary of significant accounting policies (continued)

(w) Earnings per share

(i) *Basic earnings per share*
Basic earnings per share is calculated by dividing:

- the profit attributable to owners 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 additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(x) 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 inclusive 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 balance sheets.

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 flows.

(y) Parent entity information

The financial information for the parent entity, Endocoal Limited, disclosed in note 29 has been prepared on the same basis as the consolidated financial statements.

(z) Investment in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statement of Endocoal Limited. Dividends received are recognised in the parent entity’s profit or loss.

(aa) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The group's assessment of the impact of these new standards and interpretations is set out below.

1. Summary of significant accounting policies (continued)

(aa) New accounting standards and interpretations (continued)

(i) AASB 9 Financial Instruments, AASB 2009 -11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013).*

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013* but is available for early adoption. When adopted, the standard will affect in particular the group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. In the current reporting period, the group recognised $15,000 of such gains in other comprehensive income.

There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed. The group has not yet decided when to adopt AASB 9.

(ii) AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013).

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements,* and Interpretation 12 *Consolidation – Special Purpose Entities.* The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. There is also new guidance on participating and protective rights and on agent/principal relationships. While the group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

The group's investment in the joint venture partnership will be classified as a joint venture under the new rules. As the group already applies the equity method in accounting for this investment, AASB 11 will not have any impact on the amounts recognised in its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments.

1. Summary of significant accounting policies (continued)

(aa) New accounting standards and interpretations (continued)

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a “partial disposal” concept. The group is still assessing the impact of these amendments.

The group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

(iii) AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013).

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

(iv) Revised AASB 119 Employee Benefits, AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) and AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements (effective 1 January 2013).

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called ‘corridor’ method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The amendments will have to be implemented retrospectively. Had the group adopted the new rules in the current reporting period, profit or loss would have been lower and other comprehensive income higher by approximately $54,000. The Group has not yet decided when to adopt the new standard.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2. Financial risk management

The group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity 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. The chief executive officer conducts a quarterly risk assessment which is reported to the Board.

Risk management is carried out by thechief executive officerunder policies approved by the Board of Directors. The chief executive officer identifies and evaluates financial risks in close co-operation with the company's operating unit. The chief executive officer provides written principles for overall risk management, as well as written policies covering specific areas, such as, interest rate and credit risks and investing excess capital.

The group hold the following financial instruments:	Consolidated 2012 $	2011 $
Financial assets		
Cash and cash equivalents	5,799,815	11,601,508
Trade and other receivables	971,505	806,970
	6,771,320	12,408,478
Financial liabilities		
Trade and other liabilities	2,619,641	2,898,679

(a) Market risk

(i) *Foreign exchange risk*
The group is not currently exposed to foreign exchange risk.

(ii) *Price risk*
The group is not exposed to equity securities price risk. The group is not currently exposed to commodity price risk.

(iii) *Cash flow and fair value interest rate risk*
The group's interest bearing asset, cash equivalents, expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The table below summarises the group's exposure to interest rate risks:

	Floating interest rate $	Fixed interest rate $	Non-interest bearing $	Total $	Weighted average %
30 June 2012					
Financial assets					
Cash and cash equivalents	1,484,815	4,315,000	-	5,799,815	4.04%
Trade and other receivables	-	-	971,505	971,505	
	1,484,815	4,315,000	971,505	6,771,320	
Financial liabilities					
Trade and other payables	-	-	2,619,641	2,619,641	
30 June 2011					
Financial assets					
Cash and cash equivalents	1,424,374	10,176,734	400	11,601,508	5.52%
Trade and other receivables	-	-	806,970	806,970	-
	1,424,374	10,176,734	807,370	12,408,478	
Financial liabilities					
Trade and other payables	-	-	2,898,679	2,898,679	-

2. Financial risk management (continued)

(a) Market risk (continued)

(iv) *Group sensitivity*

The group's main interest rate risk arises from cash equivalents. The group manages its cash balances by investing in term deposits. The following table summarises the sensitivity of the group's profit and equity to interest rate risk. The table examines the effect that changes in interest rates from year end rates, with all other variables held constant, would have on post tax profit and equity.

		Impact of increase of 75 basis points		Impact of increase of 75 basis points	
	Carrying amount	**Profit Increase**	**Equity increase**	**Profit decrease**	**Equity decrease**
30 June 2012	**$**	**$**	**$**	**$**	**$**
Financial assets					
Cash and cash equivalents	5,799,815	43,499	43,499	(43,499)	(43,499)
30 June 2011					
Financial assets					
Cash and cash equivalents	11,601,508	87,011	87,011	(87,011)	(87,011)

(b) Credit risk

Credit risk is managed on a group basis. The group's main credit risk arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised above.

(c) Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation. The group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The group had no undrawn facilities at the end of the reporting period:

	Consolidated	
	2012	**2011**
Floating rate:	**$**	**$**
Expiring within one year (Multiple Advance Facility)	-	3,500,000

The Multiple Advance Facility was established 13 December 2010 initially for $2m and then subsequently increased to $3.5m in February 2011. The facility expired in the current financial year.

(i) *Maturities of financial liabilites*

The following table analyses the group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

2. Financial risk management (continued)

(c) Liquidity risk (continued)

30 June 2012	Carrying amount $	Less than 6 months $	Between 6 and 12 months $	Between 1 and 2 years $	Between 2 and 5 years $
Financial liabilities					
Trade and other payables					
- non-interest bearing	2,619,641	2,619,641	-	-	-
30 June 2011					
Financial liabilities					
Trade and other payables					
- non-interest bearing	2,898,679	2,898,679	-	-	-

There were no derivatives in 2012 and 2011.

(d) Maturities of financial assets

The table below analyses the group's financial assets into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

30 June 2012	Carrying amount $	Less than 6 months $	Between 6 and 12 months $	Between 1 and 2 years $	Between 2 and 5 years $
Financial assets					
Cash and cash equivalents	5,799,815	5,799,815	-	-	-
Trade and other receivables	971,505	332,038	11,064	628,403	-
	6,771,320	6,131,853	11,064	628,403	-
30 June 2011					
Financial assets					
Cash and cash equivalents	11,601,508	11,601,508	-	-	-
Trade and other receivables	806,970	478,860	57,259	270,851	-
	12,408,478	12,080,368	57,259	270,851	-

3. Critical accounting estimates and judgements

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.

(a) Critical accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) *Income taxes*
Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The group has tax losses. The directors have not recognised a deferred tax asset in relation to the tax losses. 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 loss and is also contingent on the ability of the group being able to satisfy either the Continuity of Ownership Test or the Same Business Test.

(ii) *Share-based payment transactions*
The group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a Black-Scholes Model, using the assumptions detailed in note 27.

(b) Critical judgements in applying the entity's accounting policies

The group accumulates certain costs associated with exploration activities on specific areas of interest where the group has rights of tenure. The group's policy is to expense any exploration and associated costs relating to non-specific projects and properties. Significant property acquisition, exploration, evaluation and development costs relating to specific properties for which economically recoverable reserves are believed to exist are deferred until the project to which they relate is sold, abandoned or placed into production.

Costs are also deferred where exploration and evaluation activities in the area of interest have not reached a stage that permits a reasonable assessment of the existence of economically recoverable reserves.

4. Segment information

(a) Description of segments

Business and geographical segments
The consolidated entity has only one material business segment consisting of the exploration and development of hard-coking, thermal and PCI coal projects. The group operates in one geographic area being Australia.

(b) Segment information provided to the Chief Executive Officer

The statement of comprehensive income, balance sheet and statement of cash flows as detailed above are the primary segment documents provided to the Chief Executive Officer.

5. Revenue

	Consolidated 2012 $	Consolidated 2011 $
Other revenue		
Interest received	524,666	597,502
Other revenue	9,998	17,880
	534,664	615,382

6. Expenses

	Consolidated 2012 $	Consolidated 2011 $
Loss before income tax includes the following specific expenses		
Depreciation on leasehold improvements and office equipment	55,228	42,432
Minimum lease payments - operating lease	117,764	148,924
Share based payments expense	354,917	62,256
Defined contribution supperannuation expense	-	50,353

7. Income tax expense

(a) Income tax expense

	Consolidated 2012 $	Consolidated 2011 $
Current tax	-	-
Deferred tax	-	-
	-	-

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2012	2011
Loss from continuing operations before income tax expense	(3,651,781)	(1,902,250)
Tax at the rate of 30% (2011: 30%)	(1,095,534)	(570,675)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	17,075	2,112
Share based payments	106,475	18,677
Tax losses and deferred tax assets not recognised	(971,984)	(549,886)
Aggregate income tax expense / (benefit)	-	-

(c) Amounts recognised directly in equity

No tax amounts have been recognised directly in equity during the current or prior year.

(d) Tax expense (income) relating to items of other comprehensive income

There are no amounts of other comprehensive income against which to recognise tax.

(e) Tax losses

	2012	2011
Unused tax losses for which no deferred tax asset has been recognised	44,898,093	19,676,855
Potential tax benefit at 30%	13,469,428	5,903,057

7. Income tax expense (continued)

(f) Unrecognised temporary differences

	Consolidated	
	2012	2011
	$	$
Temporary differences for which deferred tax assets have not been recognised		
Trade and other receivables	(8,364)	(167,494)
Exploration and evaluation expenditure	(34,477,833)	(13,440,941)
Property, plant and equipment	3,373	3,373
Unused tax losses	44,898,093	19,676,855
Capital raising and professional expenses	2,524,582	(737,266)
Accruals	50,000	26,500
Employee entitlements	88,728	60,288
	13,078,579	5,421,315
Unrecognised deferred tax assets relating to the above temporary differences and tax losses	3,923,574	1,626,395

No deferred asset has been recognised for tax losses generated from operations as the benefit of the tax losses will only be obtained if:

(i) The group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised; and

(ii) The group complies with the conditions for deductibility of tax losses imposed by the relevant income tax legislation; and

(iii) No changes in the relevant income tax legislation adversely affect the group in realising the benefit from the deduction for the tax losses.

(g) Tax consolidation legislation

The parent entity and its 100% subsidiaries have entered into a legally binding tax sharing agreement in 2010, in accordance with Australia Law. The entities now form a Tax Group in Australia. The accounting policy in relation to this legislation is set out in note 1(f).

The entities have also entered into a tax funding agreement under which the wholly owned entity fully compensates Endocoal Limited for any current tax payable assumed and are compensated by Endocoal Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Endocoal Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entity's financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables.

8. Current assets - Cash and cash equivalents

	Consolidated 2012 $	Consolidated 2011 $
Cash at bank and in hand	1,484,815	1,424,774
Term deposits	4,315,000	10,176,734
	5,799,815	11,601,508

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	2012	2011
Balance per statement of cash flows	5,799,815	11,601,508

(b) Interest rate risk exposure

The group's exposure to interest rate risk is set out in note 2. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

(c) Cash not available for use

The group holds cash and cash equivalents that are not available for use as these form security for the bank guarantees. The above figures are reconciled to available cash at the end of the financial year as follows:

	2012	2011
Balance as per above	5,799,815	11,601,508
Security for the bank guarantees	(315,000)	(2,139,900)
	5,484,815	9,461,608

9. Current assets - Trade and other receivables

	Consolidated 2012 $	Consolidated 2011 $
Prepayments and other debtors	69,533	224,753
Goods and services tax recoverable	273,569	311,366
	343,102	536,119

(a) Impaired receivables

The group has no trade receivables at 30 June 2012. (30 June 2011: Nil). None of the receivables are impaired.

(b) Foreign exchange and interest rate risk

The group has no exposure to foreign currency risk and interest rate risk in relation to prepayments and other receivables.

(c) Fair value and credit risk

Due to the short term nature of these receivables, their carrying amount approximates their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The group does not hold any collateral as security. Refer to note 2 for more information on the risk management policy of the group.

10. Non-current assets - Receivables

	Consolidated 2012 $	Consolidated 2011 $
Deposits	123,291	120,851
Feasibility funding deed in relation to a prposed expansion of the Wiggins Island Coal Export Terminal (WICET)	505,112	150,000
Deposits	628,403	270,851

(a) Impaired receivables

None of the non-current receivables are impaired.

(b) Foreign exchange and interest rate risk

The group has no exposure to foreign currency risk and interest rate risk in relation to non-current receivables.

(c) Fair value and credit risk

The fair values and carrying amounts of non-current receivables are as follows:

	2012		2011	
	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Deposits	123,291	115,225	120,851	112,945
Feasibility funding deed in relation to a proposed expansion of the Wiggins Island Coal Export Terminal (WICET)	505,112	505,112	150,000	150,000
	628,403	620,337	270,851	262,945

The fair values are based on cash flows discounted using a current lending rate of 7.0% for deposits (2011 : 7.0%). The feasibility funding deed is not considered to be a financial instrument and is shown at its carrying value.

11. Non-current assets - Intangibles

	Consolidated 2012 $	Consolidated 2011 $
Rights to access the Wiggins Island Coal Export Terminal Project	400,000	400,000

12. Non-current assets - Investments accounted for using the equity method

		Consolidated 2012 $	Consolidated 2011 $
Investment in associate	25	46,124	52,200

13. Non-current assets - Property, plant and equipment

All of the groups assets are held as leasehold improvements and office equipment.

	Consolidated	
	2012	2011
Leasehold improvements and office equipment	$	$
Cost	348,945	230,923
Accumulated depreciation	(89,407)	(35,239)
Net book amount	259,538	195,684
Cost		
Opening balance as at 1 July	230,923	165,733
Additions	121,388	137,727
Disposals	(3,366)	(72,537)
Closing balance as at 30 June	348,945	230,923
Depreciation and impairment losses		
Opening balance as at 1 July	(35,239)	(10,687)
Depreciation for the year	(55,228)	(42,432)
Disposals	1,060	17,880
Closing balance as at 30 June	(89,407)	(35,239)
Carrying amounts		
Opening balance as at 1 July	195,684	155,046
Closing balance as at 30 June	259,538	195,684

(a) Non-current assets pledged as security

No property plant and equipment is pledged as security by Endocoal Limited and its controlled entity. (2011 - nil).

14. Non-current assets - Exploration and evaluation expenditure

	Consolidated	
	2012	2011
	$	$
Cost	35,222,785	14,123,017
Expenses written off	(207,913)	(145,038)
Net book amount	35,014,872	13,977,979
Cost		
Opening balance as at 1 July	14,123,017	3,792,952
Additions	21,099,768	10,330,065
Closing balance as at 30 June	35,222,785	14,123,017
Amortisation and impairment losses		
Opening balance as at 1 July	(145,038)	(19,785)
Expenses written off	(62,875)	(125,253)
Closing balance as at 30 June	(207,913)	(145,038)
Carrying amounts		
Opening balance as at 1 July	13,977,979	3,773,167
Closing balance as at 30 June	35,014,872	13,977,979

15. Current liabilities - Trade and other payables

	Consolidated 2012 $	Consolidated 2011 $
Trade payables and accruals	2,619,641	2,898,679

Trade payables are non-interest bearing and normally settled on 30 day terms.

(a) Risk exposure

The group has no exposure to foreign currency risk. Refer to note 2 for more information on the risk management policy of the group.

(b) Fair value

Due to the short-term nature of these payables, their carrying amount is assumed to approximate their fair value.

16. Current liabilities - Provisions

	Consolidated 2012 $	Consolidated 2011 $
Employee provisions	87,641	60,288

(a) Amounts not expected to be settled within the next 12 months.

The current provision for employee benefits includes accrued annual leave. The entire amount of the provision is presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

	2012	2011
Leave obligations expected to be settled after 12 months	58,000	40,000

17. Contributed equity

	Consolidated 2012 $	Consolidated 2011 $
Ordinary share capital	47,997,323	28,991,261
Convertible preference shares	(175,000)	(175,000)
	47,822,323	28,816,261

17. Contributed equity (continued)

(a) Movements in ordinary share capital

Date	Details	Number of shares	Issue Price ($)	$
01 Jul 10	Opening balance	118,627,331	0.1891	22,438,339
21 Jun 11	Share issue	17,789,250	0.3900	6,937,808
	Less : transaction costs arising on share issue			(384,886)
30 Jun 11	Closing balance	136,416,581		28,991,261
22 Jul 11	Share purchase plan	846,521	0.3900	330,141
10 Aug 11	Shortfall placement under share purchase plan	19,666,299	0.3900	7,669,857
	Less : transaction costs arising on share issue			(382,322)
31 Dec 11	Closing balance	156,929,401		36,608,937
02 Feb 12	Share issue	30,000,000	0.4000	12,000,000
	Less : transaction costs arising on share issue			(611,614)
30 Jun 12	Closing balance	186,929,401		47,997,323

(b) Movements in converting preference shares

Date	Details	Number of shares	$
01 Jul 10	Opening balance	7,000,000	(175,000)
30 Jun 11	Closing balance	7,000,000	(175,000)
30 Jun 12	Closing balance	7,000,000	(175,000)

All 7,000,000 convertible preference shares lapsed on 1 July 2012 and are now extinguished.

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company 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.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

(d) Converting preference shares (CPS)

The rights and terms and conditions of the CPS which all lapsed on 1 July 2012 are as follows:

(i) 75% of the CPS allocation will convert to fully paid ordinary shares upon achieving a measured resource of coal as defined under the JORC codes in respect of the company's eight (8) exploration permits for coal (EPC 1511 through to EPC 1518).

(ii) The remaining 25% of the CPS allocation will convert to fully paid ordinary shares upon achieving a satisfactory bankable feasibility at the rate of one ordinary share for each CPS.

(iii) All the CPS which have not lapsed under these provisions will convert to ordinary shares simultaneously upon a takeover offer in accordance with Chapter 6 of the Corporations Act 2001 being accepted for the company at one ordinary share per CPS.

17. Contributed equity (continued)

(d) Converting preference shares (CPS) (continued)

(iv) The 75% allocation of CPS referred to in (i) above will be converted to ordinary shares on a sliding scale as follows:
- (a) Below 50 million tonnes of measured resource - Nil allocation.
- (b) Upon reaching 50.01 million tonnes of measured resource - 25% of the 75% allocation will convert to ordinary shares at the rate of one ordinary share for each CPS.
- (c) From 50.01 million tonnes of measured resource to 200 million tonnes of measured resource, pro-rata on a sliding scale from the 25% referred to in (iv)(b) to 100% of the 75% allocation at 200 million tonnes at the rate of one ordinary share for each CPS.
- (d) Over 200.01 million tonnes of measured resource - No additional allocation.

(v) The conversion to ordinary shares will occur once these milestones are achieved.

(vi) All unconverted CPS will lose their entitlement to convert to ordinary shares on 1 July 2012. On 1st July 2012 the remaining unconverted CPS lapsed in accordance with this condition.

(vii) The cost of the conversion of all the CPS into ordinary shares will be $nil per CPS.

Each CPS has the following rights:

(viii) No right to any dividend prior to converting into ordinary shares.

(ix) No right to vote until converted into ordinary shares.

(x) No right to participate in any rights issue.

(xi) No right to participate in any surplus profit or assets of the company upon a winding up.

(xii) No right to a repayment of capital.

(xiii) The right to attend any general meeting of the company but, not to vote or to move or second any resolution or speak in any meeting except in a resolution which directly affects any of the rights, privileges or conditions attaching to the CPS or the exercise and enjoyment of such rights, privileges or conditions attaching to the CPS shall confer on its holders one vote on a show of hands and one vote on a poll.

(xiv) The right to receive all notices, audited accounts and the reports which the holders of ordinary shares are entitled to receive.

(xv) The right to convert the CPS into fully paid ordinary shares of the company by giving notice to the company within 30 days of notice from the company of the events in any clause (iv) herein.

(xvi) Ordinary shares issued on conversion of the CPS will rank pari passu in all respects with other ordinary shares of the company.

(xvii) CPS are not transferable.

(xviii) If any reorganisation of the company's capital is done within the meaning of Listing Rule 7.21, all rights of the CPS will be changed only in a manner consistent with the Corporations Act and the Listing Rules.

(xix) Except to the extent required by law and which cannot be excluded, CPS have no rights other than those expressly provided by these terms.

(e) Capital risk management

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

The capital structure of the group consists of cash and cash equivalents, and equity attributable to the shareholders of the parent, comprising contributed capital, reserves and accumulated losses.

18. Reserves and accumulated losses

(a) Reserves

	Consolidated 2012 $	Consolidated 2011 $
Share based payments	3,233,776	2,878,859
Movements:		
Balance 1 July	2,878,859	2,816,603
Option expense	354,917	62,256
Balance 30 June	3,233,776	2,878,859

The share based payments reserve is used to record the value of existing benefits provided to employees and directors as part of their remuneration. Refer to note 27 for further details of these plans.

(b) Accumulated losses

	Consolidated 2012 $	Consolidated 2011 $
Accumulated losses	(11,271,527)	(7,619,746)
Movements:		
Balance 1 July	(7,619,746)	(5,717,496)
Loss for the period	(3,651,781)	(1,902,250)
Balance 30 June	(11,271,527)	(7,619,746)

19. Auditors' remuneration

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

(a) PricewaterhouseCoopers Australia

	Consolidated 2012 $	Consolidated 2011 $
Audit and other assurance services		
Audit and review of financial reports		
Total remuneration for audit and other assurance services	76,808	55,133
	76,808	55,133
Taxation services		
Tax compliance services	8,450	35,740
	8,450	35,740
Total auditors' remuneration	85,258	90,873

(b) Non-related audit firms

	2012 $	2011 $
Other assurance services		
Valuation services	18,025	-
Assurance and reporting services	403,622	-
	421,647	-

It is the group's policy to seek competitive tenders for all major consulting projects. The group policy allows PricewaterhouseCoopers (PwC) to be employed on assignments additional to their audit duties where PwC expertise and experience with the group are important and where the assignment remains compliant with the requirements of the Corporations Act 2001.

These assignments are principally tax advice or where PwC are awarded assignments on a competitive basis.

20. Contingencies

(a) Contingent liabilities

The group had no contingent liabilities at 30 June 2012 (2011: Nil), except for bank guarantees. For information about bank guarantees within the group, please refer to note 8(c).

(b) Contingent assets

There are no contingent assets where the probability of future receipts is not considered remote.

21. Commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date that was not recognised as a liability was $635,968 (2011: Nil).

(b) Lease expenditure commitments

The group has non-cancellable operating leases for office facilities with leased terms of two years (Brisbane) and four years (Sydney), with an option to extend for further periods. The operating lease contract contains market review clauses in the event that the consolidated entity exercises its option to renew. The consolidated entity does not have an option to purchase the leased asset at the expiry of the lease period.

	Consolidated	
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:	**2012** **$**	**2011** **$**
Within one year	119,746	117,764
Later than one year but not later than five years	122,020	242,776
	241,766	360,540

22. Events occuring after the reporting period

Since 30 June 2012, Endocoal Limited have been granted by the State of Queensland four new tenements known as Exploration Permit for Coal ("EPC") 2253 Mt Inglis, EPC 2025 Overlander, EPC 2822 Carfax West and EPC 2854 Thirty Mile Creek. The company has also received notification from the State of Queensland of their intention to grant EPC 2461 Twelve Mile Creek.

23. Related party transactions

(a) Parent entity

The parent entity within the group is Endocoal Limited.

(b) Subsidiaries

Interest in subsidiaries are set out in note 24.

(c) Associate

Interest in associate is set out in note 25.

(d) Key management personnel

Disclosures relating to key management personnel are set out in note 26.

(e) Transactions with related parties

The following transactions occurred with related parties and are performed on normal terms and conditions:	Consolidated 2012 $	2011 $
Fees paid to Helmsec Global Capital Limited*	1,003,822	437,914
Payments to Bligh Energy Services Pty Limited**	116,497	63,861
Payments to Nessgrove***	59,800	-

* Fees paid to Helmsec Global Capital Limited represent payments made for services rendered and reimbursement of out of pocket expenses in relation to equity raising, retainers and advisory services charged at industry standard rates. Included in these fees are amounts paid by Helmsec to licensed brokers for equity raising and other third party expenses. This amount excludes costs associated with services performed by Gavin Solomon on non-executive director activities related to Endocoal Limited.

** Payments to Bligh Energy Services Pty Limited represent rentals for office accommodation in Bligh Street, Sydney. Bligh Energy Services Pty Limited is an associate of the group (note 25). During the financial year the group relocated its commercial activities and corporate head office functions to Brisbane with a resulting reduction in related party transaction costs.

*** Payments to Nessgrove represent consultancy costs charged at industry standards. The amount excludes costs associated with services performed by William Hansen as a non-executive director.

24. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(c)(i)

Name of entity	County of	Class of	Equity Holding % 2012	2011
Endocoal Financial Services Pty Limited	Australia	Ordinary	100%	100%
Orion Downs Pty Limited. (from 8 March 2011)	Australia	Ordinary	100%	100%

25. Investment in associates

(a) Movements in carrying amounts

	Consolidated	
	2012	2011
	$	$
Carrying amount at the beginning of the financial year	52,200	-
Additions	-	80,282
Share of loss after income tax	(6,076)	(28,082)
Carrying amount at the end of the financial year	46,124	52,200

(b) Summarised financial information of associates

The company's share of the results of its principal associate and its aggregated assets and liabilities are as follows:

Bligh Energy Services Pty Limited

(From 2 December 2010)	2012	2011
	%	%
Ownership Interest	25.00%	33.33%
	$	$
Assets	153,554	227,173
Liabilitites	128,467	206,031
Revenues	97,640	55,340
Loss	(6,076)	(28,082)

The group's share of the revenues and loss of Bligh Energy Services Pty Limited are recognised pro-rata from the date of acquisition (2 December 2010) to balance date.

26. Key management personnel disclosures

(a) Directors

The following persons were directors of Endocoal limited during the financial year:

(i) *Chairperson - non-executive**
A Broome (resigned 24 July 2012)

(ii) *Non-executive directors*
W Hansen
P McCarthy
G Solomon
F Yu
R Austin*

* R Austin was an executive director of Endocoal Limited before changing to a non-executive director on 9 January 2012. R Austin was appointed interim chairperson on 24 July 2012. Mr A Broome resigned as chairperson on 24 July 2012.

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the group, directly or indirectly, during the financial year:

Name	Position	Employer
T Hedley	Chief Executive Officer	Tim Hedley Real Solutions Pty Limited
D Walker	Exploration Manager	Endocoal Limited
J Clyne	Company Secretary	Clyne Corporate Advisory Pty Limited
K Scott (to 14 December 2011)	Chief Financial Officer	Fortnightly Layby Pty Limited
P Edwards (from 21 May 2012)	Chief Financial Officer	Endocoal Limited

26. Key management personnel disclosures (continued)

(c) Key management personnel compensation

	Consolidated 2012 $	2011 $
Short term employee benefits	1,209,695	1,078,643
Post-employment benefits	51,234	59,186
Termination benefits	-	-
Long term benefits	-	-
Share-based payments	354,917	62,256
	1,615,846	1,200,085

(d) Equity instrument disclosure relating to key management personnel

(i) *Options provided as remuneration and shares issued on exercise of share options*

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the Remuneration Report section of the Directors' Report.

(ii) *Option holdings*

The numbers of options over ordinary shares in the company held during the financial year by each director of Endocoal Limited and other key management personnel of the group, including their personally related parties, are set out below:

2012

	Balance at start of the year	Granted as compensation	Exercised (or lapsed)	Balance at end of the year	Vested and exerciseable	Unvested
Directors of Endocoal Limited						
A Broome**	1,500,000	500,000	-	2,000,000	2,000,000	-
R Austin	1,200,000	-	-	1,200,000	1,200,000	-
W Hansen	1,000,000	500,000	-	1,500,000	1,500,000	-
P McCarthy	1,000,000	500,000	-	1,500,000	1,500,000	-
G Solomon	2,980,000	-	-	2,980,000	2,980,000	-
Other key management personnel of the group						
J Clyne***	700,000	-	-	700,000	700,000	-
T Hedley	500,000	1,250,000	500,000	1,250,000	1,000,000	250,000
D Walker*	-	350,000	-	350,000	-	350,000

* Mr Walker has certain rights over the acquisiton of options based on the achievement of JORC measures. These rights have no current value.
** Mr Broome resigned from Endocoal on 24 July 2012.
*** Mr Clyne resigned from Endocoal on 17 August 2012.

All vested options are immediately exerciseable.

2011

	Balance at start of the year	Granted as compensation	Exercised (or lapsed)	Balance at end of the year	Vested and exerciseable	Unvested
Directors of Endocoal Limited						
A Broome	1,500,000	-	-	1,500,000	1,500,000	-
R Austin	1,200,000	-	-	1,200,000	1,200,000	-
W Hansen	1,000,000	-	-	1,000,000	1,000,000	-
P McCarthy	1,000,000	-	-	1,000,000	1,000,000	-
G Solomon	2,980,000	-	-	2,980,000	2,980,000	-
Other key management personnel of the group						
J Clyne	700,000	-	-	700,000	700,000	-
T Hedley	500,000	-	-	500,000	-	500,000

26. Key management personnel disclosures (continued)

(d) Equity instrument disclosure relating to key management personnel (continued)

(iii) *Share holdings*

The numbers of shares in the company held during the financial year by each director of Endocoal Limited and other key management personnel of the group, including their personally related parties, are set out below.

2012

	Balance at start of the year	Received during the year on exercise of options	Other changes during the year	Balance at the end of the year
Directors of Endocoal Limited				
Ordinary shares				
A Broome (resigned 24 July 2012)	150,667	-	38,462	189,129
R Austin	2,050,000	-	-	2,050,000
W Hansen	300,000	-	38,462	338,462
P McCarthy	100,000	-	38,462	138,462
G Solomon	1,337,500	-	38,462	1,375,962
F Yu	-	-	-	-
Converting preference shares *				
A Broome (resigned 24 July 2012)	1,000,000	-	-	1,000,000
R Austin	6,000,000	-	-	6,000,000
Other key management personnel of the group				
No key management personnel held shares				

* All converting preference shares lapsed the day after this reporting period, on 1 July 2012, and as such are extinguished.

2011

	Balance at start of the year	Received during the year on exercise of options	Other changes during the year	Balance at the end of the year
Directors of Endocoal Limited				
Ordinary shares				
A Broome	150,667	-	-	150,667
R Austin	2,050,000	-	-	2,050,000
W Hansen	300,000	-	-	300,000
P McCarthy	100,000	-	-	100,000
G Solomon	1,337,500	-	-	1,337,500
F Yu	-	-	-	-
Converting preference shares				
A Broome	1,000,000	-	-	1,000,000
R Austin	6,000,000	-	-	6,000,000
Other key management personnel of the group				
No key management personnel held shares				

(e) Loans to key management personnel

Details of loans made to directors of Endocoal Limited and other key management personnel of the group including their personally related parties, would be disclosed under current and non-current receivables. There were no loans to individuals at any time during the years ended 30 June 2012 and 30 June 2011.

(f) Other transactions with key management personnel

Other transactions with key management personnel are disclosed under the related party transactions note. (Note 23).

27. Share based payments

Details of share based payments are noted in note 1 (q)(vi).

(a) Options held at the end of the reporting period

The following table summarises information about options held by directors and employees as at 30 June 2012.

(i) *Options granted at 30 June 2012*

Number of options granted	Grant date	Vesting date	Expiry date	Exercise price $
10,000,000	16 Jul 08	16 Jul 08	16 Jul 13	0.500
2,500,000	02 Dec 08	02 Dec 08	02 Dec 13	0.500
500,000	11 Dec 09	11 Dec 09	02 Dec 13	0.500
3,900,000	04 Feb 10	04 Feb 10	04 Feb 15	0.720
1,500,000	10 Aug 11	10 Aug 11	10 Aug 14	0.468
250,000	08 Sep 11	23 Aug 11	23 Aug 13	0.400
1,000,000	08 Sep 11	30 Nov 12	23 Aug 13	0.460
250,000	16 Mar 12	30 Mar 12	16 Mar 14	0.400
350,000	16 Mar 12	31 Dec 13	16 Mar 14	0.600
200,000	05 Apr 12	31 Oct 12	30 Mar 14	0.600
20,450,000				

(ii) *Options granted at 30 June 2011*

Number of	Grant	Vesting	Expiry	Exercise price
10,000,000	16 Jul 08	16 Jul 08	16 Jul 13	0.500
2,500,000	02 Dec 08	02 Dec 08	02 Dec 13	0.500
500,000	11 Dec 09	11 Dec 09	02 Dec 13	0.500
3,900,000	04 Feb 10	04 Feb 10	04 Feb 15	0.720
500,000	10 Apr 11	04 Apr 11	04 Apr 13	0.400
17,400,000				

(b) Options cancelled and exercised during the period

500,000 Options granted on 10 April 2011 and due to expire on 4 April 2013 lapsed during the year. 250,000 of the options lapsed on 26 August 2011 and the remaining 250,000 options lapsed on 23 November 2011.

(c) Option valuation

The fair value of the options is independently determined at the date of grant using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dillution, the share price at the grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option. There were 3,550,000 options granted during the year ended 30 June 2012.

The fair value of these options being $450,770 for the year ended 30 June 2012 being:

Number of options granted	Grant date	Option fair value	Fair value $	Option Ref
1,500,000	10 Aug 11	0.154	231,000	a
250,000	08 Sep 11	0.119	29,750	b
1,000,000	08 Sep 11	0.103	103,000	c
250,000	16 Mar 12	0.161	40,273	d
350,000	16 Mar 12	0.095	33,264	e
200,000	05 Apr 12	0.067	13,483	f
3,550,000			450,770	

27. Share based payments (continued)

(c) Option valuation (continued)

The expected life of the benefit is based on historical data and is not necessarily indicative of exercise patterns that may occur.

The fair value is expensed over the period until vesting with recognition of the corresponding entry to the share based payments reserve.

The parameters used in determining the fair value of the options under Australian Accounting Standards are shown below.

	a	b	c	d	e	f
Exercise price	0.468	0.400	0.460	0.400	0.600	0.600
Expiry date	10 Aug 14	23 Aug 13	23 Aug 13	16 Mar 14	16 Mar 14	30 Mar 14
Life of options	3 years	2 years	2 years	2 years	2 years	2 years
Share price at valuation da	0.380	0.360	0.360	0.455	0.455	0.420
Risk free rate	3.9%	3.6%	3.6%	3.7%	3.7%	3.7%
Expected volatility	65.7%	63.1%	63.1%	50.4%	50.4%	46.4%
Dividends expected	-	-	-	-	-	-

(d) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period were:

	Consolidated	
	2012	**2011**
	$	**$**
Options issued	354,917	62,256

28. Reconciliation of loss after income tax to net cash flows from operating activities

	Consolidated	
	2012	**2011**
	$	**$**
Loss for the year	(3,651,781)	(1,902,250)
Depreciation and amortisation	54,167	24,552
Share based payments	354,917	62,256
Exploration expenses written off	-	125,253
Profit and loss on sale of assets	2,275	-
Other expenses	-	19,787
Changes in operating assets and liabilities		
(Increase)/decrease in trade and other receivables	102,606	1,436
Increase/(decrease) in trade payables and accruals	(231,093)	(296,414)
Increase in provisions	27,352	24,654
	(3,341,556)	(1,940,726)

29. Parent entity disclosures

(a) Financial position

	Consolidated 2012 $	2011 $
Assets		
Current assets	5,246,925	12,199,326
Non-current assets	36,355,917	14,896,713
Total assets	41,602,842	27,096,039
Liabilities		
Current liabilities	2,434,916	2,958,967
	2,434,916	2,958,967
Net assets	39,167,926	24,137,072
Equity		
Issues capital	47,822,322	28,816,251
Share based payments reserve	3,233,775	2,878,859
Accumulated losses	(11,888,171)	(7,558,038)
Total equity	39,167,926	24,137,072

(b) Financial performance

	2012 $	2011 $
Loss for the year	(4,330,132)	(1,796,202)
Other comprehensive income	-	-
	(4,330,132)	(1,796,202)

(c) Guarantees entered into by the parent entity

No guarantees were provided for the year ended 30 June 2012 (30 June 2011 : Nil).

(d) Contingent liabilities of the parent entity

The parent entity had no contingent liabiltes at 30 June 2012 (30 June 2011 : Nil), except for bank guarantees. For information about bank guarantees, please refer to note 8(c).

(e) Capital commitments

Capital expenditure contracted for at the reporting date that was not recognised as a liability was $635,968 (2011: Nil).

(f) Lease expenditure commitments

The group has non-cancellable operating leases for office facilities with leased terms of two years (Brisbane) and four years (Sydney), with an option to extend for further periods. The operating lease contract contains market review clauses in the event that the consolidated entity exercises its option to renew. The consolidated entity does not have an option to purchase the leased asset at the expiry of the lease period.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:	Consolidated 2012 $	2011 $
Within one year	119,746	117,764
Later than one year but not later than five years	122,020	242,776
	241,766	360,540

30. Earnings / (loss) per share

	Consolidated 2012 Cents	Consolidated 2011 Cents
(a) Basic earnings / (loss) per share		
Basic loss per ordinary share attributable to the ordinary equity holders of the company	(2.1)	(1.5)
(b) Diluted earnings / (loss) per share		
Diluted loss per ordinary share attributable to the ordinary equity holders of the company	(2.1)	(1.5)

(c) Reconciliation of earnings used in calculating earnings / (loss) per share

	Consolidated 2012 $	Consolidated 2011 $
Basic earnings / (loss) per share		
Loss attributed to the ordinary equity holders of the company used in calculating basic earnings per share	(3,651,781)	(1,902,250)
Diluted earnings / (loss) per share		
Loss attributed to the ordinary equity holders of the company used in calculating basic earnings per share	(3,651,781)	(1,902,250)

(d) Weighted average number of shares used as the denominator

	Number of shares	Number of shares
Weighted average number of ordinary shares used as the denominator in calculating earnings per share	173,972,062	124,017,232

(e) Information concerning the classification of securities

(i) *Options*

Options granted to the directors and employees are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The average share price for the year was $0.38 which is below the exercise price of current options on issue and therefore not dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 27.

(ii) *Converting preference shares*

Converting preference shares are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The converting preference shares have not been included in the determination of basic earnings per share. Details relating to the converting preference shares are set out in note 17. The converting preference shares lapsed on 1 July 2012.

31. Additional information

Endocoal Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The financial report of Endocoal Limited for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors on 18 September 2012.

The nature of the operations and principal activities of the group are described in Note 4.

Registered office and principal place of business
Suite 2, 1 Swann Road,
Taringa, QLD 4068

Directors's declaration

In accordance with a resolution of the directors of Endocoal Limited, we state that:

1 In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are 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 its performance for the year ended on that date; and
(ii) complying with Accounting Standards and Corporations Regulations 2001 and other mandatory reporting requirements;

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable

(b) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

2 This declaration has been made after receiving the declarations required to be made by the chief executive officer and chief financial officer to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2012.

This declaration has been made in accordance with a resolution of the directors.

On behalf of the board

R Austin
Interim Chairperson

Sydney, 28 September 2012

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Independent auditor's report to the members of Endocoal Limited

Report on the financial report

We have audited the accompanying financial report of Endocoal Limited (the company), which comprises the consolidated balance sheet as at 30 June 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Endocoal Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's 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 and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
123 Eagle Street, Brisbane, QLD 4000
DX 77, Brisbane, QLD 4000
T +61 7 3257 5000, F +61 7 3257 5999, www.pwc.com.au

pwc

Auditor's opinion

In our opinion:

(a) the financial report of Endocoal Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Material Uncertainty Regarding Continuation as a Going Concern

Without modifying our opinion, we draw attention to Note 1(b) in the financial report, which indicates that the consolidated entity has experienced operating losses of $3.7 million and negative cashflow of $5.8 million in the current period and that the continuing viability of the Company is dependent upon it being successful in securing additional funds. This condition, along with the other matters as set forth in Note 1(b), indicates the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the remuneration report included in pages 8 to 15 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Endocoal Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Craig Thomason
Partner

Brisbane
28 September 2012

Shareholders information

Shareholding and voting rights

(a) Statement of directors' (and their related entities) interests in share capital of the parent entity entity as at 15 August 2012

	Ordinary shares
A Broome (resigned 24 July 2012)	189,129
R Austin	2,050,000
W Hansen	338,462
P McCarthy	138,462
G Solomon	1,375,962
F Yu	-

(b) Distribution of shareholdings

Analysis of numbers of equity security holders by size of holding:

Size of holding	Number of holders	Number of shares held	% of issued capital
1 - 1,000	41	10,687	0.006
1,001 - 5,000	217	776,448	0.415
5,001 - 10,000	212	1,807,971	0.967
10,001 - 100,000	530	19,971,354	10.684
100,001 and over	143	164,362,941	87.928
Total	1,143	186,929,401	100.000
Twenty largest shareholders	20	125,948,105	67.377

(c) Ordinary shares

On a show of hands, each holder present in person or by proxy or attorney shall have one vote or on a poll, one vote for each share held.

(d) Share options exercisable at year end:

Issued to	Number of options	Grant date	Vesting date	Expiry date
A Broome (resigned 24 July 2012)	500,000	11-Dec-09	11-Dec-09	2-Feb-13
	1,000,000	4-Feb-10	4-Feb-10	4-Feb-15
	500,000	10-Aug-11	10-Aug-11	10-Aug-14
R Austin	1,200,000	4-Feb-10	4-Feb-10	4-Feb-15
W Hansen	500,000	2-Dec-08	2-Dec-08	2-Dec-13
	500,000	4-Feb-10	4-Feb-10	4-Feb-15
	500,000	10-Aug-11	10-Aug-11	10-Aug-14
P McCarthy	500,000	2-Dec-08	2-Dec-08	2-Dec-13
	500,000	4-Feb-10	4-Feb-10	4-Feb-15
	500,000	10-Aug-11	10-Aug-11	10-Aug-14
G Solomon	2,480,000	2-Dec-08	2-Dec-08	2-Dec-13
	500,000	4-Feb-10	4-Feb-10	4-Feb-15

Shareholding and voting rights (continued)

(e) Substantial shareholders

Name of substantial holder	Number of shares held	% of issued capital
CITI MAN INVESTMENTS LIMITED	23,539,411	12.593
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	22,181,037	11.866
COOKSHILL INVESTMENTS PTY LTD <COOKSHILL INVESTMENTS A/C>	16,060,834	8.592
HM ENDO HOLDINGS BV	10,550,000	5.644
MACQUARIE CAPITAL GROUP LTD	10,000,000	5.350

(f) Unmarketable parcels

65 holders with a total of 43,566 shares representing 0.02% of the issued capital based on the closing price of $0.280 on 15 August 2012.

(g) Twenty largest shareholders at 15 August 2012

Name of substantial holder	Number of shares held	% of issued capital
CITI MAN INVESTMENTS LIMITED	23,539,411	12.593
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	22,181,037	11.866
COOKSHILL INVESTMENTS PTY LTD <COOKSHILL INVESTMENTS A/C>	16,060,834	8.592
HM ENDO HOLDINGS BV	10,550,000	5.644
MACQUARIE CAPITAL GROUP LTD	10,000,000	5.350
CITICORP NOMINEES PTY LIMITED	7,483,946	4.004
STEMCOR AUSTRALIA PTY LTD	6,150,000	3.290
INDUS ASIA PACIFIC FUND LTD	5,743,106	3.072
INDUS ASIA PACIFIC FUND LP	3,852,671	2.061
MR JINESH KIRAN PATEL	2,659,952	1.423
FULCRUM RESOURCES LIMITED	2,156,000	1.153
LATITUDE INVESTMENTS PTY LIMITED	2,088,462	1.117
MR RODNEY JOHN AUSTIN <APT SUPERANNUATION FUND A/C>	2,050,000	1.097
KFT CAPITAL PTY LIMITED <GUNDIMAINE A/C>	1,847,500	0.988
MR STUART TURNER	1,764,000	0.944
THORPE ROAD NOMINEES PTY LTD <IAN TREGONING FAMILY 2 A/C>	1,757,628	0.940
ALLIED STRATEGIC RESOURCES LIMITED	1,538,460	0.823
DAHELE PTY LIMITED	1,525,098	0.816
FESH PTY LTD	1,500,000	0.802
N M B INVESTMENTS PTY LIMITED <NMB A/C>	1,500,000	0.802
	125,948,105	67.377

Directory

Directors:

R Austin - Interim Chairperson
W Hansen *
P McCarthy **
G Solomon *
F Yu

* Members of the audit and
  risk management committee
** Chairman of the audit and
  risk management committee

Registered Office

Suite 2, 1 Swann Road
Taringa QLD 4068
Australia

Principal place of business and postal address

Suite 2, 1 Swann Road
Taringa QLD 4068
Australia

Telephone : +61 7 3720 9300
Facsimile : +61 7 3720 9311
Email : Brisbaneadmin@endocoal.com.au
Web : www.endocoal.com.au

Management group

Chief executive officer
T Hedley

Chief financial officer
Company secretary
P Edwards

Exploration manager
D Walker

Share registry

Boardroom limited
Level 7, 207 Kent Street
Sydney NSW 2000
Australia
Postal address:
GPO Box 3993, Sydney NSW 2001

Telephone : (within Australia) 1300 737 760
Telephone : (outside Australia) +61 2 9290 9600
Facsmile : (within Australia) 1300 653 459
Facsmile : (outside Australia) +61 2 9279 0663
Email : enquiries@boardroomlimited.com.au
Web : www.boardroomlimited.com.au

Auditors

PricewaterhouseCoopers Chartered Accountants

Bankers

ANZ Bank

Solicitors

Norton Rose
Gilbert and Tobin
Clayton Utz

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