



GUILDFORD
COAL

ANNUAL REPORT

2012



CORPORATE DIRECTORY

DIRECTORS

The Hon Peter LindsayChairman
Mr Michael Avery Managing Director
Mr Craig RansleyNon-Executive Director
Mr Michael ChesterNon-Executive Director
The Hon Alan Griffiths...Non-Executive Director
Mr Louis Chait Finance Director

COMPANY SECRETARY

Mr Michael Avery Joint Company Secretary
Mr Louis Chait Joint Company Secretary

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Guildford Coal Limited shares are listed on the
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CHAIRMAN'S LETTER

On behalf of the Board of Directors and management of Guildford Coal Limited (ASX: GUF), it is with great pleasure that I present to you the 2012 Annual Report.

Over the last 12 months, Guildford has shown itself to be the standout junior who is now successfully transitioning from explorer to miner. This has been a remarkable achievement at a time that has been challenging for the resources industry. The Board will continue to enthusiastically engage the future and build significant value in the company through top class management and competitive advantage.

CONSOLIDATION OF OWNERSHIP AND ACQUISITIONS

I am pleased to report the consolidation of ownership of a number of priority subsidiaries during the year, including the move to 100% ownership in FTB (QLD) Pty Ltd and Orion Mining Pty Ltd, both up from 80%, and an increased stake in White Mountain Pty Ltd from 56% to 59.6%. All of these subsidiaries contribute tenements to the broader Northern Galilee Project being developed by Guildford which has access to existing rail and port infrastructure. Guildford also completed the strategic acquisition of 50.52% in Springsure Mining Pty Ltd which owns the Springsure Project in the Bowen Basin and which is a perfect addition to Guildford's tenement portfolio with the potential for thermal and possible PCI coal.

QUEENSLAND OPERATIONS

Although exploration was spread over the majority of tenements, the main exploration focus was on the Hughenden and White Mountain Projects where I am pleased to report significant progress on both projects. The Hughenden Project reported an increased Inferred Resource of 1.619Bt of which 123Mt was upgraded to an Indicated Resource during the year,

whilst the White Mountain Project was successful in reporting a Maiden Inferred Resource of 262Mt (which has recently been upgraded to 623Mt). Exploration continues on these tenements to further expand and upgrade these resources to underpin studies which have commenced to move these tenements from Exploration Permits to a Mining Licences. Discussions regarding a port and rail solution have progressed with the view to secure capacity on existing and expanding infrastructure.

Following the change of Government in Queensland, there is a new positive attitude towards assisting the mining industry in delivering new mines. This is particularly important to Guildford as we move to develop our ground in the North Galilee. A specific Cabinet Resources Committee has been established with a brief to assist miners to better manage red and green tape and to gain access to rail and port infrastructure.

In the corridor between Townsville and Hughenden, we have already built strong community support. I particularly want to thank the three Mayors for their leadership in backing the benefits of taking our coal to market from the development of our North Galilee tenements.

I am delighted to report Guildford entered into a Farm-in and Joint Venture Agreement with Queensland Coal Investments (Coking) Pty Ltd (QCI) which is a wholly owned subsidiary of Hancock Prospecting Pty Ltd. This agreement is structured over three years whereby QCI will manage and operate the Kolan Project near Bundaberg and targeting coking coal in the Maryborough Basin.

MONGOLIAN OPERATIONS

Following continued exploration success, the Indicated Resource expanded to 72Mt and Inferred

Resource to 219.8Mt across the South Gobi and Mid Gobi Projects held by Guildford's Mongolian subsidiary. The discovery of a Fluorite mineralisation outcrop in the Mid Gobi exploration licence was also an unexpected but welcomed discovery.

I am delighted to report the first Mining Licence was granted over the conceptual East and Central Pits in the South Gobi Project and a Pre-Mining Agreement (which has just recently been upgraded to a Mining Licence) granted over the North Pit of the South Gobi Project.

It is an exciting time for the Mongolian operations with mining about to begin and first coal production forecast for late November 2012 from the North Pit. Mining contractors have been engaged, they have started to mobilise their equipment on site and construction has commenced. A Heads of Agreement for off take has been signed by Sojitz and a Marketing Agency Agreement signed by Noble. The forecast for the first year of production is in excess of 3Mt of coking coal.

Exploration, mining studies and contractor negotiations continue in other areas covered under the existing Mining Licences to evaluate potential additional brownfield expansions.

We have a great working relationship with Mongolian authorities and stakeholders and I want to thank them for their assistance and co-operation in delivering for the Mongolian people and for Guildford shareholders.

OUTLOOK

Guildford continues to maximise opportunities for growth through a strategic approach to exploration and project commercialisation. Your Board continues to believe that the future of the coal export markets in Australia and Mongolia is strong and the Company will

continue to move quickly and decisively to maximise benefits for shareholders.

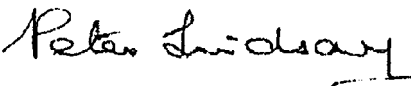
Safety and risk continues to be reviewed at every Board meeting. These issues help underpin the strength of Guildford.

With a diversified mix of coal types including thermal and coking coals across our priority projects in Australia and Mongolia and the near term cash flow from the South Gobi Project, we believe Guildford Coal is very well positioned in the short, medium and longer terms.

With a portfolio of high quality coal projects and a first class team to match, we are confident that Guildford Coal will be one of the next major independent ASX listed coal producers.

On behalf of the board I would like to thank the management team, employees, key contractors and shareholders for their continued loyalty, hard work, support and commitment. Without this the significant achievements over the last 12 months would not have been possible.

My sincere thanks to the team.



The Hon Peter Lindsay
Chairman
Guildford Coal Limited



MANAGING DIRECTOR'S REPORT

JULY 2011 TO JUNE 2012 – HIGHLIGHTS

CORPORATE

Further augmentation of the Board

- Engagement of the Honourable Peter Lindsay as Independent Director to replace Mr Tony Bellas who resigned to take up an executive position in another company. Mr Lindsay was elected as Chairman of the Guildford Board.
- Engagement of key senior executive Mr Louis Chait as Chief Financial Officer who was also appointed to the Board.

Moving to Production

- Progressed towards the corporate goal of becoming the next independent coal mining company listed on the ASX through advancement towards mining on the South Gobi Project in Mongolia.

Large Resource Portfolio

- Developed one of the largest resource portfolios of any independent ASX listed explorer through confirmation and expansion of resources for Projects managed by Guildford with in excess of 2Bt.

Guildford Coal	JORC Resources (Mt)				Exploration Target (Mt)		Potential Coal Type	Independent Geologist
	Measured	Indicated	Inferred	Total	Lower	Upper		
Hughenden*		123.6	1,495.4	1,619	285	2830	Thermal	MDM
Pentland%					295	2890	Thermal	MDM
White Mountain@		-	262	262	40	815	Thermal	MDM/Palaris/Xstract
Kolan	-	-	-	-	60	400	Coking	MDM
Springsure					60	235	Thermal/PCI	MDM
AUSTRALIAN TOTAL	0	123.6	1,757.4	1,881	740	7,170		
North		39.7	30.7	70.4	14	73	Coking	MDM
Central					56	279	Coking	MDM
East					0	241	Coking/Thermal	Palaris
West					0	300	Coking/Thermal	Palaris
South Gobi Total	0	39.7	30.7	70.4	70	893		
Mid Gobi Total	0	32.3	189.1	221.4	165	830	Thermal	MDM
MONGOLIAN TOTAL	0	72.0	219.8	291.8	235	1,723		
TOTAL	0	195.6	1,977.2	2,172.8	975	8,893		

MONGOLIA

Strategic Acquisition

- Completed the strategic acquisition of a 100% stake in Alag Tevsh LLC, a Mongolian based company that holds an exploration licence 5262X which adjoined the existing South Gobi Project coal tenements. This exploration licence was converted to a Mining Licence during the year.

Consolidation of Ownership

- Moved to 74.76% ownership of Mongolia based partnership Terra Energy Ltd with a 4.76% increased stake through conversion of a loan to equity

Expanded Mongolian Resources

- Developed a consolidated JORC Resource of 291.8Mt consisting of 72Mt of Indicated Resource and 219.8Mt of Inferred Resource of coking and thermal coal
- Estimated a further Exploration Target* of 235Mt to 1.723Bt of coking and thermal coal

Further Discoveries

- Fluorite mineralisation discovered outcropping on Mid Gobi exploration licence.

Progress to Mining

- Granting of the first Mining Licence over conceptual East and Central Pits in the South Gobi Project which is for a 30 year term with two 20 year extension options
- Pre Mining Agreement granted over the North Pit of the South Gobi Project which has just been converted to a Mining Licence
- Confirmed Start Up Schedule with first coal production forecast for late November 2012
- Mining Contractor engaged for development of North Pit with mobilisation and construction commenced
- North Pit Production Forecast Yr 1 is in excess of 3Mt of Coking coal
- North Pit Mining Costs estimated to be in lowest Quartile, startup capex just over \$10m and Positive cashflow forecast by the end of 2012
- Heads of Agreement for offtake signed with end user Sojitz
- Marketing Agency Agreement signed with Noble in addition to funding arrangements for South Gobi Project start up mine
- Mine design work and contractor negotiations commenced on the potential East Pit Development covered by existing Mining Licence



South Gobi – contractor equipment

QUEENSLAND

Consolidation of ownership of key projects

- Moved to 100% ownership of subsidiary company FTB (Qld) Pty Ltd with the acquisition of a 20% stake from Carpentaria Exploration Limited. FTB controls a 100% interest in a number of tenements which makes up approximately 60% of the Northern Galilee Project by area
- Moved to 100% ownership of subsidiary company Orion Mining Pty Ltd with the acquisition of a 20% stake from Spinifex Rural Management Pty Ltd. Orion Mining controls a 100% interest in a number of tenements which makes up approximately 40% of the Northern Galilee Project by area
- Moved to 59.6% ownership of subsidiary company White Mountain Pty Ltd with a 3.6% increased stake. White Mountain controls a 100% interest in a number of tenements which makes up the White Mountain Project located on the north eastern edges of the Galilee Basin

Strategic Acquisition

- Acquired 50.52% of Springsure Mining Pty Ltd from Resco Projects Pty Ltd. Springsure Mining Pty Ltd 100% owns the Springsure Project located in the Bowen Basin. Independent consulting geologists have estimated an Exploration Target[#] on the Springsure Project of 60Mt to 235Mt of coal with

export thermal and possibly PCI potential from the Reids Dome Beds

Strategic Partnership

- Entered into a Farm-in and Joint Venture Agreement with QCI (Coking) Pty Ltd (QCI), a wholly owned subsidiary of Perth based Hancock Prospecting Pty Ltd (HPPL) at its Kolan Coal Project in Queensland. The Farm-in agreement is over three years for a total contribution from QCI of \$2 Million. During these three years QCI will manage and operate the two tenements at Kolan (EPCs 1872 and 2003) near Bundaberg

Expanded Queensland Resources

- Developed a consolidated JORC Resource of 1.881Bt consisting of 123.6Mt of Indicated Resource and 1.757Bt of Inferred Resource of thermal coal
- Estimated a further Exploration Target[#] of 740Mt to 7.17Bt of thermal and coking coal

Progressed Rail and Port Solution

- Furthered rail and port solution for Northern Galilee Projects through advancement of discussions on the back of the Heads of Agreement in place to secure existing and expanded rail and port capacity for the Hughenden Project with ARG (QR Subsidiary and rail operator) and Port of Townsville Limited (POTL)



COMPANY OVERVIEW

Guildford Coal has established a portfolio of coal exploration tenement areas in Queensland, Australia and more recently in Mongolia with a combined JORC resource of 2.172 billion tonnes across the Hughenden and White Mountain Projects (Qld), South Gobi Project (Mongolia) and Middle Gobi Project (Mongolia). In addition to these resources, Exploration Targets[#] have been prepared for Projects managed by Guildford in Queensland and Mongolia of 0.975Bt to 8.893Bt of thermal, PCI and coking coal. Please see the Resource Table provided over the page for more detail.

Guildford Coal's Queensland tenements cover an estimated area of 20,000 square kilometres and are defined within project areas as follows:

- Hughenden Project (Galilee/Eromanga Basins):
 - FTB (Qld) Pty Ltd (Guildford 100%)

- Pentland Project (Galilee/Eromanga Basins):
 - Orion Mining Pty Ltd (Guildford 100%)
- White Mountain Project (Guildford 59.6%)
- Springsure Project (Bowen Basin, Reids Dome Beds) (Guildford 50.52%)
- Sierra Project (Bowen Basin)
- Kolan Project (Maryborough Basin)
- Sunrise Project (Surat/Bowen Basin)
- Monto Project (Nagoorin Graben)

Guildford Coal also has an equity share in seven tenements contained in two projects in Mongolia. The coal projects are located in the South Gobi and Middle Gobi coal bearing basins which contain coking and thermal coals respectively.

Guildford Coal has developed a large resource portfolio across projects in Mongolia and Queensland.

MONGOLIA

MONGOLIAN PROJECTS OVERVIEW

Guildford's interests in Mongolia are held through 70% owned subsidiary, Guildford Coal (Mongolia) Pty Ltd and 75% owned subsidiary, Terra Energy Limited. The ownership in Terra Energy Limited increased from 70% to 75% in July 2012 following Guildford's conversion of a loan facility to equity.

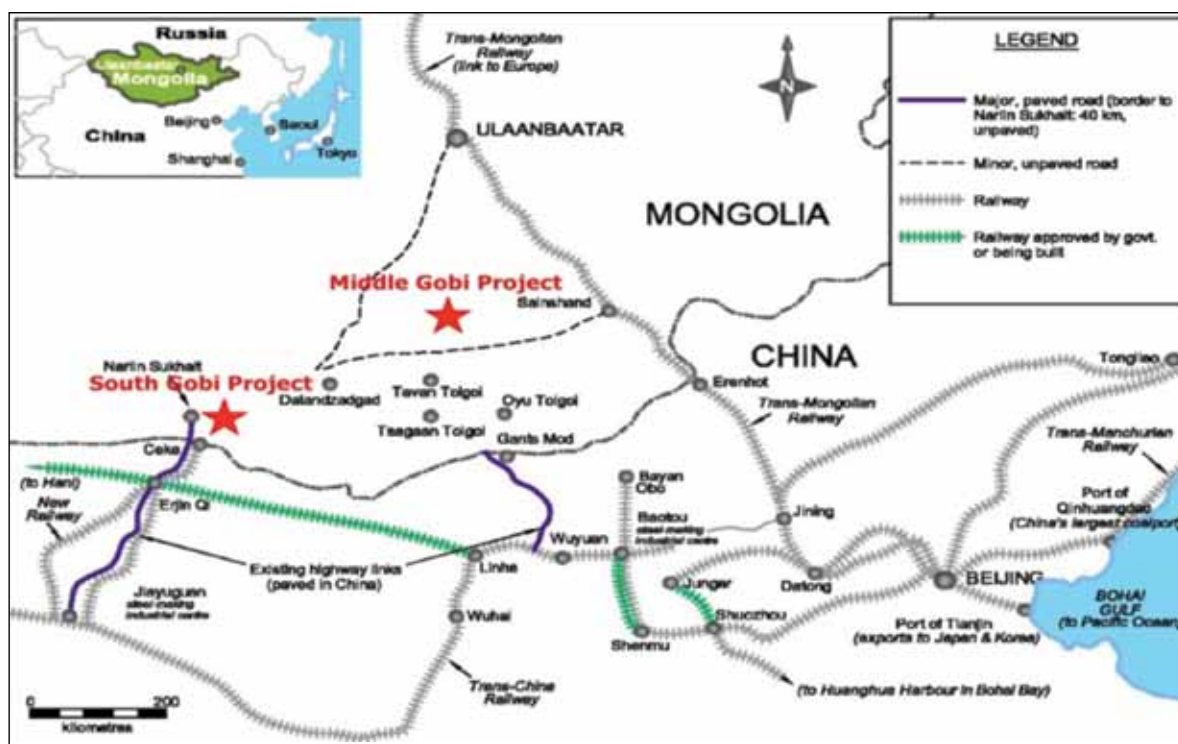
The coal projects are located in the coal bearing basins of the South Gobi and Mid Gobi which contain coking and thermal coals respectively.

The South Gobi Project consists of three exploration licences, one mineral development licence and one mining licence located in the South Gobi Province (Umnigovi Aimag) of Mongolia. These licences are situated approximately 1,000km south-west of the Mongolian capital of Ulaanbaatar and approximately 60km from the Chinese border coal station of Ceke,

where coal produced in nearby Mongolian mines is currently transported by road through to China. The South Gobi Project has a JORC coal resource of 70.4Mt of coking coal consisting of an Indicated Resource of 39.7Mt and an Inferred Resource of 30.7Mt. A further Exploration Target[#] for the South Gobi Project of 70Mt to 892Mt of coal has also been estimated by Independent Geologists.

The Mid Gobi Project consists of two exploration licences located in the Dundgovi Province which is approximately 200km south of Ulaanbaatar and just over 200km west of the Mongolian railway grid with a logistic route to China via the Erlianhaote border crossing. The Mid Gobi Project has a total JORC coal resource of 221.4Mt consisting of an Indicated Resource of 32.3Mt and an Inferred Resource of 189.1Mt. A further Exploration Target[#] for the Mid Gobi Project of 165Mt to 830Mt of coal has also been estimated by Independent Geologists.

Figure 1: Map Showing Location of Guildford Projects in Mongolia in relation to Infrastructure



SOUTH GOBI COAL PROJECT

Overview

The South Gobi Project consists of five tenements located in the South Gobi Province (Umnigovi Aimag) of Mongolia. These licences are situated approximately 1,000km south-west of the Mongolian capital of Ulaanbaatar and approximately 60km from the Chinese border station of Ceke, where coal from Mongolia is currently transported through to China. The project is also strategically located approximately 50km east of Nariin Sukhait which includes SouthGobi Resources' (SGS) Ovoot Tolgoi mine and the MAK mine, which produce and export coking and thermal coal to customers in China. The South Gobi Project is located approximately 50km east of these mines.

The South Gobi Project – North Pit is planned to ramp up to 4 Mtpa of open-cut coking coal operation. Terra Energy anticipated commencing mining during the final quarter 2012. The aim is to then progressively expand operations into additional pits conceptually identified on the project. These additional conceptual pits to be confirmed by drilling this year would be supported by the centralised infrastructure established for the start up mine.

North Pit Mining Contractor

The mining contractor has been engaged to commence mining operations in the North Pit of the South Gobi Project. The mining operations will be headed by the leadership team that managed the start up of the Erdenes Tavan Tolgoi Project for McMahon Holdings Ltd. The mining contractor is an experienced Mongolian contractor, Grand Power Mining, a subsidiary of Grand Power LLC which has been working in the Mongolian Energy and Mining sectors since 2000. The contract delivers total mining costs in line with Terra Energy's expectations for the South Gobi Project and also meets the timelines for mining in 4th Quarter 2012.

North Pit Start Up Coal Production Schedule

The forecast production schedule for the North Pit start up is as follows:

Year	2012	2013				2014	
Quarter	Qtr4	Qtr1	Qtr2	Qtr3	Qtr4	Qtr1	Qtr2
Overburden (MBCM)	3.5	4.4	4.5	4.5	4.5	4.5	4.5
Coal ('000 Tonnes)	400	900	900	900	900	1,250	1,250

Management And Labour

The Terra Energy site based leadership team will consist of a Project Director, two Mining Managers and two Maintenance Managers to cover the continuous roster. This leadership team performed the same role for McMahon Holdings Ltd for the startup of the Erdenes Tavan Tolgoi Project. The most senior Grand Power employee on site will be their General Manager Mining who will report to the Terra Energy Project Director.

The total Grand Power workforce employed on the project will consist of skilled Mongolian Nationals and will ramp up to the following levels:

Positions	Number
General Manager of Mining	1
Senior Mining Engineer	1
Mining Engineers	2
Drill and Blast Engineers	2
Mining Clerks	2
Mine Surveyors	4
HSE Manager	1
Safety Coordinators	2
Environmental Officer	2
Senior Foreman	1
Mine Foremen	4
Excavator CAT 390D Operators	12
Excavator EX1900 Operators	12
CAT 773 Dump Truck Operators	40
CAT 777 Dump Truck Operators	64
CAT D9 Dozer Operators	4
CAT D10 Dozer Operators	8
Wheel Loader Operators	4
Wheel Dozer Operators	4
Grader Operators	8

Positions	Number
Water Truck	4
Maintenance Manager	1
Planners	2
Fuel Truck	4
Fuel Controller/Dispatcher	4
Mechanical	16
Electrical	4
Welder/Boiler Makers	4
Storeman	4
Warehouse	2
Site Security	16
Trainer	2
Mine Assistants	10
Total	251

North Pit Mining Method

The mining operation will be a conventional open cut strip mine utilising hydraulic excavator and truck combinations on overburden and coal mining activities. Coal will be crushed and screened to sub 250mm size fraction and delivered raw to a ROM stockpile ready for sale to offtake partner(s).

Mining operations will be carried out year round on a 7 day per week, 24 hour per day basis. Total fleet movement capability will ramp up to 1.5 million cubic metres per month yielding over 300,000 tonnes of coal per month at peak fleet capacity.

The primary mining fleet to be used by the contractor will ramp up to the following:

Type	Make	Number of Units
Hydraulic Excavator	CAT 390D	3
Hydraulic Shovel	Hitachi EX1900	3
Dump truck	CAT 773	10
Dump truck	CAT 777	16
Dozer	CAT D9	1
Dozer	CAT D10	2
Wheel Dozer	CAT 834H	1
Wheel Loader	CAT 966	1
Grader	CAT 16M	1
Water Truck 773 1 pc	CAT773	1

North Pit Mine Layout

The mine design for the start up box cut and waste dump is shown in Figure 2.

North Pit Initial Box Cut And Strip Design

The design of the Initial Pit has an approximate strike length (crest to crest) of 1.3km and width from lowwall crest to highwall crest of approximately 700m. The nominal strip design is for 60m wide strips.

Initial North Pit Volumetrics by Strip

Strip	Coal (ROM Mt)	Waste (M bcm)	Stripping Ratio (bcm/ROM t)
Box Cut	3.70	18.30	4.9
2	1.81	6.60	3.6
3	1.67	7.60	4.5
4	1.64	8.29	5.0
5	1.63	8.80	5.4
6	1.25	6.90	5.5
7	0.54	2.70	5.0
Total	13.28	63.00	4.7

North Pit Coal Quality

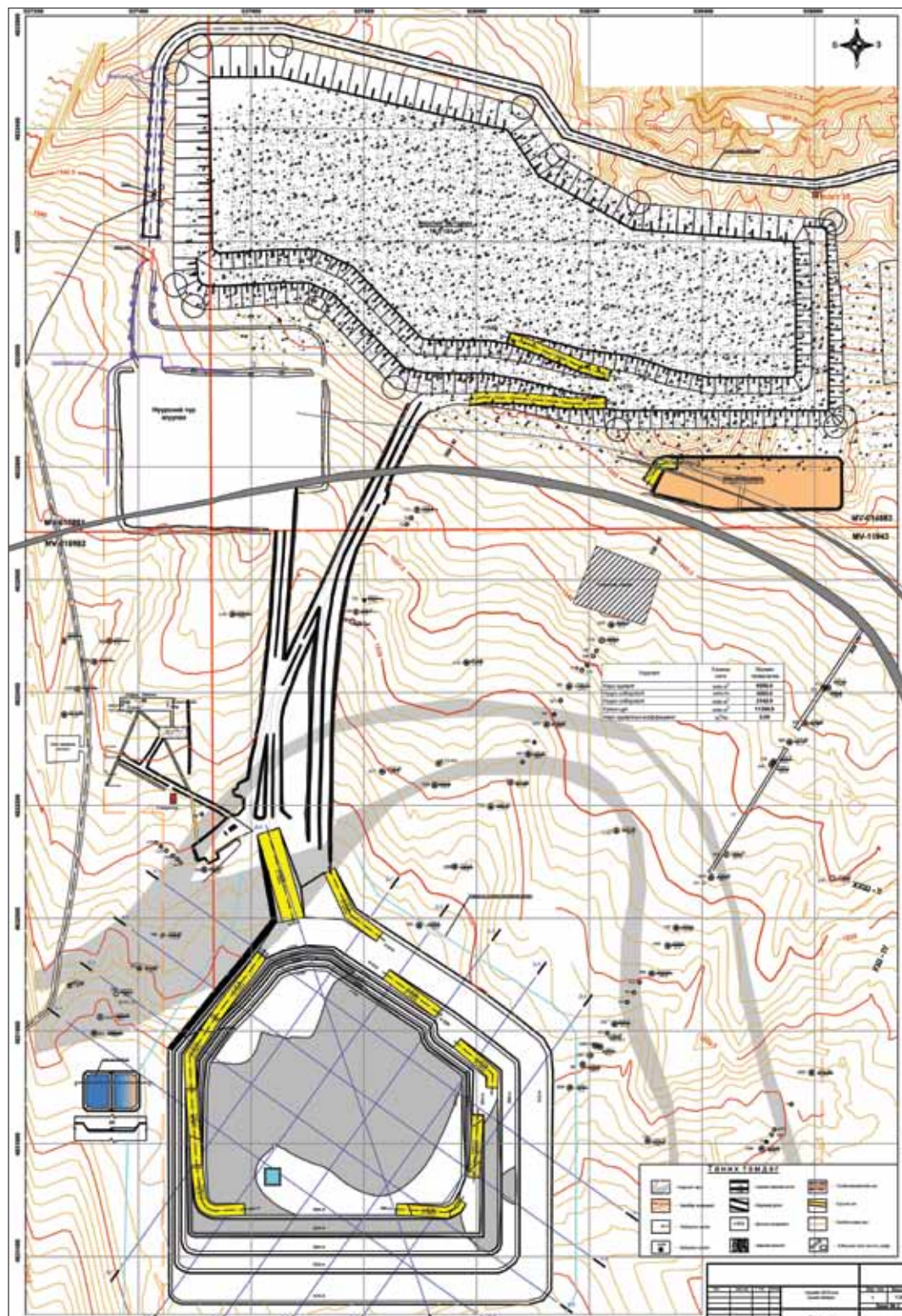
Results of the washability analysis of the large diameter cored holes has confirmed a 2 coking coal product potential for the first year of production and are tabulated on page 12.

Offtake Agreement With Sojitz

Negotiations progressed with short listed parties from the Offtake Tender Process and a non binding Heads of Agreement (HOA) was reached with Sojitz/Erdos Joint Venture that locks in key terms which will form the basis for the development of long form offtake agreement. It is envisaged that negotiations of long form agreements will be completed in 2012.

The Sojitz Corporation (Stock Code: 2768:JT) is a diversified Japanese holding company that operates in a variety of industries. The company's activities include trading operations in machinery and aerospace, energy and metal resources, chemicals and plastics, construction and urban development, forest products and building materials, foods, general commodities, and consumer business and textiles industries. The company is headquartered in Tokyo, and employs 16,302 people.

Figure 2: North Pit Mine Design



North Pit Coal Quality

Fat Coal Product	Yield F 1.40	Ash % F 1.40	CSN F 1.40	Yield % F 1.60	Ash % F 1.60	CSN F 1.60
Mean	73.77	4.77	8.5	83.34	5.92	8.2
Minimum	66.81	3.37	8.0	72.00	4.09	8.0
Maximum	83.35	5.65	9.0	92.42	6.78	8.5

Gas Coal Product	Yield F 1.40	Ash % F 1.40	CSN F 1.40	Yield % F 1.60	Ash % F 1.60	CSN F 1.60
Mean	72.82	5.56	7.5	73.26	8.82	6.5
Minimum	57.43	3.86	4.5	61.12	6.14	4.0
Maximum	75.92	9.97	8.5	78.44	14.14	8.0

Notes on results on float sink analysis completed on Large Diameter (PQ) cores covering the first year's production:

- Minimum and maximum refer to individual seams as analysed for a single LD core
- Mean is the mass weighted average of all the seams over the expected mining area that will be combined to make the product

Sojitz recorded revenues of JPY4,494,237 million (\$52,582.6 million) during the financial year ended March 2012 (FY2011). The operating profit of the company was reported as JPY64,522 million (\$754.9 million) and the net profit was JPY-3,649 million (\$42.7 million) in FY2011. (Financial results were impacted, due to a reversal of tax deferred assets following Japan's corporate tax reforms introduced on 2nd December in tandem with the promulgation of a reconstruction financing law.)

In June 2012, Sojitz Corporation announced its acquisition of a 10 percent stake in a Chinese resources and coal distributor – Inner Mongolia Zhongmeng Coal Co (Zhongmeng), a unit of the large Inner Mongolia Erdos Group to help support and boost sales to China from Mongolia. Through this relationship with Erdos, Sojitz is aiming to boost its Mongolian coal sales to China to 3–5 million tonnes a year within the next three years.

Sojitz already have three years experience for handling Mongolian coal through Zhongmeng, which has coal stockyards, trucks and a new coal preparation plant at the border station of Ceke between China and Mongolia. Zhongmeng also has a key cross-border export licence.

The HOA between Terra and Sojitz/Zhongmeng provides for two elements:

- Direct sales for ROM coal at minegate (up to 1 million tonnes per annum)
- Transportation service into China

Marketing Agency Agreement With Noble

Terra Energy has signed a Marketing Agency Agreement (Agency Agreement) with Noble Resources International Pte Ltd (Noble Resources) for coal produced from the South Gobi Project. A loan facility is provided by Noble Resources as part of the agreement which will be used to support the construction and development of the start up mine in the South Gobi Project. The Agency Agreement and Loan Agreement is binding subject to a number of pre-conditions which should be easily satisfied.

Noble Resources is a division of the Noble Group which is a diversified natural resources supply chain manager of agricultural and energy products and metals, minerals and ores. The Noble Group's global operations include mining, processing, ports, shipping and marketing and our supply chains ensure the smooth, long-term flow of essential commodities. The Noble Group follows a long-term strategy of building low-cost sourcing capacity from countries such as Argentina, Australia, Brazil and Indonesia, and delivers to high demand growth markets including China, India and the Middle East. The Noble Group is listed in Singapore (SGX: N21), with headquarters in Hong Kong and operates from over 140 locations, and was ranked 91 in the 2012 Fortune 500.

South Gobi Project Coal Resource

Independent geological consultants Moultrie Database and Modelling Pty Ltd (MDM) have estimated a JORC coal resource of 70.4Mt of coking coal consisting of an Indicated Resource of 39.7Mt and an Inferred

Resource of 30.7Mt based on the data available and reported to the JORC Code 2004 standard for the North Pit of the South Gobi Project. MDM has also estimated an overall Exploration Target[#] for the South Gobi Project of 70Mt to 892Mt which is in addition to the current mineral resource.

Further drilling will focus on proving a JORC compliant resource on the conceptual East Pit, conceptual Central Pit and conceptual West Pit during the remainder of 2012 with 2–3 drill rigs planned to be operational. Figure 3 shows the location of the South Gobi tenements along with the identified conceptual pits and the associated resource and exploration targets estimated for these conceptual pits.

Note: as previously disclosed, Och Ziff has a \$25m convertible note over Terra Energy LLC which converts to a 25% equity in the Mongolian subsidiary. The mining licence which contains the conceptual east pit in the South Gobi Project was acquired subsequent to the Och Ziff convertible note and is held by Guildford Coal (Mongolia) Pty Ltd via a Mongolian subsidiary and hence is not subject to the Och Ziff convertible note. Guildford Coal (Mongolia) Pty Ltd is 70% owned by Guildford Coal Ltd and 30% owned by Terra Holding LLC.

Indicative Modelling For North Pit

Coking coal production (on a 100% basis) is expected to be over 3 million tonnes in the first full year of production. The operation will continue to ramp up to over 4 million tonnes in the following year. Future development of additional pits (once proven by exploration and confirmed by mining studies) is expected to allow an increase in mine production up to 10 million tonnes per annum from the multiple pit complex and within an anticipated five year timeframe. Total operating costs for the North Pit are expected to be in the lowest quartile on a ROM Free-On-Truck (FOT) basis to the target market in neighbouring China. North Pit start up CAPEX will be in line with expectations at just over \$10 million.

South Gobi Project – Second Mine Development – East Pit

Based on historic exploration and recent field mapping on the conceptual East Pit, work has commenced on the following parallel work streams:

- Fast track exploration programme consisting of infill drill holes and a seismic survey;
- Mine design work; and
- Negotiations with a mining contractor.

If successful, this work should enable the commencement of production from a second pit in the South Gobi Project before the end of 2012. Requisite approvals are already in place with a Mining Licence already granted over the conceptual East Pit.

This development is consistent with the strategy of developing multiple pits supported by the centralised infrastructure that is being constructed for the South Gobi Project.

MID GOBI COAL PROJECT

Overview

The Mid Gobi Project consists of two exploration licences located in the Dundgovi Province, which is approximately 200km south of Ulaanbaatar and just over 200km west of the Mongolian railway grid with a logistic route to China via the Erlianhaote border crossing.

The two Mid Gobi Project exploration licences have an approximate area of 36,000 hectares and are located in the coal bearing Ongi Gol Basin.

The primary target is coal due to the regional geology which consists mostly of moderately dipping sedimentary basins which potentially provide multiple hard and low rank surface coal targets. The project location is within relatively close proximity to infrastructure for potential customers including Mongolian and Chinese electricity generators.

There are two potential coal deposits located in the Mid Gobi Project:

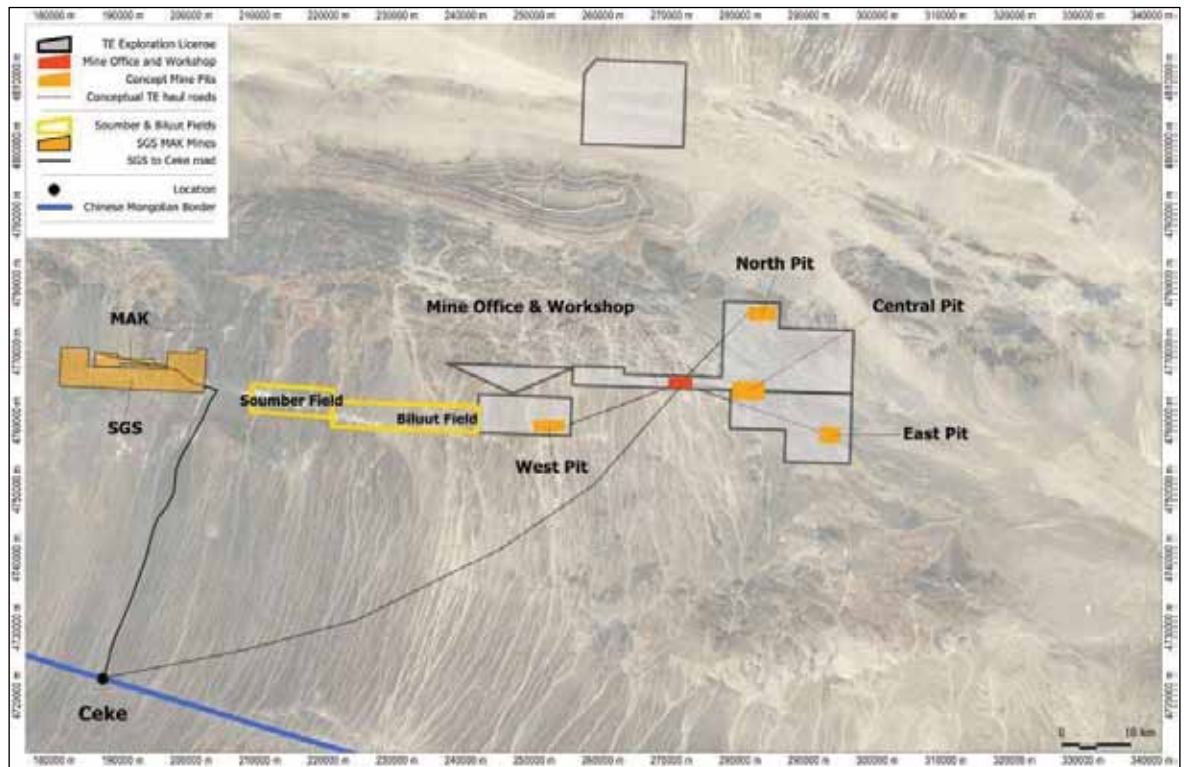
- Tsagaan Ovoo Deposit (Exploration Licence 15466X)
- Tsakhiurt Gobi Deposit (Exploration Licence 12929X)

Mid Gobi Project – Coal Resource

MDM have estimated an Exploration Target[#] for the Mid Gobi Project to 165Mt to 830Mt through interrogating the exploration data available within the project area, comprising both company and public domain data, and calculating in-situ volumes based on conservative cumulative coal seam thickness contours.

In addition to the Exploration Target[#] outlined above, a total JORC Resource of 221.4Mt consisting of an Indicated Resource of 32.3Mt and an Inferred Resource of 189.1Mt was previously announced (ASX 7 December 2011) based on the data available and reported to the JORC Code 2004 standard.

Figure 3: South Gobi Project Mine Concept



Preliminary assessment indicates that the coal from 12929X will be low rank thermal coal and 15466X could contain higher rank sub-bituminous coal. The potential for the Middle Gobi Project is for a large scale open cut operation supplying thermal coal to Mongolian and Chinese electricity generators.

MID GOBI PROJECT – FLUORITE DISCOVERY EVALUATION

A magnetic survey has been completed on 12929X by Logantek LLC. Preliminary magnetic (TMI) results

are shown in Figure 6. The image shows a magnetic feature in close proximity to the area of outcrop and sampling with an orientation approximately north east to south west.

A geochemical soil sampling and trenching program has been designed to evaluate the extent and quality of the Fluorite deposit and to evaluate whether there are any other valuable minerals which are often found associated with fluorite deposits such as galena, barite and sphalerite.

Figure 4: Map Showing Location of Guildford Middle Gobi Projects

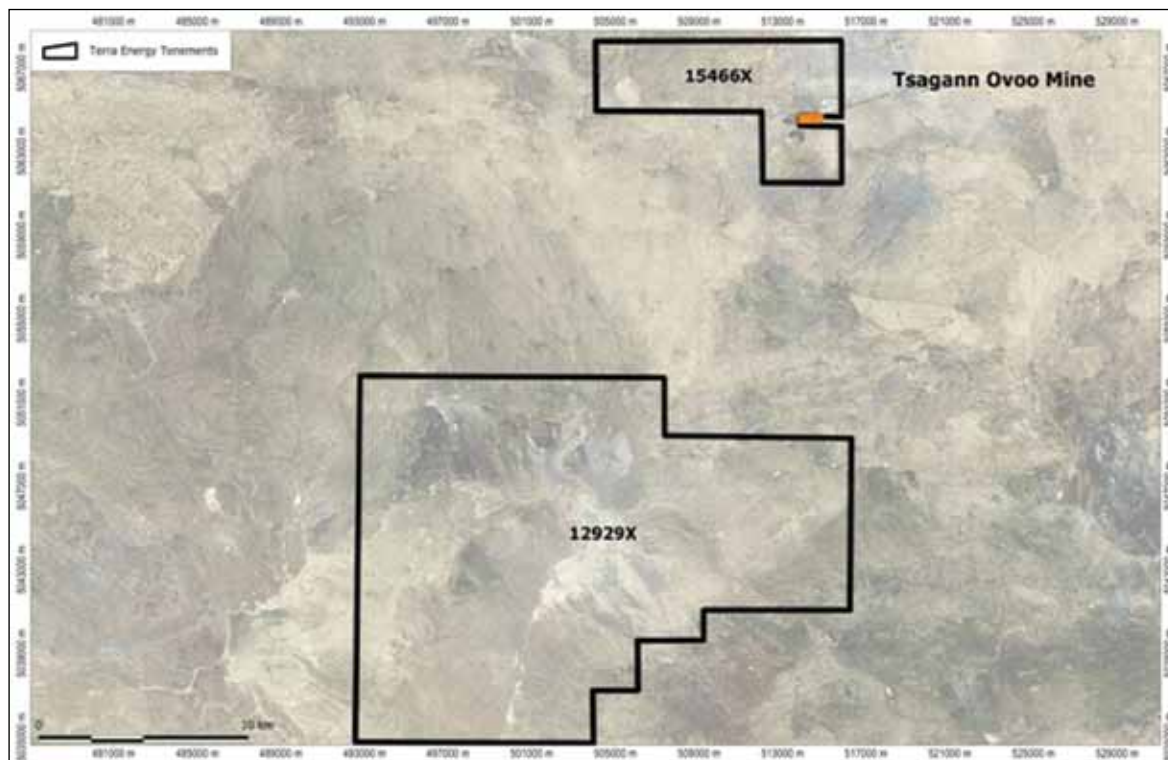
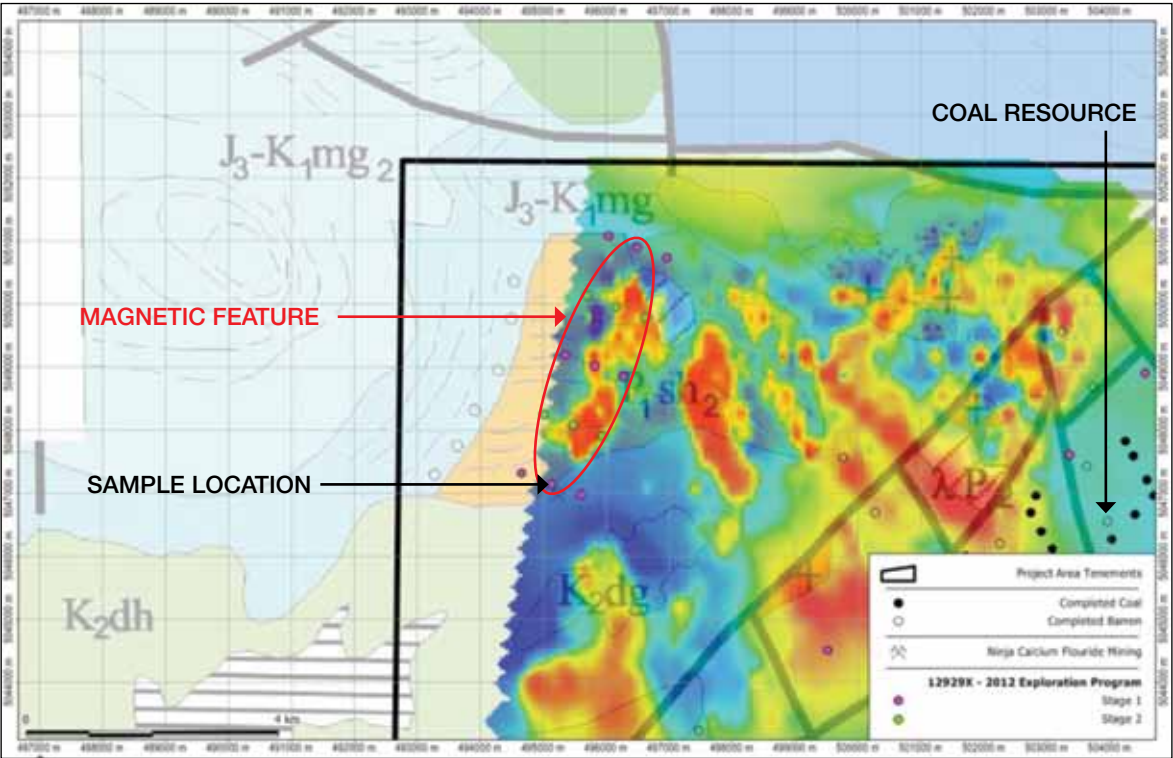


Figure 5: Photo of Grab Sample taken from outcrop on 12929X (not to scale)



Figure 6: Middle Gobi Project – 12929X – CaF2 Exploration Program



NORTHERN GALILEE COAL PROJECT

Overview

The Hughenden, Pentland and White Mountain Projects comprise the Northern Galilee Coal Projects and are located in the northern end of the coal bearing Galilee Basin in Qld, Australia. The Projects cover approximately 16,500 square kilometres of exploration permits for coal, all of which have been granted.

The Hughenden Project has a 1.619Bt JORC inferred resource of thermal coal in the Permian Betts Creek Beds in northern Galilee Basin at depths suitable for underground mining. There is a further Exploration Target# of 285Mt to 2.83Bt across this project.

The White Mountain Project has a 262Mt JORC inferred resource of thermal coal in Permian Betts Creek Beds in northern Galilee Basin at depths suitable for open cut mining. There is a further Exploration Target# of 40Mt to 815Mt across this project.

The Pentland Project has an independent geologist's estimated Exploration Target# of 295Mt to 2.89Bt of coal with thermal potential from north eastern Galilee and Eromanga Basins

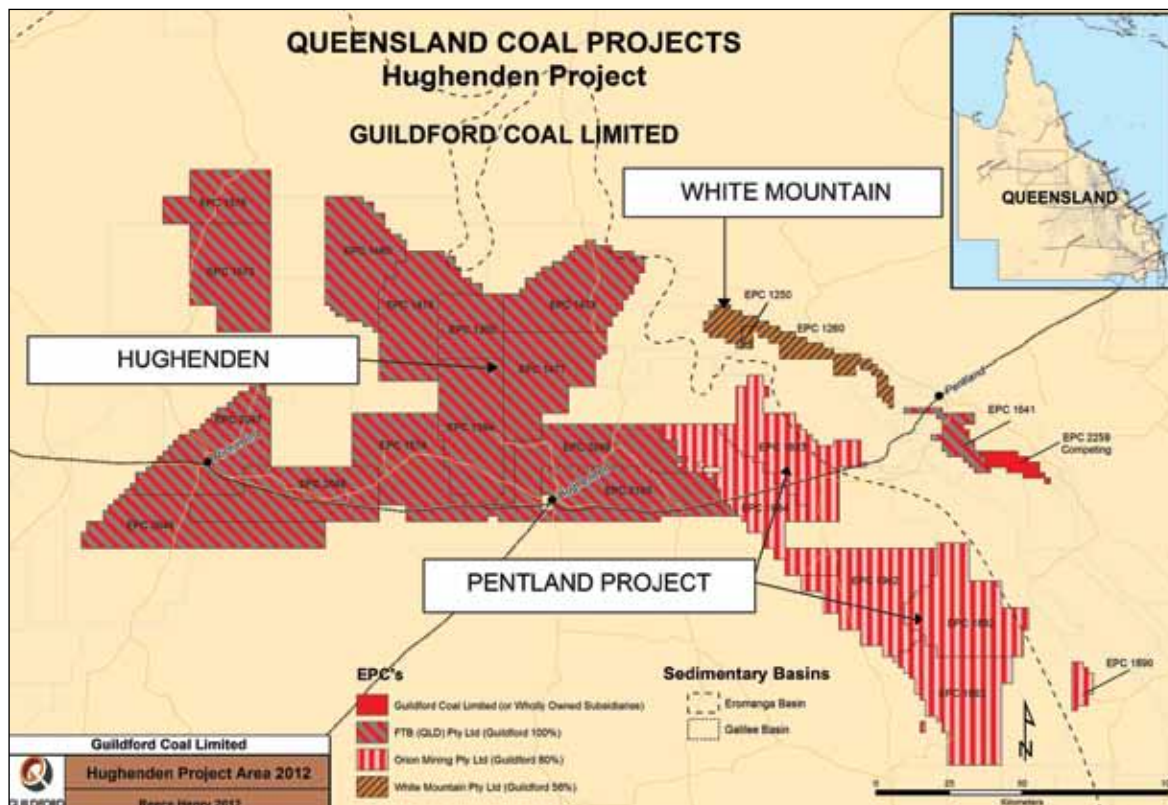
The Projects have the scale and potential to support multiple open cut and underground mining operations producing substantial export thermal coal tonnages which are located in close proximity to infrastructure, with the Mt Isa to Townsville rail line running across the project area. There is currently a combined 1.881Bt JORC inferred resource and a further Exploration Target# declared of 0.62Bt to 6.535Bt estimated by independent geologists across the combined Northern Galilee Projects.

HUGHENDEN COAL PROJECT

Overview

Guildford wholly owns the subsidiary FTB (Qld) Pty Ltd which holds the following tenements: EPCs 1394, 1477, 1478, 1479, 1480, 1573, 1574, 1576, 2046,

Figure 7: Map of Hughenden Coal Project



2047, 2048, 2049 and 2105 contained in the northern end of the Galilee Basin, Queensland Australia and which form the Hughenden Project.

In February 2012, independent geologists Moultrie Database and Modelling (MDM) had previously estimated a JORC Inferred Resource of 1.619Bt of thermal coal on EPC1477 and EPC1478 at depths suitable for underground mining. Importantly this resource domain represented less than 2% of the Hughenden Project total tenement area.

MDM had also previously completed a comprehensive compilation and assessment of recent and historical geological and exploration data in September 2011 and developed an Exploration Target# of 0.285 Bt to 2.83 Bt for the Hughenden Project.

Hughenden Maiden Jorc Indicated Resource

Since the February 2012 report, another four cored holes, with detailed ply-by-ply coal quality sampling were completed, bringing the total to 12 partially cored boreholes sampling the Betts Creek Beds across the lease, and enabling the calculation of a maiden Indicated Resource on EPC1477. The Minescape model was revised, and new tonnages estimated.

The total Indicated Resource is 123.63 Mt and the domain area is shown in the Figure 8.

The stratigraphy of the coal reported in this resource correlates well with regional stratigraphy that has been previously published for the Galilee Basin, with the Betts Creek Beds Coal Sequence proving similar to that defined at the Adani–Carmichael Deposit and the Hancock–Alpha Deposit.

WHITE MOUNTAIN COAL PROJECT

Overview

Guildford holds a 59.6% stake in White Mountain Pty Ltd which owns the contiguous EPC1250 and EPC1260 which are located on the north eastern edge of the Galilee Basin in Queensland where the Permian coal seams are known to outcrop and where they were previously mined in the old Oxley Creek Coal Mine (located entirely within EPC1250).

The White Mountain Project is a potential early stage development opportunity in the northern Galilee Basin and is well located to utilise existing rail and port capacity. The south eastern boundary of EPC1260 is approximately 15km from a potential rail siding at Pentland.

Figure 8: Hughenden Project – EPC 1477

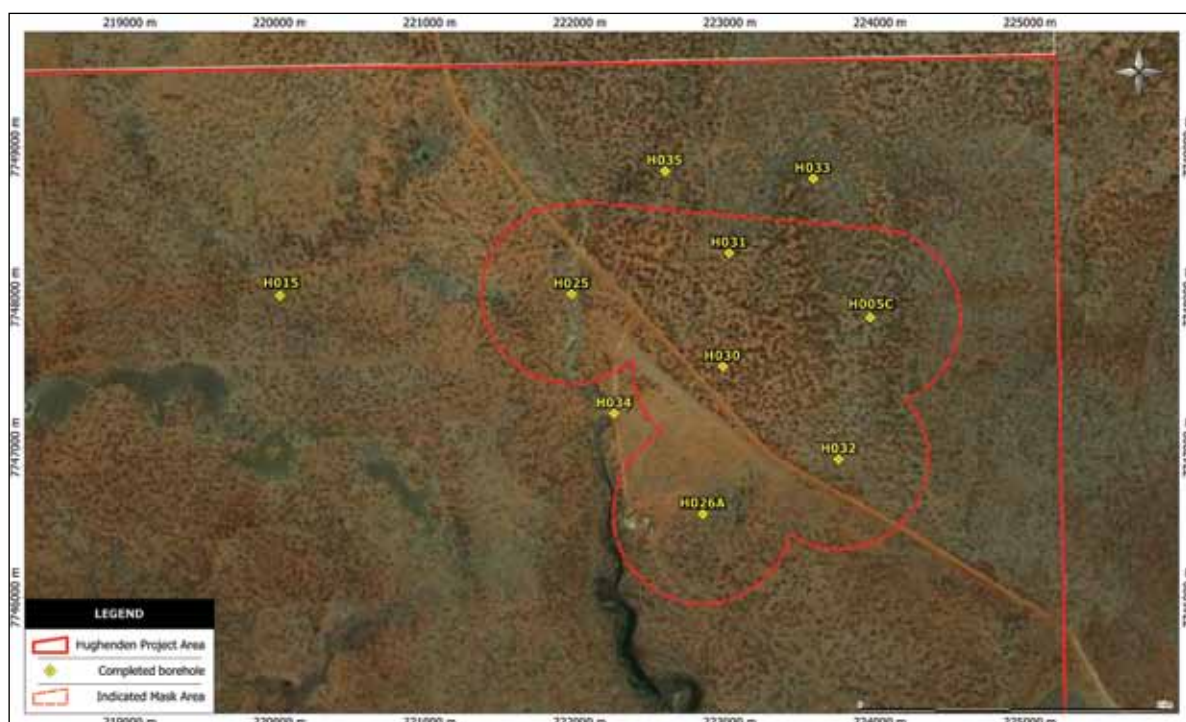
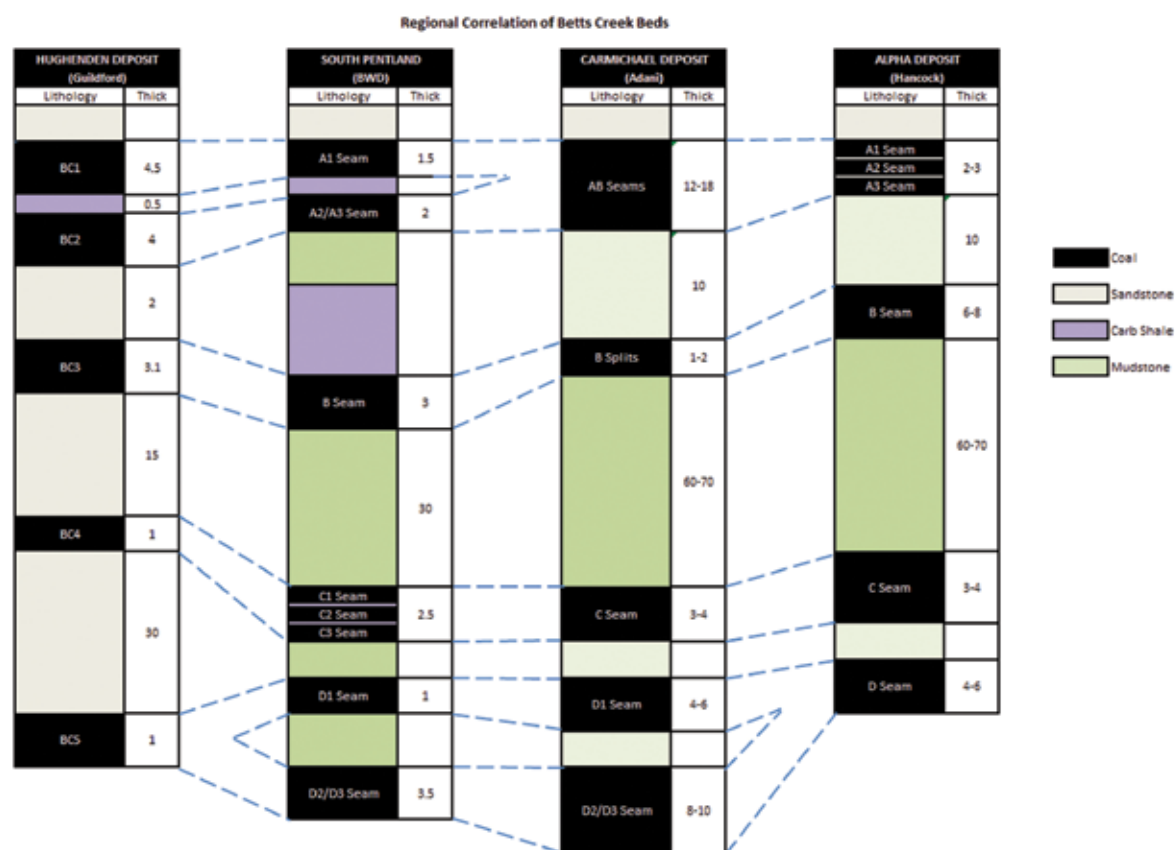


Figure 9: Hughenden Coal Project Deposit Comparison



Source: Modified after Blackwood Corporation Limited

WHITE MOUNTAIN PROJECT MAIDEN JORC RESOURCE

As announced to the market on 5th March 2012, Moultrie Database and Modelling (MDM) completed a compilation and assessment of exploration data and calculated an initial JORC resource estimate for EPC1250 and EPC1260 in the White Mountain Project of 262Mt of Inferred Resources of thermal coal.

The stratigraphy of the coal reported in this resource also correlates well with regional stratigraphy that has been previously published for the Galilee Basin, with the Betts Creek Beds Coal Sequence proving similar to that defined at the Adani–Carmichael Deposit and the Hancock–Alpha Deposit.

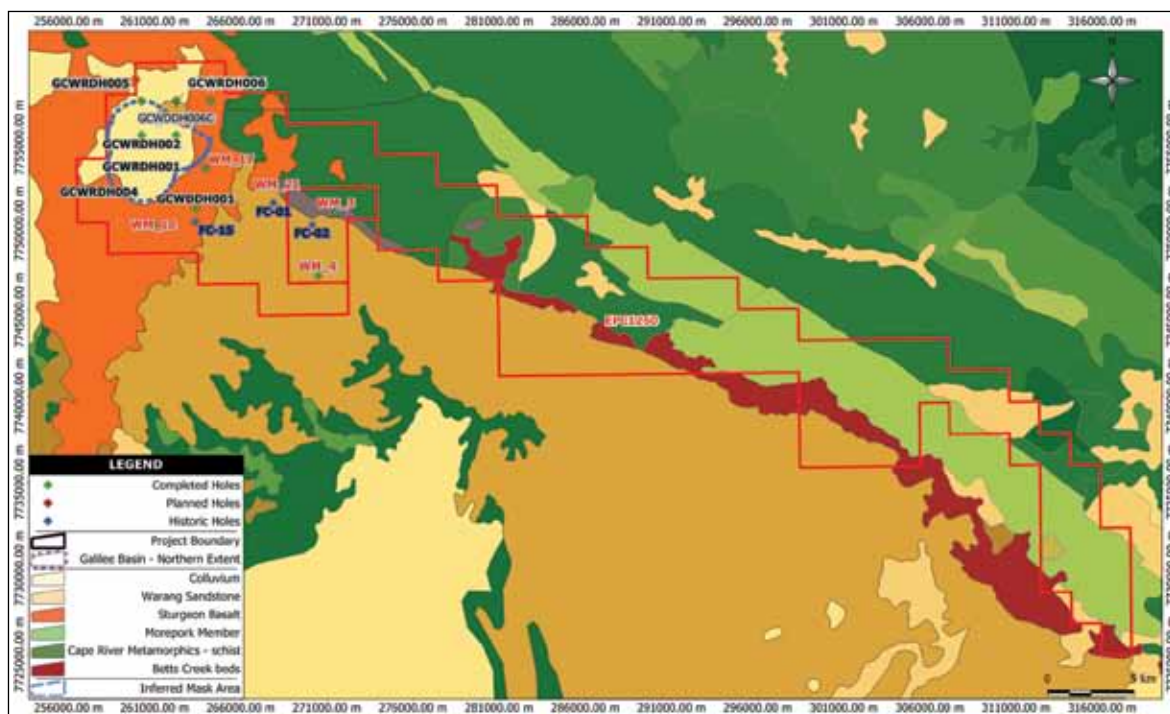
Included in this resource was the previous drilling managed by Guildford on EPC1260 which had intersected significant coal seams with an interpreted

thickness ranging from 12.53m to 15.88m of net coal from the Permian Betts Creek Beds across three main seams (A, B and C). When combined with historical drill information and re-interpreted the average grid net seam thicknesses modeled is 9.75m across four seams (A, B, C and D) of the Permian Betts Creek Beds Coal sequence.

Interpreted Betts Creek Beds Seam	Average Grid Thickness (m)
Seam A	1.02
Seam B	2.39
Seam C	1.78
Seam D	4.56
Total	9.75

Importantly, the Inferred Resource included coal that could be amenable to open cut mining methods as indicated by the following table:

Figure 10: White Mountain Project Regional Geology



Seam Name	Depth (m)	Area (Ha)	Residual Mass (Mt)
A	25–300	1,800	18.5
B1	25–300	2,350	40.9
B2	25–300	2,350	26.0
C	25–300	2,350	55.1
D1	40–300	2,350	17.6
D2	40–300	2,170	14.2
D3	40–300	2,170	14.1
D4	60–300	2,350	42.7
D5	60–300	2,350	33.2
Total			262.1

The target product quality for the White Mountain Project is to be confirmed by further analysis, including analysis of working sections and washability testing. Based on results to date, an export thermal coal with moderate ash (initial estimate 15% adb), moderate calorific value (initial estimate 5,800 kcal/kg adb) and low sulphur (initial estimate 0.5% adb) appears achievable.

Further Significant Intersections Up Dip

Drilling continued up dip towards the interpreted sub crop of the Betts Creek Beds to expand and upgrade

the open cut resource. Further intersections of the Betts Creek Beds have been recorded from this drilling that confirms the existence of thick shallow coal seams.

Figure 11 shows the location of the drill holes and the JORC resource domain along with further drilling completed since the JORC resource was estimated and the planned future drilling.

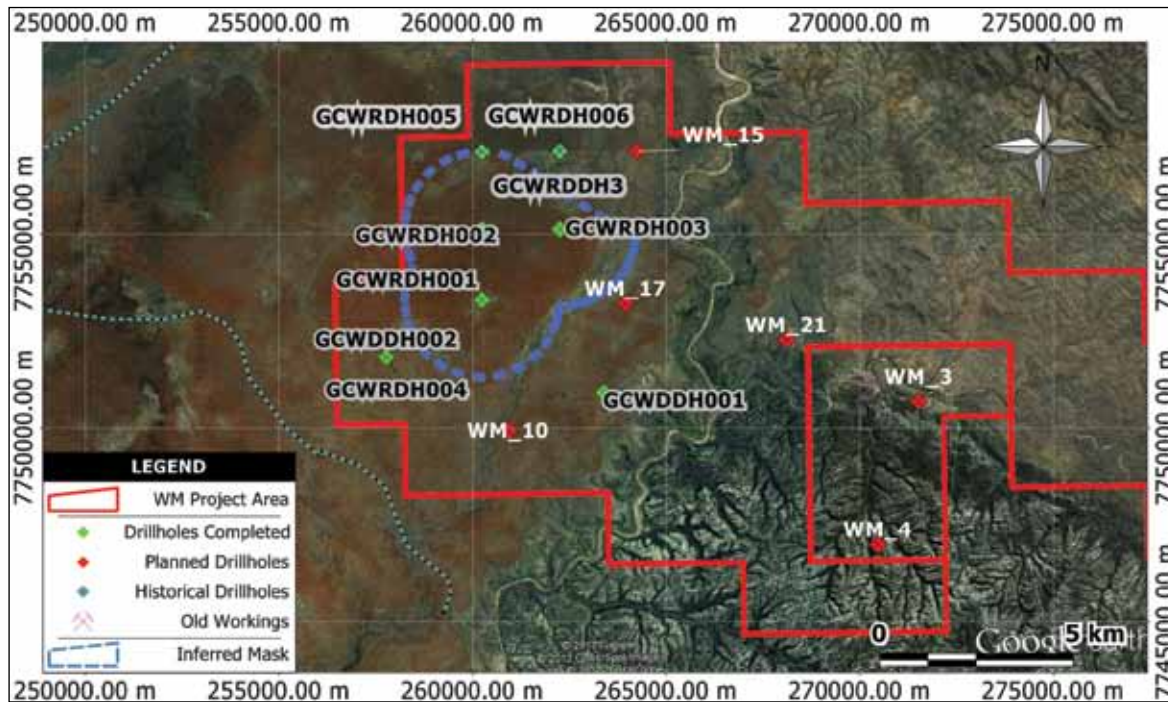
Further intersections have been recorded on GCWDDH001, GCWDDH002, GCWRDH001, GCWRDH002, GCWRDH003, GCWRDH004 and GCWRDH005. These results combined with further planned drilling should enable the JORC resource to be upgraded and increased in the 4th Quarter of 2012.

PENTLAND COAL PROJECT

Overview

Guildford owns 100% of the subsidiary Orion Mining Pty Ltd which in turn wholly owns the Pentland Project. The Pentland Project contains the following tenements EPCs 1890, 1892, 1893, 1962, 1963 and 1964 which are located in the northern eastern end of the coal bearing Galilee Basin in Queensland, Australia.

Figure 11: White Mountain Project Drilling Plan



The Project is approximately 25km west of the town of Pentland and approximately 240km from the Port of Townsville. The Pentland Project covers 4,774 square kilometres of the North Eastern Galilee Basin with a variety of coal targets of both the Permian Coal bearing Betts Creek Beds and the Jurassic coal bearing Blantyre and Ronlo Beds. These targets offer the opportunity for potential open cut and underground mining. MDM had previously completed a comprehensive compilation and assessment of recent and historical geological and exploration data in September 2011 and developed an Exploration Target[#] of 0.295Bt to 2.89Bt for the Pentland Project.

The Pentland Project is a potential early stage development opportunity south east of the Hughenden Project in the north eastern portion of the Galilee Basin and is well located to utilise existing rail and port capacity. The north east boundary of EPC1893 is approximately 25km from a potential rail siding at Pentland.

Guildford Coal has prepared a scout drilling program for the Pentland Project that will identify target zones for more detailed and structured exploration.

SPRINGSURE COAL PROJECT

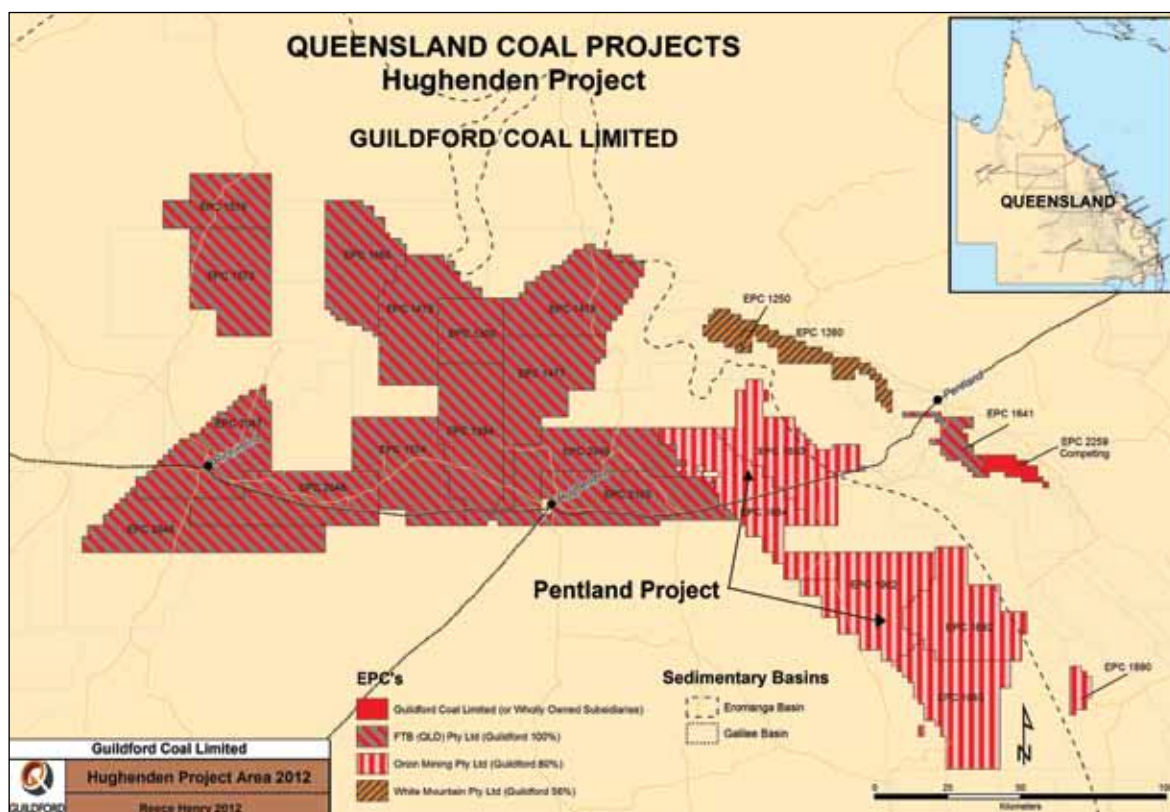
Overview

Guildford announced the acquisition of 50.52% of Springsure Mining Pty Ltd from Resco Projects Pty Ltd on 2nd April 2012. Springsure Mining Pty Ltd owns 100% of the Springsure Project (EPC1674) where it plans to develop Queensland's first Training Mine. Guildford has 100% marketing rights for all coal sold from the project and will receive a fee of 5.25% of the coal sales price.

The Springsure Project is situated in the Central-Western Bowen Basin Coal Mining District of Queensland. The area is approximately 60km south of the town of Emerald and approximately 420km from the port of Gladstone. The tenement comprises 11 sub-blocks with a total surface area of approximately 37km². Both the Springsure-Emerald rail link and the Gregory Highway traverse the south-eastern edge of the tenement, linking it directly to the port of Gladstone. The northern boundary of the Minerva Hills National Park intersects the south-western corner of the tenement.

The Minerva spur line crosses the south east corner of EPC 1674. Springsure has been included in the recent planning processes commenced by QR National in relation to future upgrades of the coal chain rail system.

Figure 12: Pentland Coal Project



Exploration Target

Coal seams have been correlated across the majority of the project area. In addition to these six main seams is seam 'RD' which was investigated and found to be 80 to 200m above the start of the main package of seams at open cut mineable depths but has only been identified in three holes to date. Initial gross in situ tonnage estimates estimated by independent consultants MDM for two masked zones of the Reid Dome Beds, give an exploration target of 10–45Mt and 50–190Mt respectively.

EPC 1674	Estimated Cumulative Thickness (m)	Gross Tonnage (Mt)	Exploration Target (Mt)
Mask Area 1	12.85	43	10–45
Mask Area 2	8.10	197	50–190
Total			60–235

Coal Quality Data Assessment

Coal quality data was available from several historical bore holes, a summary of which is presented in the table on the following page.

The qualifying ranges for coking and PCI coal used in this table are based on A Guide to Coal Utilisation by the Australian Coal Association (1994).

Exploration Results

Drilling recommenced during the quarter on the Springsure Project with four coal seams from the Reids Dome Beds intersected in the first hole. Further drilling on this project is expected to result in the estimation of a maiden resource in the fourth quarter 2012.

KOLAN COAL PROJECT

Overview

Guildford entered into a Farm-in and Joint Venture Agreement with QCI (Coking) Pty Ltd (QCI), a wholly

Coal Quality Data Assessment

Product Specification	Pf Specification Range	PCI Specification Range	Hole SU00 B Section B P8-9	Hole SU001B Section B P13-15	Hole SU001B Section DB P20-22	Hole SU002 Section A01-5	Hole SU002 Section A08-9	Hole SU002 Section A010-13
Seam Thickness (m)			2.16	4.26	3.61	2.46	1.34	5.11
Volatile Matter	24 to 39	19 to 44	32.02	15.56	32.54	33.42	32.66	38.4
Ash	9 to 22	6 to 10	6.32	8.87	9.58	11.15	10.87	12.55
CSN	0 to 3	2 to 6	1.92	1.42	1.43	1.66	2.54	1.72
Total Sulphur	0.4 to 1.2	0.3 to 0.8	0.25	1.02	0.29	0.25	0.26	0.33
SE (Mj/Kg)	21 to 32	29 to 32	31.07	30.22	29.47	27.65	28.69	28.31

Note: Qualifiers are based on Quinn and Callcott, Australian Coal Association, 1994

Pf – Firing Pulverised fuel power

PCI – Pulverised coal injection into blast furnaces

owned subsidiary of Hancock Prospecting Pty Ltd (HPPL) at its Kolan Coal Project in Queensland.

The Kolan Coal Project is located in the hard coking coal-bearing Maryborough Basin in Queensland, Australia and includes an estimated 23,700 hectares of coal exploration permit in two tenements which are 100% Guildford owned– EPC1872 and EPC2003.

The Exploration Target for the Burrum Coal Measures calculated by MDM is for a high value, modest tonnage, coking product with high CSN, low ash and low moisture. The Maryborough Formation is known to contain thicker seams of coal, underlying the Burrum Coal Measures.

The Kolan Coal Project is connected to the Port of Gladstone via the Maryborough North Coast Rail System which runs adjacent to the Project.

The tenements are located in the Maryborough Basin, in which the Colton 'Maryborough' Hard Coking Coal Project ((ML50280, 50273 and 50274) is being developed. The Maryborough Project has estimated resources of approximately 200Mt within the Early Cretaceous Burrum Coal Measures (Northern Energy Company Ltd, 2012), which also underlie the Kolan Project area.

Drilling to date on the Kolan Project has only intersected thin sections of Burrum Coal Measures but confirms extension of the seams on the Project area. Further holes are planned at locations that could potentially contain thicker extensions of these Burrum Coal Measures.

Exploration Target

The stratigraphic succession of the Maryborough Basin is summarised in Figure 14 showing the relative location of the target formations, being the Burrum Coal Measures and the underlying Maryborough Formation.

The Exploration Target areas for this project take into consideration the geology of the local area, the quality and depth of the coal intersections achieved, and the location of the resulting points of observation. Two exploration target areas have been identified. These areas were selected on the basis of intersected seams belonging to the Burrum Coal Measures, with cumulative thicknesses of greater than 0.3m.

An Exploration Target tonnage was estimated for the Burrum Coal Measures and Maryborough Formation and these are shown in the tables below. Geological evidence for coal in the Maryborough Formation comes from several Petroleum exploration wells (e.g. Cherwell #1) to the south, where several seams, one being upwards of 9m of coal, were intersected. A thinner, more conservative cumulative thickness of 3m has been used for the current Exploration Target, which is also in line with estimations made by other publically-listed coal explorers nearby. Future drilling by Guildford plans to include some boreholes drilled deeper to also target this formation, as the majority of exploration to date has been focused on the shallower Burrum Coal Measures occurrences. There is currently insufficient information available to quantify coal

in the deeper Grahams Creek Formation, and the Tiaro Coal Measures within the project area.

The Exploration Target areas were calculated from spatial data derived from the Geological Survey of Queensland 1:250,000 scale 'Bundaberg' geological map (sheet SG56-2), as well as the locations and findings of the Points of Observation in the area. Estimated average cumulative coal

thicknesses for the Burrum Coal Measures were based on coal intersections in verified coal exploration holes.

No density testing has been carried out on recent or historical coal samples in the Kolan Project area. Thus, a standard assumed relative density of 1.45 g/cc has been assumed for the Burrum Coal Measures in the target areas.

Figure 13: Springsure Project in Relation to Infrastructure



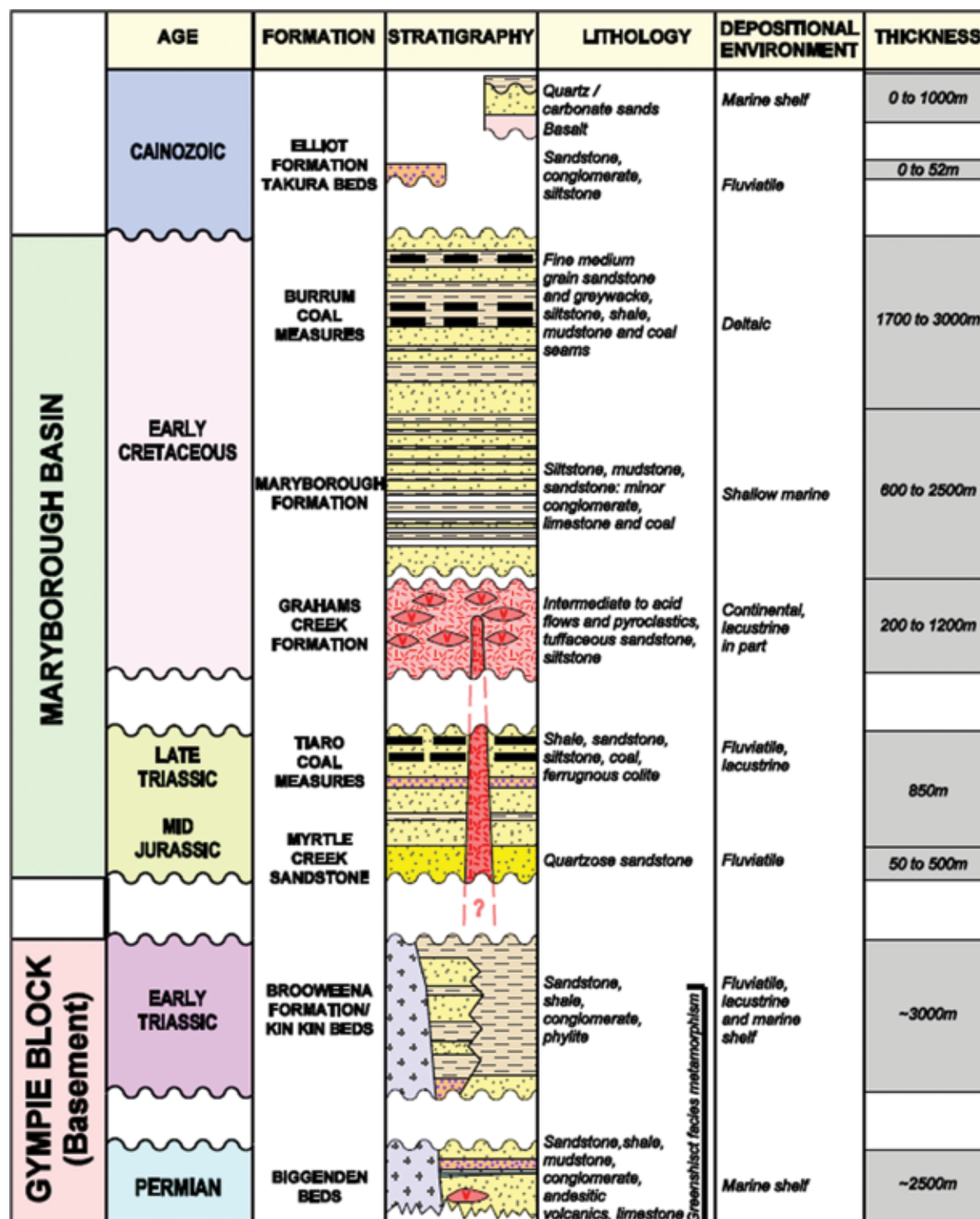
Kolan Project – Burrum Coal Measures Exploration Target

EPC	Depth Range (m)	Estimated Cumulative Thickness (m)	Gross Tonnage (Mt)	Exploration Target ² (Mt)
EPC 1872	45–150	1.0	56.9	10–50
EPC 2003	20–120	1.3	43.4	10–30

Kolan Project – Maryborough Formation Exploration Target

EPC	Depth Range (m)	Estimated Cumulative Thickness (m)	Gross Tonnage (Mt)	Exploration Target ² (Mt)
EPC 1872	250–400	3.0	313.2	30–240
EPC 2003	350–450	3.0	117.5	10–80

Figure 14: Maryborough Basin Stratigraphic Section



The Burrum Coal Measures are known for being lenticular, so a geological loss factor was applied to take into consideration all the uncertainties in continuity and quality of coal intervals. An unexpected geological loss of 20% was factored in to the Exploration Target tonnage estimates for the Burrum Coal Measures in the Kolan Project area, and 30% for the coal expected in the Maryborough Formation.

Coal Quality Data Assessment

Coal quality data was available from 12 holes in the Kolan Project area, including 11 historical exploration holes and one recent. A summary of the results of the historical exploration coal quality analyses along with the recent results (from Guildford's M008) are shown in the following table. The qualifying ranges for coking and PCI coal used in this table are based on *A Guide to Coal Utilisation by the Australian Coal Association* (1994).

Product	Coking Specification Range	Raw Results from M008	Range of Results from historical data
Volatile Matter %	18– 34	23.1	25.9– 32.2
Ash %	6– 10	32.5	5– 15.8
Crucible Swell Number	6–9	6.5	7– 9
Total Sulphur %	0.3–1.1	0.50	0.43–0.78
Specific Energy (MJ/kg)	30– 34	22.28	28.98– 34.45

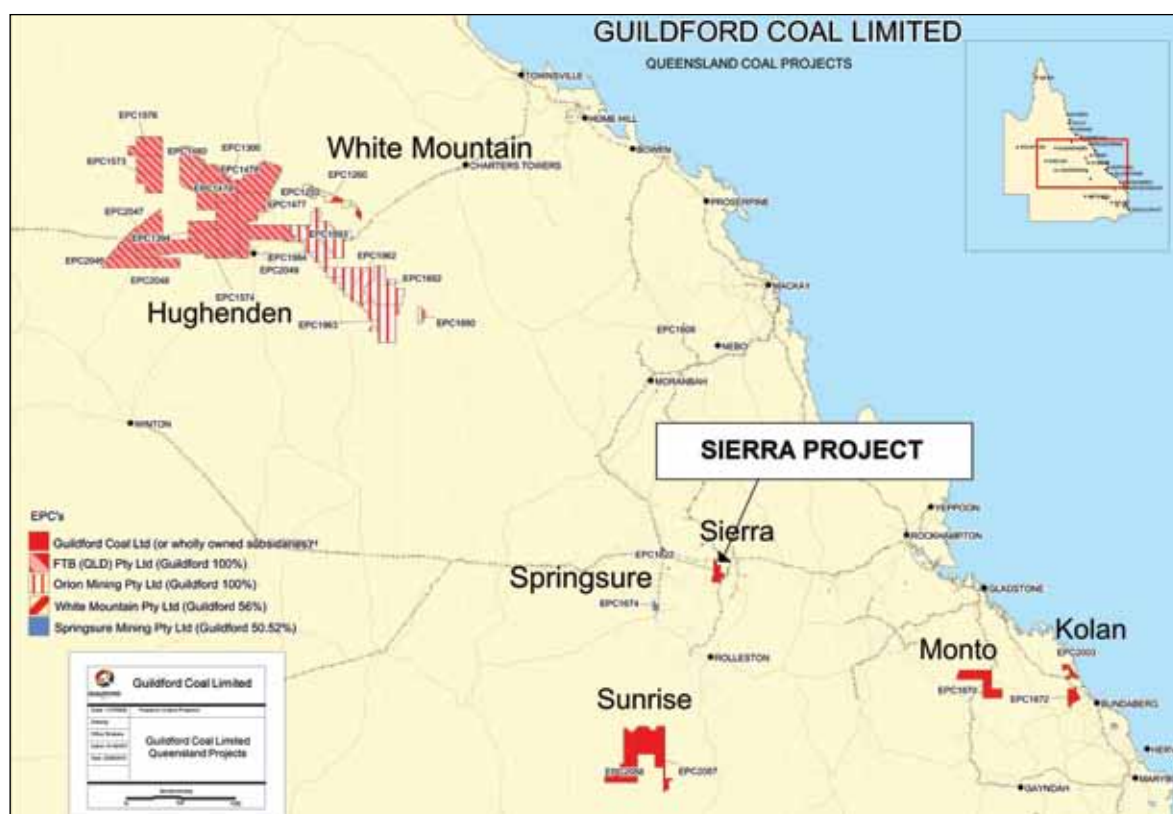
Bowen Basin Queensland, Australia. The open cut mineral resource target has an estimated 20km of strike of the Fair Hill Formation sub-crop running north-south across the 100% owned EPC1822. The Sierra Coal Project is close to rail with the Blackwater rail system cutting across the northern edge of the tenement.

Drilling commenced on the Sierra Project to confirm this coking coal target in late 2011 but progress was

SIERRA COAL PROJECT

The Sierra Coal Project is a hard coking coal target in the Fair Hill, Burngrove and Crocker Formations of

Figure 15: Sierra Coal Project



hampered by wet weather and site access problems and drilling has been abandoned until later in 2012.

Health & Safety

Guildford Coal has a strong commitment to the health and safety of all employees and contractors, especially given its significant level of field exploration activities. The Company continues to monitor, revise and upgrade its health and safety management systems and has undertaken several improvements during the reporting period aimed at minimising health and safety risks.

Environmental, Native Title & Cultural Heritage

Environmental, native title and cultural and heritage obligations continue to be given a high priority by the directors, management, employees and contractors of Guildford Coal. There is a strong focus on compliance with the requirements of the relevant authorities with respect to environmental, native title and cultural heritage obligations and minimisation of any adverse impact on the communities and stakeholders in the areas in which we operate. During the reporting period Guildford Coal has continued to work constructively with various stakeholder, native title and cultural heritage indigenous groups with their genuine co-operation and assistance greatly appreciated.

Stakeholder Relations

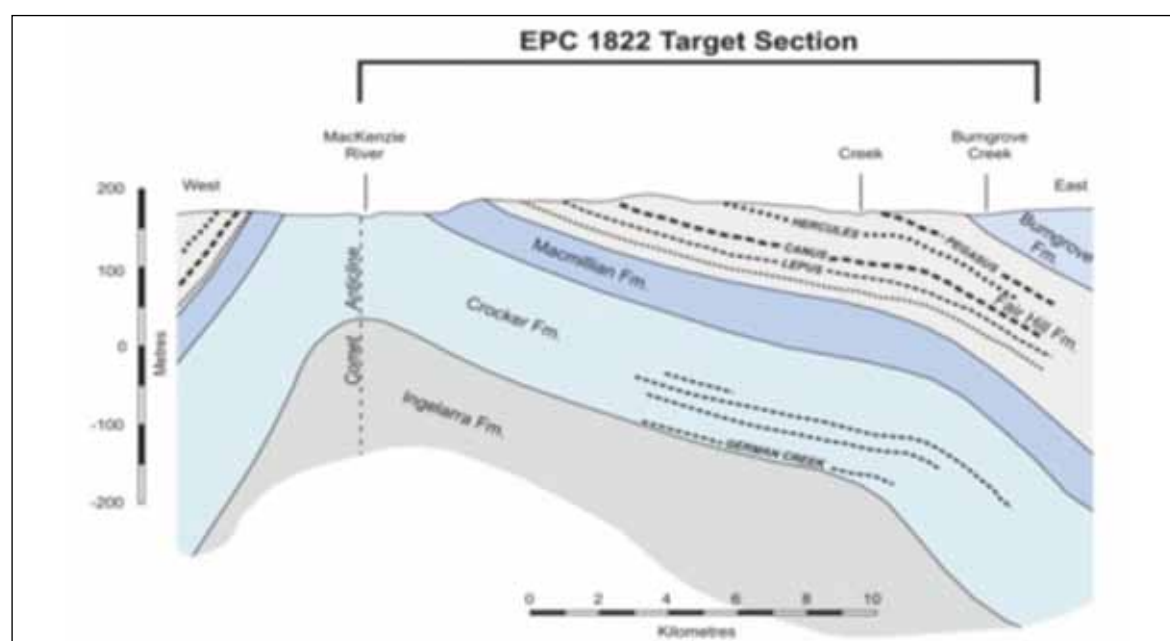
Guildford Coal is committed to supporting and strengthening good local community relations with all stakeholders including landowners, occupiers and other parties who have interests within, or surrounding, Guildford Coal's tenements.

A Stakeholder Engagement Plan for Guildford was developed and implemented during the period. The Plan addresses stakeholder concerns and issues at a state-wide and individual community level that, if left unmanaged, could pose risks for Guildford in the commercialisation of projects. Stakeholder engagement will help identify, prioritise and manage potential issues and monitor current and emerging trends in government policy and community sentiment. The Plan outlines a two year project plan that will guide engagement activities and help deliver approval for GUF's three priority projects in Hughenden, Blackwater, and Maryborough regions.

The Plan sets out how Guildford Coal will:

- Engage with state, federal and local stakeholders;
- Educate stakeholders about the company, its projects and their benefits; and
- Gain the endorsement of stakeholders for its projects, or at least neutralise issues.

Figure 16: Sierra Project East-West Cross Section



EXPLORATION TARGET

References to Exploration Targets in this document are in accordance with the guidelines of the JORC Code (2004). As such it is important to note that in relation to reported Exploration Targets any references to quality and quantity are conceptual in nature. Exploration carried out to date is insufficient to be able to estimate and report coal resources in accordance with the JORC Code (2004). It is uncertain if further exploration will result in the determination of a Coal Resource.

COMPETENT PERSONS STATEMENT

Technical information in this report in relation to fluorite mineralisation and coal washability analysis of South Gobi Project has been compiled by Mr Peter Goodman, who is a Member of the Australasian Institute of Mining and Metallurgy (Member #307830) and has had sufficient experience which is relevant to the style of mineralisation under consideration and to the activities which are being undertaken to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Goodman is employed by Terra Energy LLC (Guildford Coal Ltd subsidiary) and consents to the inclusion of the matters based on his information in the form and context in which it appears. Mr Goodman has over 20 years experience in the design and construction of coal processing facilities and has over 10 years experience in the processing of fluorite type deposits.

JORC RESOURCE COMPETENT PERSONS STATEMENT

Technical information in this report in relation to the exploration targets and JORC Resources for South

Gobi, Middle Gobi Projects has been compiled by Mr Mark Biggs, Principal Geologist of Moultrie Database and Modelling. Mr Biggs is a member of the Australasian Institute of Mining and Metallurgy (Member #107188) and has over 25 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Minerals Resources and Reserves (JORC) 2004. The resource information in this report is being released to the Australian Securities Exchange. Mark Biggs consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

The estimates of the Coal Resources presented in this Report are considered to be a true reflection of the Coal Resources as at 30st June 2012 and have been carried out in accordance with the principles and guidelines of the Australian Code for Reporting of Coal Resources and Coal Reserves published in September 2004 (JORC Code).

FORWARD LOOKING STATEMENTS

This Announcement contains certain "forward-looking statements". The words "anticipate", "believe", "expect", "project", "forecast", "estimate", "likely", "intend", "should", "could", "may", "target", "plan", "consider", "foresee", "aim", "will" and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future production, resources, reserves, sales, capital expenditure, earnings and financial position and performance are also forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of Guildford/Terra.

FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2012



DIRECTORS' REPORT

30 JUNE 2012

The directors submit their annual report on the consolidated entity (referred to hereafter as the "Group" hereafter) consisting of Guildford Coal Limited (referred to hereafter as the "Company"), FTB (QLD) Pty Limited, Sierra Coal Pty Limited, Orion Mining Pty Limited, Guildford Coal (Mongolia) Pty Limited, Terra Energy Limited, Terra Energy LLC, Tsagaan Uvuljuu LLC, Alag Tvesh LLC, Tellus Commodities Pte Limited, Tellus Marketing Pte Limited, White Mountain Pty Limited and Springsure Pty Limited for the financial period from 1 July 2011 to 30 June 2012.

Directors

The names of the directors in office at any time during or since the end of the period are:

Names	Position	Appointed	Resigned
The Hon Peter Lindsay	Non-Executive Chairman	18 April 2012	
Mr Craig Ransley	Non-Executive Director		
Mr Anthony Bellas	Non-Executive Director		27 June 2012
Mr Michael Avery	Managing Director		
The Hon. Alan Griffiths	Non-Executive Director		
Mr Michael Chester	Non-Executive Director		
Ms Norah St. George	Chief Financial Officer		11 May 2012
Mr Louis Chait	Finance Director	27 June 2012	

Directors have been in office since the start of the financial period to the date of this report unless otherwise stated.

Interest in the shares of the Group

As at the date of this report, the interests of the directors in the shares of Guildford Coal Limited were:

	Number of ordinary shares
The Hon Peter Lindsay	-
Mr Craig Ransley*	-
Mr Anthony Bellas	66,760
Mr Michael Avery*#	-
The Hon Alan Griffiths*	40,056
Mr Michael Chester**	-
Ms Norah St. George	-
Mr Louis Chait	-

* Directors are shareholders of The Chairmen1 Pty Limited, which is the major shareholder (with 200,000,000 ordinary shares) of Guildford Coal Limited.

Director is a shareholder of a private company which held 7,362,397 ordinary shares in Guildford Coal Limited.

** Director was a shareholder and director of The Chairmen1 Pty Limited, which is the major shareholder (with 200,000,000 ordinary shares) of Guildford Coal Limited. Mr Chester ceased to be a director on 20 July 2012 and disposed of his shareholding in The Chairmen1 Pty Limited on 21 July 2011.

Principal Activities and Significant Changes in Nature of Activities

The principal activities of the Group during the financial period were the exploration for minerals in a number of mining tenements held across Australia and Mongolia.

There have been no significant changes in the nature of the Group's principal activities during the period.

Operating Results

The consolidated loss of the Group for the financial period after providing for income tax and after non-controlling interests was \$21,945,303 (2011: consolidated loss of \$ 4,762,424).

Further discussion on the Group's operations now follows.

Review of Operations

The activities of the Group for the financial period ended 30 June 2012 focused on the exploration of tenements held in Australia and Mongolia. Acquisition activities include Guildford Coal's increased stake in multiple companies within the group, Springsure Mining Pty Ltd joined the Group in April following Guildford Coal's share acquisition of 50.52%. Other activities include advancing the tenement status of areas of interest, engagement with potential providers of rail and port capacity, development of a geological model for the Hughenden and White Mountain projects and drilling activities on the Hughenden, White Mountain, Kolan, Sierra, Springsure and Mongolian projects. Further, Guildford has advanced the South Gobi Project in Mongolia to the expected commencement of coal production in the December quarter 2012.

(i) Queensland Operations

The revised organisation structure to provide resources for insourcing various activities and for increased focus on planning, supervision, logistics and commercial activities was put in place during the year. The Brisbane office relocated to new premises and regional offices opened in Townsville and Hughenden during the year.

(ii) Hughenden Project

The Hughenden Project has progressed according to the fast tracked plan established at the inception of the company. Independent Geologists Moultrie Database and Modelling (MDM) completed an upgraded mineral resource statement on EPC1477 / EPC1478 in the Hughenden Project, based on analysis of exploration results to date including results obtained over the 2011/2012 wet season and in compliance with the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The JORC Code) 2004 Edition.

On 25 October 2011 Guildford declared a maiden JORC Inferred Resource estimated by MDM for EPC1477 of 925.8Mt of thermal coal, and then on 7 November 2011 MDM upgraded this resource to 1.036Bt. Based on the inclusion of additional drilling results from the wet season program, MDM further revised the JORC Inferred Resource to 1.619Bt of thermal coal, an increase of 56%. On 9 July 2012 Guildford Coal announced its maiden JORC indicated Resource estimate for Hughenden of 123.63MT at depths suitable for underground mining.

The stratigraphy of the coal reported in this resource correlates well with regional stratigraphy previously published for the Galilee Basin, with the Betts Creek Coal Sequence proving similar to that defined at the Adani – Carmichael Deposit and the Hancock – Alpha Deposit.

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An Exploration Target* for the Hughenden Project has been prepared by MDM, of 0.29Bt to 2.83Bt, across coal seams within four (4) formations contained in the Cretaceous to Jurassic Eromanga Basin (Ronlow Beds, Mackunda Formation, Birkhead Formation, Blantyre Sandstone) and two (2) within the Triassic to Carboniferous Galilee Basin (Warang Sandstone and Betts Creek Beds). Additional large tonnages of low rank lignite within the overlying Tertiary Glendower Formation, or Claraville Beds, may prove economic in the future, but considerable additional exploration is required to delineate more of these intersections.

*References to Exploration Targets in this document are in accordance with the guidelines of the JORC code (2004). As such it is important to note that in relation to reported Exploration Targets any references to quality and quantity are conceptual in nature. Exploration carried out to date is insufficient to be able to estimate and report coal resources in accordance with the JORC code (2004). It is uncertain if further exploration will result in the determination of a Coal Resource.

(iii) White Mountain Project

Open hole drilling conducted by Guildford on EPC1260 has intersected significant coal seams with an interpreted thickness ranging from 12.53m to 15.88m of net coal from the Permian Betts Creek Beds across 3 main seams (A, B and C). When combined with historical drill information and re-interpreted the average grid net seam thicknesses modelled is 9.75m across 4 seams (A, B, C and D) of the Permian Betts Creek Beds Coal sequence.

Further drilling will continue up dip towards the interpreted sub crop of the Betts Creek Beds Coal Seams to establish the potential open cut resources. With this style of mining in mind, resource calculations were cut-off at 300m depth from surface, although data exists to estimate tonnages to 400m.

The target product quality for the White Mountain Project is to be confirmed by further analysis, including analysis of working sections and washability testing. Based on results to date, an export thermal coal with moderate ash (initial estimate 15% adb), moderate calorific value (initial estimate 5,800 kcal/kg adb) and low sulphur (initial estimate 0.5% adb) appears achievable.

Independent mining consultants Moultrie Database and Modelling (MDM) prepared the maiden Inferred Resource estimate of 262Mt of thermal coal for the White Mountain Project in early 2012. Importantly, this initial resource estimate highlighted the potential for further coal discoveries up-dip of the resource, providing increased confidence of an open cut resource to commence more detailed mine planning.

(iv) Springsure Project

In April 2012 Guildford Coal Ltd acquired 50.52% in Springsure Mining Pty Ltd. A detailed drill plan was developed for EPC 1674 and drilling commenced in May 2012.

(v) Sierra Project

Drilling commenced on EPC 1822 in late 2011. Progress was hampered by wet weather and site access problems meaning the most prospective sites on the tenement remain undrilled.

The exploration program at Sierra has been delayed to allow re-assessment of results received to date, and to enable a more targeted program to be developed. Exploration drilling is planned to re-commence at Sierra during the 2013 drilling season.

(vi) Kolan Project

Drilling commenced on the Project during the year which intersected thin coal seams ranging in depth from approximately 56m to 65m on EPC 1872 and depths from approximately 46m to 143m on EPC 2003. Future drilling is required to confirm if thicker extensions of the target formations exist on the Project.

Coal quality from historical exploration holes show results that fall within the hard coking and PCI coal product ranges.

On 30 July 2012, Guildford Coal entered into a Farm-in and Joint Venture Agreement with QCI (Coking) Pty Ltd (QCI), a wholly owned subsidiary of Hancock Prospecting Pty Ltd (HPPL). The Farm-in agreement is over three years for a total contribution from QCI of \$2 million. During this time QCI will manage and operate the two tenements at Kolan (EPC1872 and 2003). At the end of the three year Farm-in period, QCI has the option to pay an additional \$2 million consideration to Guildford Coal to form an unincorporated Joint Venture with a 51% interest.

An Exploration Target* for the Kolan Project has been prepared by MDM, of 60 to 400Mt of high value coking product with high CSN, low ash and low moisture. The Maryborough Formation is known to contain thicker seams of coal, underlying the Burrum Coal Measures. Drilling to date on the Kolan Project has only intersected thin sections of Burrum Coal Measures but confirms extension of the seams on the Project area.

*References to Exploration Targets in this document are in accordance with the guidelines of the JORC code (2004). As such it is important to note that in relation to reported Exploration Targets any references to quality and quantity are conceptual in nature. Exploration carried out to date is insufficient to be able to estimate and report coal resources in accordance with the JORC code (2004). It is uncertain if further exploration will result in the determination of a Coal Resource.

(vii) Mongolian Operations

Following extensive exploration during the year, a pre mining licence was granted in September 2012 over the north pit of the South Gobi Project. First coal production is forecast for late November 2012 and the mine is forecast to produce in excess of 3 MT of coking coal in the first year. Mining contractors have been engaged and heads of agreement for offtake signed. Exploration drilling continues to confirm targets for additional pits in the area with the next potential being the east pit development covered by an existing mining licence.

Financial Position

At the end of the reporting period, cash at bank and term deposits of \$14,488,137 represented 92.5% of current assets of \$15,670,742. Exploration and evaluation assets of \$121,631,637 equates to 99.3% of total non-current assets and 88.0% of total assets. Trade and other payables of \$3,653,500 represents 97.2% of total liabilities, with \$2,665,890 worth of exploration and evaluation expenditure being accrued as at 30 June 2012.

The total net assets of the company as at 30 June 2012 was \$134,395,359, of which \$11,005,833 is owned by third parties (i.e. non-controlling interest)

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the parent entity occurred during the financial period:

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Issue of securities

Pursuant to the Board's capacity under ASX listing rules to issue share capital of up to 15% of the total share capital, the following share issues occurred during the 2012 financial year:

- On 20 July 2011 the Company issued 3,937,008 fully paid ordinary shares at a nominal issue price of \$1.27 per share as part consideration for the acquisition of 70% of Terra Energy LLC;
- On 14 September 2011 the Company issued 2,184,551 fully paid ordinary shares at a nominal issue price of \$1.14 per share as consideration for the acquisition of the final 20% interest in FBT (Qld) Pty Limited;
- On 2 December 2011 the Company completed a private placement with 10,869,566 fully paid ordinary shares at a nominal issue price of \$0.92 per share. The subscribers were investment funds managed by Regal Funds Management;
- On 24 January 2012 the company issued 9,125,752 fully paid ordinary shares at a nominal issue price of \$0.95 per share as consideration for bonuses paid to specific executive and non-executive directors;
- On 19 March 2012 the Company completed a private placement with 35,714,285 fully paid ordinary shares at a nominal issue price of \$0.70 per share. Foster Stockbroking Pty Ltd acted as Lead Manager to the Placement; and
- On 30 April 2012 the Company issued 1,503,759 fully paid ordinary shares at a nominal issue price of \$0.665 per share as consideration for the acquisition of the remaining 20% interest in Orion Mining Pty Limited.

Dividends Paid or Recommended

No dividends were paid or declared for future payment during the financial period.

After Balance Date Events

On 9 July 2012, the Company announced a maiden JORC Indicated Resource of 123.63Mt at depths suitable for underground mining at the Hughenden Coal Project (on EPC1477 in the northern Galilee Basin, Queensland). As a result, the first milestone fee as declared in the Prospectus dated 4 June 2010 was triggered to pay The Chairmen1 Pty Limited \$20M Guildford Coal fully paid ordinary shares.

On 22 July 2012, 200,000,000 ordinary shares issued to The Chairmen1 Pty Limited at listing of Guildford Coal Limited, as outlined in the IPO Replacement Prospective dated 4 June 2010, were released from escrow.

On 22 July 2012, Guildford Coal Limited acquired an additional 4.76% ownership in Terra Energy Limited and an additional 3.6% ownership in White Mountain Pty Limited. This takes the Group's ownership of Terra Energy Limited and White Mountain Pty Limited to 74.76% and 59.6% respectively.

On 30 July 2012, Guildford Coal Limited entered into a Farm-in and Joint Venture agreement with QCI (Coking) Pty Limited. The Farm-in agreement is over three year period where QCI will manage and operate two tenements at Kolan Coal Project in Queensland. Total contribution from QCI over the three years is \$2M. At the end of the three year Farm-in period, QCI has the option of forming an unincorporated Joint Venture. Upon exercising this option, QCI (Coking) Pty Limited would be required to contribute an additional \$2M for a 51% interest in the Joint Venture.

On 11 September 2012, the Company announced Terra Energy LLC had been granted a pre mining licence over the North Pit of the South Gobi Project in Mongolia. A Mining Contractor has been engaged to develop the North Pit with first coal production forecast for late November 2012. A Heads of Agreement for offtake has been signed with end user Sojitz and Marketing Agency Agreement signed with Noble in addition to funding arrangements for the South Gobi Project start up coking coal mine.

Except for the above, no other matters or circumstances have arisen since the end of the financial period which significantly affected or could significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial periods.

Future Developments, Prospects and Business Strategies

The Company continues to focus on its strategy to develop a portfolio of tenements which are prospective for coal, conducting detailed analysis and drilling programmes to develop exploration targets and JORC compliant resource and reserve statements, building relationships including infrastructure providers and fast tracking the projects to coal production. At the same time, the Company is determined to conduct all activities safely and sustainably, with sensitivity towards its stakeholders and communities and with a view to growing shareholder wealth.

Environmental Issues

The Company lodges financial assurance bonds with the Queensland Department of Environmental and Resource Management for its maximum predicted level of disturbance at any one time. That maximum level is based on disturbance of one hectare of pastoral land per tenement on which drilling is occurring with the intensity limited to the rehabilitation of shallow sumps and topsoil disturbance.

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The Hon. Peter Lindsay	Non-Executive Chairman
Experience	<p>The Hon Peter Lindsay was first elected to the Townsville City Council in 1985 and served five terms undefeated. In 1996 he was elected to the Australian Parliament and again served five terms undefeated.</p> <p>As a Federal member, the Hon. Peter Lindsay served as one of Australia's Defence Ministers and as a Deputy Speaker of the House of Representatives. He chaired the Presiding Officers Information Technology Advisory Group and the Joint Standing Committee of Electoral Matters. He was a member of various other Standing Committees and Policy Committees.</p> <p>More recently, the Hon. Peter Lindsay took up the role of Chairman of Global Voices. The company is a platform for young Australians to engage with youth from across the world on matters of international importance.</p> <p>The Hon. Peter Lindsay also serves on the Townsville Enterprise Limited Economic Development Committee.</p>
Interest in Contract	The Hon. Peter Lindsay has no interest in contracts entered into by the Group.
Directorships held in other listed entities during the three years ended prior to the current period	The Hon. Peter Lindsay is a director Origin Net Limited.
Mr Craig Ransley	Non-Executive Director
Qualifications	Fitter and Machinist (Trade Qualified)
Experience	<p>The inaugural Chair and founder of Guildford Coal Limited, Mr Ransley has a broad entrepreneurial background and has been the driving force in building a number of companies. He has extensive experience in the labour hire and service industries as founder of TESA Group Pty Limited and ResCo Services. He was the founder and instrumental in the creation and listing of both Doyles Creek Mining (NuCoal Resources NL) and Guildford Coal Limited. Mr Ransley is currently non-executive chairman of The Chairmen1 Pty Limited which is a major shareholder in Guildford Coal Limited.</p>
Interest in Contract	Mr Ransley is a director and shareholder in The Chairmen1 Pty Limited which has a contract to provide management services to Guildford Coal Limited for five years for \$2,500,000 per year and to receive a success fee of \$20,000,000 for every 100Mt of JORC compliant indicated resources defined on the original Queensland assets to a maximum of \$100,000,000.
Directorships held in other listed entities during the three years ended prior to the current period	Mr Ransley was a director of Humanis Group Limited (from 24 December 2011 to 10 October 2012).

Information on Directors (Cont'd)

Mr Michael Avery	Managing Director
Qualifications	Masters in Business Administration from Mt Eliza Business School, NSW Open Cut Coal Mine Manager's Certificate of Competency, Bachelor of Mining Engineering (University of New South Wales) (First Class Honours), Member of the Australian Institute of Mining and Metallurgy.
Experience	Mr Avery has been involved in the coal industry for over 30 years. He has performed senior management and technical roles for a number of blue-chip mining companies at operations in NSW, throughout Australia and around the world. Mr Avery's experience spans the full life cycle of coal assets from resource exploration and evaluation to conceptual design, prefeasibility, feasibility, construction and operation.
Interest in Contract	Mr Avery is a shareholder in The Chairmen1 Pty Limited which has a contract to provide management services to Guildford Coal Limited for five years for \$2,500,000 per year and to receive a success fee of \$20,000,000 for every 100Mt of JORC compliant indicated resources defined on the original Queensland assets to a maximum of \$100,000,000.
Special Responsibilities	Joint Company Secretary
Mr Michael Chester	Non-Executive Director
Qualifications	Bachelor of Commerce (Melbourne University) ACA, PS 146.
Experience	Mr Chester has over 26 years' experience in the resources sector in the fields of investment banking, company research and analysis and funds management. He is currently a non-executive director of NuCoal Resources NL, Syrah Resources Limited and Black Fire Minerals Limited.
Interest in Contract	Mr Chester ceased to be a director on 20 July 2012 and ceased to be a shareholder in The Chairmen1 Pty Limited on 21 July 2011. The Chairmen1 Pty Limited has a contract to provide management services to Guildford Coal Limited for five years for \$2,500,000 per year and to receive a success fee of \$20,000,000 for every 100Mt of JORC compliant indicated resources defined on the original Queensland assets to a maximum of \$100,000,000.
Directorships held in other listed entities during the three years ended prior to the current period	Mr Chester is currently a non-executive director of NuCoal Resources NL (since 5 February 2011), Black Fire Minerals Limited (since 9 September 2009) and Syrah Resources Limited. He was a director of Carpentaria Exploration Limited (from 15 January 2008 to 8 August 2011).
Special Responsibilities	Chair of the Remuneration Committee

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The Hon. Alan Griffiths	Non-Executive Director
Experience	The Hon. Alan Griffiths has achieved business success as an IT entrepreneur, hotelier, developer and investor. He established and was the principal of Quantm Limited in 2001. He served five terms in the Australian House of Representatives and held various Ministerial and Cabinet positions including Minister responsible for the resources and energy sector.
Interest in Contract	The Hon. Alan Griffiths is a shareholder in The Chairmen1 Pty Limited which has a contract to provide management services to Guildford Coal Limited for five years for \$2,500,000 per year and to receive a success fee of \$20,000,000 for every 100Mt of JORC compliant indicated resources defined on the original Queensland assets to a maximum of \$100,000,000.
Special Responsibilities	Chair of the Audit Committee
Mr Louis Chait	Finance Director
Qualifications	Member of the Australian Institute of Chartered Accountants Bachelor of Commerce (University of Cape Town)
Experience	Mr Chait has over a decade of experience working with an international blue chip mining company. He has held several senior executive finance and management positions including General Manager Finance – Business Analysis and Planning and General Manager Finance – South Africa.
Special Responsibilities	Chief Financial Officer Joint Company Secretary

Company Secretary

The following persons held the position of company secretary at the end of the financial period:

Michael Avery - Appointed 7 May 2010

Michael has a Masters in Business Administration from Mt Eliza Business School, a NSW Open Cut Coal Mine Manager's Certificate of Competency, and a Bachelor of Mining Engineering from the University of New South Wales with First Class Honours. Michael is also a member of the Australian Institute of Mining and Metallurgy.

Louis Chait - Appointed 1 June 2012

Louis is a qualified Chartered Accountant and is a member of the Australian Institute of Chartered Accountants. Louis also has a Bachelor of Commerce from the University of Cape Town.

Meetings of Directors

During the financial period, 20 meetings of directors (including committees of directors) were held. Attendances by each director during the period were as follows:

	Directors' Meetings		Audit Committee Meetings	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
The Hon. Peter Lindsay	4	4	-	-
Mr Craig Ransley*	18	18	-	-
Mr Anthony Bellas	18	17	2	2
Mr Michael Avery	18	18	-	-
The Hon. Alan Griffiths	18	15	2	2
Mr Michael Chester	18	14	2	2
Ms Norah St. George	3	3	-	-
Mr Louis Chait	1	1	-	-

* Mr Ransley resigned as Chairman on 18 May 2012 and remains on the board as a Non-Executive Director.

No Remuneration Committee meetings held during the 2012 financial year.

The Company has executed Deeds of Access, Indemnity and Insurance with each of its directors and the Chief Operating Officer which provide an indemnity for specified liabilities, costs or expenses including legal fees which they may become liable for while an officer of the Company or the Group.

The Company has paid premiums to insure each of the directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The premiums for the period amounted to \$55,402.

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Options

As at the date of this report, there are no options to acquire shares in the Company.

On 31 March 2011, OZ Master Fund Limited, OZ Asia Master Fund Limited, OZ Global Special Investments Master Fund LP (Subscribers), Terra Energy LLC and Guildford Coal Limited entered into a Call Option Deed which entitles the Subscribers to subscribe for 25% of the issued capital in Terra Energy LLC for a cash payment of \$25,000,000. Other than as set out above, there have been no unissued shares or interests under option in the Company or a controlled entity during or since the reporting date.

Proceedings on Behalf of Company

No person has applied for leave of Court 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 any part of those proceedings.

The Company was not a party to any such proceedings during the period.

Non-audit Services

The Board of Directors are satisfied that the provision of non-audit services during the period is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditors because the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The value of non-audit services provided are summarised as follows:

Services	Amount
Tax compliance services	\$223,460
Total	\$223,460

Auditor's Independence Declaration

The lead auditor's independence declaration For the Year Ended 30 June 2012 has been received and can be found on page 109 of the financial report.

Remuneration Report (Audited)

Individual key management personnel

Details of key management personnel are set out below:

Directors

The Hon. Peter Lindsay	Non-Executive Chairman – Appointed 18 April 2012
Mr Craig Ransley	Non-Executive Director
Mr Anthony Bellas	Non-Executive Director – Resigned 27 June 2012
The Hon. Alan Griffiths	Non-Executive Director
Mr Michael Chester	Non-Executive Director

Executives

Mr Michael Avery	Managing Director
Ms Norah St. George	Chief Financial Officer – Resigned 11 May 2012
Mr Louis Chait	Finance Director – Appointed 27 June 2012
Mr Mark Turner	Chief Operating Officer –Queensland
Mr Tony Mooney	General Manager – Stakeholder Relations

Remuneration at a glance

This remuneration report for the year ended 30 June 2012 outlines the remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report details the remuneration arrangements for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent Company.

For the purposes of this report, the term “executive” includes the Managing Director, Finance Director, Chief Financial Officer (CFO), Chief Operations Officer (COO) and General Manager – Stakeholder Relations and the term “director” refers to non-executive directors only.

Remuneration Committee

Due to the varying size of the board and staff numbers during the period, the directors from time to time have been responsible for determining remuneration. The Remuneration Committee is responsible for determining and reviewing compensation arrangements for directors, the executives and other key staff. The Remuneration Committee uses its broad economic, business and industry experience to assess the nature and amount of remuneration of all staff including directors and the executives by reference to relevant employment market conditions and will when necessary seek independent expert advice.

Due to the size of the entity, the Remuneration Committee did not meet during the year. The responsibility of discussing and determining the remuneration of executive directors and key management personnel was completed by the full Board of Directors.

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Remuneration Policy

The remuneration policy of Guildford Coal Limited (the "Group") has been designed to align the remuneration available to directors and executives with shareholders' interests by providing a fixed remuneration component and specific incentive payments triggered by the achievement of JORC compliant resource declaration milestones. The overall objective of that policy is the retention and attraction of a high quality board and executive. The Board believes the remuneration policy to be appropriate and effective to attract and retain the best key management personnel to manage the Group as well as to create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for key management personnel of the Group is as follows:

- Key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits and other performance incentives.
- Performance incentives are generally only paid once predetermined key performance indicators have been met.
- The Remuneration Committee reviews key management personnel packages annually by reference to the Group's performance, individual performance and comparable information from industry sectors.

Key management personnel receive the superannuation guarantee contribution required by law and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

Upon retirement, key management personnel are paid employee benefit entitlements accrued to the date of retirement. All remuneration paid to key management personnel is valued at the cost to the Group and expensed.

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting.

Performance-based Remuneration

The performance incentives of key management personnel are dependent on the Board determining that the Company has reached specified milestone JORC compliant inferred resource volumes.

The Board may also elect from time to time to pay a cash performance bonus to the Managing Director, Chief Financial Officer, Finance Director and Chief Operating Officer linked to the successful performance of the individual and the Group based on key performance indicators.

Relationship between Performance Conditions and Group Performance

The performance condition for the grant of bonuses was selected because at this stage of the Group's lifecycle the Group regards the declaration of a JORC compliant resource as a major priority likely to have a strong positive correlation with an increase in shareholder wealth.

As disclosed in the prospectus dated 4 June 2010, the Executive Employment Agreement for Michael Avery entered into on his appointment as Managing Director provided for a bonus and incentive scheme which entitled him to a bonus of \$5 million upon each of the following events:

- 1) The Company reaching an inferred JORC compliant resource of 500 million tonnes: and
- 2) The Company reaching an inferred JORC compliant resource of one billion tonnes.

Under the agreement, the bonus was to be paid by the issue of shares in the Company.

The value of this potential bonus has been subsequently varied downwards from \$5 million per milestone to \$3.5 million per milestone with the difference of \$1.5 million applied to the bonus scheme for the Chief Operating Officer on achievement of each of the same milestones. The milestones are identical for the bonus scheme for the Chief Financial Officer with the achievement of each triggering a potential payment of \$1 million. The Executive Employment Agreements for the Chief Operating Officer and Chief Financial Officer provide that any bonuses payable are paid in cash or shares at the option of the executive.

In any financial year in which the Company and its subsidiaries receive a JORC report indicating the delineation of at least 200 million tonnes of JORC inferred resource from the Hughenden, Sierra, Comet, Sunrise, Monto and Kolan (formerly Maryborough) Projects, special contingent director's fees will be paid at \$75,000 to The Hon. Alan Griffiths and \$125,000 to Anthony Bellas (following Mr Bellas's resignation on 27 June 2012 no future JORC milestone bonuses will be paid).

Executive remuneration outcomes for 2012 (including link to performance)

The financial performance measures driving performance based payment outcomes is Guildford Coal Limited achieving inferred JORC compliant resources. During the year ended 30 June 2012, Guildford Coal Limited achieved the following events:

- 1) The Company declared an inferred JORC compliant resource of 500 million tonnes: and
- 2) The Company declared an inferred JORC compliant resource of one billion tonnes.

As a result of the above, full bonuses were paid to the Managing Director, Chief Financial Officer, Chief Operating Officer and applicable Non-Executive Directors.

As at the date of this report, future executive remuneration outcomes have not as yet been determined by the Board and the Remuneration Committee.

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The following table provides employment details of persons who were during the financial period members of key management personnel of the Group. The table also illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of options.

	Position held as at 30 June 2012	Salary non-cash-based incentives	Non-salary cash-based incentives	Non salary, non –cash based incentive	Fixed Salary/Fees	Total
		%	%	%	%	%
Key Management Personnel						
The Hon. Peter Lindsay	Non-Executive Chairman	-	-	-	100	100
Mr Craig Ransley	Non-Executive Director	-	-	-	100	100
Mr Anthony Bellas	Non-Executive Director	-	-	67	33	100
The Hon Alan Griffiths	Non-Executive Director	-	-	66	34	100
Mr Michael Chester	Non-Executive Director	-	-	-	100	100
Other Executives						
Mr Michael Avery	Managing Director	-	-	95	5	100
Ms Norah St. George*	Chief Financial Officer	-	88	-	12	100
Mr Louis Chait**	Finance Director	-	-	-	100	100
Mr Mark Turner (Qld)	Chief Operating Officer	-	-	88	12	100
Mr Tony Mooney	General Manager	10	-	-	90	100

* resigned 11 May 2012

** joined the company as Chief Financial Officer on 1 June 2012 and was appointed Finance Director on 27 June 2012.

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

Terms of employment provide for three months' notice for executives and the Company in normal circumstances, one month's notice from the executive in cases of breach of contract by the Company and immediate termination in certain specified circumstances likely to prevent the discharging of the duties of his or her position.

Changes in Directors and Executives Subsequent to period end

No changes have occurred in directors and executives subsequent to the end of the financial period.

Remuneration Details For the Year Ended 30 June 2012

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

Table of Benefits and Payments For the Year Ended 30 June 2012

	Short term benefits			Post-employment benefits		Total
	Salary, fees and leave \$	Salary non-cash based incentives \$	Non-salary cash-based incentives \$	Non-salary non-cash based incentives \$	Pension and superannuation \$	
Key Management Personnel						
The Hon Peter Lindsay	18,203	-	-	-	1,638	19,841
Mr Craig Ransley	55,045	-	-	-	4,954	59,999
Mr Anthony Bellas	55,046	-	-	125,000**	7,659	187,705
The Hon Alan Griffiths	32,110	-	-	75,000**	6,111	113,221
Mr Michael Chester	36,697	-	-	-	3,303	40,000
Total Key Management Personnel	197,101	-	-	200,000	23,665	420,766
Other Executives						
Mr Michael Avery	378,333	-	-	7,000,000*	25,000	7,403,333
Ms Norah St. George	257,342	-	2,000,000	-	20,506	2,277,848
Mr Louis Chait	31,250	-	-	-	2,083	33,333
Mr Mark Turner	375,000	-	-	3,000,000**	25,000	3,400,000
Mr Tony Mooney	198,221	25,000	-	-	17,840	241,061
Total Other Executives	1,240,146	25,000	2,000,000	10,000,000	90,429	13,355,575

* incentive paid in shares of Guildford Coal into a privately owned company.

** incentive (excluding withholding taxes which were remitted to the ATO by the company on behalf of the director/executive) was paid in shares of Guildford Coal to the executive.

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Table of Benefits and Payments for the period ended 30 June 2011

	Short term benefits	Post-employment benefits	
	Salary, fees and leave	Pension and superannuation	Total
	\$	\$	\$
Key Management Personnel			
Mr Craig Ransley	62,110	2,890	65,000
Mr Anthony Bellas	29,852	2,687	32,539
The Hon Alan Griffiths	17,335	1,560	18,895
Mr Michael Chester	41,407	1,927	43,334
Total Key Management Personnel	150,704	9,064	159,768
Other Executives			
Mr Michael Avery	377,917	22,917	400,834
Ms Norah St. George	222,841	18,068	240,909
Mr Mark Turner	34,091	2,273	36,364
Mr Tony Mooney	167,421	13,261	180,682
Total Other Executives	802,270	56,519	858,789

Securities Received that are not Performance Related

No members of key management personnel are entitled to receive securities which are not performance based as part of their remuneration package.

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors pursuant to Section 298(2) (a) of the Corporations Act 2001.

Director:



Dated: 28 September 2012

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2012

Achieving a high standard of corporate governance is a priority for the Board of Directors.

The Company has reviewed the ASX Corporate Governance Council's principles and best practice recommendations in order to provide a framework for its corporate governance practices with regard to the Company's particular circumstances and in particular its size and level of resources.

Principle 1 – Lay solid foundations for management and oversight

As the Company has a small board (comprising five non-executive directors and two executive directors) and a small management team roles and functions must necessarily be flexible to deliver the Company's objectives. The statement of Board and management responsibilities is found within the Board Charter on the Company's website.

Principle 2 - Structure the Board to add value

The Board comprises seven directors with five holding their positions in non-executive capacities and three considered to be independent. The appointment date of each director is disclosed in the directors' report.

The Hon. Peter Lindsay, the Hon. Alan Griffiths and Mr Michael Chester are considered to be independent directors. No materiality threshold has been applied due to the absence of any relationship affecting their independent status.

The Chairman is an independent non-executive director. The Board considers it appropriate to implement the recommendation that the Chair be independent. The roles of Chairman and Managing Director are exercised by different individuals.

The skills, experience and expertise of each director is set out in the Directors' report.

Directors are entitled to seek independent professional advice at the Company's expense in the furtherance of their duties.

The Company believes it is not of a size to justify a Nomination Committee. If vacancies arise on the Board, all directors are involved in search and recruitment. The Board seeks to achieve a balance of entrepreneurial, capital markets, technical, operational, commercial and financial skills from mining industry and broader business backgrounds.

No formal evaluation of the performance of the Board was undertaken during the year.

Under the Company's Constitution, no director except the Managing Director may hold office for a period in excess of three years or beyond the third annual general meeting following the director's election without being submitted for re-election. At every annual general meeting one third of the Directors or the number nearest to but not exceeding one third must retire from office and are eligible for re-election.

30 JUNE 2012

Principle 3: Promote ethical and responsible decision-making

Code of conduct

The Board has adopted a Code of Conduct to promote lawful, ethical and responsible decision making by directors, management and employees. The Code promotes compliance with laws and regulation and avoidance of conflicts of interest, embraces the values of honesty, integrity, enterprise, excellence, accountability, justice, independence and equality of stakeholder opportunity. The Code of Conduct is located on the Company's website.

The Board has also adopted Policies for Community, Equal Employment Opportunity, Environmental and Occupational Health each of which is directed to ensuring thoughtful and responsible interaction with stakeholders and the communities in which it operates as well as compliance with relevant statutory requirements.

Policy for trading in Company securities

The Board has adopted in accordance with ASX Listing Rules 12.9, 12.10, 12.11 and 12.10 a policy on trading in the Company's securities by directors, senior executives and employees which raises awareness of the law in relation to insider trading, specifies blackouts and provides notification protocols. The trading policy is located on the Company's website.

Diversity

Guildford Coal Limited values diversity and recognises the benefits it can bring to the Group's ability to achieve its goals. Accordingly the Group has developed a diversity policy, a copy of which can be found on the company website. This policy outlines the company's diversity objectives in relation to gender, age, cultural background and ethnicity. It includes requirements for the board to establish measurable objectives for achieving diversity, and for the board to assess annually both the objectives, and the company's progress in achieving them.

In accordance with this policy and ASX Corporate Governance Principles, the Board has established the following objectives in relation to gender diversity. The aim is to achieve these objectives moving forward as director and senior executive positions become vacant and appropriately skilled candidates are available:

Objective	Steps Taken	Outcomes
Facilitate equal employment opportunities based on relative ability, performance or potential.	The Group has an antidiscrimination policy and employment philosophy with a zero tolerance placed on discrimination against any current or potential employees/ candidate.	The Group employs a number of senior female staff members and continues to consider and employ candidates based upon ability, performance and potential.
Help build a safe work environment by taking action against inappropriate workplace and business behaviour that does not value diversity including discrimination, harassment, bullying, victimisation and vilification.	The Group has set a zero tolerance policy against discrimination of employees at all levels. The company also provides avenues for employees to voice their concerns or report any discrimination.	No cases of discrimination were reported during the year (2011: nil).
Attract and retain a skilled and diverse workforce as an employer of choice.	Whilst the Group places special focus on gender diversity, career development opportunities are equal for all employees.	During the year, remuneration for performance and promotion was based on performance of the employees.

Objective	Steps Taken	Outcomes
Meet the relevant requirements of legislation, shareholders and the Board.	The Group has a Board of Directors and an Audit Committee who have the responsibility of ensuring relevant requirements of legislation, shareholder and the Board are being fulfilled.	During the year, the Board of Directors and Audit Committee met a total of 20 times, for which compliance with relevant requirements were monitored and addressed.
Engender a workplace culture characterised by inclusion practices and behaviours for the benefit of all staff.	As previously noted, career development opportunities are equal for all employees.	During the year, remuneration and career opportunities was based on performance of the employee.
Support the participation and employment opportunities for indigenous people.	The Group has an antidiscrimination policy and employment philosophy, with a zero tolerance placed on any discrimination of any current or potential employees/candidates.	Due to the infancy of the Group, no indigenous individuals are currently employed by the Group. However the Group continues to consider and employ candidates based upon ability, performance and potential.

Responsibility for diversity has been included in the board charter, the nomination committee charter (board diversity) and the remuneration committee charter (diversity at all levels of the company below board level).

Principle 4: Safeguard integrity in financial reporting

Audit and Risk Management

The Company has established an Audit Committee.

The Audit Committee comprised the Hon. Alan Griffiths (Committee Chair), Mr Anthony Bellas, and Mr Michael Chester and has met twice during the reporting period. Mr Louis Chait was appointed to the Audit Committee on 27 June 2012, following the resignation of Mr Anthony Bellas also on 27 June 2012. The qualifications and experience of the Audit Committee members are set out in the Directors' Report. A comprehensive Risk Management Report is included in each set of Board papers to facilitate regular review and discussion of identified risks and controls.

The Managing Director and the Chief Financial Officer have declared in writing to the Board that the financial records of the Company have been properly maintained and that the Company's financial statements for the year ended 30 June 2012 comply with accounting standards and present a true and fair view of the Company's financial condition and operational results. This statement is required annually.

The external auditor is invited to Audit Committee meetings at the discretion of the Committee.

30 JUNE 2012

Principle 5: Make timely and balanced disclosure

Disclosure Policy

The Board places a strong emphasis on full and appropriate disclosure and has adopted a Continuous Disclosure Policy to ensure timely and accurate disclosure of price-sensitive information to shareholders through the lodgement of announcements with ASX. Clear procedures govern the preparation, review and approval of all announcements including technical material.

Principle 6: Respect the rights of shareholders

The Board is committed to open and accessible communication with holders of the Company's shares and other securities.

The Board and the Company Secretaries are responsible for the communication strategy to promote effective communications with shareholders and to encourage effective participation at general meetings. Guildford Coal Limited adheres to best practice in its preparation of Notices of Meetings and through its share registry offers to members the option of receiving shareholder communications electronically.

In accordance with ASX recommendations, the Company publishes all relevant announcements on its website after ASX has acknowledged that the announcement has been released. The Continuous Disclosure Policy can be found on the Company's website. Subject to ASX disclosure rules, the Company communicates regularly with shareholders, brokers and analysts and publishes the information provided on its website.

Principle 7: Recognise and manage risk

The Company's risk management policy requires the inclusion in the Board papers of a comprehensive risk management report covering the material business risks in the sectors in which it operates. Operational management regularly reviews the risks and controls and updates the report in light of changing circumstances and emergent risk factors and weightings. The Board has approved an Authorities Framework that summarises the delegation of financial and commitment authorities.

The Board considers that the Company is not of a size sufficient to warrant the establishment of an internal audit function or a risk management committee.

The Managing Director and the Chief Financial Officer have declared in writing to the Board that the s. 295A declaration is founded on a sound system of internal control and that the system is operating effectively in all material respects in relation to financial risks.

Principle 8: Remunerate fairly and responsibly

The Company has established a remuneration committee which comprises Mr Michael Chester (Committee Chair), Mr Craig Ransley and the Hon. Alan Griffiths. A Committee Charter and Remuneration Policy have been approved by the Board. The remuneration committee did not meet during the period since the Board members, executives and other employees were recruited progressively throughout the initial two years and a meeting was not deemed by the Board to be necessary.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

		1 July 2011 to 30 June 2012	7 May 2010 to 30 June 2011
	Note	\$	
Revenue	2	893,929	2,129,866
Employee benefits expense	3	(16,365,427)	(1,197,400)
Depreciation and amortisation expense		(164,923)	(22,234)
Legal and professional fees	3	(1,115,325)	(540,470)
Formation costs		-	(359,284)
Management fees		(2,500,000)	(2,500,000)
Rent expense	3	(840,224)	(383,984)
Consulting fees		(856,540)	(96,619)
Travel expense	3	(364,273)	(272,078)
Other expenses	3	(1,324,257)	(549,401)
Finance costs		(13,610)	(3,174)
Loss before income tax		(22,650,650)	(3,794,778)
Income tax expense	6	(533,766)	(1,042,822)
Loss for the period		(23,184,416)	(4,837,600)
Other comprehensive income			
Foreign currency translation movements (net of tax)		(687,048)	(1,136)
Total comprehensive income for the period		(23,871,464)	(4,838,736)
Profit attributable to:			
Members of the parent entity		(21,945,303)	(4,762,424)
Non-controlling interest		(1,239,113)	(75,176)
		(23,184,416)	(4,837,600)
Total comprehensive income attributable to:			
Member of the parent entity		(22,440,502)	(4,763,560)
Non-controlling interest		(1,430,962)	(75,176)
		(23,871,464)	(4,838,736)
Earnings per share			
Basic earnings per share (cents)	5	(4.99)	(1.23)
Diluted earnings per share (cents)	5	(4.99)	(1.23)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 \$	2011 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	14,488,137	33,768,143
Other receivables	9	341,036	774,323
Other assets	10	841,569	346,680
TOTAL CURRENT ASSETS		15,670,742	34,889,146
NON-CURRENT ASSETS			
Other receivables	9	220,658	164,099
Property, plant and equipment	11	583,185	217,680
Intangible assets	12	48,098	10,141
Exploration and evaluation assets	13	121,631,637	88,753,631
TOTAL NON-CURRENT ASSETS		122,483,578	89,145,551
TOTAL ASSETS		138,154,320	124,034,697
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	14	3,653,500	12,022,091
Short-term provisions	15	81,333	35,030
TOTAL CURRENT LIABILITIES		3,734,833	12,057,121
NON-CURRENT LIABILITIES			
Trade and other payables	14	24,128	-
TOTAL NON-CURRENT LIABILITIES		24,128	-
TOTAL LIABILITIES		3,758,961	12,057,121
NET ASSETS		134,395,359	111,977,576
EQUITY			
Issued capital	17	147,206,514	96,206,800
Reserves	16	2,890,739	(1,136)
Retained earnings		(26,707,727)	(4,762,424)
Non-controlling interest		11,005,833	20,534,336
TOTAL EQUITY		134,395,359	111,977,576

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2012

		Issued Capital	Accumulated Losses	Acquisition Reserve	Foreign Currency Translation Reserves	Owners of the Parent	Non- controlling Interests	Total
Note		\$	\$	\$	\$	\$	\$	\$
Balance at 7 May 2010		-	-	-	-	-	-	-
Loss of the period		-	(4,762,424)	-	-	(4,762,424)	(75,176)	(4,837,600)
Other comprehensive loss for the period		-	-	-	(1,136)	(1,136)	-	(1,136)
Total Comprehensive loss for the period		-	(4,762,424)	-	(1,136)	(4,763,560)	(75,176)	(4,838,736)
Transactions with owners in their capacity as owners								
Shares issued during the period	17	98,640,000	-	-	-	98,640,000	-	98,640,000
Capital raising costs (net of tax)	17	(2,433,200)	-	-	-	(2,433,200)	-	(2,433,200)
Non-controlling interests in subsidiaries		-	-	-	-	-	20,609,512	20,609,512
Balance at 30 June 2011		96,206,800	(4,762,424)	-	(1,136)	91,443,240	20,534,336	111,977,576
Loss for the period		-	(21,945,303)	-	-	(21,945,303)	(1,239,113)	(23,184,416)
Other comprehensive loss, net of tax		-	-	-	(495,199)	(495,199)	(191,849)	(687,048)
Total Comprehensive loss for the period		-	(21,945,303)	-	(495,199)	(22,440,502)	(1,430,962)	(23,871,464)
Transactions with owners in their capacity as owners								
Shares issued during the period	17	52,180,001	-	-	-	52,180,001	-	52,180,001
Capital raising costs (net of tax)	17	(1,180,287)	-	-	-	(1,180,287)	-	(1,180,287)
Additional share capital in non-controlling interest		-	-	-	-	-	1,241,981	1,241,981
Purchase of non-controlling interest		-	-	3,387,074	-	3,387,074	(9,339,522)	(5,952,448)
Balance at 30 June 2012		147,206,514	(26,707,727)	3,387,074	(496,335)	123,389,526	11,005,833	134,395,359

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2012

		1 July 2011 to 30 June 2012	7 May 2010 to 30 June 2011
	Note	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(16,177,318)	(4,758,694)
Finance costs		(13,610)	(3,174)
Interest received		1,249,902	1,761,321
Net cash provided by (used in) operating activities	18(a)	(14,941,026)	(3,000,547)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash acquired through acquisition		131,402	-
Payments for property, plant and equipment		(522,756)	(234,657)
Payments for acquisition of exploration, evaluation and development expenditure		(35,726,959)	(16,504,119)
Payments for acquisitions of non-controlling interest		(1,502,877)	-
Payment for acquisition of intangible assets		(45,628)	(15,398)
Net cash provided by (used in) investing activities		(37,666,818)	(16,754,174)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		35,000,001	57,000,000
Payment of share issue costs		(1,686,124)	(3,476,000)
Net cash provided by (used in) financing activities		33,313,877	53,524,000
Net increase (decrease) in cash held		(19,293,967)	33,769,279
Net foreign exchange difference		13,961	(1,136)
Cash and cash equivalents at beginning of financial period		33,768,143	-
Cash and cash equivalents at end of financial period	18(b)	14,488,137	33,768,143

The accompanying notes form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

These consolidated financial statements and notes represent those of Guildford Coal Limited and Controlled Entities (the "Group").

Guildford Coal Limited was incorporated on 7 May 2010 and was officially listed on the Australian Securities Exchange (ASX) on 22 July 2010. As such, the comparative financial information within the 2012 financial statements is for the period from 7 May 2010 to 30 June 2011.

The separate financial statements of the parent entity, Guildford Coal Limited, have not been presented within this financial report as permitted by the *Corporations Act 2001*. Supplementary information on the parent entity is disclosed in Note 26.

The financial statements were authorised for issue on 15 September 2012 by the directors of the Company.

Note 1 Summary of Significant Accounting Policies

(a) Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

The financial report also complies with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(b) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Guildford Coal Limited and its subsidiaries (the Group) as at and for the year ended 30 June 2012.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

Note 1 Summary of Significant Accounting Policies (Cont'd)

(b) Basis of Consolidation (Cont'd)

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by Guildford Coal Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are allocated a value of exploration and evaluation expenditure within partly owned subsidiaries. Non-controlling interests are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Note 1 Summary of Significant Accounting Policies (Cont'd)

(c) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

(d) Income Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

Note 1 Summary of Significant Accounting Policies (Cont'd)

(d) Income Tax (Cont'd)

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Other Taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; or
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Note 1 Summary of Significant Accounting Policies (Cont'd)

(d) Income Tax (Cont'd)

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

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

(e) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(f) Cash and Cash Equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short term deposits with a maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the statement of financial position.

(g) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated, less, where applicable, any accumulated depreciation and impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

Note 1 Summary of Significant Accounting Policies (Cont'd)

(g) Property, Plant and Equipment (Cont'd)

Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation

Depreciation is calculated on a diminishing value basis over the estimated useful life of the specific assets.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset

Furniture, Fixtures and Fittings	10%
Office Equipment	33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Alternatively, when an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is able to be restated proportionately with the change in the gross carrying amount of the asset so that the net carrying amount of the asset after revaluation equals its revalued amount.

(h) Exploration and Evaluation Expenditure

Direct and indirect costs attributable to finding the mineral resources are allocated to the exploration and evaluation assets. General and administrative costs that are not related directly to operational activities in the areas of interest have been expensed as incurred.

Exploration and evaluation assets are reclassified when technical feasibility and commercial viability has been established.

Note 1 Summary of Significant Accounting Policies (Cont'd)

(h) Exploration and Evaluation Expenditure (Cont'd)

The exploration and evaluation assets are assessed against facts and circumstances to determine whether the carrying amount exceeds the recoverable amount. The facts and circumstances considered include whether the rights to explore are current, whether any area of interest has been removed from plans for substantive exploration, whether a decision has been taken to discontinue activities and whether data suggests that the carrying amounts are unlikely to be recovered from development or sale.

(i) Restoration and rehabilitation

The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas. The obligation generally arises when the asset is installed or the ground / environment is disturbed at the production location. When the liability is initially recognised, the present value of the estimated costs is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred by the development / construction of the mine. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability.

The periodic unwinding of the discount is recognised in profit or loss as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognised as additions or charges to the corresponding assets and rehabilitation liability when they occur.

For closed sites, changes to estimated costs are recognised immediately in profit or loss.

(j) Financial Instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is the equivalent to the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

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

Classification and subsequent measurement

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

Note 1 Summary of Significant Accounting Policies (Cont'd)

(j) Financial Instruments (Cont'd)

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the *effective interest method*.

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

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

(i) Financial assets at fair value through profit or loss

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets.)

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Note 1 Summary of Significant Accounting Policies (Cont'd)

(i) Financial Instruments (Cont'd)

Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months of the end of the reporting period. (All other investments are classified as current assets.)

If during the period the Group sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

(v) Financial liabilities

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

Impairment

Objective evidence that a financial asset is impaired includes default by a debtor, evidence that the debtor is likely to enter bankruptcy or adverse economic conditions in the stock exchange. At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset has been impaired through the occurrence of a loss event. In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to indicate that an impairment has arisen.

Where a subsequent event causes the amount of the impairment loss to decrease (e.g. payment received), the reduction in the allowance account (provision for impairment of receivables) is taken through profit and loss.

However, any reversal in the value of an impaired available for sale asset is taken through other comprehensive income rather than profit and loss.

Impairment losses are recognised through an allowance account for loans and receivables in the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

Note 1 Summary of Significant Accounting Policies (Cont'd)

(j) Financial Instruments (Cont'd)

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit or loss.

(k) Impairment of Non-Financial Assets

Non-financial assets other than goodwill and indefinite life intangibles are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Assets that suffered an impairment are tested for possible reversal of the impairment where events or changes in circumstances indicate an impairment may have reversed.

(l) Intangible assets

Computer software

Computer software expenses are capitalised at cost of acquisition. Computer software has a finite life and is carried at cost less any accumulated amortisation and any impairment losses. Computer software is amortised over its useful life ranging from 3 to 5 years.

Other intangible assets

Other intangible asset expenses are capitalised at cost. Other intangible assets have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Other intangible assets are amortised over their useful life ranging from 3 to 5 years.

Note 1 Summary of Significant Accounting Policies (Cont'd)

(m) Foreign Currency Transactions and Balances

Functional and Presentation Currency

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

Transaction and Balances

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

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

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

Group Companies

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

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

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

Note 1 Summary of Significant Accounting Policies (Cont'd)

(n) Employee Benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised 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 using the projected unit credit method. 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 currencies that match, as closely as possible, the estimated future cash outflows.

(o) Trade and Other Payables

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial period that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(p) Revenue and Other Income

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest revenue

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

All revenue is stated net of the amount of goods and services tax (GST).

Note 1 Summary of Significant Accounting Policies (Cont'd)

(q) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

(r) Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key judgments - exploration and evaluation expenditure

The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been identified, the directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded. Such capitalised expenditure is carried at the end of the reporting period.

Key judgments - recognition of asset acquisitions

In determining the recognition of asset and business acquisitions, an assessment of the underlying assets and operations of the acquired entity is completed. Where the Group acquires an entity for tenements only, rather than acquiring an operation with clear distinct processes, the acquisition is deemed to be an asset acquisition, rather than a business combination. Details of asset acquisitions, where the above judgement has been applied, has been outlined at Note 19.

Key estimates - recoverable reserves and resources

Estimated recoverable reserves and resources are used to determine the depreciation of mine production assets, in accounting for deferred stripping costs and in performing impairment testing. Estimates are prepared by appropriately qualified persons, but will be impacted by forecast commodity prices, exchange rates, production costs and recoveries amongst other factors. Changes in assumptions will impact the carrying value of assets and depreciation and impairment charges recorded in the income statement.

Key estimates - environmental rehabilitation costs

The provisions for rehabilitation costs are based on estimated future costs using information available at the balance sheet date. To the extent the actual costs differ from these estimates, adjustments will be recorded and the income statement may be impacted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

Note 1 Summary of Significant Accounting Policies (Cont'd)

(r) Critical Accounting Estimates and Judgments (Cont'd)

Key judgments – Minerals Resource Rent Tax

From 1 July, 2012 the Group will be subject to the Australian Mineral Resources Rent Tax (MRRT). Whilst all of the Group's Australian coal licenses are still in the exploration phase, and therefore no reasonable assessment can be made as to whether any MRRT will ultimately be payable, AASB 112 Income Taxes requires a deferred tax asset to be recorded where the MRRT tax base as at 30 June 2012, known as the "starting base", exceeds the book value at that date to the extent that it is considered probable that the starting base will be recovered through the generation of sufficient mining profits in the future. Conversely, a deferred tax liability is recorded where the starting base is less than book value. No recognition criteria exists for the booking of a deferred tax liability. That is, a deferred tax liability is required to be recorded regardless of the likelihood of paying MRRT in the future.

Under the MRRT legislation as drafted, the starting base can be measured based on either market value or book value as at 2 May, 2010 (being the date the MRRT, or RSPT as it was originally known, was first announced) plus any qualifying exploration expenditure subsequently incurred. However, where an "exploration right" was not granted as at 2 May, 2010, the starting base is limited only to qualifying exploration expenditure incurred on the tenement subsequent to the exploration right being acquired. The majority of the Group's Australian exploration licenses (or "EPC's") were in the application stage as at 2 May 2010.

The determination of whether EPC applications constitute an "exploration right" under the MRRT legislation involves interpretation of the MRRT legislation which is currently unclear.

As at 30 June 2012, no deferred tax liability relating to MRRT has been recorded by the Company on the basis that a) management consider that it is reasonably arguable that the EPC applications are considered "exploration rights" under the MRRT legislation and therefore the starting base is able to be measured with reference to market value.

(s) Earnings Per Share

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

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

Note 1 Summary of Significant Accounting Policies (Cont'd)

(t) Operating Segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available (refer to Note 7).

The operating segments have been identified based on the information provided to the chief operating decision makers being the Board of Directors.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services
- Nature of the production processes
- Type or class of customer for the products and services
- Methods used to distribute the products or provide the services and if applicable,
- Nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

Note 1 Summary of Significant Accounting Policies (Cont'd)

(u) New Accounting Standards, Interpretations and Amendments Adopted by the Group

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the period ended 30 June 2011. However, the following amendments to accounting standards as a result of the annual Improvements to AASB come into effect during the period. The listed amendments did not have any impact on the accounting policies, financial position or performance of the Group:

AASB 124 Related Party Transactions (Amendment)

The AASB has issued an amendment to AASB 124 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

Improvements to AASB (issued May 2010)

In May 2010, the AASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the amendments did not result in any major change to accounting policies and did not have any impact on the financial position or performance of the Group.

AASB 7: Financial Instruments — Disclosures

This Standard adds and amends disclosure requirements about transfers of financial assets, especially those in respect of the nature of the financial assets involved and the risk associated with them. The adoption of the amendment did not have any impact on the financial position or performance of the Group, however the amendments did impact upon the disclosure within the 30 June 2012 financial statements.

AASB 101: Presentation of Financial Statements

The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements. The adoption of the amendment did not have any impact on the financial position or performance of the Group, however the amendments did impact upon the disclosure within the 30 June 2012 financial statements.

AASB 1054: Australian Additional Disclosures

The standard resulted in a number of amendments to Australian Accounting Standards arising from Trans-Tasman convergence. The adoption of the amendment did not have any impact on the financial position or performance of the Group, however the amendments did impact upon the disclosure within the 30 June 2012 financial statements.

Note 1 Summary of Significant Accounting Policies (Cont'd)

(v) New Accounting Standards for Application in Future Periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods and which the Group has elected not to early adopt. A discussion of those future requirements and their impact on the Group follows:

- AASB 9: Financial instruments and AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2015).

These standards are applicable retrospectively and amend the classification and measurement of financial assets. This standard is not expected to impact the Group.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:
 - (a) the objective of the entity's business model for managing the financial assets; and
 - (b) the characteristics of the contractual cash flows.

The International Financial Reporting Council has deferred the mandatory effective date of IFRS 9 until 1 January 2015, along with subsequent transition disclosures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

Note 1 Summary of Significant Accounting Policies (Cont'd)

(v) New Accounting Standards for Application in Future Periods (Cont'd)

- AASB 2012-9: Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income (applicable for annual reporting periods commencing on or after 1 January 2013).

The standard requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). This standard is not expected to impact the Group.

- AASB 10: Consolidated Financial Statements (applicable for annual reporting periods commencing on or after 1 January 2013).

The standard redefines and clarifies the notion of control that is the basis for determining which entities should be incorporated on a line-by-line basis into the consolidated financial statements of a group. This standard is not expected to impact the Group.

- AASB 11: Joint Arrangements (applicable for annual reporting periods commencing on or after 1 January 2013).

The standard requires financial statements prepared by a party involved in a joint arrangement to reflect its rights and obligations arising from the arrangement, rather than account for the joint agreement based on the legal form of an arrangement. This standard is not expected to impact the Group.

- AASB 12: Disclosure of Interests in Other Entities (applicable for annual reporting periods commencing on or after 1 January 2013).

The standard requires entities to disclose the nature and financial effects of an entity's involvement with consolidated entities and unconsolidated (off balance sheet) structured entities. This standard is not expected to significantly impact the Group.

- AASB 13: Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (applicable for annual reporting periods commencing on or after 1 January 2013).

The standard 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.

Note 1 Summary of Significant Accounting Policies (Cont'd)

(v) New Accounting Standards for Application in Future Periods (Cont'd)

- 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 re-measurements 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. This standard is not expected to impact the Group.

- Numerous Annual Improvement Amendments as issued by the Australian Accounting Standards Board.

These amendment standards are not expected to impact the financial performance or position of the Group. However the amendments may impact upon disclosure in the financial statements for future periods.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

1 July 2011
to 30 June
2012
\$

7 May 2010
to 30 June
2011
\$

Note 2 Revenue and Other Income

- interest received	890,518	2,124,820
- other revenue	3,411	5,046
Total Revenue	893,929	2,129,866

Note 3 Expense

Interest expense on financial liabilities at amortised cost

- external	4,776	3,174
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Travel - domestic	307,659	198,850
Travel - overseas	56,614	73,228
	364,273	272,078

Legal fees	772,080	365,371
Accounting fees	269,288	119,921
Other professional fees	73,957	55,178
	1,115,325	540,470

Minimum lease payments on operating leases:

- Office/car park rent	105,511	41,198
- Exploration Permits for Coal rent	734,713	342,786
	840,224	383,984

Employee Costs

- Salaries and wages	2,811,572	821,988
- Bonuses	12,350,000	-
- Directors fees	197,101	150,704
- Payroll tax	728,496	21,281
- Other expenses	278,258	203,427
	16,365,427	1,197,400

	1 July 2011 to 30 June 2012 \$	7 May 2010 to 30 June 2011 \$
Other expenses		
- Listing fees and charges	145,724	43,571
- Donations and community sponsorship	201,868	78,450
- Mongolian administration and operating expenses	634,099	6,933
- Insurance costs	62,885	12,342
- Safety costs	55,205	-
- Other expenses	224,476	408,105
	1,324,257	549,401

Note 4 Auditors' Remuneration

Remuneration of the auditor of the parent entity for:

- auditing or reviewing the financial statements	77,500	60,178
- tax compliance services	223,460	106,443
Total	300,960	166,621

Note 5 Earnings per Share

(a) Reconciliation of earnings to profit or loss

Loss after income tax	(23,184,416)	(4,837,600)
Loss attributable to non-controlling equity interest	1,239,113	75,176
Loss after income tax attributable to the owners of the Company	(21,945,303)	(4,762,424)

	2012 No.	2011 No.
Weighted average number of ordinary shares outstanding during the period used in calculating basic earnings per share	439,665,689	388,574,017
Adjustments for calculation of diluted earnings per share	-	-
Weighted average number of ordinary shares outstanding during the period used in calculating diluted earnings per share	439,665,689	388,574,017

Basic earnings cents per share	(4.99)	(1.23)
Diluted earnings cents per share	(4.99)	(1.23)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

	1 July 2011 to 30 June 2012 \$	7 May 2010 to 30 June 2011 \$
Note 6 Income Tax Expense		
Current tax	27,928	22
Deferred tax	505,838	1,042,800
	533,766	1,042,822

The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:

Prima facie tax payable on profit from ordinary activities before income tax at 30%	(6,795,195)	(1,138,433)
Add/ (less) tax effect of:		
- non-deductible depreciation and amortisation	7,133	1,233
- interest receivable	1,235	109,050
- black hole project	(71,720)	(71,720)
- other	-	(183)
- deferred tax assets not recognised	6,886,475	1,100,075
- deferred tax derecognised directly from equity	505,838	1,042,800
- Initial recognition of MRRT starting base temporary difference*	-	-
Income tax attributable to entity	533,766	1,042,822

* During the year the federal government implemented the Mineral Resources Rent Tax (MRRT) regime. Under the requirements of AASB 112, the initial recognition of temporary differences between book and tax starting base values is required to be brought to account. In undertaking its starting base valuation the Company did not identify any temporary difference which would result in the recognition of an MRRT deferred tax asset or liability. Refer to note 1 (r) for key judgements in the determination of MRRT obligations.

(b) Accumulated tax losses

The Group had accumulated tax losses as at 30 June 2012 of \$7,986,550 (2011: \$1,100,075). No net deferred tax asset has been recognised on the basis that utilisation of tax losses is not currently considered probable.

The taxation losses will be realisable only if:

- the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the losses and deductions to be realised;
- the Group continues to comply with the conditions for deductibility imposed by the law; and
- no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the losses.

Note 7 Operating Segments

Segment information

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings as the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the geographical location of the segment; and
- any external regulatory requirements.

Performance is measured based on segment profit before income tax as included in the internal financial reports.

Types of products and services by reportable segment

The principal products and services of each of these operating segments are as follows:

Australia	coal exploration and extraction activities within Australia;
Mongolia	coal exploration and extraction activities within Mongolia; and

Basis of accounting for purposes of reporting by operating segments

(a) Accounting policies adopted

All amounts reported to the Board of Directors, being the chief operating decision maker with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

A number of inter-segment transactions, receivables, payables or loans occurred during the period or existed at balance date. In addition, corporate re-charges were allocated to the reporting segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

Note 7 Operating Segments (Cont'd)

(b) Segment assets

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

(c) Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

(d) Segment performance

2012: OPERATING SEGMENT RESULTS

	Australia	Mongolia	Total
Reconciliation of segment net loss after tax to consolidated net loss after tax:			
Exploration Permits for Coal Rent	(734,713)	-	(734,713)
Bonus expense	(12,350,000)	-	(12,350,000)
Total segment net gain/(loss) after tax			(13,084,713)
Interest Revenue			890,518
Other Revenue			3,411
Employee Costs			(4,015,427)
Other Costs			(6,444,439)
Income taxes			(533,766)
Net loss after tax per Statement of Comprehensive Income			(23,184,416)

2011: OPERATING SEGMENT RESULTS

	Australia	Mongolia	Total
Reconciliation of segment net loss after tax to consolidated net loss after tax:			
Exploration Permits for Coal Rent	(342,786)	-	(342,786)
Total segment net gain/(loss) after tax			(342,786)
Interest Revenue			2,124,820
Other Revenue			5,046
Employee Costs			(1,197,400)
Other Costs			(4,384,458)
Income taxes			(1,042,822)
Net loss after tax per Statement of Comprehensive Income			(4,837,600)

Note 7 Operating Segments (Cont'd)

(e) Segment assets and liabilities

SEGMENT ASSETS

30 June 2012

	Australia	Mongolia	Total
Exploration and evaluation assets	108,451,717	13,179,920	121,631,637
Receivables and Other Assets	965,068	295,604	1,260,672
Plant and Equipment	-	227,116	227,116
Total	109,416,785	13,702,640	123,119,425

30 June 2011

Exploration and evaluation assets	87,697,284	1,056,347	88,753,631
Receivables and Other Assets	661,395	6,457	667,852
Plant and Equipment	-	44,242	44,242
Total	88,358,679	1,107,046	89,465,725

	2012	2011
Reconciliation to total assets:	\$	\$
Total assets by reportable segment	123,119,425	89,465,725
Cash and cash equivalents	14,488,137	33,768,143
Intangible assets	48,098	10,141
Other assets	498,660	790,688
Total assets per Statement of Financial Position	138,154,320	124,034,697

SEGMENT LIABILITIES

30 June 2012

	Australia	Mongolia	Total
Trade and other payables	317,495	1,800,214	2,117,709
Total	317,495	1,800,214	2,117,709

30 June 2011

Trade and other payables	726,746	17,518	744,264
Total	726,746	17,518	744,264

	2012	2011
Reconciliation to total assets:	\$	\$
Total liabilities by reportable segment	2,117,709	744,264
Other trade and other payables	1,559,919	11,277,827
Short term provisions	81,333	35,030
Total liabilities per Statement of Financial Position	3,758,961	12,057,121

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

Note 7 Operating Segments (Cont'd)

(f) Cash flow information

SEGMENT CASH FLOWS

30 June 2012

Payments for acquisition of exploration, evaluation and development expenditure

Total

Australia	Mongolia	Total
(26,996,429)	(8,740,530)	(35,736,959)
(26,996,429)	(8,740,530)	(35,736,959)

30 June 2011

Payments for acquisition of exploration, evaluation and development expenditure

Total

(15,447,772)	(1,056,347)	(16,504,119)
(15,447,772)	(1,056,347)	(16,504,119)

2012	2011
\$	\$

Note 8 Cash and Cash Equivalents

Cash at bank	7,970,322	2,641,219
Short-term bank deposits	6,517,815	31,126,924
	14,488,137	33,768,143

Note 9 Other Receivables

CURRENT

Interest receivable	4,115	363,499
GST receivable	276,361	395,092
Other receivables	60,560	15,732
Total current trade and other receivables	341,036	774,323

NON-CURRENT

Loan receivable	220,658	164,099
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The following table details the Group's other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled within the terms and conditions agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

At 30 June, the ageing analysis of receivables is as follows:

	Gross amount	< 30	31-60	> 61 and impaired	> 61 and not impaired
	\$	\$	\$	\$	\$
2012					
Interest receivable	4,115	4,115	-	-	-
GST receivable	276,361	276,361	-	-	-
Other receivables	60,560	60,560	-	-	-
Total	341,036	341,036	-	-	-

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value. The Group does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

Note 10 Other Assets

Prepayments	730,996	303,097
Deposits	110,573	43,583
	841,569	346,680

Note 11 Property, Plant and Equipment

LAND AND BUILDINGS

Building		
At cost	155,294	142,000
Accumulated depreciation	(20,225)	-
Total buildings	135,069	142,000

PLANT AND EQUIPMENT

Furniture, fixture and fittings		
At cost	262,125	27,539
Accumulated depreciation	(96,587)	(780)
Total furniture, fixture and fittings	165,538	26,759

Office equipment		
At cost	156,861	65,118
Accumulated depreciation	(51,714)	(16,197)
Total office equipment	105,147	48,921

Motor Vehicle		
At cost	183,133	-
Accumulated depreciation	(5,702)	-
Total Motor Vehicle	177,431	-

Total property, plant and equipment	583,185	217,680
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(a) Movements in Carrying Amounts

Movement in the carrying amount for each class of property, plant and equipment between the beginning and the end of the current financial period:

	Buildings	Furniture, Fixtures and Fittings	Office Equipment	Motor Vehicle	Total
	\$	\$	\$	\$	\$
Balance at 7 May 2010	-	-	-	-	-
Additions	142,000	27,539	65,118	-	234,657
Depreciation expense	-	(780)	(16,197)	-	(16,977)
Balance at 30 June 2011	142,000	26,759	48,921	-	217,680
Additions	13,294	234,586	91,743	183,133	522,756
Depreciation expense	(20,225)	(95,807)	(35,517)	(5,702)	(157,251)
Balance at 30 June 2012	135,069	165,538	105,147	177,431	583,185

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

2012 2011
\$ \$

Note 12 Intangible Assets

Computer software		
Cost	27,501	15,398
Accumulated amortisation and impairment	(9,929)	(5,257)
Net carrying value	17,572	10,141
Other intangibles		
Cost	33,526	-
Accumulated amortisation and impairment	(3,000)	-
Net carrying value	30,526	-
Total Intangibles	48,098	10,141

(a) Movement in Carrying Amounts

Movement in the carrying amount for each class of intangible assets between the beginning and the end of the current financial period:

	Computer software \$	Other \$	Total \$
Balance 7 May 2010	-	-	-
Additions	15,398	-	15,398
Amortisation expense	(5,257)	-	(5,257)
Balance at 30 June 2011	10,141	-	10,141
Additions	12,103	33,526	45,629
Amortisation expense	(4,672)	(3,000)	(7,672)
Balance at 30 June 2012	17,572	30,526	48,098

2012	2011
\$	\$

Note 13 Exploration and evaluation assets

Exploration and evaluation expenditure capitalised

Exploration and evaluation phases - at cost

Accumulated amortisation

Total Exploration expenditure

121,631,637 88,753,631

- -

121,631,637 **88,753,631**

(a) Exploration and Evaluation Expenditure

During the period ended 30 June 2012, the Group capitalised \$33,848,582 (2011: \$88,753,631) worth of expenditure as exploration expenditure. These costs relate to the acquisition and evaluation of mining tenements, including drilling, consulting and rent. A summary of movements for capitalised exploration and valuation expenditure is as follows:

	\$
Balance as at 7 May 2010	-
Acquired through asset acquisition:	
- FTB (QLD) Pty Limited*	28,649,452
- Sierra Coal Pty Limited*	2,048,478
- Orion Pty Limited*	12,155,273
- Terra Energy LLC*	24,761,524
- Tsagaan Uvuljuu LLC*	1,625,204
- White Mountain Pty Limited*	6,470,588
	75,710,519
Exploration Expenditure	13,043,112
Balance as at 30 June 2011	88,753,631
Acquired through asset acquisition:	
- Springsure Mining Pty Limited*	388,611
- Alag Tevsh LLC	3,050,507
Exploration Expenditure	29,438,888
Balance as at 30 June 2012	121,631,637

* refer to Note 19 for further details of assets acquired, consideration paid and non-controlling interest as a result of the above mentioned asset acquisitions.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

(b) Interest in mining tenements

Tenement Number	Location	Percentage Interest
1260	Charters Towers, Queensland Australia	56%
1300	Charters Towers, Queensland Australia	100%
1394	Charters Towers, Queensland Australia	100%
1477	Charters Towers, Queensland Australia	100%
1478	Charters Towers, Queensland Australia	100%
1479	Charters Towers, Queensland Australia	100%
1480	Mount Isa, Queensland Australia	100%
1573	Mount Isa, Queensland Australia	100%
1574	Charters Towers, Queensland Australia	100%
1576	Mount Isa, Queensland Australia	100%
1674	Emerald, Queensland Australia	100%
1872	Rockhampton, Queensland Australia	100%
1890	Charters Towers, Queensland Australia	100%
2046	Mount Isa, Queensland Australia	100%
2047	Mount Isa, Queensland Australia	100%
2048	Charters Towers, Queensland Australia	100%
2049	Charters Towers, Queensland Australia	100%
2105	Charters Towers, Queensland Australia	100%
1608CA	Emerald, Queensland Australia	100%
1641CA	Charters Towers, Queensland Australia	100%
2057A	Dalby, Queensland Australia	100%
2058	Dalby, Queensland Australia	100%
2158CA	Emerald, Queensland Australia	100%
2256CA	Emerald, Queensland Australia	100%
2259CA	Charters Towers, Queensland Australia	100%
2305CA	Emerald, Queensland Australia	100%
2503A	Charters Towers, Queensland Australia	100%
2504A	Charters Towers, Queensland Australia	100%
1892	Charters Towers, Queensland Australia	100%
1893	Charters Towers, Queensland Australia	100%
1962	Charters Towers, Queensland Australia	100%
1963	Charters Towers, Queensland Australia	100%
1964	Charters Towers, Queensland Australia	100%
1822	Rockhampton, Queensland Australia	100%
1870	Rockhampton, Queensland Australia	100%
1976CA	Rockhampton, Queensland Australia	100%
2003	Rockhampton, Queensland Australia	100%
1250	Charters Towers, Queensland Australia	56%
5262X	South Gobi, Mongolia	70%
5264X	South Gobi, Mongolia	70%
12929X	Mid Gobi, Mongolia	70%
13352X	South Gobi, Mongolia	70%
13780X	South Gobi, Mongolia	70%
14522X	South Gobi, Mongolia	70%
15466X	Mid Gobi, Mongolia	70%

	2012	2011
	\$	\$
Note 14 Trade and Other Payables		
CURRENT		
Trade payables*	386,851	10,239,447
Accrued expense	3,266,649	1,041,556
Unsecured interest free loans	-	726,496
GST payable	-	14,592
	3,653,500	12,022,091
NON-CURRENT		
Loans payable	24,128	-

* Included within trade payables as at 30 June 2011 was the purchase consideration of \$10,000,000, representing the post balance sheet date payable amount which was settled on 8 July 2012 for the acquisition of the 70% shareholding in Terra Energy LLC.

Note 15 Provisions

	Employee entitlements	Total
	\$	\$
Balance at 7 May 2010	-	-
Additional provisions	35,030	35,030
Amounts used	-	-
Balance at 30 June 2011	35,030	35,030
Additional provisions	71,939	71,939
Amounts used	(25,636)	(25,636)
Balance at 30 June 2012	81,333	81,333

Analysis of Total Provisions

Current	81,333	35,030
	81,333	35,030

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

	2012 \$	2011 \$
Note 16 Reserves		
Acquisition reserve	3,387,074	-
Foreign currency translation	(496,335)	(1,136)
	<u>2,890,739</u>	<u>(1,136)</u>

Acquisition Reserve

During the year ended 30 June 2012, the Group acquired additional minority interest and received a non-cash discount on acquisition of non-controlling interest of \$3,387,074. This amount has been calculated by comparing the consideration paid to the book value of non controlling interest at date of purchase with the excess/discount recorded within the reserve.

The following three acquisitions occurred during the year ended 30 June 2012:

- Purchase of the final 20% of FTB (QLD) Pty Limited for consideration \$4,000,000, book value at date of acquisition was \$6,667,262, resulting in a discount on acquisition of non-controlling interest of \$2,667,262;
- Purchase of an additional 5% of White Mountain Pty Limited for consideration \$38,858, non-controlling interest at date of acquisition was \$319,809, resulting in a discount on acquisition of non-controlling interest of \$280,951; and
- Purchase of the final 20% of Orion Pty Limited for consideration \$2,000,000, non-controlling interest at date of acquisition was \$2,438,861, resulting in a discount on acquisition of non-controlling interest of \$438,861.

Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary which amounted to a foreign currency loss of \$496,335 for the year.

Note 17 Issued Capital

476,867,530 (2011: 413,532,609) Ordinary Shares	<u>147,206,513</u>	<u>96,206,800</u>
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Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Note 17 Issued Capital (Cont'd)

(a) Ordinary Shares

	No	Amount \$
Balance as at 7 May 2010	-	-
Shares issued to The Chairmen ¹ for asset acquisition	200,000,000	40,640,000
Shares issued to seed investors at 20c per share	150,000,000	30,000,000
Shares issued upon IPO at 20c per share	10,000,000	2,000,000
Private placement at 48c per share	52,083,334	25,000,000
Private placement at 69c per share	1,449,275	1,000,000
Share issue costs (net of tax effect)	-	(2,433,200)
Balance at 30 June 2011	413,532,609	96,206,800
Shares issued for share acquisition for 70% ownership in Terra Energy LLC	3,937,008	5,000,000
Shares issued for acquisition of 20% of FTB (QLD) Pty Limited	2,184,551	2,500,000
Private placement at 92c per share	10,869,566	10,000,001
Share issued as part of bonus payment	9,125,752	8,680,000
Private placement at 70c per share	35,714,285	25,000,000
Shares issued for acquisition of 20% of Orion Pty Limited	1,503,759	1,000,000
Share issue costs (net of tax effect)	-	(1,180,287)
Balance at 30 June 2012	476,867,530	147,206,514

The above shares have no par value with all shares being fully paid

(b) Capital Management

Management controls the capital of the Group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

1 July 2011 to 30 June 2012	7 May 2010 to 30 June 2011
\$	\$

Note 18 Cash Flow Information

(a) Reconciliation of Cash Flow from Operations with Loss after Income Tax

Loss for the period	(23,184,416)	(4,837,600)
Non-cash flows in loss		
- Depreciation and amortisation	164,922	22,234
- Deferred tax assets derecognised directly from equity	505,838	1,042,800
- Bonuses paid via share issue	8,680,000	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
- (Increase)/decrease in trade and term receivables	376,728	(938,422)
- (Increase)/decrease in other assets	(488,959)	(346,680)
- Increase/(decrease) in trade and other payables	(1,041,442)	2,022,091
- Increase/(decrease) in provisions	46,303	35,030
Cash Flows from operating activities	(14,941,026)	(3,000,547)

(b) Reconciliation of Cash Balances

Cash and cash equivalents	14,488,137	33,768,143
Balance as per statement of cash flows	14,488,137	33,768,143

(c) Non-Cash Investing and Financing Activities

During the 2012 financial year, \$8,500,000 worth of shares in Guildford Coal Limited ordinary shares were issued for the payment for acquisition of exploration, evaluation and development expenditure or payment for acquisitions. These amounts have been excluded from the investing and financing activities within the Statement of Cash Flows.

Note 19 Controlled Entities

Name	Country of Incorporation	Ownership Interest (%)	
		2012	2011
Parent Entity:			
Guildford Coal Limited	Australia		
Subsidiaries of parent entity:			
FTB (QLD) Pty Limited	Australia	100	80
Sierra Coal Pty Limited	Australia	100	100
Orion Pty Limited	Australia	100	80
Terra Energy Limited (formerly Guildford Coal (Mongolia) Pty Limited)	Australia	70	100
White Mountain Pty Limited	Australia	56	51
Terra Energy LLC	Mongolia	-	70
Tsagaan Uvuljuu LLC	Mongolia	-	70
Guildford Coal (Mongolia) Pty Limited	Australia	70	-
Springsure Mining Pty Limited	Australia	50.52	-
Subsidiaries of Terra Energy Limited:			
Tellus Commodities Pte Ltd	Singapore	100	-
Subsidiaries of Guildford Coal (Mongolia) Pty Limited:			
Tellus Marketing Pte Ltd	Singapore	100	-
Subsidiaries of Tellus Marketing Pte Ltd			
Alag Tvesh LLC	Mongolia	100	-
Subsidiaries of Tellus Commodities Pte Ltd			
Terra Energy LLC	Mongolia	100	-
Subsidiaries of Terra Energy LLC			
Tsagaan Uvuljuu LLC	Mongolia	100	-

During the year ended 30 June 2012, the Group underwent a restructure of its subsidiaries. This restructure resulted in the Terra Energy Limited acquiring 100% of the shares in Terra Energy LLC. In consideration for these shares, 30% of the shares were issued to the original non-controlling interest in Terra Energy LLC. Subsequent to this, Terra Energy Limited sold its 100% interest in Terra Energy LLC to a fully owned subsidiary, Tellus Marketing Pte Ltd. This has nil impact on the group's results.

In addition to the above, Terra Energy LLC sold its 100% interest in Alag Energy LLC to Tellus Commodities Pte Ltd, a company owned by Guildford Coal (Mongolia) Pty Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

Note 19 Controlled Entities (Cont'd)

(a) Asset Acquisitions for the year ended 30 June 2012

Alag Tevsh LLC

In August 2011, Guildford Coal Limited, through its 70% owned subsidiary Terra Energy LLC, acquired a 100% interest in Alag Tevsh LLC resulting in Terra Energy LLC, and ultimately Guildford Coal Limited, obtaining control of Alag Tevsh LLC.

The following table shows the assets acquired, liabilities assumed and the purchase consideration at the acquisition date.

	\$
Purchase consideration:	
Cash	<u>3,050,507</u>

Identifiable Assets and liabilities:

	Acquiree's carrying amount	Fair value
	\$	\$
Exploration assets	331,592	3,050,507
Identifiable assets acquired and liabilities assumed	<u>331,592</u>	<u>3,050,507</u>

Springsure Mining Pty Limited

On 2 April 2012 the Guildford Coal Limited paid \$250,000 for 50.52% of EPC 1674.

The following table shows the assets acquired, liabilities assumed and the purchase consideration at the acquisition date.

	\$
Purchase consideration:	
Cash/loan commitment	250,000
Cash	<u>250,000</u>

Note 19 Controlled Entities (Cont'd)

(a) Asset Acquisitions for the year ended 30 June 2012 (Cont'd)

Springsure Mining Pty Limited (Cont'd)

Identifiable Assets and liabilities:

	Acquiree's carrying amount	Fair value
	\$	\$
Exploration assets	1,109,187	388,611
Cash at bank	131,402	131,402
Other Assets	5,930	5,930
Creditors and accruals	(31,089)	(31,089)
	1,215,430	494,854
Less: non-controlling interest		(244,854)
Identifiable assets acquired and liabilities assumed		250,000

In addition to the upfront consideration of \$250,000, the Company is also required to pay up to an additional \$20 million in cash or shares. This has been treated as a contingent consideration. Further details are contained in Note 23.

(b) Asset Acquisitions for the year ended 30 June 2011

Acquisitions from The Chairmen1 Pty Limited

On 26 May 2010, Guildford Coal Limited acquired the following interests from The Chairmen1 Pty Limited (major shareholder):

Entity	Interest
FTB (QLD) Pty Limited	80%
Sierra Coal Pty Limited	100%
Orion Pty Limited	80%

Other Acquisitions

In addition during the Reporting period, Guildford Coal Limited acquired the following equity interests:

Entity	Interest
Terra Energy LLC	70%
Tsagaan Uvuljuu LLC	70%
White Mountain Pty Limited	51%

The acquisitions resulted in Guildford Coal Limited obtaining control of the above entities. The details of the acquisitions are detailed below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

Note 19 Controlled Entities (Cont'd)

(b) Asset Acquisitions for the year ended 30 June 2011 (Cont'd)

Acquisitions from The Chairmen1 Pty Limited

Guildford Coal Limited issued The Chairmen1 shares to the value of \$40,640,000 as consideration for the acquisition. This was deemed to be the fair value of the assets acquired. The value of the acquisition was allocated as follows:

Assets	\$
Sierra Coal Pty Limited	2,049,183
FTB (QLD) Pty Limited	23,094,670
Orion Mining Pty Limited	9,724,071
EPC 1250 (Hughenden)	44,546
EPC 2105 (Hughenden)	1,909,176
EPCs 2057 and 2058 (Sunrise)	<u>3,818,354</u>
	<u>40,640,000</u>

Note 19 Controlled Entities (Cont'd)

(b) Asset Acquisitions for the year ended 30 June 2011 (Cont'd)

Identifiable Assets and liabilities:

	Acquiree's carrying amount \$	Fair value \$
FTB (QLD) Pty Limited		
Prepayments	199,648	199,648
Deposits paid	15,000	15,000
Receivables	4,236	4,236
Exploration assets	4,298	28,649,452
	223,182	28,868,336
Less: non-controlling interest		(5,773,666)
Identifiable assets acquired and liabilities assumed		23,094,670
 Sierra Coal Pty Limited		
Cash	159	159
Receivables	546	546
Exploration assets	5,277	2,048,478
	5,982	2,049,183
 Orion Pty Limited		
Exploration assets	-	12,155,273
Cash at bank	(34)	(34)
Loans	(150)	(150)
	(184)	12,155,089
Less: non-controlling interest		(2,431,018)
Identifiable assets acquired and liabilities assumed		9,724,071

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

Note 19 Controlled Entities (Cont'd)

(b) Asset Acquisitions for the year ended 30 June 2011 (Cont'd)

Terra Energy LLC

On 5 April 2011, Guildford Coal (Mongolia) Pty Limited acquired a 70% interest in Terra Energy LLC. The acquisition included a deferred consideration payable of \$10,000,000 which has been recorded as a current financial liability. This deferred settlement was paid on 20 July 2011.

The following table shows the assets acquired, liabilities assumed and the purchase consideration at the acquisition date.

	\$
Purchase consideration:	
Ordinary shares	1,000,000
Cash	6,000,000
Deferred consideration	10,000,000
Acquisition costs	333,067
	17,333,067

Identifiable Assets and liabilities:

	Acquiree's carrying amount \$	Fair value \$
Exploration assets	-	24,761,524
	-	24,761,524
Less: non-controlling interest		(7,428,457)
Identifiable assets acquired and liabilities assumed		17,333,067

On 31 March 2011, OZ Master Fund Limited, OZ Asia Master Fund Limited, OZ Global Special Investments Master Fund LP (Subscribers), Terra Energy LLC and Guildford Coal Limited entered into a Call Option Deed which entitles the Subscribers to subscribe for 25% of the issued capital in Terra Energy LLC for a cash payment of \$25,000,000. This has been deemed to have nil value.

(b) Asset Acquisitions for the year ended 30 June 2011 (Cont'd)

Tsagaan Uvuljuu LLC

On 5 April 2011, Terra Energy LLC acquired a 100% interest in Tsagaan Uvuljuu LLC resulting in Terra Energy LLC, and ultimately Guildford Coal Limited, obtaining control of Tsagaan Uvuljuu LLC.

The following table shows the assets acquired, liabilities assumed and the purchase consideration at the acquisition date.

	\$
Purchase consideration:	
Cash	<u>1,625,204</u>

Identifiable Assets and liabilities:

	Acquiree's carrying amount \$	Fair value \$
Exploration assets	-	1,625,204
Identifiable assets acquired and liabilities assumed	<u>-</u>	<u>1,625,204</u>

White Mountain Pty Limited

On 20 April 2011 the parent Company paid \$3,300,000 for 51% of EPC 1260.

The following table shows the assets acquired, liabilities assumed and the purchase consideration at the acquisition date.

	\$
Purchase consideration:	
Cash	<u>3,300,000</u>

Identifiable Assets and liabilities:

	Acquiree's carrying amount \$	Fair value \$
Exploration assets	-	6,470,588
Less: non-controlling interest		<u>(3,170,588)</u>
Identifiable assets acquired and liabilities assumed		<u>3,300,000</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

Note 20 Capital and Leasing Commitments

(a) Finance Lease Commitments

The Group has no finance lease commitments as at 30 June 2012.

(b) Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements:

Payable - minimum lease payments:

- not later than 12 months	70,734	87,555
- between 12 months and 5 years	84,561	172,919
	<u>155,295</u>	<u>260,474</u>

(c) Capital Expenditure Commitments

The exploration commitments for Exploration Permits for Coal (EPCs) to the Department of Mines and Energy (Queensland) and Mongolian authorities are tabulated below:

Payable:

- not later than 12 months	6,292,078	3,176,579
- between 12 months and 5 years	15,707,128	4,867,975
	<u>21,999,205</u>	<u>8,044,554</u>

Note 21 Financial Risk Management

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable and loans to and from subsidiaries.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Note	2012 \$	2011 \$
Financial Assets			
Cash and cash equivalents	8	14,488,137	33,768,143
Trade and other receivables	9	561,694	774,323
Total Financial Assets		15,049,831	34,542,466
Financial Liabilities			
Financial liabilities at amortised cost			
Trade and other payables	14	3,677,628	12,022,091
Total Financial Liabilities		3,677,628	12,022,091

Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk, foreign currency risk and commodity and equity price risk.

(a) Credit Risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counter parties of contract obligations that could lead to a financial loss to the Group.

The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets (as outlined in each applicable note).

The Group does not hold any credit derivatives to offset its credit exposure.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to scrutinise its trade and other receivables.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the board. These risk limits are regularly monitored.

In addition, receivable balances are monitored on an ongoing basis. The Group's credit management procedures has resulted in the Group's experiencing no bad debts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

(b) Liquidity Risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financial activities;
- using derivatives that are only traded in highly liquid markets;
- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit risk profile;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities. Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

	Within 1 Year	1 to 5 Years	Over 5 Years	Total Contractual Cash Flow
	\$	\$	\$	\$
Financial liabilities due for payment				
Trade and other payables	3,653,500	24,128	-	3,677,628
Total contractual outflows	3,653,500	24,128	-	3,677,628
Total expected outflows	3,653,500	24,128	-	3,677,628
Financial assets - cash flows realisable				
Cash and cash equivalents	14,488,137	-	-	14,488,137
Trade and other receivables	341,036	220,658	-	561,694
Total anticipated inflows	14,829,173	220,658	-	15,049,831
Net (outflow)/inflow on financial instruments	11,175,673	196,530	-	11,372,203

Financial liability and financial asset maturity analysis – period ended 30 June 2011

	Within 1 Year	1 to 5 Years	Over 5 Years	Total Contractual Cash Flow
	\$	\$	\$	\$
Financial liabilities due for payment				
Trade and other payables	12,022,091	-	-	12,022,091
Total contractual outflows	12,022,091	-	-	12,022,091
Total expected outflows	12,022,091	-	-	12,022,091
Financial assets - cash flows realisable				
Cash and cash equivalents	33,768,143	-	-	33,768,143
Trade and other receivables	774,323	164,099	-	938,422
Total anticipated inflows	34,542,466	164,099	-	34,706,565
Net (outflow)/inflow on financial instruments	22,520,375	164,099	-	22,684,474

(c) Market Risk

i. Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. At 30 June 2012, approximately 99.3% of cash at bank is held in higher yielding short term bank accounts and term deposits to maximise the return to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

ii. Foreign exchange risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

As at 30 June 2012, the Group does not hold any instruments in overseas currencies. During the assessment of the Mongolian operations, the Directors may in future periods determine a foreign exchange risk management strategy that differs from the current strategy of accepting spot rates for cash advances in \$US.

iii. Commodity price risk

Commodity price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors for commodities.

The Group has no exposure to commodity price risk as it is not yet in production.

Sensitivity Analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates. The table indicates the impact on how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonable possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

	Increase in interest rate by 1%		Decrease in interest rate by 1%	
	Profit \$	Equity \$	Profit \$	Equity \$
Period Ended 30 June 2011				
Cash and cash equivalents	337,681	337,681	(337,681)	(337,681)
Period Ended 30 June 2012				
Cash and cash equivalents	144,881	144,881	(144,881)	(144,881)

Net Fair Values

Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair values of financial assets and financial liabilities presented in the financial statements are not materially different to the carrying value of these assets and liabilities.

Note 22 Interests of Key Management Personnel

(a) Details of Key Management Personnel

Directors

The Hon. Peter Lindsay	Non-Executive Chairman – Appointed 18 April 2012
Mr Craig Ransley	Non-Executive Director
Mr Anthony Bellas	Non-Executive Director – Resigned 27 June 2012
The Hon. Alan Griffiths	Non-Executive Director
Mr Michael Chester	Non-Executive Director

Executives

Mr Michael Avery	Managing Director
Ms Norah St. George	Chief Financial Officer – Resigned 11 May 2012
Mr Louis Chait	Finance Director – Appointed 27 June 2012
Mr Mark Turner	Chief Operating Officer
Mr Tony Mooney	General Manager – Stakeholder Relations

(b) Compensation of Key Management Personnel

	1 July 2011 to 30 June 2012	7 May 2010 to 30 June 2011
	\$	\$
Short Term	13,622,247	952,974
Post Employment	114,094	65,583
	<u>13,776,341</u>	<u>1,018,557</u>

Detailed remuneration disclosures are provided in the remuneration report within the Director's Report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

(c) Share and Option Holdings of Key Management Personnel

Directors	Position	Shareholding	Options
The Hon. Peter Lindsay	Non-Executive Chairman – Appointed 18 April 2012	-	-
Mr Craig Ransley	Non-Executive Director	-	-
Mr Anthony Bellas	Non-Executive Director – Resigned 27 June 2012	66,760	-
The Hon. Alan Griffiths	Non-Executive Director	40,056	-
Mr Michael Chester	Non-Executive Director	-	-
Executives			
Mr Michael Avery	Managing Director	-	-
Ms Norah St. George	Chief Financial Officer – Resigned 11 May 2012	-	-
Mr Louis Chait	Finance Director – Appointed 27 June 2012	-	-
Mr Mark Turner	Chief Operating Officer	1,026,539	-
Mr Tony Mooney	General Manager – Stakeholder Relations	-	-

(d) Movement in Shareholdings of Key Management Personnel

The following table summarises the movement in ordinary shares for the 2011 and 2012 financial periods:

	Balance 7 May 2010	Net Change	Balance 30 June 2011	Net Change Other	Balance 30 June 2012
Directors					
The Hon. Peter Lindsay	-	-	-	-	-
Mr Craig Ransley*	-	-	-	-	-
Mr Anthony Bellas	-	-	-	66,760	66,760
The Hon. Alan Griffiths*	-	-	-	40,056	40,056
Mr Michael Chester**	-	-	-	-	-
Executives					
Mr Michael Avery*#	-	-	-	-	-
Ms Norah St. George	-	-	-	-	-
Mr Louis Chait	-	-	-	-	-
Mr Mark Turner	-	-	-	1,026,539	1,026,539
Mr Tony Mooney	-	-	-	-	-

* Directors are shareholders of The Chairmen1 Pty Limited, which is the major shareholder (with 200,000,000 ordinary shares) of Guildford Coal Limited.

** Director was a shareholder and director of The Chairmen1 Pty Limited, which is the major shareholder (with 200,000,000 ordinary shares) of Guildford Coal Limited. Mr Chester ceased to be a director on 20 July 2012 and disposed of his shareholding in The Chairmen1 Pty Limited on 21 July 2011.

Note 23 Contingent Liabilities and Contingent Assets

The Management Agreement between Guildford Coal Limited and The Chairmen1 Pty Limited (as amended 20 July 2010) provides for the payment of an annual management fee of \$2,500,000 and a Success Fee amount of \$20,000,000 in either cash or shares to the Manager for each 100,000,000 tonnes of Indicated Resource to a Maximum Amount of \$100,000,000. During the first two years, any Success Fee Amount may only be satisfied by the issue of Restricted Securities. The Success Fee will not be payable if the Agreement is terminated. On conclusion of the five year term, the Company will have no further obligation to pay any future Success Fee. No amount has been paid or accrued as at 30 June 2012.

The FTB Share Sale Agreement dated 14 September 2011 includes an agreement to pay a Royalty of \$0.50 per tonne of coal mined from the FTB tenements and sold to a third party. The Royalty applies to a maximum tonnage of 10 million tonnes per year and will cease 20 years from the date of first production of coal from any of the FTB tenements. No amount has been paid or accrued as at 30 June 2012.

The Share Purchase agreement between Guildford Coal Limited and Resco Projects Pty Limited, for the purchase of 50.52% ownership in Springsure Mining Pty Limited, provides for contingent payments of \$2.2M for each of the first five tranches of 10Mt of JORC Indicated Resource and \$1.8M for each of the next five tranches of 10Mt of JORC Indicated Resource to a maximum of \$20M (payable in cash or Guildford Coal Shares). These contingent payments are in addition to the initial purchase consideration of \$250,000. No amount has been paid or accrued as at 30 June 2012.

The Group has issued bank guarantees to the value of \$182,260 (2011: \$163,868).

Note 24 Related Party Transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties are summarised as follows:

The Chairmen1 Pty Limited

During the year ended 30 June 2012, the Group paid The Chairmen1 Pty Limited (major shareholder of the Company) management fees totalling \$2,500,000 (2011: \$2,500,000) as specified in the Management Agreement executed on 26 May 2010 (as amended 20 July 2010).

Craig Ransley, Michael Chester and Michael Avery were directors and/or shareholders of The Chairmen1 Pty Limited. On 12 October 2010, Michael Avery ceased to be a Director of The Chairmen1 Pty Limited. In addition, on 21 July 2012 Michael Chester ceased to be a director and disposed of his shareholding in The Chairmen1 Pty Limited on 20 July 2011. The Chairmen1 Pty Limited is a shareholder of Guildford Coal Limited.

Refer to note 19 for details of a related party asset acquisition from The Chairmen1 Pty Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

Note 25 Events After the End of the Reporting Period

On 9 July 2012, the Company announced a maiden JORC Indicated Resource of 123.63Mt at depths suitable for underground mining at the Hughenden Coal Project (on EPC1477 in the northern Galilee Basin, Queensland). As a result, the first milestone fee payment to The Chairmen1 Pty Limited of \$20M Guildford Coal Shares was triggered.

On 22 July 2012, 200,000,000 ordinary shares issued to The Chairmen1 Pty Limited at listing of Guildford Coal Limited, as outlined in the IPO Replacement Prospective dated 4 June 2010, were released from escrow.

On 22 July 2012, Guildford Coal Limited acquired an additional 4.76% ownership in Terra Energy Limited and an additional 3.6% ownership in White Mountain Pty Limited. This takes the Group's ownership of Terra Energy Limited and White Mountain Pty Limited to 74.76% and 59.6% respectively.

On 30 July 2012, Guildford Coal Limited entered into a Farm-in and Joint Venture agreement with QCI (Coking) Pty Limited. The Farm-in agreement is over three year period where QCI will manage and operate two tenements at Kolan Coal Project in Queensland. Total contribution from QCI over the three years is \$2M. At the end of the three year Farm-in period, QCI has the option of forming an unincorporated Joint Venture. Upon exercising this option, Guildford Coal Limited would be required to contribute an additional \$2M for a 49% interest in the Joint Venture.

On 11 September 2012, the Company announced Terra Energy LLC had been granted a pre mining licence over the North Pit of the South Gobi Project in Mongolia. A Mining Contractor has been engaged to develop the North Pit with first coal production forecast for late November 2012. A Heads of Agreement for offtake has been signed with end user Sojitz and Marketing Agency Agreement signed with Noble in addition to funding arrangements for the South Gobi Start up mine.

Except for the above, no other matters or circumstances have arisen since the end of the financial period which significantly affected or could significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial periods

Note 26 Parent Entity

The following information has been extracted from the books and records of the parent, Guildford Coal Limited and has been prepared in accordance with Accounting Standards.

The financial information for the parent entity, Guildford Coal Limited has been prepared on the same basis as the consolidated financial statements except as disclosed below.

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of the parent entity. Dividends received from associates are recognised in the parent entity profit or loss, rather than being deducted from the carrying amount of these investments.

Note 26 Parent Entity (Cont'd)

	2012 \$	2011 \$
Statement of Financial Position		
Assets		
Current assets	13,886,631	34,422,206
Non-current assets	113,007,257	58,538,180
Total Assets	<u>126,893,888</u>	<u>92,960,386</u>
Liabilities		
Current liabilities	1,641,252	1,299,163
Total Liabilities	<u>1,641,252</u>	<u>1,299,163</u>
Equity		
Issued capital	147,206,514	96,206,800
Retained earnings	(21,953,878)	(4,545,577)
Total Equity	<u>125,252,636</u>	<u>91,661,223</u>
	1 July 2011 to 30 June 2012 \$	7 May 2010 to 30 June 2011 \$
Statement of Comprehensive Income		
Total profit or loss for the period	(17,408,301)	(4,545,577)
Total comprehensive income	<u>(17,408,301)</u>	<u>(4,545,577)</u>

Details of bank guarantees, contingent liabilities and contractual commitments have been included at Note 23 and Note 20.

Note 27 Company Details

The registered office and principal place of business of the Company is:

Guildford Coal Limited
Suite C1
The Boardwalk
1 Honeysuckle Drive
NEWCASTLE NSW 2300
AUSTRALIA

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Guildford Coal Limited, I state that:

In the opinion of the directors:

- (a) The financial statements and notes, as set out on pages 51 to 107, are in accordance with the *Corporations Act 2001* including:
 - (i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) the Corporations Regulations 2001; and
 - (ii) give a true and fair view of the financial position as at 30 June 2012 and of the performance for the period ended on that date of the Company and consolidated group;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2012.

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


Director: _____

Dated: 28 September 2012

AUDITOR'S INDEPENDENCE DECLARATION

TO THE DIRECTORS OF GUILDFORD COAL LIMITED



Ernst & Young Centre
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001
Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
www.ey.com/au

Auditor's Independence Declaration to the Directors of Guildford Coal Limited

In relation to our audit of the financial report of Guildford Coal Limited for the year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.


Ernst & Young


Anton Ivanyi
Partner
Sydney

28 September 2012

AUDITOR'S INDEPENDENCE DECLARATION

FOR THE YEAR ENDED 30 JUNE 2012



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Sydney NSW 2000 Australia
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Independent auditor's report to the members of Guildford Coal Limited

Report on the Financial Report

We have audited the accompanying financial report of Guildford Coal Limited, which comprises the statement of financial position as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our review we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Auditor's Opinion

In our opinion, the financial report of Guildford Coal Limited is in accordance with the *Corporations Act 2001*, including:

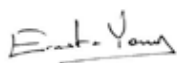
- i giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
- ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations), International Financial Reporting Standards as issued by the International Accounting Standards Board, and the Corporations Regulations 2001.

Report on the Remuneration Report

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

Auditor's Opinion

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



Ernst & Young



Anton Ivanyi
Partner
Sydney

28 September 2012

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

30 JUNE 2012

The following additional information is required by the Australian Stock Exchange Limited in respect of listed public companies only.

The shareholder information set out below was applicable as at 7 September 2012.

Distribution of Shareholders

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

	Number of Holders	Number of Units	Percentage of issued shares
1 - 1,000	116	77,995	0.01%
1,001 - 5,000	406	1,272,697	0.24%
5,001 - 10,000	346	2,915,826	0.56%
10,001 - 100,000	761	25,999,890	4.99%
100,001 - and over	170	490,780,491	94.19%
	1799	521,046,899	100.00%

The number of shareholdings held in less than marketable parcels is 151.

Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares

- Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

The shareholder information set out below was applicable as at 7 September 2012.

Largest Shareholders - Ordinary Shares

Rank	Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1	EQUITAS NOMINEES PTY LIMITED	221,744,478	42.6%
2	NATIONAL NOMINEES LIMITED	66,341,970	12.7%
3	WARBONT NOMINEES PTY LTD	33,328,633	6.4%
4	HSBC CUSTODY NOMINEES	28,768,157	5.5%
5	UBS NOMINEES PTY LTD	27,929,152	5.4%
6	CREDIT SUISSE SECURITIES	11,647,494	2.2%
7	HSBC CUSTODY NOMINEES	10,040,912	1.9%
8	JP MORGAN NOMINEES AUSTRALIA	9,370,033	1.8%
9	OMAROO INVESTMENTS PTY LTD	7,362,397	1.4%
10	J P MORGAN NOMINEES AUSTRALIA	6,989,478	1.3%
11	UBS WEALTH MANAGEMENT	4,344,251	0.8%
12	CARPENTARIA EXPLORATION	2,184,551	0.4%
13	MR MARK KONDA &	2,000,000	0.4%
14	GLENEAGLE SECURITIES NOMINEES	2,000,000	0.4%
15	HSBC CUSTODY NOMINEES	1,847,891	0.4%
16	QUALITY LIFE PTY LTD	1,600,400	0.3%
17	BUTTONWOOD NOMINEES PTY LTD	1,600,000	0.3%
18	LA PLAYA SUPER FUND NOMINEES	1,500,000	0.3%
19	HSBC CUSTODY NOMINEES	1,411,460	0.3%
20	SPINIFEX RURAL MANAGEMENT PTY	1,283,690	0.2%
		443,294,947	85.1%

Company Secretary

The joint company secretaries are as follows:

- Mr Michael Avery
- Mr Louis Chait

Registered Office

Suite C1, The Boardwalk
1 Honeysuckle Drive
NEWCASTLE, NSW, AUSTRALIA, 2300

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

30 JUNE 2012

Share Registry

LINK MARKET SERVICES LIMITED
LEVEL 12, 680 GEORGE STREET
SYDNEY, NSW, AUSTRALIA, 2000

Stock Exchanging Listing

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

On-market buy-back

There is no current on-market buy-back in respect of the Company's shares.



GUILDFORD COAL

GUILDFORD COAL LIMITED

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