

ANNUAL FINANCIAL REPORT

2014

Directors' Report	1
– Remuneration Report	8
Auditor's Independence Declaration	12
Financial Statements:	
– Income Statement	13
– Statement of Comprehensive Income	14
– Statement of Financial Position	15
– Statement of Changes in Equity	16
– Statement of Cash Flows	17
– Notes to the Financial Statements	18
Directors' Declaration	57
Independent Auditor's Report	58

DIRECTORS' REPORT

Your directors present their report, together with the financial statements of the Group, being the company and its controlled entities, for the financial year ended 30 June 2014.

Principal Activities and Significant Changes in Nature of Activities

The principal activities of the consolidated group during the financial year were:

- evaluating coal exploration tenements held in the Bowen, Galilee, Surat and Clarence-Moreton basins;
- identifying exploration opportunities on selected coal tenements including exploration by way of joint venture agreement;
- planning and initial implementation of exploration programs covering selected coal tenements;
- seeking opportunities for divestment or joint venture operation of industrial minerals projects; and
- reviewing other resource investment opportunities.

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

Operating Results

The consolidated loss of the consolidated group amounted to \$1,790,492 (2013: \$1,876,561) after providing for income tax and eliminating minority equity interests.

Review of Operations

Australian Pacific Coal is a coal focused exploration group with strategic tenement holdings located in Queensland's principal coal basins close to established infrastructure.

During the course of 2014 the Group further advanced its exploration program. First stage drilling was completed on its EPC1859 "Dingo" project area, and EPC1995 "Carlo Creek". The Group has a number of prospective tenement areas within its holdings in the Blackwater region. The four main exploration projects identified are Dingo, Carlo Creek, Churchyard Creek and South Clermont. Activities being undertaken are focused on drilling these target areas and improving the resource status of the tenements. Further drilling will be undertaken as funds become available.

The Group's flagship exploration project, MDL453 "Cooroora", advanced to a Mineral Development Licence following the completion of the projects exploration program. Exploration has upgraded the resource estimate for the project to 124.9Mt (69.6Mt Indicated and 55.3Mt Inferred).

The Group has an Exploration, Option and Joint Venture Agreement with Rio Tinto Exploration Pty Ltd covering four of the Group's Mt Hillalong tenements. Rio Tinto Exploration Pty Ltd commenced drilling of the joint venture tenement in August 2013. The agreement has the potential to provide substantial additional funding to the Group over the next two years.

The Group also holds a 10% free carried interest through to feasibility stage in four tenements that it transferred to Blackwood Resources Pty Ltd. Blackwood is a subsidiary of Cuesta Coal Limited. Cuesta has secured funding to complete its exploration program and is actively drilling the joint venture exploration tenements.

DIRECTORS' REPORT

Financial Position

The net assets of the consolidated group at 30 June 2014 are \$2,314,112 (2013: \$2,386,208). The following factors contributed to the consolidated group maintaining its net asset position:

- proceeds from share issues raising \$1,568,396 after costs;
- drilling costs for capitalised exploration expenditure being conducted under an agreement whereby the drilling contractor earns equity in the relevant exploration project; and
- operating expenditure controls.

The Group's working capital, being current assets less current liabilities, is \$900,899 deficit (2013: \$336,358 deficit). Current liabilities include \$175,000 of convertible securities. These convertible securities are expected to be converted to ordinary shares during the course of the 2015 financial year.

The Group holds a number of highly prospective coal tenements in Queensland's Bowen, Galilee, Surat and Clarence-Moreton basins. During the past year, the Group has expended funds in evaluating, planning and initial exploration of selected coal tenements held by the Group.

The directors believe the Group is in a stable financial position to expand, maintain and grow its current operations.

Significant Changes in State of Affairs

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

Changes in capital structure:

- i. The company issued 57,525,000 ordinary shares under its July 2013 share purchase plan offer, raising \$575,250 before costs, to provide funds for exploration and additional working capital.
- ii. The company issued 168,432,539 ordinary shares to sophisticated and professional investors, raising \$975,000 before costs, to provide funds for exploration and additional working capital.
- iii. The company issued 10,815,759 ordinary shares to geological consultants in accordance with the plan rules for the Australian Pacific Coal Limited Officers, Executives, Consultants and Employee Share Plan.
- iv. During the financial year 21,428,571 ordinary shares were issued on conversion of convertible securities having a face value of \$150,000. The face value of outstanding convertible securities at 30 June 2014 is \$175,000 (2013: \$325,000).

The total number of ordinary shares issued during the financial year was 258,201,869 (2013: 97,701,953).

Dividends Paid or Recommended

No dividends of the Company or any entity of the Group have been paid or declared or recommended since the end of the preceding year. The Directors do not recommend the payment of any dividend for the year ended 30th June 2014.

DIRECTORS' REPORT

Events after the Reporting Period

Other than the following the directors are not aware of any significant events since the end of the reporting period.

On 11 September 2014 the company announced a Share Purchase Plan Offer (SPP). The SPP will raise a maximum of \$925,000 with eligible shareholders able to take a maximum investment of \$15,000 representing 4,687,500 new shares at a price of 0.32 cents per share. The proposed closing date of the SPP is 2 October 2014 with issue and allotment of new shares under SPP to follow on 9 October 2014.

On 16 September 2014 the company issued two unlisted convertible securities to The Australian Special Opportunity Fund, LP. The face values of the convertible securities are \$50,000 and \$75,000 respectively, both expiring 24 months from issue. The company received cash consideration of \$125,000 (before costs) for the issue of the convertible securities.

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

Future Developments, Prospects and Business Strategies

Future developments in the operations of the Group and the expected results of those operations are discussed where appropriate in the Annual Report under Review of Operations.

The Group will remain focused on its current business strategies which are:

- evaluating and exploring its coal exploration tenements held in the Bowen, Galilee, Surat and Clarence-Moreton basins;
- seeking opportunities for divestment or joint venture operation of industrial minerals projects; and
- reviewing other resource investment opportunities.

There are no further developments of which the Directors are aware which could be expected to affect the results of the Group's operations in subsequent financial years other than information which the Directors believe comment on, or disclosure of, would prejudice the interests of the Group.

Environmental Issues

The Group's operations are subject to significant environmental regulations under the laws of the Commonwealth and Queensland in respect of its Australian exploration activities. The Company is committed to undertaking all its operations in an environmentally responsible manner. The Group's projects in Queensland operate under granted Environmental Authorities issued under the Environmental Protection Act 1994 (Qld). The Group is not aware of any non-compliance matters in relation to environmental issues up to the date of this report.

The Group is not subject to the conditions imposed by the registration and reporting requirements of the National Greenhouse and Energy Reporting Act 2007.

The Group is not subject to the conditions imposed by the registration and reporting requirements of the Energy Efficiency Opportunities Act 2006 in the current financial year as its energy consumption was below the 0.5 petajoule registration threshold.

DIRECTORS' REPORT

Information on Directors

The names and details of the directors of the Company during the year and until the date of this report are:

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

Appointed Chairman 29 November 2012, Director since 29 November 2005.

Experience and expertise

Mr. Ziegler is an experienced company director. He was a partner of one of the major international accounting firms, specialising in taxation and corporate structuring. He is also a solicitor of the Supreme Court of Victoria. Mr Ziegler is currently the principal of Ziegler Asset Partners, an asset management firm specialising in investments in listed and unlisted equities and special opportunities.

Special responsibilities

Chairman of the Audit and Remuneration Committees

Interests in shares and options

10,233,333 ordinary shares in Australian Pacific Coal Limited

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

Nil

Mr. Paul Byrne (Executive Director)

Director since 29 November 2005.

Experience and expertise

Mr. Byrne joined the Company as Executive Director, following the acquisition of the Ipoh group of companies. Mr. Byrne was a founder of the Ipoh group and has initiated environmental remediation projects in conjunction with CSIRO, University of South Australia and the Queensland Department of Primary industries. He has also been involved in the resources sector since 1985 in exploration and mining and has been a director of several Australian public listed companies.

Special responsibilities

Managing Director

Interests in shares and options

94,312,907 ordinary shares in Australian Pacific Coal Limited

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

Nil

DIRECTORS' REPORT

Mr. Paul Ingram B.AppSc.(Geology), AusIMM (Non-executive Director)

Director since 17 March 2011.

Experience and expertise

Mr Ingram is a geologist with over thirty five years of experience in mineral exploration and mine development. Mr Ingram has been involved in several start-up public companies, mostly focussed in the Asian region. He has extensive experience in corporate M&A and has been focussed on coal projects in Asia and Australia for the past eight years. Mr Ingram brings to the Board of AQC an extensive network of professional contacts, which, combined with close ties to the Chinese resource industry, will be of significant benefit to the Group as an emerging coal company in Queensland.

Special responsibilities

Nil

Interests in shares and options

5,750,000 ordinary shares in Australian Pacific Coal Limited

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

Consolidated Global Investments Limited since September 2006

A-Cap Resources Limited since June 2009

Impact Minerals Limited since July 2009

Mr. Paul Ryan (Non-executive Director)

Appointed 29 November 2012

Experience and expertise

Mr. Ryan is a businessman with over twenty years' experience as owner and manager of large scale privately held companies. He has been involved in operations management at the Manimbah gold mine, contract mining, and transport and logistics operations. Mr Ryan brings to the Board of AQC an extensive network of professional contacts which, combined with relevant industry experience, are of significant benefit to the Group as an emerging coal company in Queensland.

Special responsibilities

Nil

Interests in shares and options

Nil

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

Nil

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

DIRECTORS' REPORT

Company Secretary

Mr. Kevin Mischewski B Bus (Acc), CA

(Company Secretary since 30 June 2008, Joint Company Secretary 29 February 2008 to 30 June 2008.)

Chartered Accountant and Registered Tax Agent with extensive commercial experience in senior financial and management accounting roles. Previous positions include Chief Financial Officer, Company Secretary and Finance Director for large private manufacturing companies. Extensive experience with listed public company reporting and compliance requirements.

Meetings of Directors

The number of meetings of directors and meetings of committees of directors held during the year, and the number of meetings including circulating resolutions attended by each director, was as follows:

	Directors' Meetings		Audit Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr. Peter Ziegler	9	9	1	1
Mr. Paul Byrne	9	9	**	**
Mr. Paul Ingram	9	8	**	**
Mr. Paul Ryan	9	8	**	**_

** = Not a member of the relevant committee.

Indemnifying Officers or Auditor

During the financial year, the Company paid a premium in respect of a contract of insurance indemnifying any past, present, or future director, secretary, officer or employee of the Company against liability, which payment or agreement to pay does not contravene the Corporations Act (Cth) 2001. The contract of insurance prohibits disclosure of the terms of the policy and the amount of the premium.

The Company has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer of the Company or any related body corporate against the liability incurred by such an officer.

Options

At the date of this report, there were no unissued ordinary shares of the Company under option

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

No options were issued to directors, officers or employees during the year as part of their remuneration.

No shares have been issued on the exercise of options granted during or since the end of the reporting period.

No person entitled to exercise any option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

DIRECTORS' REPORT

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 year.

Non-audit Services

The Board of Directors, in accordance with advice from the Audit Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: *Code of Ethics for Professional Accountants* set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to the former auditors of the company, Sothertons Chartered Accountants (Brisbane), for non-audit services provided during the year ended 30 June 2014:

Taxation services	\$7,500
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Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2014 has been received and can be found on page 12 of the Annual Financial Report.

ASIC Class Order 98/100 Rounding of Amounts

The company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and directors' report have been rounded to the nearest dollar.

Compliance Statement

Cooroorah (EPC1827/MDL453) Resource Estimate

The information is extracted from the report entitled *EPC1827 "Cooroorah" Resource Estimate Update* created on 20 November 2013 and is available to view on www.aqcltd.com/irm/content/asx-announcements.aspx. The company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

DIRECTORS' REPORT

Remuneration report

Remuneration Policy

The remuneration policy ensures that contracts for services are reviewed on a regular basis and properly reflect the duties and responsibilities of the individuals concerned. The executive remuneration structure is based on a number of factors including length of service, relevant market conditions, knowledge and experience with the industry, organisational experience, performance of the Company and that the remuneration is competitive in retaining and attracting motivated people. There are no guaranteed pay increases included in the senior executives' contracts.

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

- The Board of Director's is responsible for determining and reviewing compensation arrangements for the directors and the senior executives. The Board also reviews and ratifies the remuneration of key management and staff.
- All key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.
- Performance incentives are generally only paid once predetermined key performance indicators have been met.
- The Board reviews key management personnel packages periodically by reference to the consolidated group's performance, executive performance and comparable information from industry sectors.

Key management personnel receive a superannuation guarantee contribution required by the government, which is currently 9.5%, and do not receive any other retirement benefits. Individuals, however, may choose to sacrifice part of their salary to increase payments towards superannuation.

Upon retirement, key management personnel are paid employee benefit entitlements accrued to the date of retirement. Key management personnel are paid the mandated statutory amount of their salary in the event of redundancy.

All remuneration paid to key management personnel is valued at the cost to the company and expensed.

The Board's policy is to remunerate non-executive directors at no greater than market rates for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration periodically, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting and is currently set at \$250,000 per annum.

Engagement of Remuneration Consultants

The company did not engage remuneration consultants to review the elements of key management personnel remuneration during the financial year.

Performance-based Remuneration

Key management personnel remuneration comprises of a total fixed remuneration and does not comprise of any short-term incentive schemes or equity based remuneration.

Relationship between Remuneration Policy and Company Performance

The Board do not consider that there is a direct relationship between the remuneration policy of the company and company performance. The Managing Director of the company is also a substantial shareholder and as such is sufficiently motivated to improve company performance.

DIRECTORS' REPORT

Employment Details of Members of Key Management Personnel and Other Executives

The following table provides employment details of persons who were, during the financial year, members of key management personnel of the consolidated group. The table also illustrates the proportion of remuneration that was performance and non-performance based.

Name	Position	Proportions of elements of remuneration related to performance	Proportions of elements of remuneration not related to performance
<i>Directors</i>			
Mr Peter Ziegler	Chairman, Non-executive	-	100%
Mr Paul Byrne	Managing Director, Executive	-	100%
Mr Paul Ingram	Non-executive	-	100%
Mr Paul Ryan	Non-executive	-	100%
<i>Other executives</i>			
Mr Kevin Mischewski	Company Secretary, Financial Accountant	-	100%

The employment terms and conditions of key management personnel and Group executives are not currently formalised in contracts of employment. Key management personnel contracts of employment are governed by applicable statutory provisions which may set out minimum notice period prior to termination of their contract. Statutory and common law termination provisions apply.

Terms of employment for employees of relevant group entities do not include termination provisions and do not provide an executive contracted person with a minimum notice period prior to termination of contract. A contracted person deemed employed on a permanent basis may terminate without notice. Statutory termination provisions apply. Termination payments are not payable on resignation or under the circumstances of unsatisfactory performance.

Non-executive directors are engaged in accordance with the company's Directors Terms of Engagement requiring no notice to be given on termination. Statutory termination provisions apply. Termination payments are at the discretion of the Board.

Changes in Directors and Executives Subsequent to Year-end

Up to the date of signing of this report there have been no changes to directors and executives subsequent to year end.

DIRECTORS' REPORT

Remuneration Details for the Year Ended 30 June 2014

The following table of benefits and payments details in respect to the financial year the components of remuneration for each member of the key management personnel of the consolidated group and, to the extent different, the five Group executives and five company executives receiving the highest remuneration:

Table of Benefits and Payments for the Year Ended 30 June 2014

Group Key Management Personnel		Short-term benefits		Post-employment benefits		Total
		Base Remuneration	Consulting & Contractor Fees	Superannuation	Other	
		\$	\$	\$	\$	\$
Mr Peter Ziegler	2014	60,000	211,200	—	—	271,200
	2013	50,000	129,600	—	—	179,600
Mr Paul Byrne	2014	36,000	201,600	—	—	237,600
	2013	36,000	194,000	—	—	230,400
Mr Paul Ingram	2014	36,000	—	—	—	36,000
	2013	37,018	—	1,982	—	39,000
Mr Paul Ryan	2014	36,000	—	—	—	36,000
	2013	20,688	—	512	—	21,200
Mr Kevin Mischewski	2014	—	192,273	—	—	192,273
	2013	—	179,398	—	—	179,398
Total Remuneration	2014	168,000	605,073	—	—	773,073
	2013	143,706	502,998	2,494	—	649,198

Commencing on 1 February 2013, directors agreed that they would defer the receipt of payment of their remuneration. As at 30 June 2014 the amounts of directors' fees and consulting fees unpaid and payable to each director were: Peter Ziegler \$314,418; Paul Byrne \$272,018; Paul Ingram \$51,000 and Paul Ryan \$51,000. These amounts are included in the above table.

Securities Received that are not Performance Related

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

Cash Bonuses, Performance-related Bonuses and Share-based Payments

No members of key management personnel are entitled to receive cash bonuses, performance-related bonuses or share based payments as part of their remuneration package.

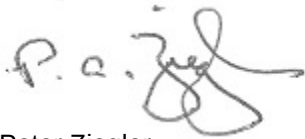
Options and Rights Granted

No members of key management personnel were granted options or rights during the financial year.

DIRECTORS' REPORT

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

On behalf of the Directors

A handwritten signature in dark ink, appearing to read 'P. Ziegler', with a stylized flourish at the end.

Peter Ziegler

Chairman

Brisbane, 30th September 2014

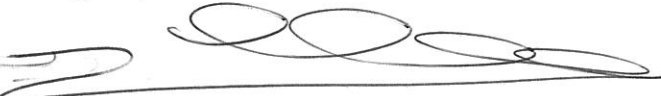
D. A. Lissauer B.Com., FCPA, Affiliate ICAA
R. P. Lissauer B.Ec., M.Tax, CA, FTIA
M. R. Lipson B.Bus., B.Ed., AI.Arb.A, CA

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT**

As lead auditor for the audit of Australian Pacific Coal Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Australian Pacific Coal Limited and the entities it controlled during the year.



D Lissauer
Audit Partner
Sothertons L.L.P.

Melbourne
30 September 2014

INCOME STATEMENT

For the year ending 30 June 2014

	Note	Consolidated Group	
		2014	2013
		\$	\$
Revenue	3	24,220	413,389
Raw materials and consumables		(20,757)	-
Exploration and evaluation costs of tenements sold		-	(156,608)
Loss on disposal of fixed assets		(381)	-
Employee benefits expense		(211,183)	(201,181)
Depreciation and amortisation expense		(48,350)	(113,073)
Exploration, evaluation and development expenses		(36,878)	(36,797)
Finance costs		-	(20,000)
Impairment of investments		(26,000)	-
Impairment of loans receivable		(181,950)	(383,125)
Impairment of exploration and evaluation		(71,171)	(68,108)
Administration and consulting expenses		(1,218,042)	(1,310,925)
Profit before income tax	4	(1,790,492)	(1,876,428)
Income tax expense (benefit)	5	-	(133)
Profit/(Loss) for the period		<u>(1,790,492)</u>	<u>(1,876,561)</u>
Profit/(Loss) attributable to:			
Members of the parent entity		(1,790,492)	(1,876,561)
		<u>(1,790,492)</u>	<u>(1,876,561)</u>
Earnings per share			
From continuing operations:			
Basic earnings per share (cents)	8	(0.22)	(0.31)
Diluted earnings per share (cents)	8	(0.22)	(0.31)

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ending 30 June 2014

	Note	Consolidated Group	
		2014	2013
		\$	\$
Profit/(Loss) for the period		(1,790,492)	(1,876,561)
Other comprehensive income			
Net gain on revaluation of land and buildings		-	-
Share of other comprehensive income of associates		-	-
Income tax relating to components of other comprehensive income		-	-
Other comprehensive income for the period, net of tax		-	-
Total comprehensive income for the period		<u>(1,790,492)</u>	<u>(1,876,561)</u>
Total comprehensive income attributable to:			
Members of the parent entity		<u>(1,790,492)</u>	<u>(1,876,561)</u>

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

STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

		Consolidated Group	
		2014	2013
		\$	\$
ASSETS			
Current assets			
Cash and cash equivalents	9	451,226	497,865
Trade and other receivables	10	102,589	16,632
Other assets	17	27,867	28,493
Total current assets		581,682	542,990
Non-current assets			
Trade and other receivables	10	213,646	385,363
Other financial assets	12	74,000	100,000
Property, plant and equipment	14	185,448	228,311
Exploration and evaluation expenditure	15	2,741,917	2,008,892
Intangible assets	16	-	-
Total non-current assets		3,215,011	2,722,566
Total assets		3,796,693	3,265,556
LIABILITIES			
Current liabilities			
Trade and other payables	18	1,307,581	554,348
Borrowings	19	175,000	325,000
Total current liabilities		1,482,581	879,348
Total liabilities		1,482,581	879,348
Net assets		2,314,112	2,386,208
EQUITY			
Issued capital	21	36,957,568	35,239,172
Retained earnings		(34,643,456)	(32,852,964)
Total equity		2,314,112	2,386,208

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2014

CONSOLIDATED GROUP

	Note	Issued Capital Ordinary \$	Retained Earnings \$	Total \$
Balance at 1 July 2012		34,310,319	(30,976,403)	3,333,916
Comprehensive income				
Profit /(Loss) for the period		-	(1,876,561)	(1,876,561)
Total other comprehensive income for the period		-	-	-
Total comprehensive income for the period		-	(1,876,561)	(1,876,561)
Transactions with owners, in their capacity as owners, and other transfers				
Share issued during the period		1,170,000	-	1,170,000
Transaction costs on share issue		(241,147)	-	(241,147)
Total transactions with owners and other transfers		928,853	-	928,853
Balance at 30 June 2013		35,239,172	(32,852,964)	2,386,208
Balance at 1 July 2013		35,239,172	(32,852,964)	2,386,208
Comprehensive income				
Profit/(Loss) for the period		-	(1,790,492)	(1,790,492)
Total other comprehensive income for the period		-	-	-
Total comprehensive income for the period		-	(1,790,492)	(1,790,492)
Transactions with owners, in their capacity as owners, and other transfers				
Share issued during the period		1,782,875	-	1,782,875
Transaction costs on share issue		(64,479)	-	(64,479)
Total transactions with owners and other transfers		1,718,396	-	1,718,396
Balance at 30 June 2014		36,957,568	(34,643,456)	2,314,112

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

STATEMENT OF CASH FLOWS

For the year ended 30 June 2014

		Consolidated Group	
		2014	2013
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		2,864	-
Payments to suppliers and employees		(1,094,864)	(1,150,531)
Interest received		16,556	13,389
Finance costs		-	-
Income tax paid		-	(133)
Net cash (used in)/provided by operating activities	24a	<u>(1,075,444)</u>	<u>(1,137,275)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for exploration, evaluation and development assets		(451,098)	(1,013,254)
Proceeds from sale of exploration, evaluation and development assets		-	262,500
Payments for investments		-	-
Proceeds from sale of investments		-	110,000
Purchase of non-current assets		(5,868)	(720)
Net cash used in investing activities		<u>(456,966)</u>	<u>(641,474)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		1,550,250	950,000
Capital raising costs		(64,479)	(241,147)
Proceeds from borrowings		-	525,000
Repayment of borrowings		-	-
Net cash used in/(provided by) financing activities		<u>1,485,771</u>	<u>1,233,853</u>
Net increase/(decrease) in cash held		(46,639)	(544,896)
Cash and cash equivalents at beginning of period		497,865	1,042,761
Cash and cash equivalents at end of period	9	<u>451,226</u>	<u>497,865</u>

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

These consolidated financial statements and notes represent those of Australian Pacific Coal Limited and Controlled Entities (the "consolidated group" or "Group")

The separate financial statements of the parent entity, Australian Pacific Coal Limited have not been presented within this financial report as permitted by the *Corporations Act 2001*.

The financial statements were authorised for issue on 29 September 2014 by the directors of the company.

1 BASIS OF PREPARATION

These general purpose financial statements have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

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

Going Concern

This financial report has been prepared on a going concern basis as the Directors believe that the company and the consolidated entity will be able to realise its assets and settle its liabilities in the normal course of business and at the amounts stated in the financial report. The continuation of the company and the consolidated entity as a going concern is dependent upon their ability to achieve the following objectives:

- Development and exploitation of the coal tenements
- Realisation of surplus assets
- Capital raising

The company has entered into a Share Purchase and Convertible Security Agreement with The Australian Special Opportunities Fund, LP. The agreement provides ongoing capital raising to the company by way of monthly tranche payments continuing through to October 2014.

However, should the anticipated activities and capital raisings not generate sufficient revenues and cash flows as expected, the company and consolidated entity may not be able to pay their debts as and when they become due and payable and they may be required to realise assets and extinguish liabilities other than in the ordinary course of business and at amounts different from those stated in the financial statements. This report does not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the company and the consolidated entity not continue as going concerns.

(a) Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (Australian Pacific Coal Limited) and all of the subsidiaries (including any structured entities). Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 13.

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

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

Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is obtained, whereby the fair value of the identified assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are recognised as expenses in profit or loss when incurred.

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

Goodwill

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- (i) the consideration transferred;
- (ii) any non-controlling interest (determined under either the full goodwill or proportionate interest method); and
- (iii) the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements.

Fair value remeasurements in any pre-existing equity holdings are recognised in profit or loss in the period in which they arise. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

The amount of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the non-controlling interest. The Group can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value (*full goodwill method*) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (*proportionate interest method*). In such circumstances, the Group determines which method to adopt for each acquisition and this is stated in the respective notes to these financial statements disclosing the business combination.

Under the full goodwill method, the fair value of the non-controlling interest is determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interests is recognised in the consolidated financial statements.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying values of goodwill.

(b) Income Tax

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

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

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

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

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

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. With respect to non-depreciable items of property, plant and equipment measured at fair value and items of investment property measured at fair value, the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of the asset will be recovered entirely through sale.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(c) Fair Value of Assets and Liabilities

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

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

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

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

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

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

(d) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

The cost of mining stocks includes direct materials, direct labour, transportation costs and variable and fixed overhead costs relating to mining activities.

(e) Property, Plant and Equipment

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

Property

Freehold land and buildings are recorded at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less accumulated depreciation for buildings.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised against fair value reserves directly in equity; all other decreases are recognised in profit or loss.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant and equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(i) for details of impairment).

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

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

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

Class of Fixed Asset	Depreciation Rate
Buildings	4%
Leasehold improvements	20%
Plant and equipment	10–40%
Leased plant and equipment	12.5–20%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

(f) Exploration and Development Expenditure

Exploration, evaluation and development expenditures incurred are capitalised in respect of each identifiable area of interest. These costs are only capitalised to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to capitalise costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with local laws and regulations and clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

(g) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

(h) Financial Instruments

Initial recognition and measurement

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

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

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

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

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

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

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

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

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit and loss through the amortisation process and when the financial asset is derecognised.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit and loss through the amortisation process and when the financial asset is derecognised.

(iv) Available-for-sale investments

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

They are subsequently measured at fair value with any remeasurements other than impairment losses and foreign exchange gains and losses recognised in other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are classified as non-current assets when they are expected to be sold after 12 months from then end of the reporting period. All other financial assets are classified as current assets.

(v) Financial liabilities

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit and loss through the amortisation process and when the financial asset is derecognised.

Impairment

A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, Loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been recognised, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

Financial guarantees

Where material, financial guarantees issued that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in the next reporting period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

Financial guarantees are subsequently measured at the higher of the best estimate of the obligation in accordance with AASB 137: *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: *Revenue*. Where the entity gives guarantees in exchange for a fee, revenue is recognised in accordance with AASB 118.

De-recognition

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

(i) Impairment of Assets

At each the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (eg in accordance with the revaluation model in AASB 116: *Property, Plant and Equipment*). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives and intangible assets not yet available for use.

(j) Investments in Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity but is not control or joint control of those policies. Investments in associates are accounted for in the consolidated financial statements by applying the equity method of accounting, whereby the investment is initially recognised at cost (including transaction costs) and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate company. In addition, the Group's share of the profit or loss of the associate is included in the Group's profit or loss.

The carrying amount of the investment includes, when applicable, goodwill relating to the associate. Any discount on acquisition, whereby the Group's share of the net fair value of the associate exceeds the cost of investment, is recognised in profit or loss in the period in which the investment is acquired.

Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group discontinues recognising its share of further losses unless it has incurred legal or constructive obligations or made payments on behalf of the associate. When the associate subsequently makes profits, the Group will resume recognising its share of those profits once its share of the profits equals the share of the losses not recognised.

(k) Interests in Joint Arrangements

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

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

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

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

(l) Intangibles Other than Goodwill

Patents and trademarks

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have an indefinite life and are carried at cost less any impairment losses.

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably.

Capitalised development costs have a finite useful life and are amortised on a systematic basis based on the future economic benefits over the useful life of the project.

(m) Employee Benefits

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries, annual leave and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Group's obligations for short-term employee benefits are recognised as a part of current trade and other payables in the statement of financial position.

Provision is made for employees' other long-term employee benefits that are not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Group's obligations for other long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

(n) Provisions

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

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(o) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments that are readily converted to known amounts of cash and which are subject to insignificant risk of changes in value and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

(p) Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. When the inflow of consideration is deferred, it is treated as the provision of financing and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method.

Dividend revenue is recognised when the right to receive a dividend has been established.

Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the end of the reporting period, where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

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

(q) Trade and Other Receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to Note 1(i) for further discussion on the determination of impairment losses.

(r) Trade and Other Payables

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remains unpaid. The balance is recognised as a current liability with the amount being normally paid within 30 days of recognition of the liability.

(s) 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.

(t) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

(u) Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

(v) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Where the Group has retrospectively applied an accounting policy, made a retrospective restatement of items in the financial statements or reclassified items in its financial statements, an additional statement of financial position as at the beginning of the earliest comparative period will be disclosed.

(w) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest \$1.

(x) New and Amended Accounting Policies Adopted by the Group***Consolidated Financial Statements***

The Group adopted the following Australian Accounting Standards, together with the relevant consequential amendments arising from related Amending Standards, from the mandatory application date of 1 January 2013:

- AASB 10: Consolidated Financial Statements;
- AASB 12: Disclosure of Interests in Other Entities; and
- AASB 127: Separate Financial Statements.

AASB 10 provides a revised definition of "control" and may result in an entity having to consolidate an investee that was not previously consolidated and/or deconsolidate an investee that was consolidated under the previous accounting pronouncements.

The Group's assessment is that these new and amended pronouncements have had no material impact on the Group's financial statements.

Employee Benefits

The Group adopted AASB 119: Employee Benefits (September 2011) and AASB 2011-10: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) from the mandatory application date of 1 January 2013. The Group has applied these Standards retrospectively in accordance with AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors and the transitional provisions of AASB 119.

The Group's assessment is that these new and amended pronouncements have had no material impact on the Group's financial statements.

(y) Critical Accounting Estimates and Judgments

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

Key estimates

Impairment - general

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

Key judgments

Provision for impairment of receivables

Included in trade and other receivables at the end of the reporting period are other amounts receivable amounting to \$904,148 (2013: \$904,148). The company has funded the purchase of shares issued in accordance with the terms of the Company's Officers, Executives, Consultants and Employee Share Plan by way of limited-recourse loans repayable from future dividends or out of proceeds when the allotted shares are sold. Impairment adjustments amounting to \$782,848 (2013: \$600,898) have been recorded where the market value of the shares held at 30 June 2014 was less than the gross amount of the associated limited-recourse loan.

Exploration and Evaluation Expenditure

The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been extracted, the directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded. Such capitalised expenditure is carried at the end of the reporting period at \$2,741,917 (\$2013: \$2,008,892).

Intangible assets

The Group capitalises expenditure relating to a class of intangible assets where it is considered likely to be recoverable. The useful lives of these intangible assets are assessed to be either finite or indefinite. Such capitalised expenditure is carried at the end of the reporting period at \$Nil.

(z) New Accounting Standards for Application in Future Periods

The Australian Accounting Standards Board has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's assessment is that these new and amended pronouncements will have no material impact on the Group's financial statements.

NOTE 2: PARENT INFORMATION

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

	2014 \$	2013 \$
STATEMENT OF FINANCIAL POSITION		
Assets		
Current assets	464,402	464,555
Non-current assets	496,776	614,476
Total assets	961,178	1,079,031
Liabilities		
Current liabilities	1,508,450	1,552,676
Non-current liabilities	-	-
Total liabilities	1,508,450	1,552,676
Equity		
Issued capital	36,957,568	35,239,172
Retained earnings	(37,504,840)	(35,712,817)
Total equity	(547,272)	(473,645)
STATEMENT OF COMPREHENSIVE INCOME		
Total profit	(1,792,023)	(2,006,732)
Total comprehensive income	(1,792,023)	(2,006,732)

Guarantees

Australian Pacific Coal Limited has not entered into any guarantees, in the current or previous financial year, in relation to the debts of its subsidiaries.

Contingent liabilities

Australian Pacific Coal Limited has no known contingent liabilities.

Contractual commitments

At 30 June 2014, Australian Pacific Coal Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment (2013: Nil).

NOTE 3: REVENUE AND OTHER INCOME

	Note	Consolidated Group	
		2014 \$	2013 \$
Revenue from Continuing Operations:			
Sale of goods		7,664	-
Other revenue:			
— interest received		16,556	13,389
Total Revenue		24,220	13,389
Other Income			
— sale of interest in tenements		-	400,000
Total revenue and other income from continuing operations		24,220	413,389
Attributable to members of the parent entity		24,220	413,389

NOTE 4: PROFIT FOR THE YEAR

	Note	Consolidated Group	
		2014 \$	2013 \$
a. Expenses			
Interest expense on financial liabilities not at fair value through profit or loss		-	(20,000)
Rental expense on operating leases:			
— minimum lease payments		127,514	120,868
Employee benefits expense:			
— defined contribution superannuation expense		3,529	4,969
b. Significant Revenue and Expenses			
The following significant revenue and expense items are relevant in explaining the financial performance:			
Sale of interest in tenements		-	400,000
Exploration and evaluation costs of tenements sold		-	(156,608)
Impairment of loans receivable		(181,950)	(383,125)
Impairment of capitalised exploration expenditure		(71,171)	(68,108)

NOTE 5: INCOME TAX EXPENSE

	Note	Consolidated Group	
		2014 \$	2013 \$
a. The components of tax expense comprise:			
Current tax		-	133
Deferred tax	20	-	-
		<u>-</u>	<u>133</u>
b. The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:			
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2013: 30%)		(537,148)	(562,928)
Add:			
Tax effect of:			
— non-deductible depreciation and amortisation		14,505	33,922
— other non-allowable items		2,875	2,286
— write-downs to recoverable amounts		83,736	182,352
Less:			
Tax effect of:			
— other allowable items		(571,844)	(400,685)
— tax losses transferred from controlled entities		-	-
		<u>(1,007,876)</u>	<u>(745,053)</u>
Tax losses and temporary differences not brought to account		1,007,876	744,920
Income tax attributable to entity		<u>-</u>	<u>133</u>

NOTE 6: INTERESTS OF KEY MANAGEMENT PERSONNEL (KMP)

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2014.

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

	2014	2013
	\$	\$
Short-term employee benefits	773,073	672,104
Post-employment benefits	-	2,494
	<u>773,073</u>	<u>674,598</u>

KMP Options and Rights Holdings

No options over ordinary shares were held by any KMP of the Group during the financial year.

KMP Shareholdings

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

30 June 2014	Balance at beginning of year	Granted as remuneration during the year	Issued on exercise of options during the year	Other changes during the year	Balance at end of year
Mr Paul Byrne	72,292,061	-	-	22,020,846	94,312,907
Mr Peter Ziegler	10,233,333	-	-	-	10,233,333
Mr Paul Ingram	5,750,000	-	-	-	5,750,000
Mr Kevin Mischewski	1,500,000	-	-	-	1,500,000

30 June 2013	Balance at beginning of year	Granted as remuneration during the year	Issued on exercise of options during the year	Other changes during the year	Balance at end of year
Mr Paul Byrne	61,148,548	-	-	11,143,513	72,292,061
Mr Peter Ziegler	10,233,333	-	-	-	10,233,333
Mr Paul Ingram	5,750,000	-	-	-	5,750,000
Mr Kevin Mischewski	1,500,000	-	-	-	1,500,000

Other KMP Transactions

There have been no other transactions involving equity instruments other than those described in the tables above.

For details of other transactions with KMP, refer to Note 30: Related Party Transactions.

NOTE 7: AUDITORS' REMUNERATION

	Consolidated Group	
	2014 \$	2013 \$
Remuneration of the auditor of the parent entity for:		
— auditing or reviewing the financial statements	60,995	60,050
— taxation services	-	8,500

NOTE 8: EARNINGS PER SHARE

	Consolidated Group	
	2014 No.	2013 No.
a. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	810,704,801	602,956,109
Weighted average number of dilutive options outstanding	-	-
Weighted average number of dilutive convertible notes on issue	-	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	810,704,801	602,956,109
b. Convertible notes are considered anti-dilutive as the consolidated group is loss making. Convertible notes potentially dilute earnings per share in the future.		

NOTE 9: CASH AND CASH EQUIVALENTS

Note	Consolidated Group	
	2014 \$	2013 \$
Cash at bank and in hand	401,226	447,865
Short-term bank deposits	50,000	50,000
	451,226	497,865

The effective interest rate on short-term bank deposits was 3.73% (2013: 4.0%); these deposits have an average maturity of 180 days.

NOTE 10: TRADE AND OTHER RECEIVABLES

	Note	Consolidated Group	
		2014	2013
		\$	\$
Current			
Trade receivables		4,800	-
Other receivables		97,789	16,632
Total current trade and other receivables		102,589	16,632
Non-current			
Amounts receivable from related parties:			
— loans to directors		551,848	551,848
— loans to directors - provision for impairment	10a.(i)	(484,548)	(383,598)
— loans to key management personnel		28,950	28,950
— loans to key management personnel - provision for impairment	10a.(ii)	(22,950)	(13,950)
Other receivables		415,696	405,463
Other receivables - provision for impairment	10a.(iii)	(275,350)	(203,350)
Total non-current trade and other receivables		213,646	385,363

a. Provision For Impairment of Receivables

Current trade and term receivables are non-interest bearing loans and generally on 30-day terms. Non-current trade and term receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired. These amounts have been included in the income statements.

Movement in the provision for impairment of receivables is as follows:

	Opening Balance	Charge for the Year	Amounts recovered	Closing Balance
	1.7.2013			30.6.2014
	\$	\$	\$	\$
Consolidated Group				
(i) Non-current related parties - directors	383,598	100,950	-	484,548
(ii) Non-current related parties – key management personnel	13,950	9,000	-	22,950
(iii) Non-current other receivables	203,350	72,000	-	275,350

	Opening Balance	Charge for the Year	Amounts Written Off	Closing Balance
	1.7.2012			30.6.2013
	\$	\$	\$	\$
Consolidated Group				
(i) Non-current related parties - directors	210,623	172,975	-	383,598
(ii) Non-current related parties – key management personnel	-	13,950	-	13,950
(iii) Non-current other receivables	7,150	196,200	-	203,350

b. Credit Risk — Trade and Other Receivables

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties other than those receivables specifically provided for and mentioned within Note 10. The class of assets described as “trade and other receivables” is considered to be the main source of credit risk related to the

Group.

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

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

Consolidated Group	Gross amount \$	Past due and impaired \$	Past due but not impaired (days overdue)				Within initial trade terms and impaired \$	Within initial trade terms \$
			< 30 \$	31-60 \$	61-90 \$	> 90 \$		
2014								
Trade and term receivables	4,800	-	-	-	-	-	-	4,800
Amounts receivable from related parties	580,798	-	-	-	-	-	507,498	73,300
Other receivables	513,485	-	-	-	-	-	275,350	238,135
Total	1,099,083	-	-	-	-	-	782,848	316,235
2013								
Amounts receivable from related parties	580,798	-	-	-	-	-	397,548	183,250
Other receivables	422,095	-	-	-	-	-	203,350	218,745
Total	1,002,893	-	-	-	-	-	600,898	401,995

c. **Collateral Held as Security**

Included in amounts receivable from related parties is an amount owing to the parent company of \$580,798 at the end of the reporting period (2013: \$580,798). Included in other receivables is an amount owing to the parent company of \$323,350 at the end of the reporting period (2013: \$323,350). The company has funded the purchase of shares issued in accordance with the terms of the Company's Officers, Executives, Consultants and Employee Share Plan by way of limited-recourse loans repayable from future dividends or out of proceeds when the allotted shares are sold. Impairment adjustments have been recorded where the market value of the shares held at 30 June 2014 was less than the gross amount of the associated limited-recourse loan. Collateral is held by way of security over the shares issued. The shares are subject to a trading lock preventing disposal of the shares prior to the respective holders making suitable arrangements for repayment of any outstanding amounts payable on the associated loans.

Consolidated Group

2014 **2013**
\$ \$

d. **Financial Assets Classified as Loans and Receivables**

Trade and other receivables:

- total current	102,589	16,632
- total non-current	213,646	385,363

Financial assets	316,235	401,995
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Interests are held in the following associated companies:

On 30 June 2013 the Company disposed of its 20% interest in each of Spinafex Uranium Pty Ltd, Diamantina Uranium Pty Ltd and Frontier Uranium Pty Ltd.

NOTE 12: OTHER FINANCIAL ASSETS

	Note	Consolidated Group	
		2014	2013
		\$	\$
NON-CURRENT			
Available-for-sale financial assets	13a	74,000	100,000
Total non-current		74,000	100,000
a.	Available-for-sale financial assets		
	Unlisted investments, at cost:		
—	Shares in other corporations	13b	100,000
—	Shares in other corporations – Provision for impairment	(26,000)	-
	Total available-for-sale financial assets	74,000	100,000
b.	Shares in other corporations		
	Unlisted investments:		
	Shares in other corporations include a shareholding of 1,000,000 ordinary shares in Scott Creek Coal Limited		
	Australian Pacific Coal Limited does not have the power to participate in the financial or operating decisions of the entity and therefore does not exercise significant influence over Scott Creek Coal Limited.		

NOTE 13: CONTROLLED ENTITIES**a. Controlled Entities Consolidated**

	Country of Incorporation	Percentage Owned (%)*	
		2014	2013
Subsidiaries of Australian Pacific Coal Limited:			
Area Coal Pty Ltd	Australia	100	100
Ipoh Pacific Resources Pty Ltd	Australia	100	100
Mining Investments One Pty Ltd	Australia	100	100
Mining Investments Two Pty Ltd	Australia	100	100
Mining Investments Three Pty Ltd	Australia	100	100
Mining Investments Four Pty Ltd	Australia	100	100
Mining Investments Six Pty Ltd	Australia	100	100
Kokstad Mining Pty Ltd	Australia	100	100
IPR Operations Pty Ltd	Australia	100	100
Ipoh Pacific Pty Ltd	Australia	100	100
Inter-Medteq Pty Ltd	Australia	100	100
Felix Street Pty Ltd	Australia	100	100
Medteq Holdings Pty Ltd	Australia	50	50
Medteq Innovations Pty Ltd	Australia	50	50

* Percentage of voting power is in proportion to ownership

b. Acquisition of Controlled Entities

None

c. Disposal of Controlled Entities

None

d. Controlled Entities with Ownership Interest of 50% or Less

The parent entity holds 50% of the ordinary shares of Medteq Holdings Pty Ltd. Australian Pacific Coal Limited is required to make all the financial and operating policy decisions of Medteq Holdings Pty Ltd and to ensure that those policies are consistent with the policies of the economic entity.

The parent entity holds 50% of the ordinary shares of Medteq Innovations Pty Ltd. Australian Pacific Coal Limited is required to make all the financial and operating policy decisions of Medteq Innovation Pty Ltd and to ensure that those policies are consistent with the policies of the economic entity.

NOTE 14: PROPERTY, PLANT AND EQUIPMENT

	Note	Consolidated Group	
		2014	2013
		\$	\$
LAND AND BUILDINGS			
Buildings at cost		148,924	148,924
Less accumulated depreciation		(30,291)	(24,334)
Total Buildings		118,633	124,590
Total Land and Buildings		118,633	124,590
PLANT AND EQUIPMENT			
Plant and equipment:			
At cost		609,444	604,297
Accumulated depreciation		(543,295)	(502,014)
		66,149	102,283
Leasehold improvements			
At cost		14,403	14,403
Accumulated amortisation		(13,737)	(12,965)
		666	1,438
Total Plant and Equipment		66,815	103,721
Total Property, Plant and Equipment		185,448	228,311

a. Movements in Carrying Amounts

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

	Buildings \$	Leasehold Improve- ments \$	Plant and Equipment \$	Total \$
Consolidated Group:				
Balance at 30 June 2012	130,547	3,824	206,293	340,664
Additions	-	-	720	720
Disposals	-	-	-	-
Depreciation expense	(5,957)	(2,386)	(104,730)	(113,073)
Balance at 30 June 2013	124,590	1,438	102,283	228,311
Additions	-	-	5,868	5,868
Disposals	-	-	(381)	(381)
Depreciation expense	(5,957)	(772)	(41,621)	(48,350)
Balance at 30 June 2014	118,633	666	66,149	185,448

NOTE 15: EXPLORATION EXPENDITURE CAPITALISED

	Consolidated Group	
	2014	2013
	\$	\$
NON-CURRENT		
Exploration and evaluation phases	2,741,917	2,008,892
Total	2,741,917	2,008,892

Recoverability of the carrying amount of exploration assets is dependent on successful exploration and sale of coal.

Capitalised exploration and evaluation costs amounting to \$451,098 (2013: 1,013,254) have been included in cash flows from investing activities in the statements of cash flow.

The company has engaged an exploration drilling contractor to provide exploration drilling services in exchange for an equity interest in specified exploration tenements. The drilling partner must complete a specified quantum of drilling, based on metres drilled, in order to secure their interest in the specified tenements. During the financial year, drilling valued at \$277,984 has been completed in accordance with the terms of the agreement. This non-cash amount has been included in capitalised Exploration and evaluation expenditure.

NOTE 16: INTANGIBLE ASSETS

	Consolidated Group	
	2014	2013
	\$	\$
Goodwill		
Cost	315,354	315,354
Accumulated impairment losses	(315,354)	(315,354)
Net carrying value	-	-
Trademarks and licences		
Cost	6,680,110	6,680,110
Accumulated impairment losses	(6,680,110)	(6,680,110)
Net carrying value	-	-
Total intangibles	-	-

There have been no additions or disposals of intangible assets during the current or previous financial years.

NOTE 17: OTHER ASSETS

	Consolidated Group	
	2014	2013
	\$	\$
CURRENT		
Prepayments	27,867	28,493
Total	27,867	28,493

NOTE 18: TRADE AND OTHER PAYABLES

	Note	Consolidated Group	
		2014	2013
		\$	\$
CURRENT			
Unsecured liabilities:			
Trade payables	18a	560,501	288,784
Amounts payable to related parties:			
— key management personnel related entities		747,080	265,564
Total		1,307,581	554,348

- a. Trade payables includes \$277,984 for capitalised exploration and evaluation expenditure incurred under a drilling agreement whereby, on completion, payment will be settled by the drilling partner acquiring an equity interest in specified exploration projects.

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

Trade and other payables:

- total current	1,307,581	554,348
- total non-current	-	-
	1,307,581	554,348

NOTE 19: BORROWINGS

	Note	Consolidated Group	
		2014	2013
		\$	\$
CURRENT			
Secured liabilities:			
Convertible security	19a.b	175,000	325,000
Total current borrowings		175,000	325,000
Total borrowings		175,000	325,000

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

Convertible security	19b.c	175,000	325,000
		175,000	325,000

b. **Convertible security**

During the 2013 financial year, the parent entity issued convertible securities with a face value of \$545,000 to raise \$525,000. The securities are convertible into ordinary shares of the parent entity in accordance with the terms of the parent entity's Share Purchase and Convertible Security Agreement with The Australian Special Opportunities Fund, LP. During the financial year 21,428,571 (2013: 19,583,333) ordinary shares have been issued on conversion of convertible securities having a face value of \$150,000 (2013: \$220,000). The face value of outstanding convertible securities at 30 June 2014 is \$175,000 (2013: \$325,000).

c. **Collateral Provided**

Convertible security is secured by ordinary shares held as security in accordance with the parent entity's Share Purchase and Convertible Security Agreement with The Australian Special Opportunities Fund, LP.

NOTE 20: TAX

	Consolidated Group	
	2014	2013
	\$	\$
CURRENT		
Income Tax Payable	-	-

NON-CURRENT**Consolidated Group**

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1 occur:

- temporary differences \$399,959 (2013: \$933,462)
- tax losses: operating losses \$8,865,183 (2013: \$7,642,398)
- tax losses: capital losses \$1,173,396 (2013: \$1,173,396)

NOTE 21: ISSUED CAPITAL

	Consolidated Group	
	2014	2013
	\$	\$
920,897,748 (2013: 662,695,879)	36,957,568	35,239,172
fully paid ordinary shares		

	Consolidated Group	
	2014	2013
	No.	No.
a. Ordinary Shares		
At the beginning of reporting period	662,695,879	564,993,926
Shares issued during the year		
— 2/10/2012		17,569,378
— 31/10/2012		4,687,500
— 29/11/2012		10,937,500
— 31/12/2012		5,000,000
— 31/1/2013		6,250,000
— 1/3/2013		9,090,909
— 3/4/2013		10,000,000
— 26/4/2013		13,333,333
— 3/5/2013		12,500,000
— 4/6/2013		8,333,333
— 22/7/2013	57,525,000	
— 25/7/2013	12,500,000	
— 2/8/2013	3,500,000	
— 27/8/2013	14,285,714	
— 12/9/2013	21,428,571	
— 16/9/2013	992,064	
— 18/9/2013	10,000,000	
— 14/10/2013	992,063	
— 25/10/2013	11,111,111	
— 26/11/2013	14,285,714	
— 17/1/2014	20,000,000	
— 19/2/2014	15,000,000	
— 21/3/2014	15,000,000	
— 22/4/2014	18,750,000	
— 22/5/2014	18,750,000	
— 20/6/2014	24,081,632	
At the end of the reporting period	920,897,748	662,695,879

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

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

b. **Capital Management**

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

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

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

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year. The gearing ratio's for the year ended 30 June 2014 and 30 June 2013 are as follows:

	Note	Consolidated Group	
		2014	2013
		\$	\$
Total borrowings	18,19	1,482,581	879,348
Less cash and cash equivalents	9	451,226	497,865
Net debt		1,031,355	381,483
Total equity		2,314,112	2,386,208
Total capital		3,345,467	2,767,691
Gearing ratio		31%	14%

NOTE 22: CAPITAL AND LEASING COMMITMENTS

	Note	Consolidated Group	
		2014	2013
		\$	\$
a. 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		109,933	127,514
— between 12 months and 5 years		-	109,933
— greater than 5 years		-	-
Total		109,933	237,447

The property lease is non-cancellable lease with a three year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreements require the minimum lease payments shall be increased annually by the greater of the consumer price index (CPI) or 4% per annum. An option exists to renew the lease at the end of the three year term for an additional term of three years. The leases allow for subletting of all lease areas.

b. Exploration and Evaluation Expenditure Commitments

The consolidated Group has certain obligations to perform exploration work and outlay minimum amounts of money in order to maintain the current rights of tenure over its exploration tenements. These outlays are subject to renegotiation on expiry of the leases or when application for a mining lease is made and have not been provided for in the financial statements.

Total expenditure commitments at balance date and not provided for in the financial statements are approximately:

	Note	Consolidated Group	
		2014	2013
		\$	\$
Payable:			
— not later than 12 months		950,851	715,015
— between 12 months and 5 years		1,983,918	2,237,230
— greater than 5 years		-	-
Total		2,934,769	2,952,245

NOTE 23: OPERATING SEGMENTS

Segment Information

Identification of reportable segments

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

The Group is managed primarily on the basis of resource category. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics.

Types of products and services by segment

i. *Mining exploration and evaluation*

The mining exploration and evaluation segment seeks to identify prospective resource areas, secure tenure over the relevant tenements and manage the exploration and evaluation process.

ii. *Technology investments*

Technology investment operations are dormant and are no longer included separately within segment analysis as the segment assets have been impaired to \$Nil.

iii. *Bentonite Mining*

The bentonite mining segment mines for bentonite.

Basis of accounting for purposes of reporting by operating segments

a. **Accounting policies adopted**

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

b. **Inter-segment transactions**

An internally determined transfer price is set for all inter-segment sales. This price is based on what would be realised in the event the sale was made to an external party at arm's length. All such transactions are eliminated on consolidation of the Group's financial statements.

Corporate charges are allocated to reporting segments based on the segments' overall proportion of direct operating costs within the Group. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Inter-segment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

c. **Segment assets**

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

d. **Segment liabilities**

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

e. **Unallocated items**

The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Net gains on disposal of available-for-sale investments
- Impairment of assets and other non-recurring items of revenue or expense
- Income tax expense
- Deferred tax assets and liabilities
- Current tax liabilities
- Other financial liabilities
- Intangible assets
- Discontinuing operations
- Retirement benefit obligations

i. Segment performance

	Exploration	Bentonite Mining	Unallocated	Total
	\$	\$	\$	\$
2014				
Revenue				
External sales	-	7,664	-	7,664
Interest revenue	2	3	16,551	16,556
Other revenue	-	-	-	-
Total segment revenue	2	7,667	16,551	24,220
Total group revenue				24,220
Segment net profit from continuing operations before tax	(104,776)	(88,169)	(1,597,547)	(1,790,492)
Net profit from continuing operations before tax				(1,790,492)
Amounts included in segment result and reviewed by the board:				
— depreciation and amortisation	-	34,285	14,065	48,350
— impairment of exploration and evaluation	62,179	8,992	-	71,171
— impairment of loans receivable	-	-	181,950	181,950
— impairment of investments	26,000	-	-	26,000
2013				
Revenue				
External sales	-	-	-	-
Interest revenue			13,389	13,389
Other revenue	400,000	-	-	400,000
Total segment revenue	400,000	-	13,389	413,389
Total group revenue				413,389
Segment net profit from continuing operations before tax	159,176	(143,282)	(1,892,455)	(1,876,561)
Net profit from continuing operations before tax				(1,876,561)
Amounts included in segment result and reviewed by the board:				
— finance charges	-	-	20,000	20,000
— depreciation and amortisation	-	89,712	23,362	113,074
— impairment of exploration and evaluation	53,887	14,221	-	68,108
— impairment of loans receivable	-	-	383,125	383,125

ii. Segment assets

	Exploration	Bentonite Mining	Unallocated	Total
	\$	\$	\$	\$
2014				
Segment assets				
Segment asset increases for the period				
— capital expenditure	804,196	-	5,868	810,064
— acquisitions	-	-	-	-
	804,196	-	5,868	810,064
Included in segment assets are:				
Capitalised exploration and evaluation	2,741,917	-	-	2,741,917
Property, plant and equipment	-	160,359	25,089	185,448
Other financial assets	74,000	-	-	74,000
Other assets	110,671	28,188	656,469	795,328
Segment assets	2,926,588	188,547	681,558	3,796,693
Total group assets				3,796,693

2013

Segment assets

Segment asset increases for the period

— capital expenditure	1,013,254	-	720	1,013,974
— acquisitions	-	-	-	-
	1,013,254	-	720	1,013,974

Included in segment assets are:

Capitalised exploration and evaluation	2,008,892	-	-	2,008,892
Property, plant and equipment	-	194,644	33,667	228,311
Other financial assets	-	-	100,000	100,000
Other assets	73,660	25,055	829,638	928,353
Segment assets	2,182,553	219,699	863,304	3,265,556
Total group assets				3,265,556

iii. Segment liabilities

	Exploration	Bentonite Mining	Unallocated	Total
	\$	\$	\$	\$
2014				
Segment liabilities				
<i>Reconciliation of segment liabilities to group liabilities</i>				
Other financial liabilities	325,671	3,409	1,153,501	1,482,581
Total group liabilities				1,482,581

2013

Segment liabilities

Reconciliation of segment liabilities to group liabilities

Other financial liabilities	69,528	472	809,347	879,347
Total group liabilities				879,347

NOTE 24: CASH FLOW INFORMATION

		Consolidated Group	
		2014	2013
		\$	\$
a.	Reconciliation of Cash Flow from Operations with Profit after Income Tax		
	Profit/(Loss) after income tax	(1,790,942)	(1,876,561)
	Sale of interests in tenements	-	(400,000)
	Exploration and evaluation costs of tenements sold	-	156,608
	Gain/(Loss) on disposal of assets	381	-
	Depreciation and amortisation	48,350	113,073
	Impairment loss	279,291	451,233
	Finance costs	-	20,000
	Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
	(Increase)/decrease in trade and term receivables	(88,679)	76,151
	(Increase)/decrease in other assets	626	(2,000)
	Increase/(decrease) in trade payables and accruals	475,249	324,221
	Cash flows from operations	(1,075,444)	(1,137,275)

b. Non-cash Financing and Investing Activities**i. Share issue:**

21,428,571 (2013: 19,583,333) ordinary shares were issued for a total consideration of \$150,000 (2013: \$220,000). The company issued the shares on conversion of convertible securities issued to the Australian Special Opportunity Fund, LLC.

ii. Payments for exploration and evaluation:

The company has engaged an exploration drilling contractor to provide exploration drilling services in exchange for an equity interest in specified exploration tenements. The drilling partner must complete a specified quantum of drilling, based on metres drilled, in order to secure their interest in the specified tenements. During the financial year, drilling valued at \$277,984 has been completed in accordance with the terms of the agreement.

The company has issued 10,815,759 fully paid ordinary shares for a total consideration of \$82,625. The shares were issued as full payment for geological services provided by geological consultants during the financial year.

NOTE 25: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

On 22nd August 2011 the Company announced that its 100% owned subsidiary Area Coal Pty Ltd (Area Coal) had executed an Exploration, Option and Joint Venture Agreement ("the agreement") with Rio Tinto Exploration Pty Ltd (RTX) covering four of its Mt Hillalong tenements. The Group has received an initial cash payment of \$2,300,000 in the 2012 financial year in accordance with the agreement. In addition to the cash payment the agreement terms include that:

- title to EPC 1773 and EPCs 1867 and 1645 will be transferred to RTX;
- RTX will sole fund and manage an exploration program for EPC 1824 with a minimum expenditure of \$700,000 within the first 24 months of gaining access to the tenement;
- RTX has an option to acquire a 75% interest in EPC 1824 by making a defined payment to Area Coal at any time within the first 24 months of the exploration program. In the event of RTX's exercise of this option, the parties will form an unincorporated joint venture in which Area Coal would retain a 25% free carry interest;
- if RTX exercises the option to acquire an interest in EPC 1824, Area Coal would then hold a put option (exercisable on the date that is 12 months after the formation of the joint venture) enabling it to sell its 25% interest in the joint venture to RTX for an additional defined payment to Area Coal;
- if Area Coal does not exercise the above put option, it will have a further put option, exercisable within 180 days of the joint venture management committee commissioning a feasibility study, to sell its 25% interest in EPC1824 to RTX for consideration calculated on the basis of resource tonnage;
- if Area Coal does not exercise its second put option it will become liable for 25% of all future development and operational costs of the joint venture; and
- should RTX not exercise its option to acquire the 75% interest in the project, Area Coal will retain its existing 100% ownership of EPC 1824 and can reacquire the other three Mt Hillalong tenements originally transferred to RTX under the agreement.

RTX secured all approvals, thereby gaining access to EPC 1824 on 23 August 2013 triggering the start of the RTX 75% option period. The expiry date of the option is 23 August 2015.

NOTE 26: EVENTS AFTER THE REPORTING PERIOD

Other than the following the directors are not aware of any significant events since the end of the reporting period.

On 11 September 2014 the company announced a Share Purchase Plan Offer (**SPP**). The SPP will raise a maximum of \$925,000 with eligible shareholders able to take a maximum investment of \$15,000 representing 4,687,500 new shares at a price of 0.32 cents per share. The proposed closing date of the SPP is 2 October 2014 with issue and allotment of new shares under SPP to follow on 9 October 2014.

On 16 September 2014 the company issued two unlisted convertible securities to The Australian Special Opportunity Fund, LP. The face values of the convertible securities are \$50,000 and \$75,000 respectively, both expiring 24 months from issue. The company received cash consideration of \$125,000 (before costs) for the issue of the convertible securities.

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

NOTE 27: RELATED PARTY TRANSACTIONS

a. The Group's main related parties are as follows:

i. *Entities exercising control over the group:*

The ultimate parent entity, which exercises control over the Group, is Australian Pacific Coal Limited.

ii. *Key management personnel:*

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered Key Management Personnel (KMP).

iii. *Entities subject to significant influence by the Group:*

An entity which has the power to participate in the financial and operating policy decisions of an entity, but does not have control over those policies, is an entity which holds significant influence. Significant influence may be gained by share ownership, statute or agreement.

For details of interests held in associated companies, refer to Note 13: Controlled Entities.

iv. *Other related parties:*

Other related parties include entities controlled by the ultimate parent entity and entities over which key management personnel exercise significant influence.

b. Transactions with related parties:

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

Other than key management personnel compensation disclosed in the Remuneration Report, there have been no transactions between the consolidated group and related parties.

c. Amounts outstanding from related parties:

Trade and other receivables:

Unsecured loans are made to the parent entity, subsidiaries, directors, key management personnel and other related parties.

The following transactions occurred with related parties:

	Consolidated Group	
	2014	2013
	\$	\$
<i>i. Key management personnel:</i>		
The company issued Nil (2013: Nil) ordinary shares to KMP in accordance with the Company's Officers, Executives, Consultants and Employee Share Plan. The terms of the plan enabled the company to fund the purchase by way of limited-recourse loans totalling \$Nil (2013: \$Nil) repayable from future dividends or out of proceeds when the allotted shares are sold. Collateral is held by way of security over the shares issued. The shares are subject to a trading lock preventing disposal of the shares prior to the respective holders making suitable arrangements for repayment of any outstanding amounts payable on the associated loans. Interest is not payable.		
Balance at beginning of year	580,798	741,548
No longer included as related party loan	-	(160,750)
Loans advanced	-	-
Loan repayment received	-	-
Balance at end of year	580,798	580,798
Provision for impairment	(507,498)	(397,548)
Interest not charged (on an arms-length basis)	36,540	46,304
The number of KMP who have received loans during the period	0	0

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

	Consolidated Group	
	2014	2013
	\$	\$
Mr Peter Ziegler	121,500	121,500
Mr Paul Byrne	165,848	165,848
Mr Paul Ingram	264,500	264,500
Mr Kevin Mischewski	28,950	28,950
KMP Loans exceeding \$100,000:		

Included in the loan balances above are loans to Mr Paul Byrne (Director) Details of the loans are outlined below:

Balance at beginning of year	165,848	165,848
Loans advanced	-	-
Loan repayment received	-	-
Balance at end of year	165,848	165,848
Interest not charged (on an arms-length basis)	10,434	11,817

Included in the loan balances above is a loan to Mr Peter Ziegler (Director) which represents a loan to Wellton Holdings Pty Ltd, a related entity associated with Mr Ziegler. Details of the loan are outlined below:

Balance at beginning of year	121,500	121,500
Loans advanced	-	-
Loan repayment received	-	-
Balance at end of year	121,500	121,500
Interest not charged (on an arms-length basis)	7,644	8,657

Included in the loan balances above is a loan to Mr Paul Ingram (Director). Details of the loan are outlined below:

Balance at beginning of year	264,500	264,500
Loans advanced	-	-
Loan repayment received	-	-
Balance at end of year	264,500	264,500
Interest not charged (on an arms-length basis)	16,640	18,846

NOTE 28: FINANCIAL RISK MANAGEMENT

The Group's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable, loans to and from subsidiaries and convertible securities.

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	Consolidated Group	
		2014	2013
		\$	\$
Financial assets			
Cash and cash equivalents	9	451,226	497,865
Loans and receivables	10	316,235	401,995
Available-for-sale financial assets:			
— unlisted investments at cost	12	74,000	100,000
Total financial assets		841,461	999,860
Financial Liabilities			
Financial liabilities at amortised cost:			
— trade and other payables	18	1,307,581	554,348
— borrowings	19	175,000	325,000
Total financial liabilities		1,482,581	879,348

Financial Risk Management Policies

The Board of Directors, amongst other issues, monitor and manage financial risk exposures of the Group. The Board monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to identified areas of risk.

The Board's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, while minimising potential adverse effects on financial performance. Its functions include the review of credit risk policies and future cash flow requirements.

Specific Financial Risk Exposures and Management

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

a. Credit risk

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

Credit risk is managed through the maintenance of procedures (such procedures include the utilisation of systems for the approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and monitoring of the financial stability of significant customers and counterparties), ensuring to the extent possible, that customers and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. Depending on the division within the Group, credit terms are generally 14 to 30 days from the invoice date.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating, or in entities that the Board has otherwise cleared as being financially sound.

Credit Risk Exposures

The maximum exposure to credit risk by class of recognised financial assets at balance date, excluding the value of any collateral or other security held, is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the statement of financial position.

The Group has no significant concentration of credit risk with any single counterparty or group of counterparties.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed in Note 10.b.

Credit risk related to balances with banks and other financial institutions is managed by management in accordance with approved Board policy. The counterparty to these financial assets are large financial institutions with strong credit ratings. The credit quality of these financial assets that are neither past due nor impaired is considered strong.

b. Liquidity risk

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

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

(i) Financing arrangements

The company has entered into a funding agreement with The Australian Special Opportunity Fund, LP. The agreement commenced in October 2012 and expires in October 2014. The company may terminate the agreement at its discretion prior to October 2014. Under the agreement the company may receive tranche prepayments of between \$75,000 and \$225,000, as monthly share subscriptions. The undrawn minimum balance of the facility as at 30 June 2014 is \$300,000 (2013: \$1,125,000).

(ii) Maturities of financial liabilities

The following table sets out the contractual maturities of 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.

	Carrying amount	Less than 1 month	1-6 months	More than 6 months
30 June 2014				
Trade and other payables	1,307,581	-	1,307,581	-
Borrowings	175,000	-	175,000	-
	<u>1,482,581</u>	<u>-</u>	<u>1,482,581</u>	<u>-</u>
30 June 2013				
Trade and other payables	554,348	-	554,348	-
Borrowings	325,000	-	325,000	-
	<u>879,348</u>	<u>-</u>	<u>879,348</u>	<u>-</u>

c. Market Risk

Market risk arises from the use of interest bearing financial, tradeable and foreign currency instruments. It is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

i. Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is exposed to earnings volatility on floating rate instruments and is limited to its cash and cash equivalent assets.

As at 30 June 2014, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Post Tax Profit	Consolidated Group Higher/(Lower)	
	2014	2013
+1.00% (100 basis points)	4,438	2,976
-1.00% (100 basis points)	(4,438)	(2,976)

Equity	Consolidated Group Higher/(Lower)	
	2014	2013
+1.00% (100 basis points)	4,438	2,976
-1.00% (100 basis points)	(4,438)	(2,976)

d. Fair Value Estimation

Fair value is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgment and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

Differences between fair values and carrying amounts of financial instruments with fixed interest rates are due to the change in discount rates being applied by the market since their initial recognition by the Group. Most of these instruments, which are carried at amortised cost (ie term receivables, held-to-maturity assets and loan liabilities), are to be held until maturity and therefore the fair value figures calculated bear little relevance to the Group.

The fair values of the consolidated entities have been determined based on the following methodologies:

- (i) Cash and cash equivalents, trade and other receivables, and trade and other payables are short-term instruments in nature whose carrying amount is equivalent to fair value. Trade and other payables exclude amounts provided for annual leave, which is outside the scope of AASB 139.
- (ii) Term receivables generally reprice to a market interest rate every six months, and fair value therefore approximates carrying amount.
- (iii) In determining the fair values of the unlisted available-for-sale financial assets, the directors use inputs that are observable either directly (as prices) or indirectly (derived from prices).

The directors have determined that the fair values of the existing available-for-sale financial assets carried at cost and at recoverable amount cannot be reliably measured. The directors have made an estimate of the fair value at the end of the reporting period based on the reported financial results of the underlying investment. There is no active market for these investments, and there is no present intention to dispose of these investments.

These available-for-sale financial assets are represented by the company's holding of 1,000,000 ordinary shares in Scott Creek Coal Limited. The shares were acquired on as part settlement for the sale of tenement EPC1548 on 2 April 2013 at an acquisition cost of \$100,000.

Financial Instruments Measured at Fair Value

Financial instruments recognised at fair value in the statement of financial position are analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted prices in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Within the hierarchy, the consolidated entity's investment in Scott Creek Coal Limited is classified at level 3.

NOTE 29: SHARE-BASED PAYMENTS

The Company has issued 10,815,759 fully paid ordinary shares to geological consultants in accordance with the plan rules for the Australian Pacific Coal Limited Officers, Executives, Consultants and Employee Share Plan. The shares were issued as full payment at the market rate for services provided by the consultants. Details of each payment are set out in the following table:

Date of issue	Amount payable for services provided	Number of shares issued	Issue Price (cents per share)
2 Aug 2013	31,500	3,500,000	0.90
16 Sep 2013	12,500	992,064	1.26
14 Oct 2013	12,500	992,063	1.26
20 Jun 2014	26,125	5,331,632	0.49
Total	82,625	10,815,759	

The amounts payable measure directly the fair value of the services provided. The total amount payable is included in Non-current assets in Exploration and evaluation expenditure and has no effect on the company's profit or loss for the financial year.

NOTE 30: REGISTERED OFFICE AND PRINCIPAL OFFICE

The registered and principal office of the Australian Pacific Coal Limited (ABN 49 089 206 986) and its controlled entities is;

Level 7, 10 Felix Street, Brisbane Qld 4000

DIRECTORS' DECLARATION

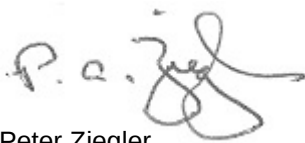
In the opinion of the directors of Australian Pacific Coal Limited:

1. the financial statements and notes, as set out on pages 13 to 56, are in accordance with the *Corporations Act 2001* including:
 - a. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory reporting requirements; and
 - b. give a true and fair view of the consolidated group's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
2. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Note 1 confirms that the financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and the chief financial officer required by section 295A of the *Corporations Act 2001*.

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



Peter Ziegler

Chairman

Dated this 30th day of September 2014

INDEPENDENT AUDITOR'S REPORT

To the Members of Australian Pacific Coal Limited

Report on the Financial Report

D. A. Lissauer B.Com., FCPA, Affiliate ICAA
R. P. Lissauer B.Ec., M.Tax, CA, FTIA
M. R. Lipson B.Bus., B.Ed., Al.Arb.A, CA

We have audited the accompanying financial report of Australian Pacific Coal Limited (the company), which comprises the statement of financial position as at 30 June 2014 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration for the Australian Pacific Coal Limited group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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



Auditor's Opinion

In our opinion,

- (a) the financial report of Australian Pacific 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 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the company incurred a net loss of \$1,790,492 during the year ended 30 June 2014 and, as of that date, the company's current liabilities exceeded its current assets by \$900,899. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the remuneration report included in pages 8 to 10 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the remuneration report of Australian Pacific Coal Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Sothertons L.L.P.



D Lissauer
Partner

Melbourne
30 September 2014