2012 Annual Report

ACN 149 136 783

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Letter from the Chairman



Dear Shareholder

I am pleased on behalf of the Directors to report on the progress of County Coal Limited since our successful float in November 2011.

Funds raised upon listing are being used to further the strategy set out in our Prospectus, namely the development of our coal projects based in the Powder River Basin in the state of Wyoming, USA to provide coal for export to Asia. This includes the further exploration and development of the Company's properties, as well as the identification, assessment and potential acquisition of further suitable coal resources and projects in the US.

We have continued our drilling program to prove up reserves in the existing project areas and acquired, at a competitive price, a new project area adjacent to Shell Creek, the most prospective of the two original areas. Results from the drilling program have indicated that we have a significant coal resource of at least 371 million tonnes, situated within 30 kilometres of a major rail system, that can be mined using a combination of open cut and underground mining methods. The initial results from the coal analysis have indicated that the coal is suitable as an export thermal coal.

During the year we also added to our coal exploration and development team with the addition of a highly experienced coal marketing advisor and the appointment of a Chief Executive Officer. Together they bring the additional skills necessary to build the Company into a major producer of US thermal coal for the Asian markets.

Our Company and its strategy are clearly facing a more challenging environment than last year owing to economic uncertainty, a general fall in commodity prices (including coal), and a malaise in the US coal industry. We remain confident however that there is a role for competitively priced, good quality US coal to provide a diversified source of supply to the still-growing Asian market, and for our projects to be part of that trade. Clearly, we still need to complete some key parts of the strategy. In particular, we need access to rail transport and seaboard loading facilities and we are very focussed on securing this access over the coming twelve months. Our team has been in active discussions with rail and port operators and has received positive responses with respect to capacity and price. We have also visited key potential customers to raise awareness of our capability and intentions and received positive responses from those visits.

The Board recognises that County Coal's share price has been depressed and they believe that this is largely as a result of the recent reduction in commodity prices. Fortunately because County Coal is not yet a coal producer, it is not exposed to the current lower coal prices. Instead, it is in the enviable position of being able to benefit from the opportunities that lower prices bring, such as the freeing up of infrastructure and the reduced cost of advisory services.

The Company remains focussed on building the business envisaged at the time of listing and, knowing the broad range of skills possessed by the management team and the quality of our assets, I expect the Company will make substantial progress on its stated strategy over the next twelve months.

Yours faithfully,

Robert G. Cameron AO
Chairman

2. Highlights

County Coal

- The successful completion of the Company's listing on the ASX on 15th November 2011.
- Exercise of an option over the additional property in the Miller Project Area, which increased the Company's fully owned total JORC Coal Resources at the Miller Project Area by 89 Mt to 310 Mt JORC Measured Resource.
- Exercise of an option over additional acreage (including coal rights) at Shell Creek, adjacent to the Shell Creek Project Area.
- The acquisition of an extensive geological data package over the Shell Creek Project Area.
- Commencement of the resource upgrade program based on data analysis and resource modeling.
- Excellent progress in the Stage 2 drilling program to improve status of the Company's Shell Creek Project.
- Appointment of Senior Marketing Executive.
- Discussions with coal terminals and infrastructure providers in North America continuing.
- Subsequent to the end of the financial year, the Company announced that it had:
    - Acquired an option over adjacent property at Shell Creek, increasing the Company's Shell Creek Project Area by 1,420 acres (575 hectares) to 2,339 acres (955 hectares), which represents an additional exploration target of 300-500Mt.
    - Confirmed the appointment of a Chief Executive Officer with extensive experience in the coal industry and in mining and construction in North America.

3. Coal Resources

A summary of County Coal's current Coal Resources is contained in the following table.

Prospect	JORC inferred Coal Resource	JORC Indicated Coal Resource	JORC Measured Coal Resource	Total JORC Coal Resource
Shell Creek Coal Project	74 million tonnes	81 million tonnes	216 million tonnes	371 million tonnes
Miller Coal Project	-	-	310 million tonnes	310 million tonnes
Total JORC Coal Resource	74 million tonnes	81 million tonnes	526 million tonnes	681 million tonnes

Exploration Targets *:

Prospect				Total Non - JORC Exploration Target*
Shell Creek Coal Project (new option)	-	-	-	300 to 500 million tonnes
Miller Coal Project	-	-	-	-
Total Non - JORC Exploration Target	-	-	-	300 to 500 million tonnes

* Subject to a new drilling program

Notes: (a) The information leading to the Total JORC Coal Resource in the top table is based on Independent Geologist's Report, Aqua Terra Consultants Inc., February 2012. The information in this table that relates to Geology, Exploration results and Mineral resources is based on information compiled by Steven J Stresky, who is a member of the American Institute of Professional Geologists, and a full time employee of Aqua Terra Consultants Inc. (the geology consultants to County Coal). Mr Stresky has sufficient experience which is relevant to the style of deposit under consideration and to the activity he is undertaking to qualify as a "Competent Person" as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resource and Ore Reserves". Mr Stresky consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

(b) The section of the table below Total JORC Coal Resource that refers to the coal potentially contained in the new option area is an estimate based on the extrapolation of coal data of the Company's current identified 371Mt of JORC resources at the adjacent Shell Creek area over 919 acres (375 hectares). The potential size of the target is conceptual in nature, and has not been drilled or measured to any required standard or yet had sufficient exploration to define a mineral resource, and at this time it is uncertain that exploration will result in the determination of a mineral resource.

(c) County Coal owns 100% of the abovementioned projects.

4. CEO Report

When the Chairman, Bob Cameron, asked me to join the organization he outlined the premise upon which County Coal was formed. I liked the foundation he outlined, I was impressed by the extensive information data base the Company had built on the Powder River Basin (PRB) resource area over a very short period and I was impressed by the extent of the progress that had been made since the listing. I subsequently joined the Company as Chief Executive Officer.

Many of our shareholders would have heard the reasoning behind the formation of the Company at the listing in November 2011. However, shares change hands and it would be pertinent for me to go through that reasoning for the full understanding of our new shareholders and to reinforce the direction for those who have been with us from day one.

County Coal Limited was formed at a time when the world economy, supported predominantly by Chinese demand, was still growing steadily, in spite of Europe's woes. This growth was supporting continued high demand and hence high prices, for resources, including coal. Since that time, the world has slowed down and demand for resources has declined. However, because the PRB is recognized as one of the lowest cost coal mining areas of the world and demand for improved living standards in Asia will continue, albeit at a slightly slower pace, the County Coal model to be a low cost thermal coal supplier remains an effective business strategy.

The premise for forming the company was that:

a. The US has large reserves of good quality thermal coal that can be mined at a low-cost

b. Asia has not been a prime destination for US export thermal coal

c. Many Asian customers are seeking to diversify supply sources

d. Australia has a good reputation and a strong business network in the Asian coal market.

e. The US rail network is very good and capable of delivering large bulk coal volume to west coast ports

f. Port capacity is tight but accessible

g. A business opportunity existed to use Australian expertise and business networks to sell low cost US sourced coal

The Company acquired exploration coal areas in the PRB, proved up more than 600 million tonnes of total JORC coal resource in two areas defined as the Shell Creek Project and the Miller Project and listed on the ASX with a strategy to:

- Focus on defining a JORC Measured Coal Resource base of a minimum of 1 billion tonnes of export thermal coal within 2 years of listing.
- Increase the JORC Measured Coal Resource base, by further definition of the coal resource within the existing properties and acquisition of new areas within and outside the PRB.
- Adopt contract mining as the preferred operating model.
- Undertake the work required to have two mines permitted within the owned resource areas of Shell Creek and Miller to allow operating mines with an initial output of 5 million tonnes per annum.

- Establish markets in Asia for off-take of the proposed mine output.
- Examine other coal producing regions of the US with the view to finding additional coal export opportunities.

With this background, we should ask ourselves how County Coal has measured up against its strategic objectives, then look at factors impacting the business both positively and negatively as we proceed into year two as a listed resource company.

Has County Coal achieved its year one goals?

I believe the answer to that question is clearly "Yes, we have". We have continued our resource definition within the coal project areas we owned at the time of the listing; we have increased the total area owned by 65% through the acquisition of an option over an additional private coal area adjacent to our existing holdings at Shell Creek; we have increased the JORC Measured Coal Resource base through our drilling program from 310Mt at the time of listing to 526Mt after the first year, with drilling programs continuing; we have initiated discussions with our potential Asian customers to outline our plans and commence the process of establishing markets; we have talked to the rail operators and determined there is transport capacity for our product to any of the ports we might utilize and we have initiated discussions with a number of port operators and determined that there is likely capacity that can be secured by the time we need it.

Is the strategy the same today as it was when you listed?

Yes. We set out to establish ourselves as a thermal coal producer in the US and we have stuck to that task from day one. We have moved at a measured pace to maximize the utilization of our resources and concentrated on doing the things we need to do now, such as resource definition and working to secure access to our proposed customers by defining and pursuing our rail and port needs.

We have made some minor but very strategic changes. We have changed our drilling target from identifying 1 billion tonnes of thermal coal resource to target drilling to maximize available open cut reserves. This will allow us to get more "bang for our buck" and to identify the areas we should target to mine first. The 1 billion tonnes target is no longer a prime driver.

We are also rethinking the contractor versus owner/operator strategies. That's not to say we won't utilise contractors; it is just that it is no longer definite and we want to examine the relative economics of each option before deciding.

Our overall strategy is to be an export thermal coal producer in the US and that remains our direction.

There was some consideration of County Coal using its Asian market access to sell third party coal but that hasn't happened. Why?

Initially, good prices but no port access in the west. We could get port access through the Gulf of Mexico but that meant either Europe or Asia via the Panama Canal. Demand in Europe has been down for a long time and by the time we secured a potential source of third party coal, the prices had dropped to the point where an "Asia via the Panama" strategy would not be competitive. It needs to be understood that thermal coal prices dropped approximately 30% over a period of 9 months.

For County Coal's long term strategy, while we would obviously like high coal prices, the downturn does bring opportunity. First, the falling price has opened up the port capacity. With the high prices, existing exporting coal companies held options on current and planned future capacity. With the decline in demand, some of these options will be left to lapse, an outcome we are already seeing. Secondly, if we can secure a west coast port, the strategy to use our Asian marketing expertise to sell third party coal can be rejuvenated because the same coal we were considering before the fall in price is competitive at a lower price from a west coast port.

By adopting this second strategic capability and becoming a trader and producer of US coals into Asia, we increase our flexibility to deliver the needs of our customers because we increase the diversity of coal qualities we can supply. The other benefit of the trading strategy is that it can be started immediately we secure port capacity and does not need to wait for the approval and construction of a mine. Hence it is a potential source of early revenue.

Can you further explain the option you acquired in July 2012 over an additional area of fee coal? What is "fee" coal and what rights does County Coal get under the option?

In the US, it is possible to privately own the mineral rights on a property. Resources mined from land where the mineral rights are privately held do not attract a federal or state royalty. Instead, a fee is negotiated with the owner. We have secured the right to explore and an option to mine over a large tract of land, contiguous with our initial Shell Creek holding and where the mineral rights are privately held.

With respect to the rights and obligations under the option, County Coal has secured the right to explore over the property for an option fee of $200,000 per year for 3 years. If, at any time in those 3 years, we are satisfied that the resource is commercial and want to commence mining, we can do so with an agreed per-ton royalty payment to the land holders.

Have you secured a suitable port facility?

We have not secured a west coast port facility at this time but we do have access to facilities in the Gulf if we choose to target Europe as a potential customer region. On the west coast, we have identified a number of operating port facilities that are suitable and we have talked to proponents of new facilities, which would also be suitable. Amongst these we have found opportunities for capacity that we would expect to be available at the time we will need that capacity. The facilities we have identified are all serviced by a well-structured rail system that comes within approximately 30 kilometers of our northern lease boundary in the PRB.

When do you expect to be mining in the PRB?

As soon as possible. We are in the process of gathering data as it relates to Wyoming, regarding such factors as regulatory approval requirements, construction schedules, equipment availability etc., from which we will develop a project schedule. I expect this to be available to us in preliminary form by the end of the year. Once we have determined the critical path for the project from completion of exploration to first shipment, we will be looking for ways to streamline the schedule and bring the project in early.

Without the development of the schedule, it is difficult to be definitive regarding the timing but I would predict 3.5 to 4.5 years from now to first coal. As the mine is planned to be open-cut, the mine construction timetable will be relatively short with most of the schedule time being taken by the permitting process.

How big will the mine in the PRB be and will it be open cut or underground?

As I mentioned in my introduction, we will target an initial production rate of 5 million tonnes per year. However, if the demand is there, there is no reason we couldn't take the mine to 20 million tonnes per year over time, given the size of resource delineated to date. The mining operation will be planned and constructed with a view to being able to undertake low-cost incremental expansion as demand increases.

With respect to the type of mine, the prospect areas we are working on contain both open cut and underground resources. We are targeting the open cut opportunity first and while our initial drilling was used to identify all commercial seams in the project area, we are now focusing the drilling program on the delineation of open cut coal.

There are reports that say natural gas is displacing thermal coal in the US. Is this correct and if so, won't every US domestic coal producer want to export?

Yes it is correct. From 1950 to the late 1960s, coal supplied around 70% of the US fossil fired power station feed. For the decade commencing in the late 1960s, oil rose from a historical 10% to around 20% of the power station feedstock resulting in a decline in coal's contribution from the historical 70% to a low of around 54%. The oil shocks of the 1980s resulted in a rebirth of the coal fired power station with coal peaking in the mid 1980s at 80% of the domestic fossil fuel feedstock in the US.

Since that time, oil as a feedstock has disappeared and coal has declined, being steadily replaced by natural gas. In 2011, coal supplied around 55% of the fossil fuel for US power generation with natural gas supplying the other 45%.

What will the displaced producers do? The answer is that they have the choice of ceasing operations or moving into the export market. Some will cease operations because the coal they produce would not be suitable in the export market due to quality issues. Others would be looking for avenues to export and this provides an opportunity for County Coal.

Only a relatively small amount of the total coal produced in the US is exported. Of the coal that is currently exported, 50% goes to Europe and only 25% is exported to Asia. Because of this, the high volume, deep water ports in the US are predominantly focused on servicing Europe. This means that many of the mining companies in the US have never exported coal and even those that have, few have experience exporting to the Asian region. Access to Asia through the west coast is constrained by both the limited number of existing loaders and the shallow harbours, which generally limit the size of ship to a maximum of 60,000 tons capacity.

County Coal's model is to supply thermal coal to Asia, primarily from its own mining operations in the PRB and secondly through the sale of third party coal sourced from other US operators. If our expectations are correct and we can secure west coast coal port loading capacity in the near future, we believe we will gain an early mover advantage in this market. As the US migration from thermal coal to natural gas continues, we believe our knowledge and relationships in the Asian coal market will allow County Coal to build on our secondary strategy by securing significant volumes of third party coal from companies that are inexperienced and without market contacts in the Asian region. County Coal is already talking to existing US operators with this activity in mind.

How will County Coal fund the construction of the mine?

We are planning to fund the construction using a number of sources of funds. Our preference is to establish a joint venture with a customer or a group of customers. We believe securing sources of good quality thermal coal is a key strategy for many of our potential Asian customers and because of this desire, those customers are actively searching for investment opportunities in mines with good management.

However, while we believe this can provide a substantial contribution, it is unlikely to account for all our capital needs and the remainder will be secured through a combination of debt and equity.

What is the expected capital cost for the mine to get started?

It is early days but at this point we believe we will be starting with a 5 million ton per year operation with a washery of sufficient capacity to handle this level of throughput. We can choose to procure the equipment ourselves, which would be a capital expense or have it supplied by a contractor, where the cost becomes an operating expense, or we can do a mix of both. If we assume a capital cost for the equipment then the total capital cost of the mine infrastructure (office/workshop, washery, mining equipment and rail loader) would be in the vicinity of $300m. I must impress on the reader that this is very preliminary and developed on the basis of industry norms without any specific plans being completed for County Coal's mine.

The "green movement" has put up significant opposition to the construction of new coal mines. What is County Coal's strategy for handling these types of objections?

Like any new mining venture, there are those for and those opposed. We have engaged an experienced US law firm and other US advisors with experience in the US coal mining business to assist us in getting the regulatory approvals for our operations. We will follow the requirements of the respective government authorities and work through the issues if and when they arise. Our management team is well experienced in shepherding mining proposals through government departments and this experience, coupled with the high quality advisors we have assembled in Wyoming, should facilitate a smooth progression through the approval process.

Why the Powder River Basin?

Good coal, low mining cost, reasonable infrastructure. They are the three key points.

The Coal: The coal is very low ash and very low sulphur and while it is not at the top premium level with respect to energy content, at 7000 BTU (3,850 kcal) it is very competitive.

Mining Cost: PRB mines are well known to be the lowest cost mines in the US and some of the lowest cost in the world. We still have a significant drilling program underway that is far from complete. However, from the geological information we have secured through our drilling program coupled with the data we have acquired from prior owners, we have determined there is a significant resource that is mineable by open cut methods. We know there are multiple seams and we know one of these seams is in excess of 45 metres thick.

We have all seen the decline in the price of commodities over the last few months as demand has fallen with the slowdown in the global economy bringing a reduction in demand. This is not a new phenomenon. The resources business has been a cyclical one since mining began with prices tied to the interaction of available supply and demand. Now, after a number of years of rising demand pushing prices to record levels, the environment has changed, demand has fallen and the world is well-supplied with coal. This does not mean that there is no longer any demand for coal; it means that there is more competition to be the supplier.

Under these circumstances, to remain in the market and be profitable, the supplier has to either have a product that is so unique that it doesn't follow the supply/demand norms (that is, price is not the driver for the purchaser) or the supplier has to be on a position on the global cost curve that allows profitable sales at the bottom of the cycle. We have all seen recent announcements by major Australian and international companies about mine closures and projects being shelved in Australia because, according to the senior executives of these organizations, these mines and projects are uncompetitive in the current high cost/ low price environment.

The US does not have and we believe is unlikely to have a carbon tax or a super profits mining tax; Wyoming is very supportive of resource projects and the coal resources County Coal has acquired are privately owned and as such, not subject to any Federal or State tax.

County Coal does not have a unique product but with the resources it has acquired, County Coal has positioned itself in one of the largest and lowest cost coal mining regions in the world. Our target is to build a mining business in this region that can remain a profitable supplier into the Asian thermal coal market at the bottom of the commodity cycle.

Where to from here for County Coal?

Look at what County Coal has achieved to-date.

- We have secured a large thermal coal resource in the Powder River Basin in Wyoming, one of the lowest cost coal mining areas in the world
- Negotiated an option over an additional 1,420 acres of coal bearing property that:
  - Allows access for exploration
  - Costs $600,000 over three years
  - Can be exercised at low risk because the option documents already include the pricing mechanism for coal royalties if mining proceeds
- We have gathered extensive geological information about our project area though our drilling program and the procurement of historical data from previous owners
- We have engaged highly experienced advisors domiciled in Wyoming to assist with the planning and permitting of the project
- We have talked to the rail operators and determined there is rail capacity to the west coast ports
- We have talked to the port operators and determined that there is capacity available
- We have discussed the possibility of County Coal trading third party coal with potential third party suppliers and have received positive endorsement from those potential suppliers
- We have engaged an experienced marketing consultant, who is leading the effort to build awareness of our business strategy in Asia and ultimately to secure markets
- We have appointed a Chief Executive Officer with a background in coal, extensive international business experience and many years in the resource industry, as both an operator and a contractor.

So we have the resource and we have the senior management people and local advisors we need to drive the development of that resource. We need to firm up port access and secure the customers. As we enter our second year as a public company you, our shareholders will see that these are the areas where our efforts are now being applied. Consequently, I am expecting that, in the next twelve months, you will see us:

- Complete the drilling program at Shell Creek (incorporating the new option area)
- Progress the approval process for the Shell Creek Project
- Complete the preliminary mine design
- Secure access to west coast coal loading facilities
- Finalise rail transport agreements to the selected port facility

In addition, if the cost/price balance is in our favour, we will be targeting the sale of third party coal as a secondary strategy to our primary goal.

5. Directors

County Coal

Robert G. Cameron AO

Non-executive Chairman

BE (Hons), MBA, Grad Dip Geoscience, FAusIMM, FAIM, FAICD

Bob is the Founder of Centennial Coal Company Limited and was its Managing Director and Chief Executive Officer until 30 June 2011, at which point in time he became its Chairman (non-executive).

He holds degrees in mining, mineral economics and business administration. Bob has had a long career as a senior manager in the coal industry including 14 years with Coal & Allied Industries in the Hunter Valley. In 1989 he formed Preston Coal Company, which was listed as Centennial Coal on the ASX in 1994. In October 2010, it was acquired by Banpu PLC. Centennial Coal operates 10 coal mines in NSW, producing around 19 million tonnes per annum.

Bob is past Chairman of the Australian Coal Association Ltd, ACA Low Emissions Technology Ltd, and the NSW Minerals Council.

In 2002 The Australasian Institute of Mining and Metallurgy awarded Bob the Institute Medal in recognition of his outstanding leadership in the coal industry. In 2005 he received the Hunter Business Person of the Year Award from the Hunter Business Chamber, and in 2010 he received the Australian Mining Prospect Award for Most Outstanding Contribution to Mining.

He is currently Chairman of Hunter Valley Training Company Limited and a Director of Mining Education Australia.

David Miller

Non-executive Director

B.Sc (Geol)

David Miller is a Director and CEO of Strathmore Minerals Corp (a TSX listed mining group). David's primary professional focus has been on minerals exploration, development, and mining. His career has spanned over 20 years, with a chain of companies that started with Utah International and evolved into AREVA, the French Nuclear Power Conglomerate. David is a fifth term member of the Wyoming Legislature, serving District 55 – Riverton. He has served on Minerals, Revenue, Education, Corporations, and Health & Labor Committees and was an original appointee to the Wyoming Energy Commission. David is a registered professional geologist in Wyoming. David is the architect responsible for assembling the Miller Coal property, now owned by County Coal.

Marcus Boland

Executive Director - Head of Business Development

B.Com LLB

Marcus was the founding director of the Company and instrumental in identifying the various acquisitions the Company has made.

Marcus Boland was previously Director of Corporate, Sydney at national accounting and advisory firm Stanton Partners, and has been involved in corporate advisory for more than 20 years. Mr Boland has broad ranging corporate experience in the listing and development of private and public listed companies and since 2000 has held several senior positions in various ASX listed public companies, including as a corporate development executive at Michelago Resources Limited.

6. Management

Mr Rod Ruston

Chief Executive Officer

Mr Ruston is a mining engineer, who also holds an MBA. He has 37 years of business experience in the resource industry and has worked at senior management level, including as CEO, in public companies in the coal, heavy minerals, construction and oil and gas industries. He has extensive international experience having done business in Asia through his experience in the coal industry (Savage Resources Limited, Wambo Mining, Oakbridge Limited and Kembla Coal & Coke) and in the heavy minerals industry where he was responsible, as the CEO of Ticor Ltd, for the construction and operation of a 120kt per annum titanium dioxide mining and smelting project in South Africa. More recently he has led a major mining and construction contractor, focused on the oil and gas industry, in Canada.

Mr Ruston joined County Coal in early July 2012. For the previous 7 years he was President and CEO of North American Energy Partners, a large mining and construction contracting company located in western Canada. Prior to this he was the CEO of Ticor Limited, an Australian listed company involved in heavy minerals extraction and processing in Australia and South Africa.

Mr Ruston is currently a non-executive director of AngloGold Ashanti Limited, a major international, South African based, gold mining company.

Mr Roger Knight

General Manager Marketing

Mr Knight is a highly experienced coal marketing executive, who brings to County Coal a wealth of knowledge gained from a career spanning 30 years in the global coal industry. Prior to this role with County Coal, Mr Knight was the General Manager Marketing with Centennial Coal for 14 years , responsible for Centennial's thermal, soft coking and coking coal sales into the domestic and export markets including Asia, Europe and the Middle East. In particular, Mr Knight was responsible for the Centennial Coal's annual thermal price negotiations with Asian customers. Prior to joining Centennial Mr Knight worked in coal marketing at Coalex (Oakbridge) for 18 years, where he was also involved in domestic and export sales, vessel chartering and all coal transport infrastructure negotiations and contracting.

Mr Knight was engaged under contract in April 2012 to focus on the development of County Coal's export coal business to Asia. His targets include both the development of markets for County Coal's projects, which are currently under development in the Powder River Basin and provided there is acceptable cost/price relativity, the development of coal trading opportunities using off-take agreements for coal sourced from third party US suppliers.

Terence Flitcroft

Company Secretary

B.Com, CA, SF FIN

Terry is a Chartered Accountant with broad commercial and financial experience and has acted as a director and company secretary for a number of private and public companies.

7. Directors' Report

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2012.

Directors

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

Robert G. Cameron AO - Non-executive Chairman

David Miller - Non-executive Director

Marcus Boland - Executive Director - Head of Business Development

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

Further details as to the Directors' experience are contained on page 15 of this Annual Report.

Principal Activity

The principal activity of the Consolidated Entity during the financial year was coal exploration and development in the USA.

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

Result

The consolidated loss of the Consolidated Entity amounted to $952,765 (2011: $181,008)

Dividends Paid or Recommended

There is no dividend paid, declared or recommended.

Significant Changes in State of Affairs

Other than as stated above and in the accompanying financial report, there were no significant changes in the state of affairs of the Company during the reporting year.

After Balance Date Events

The directors are not aware of any matter or circumstance that has arisen since the end of the year to the date of this report that has significantly affected or may affect:

(i) The operations of the company and the entities that it controls

(ii) The results of those operations

(iii) The state of affairs of the Company in subsequent years, except as set out below.

In July 2012, County Coal announced it had acquired an option over a 1,420 acres (575 hectares) property adjacent to Shell Creek, providing an estimated additional exploration target of 300-500Mt, as described on page 6 of the Annual Report.

Future Developments

County Coal is initially focusing on proving up the coal resources of its coal projects, with a view to commencing production as soon as possible. County Coal's exploration program includes core and definition drilling.

County Coal's strategy is to seek appropriate coal resources and projects with export potential, located close to infrastructure.

Directors' Interests in Securities

As at the date of this report, details of Directors who hold shares or options in the company for their own benefit or who have an interest in holdings through a third party are detailed below.

Director	Shares	Options
Robert Cameron*	2,600,000	3,000,000
David Miller**	1,500,000	500,000
Marcus Boland***	19,000,000	-

* Two million five hundred thousand shares and all options are held by Paula Suzanne Cameron and Robert Graham Cameron ATF Cameron Family Superannuation Plan of which Mr Cameron is a beneficiary and one hundred thousand are held directly.

** Shares and options held by Miller and Associates LLC of which Mr Miller is a Director

*** Shares held by companies of which Mr Boland is a Director (RTM Holdings Limited (7 million shares), Intercoal Limited (5 million shares) and Resource Capital Limited (7 million shares)).

	DIRECTORS' MEETINGS		COMMITTEE MEETINGS			
			AUDIT COMMITTEE		REMUNERATION COMMITTEE	
	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended
Robert Cameron	4	4	1	1	1	1
David Miller	4	4	1	1	1	1
Marcus Boland	4	4	-	-	1	1

Indemnifying Directors or Officers

Each Director has entered into a Deed with the Company under which the Director is given access to documentation and in addition is:

- indemnified by the Company to the full extent permitted by law against all liabilities sustained or incurred through acting as a Director (under the Corporations Act the indemnity does not extend to a liability owed to the Company or its related bodies corporate, or which arises out of conduct involving a lack of good faith, or is for a pecuniary penalty order under section 1317G of the Corporations Act or a compensation order under section 1317H of the Corporations Act);
- indemnified by the Company to the full extent permitted by law against legal costs and expenses incurred in defending an action for a liability incurred as an officer of the Company (under the Corporations Act the indemnity does not extend to costs incurred in circumstances where the Director is found to have a liability for which the Director cannot be indemnified, or costs of defending or resisting criminal proceedings in which the Director is found guilty or defending proceedings brought by ASIC or a liquidator for a court order where the court holds that the grounds for making the order are established, or costs of proceedings seeking relief for the Director under the Corporations Act where the court denies relief);
- entitled to a loan to meet the costs of defending or responding to any such claim or proceeding; and
- entitled to have the Company maintain and pay premiums in respect of directors' and officers' insurance.

Board Member's Directorships

Listed below are details of other listed public company directorships held by Board Members over the last three years.

Director	Directorship of	Date Appointed	Date Resigned
Robert Cameron	Centennial Coal Company Limited*	29 June 1989	Current
David Miller	Strathmore Minerals Corp	2004	Current
Marcus Boland	Nil	n/a	n/a

*ceased to be listed on 30 November 2010

Options

At the date of this report there are 10.2 million ordinary shares of County Coal Limited under option. The options are exercisable at a price of 40 cents each. Each option entitles the holder, when exercised, to one Share in the capital of County Coal Limited. Further details are below.

Number of Options	Issue Date	Exercisable Date	Expiry Date
3,250,000	4 April 2011	30 September 2011	31 March 2015
500,000	28 April 2011	30 September 2012	31 March 2015
450,000	17 June 2011	30 September 2013	31 March 2015
3,000,000	17 June 2011	30 September 2012	31 March 2015
3,000,000	9 July 2012	9 July 2015	9 July 2017

No options were granted over unissued shares during or since the end of the financial year by the company to directors or any of the specified officers as part of their remuneration, other than in July 2012 the company issued three million options to an option share trust on behalf of Mr Ruston, the Company's Chief Executive Officer. The options vest progressively at the rate of one third each completed year of Mr Ruston's employment over the next three years and are to be exercisable, upon payment of 40 cents per share, during the period from 9th July 2015 until their expiry on 9th July 2017.

No options have been exercised in the last financial year.

No options expired or lapsed in the last financial year.

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

REMUNERATION REPORT

This report details the nature and amount of remuneration for each director of County Coal Limited and for the executives receiving the highest remuneration.

Remuneration Policy

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the Consolidated Entity is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the remuneration committee, which currently is the entire board. All executives receive a total remuneration package, which may include a base salary (commensurate with their expertise and experience), superannuation, fringe benefits, options and in the future performance incentives. The remuneration committee reviews executive packages annually by reference to the Consolidated Entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The performance of executives is assessed annually and for the Chief Executive Officer's annual review considers his performance, any change to the nature and scope of his work, the current employment market for similar positions, the performance of the Company and any other matter the Board considers relevant. There are currently no bonuses and incentive arrangements in place, however at the time of the Chief Executive Officer's first annual review and contingent on the Company having established sales resulting in a positive cash flow, the Company will give reasonable consideration to the establishment of a short term incentive plan. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Other future executives may also be entitled to participate in the employee option arrangements at the discretion of the Board.

Executives receive a superannuation guarantee contribution, required by the government, which is currently 9%, and do not receive any other retirement benefits.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Options are valued using the Black and Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Fees for executive and non-executive directors are not linked to the performance of the Consolidated Entity.

Performance Based Remuneration

As part of senior executives' remuneration packages in the future there may be a performance-based component, consisting of key performance indicators (KPIs) but there is currently no such component.

Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders and directors and executives. The issue of options to a share option trust on behalf of the Chief Executive Officer subsequent to year end was to encourage the alignment of personal and shareholder interests. The company believes this policy should be effective in increasing shareholder wealth over the medium term.

The board will review its remuneration policy annually to ensure it is effective.

Performance Income as a proportion of Total Remuneration

All senior executives' remuneration for the year ended 30 June 2012 had only a fixed component and no variable component of their overall remuneration.

Options Issued as part of remuneration for the year ended 30 June 2012

No Options were issued to directors and executives as part of their remuneration during the year ended 30th June 2012 but Options were issued to a share option trust on behalf of the Chief Executive Officer subsequent to year end.

REMUNERATION REPORT (CONT'D)

Employment Contracts of Directors and Senior Executives

The employment conditions of the chief executive officer and specified executives are formalised in contracts of employment. All executives are permanent employees of County Coal Limited, with the exception of Mr Knight, who is engaged on a contractual basis.

No contract is for a fixed term, other than Mr Boland's contract, which is for a period until 31st March 2015. Each contract states it can be terminated by the company by giving the executive up to three months' notice and by paying a redundancy of between three to six months.

Directors' remuneration

The following table discloses the remuneration of Directors of the company for the years ended 30 June 2011 and 2012, as specified for disclosure by AASB 124. The information contained in this table is audited.

	Short-term Benefits		Post- Employment Benefits		
Director	**Salary & Fees**	**Other**	**Superannuation**	**Termination Benefits**	**Total**
Robert Cameron					
- 2012	75,000		6,750		81,750
- 2011	-	-	-	-	-
David Miller					
- 2012	30,035				30,035
- 2011	-	-	-	-	-
Marcus Boland					
- 2012	125,143		11,263		136,406
- 2011	27,523	-	2,477	-	30,000
TOTAL 2012	**230,178**		**18,013**		**248,191**
TOTAL 2011	**27,523**	**-**	**2,477**	**-**	**30,000**

For the year ended 30 June 2012 the Company had one person employed who was an executive director (2011: 1).

The key management personnel of the consolidated group comprise the directors.

Other Information

Environmental regulations

The operations and proposed activities of its wholly owned subsidiary companies County Energy Inc., County Coal Company LLC., and Clear Creek Holdings LLC are and will be subject to USA laws and regulations concerning the environment. As with most production operations, County Coal's activities are expected to have an impact on the environment. It is County Coal's intention to conduct its activities to the highest standard of environmental obligation, including compliance with all operational and environmental laws. Nevertheless, there are certain risks inherent in County Coal's activities, such as accidental waste water spills, gas leaks, gas seepages or explosions or other unforeseen circumstances, which could subject County Coal to extensive liability.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of these 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 do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

Fees of $1,000 were paid to the external auditors during the year ended 30th June 2012 for the preparation of income tax returns.

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30th June 2012 is set out on page 51.

Signed in accordance with a resolution of the Board of Directors.

Robert Cameron
Chairman
27th September 2012

Corporate Governance Statement

The Company formally has adopted corporate governance policies and practices as provided by the ASX Listing Rules and the principles of the ASX Corporate Governance Council. The Directors are of the opinion that the Company has complied with the above-mentioned policies. Set out below is more information on the Company's corporate governance policies.

Board Composition

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the director's report.

The Board reviews its composition and assesses nominations for new appointments from time to time to ensure the right balance of skills and experience.

The majority of the Board are to be independent directors, having no business or other relationship that could compromise their autonomy.

The Chairman and Chief Executive Officer roles are to be held by different persons.

The Chief Executive Officer may also be a director of the Company. Non-executive directors retire by rotation in accordance with clause 16 of the Constitution.

Newly appointed directors must stand for re-election at the next Annual General Meeting in accordance with clause 16 of the Constitution, with the exception of the Managing Director.

The Board regularly assesses the independence of each non-executive director in the light of interests disclosed by them. The Company does not consider length of tenure as disqualifying criteria for independence.

An independent director is independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

In assessing the independence of each director, the board takes into consideration whether the director's shareholding in the Company, relationships with suppliers, customers and competitors, or tenure as a director of the Company would materially affect the director's ability to exercise unfettered and independent judgement in the interests of the Company's shareholders.

Consistent with the emphasis on 'substance over form' advocated by the ASX Guidelines, the Board takes a qualitative approach to materiality, rather than setting strict numerical thresholds, and considers each director's individual circumstances on its merits.

The independence of each director is formally reviewed annually in June each year and at any time when a change occurs that may affect a director's independence. Non-executive directors must formally advise the Chairman of any relevant information, and update the Chairman if their circumstances change at any time.

The names of independent directors of the company are Robert Cameron and David Miller.

Independent directors have the right to seek independent professional advice at the company's expense in the furtherance of their duties as directors. Written approval must be obtained from the chairman prior to incurring any expense on behalf of the company.

The Board has created a number of standing committees:

Audit Committee

Remuneration Committee

Shareholder Rights

Shareholders are entitled to vote on significant matters impacting on the business, which include the election and remuneration of directors, changes to the Constitution and receipt of annual and interim financial statements. Shareholders are strongly encouraged to attend and participate in the Annual General Meetings of County Coal Limited, to lodge questions to be responded by the Board and/or the CEO, and are able to appoint proxies.

8. Corporate Governance

Role of the Board

The Company recognises that corporate governance is fundamental to the effective operation of the Company. The Board is the pivotal element of corporate governance, and the Company desires its Board to be effective, independent, representative of stakeholders and valuable to the organisation.

The Board's role is to provide governance of the Company in the best interests of shareholders, having regard to the interests of all stakeholders of the Company. The specific responsibilities of the Board include:

- the overall corporate governance of the Company including its strategic direction, financial objectives, and overseeing (or supervision) of control and accountability systems;
- Input into and approval of strategic plans and goal and performance objectives, key operational and financial matters, as well as major investment and divestment proposals;
- appointing and removing the chief executive officer (or equivalent);
- ratifying the appointment and, where appropriate, the removal of the chief financial officer (or equivalent) and the Company Secretary;
- approving the nominations of Directors to the Board;
- ensuring Management maintains a sound system of internal controls to safeguard the assets of the Group;
- monitoring the performance of the Group;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct, and legal compliance;
- monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- approving and monitoring financial and other Board reporting; and
- the approval of the annual and half yearly financial report.

Performance Evaluation

An annual self-assessment of the board and all board members is conducted by the board in such manner, as the board deems appropriate.

Trading Policy

The company's policy regarding directors and employees trading in its securities has been set by the Board. The policy restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the security's prices.

Audit Committee

The names and qualifications of those appointed to the Audit Committee and their attendance at meetings of the committee are included in the directors' report.

The role of the Audit Committee is to:

- to review proposed reportable financial information and to recommend its approval or otherwise by the Board;
- to review and assess the Company's accounting policies, and determine in consultation with the Chief Financial Officer if any changes to policy should be enacted;
- to communicate with, and monitor the effectiveness of the Company's external auditor; and
- to make recommendations to the Board for the appointment, reappointment or replacement and remuneration of an appropriate independent external auditor.

Remuneration Committee

The Remuneration Committee comprises the full Board and attendance at meetings by the Board members of the committee is detailed in the Directors' Report. The responsibilities of the Remuneration Committee include:

- Assessing the skills and competencies required on the Board, from time to time assessing the extent to which the required skills are represented on the Board;
- Establishing processes for the review of the performance of individual directors and the Board as a whole;
- Encouraging and supporting directors' professional development to enhance director competencies;
- Establishing processes for the identification of suitable candidates for appointment to the Board;
- Developing Board succession plans to maintain an appropriate balance of skills, experience and expertise on the Board;
- Considering recommendations for the appointment and removal of Directors;
- Approving remuneration strategy and policies for senior management and selected packaged employees as well as the individual remuneration arrangements and terms of employment for positions/individuals who are direct reports to the Chief Executive Officer (or similar), ensuring that remuneration policies are not only effective, but that they are also reported and explained to shareholders.

Additional information on the Company's remuneration principles is contained in the Remuneration Report contained in the Directors' Report.

Continuous Disclosure and ASX Announcements

- Directors and Executive Management are to be aware of the continuous disclosure regulations in the ASX Listing Rules.

In the event that any Director or member of management becomes aware of any fact or circumstance which may give rise to a requirement to disclose such information under the Listing Rules, they are required to immediately inform the Company Secretary, the CEO or the Chairman.

- Prior to disclosure, the Company Secretary will review the information to enable a judgement as to the appropriate disclosure, if any, to be made.
- If there is uncertainty over the requirement to comply with the continuous disclosure requirements, then the Company will seek external legal advice. The Company, through the Company Secretary, will notify the ASX of any information it is determined is required to be disclosed.

Where announcements are made to the market through the ASX, such announcements are pre-vetted by the Chairman, CEO, Company Secretary and Board of Directors to ensure that such statements are:

- factual;
- do not omit material information; and
- expressed in a clear and objective manner.

Corporate Reporting

The Company strives to convey to its shareholders and the investing public pertinent information in a detailed, regular, factual and timely manner. Information is communicated to shareholders through: the Annual Financial Report, disclosures to the ASX, notices and explanatory memoranda of Annual General Meetings; and County Coal's website at www.countycoal.com.

Risk Management

The board is committed to risk management and executives are expected to practise sensible risk management in the day-to-day performance of their duties and are required to escalate any material issues, which arise or have the potential to arise. The CEO has the primary responsibility to advise the Board of material risk items, which arise and together the Board and senior management are responsible for taking all reasonable steps to address and mitigate such risk items.

Diversity

The Board monitors recruitment and development policies, which encourages workplace diversity both in gender and skills

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $	2011 $
Interest revenue		255,114	3,855
Administration and corporate expenses		(1,147,507)	(184,863)
Interest Paid		(60,372)	-
Loss before income tax expense		**(952,765)**	**(181,008)**
Income tax expense	5	-	-
Loss for the period		**(952,765)**	**(181,008)**
Basic earnings per share (cents per share)	23	**(1.19)**	**(0.38)**
Diluted earnings per share (cents per share)	23	**(1.19)**	**(0.38)**

2012 figures are for the twelve months ended 30 June 2012. The 2011 figures are for the period 4th February 2011 (date of incorporation) to 30th June 2011.

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

	2012 $	2011 $
Loss	(952,765)	(181,008)
Other comprehensive income:		
Foreign exchange translation difference for foreign operations	73,166	(10,917)
Other comprehensive income for the period	**73,166**	**(10,917)**
Total comprehensive loss attributable to members of the parent entity	**(879,599)**	**(191,925)**

2012 figures are for the twelve months ended 30 June 2012. The 2011 figures are for the period 4th February 2011 (date of incorporation) to 30th June 2011.

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Note	2012 $	2011 $
Assets			
Current Assets			
Cash and cash equivalents	6	6,514,022	620,078
Trade and other receivables	7	58,182	-
Total Current Assets		**6,572,204**	**620,078**
Non-Current Assets			
Exploration expenditure capitalised	8	8,444,206	529,979
Property, plant and equipment	9	4,215	3,225
Total Non-Current Assets		**8,448,421**	**553,204**
Total Assets		**15,020,625**	**1,153,282**
Liabilities			
Current Liabilities			
Trade and other payables	10	37,739	120,506
Total Current Liabilities		**37,739**	**120,506**
Total Liabilities		**37,739**	**120,506**
Net Assets		**14,982,886**	**1,032,776**
Equity			
Issued Capital	11	16,054,410	1,224,701
Reserves	12	62,249	(10,917)
Accumulated losses		(1,133,773)	(181,008)
Total Equity		**14,982,886**	**1,032,776**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012

	Issued Capital	Foreign Currency Translation Reserve	Accumulated Losses	Total
	$	$	$	$
Balance at 4 February 2011	**-**	**-**	**-**	**-**
Loss attributable to members	-	-	(181,008)	(181,008)
Shares issued during the period (net proceeds)	1,224,701	-	-	1,224,701
Total other comprehensive income	-	(10,917)	-	(10,917)
Balance at 30 June 2011	**1,224,701**	**(10,917)**	**(181,008)**	**1,032,776**
Loss attributable to members	-	-	(952,765)	(952,765)
Shares issued during the year (net proceeds)	14,829,709	-	-	14,829,709
Total other comprehensive income	-	73,166	-	73,166
Balance at 30 June 2012	**16,054,410**	**62,249**	**(1,133,773)**	**14,982,886**

2012 figures are for the twelve months ended 30 June 2012. The 2011 figures are for the period 4th February 2011 (date of incorporation) to 30th June 2011.

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $	2011 $
Cash flows from operating activities			
Receipts from customers		-	-
Payments to suppliers and employees		(1,186,283)	(64,307)
Interest received		227,476	3,855
Interest paid		(60,732)	-
Net cash used in operating activities	14(b)	(1,019,539)	(60,452)
Cash flows from investing/financing activities			
Proceeds issue of shares (net)		14,517,209	1,074,701
Acquisition of coal rights, freehold property and exploration and evaluation expenditure		(7,601,726)	(390,896)
Payment for property, plant and equipment		(2,000)	(3,275)
Net cash provided by investing/financing activities		6,913,483	680,530
Net increase/(decrease) in cash and cash equivalents held		5,893,944	620,078
Cash and cash equivalents at beginning of period		620,078	-
Cash and cash equivalents at end of reporting period	14(a)	6,514,022	620,078

2012 figures are for the twelve months ended 30 June 2012. The 2011 figures are for the period 4th February 2011 (date of incorporation) to 30th June 2011.

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. REPORTING ENTITY

County Coal Limited is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2012 comprise the Company and its controlled entities (together referred to as the Consolidated Entity). The Consolidated Entity is involved in coal exploration and development in the USA.

2012 figures are for the twelve months ended 30 June 2012. The 2011 figures are for the period 4th February 2011 (date of incorporation) to 30th June 2011.

2. BASIS OF PREPARATION

a. Statement of compliance

The financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board and the Corporations Act 2001. The financial report of the Consolidated Entity and the financial report of the Company comply with International Financial Reporting Standards and Interpretations adopted by the International Accounting Standards Board.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

c. Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

d. Use of judgments and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected. In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is described in the following areas: Impairment and Financial instruments.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements and have been applied consistently by all entities in the Consolidated Entity.

a. Basis of Consolidation

Controlled entities

Controlled entities are entities controlled by the Company. Control exists when the Company has power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of controlled entities are included in the consolidated financial statements from the date that control commences until the date that control ceases. Investments in controlled entities are carried at their cost of acquisition in the Company's financial statements.

Transactions eliminated on consolidation

Intra-group balances and any recognised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

b. Income Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

The following specific recognition criteria must also be met before revenue is recognised:

Interest

Control of the right to receive the interest payment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

c. Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the relevant taxation authority is included as a current asset or liability in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the relevant taxation authority are classified as operating cash flows.

d. Foreign Currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of controlled entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary transactions denominated in foreign currencies that are stated at historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rates ruling at the date the fair value was determined. Foreign exchange differences arising on translation are recognised in the income statement.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, generally are translated to the functional currency at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated to the functional currency at rates approximating the foreign exchange rates ruling at the dates of transactions. Foreign currency differences arising from translation of controlled entities with a different functional currency to that of the Consolidated Entity are recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount of its FCTR is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the FCTR.

e. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

f. Provisions

A provision is recognised in the balance sheet when the Consolidated Entity has a present legal or constructive obligation as a result of a past event that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

g. Impairment

The carrying amounts of the Consolidated Entity's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below). An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit or a group of units and then, to reduce the carrying amount of the other assets in the unit or a group of units on a pro-rata basis.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

Calculation of recoverable amount

Receivables

The recoverable amount of the Consolidated Entity's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted. Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date. The allowance for impairment is calculated with reference to the profile of debtors in the Consolidated Entity's sales and marketing regions.

Other Assets

The recoverable amount of other assets is the greater of their fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash flows from continuing use that are largely independent of the cash flows of other assets or groups of assets (cash generating units). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to the cash generating units that are expected to benefit from the synergies of the combination. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of Impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or recognised, if no impairment loss had been recognised.

h. Property, Plant and Equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy (g)). An asset's cost is determined as the consideration provided plus incidental costs directly attributable to the acquisition. Subsequent costs in relation to replacing a part of property, plant and equipment are recognised in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Consolidated Entity and its cost can be measured reliably. All other costs are recognised in the income statement as incurred.

Leased assets – Operating leases

Payments made under operating leases are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property. Minimum lease payments include fixed rate increases.

Depreciation

Depreciation is recognised in the income statement on a straight-line basis. Items of property, plant and equipment, including leasehold assets, are depreciated using the straight-line method over their estimated useful lives, taking into account estimated residual values. Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Depreciation rates and methods, useful lives and residual values are reviewed at each balance sheet date. When changes are made, adjustments are reflected prospectively in current and future financial years only. The estimated useful lives in the current and comparative years are as follows:

Plant & equipment	3 – 10 years

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

i. Exploration, Evaluation and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

i) such costs are expected to be recouped through successful development and exploitation or from sale of the area; or

ii) exploration and evaluation activities in the area have not, at balance date, resulted in booking economically recoverable reserves, and active operations in, or relating to, this area are continuing.

Accumulated costs in respect of areas of interest which are abandoned are written off in full against profit in the year in which the decision to abandon the area is made.

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

Amortisation is charged against individual deposits currently based on reserve estimates. Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences.

j. Restoration

Provisions for future environmental restoration are recognised where there is a present obligation as a result of exploration, development, production, transportation or storage activities having been undertaken, and it is probable that an outflow of economic benefits will be required to settle the obligation. The estimated future obligations include the costs of removing facilities, abandoning mines and restoring the affected areas.

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at the end of the balance sheet date, with a corresponding change in the cost of the associated asset.

The amount of the provision for future restoration costs relating to exploration, development and production facilities is capitalized and depleted as a component of the cost of those activities.

The unwinding of the effect of discounting on the provision is recognised as a finance cost.

k. Employee Benefits

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave expected to settle within 12 months of the year end represent present obligations resulting from employees' services provided up to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Consolidated Entity expects to pay as at reporting date including related on-costs, such as workers' compensation insurance and payroll tax.

l. Receivables

Trade and other receivables are stated at amortised cost less impairment losses (see accounting policy (g)).

m. Taxation

Income tax expense in the income statement for the years presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of goodwill and other assets or liabilities in a transaction that affects neither accounting nor taxable profit, or differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

m. Taxation (continued)

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based upon the laws that have been enacted at reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be recognised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be recognised. Additional income taxes that arise from distribution of dividends are recognised at the same time as liability to pay the related dividend is recognised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or on a different tax entity but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be recognised simultaneously.

n. Payables

Trade and other payables are stated at amortised cost.

o. Finance income and expense

Interest income is recognised as it accrues in the income statement using the effective interest method.

p. Earnings per share

The Consolidated Entity presents basic and diluted earnings/(loss) per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the net profit/(loss) attributable to equity holders of the parent for the financial year, after excluding any costs of servicing equity (other than ordinary shares) by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated using the basic EPS earnings/(loss) as the numerator. The weighted average number of shares used as the denominator is adjusted by the after-tax effect of financing costs associated with the dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares adjusted for any bonus issue.

q. Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any income tax benefit.

r. New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2012 reporting period. None of these are expected to have a significant effect on the consolidated financial statements of the Consolidated Entity except for AASB 9 Financial Instruments, which becomes mandatory for the Consolidated Entity's 2016 consolidated financial statements and could change the classification and measurement of financial assets. The Consolidated Entity does not plan to adopt this standard early and the extent of the impact has not been determined.

s. Other financial assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the year established generally by regulation or convention in the marketplace.

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

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

s. Other financial assets (continued)

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when investments are derecognised or impaired, as well as through amortisation process.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

4. FINANCIAL RISK MANAGEMENT

Overview

The Company and Consolidated Entity have exposure to the following risks from the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's and the Consolidated Entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout these consolidated financial statements. The Board of directors has overall responsibility for the establishment and oversight of the risk management and monitors operational and financial risk management throughout the Consolidated Entity. Monitoring risk management includes ensuring appropriate policies and procedures are published and adhered to.

The Board aims to manage the impact of short-term fluctuations on the Company's and the Consolidated Entity's earnings. Over the longer term, permanent changes in market rates will have an impact on earnings.

The Company and the Consolidated Entity are exposed to risks from movements in exchange rates and interest rates that affect revenues, expenses, assets, liabilities and forecast transactions. Financial risk management aims to limit these market risks through ongoing operational and finance activities.

Exposure to credit, foreign exchange and interest rate risks arises in the normal course of the Company's and the Consolidated Entity's business. Derivative financial instruments are not used to hedge exposure to fluctuations in foreign exchange rates.

Credit Risk

Credit risk is the risk of financial loss to the Company or the Consolidated Entity if a customer, controlled entity or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's and the Consolidated Entity's receivables from customers.

Trade and other receivables

The Company's and Consolidated Entity's exposure to credit risk is influenced mainly by the geographical location and characteristics of individual customers. The Consolidated Entity does not have a significant concentration of credit risk with a single customer.

Policies and procedures of credit management and administration of receivables are established and executed at a regional level. Individual regions deliver reports to management and the Board on debtor ageing and collection activities on a monthly basis.

In monitoring customer credit risk, the ageing profile of total receivables balances is reviewed by management by geographic region on a monthly basis. Regional management is responsible for identifying high risk customers and placing restrictions on future trading, including suspending future shipments and administering dispatches on a prepayment basis.

The Company and the Consolidated Entity have established an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables.

Liquidity Risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated Entity's reputation.

The Consolidated Entity monitors cash flow requirements and produces cash flow projections for the short and long term with a view to optimising return on investments. Typically, the Consolidated Entity ensures that it has sufficient cash on demand to meet expected operational net cash flows for a period of at least 30 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

Market Risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the Company's and the Consolidated Entity's net loss or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency Risk

The Consolidated Entity will undertake its coal exploration and development activities in US currency and be exposed to currency risk on the value of its exploration assets that are denominated in United States dollars (USD).

A percentage of the Consolidated Entity's future revenues from coal exploration and development activities may be denominated in currencies other than AUD. Risk resulting from the translation of assets and liabilities of foreign operations into the Consolidated Entity's reporting currency is not hedged.

Interest Rate Risk

The Consolidated Entity is exposed to interest rate risks in Australia. See note 21 for effective interest rates.

Capital Management

The Consolidated Entity's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide returns to shareholders, to provide benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Board aims to maintain and develop a capital base appropriate to the Consolidated Entity. In order to maintain or adjust the capital structure, the Consolidated Entity can issue new shares. The Board of directors undertakes periodic reviews of the Consolidated Entity's capital management position to assess whether the capital management structure is appropriate to meet the Consolidated Entity's medium and long-term strategic requirements. Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements. There were no significant changes in the approach to capital management during the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

5. INCOME TAXES	2012 $	2011 $
(a) Tax expense/(benefit)		
The prima facie income tax expense on pre-tax accounting profit/(loss) from operations reconciles to the income tax expense in the financial statements as follows:		
Net loss for the year	(952,765)	(181,008)
Income tax benefit calculated at 30%	(285,830)	(54,302)
Add/(less) tax effect of:		
Other non-allowable items	8,291	11,846
Other allowable items	(69,055)	-
Other temporary differences not recognised	(15,220)	19,178
Unused tax losses not recognised as deferred tax assets	361,814	23,278
Income tax expense/(benefit)	-	-
(b) Deferred Tax Assets		
The following deferred tax balances at 30% (2011: 30%) have not been recognised:		
Revenue losses	385,092	23,278
Capital raising costs	276,219	11,846
Provisions and accruals	3,958	19,811
	665,269	54,935

6. CASH AND CASH EQUIVALENTS		
Cash at bank – A$ Accounts	5,950,136	457,321
Cash at bank – USD Accounts	563,886	162,757
	6,514,022	620,078

Cash at bank earns interest at floating rates based on daily bank deposit rate.

7. OTHER RECEIVABLES		
Current		
Other receivables	58,182	-
	58,182	-

8. EXPLORATION EXPENDITURE CAPITALISED		
Coal rights, freehold property and capitalised exploration and evaluation expenditure	8,444,206	529,979
	8,444,206	529,979
Movement		
At the beginning of reporting year	529,979	-
Expended during the year	7,914,227	529,979
At end of reporting year	8,444,206	529,979

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

9. PROPERTY, PLANT & EQUIPMENT	2012 $	2011 $
Cost	5,275	3,275
Less provision for depreciation	(1,060)	(50)
	4,215	3,225
Movements in the carrying amounts of plant and equipment during the year:		
Balance at the beginning of the year	3,225	-
Additions	2,000	3,275
Depreciation expense	(1,010)	(50)
Carrying amount at end of year	4,215	3,225

10. TRADE & OTHER PAYABLES		
Current		
Accruals	37,739	120,506
	37,739	120,506

11. SHARE CAPITAL

Issued and paid up capital		
94,175,004 (2011 - 53,170,004) Ordinary shares fully paid	16,054,410	1,224,701

(a) Movements in paid up capital

At the beginning of the reporting year	1,224,701	-
- Issued during year (refer below)	15,913,500	1,224,701
- Less costs of issue	(1,083,791)	-
At end of reporting year	16,054,410	1,224,701

The following shares were issued during the year

- 3,005,000 shares pursuant to a placement at 20 cents on 29 September 2011
- 37,500,000 shares pursuant to a prospectus at 40 cents on 7 November 2011
- 500,000 shares pursuant to acquisition of land (including coal rights) at 62.5 cents on 22 December 2011

All shares were issued for cash with the exception of 500,000 shares issued to Miller and Associates LLC, which were issued as part consideration for leasehold mineral rights at 62.5 cents per share. In the prior year 1 million shares were issued to Miller & Associates LLC as part consideration for leasehold mineral rights at 15 cents per share.

(b) Movements in shares on issue

	2012 # shares	2011 # shares
At the beginning of the reporting year	53,170,004	-
Shares issued during the year	41,005,000	53,170,004
At end of reporting year	94,175,004	53,170,004

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

11. SHARE CAPITAL (CONT'D)

(c) Options

At 30th June 2012 there were 7.2 million existing options on issue. The options are exercisable at a price of 40 cents each and will expire on 31 March 2015. Each option entitles the holder, when exercised, to one Share in the capital of County Coal Limited.

Number of Options	Issue Date	Exercisable Date
3,250,000	4 April 2011	30 September 2011
500,000	28 April 2011	30 September 2012
450,000	17 June 2011	30 September 2013
3,000,000	17 June 2011	30 September 2012

In July 2012 the company issued three million options to an option share trust on behalf of Mr Ruston, the Chief Executive Officer. The options vest progressively at the rate of one third each completed year of Mr Ruston's employment over the next three years and are to be exercisable, upon payment of 40 cents per share, during the period from 9th July 2015 until their expiry on 9th July 2017.

Terms and conditions of contributed equity

Ordinary shares

Holders of ordinary shares have the right to receive dividends as declared and, in the event of the winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

Options over ordinary shares

There was no exercise of options during the year ended 30 June 2012.

	2012 $	2011 $
12. RESERVES		
Foreign currency translation reserve	62,249	(10,917)
Movements during the year:		
At beginning of year	(10,917)	-
Movement	73,166	(10,917)
At end of year	62,249	(10,917)

The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries.

13. REMUNERATION OF AUDITORS		
Remuneration of the Company's auditors for:		
Auditing or reviewing the financial report	21,000	15,000
Other services	1,000	-
Total auditors' remuneration included in operating result	22,000	15,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

14. RECONCILIATION OF CASH

(a) Cash balances comprises cash at bank:	2012 $	2011 $
- $A accounts	5,950,136	457,321
- US Dollar accounts	563,886	162,757
	6,514,022	620,078

(b) Reconciliation of operating loss after income tax to net cash outflow from operating activities

Net loss	(952,765)	(181,008)
Depreciation	1,010	50
Effects of movement in foreign exchange	73,166	-
Change in assets/liabilities:		
Increase/(decrease) in receivables	(58,182)	-
Increase/(decrease) in payables	(82,767)	120,506
Net cash used in operating activities	(1,019,539)	(60,452)

15. INTEREST IN SUBSIDIARIES

Interests are held in the following

Name	Country of Incorporation	Ownership Interest 2012	Ownership Interest 2011
County Coal Company LLC	USA	100%	100%
County Energy Inc.	USA	100%	100%
Clear Creek Holdings LLC	USA	100%	100%
County Coal Export Pty Limited	Australia	100%	-

16. SHARE BASED PAYMENTS

(a) Share and Option holdings

Details of shares held by key management personnel (including those holding entities associated with Directors) are set out below. Details of options are set out on page 18 of the Annual Report.

Shares held by Key Management Personnel

Year ended 30 June 2012 Directors	Balance at beginning of year	Shares Issued	Balance at end of year
M. Boland*	18,000,000	1,000,000	19,000,000
R. Cameron**	2,100,000	500,000	2,600,000
D. Miller***	1,000,000	500,000	1,500,000
Total	21,100,000	2,000,000	23,100,000

* Shares held by companies of which Mr Boland is a Director (RTM Holdings Limited (7 million shares), Intercoal Limited (5 million shares) and Resource Capital Limited (7 million shares)).

** Two million five hundred thousand shares are held by Paula Suzanne Cameron and Robert Graham Cameron ATF Cameron Family Superannuation Plan of which Mr Cameron is a beneficiary and one hundred thousand are held directly.

*** Shares held by Miller and Associates LLC of which Mr Miller is a Director.

(b) Options issued as Part of Remuneration for the year ended 30 June 2012

No options are held by or were issued to directors and executives as part of their remuneration in the current year.

(c) Employee Benefits

At 30 June 2012, County Coal Limited had one executive director (2011: 1)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

17. EVENTS SUBSEQUENT TO BALANCE DATE

The directors are not aware of any matter or circumstance that has arisen since the end of the year to the date of this report that has significantly affected or may affect:

(i) The operations of the company and the entities that it controls

(ii) The results of those operations

(iii) The state of affairs of the company in subsequent years, other than as detailed below.

In July 2012, County Coal announced it had acquired an option over a 1,420 acres (575 hectares) property adjacent to Shell Creek, providing an estimated additional exploration target of 300-500Mt, as described on page 6 of the Annual Report.

18. CONTINGENT LIABILITIES AND COMMITMENTS

The Consolidated Entity is not aware of any contingent liabilities, which existed as at the end of the financial period or have arisen as at the date of this report other than as detailed below.

Pursuant to the property purchase agreements in relation to the properties/leasehold coal rights acquired during the financial year, certain royalties are payable to vendors of the various properties. No royalties are payable at the date of these accounts.

Pursuant to a property purchase agreement in relation to the Shell Creek Coal Project located in Johnson County, Wyoming, in addition to certain royalties payable in the future, an additional amount is payable to the vendors of US$0.10 per short ton* proved up to JORC Proved Coal Reserve status over 10 years, up to an estimated 220,000,000 short tons. An amount of US$5million was paid to the vendors during the year in lieu of the first 50,000,000 short tons to be proven up.

*Note that this agreement uses an imperial unit of measurement known as a “short ton” which is a unit of weight equivalent to 2,000 pounds or 907.18474 kilograms.

Lease commitments	**2012 $**	**2011 $**
Lease commitments contracted for but not capitalised in the financial statements		
- Payable:		
- Not later than 1 year	37,440	36,000
- Later than 1 year but not later than 5 years	74,880	108,000
- Later than 5 years	-	-
	112,320	144,000
Exploration Commitments		
Exploration commitments contracted for but not capitalised in the financial statements		
Payable:		
- Not later than 1 year	-	4,659,832
- Later than 1 year but not later than 5 years	-	-
- Later than 5 years	-	-
	-	4,659,832

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

19. RELATED PARTY DISCLOSURES

(a) Ultimate Parent

County Coal Limited is the ultimate Australian parent company.

The following companies are wholly owned subsidiaries- County Energy Inc., County Coal Company LLC and Clear Creek Holdings LLC, all of which are incorporated in the USA, and County Coal Export Pty Limited.

(b) Other Related Party Transactions

(i) Entities associated with Mr Boland subscribed for 1 million shares in company during the year to 30 June 2012 (2011 – 21 million shares)

(ii) Mr Cameron and entities associated with Mr Cameron subscribed for 500,000 shares in company during the year to 30 June 2012 (2011 – 2.1 million shares).

(iii) Pursuant to a property purchase agreement in relation to properties acquired from Miller and Associates LLC, located in Campbell County, Wyoming, certain royalties may be payable to Miller and Associates LLC in the future. Pursuant to this agreement one million shares and 500,000 options were issued to Miller and Associates LLC in 2011. In the current year the company exercised its option to acquire additional land (including coal rights) in the Shell Creek area and in consideration US$100,000 and an additional 500,000 shares were issued to Miller Associates LLC. Miller and Associates LLC is associated with Mr Miller a director of the company.

All the above transactions were made on normal commercial terms and conditions.

20. KEY MANAGEMENT PERSONNEL COMPENSATION

(a) Details of Key Management Personnel

Directors as at 30 June 2012 were:

Robert Cameron – Non-Executive Chairman

Marcus Boland – Executive Director

David Miller – Non-Executive Director

(b) Compensation Practices and Key Management Personnel Compensation

Details of compensation practices and key management personnel compensation are disclosed in the Directors' Report which accompanies these financial statements.

(c) Other Transactions and Balances with Key Management Personnel

There were no transactions with key management personnel in the year to 30th June 2012 other than as detailed in note 19.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

21. FINANCIAL INSTRUMENTS

Credit Risk

Exposure to Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2012 $	2011 $
Cash and equivalents	6,514,022	620,078
	6,514,022	620,078

Consolidated Entity's exposure to foreign currency (USD) risk was as follows, based upon notional amounts:

Amounts local currency		
Cash and equivalents	563,886	162,757
Trade Payables	(22,057)	(44,222)
	541,829	118,535

The following significant exchange rates applied to the Company and the Consolidated Entity during the year:

	Closing Rate		Average Rate	
AUD = 1	2012	2011	2012	2011
USD =	1.0248	1.073	1.0404	1.0675

Profile

At the reporting date, the interest rate profile of the Company's and the Consolidated Entity's interest bearing financial instruments was:

Carrying amount

Variable rate instruments	2012 $	2011 $
Financial assets	6,514,022	620,078
Financial liabilities	37,739	120,506

Liquidity Risk

The following are the contractual maturities of the Consolidated Entity's financial assets and liabilities including estimated interest payments.

	Effective interest rate p.a.	Carrying amount $	Less than 1 year $	1-5 years $	More than 5 years $
Cash and cash equivalents	4.4%	6,514,022	6,514,022	-	-
Receivables		58,182	58,182	-	-
Payables		(37,739)	(37,739)	-	-
Total		6,534,465	6,534,465	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

21. FINANCIAL INSTRUMENTS (CONTINUED)

Sensitivity Analysis

In managing interest rate and currency risks, the Consolidated Entity aims to reduce the impact of short-term fluctuations on the Consolidated Entity's earnings. Over the longer term however, permanent changes in foreign exchange and interest rates will have an impact on the result.

For the year ended 30 June 2012, it is estimated that a general increase of one percent in interest rates would have decreased the Consolidated Entity's loss after income tax and equity by approximately $58,000 (2011: $100).

It is estimated that a general increase of ten percent in the value of the AUD against the USD would have decreased the Consolidated Entity's loss for the year ended 30 June 2012 by $46,000 (2011: $6,700) and increase the Consolidated Entity's equity by approximately $46,000 (2011: $6,700).

Fair Values

The fair values of financial assets and liabilities, together with carrying amounts in balance sheet are as follows:

	Carrying Amount 2012 $	Fair value 2012 $	Carrying Amount 2011 $	Fair value 2011 $
Cash and equivalents	6,514,022	6,514,022	620,078	620,078
Other receivables	58,182	58,182	-	-
Trade and other payables	(37,739)	(37,379)	(120,506)	(120,506)
Total	6,534,465	6,534,465	499,572	499,572

Basis for determining fair values

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

Non-derivative financial assets and liabilities

The fair value of cash and receivables is considered to approximate their carrying amount because of their short maturity. Other assets are based on the assets carrying values as per the subsidiary company's accounts, which approximates fair value.

Fair value hierarchy

There are no other financial instruments carried at fair value or valued using the following:

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

22. PARENT ENTITY DISCLOSURES

At and throughout the financial year ended 30 June 2012, the parent company was County Coal Limited.

Result of the parent entity	**2012 $**	**2011 $**
Net profit/(loss)	(488,837)	(159,449)
Other comprehensive income	-	-
Total comprehensive income	**(488,837)**	**(159,449)**
Financial position of the parent entity at year end		
Current assets	5,977,775	1,138,311
Total assets	15,421,806	1,141,536
Current liabilities	15,682	76,284
Total liabilities	15,682	76,284
Total equity of the parent entity comprising of:		
Issued capital	16,054,410	1,224,701
Accumulated losses	(648,286)	(159,449)
Total Equity	**15,406,124**	**1,065,252**

Parent entity contingencies

The details of all contingent liabilities and future commitments in respect to County Coal Limited are in Note 18.

23. LOSS PER SHARE

The following reflects the loss and share data used in the calculations of basic and diluted loss per share.

	2012	**2011**
Net loss used in calculating basic and diluted earnings per share	($952,765)	($181,008)
Basic and diluted (loss) per share (cents per share)	(1.19)	(0.38)
Weighted average number of shares used in the calculation of basic and diluted loss per share	79,796,366	47,638,943
Shares on issue at year end	94,175,000	53,170,004
Number of options on issue at year end – each option is exercisable at 40 cents per share and converts to one ordinary share	7,200,000	7,200,000

10. Directors' Declaration

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 26 to 47 are in accordance with the Corporations Act 2001*:*
   a. comply with Accounting Standards and the Corporations Regulations 2001*;* and
   b. give a true and fair view of the financial position as at 30 June 2012 and of the performance for the year ended on that date of the company and Consolidated Entity;
2. The Executive Director and Company Secretary have each declared that:
   a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
   b. The financial statements and notes for the financial year comply with the Accounting Standards; and
   c. The financial statements and notes for the financial year give a true and fair view.
3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Robert Cameron
Chairman
27th September 2012

STIRLING INTERNATIONAL
CHARTERED ACCOUNTANTS

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF COUNTY COAL LIMITED

Report on the Financial Report

We have audited the accompanying financial report of County Coal Limited (the company) and the consolidated entity, which comprises the consolidated balance sheet as at 30 June 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the years 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of County Coal Limited, would be in the same terms if provided to the directors as at the date of this auditor's report.

11. Independent Audit Report

Auditor's Opinion

In our opinion:

a. the financial report of County Coal Limited is in accordance with the *Corporations Act 2001*, including:

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

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

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in the report of the directors for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with s 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 the Australian Auditing Standards.

Auditor's Opinion

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

Stirling International

Chartered Accountants

Peter Turner

285 Clarence St Sydney 2000

27th September 2012

Liability limited by a scheme approved under Professional Standards Legislation

12. Auditor's Independence Declaration

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF COUNTY COAL LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2012 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

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

Stirling International
Chartered Accountants

Peter Turner

27th September 2012

285 Clarence St Sydney 2000

13. Additional Information

Equity Securities

a. **Distribution of Equity Securities**

Category (size of Holding- by number)	Shareholders	Shares	Optionholders	Options
1-1,000	5	3,552	-	-
1,001-5,000	50	213,450	-	-
5,001-10,000	33	279,704	-	-
10,001-100,000	291	11,038,544	-	-
100,001 and over	90	82,639,754	10	10,200,000
	469	**94,175,004**	**10**	**10,200,000**

b. The number of shareholdings held in less than marketable parcels is 11

c. The names of the substantial shareholders listed in the holding company's register as at 18 September 2012 are:

Shareholder	Number of Ordinary Shares	Percentage
RTM Holdings Limited Intercoal Holdings Limited and Resource Capital Limited	19,000,000	20.18
Kemlay Pty Limited <Grasmere A/C>	7,335,000	7.789
Mismo Pty Limited <Southwest A/C>	7,335,000	7.789
Balander Pty Limited <Balander Super Fund A/C>	7,335,000	7.789

d. **Voting Rights**

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands. Options do not carry a vote.

e. **20 Largest Shareholders — Ordinary Shares as at 18 September 2012**

	Name	No. of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1.	Kemlay Pty Limited <Grasmere A/C>	7,335,000	7.789
2.	Mismo Pty Limited <Southwest A/C>	7,335,000	7.789
3.	Balander Pty Limited <Balander Super Fund A/C>	7,335,000	7.789
4.	RTM Holdings Limited	7,000,000	7.433
5.	Resource Capital Limited	7,000,000	7.433
6.	Intercoal Limited	5,000,000	5.309
7.	Neweconomy Com Au Nominees Pty Limited <900 Account>	4,500,000	4.778
8.	Mrs Paula Suzanne Cameron & Mr Robert Graham Cameron <Cameron Family S/F A/C>	2,500,000	2.655
9.	National Nominees Limited	1,988,531	2.112
10.	HSBC Custody Nominees (Australia) Limited-Gsco Eca	1,866,154	1.982
11.	Miller And Associates LLC	1,500,000	1.593
12.	Pershing Australia Nominees Pty Ltd <Dayton Way Financial A/C>	1,500,000	1.593
13.	HSBC Custody Nominees (Australia) Limited	1,458,369	1.549
14.	FNL Investments Pty Ltd <Staff Super Fund A/C>	1,394,000	1.480
15.	J P Morgan Nominees Australia Limited	1,390,593	1.477
16.	Citicorp Nominees Pty Limited	1,317,161	1.399
17.	Brispot Nominees Pty Ltd <House Head Nominee No 1 A/C>	1,127,004	1.197
18.	Ms Rena Claire Merchant <Boda Investments-Rsm Fund Ac>	1,005,000	1.067
19.	Bridgelane Capital Pty Limited	1,005,000	1.067
20.	Affinity Corporation Pty Limited	1,000,000	1.062
		65,556,812	69.612

f. **Unquoted securities**

A total of 45,190,000 ordinary shares are escrowed and unquoted.

14. Corporate Directory



Board of Directors

Robert Cameron - Non-executive Chairman
David Miller - Non-executive Director
Marcus Boland - Executive Director

Management

Rod Ruston - Chief Executive Officer
Roger Knight - General Manager Marketing

Company Secretary

Terence Flitcroft

Registered Office

Level 2, 27 Macquarie Place,
Sydney, NSW 2000
Telephone: +61 2 9251 3007
Facsimile: +61 2 9251 6550

Auditors

Stirling International
283 - 285 Clarence Street,
Sydney, NSW 2000

Share Registry

Boardroom Pty Limited
Level 7, 207 Kent Street,
Sydney, NSW 2000
Telephone: +61 2 9290 9600
Facsimile: +61 2 9279 0664
www.boardroomlimited.com.au

Legal Advisors

Atanaskovic Hartnell
Level 10,
75-85 Elizabeth Street,
Sydney, NSW 2000

Independent Geological Consultants

Aqua Terra Consultants Inc.
2624 Heartland Drive,
Sheridan,
Wyoming 82801
United States of America

USA Solicitors

Hathaway & Kunz, P.C.
Suite 500, 2515 Warren Avenue,
Cheyenne,
Wyoming 82003-1208
United States of America

Designed by 121creative - Circular Quay

County Coal

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