BLACKWOOD COAL PTY LTD AND CONTROLLED ENTITIES

A.B.N. 75 140 793 988

2011 FINANCIAL REPORT

CONTENTS

DIRECTORS' REPORT

Your Directors present their report on Blackwood Coal Pty Ltd (the "Company") and its controlled entities ("Blackwood", "Group") for the financial year ended 30 June 2011. Comparative information is for the 7 months period ended 30 June 2010.

Directors

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

Mr Arthur Sinodinos (Chairman, appointed 26 July 2010, resigned as Chairman 9 September 2011)

Mr Matthew Phillip Crawford (Managing Director, appointed 26 November 2009)

Mr Keith McKnight (Operations Director, appointed 19 July 2010)

Mr Brice Mutton (Non-Executive Director, appointed 26 July 2010)

Mr Ian Richer (Non-Executive Director, appointed 26 July 2010, appointed as Chairman 9 September 2011)

Mr Pat Elliott (Non-Executive Director, appointed 16 December 2010)

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

Review of Operations

The net loss after tax of the Group for the financial year amounted to $1,760,682 (2010: $214,763).

Significant Changes in the State of Affairs

No significant changes in the Group's state of affairs occurred during the financial year.

Principal Activities

The principal activity of the Group during the financial year was the exploration for and evaluation of coal resources.

Exploration Activities

As at 30 June 2011, Blackwood had a portfolio of 4 granted EPC's and 12 applications. The exploration permits range from advanced exploration with drill ready targets to greenfield lateral opportunities.

Development Activities

The Blackwood technical team commenced desktop geological work on its priority 1 projects in late 2010/early 2011 and commenced drilling at its East Wandoan Project in June 2011. In the six months to December 2011 the team carried out drilling at its Galilee project and stage 2 drilling at East Wandoan and Moorlands projects.

Events Subsequent to the End of the Reporting Period

- In July 2011 and as varied on 22 October 2011, the Company's subsidiary RDB Coal Pty Limited agreed to terms to purchase the assets of ACN Mining Pty Ltd for a cash payment of $4,500,000 and 5,400,000 ordinary shares. The company paid $1,500,000 in July 2011.
- In July 2011, the Company agreed terms to buy 100% of Scorpion Energy Pty Ltd ACN 139 409 957 for a purchase price $3,250,000. The Company paid the $850,000 cash component of the purchase price in July 2011. The remaining $2,400,000 was settled by the issue of 4,467,857 fully paid ordinary shares in Blackwood Coal.
- In August 2011, the Company entered into a loan agreement with Argonaut Resources N.L. for an amount of $800,000 to assist with the working capital requirements of Blackwood. The loan is unsecured, and is for a term of six months from the date of the agreement and interest is payable quarterly at a rate of 14% per annum. The loan was converted to equity in December 2011.
- In September 2011, Cuesta Coal Limited was formed to acquire all the securities on issue of Blackwood Coal Pty Ltd in preparation for public listing. This acquisition was deemed to be a reverse acquisition. For accounting purposes, Blackwood Coal Pty Limited is deemed to be the parent entity while Cuesta Coal is the legal parent entity.
- Subsequent to the year end, the Company issued 23,641,720 ordinary shares for $6,066,501.
- In January 2012, Cuesta Coal Limited agreed terms with Beijing Guoli Energy Investment Co. Ltd (Guoli) and its related entities where Guoli agreed to invest in Cuesta Coal Limited subject to the completion of satisfactory due diligence. The investment is for a total AUD$20 million and is proposed to be made in two stages: AUD$5 million at $0.25 pre-IPO to be completed in January and AUD$15 million at the IPO price under terms of the prospectus.
- In January 2012, the Company agreed terms with Hanuman Investment Pty Limited for a best endeavour undertaking for a pre-IPO placement of up to $1.5 million.
- In March 2012, the Group's IPO offer opened seeking to raise a maximum of $34 million by the offer of 113,333,333 shares at an offer price of $0.30 with a minimum subscription of 80,000,000 shares to raise $24 million.
- As at 30 March 2012, the Group had received firm bids and applications in excess of $24 million from the IPO offer which includes the $15 million from Guoli.

Likely Developments and Expected Results of Operations

Likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report as inclusion of such information is likely to result in unreasonable prejudice to the Group.

Environmental Regulation

The Group is subject to significant environmental regulations under Commonwealth and/or State and/or Territory laws. The Group has not been advised of any environmental breaches during the year.

Dividends

No dividends were paid or declared during the financial year.

Blackwood Coal Pty Ltd and Controlled Entities

DIRECTORS' REPORT

Indemnification of Officers

The constitution of the Company provides an indemnity (to the maximum extent permitted by law) in favour of current and past Directors, Company Secretaries, and all other past and present Executive Officers when acting in these capacities in respect of:

(a) all liabilities to another person (other than the Company or related entities) if the relevant officers have acted in good faith; and

(b) the costs and expenses of successfully defending legal proceedings.

Under Deeds of Access and indemnity, the Company has agreed to indemnify each current Director and each Company Secretary for all liabilities, including legal costs, that may arise as a result of the Director or Company Secretary acting in that capacity to the full extent permitted by law. The indemnities are subject to certain exceptions, including if the person did not act in good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the Directors of the Company in line with the constitution. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

Proceedings on Behalf of the Company

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

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

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

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

Director ______________________

Ian Richer (Chairman)

Dated this 30th day of March 2012

Director ______________________

Matt Crawford (Managing Director)

Dated this 30th day of March 2012

Chartered Accountants
& Business Advisers

Lead auditors' independence declaration under Section 307C of the Corporations Act 2001

To: the Directors of Blackwood Coal Pty Ltd and the entities it controlled during the year

I declare to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and
- no contraventions of any applicable code of professional conduct in relation to the audit.

PKF

Bruce Gordon
Partner

Sydney
30 March 2012

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011	Period ended 30 June 2010
		$	$
Interest received		105,677	77
Accountancy fees		(29,913)	-
Auditors' remuneration		(30,000)	-
Occupancy expenses	3	(32,883)	-
Corporate development expenses		(232,468)	(39,840)
Depreciation and amortisation expense		(9,682)	-
Directors' fees	3	(159,065)	(100,000)
Share based payment - Directors	3	(290,628)	-
Employee expenses		(100,708)	-
Finance costs	3	(279,746)	-
Cost incurred for abandoned equity transaction	3	(554,755)	(75,000)
Other expenses		(146,511)	-
Loss before income tax		(1,760,682)	(214,763)
Income tax expense		-	-
Loss for the year / period		(1,760,682)	(214,763)
Other comprehensive income		-	-
Total comprehensive income for the year / period		(1,760,682)	(214,763)
Total comprehensive income attributable to:			
members of the parent entity		(1,760,682)	(214,763)

Earnings per share

For continuing operations

	Note	2011	Period ended 30 June 2010
Basic earnings per share	21	($0.13)	($2,147.63)
Diluted earnings per share	21	($0.13)	($2,147.63)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Note	2011	2010
		$	$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	3,940,915	345,528
Trade and other receivables	7	309,123	11,561
Other current assets	8	571,379	-
TOTAL CURRENT ASSETS		4,821,417	357,089
NON-CURRENT ASSETS			
Plant and equipment	9	131,976	-
Exploration and evaluation expenditure	10	5,545,831	-
TOTAL NON-CURRENT ASSETS		5,677,807	-
TOTAL ASSETS		10,499,224	357,089
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	11	1,068,857	126,324
TOTAL CURRENT LIABILITIES		1,083,416	126,324
NON-CURRENT LIABILITIES			
Borrowings	12	5,165,767	-
TOTAL NON-CURRENT LIABILITIES		5,165,767	-
TOTAL LIABILITIES		6,234,624	126,324
NET ASSETS		**4,264,600**	**230,765**
EQUITY			
Issued capital	13	1,523,041	445,528
Reserves	19	4,717,004	-
Retained earnings		(1,975,445)	(214,763)
TOTAL EQUITY		**4,264,600**	**230,765**

The accompanying notes form part of these financial statements.

Blackwood Coal Pty Ltd and Controlled Entities

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

	Issued Capital $	Share-based Payment Reserve $	Convertible Notes $	Accumulated losses $	Total $
At date of incorporation	100	-	-	-	100
Loss for the year	-	-	-	(214,763)	(214,763)
Total comprehensive income for the period	-	-	-	(214,763)	(214,763)
Transaction with owners in their capacity as owners					
Shares issued	345,428	-	-	-	345,428
Share-based payments	100,000	-	-	-	100,000
Total transactions with owners and other transfers	445,428	-	-	-	445,528
BALANCE AT 30 JUNE 2010	**445,528**	**-**	**-**	**(214,763)**	**230,765**
Loss for the year	-	-	-	(1,760,682)	(1,760,682)
Total comprehensive income for the year	-	-	-	(1,760,682)	(1,760,682)
Transaction with owners in their capacity as owners					
Shares issued	927,513		-	-	927,513
Share-based payments	150,000	4,006,960			4,156,960
Convertible notes issued	-	-	710,044	-	710,044
Total transactions with owners and other transfers	1,077,513	4,006,960	710,044	-	5,794,517
BALANCE AT 30 JUNE 2011	**1,523,041**	**4,006,960**	**710,044**	**(1,975,445)**	**4,264,600**

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011

	2011 $	Period ended 30 June 2010 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(1,392,100)	-
Interest received	105,754	-
Finance costs	(47)	-
Net cash used in operating activities	(1,286,393)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(141,658)	-
Payment for exploration and evaluation expenditure and deposits for mining licence applications	(1,604,075)	-
Net cash used in investing activities	(1,745,733)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from borrowings	5,700,000	-
Proceeds from share issue, net of share issue costs	927,513	345,528
Net cash provided by financing activities	6,627,513	345,528
Net increase in cash held	3,595,387	345,528
Cash at beginning of financial year/period	345,528	-
Cash at end of financial year/period	**3,940,915**	**345,528**

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 1: Summary of Significant Accounting Policies

Note 1: Summary of Significant Accounting Policies

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

All entities within the Group are small proprietary companies and are domiciled in Australia. The financial statements are presented in English and Australian Dollars, which is the Group's functional and presentation currency. The financial statements are the Group's first financial statements since the date of incorporation.

The financial report was authorised for issue, in accordance with a resolution of directors, on 30 March 2012.

The principal accounting policies adopted in the preparation of the financial statements are set out below.

Historical cost convention

The financial statements have been prepared under the historical cost convention.

a) Acquisition of subsidiaries and businesses

Acquisition of subsidiaries and businesses are accounted for based on the following accounting methods depending the nature of the acquisition.

Business combination

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities assumed by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree.

For each business combination, the acquirer measures the non-controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

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

Acquisition from entities under common control

Transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within the Group's equity. Any cash paid for the acquisition is recognised directly in equity.

Acquisition of subsidiaries deemed not carrying a business

The acquisition of subsidiaries that are deemed not to be carrying on a business, and do not meet the conditions of AASB 3 *Business Combinations*, are recognised at cost and are treated as asset acquisitions depending on the nature of the assets acquired from the subsidiaries.

Note 1: Summary of Significant Accounting Policies (continued)

b) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Blackwood Coal Pty Ltd (the "Company" or "Parent Entity") as at 30 June 2011 and the results of all subsidiaries for the period then ended. Blackwood Coal Pty Ltd and its controlled entities/subsidiaries together are referred to in these financial statements as the "Group" or "Consolidated Entity".

Subsidiaries are all those entities over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The effects of potential exercisable voting rights are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

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

The acquisition of subsidiaries is accounted for using one of the methods prescribed under the Acquisition of subsidiaries and businesses policy above.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

c) Revenue

Interest

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

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Note 1: Summary of Significant Accounting Policies (continued)

d) Income Tax

The income tax expense (revenue) for the period comprises current income tax expense (income) and deferred tax expense (income).

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

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

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

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

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount or the related asset or liability.

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

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

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

The Group is in the process of establishing a tax consolidated group. All entities in the tax consolidated group will enter into a tax sharing agreement in due course to limit the joint and several liabilities of the wholly owned entities in the case of a default by the head entity. The entities will also enter into a tax funding agreement under which the wholly owned entities will fully compensate the head entity for any current tax payable assumed and are compensated by the head entity for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the head entity under the tax consolidation legislation.

e) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

Note 1: Summary of Significant Accounting Policies (continued)

f) Trade and Other Receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

g) Plant and Equipment

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

Plant and equipment

Plant and equipment is measured on the cost basis and is therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount. A formal assessment of the recoverable amount is made when impairment indicators are present.

The cost of fixed assets constructed within the Consolidated Group includes the cost of materials, direct labour, borrowings costs and an appropriate proportion of fixed and variable overheads.

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

Depreciation

The depreciable amount of all fixed assets is depreciated either on a diminishing value basis or on a straight-line basis over the asset's useful life to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

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

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

Note 1: Summary of Significant Accounting Policies (continued)

h) Financial Instruments

Initial recognition and measurement

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

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified "at fair value through profit or loss" in which case transaction costs are expensed to Statement of Comprehensive Income immediately.

Classification and Subsequent Measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest rate method or cost. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

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

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

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

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

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

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

(ii) *Loans and receivables*

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

(iii) Held to maturity investments

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

Note 1: Summary of Significant Accounting Policies (continued)

h) Financial Instruments (continued)

(i) *Available for sale financial assets*

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

They are subsequently measured at fair value with changes is such fair value (ie gains or losses) recognised in other comprehensive income (except for impairment losses and foreign exchange gains and losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

(ii) *Financial liabilities*

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

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in profit or loss. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

Derecognition

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

i) Impairment of Non Financial Assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset’s fair value less costs to sell and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Note 1: Summary of Significant Accounting Policies (continued)

j) Leases

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

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset’s useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

k) Employee Benefits

Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave

The liability for long service leave is recognised in current and non-current liabilities, depending on the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Note 1: Summary of Significant Accounting Policies (continued)

k) Employee Benefits (continued)

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Note 1: Summary of Significant Accounting Policies (continued)

l) Exploration and Evaluation Expenditure

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

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

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

A regular review is undertaken of each area of interest to determine the appropriateness of continued capitalisation for that area of interest.

Costs of site restoration are currently expensed as incurred due to the minimal scouting nature of drilling currently being carried out. Once extensive drill campaigns are planned, costs of site restoration will be provided over the life of the project from when exploration commences and will be included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with local laws and regulations and clauses of the permits.

Such costs will be determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

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

Mining licences

Mining licences are carried at cost less, where applicable, impairment losses and are included as part of exploration and evaluation expenditure.

Mining licences relate to EPCs that have been acquired from other parties and were granted at the date of acquisition.

Mining licence applications which are acquired under a sales and purchase agreement are recognised in the Statement of Financial Position as deposits until the licence is granted. When the mining licences are granted, they be reclassified to mining licences.

The carrying amount of mining licences is reviewed annually by the Directors to ensure that the carrying value of the assets are not in excess of their recoverable amount.

m) Provisions

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

Provisions recognised represent the best estimate of the amounts required to settle the obligation at the end of the reporting period.

Note 1: Summary of Significant Accounting Policies (continued)

m) Provisions

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

Provisions recognised represent the best estimate of the amounts required to settle the obligation at the end of the reporting period.

Restoration provision

Where applicable, a provision for material restoration is recognised on a gradual basis over the life of the mining licences and exploration and evaluation expenditure. The amount recognised includes costs of reclamation and site rehabilitation after taking into account restoration works that are carried out during exploration. Costs are determined from estimated future costs on an undiscounted basis.

n) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on an amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time, is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity as a convertible note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

o) Borrowing Costs

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

p) Trade and other Payables

Trade and other payables represent the liabilities for goods and services received by the Group that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

Deferred consideration

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of acquisition. The discount rate used is based on bond rates under comparable terms and conditions.

Note 1: Summary of Significant Accounting Policies (continued)

q) Goods and Services Tax (GST)

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

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

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

s) Earnings Per Share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Blackwood Coal Pty Ltd, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the financial period.

Diluted earnings per share

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

t) Critical Accounting Estimates and Judgments

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

Key estimate – impairment

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

Note 1: Summary of Significant Accounting Policies (continued)

u) Share-based Payment

When goods or services are acquired in a share-based payment transaction, they are recognised as expenses or assets as determined by the nature of the goods and services received, over the vesting period attached to the equity instrument acquired in the transaction (where applicable). A corresponding increase is recognised in equity as Option Reserve or Share-Based Payment Reserve.

The goods or services are measured by reference to the fair value of the goods or services received, or where this is not possible, indirectly, by reference to the equity instrument acquired. The fair value of equity instrument is measured at grant date.

Performance rights

From time to time the Company may issue Performance Rights. These are equity payments, contingent on a specific future event occurring. Fair value in this instance is the Directors' best estimate of a pre-determined JORC resource being identified from exploration activity on acquired licences.

Performance rights granted to Directors and employees are capitalised to exploration and evaluation expenditure to the extent of their services performed on those activities with a corresponding entry to equity as with other share-based payments.

v) Going Concern

The Group recorded a loss from operations of $1,760,682 for the year ended 30 June 2011 and had cash outflow from operations of $1,286,393. Notwithstanding this the Directors believe the going concern basis for the financial statements is appropriate based on the following:

> In August 2011, the Company entered into a loan agreement with Argonaut Resources N.L. for an amount of $800,000 to assist with the working capital requirements of the Group. This loan was subsequently converted into equity in December 2011;

> Cuesta Coal Limited entered into the Subscription Agreement with Beijing Guoli Energy Investment Co. Ltd (Guoli) and its related entities for a pre-IPO placement of $5.0 million;

> In January 2012, Cuesta Coal Limited agreed terms with Hanuman for a best endeavour undertaking for a pre-IPO placement of approximately $1.5 million; and

> In March 2012**,** Cuesta Coal Limited (refer to Note 20) opened its IPO offer to raise up to $30.0 million, being the Maximum Subscription ($34.0 million) less repayment of the Sell Down of Transfer Shares ($4.0 million). As at 30 March 2012, the Group had received firm bids and applications in excess of $24 million from the IPO offer which includes the $15 million from Guoli**.**

The Directors believe these strategies will ensure that the Group is able to pay its debts as and when they fall due in the ordinary course of business as well as providing sufficient cash flow for the Group to continue to invest in its exploration and evaluation assets.

w) Parent Entity Information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 2.

Note 1: Summary of Significant Accounting Policies (continued)

x) Adoption of new and revised Australian Accounting Standards

As at the date of this report there are a number of new accounting standards and Interpretations that have been issued but are not yet effective as detailed below:

AASB No.	Title	Issue Date	Operative Date (Annual reporting periods beginning on or after)
9	Financial Instruments	Dec 2010	1 Jan 2013
10	Consolidation	Jun 2011	1 Jan 2013
11	Joint Arrangements	Jun 2011	1 Jan 2013
12	Disclosure of Interests in Other Entities	Jun 2011	1 Jan 2013
13	Fair Value Measurement	Jun 2011	1 Jan 2013
1053	Application of Tiers of Australian Accounting Standards	Jun 2010	1 Jul 2013
2009 – 12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	Dec 2009	1 Jan 2011
2010 – 2	Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	Jun 2010	1 Jul 2013
2010 – 4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13]	Jun 2010	1 Jan 2011
2010 – 5	Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	Oct 2010	1 Jan 2011
2010 – 6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]	Nov 2010	1 Jul 2011
2010 – 7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]	Dec 2010	1 Jan 2013
2010 – 8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]	Dec 2010	1 Jan 2012
2010 – 9	Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [AASB 1]	Dec 2010	1 Jul 2011
2010 – 10	Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters [AASB 2009-11 & AASB 2010-7]	Dec 2010	1 Jan 2013

Note 1: Summary of Significant Accounting Policies (continued)

y) Adoption of new and revised Australian Accounting Standards (continued)

AASB No.	Title	Issue Date	Operative Date (Annual reporting periods beginning on or after)
2011 - 1	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132 & AASB 134 and Interpretations 2, 112 & 113]	May 2011	1 Jul 2011
2011 - 2	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements [AASB 101 & AASB 1054]	May 2011	1 Jul 2013

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the consolidated entity.

NOTE 2: PARENT INFORMATION

	2011	2010
	$	$
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current assets	4,705,519	357,089
Non-current assets	5,787,131	-
TOTAL ASSETS	10,492,650	357,089
LIABILITIES		
Current liabilities	936,622	126,324
Non-current liabilities	5,165,767	-
TOTAL LIABILITIES	6,102,390	126,324
EQUITY		
Issued capital	1,523,041	445,528
Convertible notes	710,044	-
Share-based payment reserve	4,006,960	-
Accumulated losses	(1,849,784)	(214,763)
TOTAL EQUITY	4,390,261	230,765

	2011	Period ended 30 June 2010
	$	$
STATEMENT OF COMPREHENSIVE INCOME		
Net loss for the year / period	(1,635,021)	(214,763)
Total comprehensive income for the year / period	(1,635,021)	(214,763)

Guarantees

Blackwood Coal Pty Ltd has not entered into any guarantees, in the current or previous financial year, in relation to the debts of its subsidiaries.

NOTE 3: LOSS BEFORE INCOME TAX

		2011	Period ended 30 June 2010
		$	$
a.	**Expenses**		
	Interest expense:		
	- interest payable to convertible note holder	103,889	-
	- unwinding of interest on the convertible notes	175,857	
	Total interest expense	279,746	-
	Rental expense on operating leases:		
	- minimum lease payments	32,883	-
	Total rental expense	32,883	-
b.	**Significant Expenses**		
	The following significant expense items are relevant in explaining the financial performance:		
	Costs incurred for abandoned equity transaction	554,755	75,000
	Directors' remuneration		
	- payable in cash	159,065	-
	- payable in shares	150,000	100,000
	- performance shares (expensed)	140,628	-
	Corporate consulting fees	158,180	-

NOTE 4: INCOME TAX EXPENSE

	2011	Period ended 30 June 2010
	$	$
The prima facie tax on loss from ordinary activities is reconciled to the income tax as follows:		
Net Loss for the year/period	(1,760,682)	(216,763)
Prima facie tax benefit on loss from ordinary activities before income tax at 30%	(528,205)	(65,029)
Add/ (Less):		
Tax effect of:		
-other non-deductible items	6,657	19,743
-other deductible items	-	(77)
	6,657	19,666
Tax effect of losses not brought to account	521,548	59,129
Income tax expense	-	-
Total income tax losses for which no deferred tax asset has been recognised	1,935,590	197,097

The potential future income tax benefits arising from tax losses and timing difference has not been recognised as an asset because it is not probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised.

The potential future income tax benefit will be obtained if:

i. The relevant Company derives future assessable income of a nature an amount sufficient to enable the benefit to be realised, or the benefit can be realised by another Company in the Group in accordance with Division 170 of the Income Tax Assessment Act 1997;

ii. The relevant Company and/ or Group continues to comply with the conditions for deductibility imposed by the law; and

iii. No changes in tax legislation adversely affect the Company and/ or the Group in realising the benefit.

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

The totals of remuneration paid to key management personnel (KMP) of the Group during the year are as follows:

	2011	Period ended 30 June 2010
	$	$
Short-term employee benefits	510,073	-
Post-employment benefits	-	-
Other long-term benefits	325,527	100,000
	835,600	100,000

NOTE 6: CASH AND CASH EQUIVALENTS

	2011	2010
	$	$
Cash at bank and in hand	3,690,915	345,528
Short-term bank deposits	250,000	-
	3,940,915	345,528

The effective interest rate on the short-term bank deposit was 4.75% (2010: n/a)

Risk Exposure

The Group's exposure to interest rate risk is discussed in note 18. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

Reconciliation of cash

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to items in the statement of financial position as follows:

Cash and cash equivalents	3,940,915	345,528
	3,940,915	345,528

NOTE 7: TRADE AND OTHER RECEIVABLES

	2011	2010
	$	$
GST receivable	232,955	11,484
Prepayments	41,194	-
Other receivables	34,974	77
	309,123	11,561

Other receivables

The other receivables do not contain impaired assets and are not past due. Based on the credit history of the other receivables, it is expected that these amounts will be received when due. The Group does not hold any collateral in relation to these receivables.

Fair value and credit risk

Due to the short-term nature of the trade and other receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above. Refer to note 18 for more information on the risk management policy of the Group and credit quality of the receivables.

NOTE 8: OTHER CURRENT ASSETS

	2011	2010
	$	$
CURRENT		
Deposit on Applications for Mining Licences	409,211	-
Deposit for Scorpion Energy Pty Ltd (refer to Note 20)	162,168	-
	571,379	-

NOTE 9: PLANT AND EQUIPMENT

	2011	2010
	$	$
Plant and Equipment		
Plant and equipment at cost	141,658	-
Less accumulated depreciation	(9,682)	-
	131,976	-

NOTE 10: EXPLORATION AND EVALUATION EXPENDITURE

	2011	2010
	$	$
Exploration and evaluation expenditure		
Opening balance	-	-
Additions during the year	5,545,831	-
Impairment loss	-	-
	5,545,831	-

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

NOTE 11: TRADE AND OTHER PAYABLES

	2011	2010
	$	**$**
CURRENT		
Trade payables	172,342	126,324
Sundry payables and accrued expenses	145,824	-
Deferred consideration - vendor payments	646,802	-
Interest payable on convertible loan notes	103,889	-
	1,068,857	126,324

NOTE 12: BORROWINGS

	2011	2010
	$	**$**
NON-CURRENT		
Convertible notes - unsecured	5,165,767	-
	5,165,767	-

Blackwood has 20,000,000 convertible notes on issue.

The terms of the convertible notes are as follows :

- interest payable is based on interest earned by the company;
- redeemable at full value ($6,000,000) at earlier of :-

  a) 31 December 2012; or

  b) The date of commencement of official quotation of any Equity Security of the Company by the ASX.
- the convertible notes converts to one ordinary share and one option. The option's exercise price is $0.50 and is exercisable up to 31 December 2015.
- conversion is at the option of the holders.

Fair value of convertible notes granted

The fair value of the convertible notes on issue has been determined by using the effective interest method to discount the face value of the convertible notes being $6,000,000 to its net present value.

NOTE 13: ISSUED CAPITAL

	2011	2010
	$	$
a. 15,730,479 (2010: 3,527,242) fully paid ordinary shares		
Ordinary Shares		
At the beginning of year / date of incorporation	445,528	-
Shares issued during the year / period	1,077,513	445,528
At the end of the reporting period	1,523,041	445,528

	No.	No.
At the beginning of year / date of incorporation	3,527,242	-
Shares issued during the year / period	11,264,728	3,527,242
Conversion of options	-	-
At the end of the year / period	14,791,970	3,527,242

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

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

NOTE 13: ISSUED CAPITAL (CONT'D)

	2011	2010
	$	$
b. Convertible Notes		
At the beginning of year / date of incorporation	-	-
Issued during the year / period	710,044	-
At the end of the year / period	710,044	-

c. Share-based Payments Reserve

	2011	2010
	$	$
At the beginning of year / date of incorporation		-
Granted during the year / period	4,006,960	-
At the end of the year / period	4,006,960	-

NOTE 14: CAPITAL AND LEASING COMMITMENTS

	2011	2010
	$	$
a. Operating lease commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements:		
Payable-minimum lease payments:		
— Not later than 12 months	72,856	-
— Between 12 months and five years	50,007	-
— Greater than 5 years	-	-
	122,863	-

The operating lease is a non-cancellable 2 year property lease with an option to renew for a further 2 years.

NOTE 15: EXPLORATION EXPENDITURE COMMITMENTS

	2011	2010
	$	$
Payables		
Due within one year	370,000	-
Due within 1 – 2 years	430,000	-
Due within 2 – 5 years	425,000	-
Due more than 5 years	98,000	-
	1,323,000	-

The exploration expenditure commitments relate to the Group's share of exploration and evaluation expenditure required to comply with the licence terms issued by the relevant regulatory body.

These obligations may be subject to re-negotiation, may be farmed out or may be relinquished and have not been provided for in the financial statements.

NOTE 16: SUBSIDIARIES

	Country of Incorporation	Percentage Owned 2011 %	Percentage Owned 2010 %
Parent Entity:			
Blackwood Coal Pty Ltd	Australia		
Subsidiaries:			
Blackwood Resources Pty Ltd	Australia	100	-
Blackwood Exploration Pty Ltd	Australia	100	-
RBD Coal Pty Ltd	Australia	100	-

Blackwood Resources Pty Limited

During the year the company acquired Blackwood Resources Pty Limited ("BRP") by way of a flip up deed on 21 July 2010. BRP was a company under common control with the majority shareholder being Albion Ballymore Pty Limited. As this is a company under common control the flip up transaction falls outside of AASB 3 "Business Combinations" and as such the equity in BRP has been transferred to Blackwood Coal Pty Limited and the initial shareholders of BRP replaced their shareholding in BRP with equity in Blackwood Coal Pty Limited.

Blackwood Exploration Pty Limited

During the year the company acquired Blackwood Exploration Pty Limited ("BRE") by way of a flip up deed on 21 July 2010. BRE was a company under common control with the majority shareholder being Albion Ballymore Pty Limited. As this is a company under common control the flip up transaction falls outside of AASB 3 "Business Combinations" and as such the equity in BRE has been transferred to Blackwood Coal Pty Limited and the initial shareholders of BRE replaced their shareholding in BRE with equity in Blackwood Coal Pty Limited.

NOTE 17: CASH FLOW INFORMATION

	2011	Period ended 30 June 2010
	$	$
Reconciliation of cash flow from operations with loss after income tax		
Loss after income tax	(1,760,682)	(214,763)
Adjustment for non-cash flows items:		
— Depreciation	9,682	-
— Convertible note interest	175,811	-
— Share based payments	290,628	100,000
Changes in assets and liabilities:		
— (Increase)/ decrease in prepayments	(41,193)	-
— (Increase)/ decrease in other receivables	(34,897)	(11,561)
— Increase/ (decrease) in payables	46,017	126,324
— Increase/ (decrease) in other payables	196,455	-
— Increase/ (decrease) in gst clearing account	(221,471)	-
— Increase/ (decrease) in accruals	53,257	-
Net cash used in operating activities	(1,286,393)	-

NOTE 18: FINANCIAL RISK MANAGEMENT

Financial Risk Management Policies

The Director's overall risk management strategy seeks to assist the Company in meeting its financial targets, while minimising potential adverse effects on financial performance. Risk management policies are approved and reviewed by the Board of Directors on a regular basis. These include the credit risk polices and future cash flow requirements.

The main purpose of non-derivative financial instruments is to raise finance for Company operations. The Company does not have any derivative instruments at 30 June 2011.

Senior Executives of the Group meet on a regular basis to analyse financial risk exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts. The overall risk management strategy seeks to assist the Group in meeting its financial targets, while minimising potential adverse effects on financial performance.

Risk management policies are approved and reviewed by the Directors on a regular basis. These include credit risk policies and future cash flow requirements.

Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk relating to interest rate risk.

a. **Credit Risk**

Exposure to credit risk relating to financial assets arises from the potential no-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating

Credit Risk Exposure

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

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

NOTE 18: FINANCIAL RISK MANAGEMENT (CONT'D)

b. **Liquidity Risk**

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

- Preparing forward-looking cash flow analyses in relation to its operational, investing and financial activities;
- Obtaining funding from a variety of sources; Maintaining a reputable credit profile;
- Only investing surplus cash with major financial institutions; and
- Comparing the maturity profile of financial liabilities with the realisation profile of financial assets

The table below reflects an undiscounted contractual maturity analysis for financial liabilities.

Cash flows realised from financial assets reflect Management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflect the earliest contractual settlement dates

Group	Within 1 Year		After 1 to 5 Years		Total	
Financial liabilities due for payment	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $
Trade and other payables	1,068,857	126,324	-	-	1,068,857	126,324
Borrowings	-	-	5,165,767	-	5,165,767	-
Total expected outflows	1,068,857	126,324	5,165,767	-	6,234,624	126,324
Group						
Financial assets- cash flows realisable						
Cash and cash equivalents	3,940,915	345,528	-	-	3,940,915	345,528
GST Receivable	232,955	11,484	-	-	232,955	11,484
Total anticipated inflows	4,173,870	357,012	-	-	4,173,870	357,012
Net position on financial instruments	3,105,013	230,688	(5,165,767)	-	(2,060,754)	230,688

NOTE 18: FINANCIAL RISK MANAGEMENT (CONT'D)

c. **Market risk**

Price risk sensitivity analysis

The Group is currently in the exploration phase and is not in production therefore movements in commodity prices would not have a material impact on the Statement of Comprehensive Income for the year.

NOTE 19: RECONCILIATION OF MOVEMENT IN RESERVES

	Convertible Notes	Share-based Payments	Total
	$	**$**	**$**
At date of incorporation	-	-	-
Balance at 30 June 2010/1 July 2010	**-**	**-**	**-**
Equity portion of convertible notes (note 12)	710,044	-	710,044
Share based payment	-	4,006,960	4,006,960
Balance at 30 June 2011	**710,044**	**4,006,960**	**4,717,004**

NOTE 20: EVENTS AFTER THE REPORTING PERIOD

- In July 2011 and as varied on 22 October 2011, the Company's subsidiary RDB Coal Pty Limited agreed to terms to purchase the assets of ACN Mining Pty Ltd for a cash payment of $4,500,000 and 5,400,000 ordinary shares. The company paid $1,500,000 in July 2011.
- In July 2011, the Company agreed terms to buy 100% of Scorpion Energy Pty Ltd ACN 139 409 957 for a purchase price $3,250,000. The Company paid the $850,000 cash component of the purchase price in July 2011. The remaining $2,400,000 was settled by the issue of 4,467,857 fully paid ordinary shares in Blackwood Coal Pty Ltd.
- In August 2011, the Company entered into a loan agreement with Argonaut Resources N.L. for an amount of $800,000 to assist with the working capital requirements of Blackwood. The loan is unsecured, and is for a term of six months from the date of the agreement and interest is payable quarterly at a rate of 14% per annum. The loan was converted to equity in December 2011.
- In September 2011, Cuesta Coal Limited was formed to acquire all the securities on issue of Blackwood Coal Pty Ltd in preparation for public listing. This acquisition was deemed to be a reverse acquisition. For accounting purposes, Blackwood Coal Pty Limited is deemed to be the parent entity while Cuesta Coal is the legal parent entity.

  The acquisition of the Blackwood Coal Pty Ltd by Cuesta Coal Limited does not meet the conditions of AASB 3 *Business Combinations* as Cuesta Coal Limited is not conducting a business and therefore the transaction is recorded at cost. No goodwill or any adjustment to fair value is recognised on the acquisition. The assets and liabilities acquired are recognised at the carrying amounts recognised previously by Blackwood Coal.
- Subsequent to the year end, the Company issued 23,641,720 ordinary shares for $6,066,501.
- In January 2012, Cuesta Coal Limited agreed terms with Beijing Guoli Energy Investment Co. Ltd (Guoli) and its related entities where Guoli agreed to invest in Cuesta Coal Limited subject to the completion of satisfactory due diligence. The investment is for a total AUD$20 million and is proposed to be made in two stages: AUD$5 million at $0.25 pre-IPO to be completed in January and AUD$15 million at the IPO price under terms of the prospectus.
- In January 2012, the Cuesta Coal Limited agreed terms with Hanuman Investment Pty Limited for a best endeavour undertaking for a pre-IPO placement of up to $1.5 million.
- In March 2012, the Group's IPO offer opened seeking to raise a maximum of $34 million by the offer of 113,333,333 shares at an offer price of $0.30 with a minimum subscription of 80,000,000 shares to raise $24 million.
- As at 30 March 2012, the Group had received firm bids and applications in excess of $24 million from the IPO offer which includes the $15 million from Guoli.

NOTE 21: EARNINGS PER SHARE

	2011	Period ended 30 June 2010
	$	$
Basic/ Diluted loss per share	0.13	2,147.63

Reconciliation of losses used in calculating loss per share:

Loss attributable to the ordinary equity holders of the company		
Used in calculating basic earnings per share	1,760,682	214,763
Loss attributable to the ordinary equity holders of the company		
Used in calculating basic earnings per share	1,760,682	214,763

Weighted average number of shares used as the Denominator	**No.**	**No.**
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	13,051,560	100
Adjustment for calculation of diluted earnings per share	-	-
	13,051,560	100

Options are considered potential ordinary shares for the purposes of diluted earnings per share. However at 30 June 2011 and 30 June 2010, based on the circumstances of the Group, the options are not considered dilutive and therefore have not been used in the calculation of diluted earnings per share.

DIRECTORS' DECLARATION

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;

- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and

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

Signed in accordance with a resolution of directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the directors

Director ______________________

Ian Richer (Chairman)

Dated this 30th day of March 2012

Director ______________________

Matthew Crawford (Managing Director)

Dated this 30th day of March 2012

Chartered Accountants
& Business Advisers

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF BLACKWOOD COAL PTY LTD

Report on the Financial Report

We have audited the accompanying financial report of Blackwood Coal Pty Ltd, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies, other explanatory information, and the directors' declaration of Blackwood Coal Pty Ltd (the company) and the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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*.

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Level 10, 1 Margaret Street | Sydney | New South Wales 2000 | Australia

PKF

Opinion

In our opinion:

(a) the financial report of Blackwood Coal Pty Ltd is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

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

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

PKF

Bruce Gordon
Partner

Sydney
30 March 2012

CORPORATE DIRECTORY

DIRECTORS

Mr Arthur Sinodinos (Chairman, appointed 26 July 2010, resigned as Chairman 9 September 2011)

Mr Matthew Phillip Crawford (Managing Director, appointed 26 November 2009)

Mr Keith McKnight (Operations Director, appointed 19 July 2010)

Mr Brice Mutton (Non-Executive Director, appointed 26 July 2010)

Mr Ian Richer (Non-Executive Director, appointed 26 July 2010, appointed as Chairman 9 September 2011)

Mr Pat Elliott (Non-Executive Director, appointed 16 December 2010)

COMPANY SECRETARY

Mr Richard Hill (appointed on 25 May 2011)

REGISTERED OFFICE

Blackwood Coal Pty Ltd

Level 15, 31 Market Street

Sydney, NSW, 2000

PRINCIPAL PLACE OF BUSINESS

Blackwood Coal Pty Ltd

Level 15, 31 Market Street

Sydney, NSW, 2000

AUDITORS

PKF

Chartered Accountants & Business Advisors

1 Margaret Street

Sydney, NSW, 2000