stanmorecoal

ANNUAL REPORT 2012

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Note 1 Marketable Reserves Note: The Marketable Coal Reserves of 94 Mt is derived from a JORC compliant run of mine (ROM) Probable Coal Reserve of 117.5 Mt based on a 14.8% ash product and predicted yield of 80%. The 94 Mt Marketable Reserve is included in the 260 Mt total JORC Resource (184 Mt Indicated + 76 Mt Inferred Resource).

Note 2 Exploration Target Note: All statements as to exploration targets of Stanmore Coal and statements as to potential quality and grade are conceptual in nature. There has been insufficient exploration undertaken to date to define a coal Resource and identification of a Resource will be totally dependent on the outcome of further exploration. Any statement contained in this report as to exploration results or exploration targets has been made consistent with the requirements of the Australasian code for reporting of exploration results, mineral resources and ore reserves (JORC Code).

Competent Persons Statement: The information in this report relating to exploration results and coal resources is based on information compiled by Mr Wes Nichols who is a member of the Australasian Institute of Mining and Metallurgy and is a full time employee of Stanmore Coal. Mr Nichols is a qualified geologist and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking, to qualify as a Competent Person as defined in the 2004 Edition of the JORC Code. Mr Nichols consents to the inclusion in this document of the matters based on the information, in the form and context in which it appears. The information in this report relating to coal reserves is based on information compiled by Mr Richard Hoskings who is a member of Minserve Pty Ltd. Mr Hoskings is a mining engineer, a Fellow of the Australian Institute of Mining and Metallurgy (AusIMM) and has the relevant experience (30+ years) in relation to the mineralisation being reported to qualify as a Competent Person as defined in the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The JORC Code 2004 Edition)". Mr Hoskings consents to the inclusion in the report of the matters based on the information, in the form and context in which it appears.

DELIVERING ON OUR GOALS

The 2011/12 financial year has been one of significant achievements for Stanmore Coal.

The Company is pleased to have delivered significant progress across its portfolio. The Range project has brought Stanmore closer to the goal of becoming a major coal producer, with the allocation of 5 Mtpa port capacity and completion of due diligence on the Surat Basin Rail. Resource upgrades have been achieved for The Range, Belview and Mackenzie projects and extensive drilling programs have seen strong results. Here is a snapshot of this year's achievements.

1. The Range

- Over 300 holes now drilled
- Bankable Feasibility Study underway
- 94 Mt JORC Marketable Reserve[1], 260 Mt Total JORC Resource (184 Mt Indicated + 76 Mt Inferred)
- Capacity Commitment Deed executed with WICET

2. Northern Surat Basin

- Initial Exploration Targets[2] of 130–195 Mt defined within two key areas
- An exploration program is now being planned to define JORC Resources and additional Exploration Targets[2]

3. Belview

- 95 Mt initial JORC Inferred Resource
- Concept Study completed: 3.4 Mtpa ROM production, $907 million capital cost and $104/t FOB cost (ex royalty)
- Planning underway to test the additional Exploration Target[2] of 205–345 Mt

4. Mackenzie

- 143 Mt Total JORC Resource (25.7 Mt Indicated + 117.5 Mt Inferred)
- Test work continues to investigate most likely economic targets within the 27 km long project area

5. Tennyson

- Drilling, coal quality testing and geological modelling continues with the aim of defining an initial JORC Inferred Resource H2, 2012
- Exploration Target[2] of 220–290 Mt

6. Kerlong

- One drill hole has been completed
- Coal quality analysis has commenced

7. WICET Expansion Phase 1

- Capacity Commitment Deed executed with WICET for 5 Mtpa capacity
- Funding to satisfy required feasibility bid bonds and early work obligations for WICET is now in place

8. Surat Basin Rail (SBR)

- Due diligence process completed and 5 Mtpa capacity offered subject to WICET allocation and ongoing compliance with SBR terms and conditions
- Funding to satisfy required feasibility bid bonds and early work obligations for SBR is now in place

9. JV Partnerships & Funding

- Secured $36 million through placement and cooperation agreement with Sprint Capital
- $25 million debt facility secured with Credit Suisse
- NEDO grant and new relationship with Taiheiyo
- $24 million capital raising

CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholders,

It is a pleasure to be presenting this third annual report to you on behalf of the Board of Directors and management of Stanmore Coal. During the 12 months since I last reported to you, the Company has made significant progress in delivering on its strategy of becoming a world class coal company. The Company advanced its flagship project, The Range, having completed a positive Pre-Feasibility Study (PFS) and enhanced the project's resource base through further drilling activity in 2012. We secured 5 Mtpa of port capacity in Wiggins Island Coal Terminal (WICET) Expansion Stage 1 (WEXP1) and are well advanced in negotiations with above and below rail providers to support The Range project.

We continued to enhance the Company's total resource base across both the Surat and Bowen Basins with total JORC compliant resources at year end of 498.2 Mt and further Exploration Targets[2] of between 615 Mt and 900 Mt across the portfolio.

With the support of its shareholders, the Company is strategically and financially well positioned to continue delivering its strategy in what we expect to be challenging market conditions over the short to medium term. The Company is well funded and one of only a few developers who can demonstrate a firm "pit to port solution" for its initial projects.

SAFETY

Directly and through its contractors, the Company completed 50,000 hours of exploratory drilling activity with only four reportable safety incidents during that period. These four minor incidents comprised three near misses and one minor first aid case. The Company's lost time injury frequency rate for the year was nil. Whilst this was an excellent safety performance during the period, we continue to invest in enhancing the Company's health and safety systems. Conducting our exploration and development activities within a safe working environment for the Company's employees and other stakeholders remains a critical part of the Company's business strategy.

RESOURCES

The Company invested $14 million of shareholder funds in exploratory drilling during the period and we are pleased to report an increase in JORC reportable resources of 180 million tonnes to 498 million tonnes (209.7 Mt JORC Indicated Resource and 288.5 Mt JORC Inferred Resource), up from a 318 Mt JORC Inferred Resource in the prior year. We have also established a 94 Mt Marketable Reserve[1] derived from a JORC compliant run of mine Probable coal Reserve[1] of 117.5 Mt at the Range Project.

THE RANGE PROJECT PFS

The PFS at The Range was completed in November 2011 and confirmed the technical and economic feasibility of the project. The study increased the mine life to 26 years (from 18 years in the Concept Study) and highlighted improved economics through identification of seams of clean coal which can bypass the coal washing process. The study continued to highlight the underlying value of The Range deposit and the Board is confident that the resource can be successfully commercialised. In this regard, the Company has commenced a bankable feasibility study which will support a development strategy with detailed estimates for both capital and operating costs. The Board anticipates a favourable outcome from the bankable study and will continue the process to secure a joint venture partner for the project. The Company is conscious of the need to deliver a project with a competitive cost structure that will be profitable during periods of volatility in commodity prices.

OTHER DEVELOPMENT OPPORTUNITIES

The Company is committed to progressing its exploration assets to the development stage when the Board is satisfied that it is economically feasible to do so. During the year, the Company completed a Conceptual Mining Study (CMS) on the Belview underground coking coal project. As part of that study, initial drilling and coal quality analysis has identified a largely continuous 6 m seam of high quality coking coal. The Board believes Belview represents a significant opportunity for the Company and the project has already attracted substantial interest from international steel producers.

Substantial beneficiation and coal quality analysis was undertaken during the period on the Mackenzie Project to address sub-optimal product yields observed after the 2011 drilling program. There is a significant body of work on optimisation of mining methods and coal liberation techniques which will be brought together in a concept study to verify the potential project economics.

PORT AND RAIL INFRASTRUCTURE

Management successfully negotiated 5 Mtpa of port capacity through the WEXP1 to support The Range Project. The Range project has also satisfied the relevant due diligence criteria which will allow it to secure rail capacity on both the QR National system and the proposed Surat Basin Rail (SBR). Subject to ongoing compliance with the capacity allocation rules applicable to each system, the Company is confident of contracting rail capacity in FY13.

CAPITAL MANAGEMENT

The Company continued to benefit from strong support from its shareholders during the year raising $24 million from an institutional placement and share purchase plan in December 2011 and January 2012. These funds were deployed in undertaking the Bankable Feasibility Study (BFS) for The Range as well as further exploration drilling across several prospective assets.

In April 2012, in conjunction with Taiheiyo Kouhatsu Inc. (Taiheiyo), Stanmore Coal secured a grant of $1.2 million from NEDO (a subsidiary of the Japanese Government's Ministry of Economy, Trade and Industry). The agreement included a total supply commitment of 400,000 tonnes over the first three years of production. Supply of this coal will enable an entry to the premium Japanese market for The Range coal.

In June 2012, the Company entered into agreements which will result in Sprint Capital Partners (Sprint Capital) providing $36 million of funding through a combination of equity and convertible notes. Sprint Capital is a Hong Kong based private equity firm that is focused on undertaking investments in the mining and resources sector. The first tranche of $13 million has already been received from Sprint Capital, with the remainder subject to shareholder approval. Sprint Capital have indicated their intention to provide ongoing strategic and financial support to the Company as its cornerstone shareholder.

The capital provided by Sprint Capital will be combined with $25 million of senior debt finance from Credit Suisse, AG and allows the Company to satisfy its bid bond and early works funding commitments for WEXP1.

TEAM

We have continued to strengthen the team at Stanmore Coal with several key appointments made during the year. It is a testament to the quality of the projects and existing team that we continue to recruit high calibre professionals. The Board thanks the management team and staff for their loyalty and hard work.

CHANGES TO THE OPERATING ENVIRONMENT

Regulatory changes enacted during the past 12 months, particularly to the taxation regime, continue to challenge the economics of new generation coal development projects. However, the Board is confident in the fundamental value of the Company's coal deposits and believes that Queensland will continue to benefit from long term global competitive advantage in terms of coal quality and freight cost differentials to Asian markets.

The depressed short term outlook for both metallurgical and thermal coal pricing does however present opportunities as organisations re-evaluate their portfolios and assets are rationalised. In conjunction with Sprint Capital, the Company will judiciously pursue opportunities where the acquisition of assets adjoining the Company's existing projects will improve project economics or the quality of the Company's resource base.

OUTLOOK

The next 12 months will present both challenges and new opportunities as we continue to progress our existing portfolio of projects and pursue strategic opportunities as they arise. We will continue to seek to introduce joint venture partners and off-take customers to our projects to assist with funding and development. We will also continue drilling our prospective Bowen Basin tenements at Belview, Tennyson and Kerlong and complete the next stage of studies for The Range, Belview and Mackenzie projects.

The potential for continued economic and resource market volatility is likely to provide short term challenges for project funding for all coal developers. However it also gives us the opportunity to construct our mines and related infrastructure at a more globally competitive cost base, something that has not been possible in this country in recent years. We plan to strengthen the Company through any continued downturn, selectively adding to our asset base where acquisitions are value accretive to Stanmore Coal.

The Board's view is that the operating environment will improve as thermal coal prices stabilise in the medium term and excess capacity (producer and infrastructure) is eliminated by the combination of continued Asian demand growth and the rationalisation of excess supply.

We thank the shareholders of Stanmore Coal for your continued support and encourage you to participate in the next phase of the Company's development.

Neville Sneddon
Chairman

SUSTAINED GROWTH

Across all our assets.

The Stanmore portfolio of tenements is rich in opportunity and the company has worked diligently throughout the year to ensure success across all of our projects. Programs to drill, test, model and expand our resources, as well as studies to assess the environmental impacts and economic feasibility of our projects continue as we look to maximise the potential of all our assets.


13-F1

FORGING
STRONG PARTNERSHIPS

The company has established strong industry ties with several initiatives implemented in 2012.

In April, Stanmore Coal secured a grant of $1.2 million from NEDO/Taiheiyo (a subsidiary of the Japanese Government's Ministry of Economy, Trade and Industry) and also agreed to a supply commitment to the Japanese market, over the first three years of production for The Range coal. In June $61 million of additional funding was raised from Sprint Capital and Credit Suisse. Under a cooperation agreement with Sprint Capital further funding can be provided for project development and growth through acquisition opportunities.

REVIEW OF OPERATIONS

The year in review

During the year Stanmore Coal made significant progress towards its goal of becoming a major coal producer, having significantly increased its resource base, secured essential port infrastructure for its flagship project The Range and introduced a new cornerstone shareholder to underpin its growth activities moving forward.

RESOURCES, RESERVES AND EXPLORATION TARGETS

Stanmore Coal currently has eight coal projects within the Bowen and Surat Basins in Queensland. These projects host significant deposits of metallurgical and thermal coal. All projects are located close to existing or planned rail and port facilities. The year ended with the Company reporting the following Reserves, Resources and Exploration Targets:

Project	JORC Marketable Coal Reserve[1]	JORC Recoverable Coal Reserve[1]	JORC Indicated Resource	JORC Inferred Resource	Additional Exploration Target[2]	
					Low	High
The Range (Thermal)	94.2	117.5	184	76	60	70
Mackenzie (Coking)	-	-	25.7	117.5	-	-
Belview[4] (Coking)	-	-	-	95.0	205	345
Tennyson (Thermal/Coking)	-	-	-	-	220	290
North Surat Basin (Thermal)	-	-	-	-	130	195
Totals	**94.2**	**117.5**	**209.7**	**288.5**	**615**	**900**

The Company's total JORC Resource base of 498.2 Mt has increased by 180 Mt when compared with the prior year as a result of the following key initiatives:

- The final laboratory and geological modelling results from the 2011 drilling at The Range Project resulted in a 22% increase in the JORC Indicated Resource and a 14% increase in total JORC Resource to 260 Mt (184 Mt Indicated + 76 Mt Inferred);
- The Company defined an initial 95 Mt JORC Inferred Resource at its Belview underground high quality coking coal project; and
- An initial 25.7 Mt of JORC Indicated Resource was defined at Mackenzie along with a 45% increase in the Total JORC Indicated + Inferred Resource to 143.2 Mt.

THE RANGE PROJECT PRE-FEASIBILITY STUDY

The results of a PFS at The Range demonstrated improved project economics and operating parameters when compared against the CMS completed in the previous year. Capital costs have remained within expectations while operating costs were slightly reduced. Based on drilling and lab analysis work conducted to support the PFS, an initial 94 Mt Marketable Reserve[1] statement was delivered for the project.

The Range PFS concluded that the mine life would extend to 26 years (up from 18 in the CMS) with a Net Present Value of $846 million for the owner mining case. Production of a high quality export thermal coal is planned to commence in 2016 with a ramp up to the full production rate of 5 Mtpa shortly thereafter.

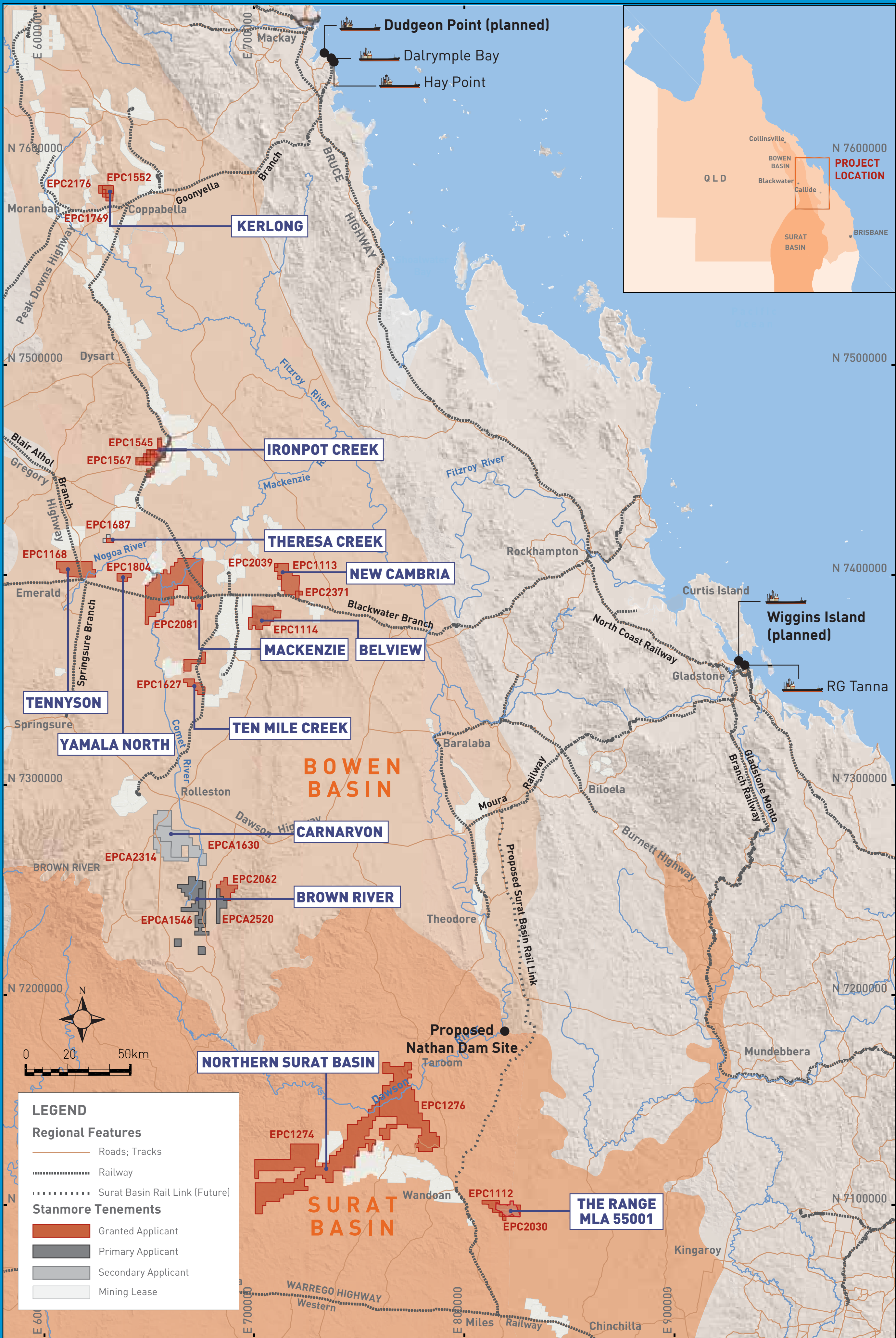
A BFS was commenced in July 2012 and is now targeted for completion in quarter 2 FY13.

BELVIEW PROJECT CONCEPTUAL MINING STUDY

Stanmore Coal completed a CMS for the Belview coking coal project based on 3.4 Mtpa Run of Mine (ROM) coal produced from a multi-shaft, single longwall operation. The Belview coal resource occurs within the Rangal Coal Measures and contains two seams for potential underground extraction, the Aries seam (2–3 m thick) and the Gemini seam (5–6 m thick). Operating costs are estimated at A$104/t (excl. royalties) and the capital cost is estimated at A$907 million.

PORT AND RAIL INFRASTRUCTURE

Stanmore Coal is one of four coal companies that were selected to execute a Capacity Commitment Deed (CCD) for WEXP1 which provides it with 5 Mtpa of port capacity



Dudgeon Point (planned)
Dalrymple Bay
Hay Point
Mackay
PROJECT LOCATION
QLD
Collinsville
BOWEN BASIN
Blackwater
Callide
SURAT BASIN
BRISBANE
N 7600000
N 7500000
N 7400000
N 7300000
N 7200000
N 7100000
E 600000
E 700000
E 800000
E 900000
EPC2176
EPC1552
EPC1769
Moranbah
Coppabella
Goonyella
Branch
KERLONG
BRUCE HIGHWAY
Peak Downs Highway
Dysart
Fitzroy River
EPC1545
EPC1567
IRONPOT CREEK
Mackenzie River
Blair Athol Branch
Gregory Highway
EPC1687
THERESA CREEK
Nogoa River
EPC1168
EPC1804
EPC2039
EPC1113
NEW CAMBRIA
EPC2371
Emerald
Rockhampton
Curtis Island
Wiggins Island (planned)
Blackwater Branch
North Coast Railway
EPC2081
EPC1114
MACKENZIE
BELVIEW
Springsure Branch
Gladstone
RG Tanna
EPC1627
TENNYSON
Springsure
TEN MILE CREEK
YAMALA NORTH
Comet River
Baralaba
BOWEN BASIN
Gladstone Monto Branch Railway
Railway
Moura
Biloela
Rolleston
Dawson Highway
CARNARVON
EPCA1630
EPCA2314
BROWN RIVER
Burnett Highway
Proposed Surat Basin Rail Link
EPC2062
BROWN RIVER
EPCA1546
EPCA2520
Theodore
N
0
20
50km
Proposed Nathan Dam Site
NORTHERN SURAT BASIN
Taroom
Dawson
Mundebbera
EPC1276
EPC1274
SURAT BASIN
Wandoan
EPC1112
EPC2030
THE RANGE MLA 55001
Kingaroy
WARREGO HIGHWAY
Western Railway
Miles
Chinchilla
LEGEND
Regional Features
Roads; Tracks
Railway
Surat Basin Rail Link (Future)
Stanmore Tenements
Granted Applicant
Primary Applicant
Secondary Applicant
Mining Lease

for The Range Project. The signing of CCDs represents a significant commitment by the coal industry to the development of the 32.2 Mtpa WEXP1 port facility. Stanmore Coal's proportional share of the early works construction for WEXP1 is $44 million which will be fully funded by the recent debt and equity raising from Credit Suisse and Sprint Capital respectively.

Notification has previously been received from SBR that subject to allocation by WICET (now achieved) and continuing satisfaction of the terms and conditions of access to the railway, The Range project has satisfied the due diligence criteria for 5 Mtpa capacity allocation. QR National has previously issued an invitation for Stanmore Coal to participate in the Feasibility process for an upgrade to the Moura line that is required to link SBR and WICET.

ACQUISITIONS

An agreement (which settled post balance date) was entered with Queensland Coal Corporation (QCC) to exchange the Altamondt tenement (EPC 2177) for QCC's EPCs 1274 and 1276 located near Brookfield and Eurombah in the Surat Basin. The new tenements cover a combined area of 1,371km^2, which is more than Stanmore Coal's entire pre-existing tenement area of 1,286 km^2 and have an initial defined Exploration Target[2] of 130–195 Mt. The transaction involved only the exchange of tenements with no additional cash or equity consideration and completion of the swap remains conditional upon Ministerial approval.

CAPITAL MANAGEMENT

In December 2011 Stanmore Coal completed a Placement to institutional and sophisticated investors at $0.74 per share to raise $14.1 million. A further $10 million equity raising was raised via a placement and Share Purchase Plan offered to existing shareholders at $0.74 per share in January 2012.

In June 2012, the Company secured $61 million of additional funding comprising $36 million of equity and convertible notes from Sprint Capital and a $25 million facility from Credit Suisse AG to fund the Company's port and rail infrastructure obligations leading up to execution of Take or Pay Agreements. Sprint Capital have indicated their intention to provide substantial additional funds under a co-operation agreement to support Stanmore Coal in the funding of project development and growth by acquisition.

REGULATORY ENVIRONMENT

During the year, the Federal Government enacted legislation which may see additional levels of taxation applied to the Company's projects once they are in production. Mineral Resources Rent Tax (MRRT) and Carbon Tax may be payable by the Company in the future based on a variety of factors (including commodity prices) which cannot be accurately determined at this time. However, on the basis of preliminary analysis undertaken by management MRRT and Carbon Tax is not expected to have a material impact in respect of the Company's most advanced project, The Range.

During the year, the Queensland State Government released a Strategic Cropping Land (SCL) policy document which described a framework for permanently restricting mining in certain locations to assist in maintaining the long-term viability of the State's food and fibre industries, and support economic growth for regional communities. Five of the Company's seven main projects (including The Range and Belview) fall outside the nominated protection areas. Whilst the Mackenzie Project is impacted, only 10% of the tenement's JORC Inferred Resource falls inside the trigger mapped area. The other impacted project is Tennyson which is a potential underground deposit. In conjunction with the State Government, the Company is developing strategies to ensure the deposit is not permanently sterilised as a result of SCL above ground trigger mapping.

On 11 September 2012, the Queensland State Government announced an increase to the royalty rates payable for coal mining activities in Queensland which are effective from October 2012. The Company is currently evaluating the impact of the increase in State royalties on its development and exploration projects.

Project overview

THE RANGE	• 94 Mt JORC Marketable Reserve[1], 260 Mt Total JORC Resource (184 Mt Indicated + 76 Mt Inferred) • Additional Exploration Target[2] of 60–70 Mt • PFS completed confirming 5 Mtpa thermal coal mine with improved economics and operating parameters compared with the prior year CMS • Environmental Impact Study (EIS) was lodged in April 2012 and the Company is now addressing feedback received during the public comment period • Geology well understood – a total of over 300 holes now drilled in the deposit • BFS currently underway
BELVIEW	• 95 Mt Initial JORC Inferred Resource • Drilling intersected the 6 m Gemini seam and up to 3.5 m Aries seam at all five drill sites along the western edge of the tenement • Initial clean coal laboratory results confirm Belview has the potential to produce a high quality coking coal (CSN of 7 and ash of 6.3%) plus secondary low volatility PCI product • CMS completed: 3.4 Mtpa ROM production, $907 million capital cost and $104/t FOB cost (ex royalty) • Planning underway to test the additional Exploration Target[2] of 205–345 Mt and conduct coke strength test
MACKENZIE	• Upgraded 143 Mt JORC Indicated + Inferred Resource, of which 25.7 Mt is at Indicated Resource status • Work continues to investigate most likely economic targets within the 27 km long project area • Yield optimisation work is underway to address beneficiation and metallurgical issues
TENNYSON	• Exploration Target[2] of 220–290 Mt • Drilling, coal quality testing and geological modeling is nearing completion with the aim of defining an initial JORC Inferred Resource by the end of 2012
KERLONG	• Further expansion area (EPC 2176) granted • Exploration drilling and seismic program commenced, with one drill hole and several seismic lines completed to date Coal quality analysis has commenced
NEW CAMBRIA	• EPC2371 (additional 1 sub-block) was granted on 28/07/2011 • Extensive seismic is being undertaken by CSG proponent – data sharing arrangements initiated
IRONPOT CREEK	• Project expansion area EPC1567 (6 sub-blocks) was granted on 27/06/2011 • Desktop study and exploration plan completed
NORTH SURAT BASIN	• Tenements are located adjacent to the 4.5 billion tonne Xstrata Wandoan coal project and close to Stanmore Coal's Range Project • Initial Exploration Targets[2] of 130–195 Mt defined within two key areas • A resource definition program is now being planned to define JORC Resources and additional Exploration Targets[2]
PORT CAPACITY	• Stage 1 of WICET has achieved financial close, site works commenced • WEXP1 due diligence and allocation process completed and Capacity Commitment Deed executed with WICET for 5 Mtpa capacity • 2 Mtpa of FFFA priority capacity rights carried forward for further expansion stages • Funding in place to satisfy the required feasibility bid bonds and early works obligations • Entered into a 12 Mtpa conditional capacity agreement with the Adani Group at the planned Dudgeon Point Coal Terminal from 2016
RAIL CONTRACTS	• The Surat Basin Infrastructure Corridor State Development Area which contains the SBR route gained Queensland Government approval allowing compulsory land acquisition to commence • The Range has successfully completed the SBR due diligence process and the Company anticipates it will be offered 5 Mtpa capacity subject to ongoing compliance with the terms and conditions of the railway • The Company has satisfied QRN due diligence and has been asked to finance its share of the final feasibility study for the upgrade of the QRN Moura rail system • Negotiations with above rail providers are well advanced

THE RANGE
THERMAL COAL PROJECT

EPC 1112, 2030/MLA 55001, 55009, 55010

Stanmore Coal 100% ownership

Location: Surat Basin – 24 km south-east of Wandoan within the Surat Basin

Area: 92 km^2

JORC Resource: Total of 260 Mt high quality open pit thermal coal (184 Mt Indicated + 76 Inferred Resource)

JORC Marketable Reserves[1]: 94 Mt (included in the 260 Mt Indicated and Inferred Resource noted above)

The Range is an open pit coal project with a proposed on-site coal handling and preparation plant. Coal will be transported via a 20+ km conveyor belt to the planned SBR link and then to the planned WEXP1 port at Gladstone for export.

Production of a high quality export thermal coal is planned to commence in 2016 with a ramp up to the full production rate of 5 Mtpa shortly thereafter. Stanmore Coal submitted its mining lease (ML) application 55001 in November 2010 and expects grant in the first half of 2013.

Stanmore Coal announced its first Marketable Coal Reserve[1] of 94 Mt at The Range following additional drilling, modelling and a Reserves Study conducted by The Minserve Group Pty Ltd (Minserve). The Marketable Coal Reserve[1] of 94 Mt is derived from JORC compliant Probable run of mine (ROM) Reserves[1] of 117. 5 Mt.

A total of 109 geophysically logged holes are now included in the geological model at a spacing ranging between 500 and 1000 m. A further 154 (68 core and 86 open) holes were drilled as part of the 2012 year drilling program and the results of these hole are currently being incorporated into a revised geological model to support the BFS. An additional 60–70 Mt Exploration Target[2] has been identified in the area west of the planned pit at The Range.

The deposit has a cumulative coal thickness averaging 8.5 m where all seams are present with a maximum of 12 m over 13 main seams. The deposit is structurally continuous with only one moderate sized fault identified at this stage.

The raw ash content of individual plies is as low as 3.7% (with an average of 21%) and the modelling suggests that with selective mining between 30 and 50% of ROM coal can bypass the preparation plant (i.e. will not require washing). The PFS completed during the year indicates that by maximising the amount of coal that bypasses the wash plant a predicted yield of up to 80% can be achieved for a 14.4% ash product with energy of 6,058 kcal/kg (adb). This 80% yield is achieved by a combination of the washed coal and the bypass coal.

A review of the optimal product mix for The Range project is underway in conjunction with product marketing efforts and the BFS. A number of ash/energy combinations are possible and these will be considered as part of the BFS which is due for completion shortly. The products under consideration include the 10% ash (6,420 kcal/kg adb) and 12% ash (6,248 kcal/kg adb) options identified in the CMS.

The Company submitted two new Mining Lease Applications (MLA 55009 and MLA 55010) over a Transport Corridor which will enable a connection between The Range proposed mine site (MLA55001) and a planned rail load-out facility adjacent to the SBR. The Transport Corridor will contain a 25 km conveyor resulting in a quiet, reliable and clean method of coal delivery from the mine to the rail loadout facility.

Stanmore Coal Limited and Taiheiyo, supported by Japanese Government agency, NEDO, have signed an Exploration Support Agreement. Under the agreement NEDO/Taiheiyo provided $1.2 million which funded 30 cored, coal quality holes at The Range as part of the current year drilling program. The results from this drilling program are expected to allow an upgrade of the first three years of targeted coal production to JORC Measured Resource status.

As part of this funding agreement Taiheiyo will be able to purchase up to a total of 400,000 tonnes of coal over the first three years of production at The Range for distribution to its Japanese customers. Taiheiyo has long standing relationships with Japanese energy utilities and industrial companies and supplies a number of these entities with similar Surat Basin coals. This strategic relationship is expected to support the Company's coal marketing activities in Japan.

A BFS has commenced to enhance the work originally undertaken in the PFS in late 2011. The BFS will provide more robust capital and operating cost estimates for the project.

An EIS has been completed on The Range Project including the Transport Corridor. The public comment period for the EIS closed on the 27th July 2012 and the Company is now in the process of addressing stakeholder responses received during that process.

A final study of SCL impact on The Range project has determined that SCL does not exist within the lease and a SCL validation form has been submitted to DERM.

BELVIEW
COKING COAL PROJECT

EPC 1114

Stanmore Coal 100% ownership

Location: 10 km south-east of Blackwater

Area: 120 km^2

JORC Inferred Resource: 95 Mt

Additional Exploration Target[2]: 205–345 Mt underground prime coking coal

The project is strategically located 5 km south of the Blackwater to Gladstone railway and 4 km east of the historic Leichhardt mine where the 6 to 6.5 m thick Gemini seam of prime hard coking coal was mined underground by BHP from 1970 to 1982. The key seams that have been intersected by Stanmore Coal in the Belview lease are the Aries, Gemini, Orion and Pisces seams.

The Company has defined an initial JORC Inferred Resource of 95 Mt in the Gemini seam of the Rangal Coal Measures. The overlying Aries seam is not yet to a JORC resource reporting standard but is included in the additional Exploration Target[2] of 205–345 Mt.

Clean coal quality test work has determined that the Gemini Seam is capable of producing a dual product comprising a high quality hard coking coal and a low vol PCI coal in a 50:50 product split. Further testing is planned to confirm all coal properties (including coke strength). Summary clean coal quality results to date are provided below:

COAL CHARACTERISTICS – GEMINI SEAM

As received (unless noted)		Primary Coking Product	Secondary PCI Product
Total moisture	%	10	10
Ash	%	5.9	9.1
Volatile Matter	%	19.4	18.9
Fixed carbon	%	64.7	62.0
Crucible swelling number (as tested)		7.5	2
Total sulphur	%	0.37	0.32
Specific Energy	(adb) kcal/kg	7,930	7,625
Specific Energy	kcal/kg	7,238	6,953

In addition, clean coal composite results from the overlying Aries seam samples demonstrate the potential to optimise yield by the production of a low sulphur, coking product with CSNs of up to 8 and a secondary high energy (6,856kcal/kg air dried) thermal/PCI product.

The Company completed a CMS for the Belview coking coal project based on 3.4 Mtpa Run of Mine (ROM) production.

The study proposes a three shaft, single longwall development that would take five years to fully establish from commencement of shaft sinking. First development coal production is targeted in 2018, with a ramp up to full longwall production from 2020. The capital cost for the three shaft development, all services, mine development, longwall equipment, the coal preparation plant, gas drainage and infrastructure is estimated at $907 million.

Productivity improvements may be realised through the installation of additional shafts and a second longwall to provide increased hoisting and mining capacity, or via the investigation of top coal caving to mine out the entire 6 m Gemini seam. These issues will be examined in future feasibility studies.

A significant gas pre-drainage program has been factored into the capital costs and an ongoing gas drainage program is included in the operating costs. This study limits coal extraction at Belview to a mining window of 560 m to 1000 m depth and both capital and operating costs make allowance for mitigation of potential engineering issues.

The technology utilised when mining at this depth is well understood in a global context as mining in the UK occurs up to 1100 m deep and the Suncun mine in China operates at depths of up to 1300 m. The Paskov mine in the Czech Republic currently mines to 1120 m, being one of a number of mines in the region operating at depths in excess of 1000 m with some shafts presently being deepened to 1346 m.

A further exploration program will be conducted at Belview to test the Exploration Target[2] of 205–345 Mt, extend the Inferred Resource and undertake coke strength and gas testing.

MACKENZIE COKING COAL PROJECT

EPC 2081

Stanmore Coal 100% ownership

Location: 30 km west of Blackwater

Area: 469 km^2

JORC Resource: Total of 143 Mt (25.7 Mt Indicated + 117.5 Mt Inferred)

The Mackenzie Coking Coal Project in the Bowen Basin is well located for export as it lies on the rail line to Gladstone. The project is located between the existing Ensham and Curragh operating mines and is adjacent to the Washpool coking coal project, which is also targeting the Burngrove Coal Formation.

The Company completed an interim review of the Mackenzie deposit during the year resulting in the definition of the first 25.7 Mt of JORC Indicated Resource and a 45% increase of the Total JORC Resource to 143.2 Mt (25.7 Mt Indicated + 117.5 Mt Inferred).

The project now has a total of 80 holes. The coal sequence comprises two main coal seams being the Leo and Aquarius seams within the Burngrove Formation. The seams strike in a general North South direction over an approximate 27 km strike length, and dip towards the west at approximately two degrees. The main coal seams occur at depths of between 10 and 110 m.

Testing and analysis of samples obtained during the 2011 drilling program have indicated substantial variability in the yields achieved across the 27 km strike length. Average laboratory yields in the 2011 drilling program are lower than those achieved in the 2010 program. Further yield analysis and study of processing options has been undertaken to determine whether it is feasible to improve beneficiation and address metallurgical issues identified.

Whilst optimising coal quality and yield at the Mackenzie Project remains a challenge, the work conducted during 2012 has generated some positive results. The Board is of the view that further work is justified to determine whether the project can be commercialised. The Company intends to commence a CMS to identify the most prospective mining areas and consider project economics.

TENNYSON THERMAL/COKING COAL PROJECT

EPC 1168

Stanmore Coal 100% ownership

Location: adjacent to Emerald

Area: 120 km^2

Exploration Target[2]: 220–290 Mt underground thermal and potential metallurgical coal

The scout drilling program in the previous year intersected multiple coal seams with the Aries seam thickness averaging 2.5 m, the Corvus seam 2.6 m and the Liskeard seam 2.1 m. Modelling of recent results indicates that the Aries seam subcrops at around 150 m and dips to the east, south and southwest to a maximum depth of around 490 m. The Aries seam is likely to have a thickness in excess of 2.1 m over 75% of the Tennyson lease area, with significant areas greater than 2.5 m. The current Exploration Target[2] in this area is 220 Mt to 290 Mt.

During the 2012 drilling program at Tennyson, five partially-cored holes were completed. Each of these holes intersected the targeted Aries seam and coal quality samples were taken for laboratory testing. These latest drilling and laboratory results are being combined with the existing geological model and it is expected that a maiden Inferred JORC Resource will be produced by the end of 2012. Clean coal quality analysis to date indicates that the Aries seam is capable of producing a high yielding, low ash export thermal product with typical specifications (air dried) being: Yield >80%, Ash <9.0%, Energy >6,200kcal/kg, Sulfur 0.2%.

KERLONG COKING COAL PROJECT

EPCs 1552, 1769 and 2176
Stanmore Coal 100% ownership
Location: 19 km north-east of Moranbah
Area: 41 km^2
Target[2]: Superior underground PCI/coking coal

Stanmore Coal is targeting high quality underground coking/PCI coal at the Kerlong Coking Coal Project which is 8 km north of the rail line to Dalrymple Bay Coal Terminal. Target seams are mined extensively at deposits such as Burton (Peabody), South Walker Creek (BHP Mitsubishi), Carborough Downs (Vale) and Coppabella (Macarthur Coal).

24 km of 2D seismic survey lines were completed in early December 2011 and enabled the development of a targeted drilling program. The first hole of that drilling program commenced at the beginning of May. Some delays were incurred due to wet weather and problems with drilling but the total depth of 951.5 m was reached on 25th June. Three target horizons were intersected across both holes and have been tentatively assigned as the Burton Rider (1.7m @ 836 m), Leichhardt (2.6 m @ 871 m) and Vermont seams (3.6 m @ 916 m).

Interim Coal quality results received to date confirm sample recovery was satisfactory for inclusion in future JORC compliant reporting. Raw, quick coke and washability results have been received and clean coal composite analysis is ongoing. Based on washability analysis received to date, achievable products include a primary coking and secondary export thermal coal.

NEW CAMBRIA PROJECT

EPCs 1113, 2039, 2371
Stanmore Coal 100% ownership
Location: 20 km east of Blackwater
Area: 123 km^2
Target: Open pit Yarrabee style low-volatiles PCI coal

The New Cambria Project is targeting the up-thrust Rangal Coal Measures which contain low-volatile, low to medium ash PCI coal with open cut mining potential. High energy coal has been mined historically at the adjoining Excel Colliery and the project is located adjacent to the rail line to Gladstone. Coal Seam Gas (CSG) co-development discussions have commenced.

The Company is in receipt of initial seismic data from the holder of the overlapping coal seam gas tenure. Three of the five lines that were planned by the gas company across the tenement have been completed and the raw data for these has been passed on to Stanmore Coal. Initial interpretation of the first line has been completed and shows that, while the geological structure across the tenement is complex, there is some potential for shallower resources in the eastern portion of the tenement.

NORTH SURAT BASIN

EPC's 1274, 1276

Stanmore Coal 100% ownership (pending formal transfer)

Stanmore Coal entered into an agreement with Queensland Coal Corporation (QCC) to exchange the Altamondt tenement (EPC 2177) for QCC's EPCs 1274 and 1276 located near Brookfield and Eurombah in the highly prospective Surat Basin. The tenements cover a combined area of 1,371 km^2, which is more than Stanmore Coal's entire pre-existing tenement area of 1,286 km^2. The transaction involved only the exchange of tenements with no additional cash or equity consideration and completion of the swap remains conditional upon Ministerial approval under the *Mineral Resources Act* 1989.

The tenements that Stanmore Coal has agreed to acquire are located 15 km from the proposed SBR line and approximately 35 km from Stanmore Coal's The Range project.

Stanmore Coal believes these tenements to be prospective for potential open pit coal deposits with over 5,600 Mt of JORC resources defined by others in adjacent areas. A total of 1,242 boreholes have been drilled within a 10 km radius of the tenements which has allowed the identification of a number of priority target areas within the tenements.

PORT AND RAIL

WIGGINS ISLAND COAL EXPORT TERMINAL (EXPANSION STAGE 1)

Stanmore Coal executed a Capacity Commitment Deed (CCD) for WEXP1 which will provide Stanmore Coal with 5 Mtpa of port capacity for The Range Project. The planned capacity for the WEXP1 terminal is 32.2 Mtpa which has been allocated to four coal producers/developers from the Surat and Bowen basins.

Stanmore Coal is one of four proponents who have executed CCDs supported by a bid bond which sets out their intention to meet their proportionate share of WEXP1's early works costs up to financial close, and upon financial close execute binding take or pay agreements. Stanmore Coal's share of these costs is $44 million. $26 million has been provided at the time of CCD execution while the remaining $18 million is payable in the lead up to financial close in accordance with the WEXP1 financing plan. The $44 million bid bond will be converted to an equity interest in the WEXP1 port expansion at financial close.

Stanmore Coal retains an additional 2 Mtpa of FFFA priority rights which will remain valid for use in the planned WEXP2 expansion which is currently scheduled for completion in late 2018.

OTHER PORTS

Stanmore Coal entered into conditional agreements to ship up to 12 Mtpa of coal through the proposed Dudgeon Point Coal Terminal (DPCT) from 2016. The DPCT proposal is being developed by The Adani Group (Adani) in an area adjacent to the existing Dalrymple Bay Coal Terminal near Mackay, with a proposed capacity of 90 Mtpa. Adani has been granted preferred proponent status for the development of the DPCT by the Queensland Government.

RAIL

Stanmore Coal received confirmation from the SBR Joint Venture (SBRJV) that it had satisfied due diligence requirements and anticipates that it will be offered capacity on the SBR subject to continuing to satisfy due diligence requirements and the terms and conditions of access to the railway. The Company anticipates executing a capacity commitment deed for 5 million tonnes per annum of rail capacity in FY13. QR National (QRN) has completed its due diligence process and The Range is one of three projects that has been invited to participate in the final feasibility phase of the Gladstone Rail Capacity Expansion process. This will involve funding a detailed Feasibility Study into the upgrade of the capacity of the existing QRN Moura line linking the SBR line with the WICET port.

CAPITAL MANAGEMENT

Stanmore Coal successfully raised $14.1 million via a placement of approximately 19.1 million ordinary shares to institutional and sophisticated investors at $0.74 per share in December 2011. The Placement was oversubscribed and received strong support from existing institutional shareholders as well as a number of new investors. Stanmore Coal raised a further $10 million by way of a partially underwritten Share Purchase Plan.

Net proceeds from these transactions were applied to fund the BFS at The Range, continuing exploration at other key projects, initial stage funding of port and rail infrastructure commitments and general working capital requirements.

SPRINT CAPITAL PLACEMENT

In June 2012, the Company executed a subscription and cooperation agreement with Greatgroup Investments Limited, an investment vehicle managed by Sprint Capital to provide additional capital of $36 million. The fund raising consists of a $27 million placement of 40.02 million shares at $0.675 per share and a $9 million placement of zero-coupon notes convertible into 13.37 million shares at $0.675 per share.

The combined funds from Sprint Capital and the Credit Suisse debt facility (discussed below) will be applied in funding the Company's bid bond and equity contributions associated with WICET and SBR Capacity Commitment Deeds as well as providing additional working capital.

Sprint Capital is a Hong Kong based private equity investment manager, focused on undertaking investments in the mining and natural resources sector. Sprint Capital seeks to invest in resources which are in high demand across China and the wider Asian region (including high grade thermal and metallurgical coal, oil and gas, iron ore, potash and copper). Sprint Capital's investment approach is to partner with strong management teams with a proven track record in bringing prospective exploration and development-stage projects through to production.

Following completion of the transaction, Sprint Capital will hold shares amounting to 19.99% of the Company's issued share capital, and Notes which upon conversion after two years could increase Sprint Capital's shareholding in the Company by up to 5.01%, to an aggregate shareholding of up to 25% based on issued share capital after the current raising. Shareholder approval will be sought in advance for the conversion features of the notes.

Subject to shareholder approval, Sprint Capital will also receive anti-dilution options to subscribe for new shares and notes on a fixed number of Board and management options, which were outstanding and in-the-money as of the date of capital raising transaction, and on the exercise (at any time) of the warrants granted pursuant to the $25 million executed Credit Suisse debt facility.

Mr Chris McAuliffe was appointed to the Board of the Company as Sprint Capital representative on 17 July 2012.

DEBT FACILITY

In conjunction with the $36 million share and convertible note placement to Sprint Capital, the Company entered into a $25 million bank guarantee and senior debt facility with Credit Suisse AG (CS Debt Facility). The CS Debt Facility is secured against all of Stanmore Coal's assets and matures in two years. Stanmore Coal has the option to extend for a further year. As part of the total cost of the facility, the Company is required to issue Credit Suisse (CS) 11.7 million options at an exercise price of $0.52. The issue of these securities is subject to shareholder approval. Should shareholder approval not be obtained, the options will be cash settled.

DIRECTORS' REPORT

Your Directors present their report for the year ended 30 June 2012.

The following persons were Directors of Stanmore Coal Limited during the financial year and up to the date of this report, unless otherwise stated:

Nicholas Jorss

BE (HONS) CIVIL, MBA, GDIP APP FIN (SEC INST) MANAGING DIRECTOR

Nick is a founding Director and shareholder of Stanmore Coal and has over 20 years' experience in investment banking, civil engineering, corporate finance and project management. In his roles in investment banking he has been involved in leading advisory mandates with corporate, government and private equity clients across industry sectors ranging from resources to infrastructure. Mr Jorss was previously a Director of Pacific Road Corporate Finance and was an engineer with Baulderstone Hornibrook prior to that where he delivered infrastructure and resource projects over a period of approximately eight years.

Mr Jorss is a founding shareholder and Director of St. Lucia Resources International, Stanmore Coal, Kurilpa Uranium and Wingate Capital. He was previously a Director of Vantage Private Equity Growth and Vantage Asset Management.

Mr Jorss holds a Bachelor with Honours in Civil Engineering, a Masters of Business Administration and a Graduate Diploma of Applied Finance and Investment.

Neville Sneddon

B. ENG (MINING) (HONS), M. ENG, MAUSIMM, GRAD AICD NON-EXECUTIVE CHAIRMAN

A mining engineer with over 38 years' experience in most facets of the Queensland and NSW resource sectors, Neville Sneddon brings substantial Board and industry knowledge to Stanmore Coal. He has developed and operated both underground and open cut mines working for Coal & Allied in the Hunter Valley and from 1997 worked in a senior role in the NSW Mines Inspectorate, covering operations in all forms of mining in the state.

Moving to Queensland in 1999, Neville accepted the position of Chief Operating Officer with Shell Coal which was acquired by Anglo American's Australian coal operations the following year. Leaving as CEO in 2007, he held several Board positions with mining and infrastructure companies including Chairman of the operating company at Dalrymple Bay Coal Terminal near Mackay and Director of Port Waratah Coal Services, a major coal export facility at Newcastle.

Neville has also been a member of the Boards of the Queensland, NSW and National Mining Councils. His expertise has been sought by several government committees such as the NSW Mine Subsidence Board, the NSW Mines Rescue Board, Queensland Ministerial Coal Mine Safety Advisory Committee and the joint federal/state advisory committee which is developing nationally consistent mining safety legislation. Neville is presently on the Board of Envirogen, is the Chairman of CSM Energy and has recently stepped down from the Board of Centennial Coal. Neville joined the Board of Cobbora Coal Limited during the financial year.

Neville is Chair of the Remuneration Committee.

During the past three years Neville has also served as a Director of the following ASX listed companies:

- Centennial Coal Company Limited (from 19 February 2008 to 17 February 2010)
- Cobbora Coal Limited.

Andrew Martin

B.EC (HONS) NON-EXECUTIVE DIRECTOR

An investment banker with Deutsche Bank, Andrew Martin offers more than 15 years financial, advisory and corporate experience within the infrastructure, utilities and natural resources industries. In recent years, Andrew has advised on transactions within the power generation, utilities, gas, water, road, rail and ports sectors.

Holding a Bachelor of Economics (Honours) from the University of Sydney, Andrew is a founding Director and shareholder in St Lucia Resources International, Stanmore Coal and Kurilpa Uranium, which was acquired by Renaissance Uranium Ltd before its listing.

Andrew is a member of the Audit and Risk Management and Remuneration Committees.

During the past three years Andrew has also served as a Director of the following ASX listed companies:

- Renaissance Uranium Ltd* (since 1 September 2010) (company listed on ASX on 15 December 2010).

Stephen Bizzell

BCOM MAICD NON-EXECUTIVE DIRECTOR

Stephen is Chairman of boutique corporate advisory and funds management group Bizzell Capital Partners and an Executive Director of Dart Energy Ltd. Stephen spent his early career in the corporate finance division of Ernst & Young and the corporate tax division of Coopers & Lybrand and qualified as a chartered accountant. He is highly experienced in the fields of corporate restructuring, debt and equity financing, and mergers and acquisitions and has 20 years corporate finance and public company management experience in the resources sector in Australia and Canada.

Stephen was previously an Executive Director of Arrow Energy Ltd from 1999 until its acquisition in 2010 by Royal Dutch Shell and PetroChina for $3.5 billion. Stephen was instrumental in Arrow's corporate and commercial success and its growth from a junior explorer to a large integrated energy company.

Stephen is the Chairman of the Audit and Risk Management Committee and a member of the Remuneration Committee.

During the past three years Stephen has also served as a Director of the following ASX listed companies:

- Apollo Gas Ltd
- Armour Energy Limited*
- Arrow Energy Ltd
- Bow Energy Ltd
- Dart Energy Ltd*
- Diversa Ltd*
- Hot Rock Ltd*
- Renaissance Uranium Ltd *
- Renison Consolidated Mines NL*
- Titan Energy Services Limited*.

Viv Forbes

BSCAPP (GEOL), FAUSIMM, FSIA
NON-EXECUTIVE DIRECTOR

Viv Forbes is a Bowen Basin pioneer with more than 40 years coal-industry experience including government service, field exploration, mine valuation and acquisition, financing, development, operations and successful asset sales. Viv has been involved in various capacities at Burton Coal, Dalrymple Bay Coal Terminal, South Blackwater Coal Mine, Tahmoor Coal Mine, Newlands/Collinsville Coal Mines, MIM, Utah Goonyella/Saraji and Gold Fields. He has a degree in Applied Science Geology and is a Fellow of the Australasian Institute of Mining and Metallurgy.

Viv is a member of the Remuneration and Audit and Risk Management Committees.

Chris McAuliffe

LLB (HONS), MBA
NON-EXECUTIVE DIRECTOR (COMMENCED 17 JULY 2012)

Mr Chris McAuliffe is co-founder and Managing Director of Sprint Capital, the Hong Kong based private equity investment management group with whom Stanmore recently signed a funding agreement.

Mr McAuliffe has more than 20 years' experience in private equity and investment banking with significant relationships across Asia. Prior to co-founding Sprint Capital in 2008, Mr McAuliffe was a Managing Director and co-head of Asia Pacific Industrials Group at Citigroup in Hong Kong, prior to which he was a Managing Director and head of Asia Industrials and Services Group at Credit Suisse in Singapore.

During the past three years Chris has also served as a Director of the following listed companies:

- Asian Bamboo AG (Germany)
- Xplorer PLC (London)
- Chaswood Resources Holdings limited (SGX).

Duncan Cornish

B.BUS (ACC), CA
JOINT COMPANY SECRETARY

Mr Duncan Cornish was the company secretary of Stanmore Coal Limited from 17 September 2009 to 19 December 2011 and joint company secretary from 19 December 2011 up to the date of this report. Mr Cornish was the CFO of the Company from 17 September 2009 until 19 September 2011.

Duncan is an accomplished and highly regarded corporate administrator and manager. He has many years experience in pivotal management roles in capital raisings and stock exchange listings for numerous companies on the ASX, AIM Market of the London Stock Exchange and the Toronto Stock Exchange. Highly skilled in the areas of company financial reporting, company regulatory, secretarial and governance areas, business acquisition and disposal due diligence, he has worked with Ernst & Young and PricewaterhouseCoopers both in Australia and the UK.

Duncan is currently Company Secretary and CFO of other listed companies on the ASX and TSX-V where he has assisted in their listing and capital raising. He is supported by a small experienced team of accountants and administrators.

Doug McAlpine

B.COMM, CA
CFO, JOINT COMPANY SECRETARY

Mr Doug McAlpine joined the Company as Chief Financial Officer on 19 September 2012. On 19 December 2012 Mr McAlpine was appointed joint company secretary and holds both positions up to the date of this report.

Mr McAlpine has had significant exposure to the coal industry in Queensland having previously provided external audit and consulting services to BHP Billiton and Rio Tinto during his time in the professional services sector. In his previous role as Chief Financial Officer of Watpac Limited, he played a key role in the establishment and growth of the company's contact mining services business. Doug previously held the roles of Chief Financial Officer, General Manager of Investments and Company Secretary of Ariadne Limited a listed property and investment company. Doug is an accountant who commenced his career providing external audit and consulting services with Arthur Anderson and Ernst & Young.

*denotes current ASX listed directorship.

Interests in shares and options

As at the date of this report, the interests of the Directors in the shares and options of Stanmore Coal Limited are shown in the table below:

	Ordinary Shares	Unlisted Options $0.19 @ 9/12/12	Unlisted Options $0.19 @ 31/12/13	Unlisted Options $0.15 @ 16/1/14
Neville Sneddon	-	1,350,000	-	-
Nicholas Jorss	31,762,540*	2,000,000	-	-
Andrew Martin	31,700,270*	1,000,000	-	-
Stephen Bizzell	7,372,514	1,000,000	2,000,000	-
Viv Forbes	2,088,270	-	-	525,000
Chris McAuliffe	-	-	-	-

* 31,700,270 shares are held by St Lucia Resources International Pty Ltd of which both Nicholas Jorss and Andrew Martin have interests in trusts which each own › 20% and are both Directors.

Principal activities

The principal activities of the consolidated entity during the financial year were the identification and development of export quality thermal, coking and PCI coal deposits within the prime coal bearing regions of Eastern Australia.

Operating results

For the year ended 30 June 2012, the loss for the consolidated entity after providing for income tax was $7.7 million (2011: $2.1 million).

Dividends paid or recommended

There were no dividends paid or recommended during the financial year.

Review of operations

Detailed comments on operations and exploration programs up to the date of this report are included separately in the Annual Report under Review of Operations.

Review of financial condition

CAPITAL STRUCTURE

On 20 July 2011, 25,000 ordinary shares and 1,200,000 unlisted options were issued to an employee of the Company. The options expire on 31 December 2015 and are exercisable as follows:

- 400,000 at $1.75 (vesting 4 July 2012)
- 400,000 at $2.00 (vesting 4 July 2013)
- 400,000 at $2.25 (vesting 4 July 2014).

On 11 August 2011, 1,495,664 ordinary shares were issued at a price of $1.0029 per share, to the vendors of Comet Coal & Coke Pty Ltd in satisfaction of the third and final payment pursuant to the Share Sale and Purchase Agreement regarding Comet Coal & Coke Pty Ltd, as disclosed in the Company's prospectus dated 30 October 2009.

On 30 September 2011, the following options expiring on 31 March 2016 were issued to an employee of the Company:

- 450,000 unlisted options exercisable at $1.75, vesting on 30 September 2012
- 450,000 unlisted options exercisable at $2.00, vesting on 30 September 2013
- 450,000 unlisted options exercisable at $2.25, vesting on 30 September 2014
- 450,000 unlisted options exercisable at $2.50, vesting on 30 September 2015.

On 14 December 2011, 19,079,526 ordinary shares were issued through a placement to institutional and sophisticated investors at an issue price of $0.74.

On 19 December 2011, 97,606 ordinary shares were issued to an employee of the Company for nil consideration as part of a salary sacrifice arrangement in respect of that employee's base remuneration.

On 18 January 2012, 9,756,553 ordinary shares were issued through a Share Purchase Plan at an issue price of $0.74. The Share Purchase Plan was announced on 8 December 2011.

On 27 January 2012, 3,736,486 ordinary shares were issued through a placement to institutional and sophisticated investors at an issue price of $0.74.

On 7 February 2012, 106,406 ordinary shares were issued to employees of the Company for nil consideration as part of a salary sacrifice arrangement in respect of that employee's base remuneration.

On 23 March 2012, 206,803 ordinary shares were issued to employees of the Company for nil consideration as a Board approved discretionary bonus in respect of calendar year ended 31 December 2011.

On 24 April 2012, 300,000 unlisted options were cancelled in accordance with the terms of those instruments following the resignation of an employee of the Company.

On 29 June 2012, 19,288,887 ordinary shares were issued through a placement to Greatgroup Investments Limited, a vehicle managed by Sprint Capital.

At the date of this report, the consolidated entity had 179,409,108 ordinary shares and 15,900,000 unlisted options on issue.

FINANCIAL POSITION

The net assets of the consolidated entity have increased by $31 million from $32 million at 30 June 2011 to $63 million at 30 June 2012. This increase reflects capital raised during the year net of transaction costs and accounting losses.

During the period, the consolidated entity has invested in the identification and development of export thermal, coking and PCI coal deposits within the prime coal bearing regions of Eastern Australia.

TREASURY POLICY

The consolidated entity does not have a formally established treasury function. Senior management in consultation with the Board is responsible for implementing appropriate capital management policies and procedures. The consolidated entity does not currently undertake hedging of any kind and is not directly exposed to currency risks.

LIQUIDITY AND FUNDING

The consolidated entity has sufficient funds to finance its operations and exploration activities, and to allow the consolidated entity to take advantage of favourable business opportunities, not specifically budgeted for, or to fund unforeseen expenditures.

Significant changes in the state of affairs

In addition to the changes in capital structure described above, the following significant changes in the state of affairs of the consolidated entity occurred in the financial year:

During the year, the Federal Government enacted legislation which may see additional levels of taxation applied to the Company's projects should they ultimately be developed. MRRT and Carbon Tax may be payable by the Company in the future based on a variety of factors (including commodity prices) which cannot be accurately determined at this time. However, on the basis of preliminary analysis undertaken by management, MRRT and Carbon Tax are not expected to have a material impact in respect of the Company's most advanced project, The Range.

During the year, the Queensland State Government released an SCL policy document which described a framework for permanently restricting mining in certain locations to assist in maintaining the long-term viability of the State's food and fibre industries, and support economic growth for regional communities. Five of the Company's seven main projects (including The Range and Belview) fall outside the nominated protection areas. Whilst the Mackenzie Project is an impacted area, 90% of the tenement's inferred resource is outside the trigger mapped area. Management is developing strategies in conjunction with the State to ensure Tennyson's underground resources are not permanently alienated as a result of SCL above ground trigger mapping.

After balance date events

On 7 June 2012 the consolidated entity announced it has agreed to acquire two large and prospective EPCs within the Surat Basin through a tenement exchange with Queensland Coal Corporation. The transaction settled after 30 June 2012. The transaction increases the Company's landholdings significantly and involves only the exchange of tenements with no further cash or equity consideration and completion of the swap is conditional on Ministerial Approval under the *Mineral Resource Act* 1989.

On 11 July 2012 a CMS was completed by MineCraft Consulting Pty Ltd for the Belview Coking Coal Project based on 3.4 Mtpa ROM coal produced from a multi-shaft, single longwall operation. The Belview coal resource occurs within the Rangal Coal Measures and contains two seams for potential underground extraction, the Aries seam (2–3 m thick) and the Gemini seam (5–6 m thick). Belview has a JORC-compliant Inferred Resource of 95 Mt and an additional Exploration Target[2] of 205–345 Mt for primary coking coal and secondary PCI product.

On 11 September 2012, the Queensland State Government announced an increase to the royalty rates payable for coal mining activities in Queensland which are effective from October 2012. The Company continues to assess the potential impact of the increase in State royalties on development and exploration projects.

There have been no other events since 30 June 2012 that impact upon the financial report as at 30 June 2012.

Future developments, prospects and business strategies

Likely developments in the operations of the consolidated entity and the expected results of those operations in subsequent financial years have been discussed where appropriate in the Annual Report under Review of Operations.

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

Environmental issues

The consolidated entity is subject to environmental regulation in relation to its exploration activities. There are no matters that have arisen in relation to environmental issues up to the date of this report.

Remuneration report (audited)

This report details the nature and amount of remuneration for each Director of Stanmore Coal Limited, and for the Company's key management personnel (KMP).

REMUNERATION POLICY OVERVIEW

Stanmore Coal's asset development strategy and its need to secure key supply chain infrastructure (both port and rail) can only be achieved by identifying and retaining high calibre employees with appropriate experience and capability. Developing an appropriate compensation strategy for the Company's employees is a key factor in ensuring they are engaged and motivated to improve the Company's performance over the long term.

The Board (through the Remuneration Committee) assess the composition and amount of remuneration on a periodic basis with reference to relevant employment market conditions and with recognition of the Company's stage of development. The Board's intention is to maximise stakeholder benefit from the retention of a high quality Board and Executive Team without creating an undue cost burden for the consolidated entity. The Board has historically implemented a discretionary approach to remunerating employees for individual and organisational performance which they believe to be superior. Long dated, out of the money options have been issued as a mechanism to attract and retain key employees. The Board acknowledges that as the Company develops and moves into the development and operating phases for its key assets, a more comprehensive, structured and transparent approach to remunerating its employees is required.

During the financial year the Company has taken independent advice from a remuneration consultant regarding the structure of remuneration plans and the terms on which incentives are offered to improve the alignment between company performance and executive remuneration outcomes. This advice has assisted the Board in developing a remuneration framework which satisfies market practice around remuneration governance for public companies and strikes an appropriate balance between fixed and at-risk compensation for its employees. The Board believes that the new scheme is important for the long-term success of the Company.

During the year, the Board developed a new remuneration plan for the Company which, subject to shareholder approval, will have effect from 1 January 2012. This strategy will see the Company implement a consistent, transparent compensation framework for all employees comprising a short term incentive plan (STI) for the issue of shares and a long term incentive plan (LTI) for the issue of options, which are both subject to fulfilment of specified performance criteria. Further detail on the proposed incentive plan is included within this Remuneration Report. The financial impact of the new scheme is not reflected in the financial results of the Company for the year ended 30 June 2012 as it has not yet been approved by shareholders.

NEW SHORT TERM AND LONG TERM INCENTIVE PLAN STRUCTURES

The Board considers the use of STI and LTI is a reasonable means of remunerating employees, on the basis that they:

- encourage share ownership and align, in part, remuneration with the future growth and prospects of the Company, and in turn, encourage employees to drive toward the realisation of shareholder value;
- provide flexibility to the Company to actively manage the way in which it remunerates and incentivises employees;
- preserve the Company's cash resources; and
- contribute toward the attraction and retention of skilled talent in a competitive employment market.

The Board acknowledges that it is the expectation of stakeholders and industry participants that the Company's remuneration framework should provide competitive and appropriate remuneration so that the Company can attract and retain skilled employees and motivate them to improve Company performance. The Board believes that the introduction of incentive plans under which employees may be eligible to receive securities in Stanmore Coal will align the interests of employees with those of the Company and its Shareholders.

The Board sought independent advice from a remuneration consultant regarding the structure of the plans and the terms on which the incentives are to be offered, as well as benchmarking against identified competitor companies in the mining sector. Having regard for their expertise in human capital matters, Ernst & Young were selected to assist the Board with this process.

REMUNERATION DETAILS

Ernst & Young were engaged by and report directly to the Remuneration Committee. Potential conflicts of interest were taken into account when Ernst & Young was selected and their terms of engagement regulate their level of access to, and require their independence from, Management.

The Stanmore Coal Board's Remuneration Committee approved the engagement of Ernst & Young to provide remuneration recommendations regarding the Chief Executive Officer and KMP remuneration benchmark review, and design of Stanmore Coal's LTI. The Committee is satisfied with the advice received from Ernst & Young regarding the above services, and is free from undue influence from the KMP to whom the advice relates, as the relevant criteria, as established by the Board, have been satisfied.

The remuneration recommendations were provided to Stanmore Coal as an input into decision making only. The Remuneration Committee considered the recommendations along with other factors in making its remuneration decisions.

Following from this advice, the Board proposes to adopt a remuneration scheme which offers tiered participation in an STI scheme, the Stanmore Coal Director and Employee Share Plan (Share Plan) and LTI scheme, and the Stanmore Coal Director and Employee Incentive Plan (Incentive Plan).

The maximum entitlement that an employee can earn is determined by reference to their seniority and strategic contribution to the business.

The Share Plan offers eligible employees, including executive Directors, the opportunity to participate in the Company's STI scheme to allow them to earn additional remuneration up to 30% of their base remuneration each year and issued annually. Earning this incentive is conditional upon the fulfilment of specified performance criteria, which include contribution to total shareholder return, individual performance criteria tailored for the employee, safety and discretionary criteria determined by a direct supervisor. 60% of the STI to which an employee may be entitled will be satisfied by the issue of Shares (based on the VWAP for Shares for the five days prior to issue), with the balance (40%) being satisfied by cash payment.

The Incentive Plan offers long term incentives to employees, including executive Directors, in the form of Options over Shares and Performance Rights over Shares, representing up to 20% of their base remuneration each year and issued annually. The Board's current intention is to issue Options that are exercisable at a 34% premium to the VWAP for Stanmore Shares for the five days immediately prior to the issue and can be exercised one year from issue. Employees who make significant strategic contributions to the achievement of key organisational objectives will also have the opportunity to receive awards of Performance Rights. The Performance Rights are to be issued for nil consideration and will vest upon the achievement of key strategic milestones by Stanmore Coal.

The Company does not intend to issue more than an aggregate of 5% of its share capital, from time to time, under the plans. The Share Plan and Incentive Plan each aim to more closely align rewards for performance with the achievement of the Company's growth and strategic objectives for financial year 2013 and beyond.

The fees paid to Ernst & Young for the remuneration recommendations were $44,670 (exclusive of GST). Ernst & Young also provided other consulting services during the 2012 financial year and the fee for these other services was $33,850 (excluding GST).

NON-EXECUTIVE DIRECTOR REMUNERATION

The Board seeks to set aggregate remuneration at a level which provides the consolidated entity with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

The Constitution of Stanmore Coal Limited and the ASX Listing Rules specify that the non-executive Directors are entitled to remuneration as determined by the consolidated entity in a general meeting to be apportioned among them in such manner as the Directors agree and, in default of agreement, equally. The maximum aggregate remuneration currently determined by Stanmore Coal Limited is $350,000 per annum. Additionally, non-executive Directors will be entitled to be reimbursed for properly incurred expenses.

If a non-executive Director performs extra services, which in the opinion of the Directors are outside the scope of the ordinary duties of the Director, the consolidated entity may remunerate that Director by payment of a fixed sum determined by the Directors in addition to or instead of the remuneration referred to above. However, no payment can be made if the effect would be to exceed the maximum aggregate amount payable to non-executive Directors. A non-executive Director is entitled to be paid travel and other expenses properly incurred by them in attending Directors' or general meetings of Stanmore Coal Limited or otherwise in connection with the business of the consolidated entity.

The remuneration of non-executive Directors for the year ending 30 June 2012 is detailed in this Remuneration Report.

MANAGING DIRECTOR AND SENIOR MANAGEMENT REMUNERATION

The consolidated entity aims to reward the Managing Director and senior management with compensation commensurate with their position and responsibilities within the consolidated entity and so as to:

- reward for company and individual performance against targets set with reference to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link reward with the strategic goals and performance of the consolidated entity; and
- ensure total remuneration is competitive by market standards.

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and competitive in the market. Fixed remuneration is reviewed annually by the Remuneration Committee and the Board. The Managing Director reviews all senior management and employee performance and remuneration and then makes recommendations to the Remuneration Committee. The Remuneration Committee reviews the Managing Director's performance and remuneration.

The process consists of a review of Company-wide and individual performance, relevant comparative remuneration in the market and internal, and where appropriate, external advice on policies and practices.

Long-term incentives are provided in the form of options and/or the issue of shares that typically vest following the completion of satisfactory time periods of service. The consolidated entity uses employee continuity of service and the future share price to align comparative shareholder return and reward for executives.

The remuneration of the Managing Director and senior management for the year ended 30 June 2012 is detailed in this Remuneration Report.

RELATIONSHIP BETWEEN REMUNERATION AND CONSOLIDATED ENTITY PERFORMANCE

During the financial year, the consolidated entity has generated accounting losses as its principal activity was the exploration and development of prospective coal assets within Queensland's Bowen and Surat Basins.

On 9 December 2009, official quotation of the Stanmore Coal Limited's shares on the ASX commenced at a price of $0.20. The share price at the end of the financial year ended 30 June 2012 was $0.36 (2011: $1.01).

There were no dividends paid during the year ended 30 June 2012.

As the consolidated entity is still in the exploration and early development stage, there is not necessarily a direct relationship between the consolidated entity's financial performance, improvement to shareholder wealth and changes to the Group's remuneration arrangement. Share prices are subject to the influence of coal prices and market sentiment toward the sector, and as such increases or decreases may occur quite independent of executive performance or remuneration. For the current year, the quantum of employee remuneration has been determined with reference to market practice and the achievement of individual performance criteria established between the Board, the Managing Director and the individual employee.

Subject to shareholder approval, the Company's proposed STI and LTI arrangements will provide a greater link between an employee's at-risk remuneration and shareholder value, and will also provide external stakeholders with a greater level of transparency in respect of individual performance criteria against which superior performance is assessed.

EMPLOYMENT CONTRACTS AND CONSULTANCY AGREEMENTS

It is the Board's policy that employment contracts or consultancy agreements are entered into with all Executive Directors, Executives and employees.

Contracts do not provide for pre-determining compensation values or method of payment. Rather the amount of compensation is determined by the Remuneration Committee and the Board in accordance with the Company's remuneration policies.

The current consultancy agreements the Joint Company Secretary has a three month notice period. All other employment contracts or consultancy agreements have one month (or less) notice periods. No current employment contracts contain early termination clauses. All Non-Executive Directors have received letters outlining the key terms of their appointment. The contracts have no specified duration.

Key management personnel are entitled to their statutory entitlements of accrued annual leave and long service leave together with any superannuation on termination. No other termination payments are payable.

Managing Director

Prior to 1 January 2012 Stanmore Coal Limited had a consulting agreement with Wingate Capital Pty Ltd (Wingate) and Mr Nick Jorss, the Managing Director. Under the terms and conditions of the Wingate Agreement Wingate agreed to provide certain corporate management and other services to the consolidated entity. Additionally, Nicholas Jorss agreed to act as the Managing Director of Stanmore Coal Limited.

During the financial year the base fee received by Wingate for provision of the services was $260,000 per annum (exclusive of GST), on the basis of performance of not less than four days per week. The remuneration for additional services, if requested by the consolidated entity, was $1,250 per day.

On 1 January 2012 Mr Jorss accepted a full-time employment position with the Company for the role of Managing Director. Nick's base remuneration is $380,000 per annum. It is proposed that Mr Jorss will be eligible to participate in the new STI/LTI scheme subject to shareholder approval.

Mr Jorss holds 2,000,000 unlisted options exercisable at 24 cents (repriced to 19 cents on 20 December 2010, following the renounceable entitlement offer), expiring on 9 December 2012. These securities were granted to Mr Jorss on 5 October 2009.

Senior Management

Chief Financial Officer

Stanmore Coal Limited has an Employment Contract with Mr Douglass McAlpine for the position of Chief Financial Officer which commenced on 19 September 2012. Mr McAlpine receives a salary of $320,000 per annum.

The employment contract may be terminated by either party by providing three months' written notice, or immediately in the case of gross negligence or serious misconduct.

Under the terms of the contract, on 19 December 2011, Mr McAlpine was issued 30,000 ordinary shares as a sign-on bonus and on 30 September 2011 was granted 1,800,000 unlisted options, expiring 31 March 2016, exercisable as follows:

- 450,000 at $1.75 (vesting 30 September 2012)
- 450,000 at $2.00 (vesting 30 September 2013)
- 450,000 at $2.25 (vesting 30 September 2014)
- 450,000 at $2.50 (vesting 30 September 2015).

Project Development Manager

Stanmore Coal Limited has a consulting agreement with West End Consulting Pty Ltd (West End) and Vaughan Wishart, the Project Development Manager (previously Operations Manager). The Agreement commenced on 15 October 2009 and was reviewed during the period for an additional two years, unless terminated earlier in accordance with the provisions of the agreement. Under the terms and conditions of the agreement, West End has agreed to provide certain general management services to Stanmore Coal Limited.

West End receives a base fee for provision of the services of $103,550 per annum (exclusive of GST) on the basis of performance of an average of two and one half days per week. If at the request of the consolidated entity, West End provides additional services to the consolidated entity, West End shall be paid additional remuneration calculated at the rate of $1,000 per day for those additional services. The consolidated entity is also obliged to reimburse West End for all reasonable and necessary expenses incurred by West End in providing services pursuant to the West End Agreement.

Both Stanmore Coal Limited and West End are entitled to terminate the agreement upon giving not less than two months' written notice. In the event that West End is in breach of the agreement, Stanmore Coal Limited may terminate the agreement immediately on written notice.

In addition, Stanmore Coal Limited is entitled to terminate the agreement upon the happening of various events in respect of West End's solvency or other conduct of West End or Vaughan Wishart.

On 5 October 2009, Mr Wishart was granted 1,000,000 unlisted options exercisable at 24 cents (repriced to 19 cents on 20 December 2010, following the renounceable entitlement offer), expiring on 9 December 2012, which vested immediately.

Operations Manager

Stanmore Coal Limited has an Employment Contract with Mr Michael McKee for the position of Operations Manager which commenced on 1 February 2011. Mr McKee receives a salary of $353,200 per annum. Mr McKee's contract allows him to elect each six months to salary sacrifice $81,600 of his salary for 63,000 shares in the Company.

The employment contract may be terminated by either party by providing two months' written notice, or immediately in the case of gross negligence or serious misconduct.

Under the terms of the contract, on 16 March 2011, Mr McKee was issued 20,000 ordinary shares and on 27 April 2011 granted 2,000,000 unlisted options, expiring 31 December 2015, exercisable as follows:

- 500,000 at $1.75 (vesting 27 April 2012)
- 500,000 at $2.00 (vesting 27 April 2013)
- 500,000 at $2.25 (vesting 27 April 2014)
- 500,000 at $2.50 (vesting 27 April 2015).

General Manager Exploration

Stanmore Coal Limited has an Employment Contract with Mr Wesley Nichols for the position of General Manager Exploration which commenced on 23 June 2011. Mr Nichols receives a salary of $250,000 per annum.

The employment contract may be terminated by either party by providing one month's written notice, or immediately in the case of gross negligence or serious misconduct.

Under the terms of the contract, on 20 July 2011, Mr Nichols was issued 25,000 ordinary shares and granted 1,200,000 unlisted options, expiring 31 December 2015, exercisable as follows:

- 400,000 at $1.75 (vesting 4 July 2012)
- 400,000 at $2.00 (vesting 4 July 2013)
- 400,000 at $2.25 (vesting 4 July 2014).

Joint Company Secretarial

Stanmore Coal Limited has a services agreement with Corporate Administration Services Pty Ltd (CAS) and Duncan Cornish, the Joint Company Secretary. The agreement commenced on 17 September 2009 and initially had a term of one year, unless terminated earlier in accordance with the provisions of the agreement. The services agreement continues in place without a defined term, however as noted below, both Stanmore Coal Limited and CAS are entitled to terminate the agreement upon giving not less than three months' written notice. Under the terms and conditions of the agreement, CAS has agreed to provide certain corporate secretarial, administration and other services to Stanmore Coal Limited. Mr Cornish continues to act as Joint Company Secretary.

At the commencement of the financial year the base fee received by CAS for provision of the services was $120,000 (exclusive of GST) per annum. On the appointment of Mr McAlpine as Chief Financial Officer in September 2011, it was agreed that the base fee be adjusted to $40,000 per annum with effect form 1 December 2011. All other terms and conditions within the services agreement remain unchanged.

If at the request of the consolidated entity, CAS or Mr Cornish provide additional services to the consolidated entity, CAS shall be paid additional remuneration at an hourly rate. The consolidated entity is also obliged to reimburse CAS for all reasonable and necessary expenses incurred by CAS in providing services pursuant to the Agreement.

DETAILS OF KEY MANAGEMENT PERSONNEL

Directors

Neville Sneddon	Non-Executive Chairman
Nicholas Jorss	Managing Director
Andrew Martin	Non-Executive Director
Stephen Bizzell	Non-Executive Director
Viv Forbes	Non-Executive Director
Chris McAuliffe	Non-Executive Director (appointed 17 July 2012)

Senior Management

Doug McAlpine	Chief Financial Officer (commenced 19 September 2011) and Joint Company Secretary (commenced 23 December 2011)
Vaughan Wishart	Project Development Manager (Operations Manager until 1 February 2011)
Michael McKee	Operations Manager (commenced 1 February 2011)
Wesley Nichols	General Manager Exploration (commenced 23 June 2011)
Duncan Cornish	Joint Company Secretary and Chief Financial Officer (resigned as CFO on 19 September 2011)

REMUNERATION DETAILS

The following tables detail, in respect to the financial years ended 30 June 2012 and 2011, the components of remuneration for each key management person of the consolidated entity.

2012

	Short term benefits			Post-employment
	Salary and fees $	Cash bonus $	Other short-term benefits $	Superannuation $
Directors				
Neville Sneddon	60,000	-	-	-
Nicholas Jorss	390,447	-	-	7,888
Andrew Martin	35,046	-	-	4,954
Stephen Bizzell	40,000	-	-	-
VivForbes	40,000	-	-	-
Total	**565,493**	**-**	**-**	**12,842**
Senior Management				
Doug McAlpine^	251,077	-	-	12,467
Vaughan Wishart	292,369	-	-	-
Michael McKee	271,600	-	-	15,531
Wesley Nichols	250,000	-	-	15,531
Duncan Cornish*	73,333	-	-	-
Total	**1,138,379**	**-**	**-**	**43,529**

^ Doug McAlpine commenced employment on 19 September 2011
* Duncan Cornish stepped down as Chief Financial Officer on 19 September 2011 and is not considered to be key management personnel following that date

2011

	Short term benefits			Post-employment
	Salary and fees $	Cash bonus $	Other short-term benefits $	Superannuation $
Directors				
Neville Sneddon	52,500	-	-	-
Nicholas Jorss	277,437	-	-	-
Andrew Martin	32,500	-	-	-
Stephen Bizzell	32,500	-	-	-
Viv Forbes	32,500	-	-	-
Total	**427,437**	**-**	**-**	**-**
Senior Management				
Vaughan Wishart	213,548	-	-	-
Michael McKee*	113,923	-	-	6,372
Wesley Nichols#	5,769	-	-	519
Tim Jones^	114,367	-	-	11,335
Duncan Cornish	106,667	-	-	-
Total	**554,274**	**-**	**-**	**18,226**

^ Tim Jones resigned on 1 March 2011.
* Michael McKee commenced employment on 1 February 2011
# Wesley Nichols commenced employment on 23 June 2011

	Share-based payments				
Termination benefits $	Equity-settled (options) $	Equity-settled (shares) $	Total $	% Remuneration as share-based payments	% Performance-related remuneration
-	-	-	60,000	0%	0%
-	-	-	398,335	0%	0%
-	-	-	40,000	0%	0%
-	-	-	40,000	0%	0%
-	-	-	40,000	0%	0%
-	**-**	**-**	**578,335**		
-	136,629	35,277	435,450	39.5%	3.1%
-	-	45,000	337,369	13.3%	13.3%
-	529,996	129,916	947,043	69.7%	5.1%
-	324,402	48,315	638,248	58.2%	3.0%
-	-	-	73,333	0%	0%
-	**991,027**	**258,508**	**2,431,443**		

	Share-based payments				
Termination benefits $	Equity-settled (options) $	Equity-settled (shares) $	Total $	% Remuneration as share-based payments	% Performance-related remuneration
-	-	-	52,500	0%	0%
-	-	-	277,437	0%	0%
-	-	-	32,500	0%	0%
-	-	-	32,500	0%	0%
-	-	-	32,500	0%	0%
-	**-**	**-**	**427,437**		
-	-	-	213,548	0%	0%
-	88,143	105,200	313,638	48.2%	0%
-	-	-	6,288	0%	0%
53,333	11,615	-	190,650	6.1%	0%
-	-	-	106,667	0%	0%
53,333	**99,758**	**105,200**	**833,791**		

Cash bonuses, performance-related bonuses and share-based payments

Key management personnel and other executives were not paid performance-related bonuses in cash during the years ended 30 June 2012 and 2011.

Details of share-based payments to key management personnel and other executives during the year ended 30 June 2012 are detailed in the first table below. A modest amount of shares were awarded to key employees on 23 March 2012 as a discretionary bonus in recognition for superior performance during the calendar year ended 31 December 2011.

Details of share-based payments to key management personnel and other executives during the year ended 30 June 2011 are detailed in the second table below.

The options were issued to the Directors and senior management of Stanmore Coal Limited to align comparative shareholder return and reward for Directors and senior management.

During the year two new members of senior management of Stanmore Coal Limited were granted tranches of long dated options and an employment commencement bonus of ordinary shares. Mr Douglas McAlpine, Chief Financial Officer, was provided with 1,800,000 options (with varying exercise prices and vesting dates, all options expiring 31 March 2016) and 30,000 ordinary shares for nil consideration. Mr Wes Nichols, General Manager Exploration, was provided with 1,200,000 options (with varying exercise prices and vesting dates, all expiring 31 December 2015) and 25,000 ordinary shares for nil consideration.

YEAR ENDED 30 JUNE 2012

	Remuneration type	Number	Grant date	Vesting date	Exercise price
Consolidated entity key management personnel					
W Nichols	Options	400,000	20/07/2011	04/07/2012	$1.75
W Nichols	Options	400,000	20/07/2011	04/07/2013	$2.00
W Nichols	Options	400,000	20/07/2011	04/07/2014	$2.25
W Nichols	Shares	25,000	20/07/2011	n/a	n/a
D McAlpine	Options	450,000	30/09/2011	30/09/2012	$1.75
D McAlpine	Options	450,000	30/09/2011	30/09/2013	$2.00
D McAlpine	Options	450,000	30/09/2011	30/09/2014	$2.25
D McAlpine	Options	450,000	30/09/2011	30/09/2015	$2.50
D McAlpine	Shares	30,000	19/12/2011	n/a	n/a
M McKee	Shares	67,606	19/12/2011	n/a	n/a
M McKee	Shares	106,406	07/02/2012	n/a	n/a
D McAlpine	Shares	17,534	23/03/2012	n/a	n/a
W Nichols	Shares	24,763	23/03/2012	n/a	n/a
M McKee	Shares	61,943	23/03/2012	n/a	n/a
V Wishart	Shares	57,692	23/03/2012	n/a	n/a

Calculation of value of options granted using the Black-Scholes option pricing model, which takes into account factors such as the option exercise price, the market price at the date of issue and volatility of the underlying share price and the time to maturity of the option.

YEAR ENDED 30 JUNE 2011

	Remuneration type	Number	Grant date	Vesting date	Exercise price
Consolidated entity key management personnel					
M McKee	Shares	20,000	10/03/2011	n/a	n/a
M McKee	Options	500,000	27/04/2011	27/04/2012	$1.75
M McKee	Options	500,000	27/04/2011	27/04/2013	$2.00
M McKee	Options	500,000	27/04/2011	27/04/2014	$2.25
M McKee	Options	500,000	27/04/2011	27/04/2015	$2.50

Calculation of value of options granted using the Black-Scholes option pricing model, which takes into account factors such as the option exercise price, the market price at the date of issue and volatility of the underlying share price and the time to maturity of the option.

All options were issued by Stanmore Coal Limited and entitle the holder to one ordinary share in Stanmore Coal Limited for each option exercised.

All options granted as part of remuneration for the years ended 30 June 2012 and 2011 were granted for nil consideration. Once vested, options can be exercised at any time up to the expiry date. There are no market or performance based vesting criteria in respect of these options.

Financial impact of short term and long term incentive plan structures

Should shareholders approve the proposed STI plan, eligible employees will be entitled to receive shares and cash under that plan in January/February each year once performance for the preceding calendar year has been assessed. The first potential grant of securities under this scheme would therefore be in January/February 2013. The number of securities which may be issued under that plan cannot yet be determined, as it is dependent on achievement of group and individual performance criteria and the Company's share price at the time of grant.

Should shareholders approve the proposed LTI plan, eligible employees would be granted an annual award of out of the money options each year. The first grant would be effective immediately and would see the Company issue approximately 1.5 million options which would be first exercisable on 1 July 2013.

Grant value (per instrument) $#	% Vested/paid during year	% Expired during year	% Forfeited during year	% Remaining as unvested	Expiry date
$0.477	0%	0%	0%	100%	31/12/2015
$0.436	0%	0%	0%	100%	31/12/2015
$0.401	0%	0%	0%	100%	31/12/2015
$1.160	100%	0%	0%	0%	n/a
$0.214	0%	0%	0%	100%	31/03/2016
$0.191	0%	0%	0%	100%	31/03/2016
$0.171	0%	0%	0%	100%	31/03/2016
$0.155	0%	0%	0%	100%	31/03/2016
$0.720	100%	0%	0%	0%	n/a
$0.720	100%	0%	0%	0%	n/a
$0.930	100%	0%	0%	0%	n/a
$0.800	100%	0%	0%	0%	n/a
$0.800	100%	0%	0%	0%	n/a
$0.800	100%	0%	0%	0%	n/a
$0.800	100%	0%	0%	0%	n/a

Grant value (per instrument) $ #	% Vested/paid during year	% Expired during year	% Forfeited during year	% Remaining as unvested	Expiry date
$1.180	100%	0%	0%	0%	n/a
$0.522	100%	0%	0%	0%	31/12/2015
$0.477	0%	0%	0%	100%	31/12/2015
$0.438	0%	0%	0%	100%	31/12/2015
$0.404	0%	0%	0%	100%	31/12/2015

Directors' meetings

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director was as follows:

	Board		Audit & Risk Management Committee		Remuneration Committee	
	Number of meetings held while in office	Meetings attended	Number of meetings held while in office	Meetings attended	Number of meetings held while in office	Meetings attended
Neville Sneddon	11	11	2	2	1	1
Nicholas Jorss	11	11	n/a	n/a	n/a	n/a
Andrew Martin	11	10	2	2	1	1
Stephen Bizzell	11	10	2	2	1	1
Viv Forbes	11	11	2	2	1	1
Chris McAuliffe*	-	-	-	-	-	-

* Chris McAuliffe was appointed to the Board on 17 July 2012, after the end of the 2012 financial year.

Indemnification and insurance of Directors, officers and auditor

Each of the Directors and the Secretary of Stanmore Coal Limited have entered into a Deed with Stanmore Coal Limited whereby Stanmore Coal Limited has provided certain contractual rights of access to books and records of Stanmore Coal Limited to those Directors and Secretary.

Stanmore Coal Limited has insured all of the Directors of the consolidated entity. The contract of insurance prohibits the disclosure of the nature of the liabilities covered and amount of the premium paid. The Corporations Act does not require disclosure of the information in these circumstances.

Stanmore Coal Limited has not indemnified or insured its auditor.

Options

At the date of this report, there were 15,900,000 unissued ordinary shares under options as follows:

- 6,350,000 unlisted options exercisable at $0.19, on or before 9 December 2012
- 3,500,000 unlisted options exercisable at $0.19, on or before 31 December 2013
- 525,000 unlisted options exercisable at $0.15, on or before 16 January 2014
- 100,000 unlisted options exercisable at $0.73, on or before 31 December 2013
- 100,000 unlisted options exercisable at $0.87, on or before 31 December 2013
- 100,000 unlisted options exercisable at $1.09, on or before 31 December 2013
- 75,000 unlisted options exercisable at $1.44, on or before 30 March 2015
- 75,000 unlisted options exercisable at $1.68, on or before 30 March 2015
- 75,000 unlisted options exercisable at $1.80, on or before 30 March 2015
- 900,000 unlisted options exercisable at $1.75, on or before 31 December 2015
- 900,000 unlisted options exercisable at $2.00, on or before 31 December 2015
- 900,000 unlisted options exercisable at $2.25, on or before 31 December 2015
- 500,000 unlisted options exercisable at $2.50, on or before 31 December 2015
- 450,000 unlisted options exercisable at $1.75, on or before 31 March 2016
- 450,000 unlisted options exercisable at $2.00, on or before 31 March 2016
- 450,000 unlisted options exercisable at $2.25, on or before 31 March 2016
- 450,000 unlisted options exercisable at $2.50, on or before 31 March 2016.

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

During the year ended 30 June 2012 there were no fully paid ordinary shares in Stanmore Coal Limited issued as a result of the exercise of options.

Proceedings on behalf of the consolidated entity

No person has applied for leave of Court to bring proceedings on behalf of the consolidated entity or intervene in any proceedings to which the consolidated entity is a party for the purposes of taking responsibility on behalf of the consolidated entity for all or any part of those proceedings.

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

Non-audit services

The following non-audit services were provided by the entity's auditor BDO Audit Pty Ltd. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

BDO Audit Pty Ltd received the following amounts for the provision of non-audit services:

Tax services	$20,892

Auditor's independence declaration

The Auditor's Independence Declaration forms part of the Directors' Report and can be found on page 36.

Corporate governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Stanmore Coal Limited support and have adhered to the principles of corporate governance. Stanmore Coal Limited's Corporate Governance Statement can be found on page 41.

This report is signed in accordance with a resolution of the Directors.

Nicholas Jorss
Managing Director

Brisbane
Date: 27 September 2012

FINANCIAL
REPORTS 2011/12

AUDITOR'S INDEPENDENCE DECLARATION

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DECLARATION OF INDEPENDENCE BY DAMIAN WRIGHT TO THE DIRECTORS OF STANMORE COAL LIMITED

As lead auditor of Stanmore Coal Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
any applicable code of professional conduct in relation to the audit.

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

D P WRIGHT
Director

BDO Audit Pty Ltd

Brisbane, 27 September 2012

SHAREHOLDER INFORMATION

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 31 August 2012.

(a) Distribution of equity securities

The number of holders, by size of holding, in each class of security is:

	Ordinary shares		Unlisted options ($0.19 @ 9/12/12)		Unlisted options ($0.19 @ 31/12/13)		Unlisted options ($0.15 @ 16/1/14)	
	Number of holders	Number of shares	Number of holders	Number of options	Number of holders	Number of options	Number of holders	Number of options
1–1,000	171	67,815	-	-	-	-	-	-
1,001–5,000	431	1,328,607	-	-	-	-	-	-
5,001–10,000	337	2,685,818	-	-	-	-	-	-
10,001–100,000	1,052	33,585,826	-	-	-	-	-	-
100,001 and over	130	141,741,042	5	6,350,000	3	3,500,000	1	525,000
Total	**2,121**	**179,409,108**	**5**	**6,350,000**	**3**	**3,500,000**	**1**	**525,000**

	Unlisted options ($0.73 @ 31/12/13)		Unlisted options ($0.87 @ 31/12/13)		Unlisted options ($1.09 @ 31/12/13)		Unlisted options ($1.44 @ 30/03/15)	
	Number of holders	Number of options	Number of holders	Number of options	Number of holders	Number of options	Number of holders	Number of options
1–1,000	-	-	-	-	-	-	-	-
1,001–5,000	-	-	-	-	-	-	-	-
5,001–10,000	-	-	-	-	-	-	-	-
10,001–100,000	1	100,000	1	100,000	1	100,000	1	75,000
100,001 and over	-	-	-	-	-	-	-	-
Total	**1**	**100,000**	**1**	**100,000**	**1**	**100,000**	**1**	**75,000**

	Unlisted options ($1.68 @ 30/03/15)		Unlisted options ($1.80 @ 30/3/15)		Unlisted options ($1.75 @ 31/12/15)		Unlisted options ($2.00 @ 31/12/15)	
	Number of holders	Number of options	Number of holders	Number of options	Number of holders	Number of options	Number of holders	Number of options
1–1,000	-	-	-	-	-	-	-	-
1,001–5,000	-	-	-	-	-	-	-	-
5,001–10,000	-	-	-	-	-	-	-	-
10,001–100,000	1	75,000	1	75,000	-	-	-	-
100,001 and over	-	-	-	-	2	900,000	2	900,000
Total	**1**	**75,000**	**1**	**75,000**	**2**	**900,000**	**2**	**900,000**

	Unlisted options ($2.25 @ 31/12/15)		Unlisted options ($2.50 @ 31/12/15)		Unlisted options ($1.75 @ 31/03/16)		Unlisted options ($2.00 @ 31/03/16)	
	Number of holders	Number of options	Number of holders	Number of options	Number of holders	Number of options	Number of holders	Number of options
1–1,000	-	-	-	-	-	-	-	-
1,001–5,000	-	-	-	-	-	-	-	-
5,001–10,000	-	-	-	-	-	-	-	-
10,001–100,000	-	-	-	-	-	-	-	-
100,001 and over	2	900,000	1	500,000	1	450,000	1	450,000
Total	**2**	**900,000**	**1**	**500,000**	**1**	**450,000**	**1**	**450,000**

	Unlisted options ($2.25 @ 31/03/16)		Unlisted options ($2.50 @ 31/03/16)	
	Number of holders	Number of options	Number of holders	Number of options
1–1,000	-	-	-	-
1,001–5,000	-	-	-	-
5,001–10,000	-	-	-	-
10,001–100,000	-	-	-	-
100,001 and over	1	450,000	1	450,000
Total	**1**	**450,000**	**1**	**450,000**

The number of shareholders holding less than a marketable parcel (1,370 ordinary shares) is 212 (117,227 ordinary shares).

(b) 20 largest holders

The names of the 20 largest holders as at 31 August 2012, in each class of quoted security are:

ORDINARY SHARES

		Number of shares	% of total shares
1	St Lucia Resources International Pty Ltd	31,700,270	17.67
2	Greatgroup Investments Ltd	19,228,887	10.72
3	National Nominees Limited	15,655,286	8.73
4	J P Morgan Nominees Australia Limited	10,336,142	5.76
5	3rd Wave Investors Ltd	6,021,939	3.36
6	Hsbc Custody Nominees (Australia) Limited	4,480,976	2.50
7	Macquarie Bank Limited ‹Metals & Energy Cap Div A/C›	2,702,703	1.51
8	Suncorp Custodian Services Pty Limited ‹Sgaeat›	2,160,000	1.20
9	Third Wave Investors Ltd	2,128,061	1.19
10	Mr Vivian Forbes	2,088,270	1.16
11	Ubs Wealth Management Australia Nominees Pty Ltd	2,002,331	1.12
12	Cps International Holdings Pty Ltd	1,871,207	1.04
13	Kabila Investments Pty Ltd	1,693,313	0.94
14	Mr Peter Lachlan Lamond ‹Pl & Ln Lamond S/F A/C›	1,400,000	0.78
15	Caythorpe Pty Ltd ‹Strauss Family A/C›	1,300,000	0.72
16	Cps International Holdings Pty	1,262,020	0.70
17	Graham Alexander Mackenzie	1,249,133	0.70
18	Chengdu Di'ao International Investment Pty Ltd	1,233,000	0.69
19	Taiheiyo Kouhatsu Incorporated	1,200,000	0.67
20	Macquarie Bank Limited ‹Metals & Energy Cap Div A/C›	1,162,675	0.65
Total Of 20 Largest Holders		**110,876,213**	**61.80**
Total Ordinary Shares		**179,408,108**	**100.00**

SUBSTANTIAL SHAREHOLDERS

Substantial shareholders as shown in substantial shareholder notices received by Stanmore Coal Limited at 31 August 2012 are:

Name of Shareholder	Ordinary Shares:
St Lucia Resources International Pty Ltd	31,700,270
Olross Investments Pty Ltd*	31,700,270
Raplon Pty Ltd*	31,700,270
VW & AC Pty Ltd*	31,700,270
Greatgroup Investments Limited	19,228,887

* Relevant interest under s.608(3)(a) Corporations Act 2001 (Cth) by having voting power of above 20% in St Lucia Resources International Pty Ltd, which holds 31,700,270 shares in Stanmore Coal Limited.

(c) Voting rights

All ordinary shares carry one vote per share without restriction.

Options do not carry voting rights.

(d) Restricted securities

There are no restricted securities on issue at 27 September 2012.

(e) Business objectives

The consolidated entity has used its cash and assets that are readily convertible to cash in a way consistent with its business objectives.

INTERESTS IN TENEMENTS

Stanmore Coal held the following interests in tenements as at 27 September 2012:

Tenement	% Interest	Grant Date	Expiry Date
EPC 1112	100	23/03/2012	22/03/2017
EPC 1113	100	23/03/2012	22/03/2017
EPC 1114	100	28/02/2008	27/02/2013
EPC 1168	100	24/10/2007	23/10/2015
EPC 1274	100	10/09/2008	09/09/2013
EPC 1276	100	10/09/2008	09/09/2013
EPC 1545	100	20/05/2009	19/05/2014
EPC 1552	100	20/05/2009	19/05/2012
EPC 1567	100	27/06/2011	26/06/2016
EPC 1627	100	12/08/2011	11/08/2016
EPC 1687	100	28/07/2011	27/07/2016
EPC 1769	100	31/05/2011	30/05/2016
EPC 1804	100	27/06/2011	26/06/2016
EPC 2030	100	12/10/2010	11/10/2015
EPC 2039	100	12/10/2010	11/10/2015
EPC 2062	100	09/02/2012	08/02/2017
EPC 2081	100	15/10/2010	14/10/2015
EPC 2176	100	22/11/2011	21/11/2017
EPC 2371	100	28/07/2011	27/07/2016
EPCA 1546	100	Not yet awarded	-
EPCA 1630	100	Not yet awarded	-
EPCA 2520	100	Not yet awarded	-
MLA 55001	100	Under application	-
MLA 55009	100	Under application	-
MLA 55010	100	Under application	-

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Stanmore Coal Limited is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of Stanmore Coal Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

Stanmore Coal Limited's Corporate Governance Statement is structured with reference to the Australian Securities Exchange (ASX) Corporate Governance Council's (the Council) "Corporate Governance Principles and Recommendations, 2nd Edition", which are as follows:

Principle 1	Lay solid foundations for management and oversight
Principle 2	Structure the Board to add value
Principle 3	Promote ethical and responsible decision making
Principle 4	Safeguard integrity in financial reporting
Principle 5	Make timely and balanced disclosure
Principle 6	Respect the rights of shareholders
Principle 7	Recognise and manage risk
Principle 8	Remunerate fairly and responsibly

A copy of the eight Corporate Governance Principles and Recommendations can be found on the ASX's website.

The Board is of the view that with the exception of the departures from the ASX Guidelines as set out below, it otherwise complies with all of the ASX Guidelines.

ASX Principles and recommendations	Summary of the consolidated entity's position
Principle 2 – Structure the Board to add value	
Recommendation 2.1 – A majority of the Board should be independent Directors	While the consolidated entity does not presently comply with this recommendation, the consolidated entity may consider appointing further independent Directors in the future. The consolidated entity believes that given the size and scale of its operations, non-compliance by the consolidated entity with this recommendation will not be detrimental to the consolidated entity.
Recommendation 2.4 – The Board should establish a nomination committee	The Board's view is that the consolidated entity is not currently of the size to justify the formation of a separate nomination committee. The Board currently performs the functions of a nomination committee and where necessary will seek advice of external advisors in relation to this role. The Board shall, upon the consolidated entity reaching the requisite corporate and commercial maturity, approve the constitution of a nomination committee to assist the Board in relation to the appointment of Directors and senior management.
Principle 4 – Safeguard integrity in financial reporting	
Recommendation 4.2 – The audit committee should be structured so that it: • Consists only of non-executive Directors • Consists of a majority of independent Directors • Is chaired by an independent chair, who is not chair of the Board • Has at least three members	Mr Stephen Bizzell is a non-executive Director and the current Chairman of the Audit and Risk Management Committee. The consolidated entity does not consider Mr Bizzell to be an independent Director as defined in the ASX Guidelines on the basis that he is a Director of Bizzell Capital Partners Pty Ltd, an entity that partially underwrote a Share Purchase Plan announced in December 2011. Mr Andrew Martin is a non-executive Director. The consolidated entity does not consider Mr Martin to be an independent Director as defined in the ASX Guidelines on the basis that he is a Director of St Lucia Resources International Pty Ltd, a substantial shareholder in the consolidated entity. Mr Viv Forbes is a non-executive Director. The consolidated entity considers Mr Forbes to be an independent Director as defined in the ASX Guidelines. On the basis of above information, the consolidated entity is of the view that there is a possibility that the Committee does not consist of a majority of independent Directors. While it is possible that the consolidated entity does not presently comply with this Recommendation 4.2, the consolidated entity may consider appointing further independent Directors in the future. The consolidated entity believes that given the size and scale of its operations, non-compliance by the consolidated entity with this Recommendation 4.2 will not be detrimental to the consolidated entity.

Board

The Board has adopted a formal Board Charter that outlines the roles and responsibilities of Directors and senior executives. The Board Charter has been made publicly available on Stanmore Coal Limited's website.

The skills, experience and expertise relevant to the position of Director held by each Director in office at the date of the Annual Report is included in the Directors' Report. Corporate Governance Council Recommendation 2.1 requires a majority of the Board should be independent Directors. The Corporate Governance Council defines an independent Director as a non-executive Director who is not a member of management and who is free of any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the independent exercise of their judgement.

In the context of Director independence, "materiality" is considered from both the Company and the individual Director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 10% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the Director in question to shape the direction of the Company's loyalty.

Factors that may impact on a Director's independence are considered each time the Board meets.

At the date of this report: In accordance with the Council's definition of independence above, and the materiality thresholds set, the following Directors are considered to be independent:

Name	Position
Neville Sneddon	Non-Executive Chairman
Viv Forbes	Non-Executive Director

In accordance with the Council's definition of independence above, and the materiality thresholds set, the following Directors are not considered to be independent:

Name	Position	Reason for non-compliance
Nicholas Jorss	Managing Director	Mr Jorss is employed by the consolidated entity in an executive capacity and is a Director of St Lucia Resources International Pty Ltd, a substantial (greater than 5%) shareholder in the consolidated entity.
Andrew Martin	Non-Executive Director	Mr Martin is a Director of St Lucia Resources International Pty Ltd, a substantial (greater than 5%) shareholder in the consolidated entity.
Stephen Bizzell	Non-Executive Director	Mr Bizzell is a Director of Bizzell Capital Partners Pty Ltd, an entity that partially underwrote a Share Purchase Plan announced in December 2011.
Chris McAuliffe	Non-Executive Director	Mr McAuliffe is a Managing Director of Sprint Capital, the investment management group responsible for Greatgroup Investments Limited, who is a substantial (greater than 5%) shareholder in the consolidated entity.

Stanmore Coal Limited considers industry experience and specific expertise, as well as general corporate experience, to be important attributes of its Board members. The Directors noted above have been appointed to the Board of Stanmore Coal Limited due to their considerable industry and corporate experience.

There are procedures in place, agreed by the Board, to enable Directors, in furtherance of their duties, to seek independent professional advice at the consolidated entity's expense.

The term in office held by each Director in office at the date of this report is as follows:

Name	Term in office
Neville Sneddon	2 years 11 months
Nicholas Jorss	4 years 3 months
Andrew Martin	4 years 3 months
Stephen Bizzell	2 years 11 months
Viv Forbes	2 years 11 months
Chris McAuliffe	0 years 2 months

Trading Policy

The Board has adopted a policy and procedure on dealing in the Company's securities by Directors, officers and employees which prohibits dealing in the Company's securities when those persons possess inside information until it has been released to the market and adequate time has passed for this to be reflected in the security's prices, and during certain pre-determined windows.

The Company's policy regarding dealings by Directors in the Company's shares is that Directors should never engage in short term trading and should not enter into transactions when they are in possession of price sensitive information not yet released by the Company to the market; or for a period of 14 days prior to the scheduled (per ASX Listing Rules) release by the Company of (ASX) Quarterly Operations and Cash Flow Reports or such shorter period as may be approved of by the Board of Directors after receipt of notice of intention to buy or sell by a Director to other members of the Board.

Directors will generally be permitted to engage in trading (subject to due notification being given to the Chairperson and Secretary) for a period commencing one business day after the release of (ASX) Quarterly Operations and Cash Flow Reports to the market and for a period commencing one business day following the release of price sensitive information to the market which allows a reasonable period of time for the information to be disseminated among members of the public.

Remuneration Committee

During the 2011 financial year the Board established a Remuneration Committee, which operates under a charter approved by the Board. The Committee is responsible for reviewing the remuneration policies and practices of the consolidated entity and making recommendations to the Board in relation to:

- executive remuneration and incentive plans;
- the remuneration packages for Management, Directors and the Managing Director;
- non-executive Director remuneration;
- the consolidated entity's recruitment, retention and termination policies and procedures for senior management;
- incentive plans and share allocation schemes;
- superannuation arrangements; and
- remuneration of members of other committees of the Board.

In performing its role, the committee is required to ensure that the remuneration offered is in accordance with prevailing market conditions, contract provisions reflect market practice and targets and incentives are based on realistic performance criteria. The committee will also overview the application of sound remuneration and employment practices across the consolidated entity and ensure the consolidated entity complies with legislative requirements related to employment practices. All members of the Remuneration Committee are Non-Executive Directors.

The members of the Remuneration Committee at the date of this report are:

- Viv Forbes
- Neville Sneddon (Chairman)
- Andrew Martin
- Stephen Bizzell.

For additional details of Directors' attendance at Remuneration Committee meetings and to review the qualifications of the members of the Remuneration Committee, please refer to the Directors' Report.

Nomination Committee

Due to the size and scale of operations, Stanmore Coal Limited does not have a separately established Nomination Committee. The full Board carries out the functions of the Nomination Committee, operating under a charter approved by the Board.

Audit and Risk Management Committee

The Board has established an Audit and Risk Management Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the Company. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the Company to the Audit and Risk Management Committee.

The Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the Audit and Risk Management Committee are Non-Executive Directors.

The members of the Audit and Risk Management Committee at the date of this report are:

- Stephen Bizzell (Chairman)
- Andrew Martin
- Viv Forbes.

For additional details of Directors' attendance at Audit and Risk Management Committee meetings and to review the qualifications of the members of the Audit and Risk Management Committee, please refer to the Directors' Report.

The Audit and Risk Management Charter has been made publicly available on the Company's website.

Risk Management

The Company has developed a basic framework for risk management and internal compliance and control systems which cover organisational, financial and operational aspects of the Company's affairs. Further detail of the Company's Risk Management Policies can be found within the Audit and Risk Management Committee Charter available on the Company website (www.stanmorecoal.com.au).

Recommendation 7.2 requires that the Board disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks. Business risks are considered regularly by the Board and management. A formal report to the Board as to the effectiveness of the management of the Company's material business risks is currently being undertaken.

As required by Recommendation 7.3, the Board has received written assurances from the Managing Director and Chief Financial Officer that to the best of their knowledge and belief, the declaration provided by them in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Performance Evaluation

The Remuneration Committee and the Board (in carrying out the functions of the Nomination Committee) considers remuneration and nomination issues annually and otherwise as required in conjunction with the regular meetings of the Board.

No formal performance evaluation of the Directors was undertaken during the year ended 30 June 2012.

Remuneration

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and Executive team by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Remuneration Committee and the Board link the nature and amount of Executive Directors' and Officers' remuneration to the consolidated entity's financial and operations performance. The expected outcomes of the remuneration structure are:

- retention and motivation of key Executives
- attraction of quality management to the consolidated entity
- performance incentives which allow Executives to share the rewards of the success of Stanmore Coal Limited.

For details on the amount of remuneration and all monetary and non-monetary components for each of the five highest paid (Non-Director) Executives during the period, and for all Directors, please refer to the Remuneration Report within the Directors' Report. In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Remuneration Committee and the Board, having regard to the overall performance of Stanmore Coal Limited and the performance of the individual during the period. The proposed new Share Plan and Incentive Plan outlined in the Remuneration Report adopts a structured and tiered approach to remuneration by rewarding executives and employees based on a range of factors. The Board believes the proposed new remuneration structure will deliver optimal company performance for shareholders as employee engagement is strengthened.

There is no scheme to provide retirement benefits, other than statutory superannuation, to Non-Executive Directors.

The Remuneration Committee is responsible for determining and reviewing compensation arrangements for the Directors themselves, subject to Stanmore Coal Limited's constitution and prior shareholder approvals, and the Executive team.

Continuous Disclosure Policy

Detailed compliance procedures for ASX Listing Rule disclosure requirements have been adopted by the consolidated entity. Stanmore Coal Limited's Obligation of Disclosure Policy can be found within Stanmore Coal Limited's Corporate Governance Charter on the Stanmore Coal Limited website (www.stanmorecoal.com.au) in the Corporate Governance section.

Communications

The consolidated entity has designed a disclosure system to ensure it complies with the ASX's continuous disclosure rules and that information is made available to all investors equally, promoting effective communications with shareholders and encouraging shareholder participation at general shareholder meetings. A copy of the Information Disclosure Program Procedures can be found within Stanmore Coal Limited's Corporate Governance Charter on Stanmore Coal Limited's website (www.stanmorecoal.com.au) in the Corporate Governance section. In addition to corporate and project information generally available on the Company's website, in the Investors section of the Company's website the following information is made available:

- ASX Releases
- Annual Reports
- Quarterly Reports
- Presentations
- Media Coverage
- Flyers.

Other Information

Further information relating to the Company's corporate governance practices and policies has been made publicly available on the Company's web site at: http://www.stanmorecoal.com.au/corporate_governance.aspx

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2012

	Note	2012 $'000	2011 $'000
Revenue and other income	2	899	799
Employee benefits expenses		(3,072)	(927)
Depreciation and amortisation expenses		(36)	(14)
Finance costs		(1,432)	(140)
Legal expenses		(607)	(189)
Administration and consulting expenses		(1,462)	(790)
Other expenses		(1,972)	(825)
Profit/(loss) before income tax expense	**3**	**(7,682)**	**(2,087)**
Income tax expense	4	-	-
Net profit/(loss) for the year		**(7,682)**	**(2,087)**
Other comprehensive income		-	-
Total comprehensive income for the year		**(7,682)**	**(2,087)**
Profit/(loss) for the year is attributable to:			
Owners of Stanmore Coal Ltd		(7,682)	(2,087)
Total comprehensive income for the year is attributable to:			
Owners of Stanmore Coal Ltd		(7,682)	(2,087)
Earnings/(loss) per share attributable to owners of Stanmore Coal Ltd:		**Cents**	**Cents**
Basic earnings/(loss) per share (cents per share)	8	(5.3)	(1.8)
Diluted earnings/(loss) per share (cents per share)	8	(5.3)	(1.8)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Note	2012 $'000	2011 $'000
Current assets			
Cash and cash equivalents	9	23,957	18,182
Trade and other receivables	10	1,700	722
Other current assets	14	750	21
Total current assets		**26,407**	**18,925**
Non-current assets			
Property, plant and equipment	12	2,116	2,039
Exploration and evaluation assets	13a	28,659	14,698
Capitalised development costs	13b	5,827	-
Other non-current assets	14	8,785	82
Total non-current assets		**45,387**	**16,819**
TOTAL ASSETS		**71,794**	**35,744**
Current liabilities			
Trade and other payables	15	3,324	2,243
Other current financial liabilities	15	1,400	1,500
Total current liabilities		**4,724**	**3,743**
Non-current liabilities			
Interest bearing loans and borrowings	16	4,040	-
Total non-current liabilities		**4,040**	**-**
TOTAL LIABILITIES		**8,764**	**3,743**
NET ASSETS		**63,030**	**32,001**
Equity			
Issued capital	17	72,398	34,770
Reserves	18	2,331	1,248
Accumulated losses	19	(11,699)	(4,017)
Total equity attributable to owners of Stanmore Coal Limited		**63,030**	**32,001**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2012

	Issued Capital $ '000	Accumulated Losses $ '000	Option Reserve $ '000	Total $ '000
Balance at 1 July 2010	**8,954**	**(1,930)**	**940**	**7,964**
Total comprehensive income for the financial year				
Profit/(loss) for the year	-	(2,087)	-	**(2,087)**
Other comprehensive income	-	-	-	**-**
	-	**(2,087)**	**-**	**(2,087)**
Transactions with owners in their capacity as owners				
Issue of share capital	27,394	-	-	**27,394**
Costs associated with issue of share capital	(1,578)	-	-	**(1,578)**
Share based payments	-	-	308	**308**
	25,816	**-**	**308**	**26,124**
At 30 June 2011	**34,770**	**(4,017)**	**1,248**	**32,001**
Total comprehensive income for the financial year				
Profit/(loss) for the year	-	(7,682)	-	**(7,682)**
Other comprehensive income	-	-	-	**-**
	-	**(7,682)**	**-**	**(7,682)**
Transactions with owners in their capacity as owners				
Issue of share capital	38,964	-	-	**38,964**
Costs associated with issue of share capital	(1,336)	-	-	**(1,336)**
Share based payments	-	-	1,083	**1,083**
	37,628	**-**	**1,083**	**38,711**
At 30 June 2012	**72,398**	**(11,699)**	**2,331**	**63,030**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2012

	Note	2012 $'000	2011 $'000
Cash flows from operating activities			
Receipts from customers		317	-
Payments to suppliers and employees		(5,385)	(1,800)
Interest received		886	649
Net cash (outflow)/inflow from operating activities	**24**	**(4,182)**	**(1,151)**
Cash flows from investing activities			
Payments for property, plant and equipment		(113)	(698)
Payments for exploration, evaluation and development assets		(20,295)	(7,395)
Loans for finance port infrastructure		(6,213)	-
Security deposit (payments)/refunds		(1,743)	(46)
Net cash (outflow)/inflow from investing activities		(28,364)	(8,139)
Cash flows from financing activities			
Proceeds from issue of shares		37,084	26,039
Capital raising and IPO expenses		(1,336)	(1,577)
Net proceeds from borrowings		2,573	-
Net cash (outflow)/inflow from financing activities		**38,321**	**24,462**
Net increase/(decrease) in cash held		5,775	15,171
Net cash at beginning of year		18,182	3,011
Net cash at end of year	**9**	**23,957**	**18,182**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

Note 1: Summary of significant accounting policies

The financial statements of Stanmore Coal Limited for the year ended 30 June 2012 were authorised for issue in accordance with a resolution of the Directors on 27 September 2012 and cover the consolidated entity consisting of Stanmore Coal Limited and its subsidiaries (the Company or the Group) as required by the *Corporations Act* 2001.

The financial statements are presented in the Australian currency.

Stanmore Coal Limited is a company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange.

BASIS OF PREPARATION

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

The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1988 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The financial statements have been prepared on a historical cost basis, except for derivatives, available-for-sale financial assets and held-for-trading investments that have been measured at fair value. The entity is a for-profit entity for the purposes of Australian Accounting Standards.

Going concern

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business. The ability of the consolidated entity to continue to adopt the going concern assumption will depend upon a number of matters including the successful raising in the future of necessary funding through debt, equity or farm-out, or the successful exploration and subsequent exploitation of the consolidated entity's tenements. Should these avenues be delayed or fail to materialise, the Group has the ability to scale back its activities to allow the Group to continue as a going concern and meet its debts as and when they fall due.

(A) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Stanmore Coal Limited and its subsidiaries at 30 June each year. Subsidiaries are entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Potential voting rights that are currently exercisable or convertible are considered when assessing control. Consolidated financial statements include all subsidiaries from the date that control commences until the date that control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies.

All intercompany balances and transactions, including unrealised profits arising from intragroup transactions have been eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income and statement of financial position respectively. Total comprehensive income is attributable to owners of Stanmore Coal Limited and non-controlling interests even if this results in the non-controlling interests having a debit balance.

(B) BUSINESS COMBINATIONS

The acquisition method of accounting is used to account for all business combinations. Consideration is measured at the fair value of the assets transferred, liabilities incurred and equity interests issued by the Group on acquisition date. Consideration also includes the acquisition date fair values of any contingent consideration arrangements, any pre-existing equity interests in the acquiree and share-based payment awards of the acquiree that are required to be replaced in a business combination. The acquisition date is the date on which the Group obtains control of the acquiree. Where equity instruments are issued as part of the consideration, the value of the equity instruments is their published market price at the acquisition date unless, in rare circumstances it can be demonstrated that the published price at acquisition date is not fair value and that other evidence and valuation methods provide a more reliable measure of fair value.

Identifiable assets acquired and liabilities and contingent liabilities assumed in business combinations are, with limited exceptions, initially measured at their fair values at acquisition date. Goodwill represents the excess of the consideration transferred and the amount of the non-controlling interest in the acquiree over fair value of the identifiable net assets acquired. If the consideration and non-controlling interest of the acquiree is less than the fair value of the net identifiable assets acquired, the difference is recognised in profit or loss as a bargain purchase price, but only after a reassessment of the identification and measurement of the net assets acquired.

For each business combination, the Group measures non-controlling interests at either fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed when incurred. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Where the Group obtains control of a subsidiary that was previously accounted for as an equity accounted investment in associate or jointly controlled entity, the Group remeasures its previously held equity interest in the acquiree at its acquisition date fair value and the resulting gain or loss is recognised in profit or loss. Where the Group obtains control of a subsidiary that was previously accounted for as an available-for-sale investment, any balance on the available-for-sale reserve related to that investment is recognised in profit or loss as if the Group had disposed directly of the previously held interest.

Where settlement of any part of the cash consideration is deferred, the amounts payable in future are discounted to present value at the date of exchange using the entity's incremental borrowing rate as the discount rate.

Contingent consideration is classified as equity or financial liabilities. Amounts classified as financial liabilities are subsequently remeasured to fair value at the end of each reporting period, with changes in fair value recognised in profit or loss.

Assets and liabilities from business combinations involving entities or businesses under common control are accounted for at the carrying amounts recognised in the Group's controlling shareholder's consolidated financial statements.

(C) REVENUE RECOGNITION

Revenue is measured at the fair value of consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. The following specific recognition criteria must also be met before revenue is recognised:

Interest

Revenue is recognised as interest accrues using the effective interest method.

(D) GRANTS RECEIVED

Government grant monies received directly or indirectly are brought to account when there is reasonable assurance that the grant monies will be received and that any attached conditions will be complied with. Grants received that relate to the creation of assets are recognised as a reduction to the carrying amount of the relevant asset. Such grants will be recognised as income through reduced depreciation or amortisation charges in respect of the relevant assets.

(E) INCOME TAX

The income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for all temporary differences, between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. Exceptions are made for certain temporary differences arising on initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit.

Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries, associates and interests in joint ventures where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances relating to amounts recognised directly in other comprehensive income and equity are also recognised directly in other comprehensive income and equity, respectively.

Stanmore Coal Limited and its wholly-owned subsidiaries have implemented the tax consolidation legislation for the whole of the financial year. Stanmore Coal Limited is the head entity in the tax consolidated group. These entities are taxed as a single entity and deferred tax assets and liabilities have been offset in these consolidated financial statements.

Tax consolidation

Stanmore Coal Limited and its wholly-owned subsidiaries have implemented the tax consolidation legislation for the whole of the financial year. Stanmore Coal Limited is the head entity in the tax consolidated group. These entities are taxed as a single entity. The stand-alone taxpayer/separate taxpayer within a group approach has been used to allocate current income tax expense and deferred tax expense to wholly-owned subsidiaries that form part of the tax consolidated group. Stanmore Coal Limited has assumed all the current tax liabilities and the deferred tax assets arising from unused tax losses for the tax consolidated group via intercompany receivables and payables because a tax funding arrangement has been in place for the whole financial year. The amounts receivable/payable under tax funding arrangements are due upon notification by the head entity, which is issued soon after the end of each financial year. Interim funding notices may also be issued by the head entity to its wholly-owned subsidiaries in order for the head entity to be able to pay tax instalments. These amounts are recognised as current intercompany receivables or payables.

(F) IMPAIRMENT OF ASSETS

At the end of each reporting period the consolidated entity assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

(G) CASH AND CASH EQUIVALENTS

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and at bank, deposits held at call with financial institutions, other short term, highly liquid investments with maturities of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts.

(H) TRADE RECEIVABLES

Trade receivables are recognised at original invoice amounts less an allowance for uncollectible amounts and have repayment terms between 30 and 90 days. Collectability of trade receivables is assessed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance is made for doubtful debts where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. Objective evidence of impairment includes financial difficulties of the debtor, default payments or debts more than 180 days overdue. On confirmation that the trade receivable will not be collectible the gross carrying value of the asset is written off against the associated provision.

From time to time, the Group elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and are not, in the view of the directors, sufficient to require the derecognition of the original instrument.

(I) NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Non-current assets classified as held for sale are those assets whose carrying amounts will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. These assets are stated at the lower of their carrying amount and fair value less costs to sell and are not depreciated or amortised. Interest expenses continues to be recognised on liabilities of a disposal group classified as held for sale.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for subsequent increases in fair value less costs to sell of an asset but not exceeding any cumulative impairment losses previously recognised.

(J) INVESTMENTS AND OTHER FINANCIAL ASSETS

All investments and other financial assets are initially stated at cost, being the fair value of consideration given plus acquisition costs. Purchases and sales of investments are recognised on trade date which is the date on which the Group commits to purchase or sell the asset. Accounting policies for each category of investments and other financial assets subsequent to initial recognition are set out below.

Held for Trading

Investments held for trading are measured at fair value with gains or losses recognised in profit or loss. A financial asset is classified as held-for-trading if acquired principally for the purpose of selling in the short term or if it is a derivative that is not designated as a hedge. Assets in this category are classified as current assets in the statement of financial position if they are expected to be settled within 12 months, otherwise they are classified as non-current assets.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold-to-maturity and are measured at amortised cost subsequent to initial recognition using the effective interest method. If the Group were to sell other than an insignificant amount of held-to-maturity investments, the whole category is then reclassified as available-for-sale.

Available-for-sale financial assets

Available-for-sale financial assets comprise investments in listed and unlisted entities and any non-derivatives that are not classified as any other category of financial assets, and are classified as non-current assets (unless management intends to dispose of the investment within 12 months of the end of the reporting period). After initial recognition, these investments are measured at fair value with gains or losses recognised in other comprehensive income (available-for-sale investments revaluation reserve). Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment) the full amount including any amount previously charged to other comprehensive income is recognised in profit or loss. On sale, the amount held in available-for-sale reserves associated with an available-for-sale financial asset is recognised in profit or loss as a reclassification adjustment. Interest on corporate bonds classified as available-for-sale is calculated using the effective interest rate method and is recognised in finance income in profit or loss.

Reversals of impairment losses on equity instruments classified as available-for-sale cannot be reversed through profit or loss. Reversals of impairment losses on debt instruments classified as available-for-sale can be reversed through profit or loss where the reversal relates to an increase in the fair value of the debt instrument occurring after the impairment loss was recognised in profit or loss.

The fair value of quoted investments is determined by reference to Securities Exchange quoted market bid prices at the close of business at the end of the reporting period. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Loans Receivable

Loans receivable are non-derivative financial assets with fixed or determinable repayment dates that are not traded in an active market. After initial recognition, such assets are subsequently recognised at amortised cost less impairment.

Loans and Borrowings

After initial recognition, loans and borrowings are subsequently recognised at amortised cost.

Fair Values

Fair values may be used for financial asset and liability measurement as well as for sundry disclosures.

Fair values for financial instruments traded in active markets are based on quoted market prices at the end of the reporting period. The quoted market price for financial assets is the current bid price.

The carrying value less impairment provision of current receivables and payables is assumed to approximate their fair values due to their short-term nature. The fair value of other financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(K) PLANT AND EQUIPMENT

Plant and equipment is measured on the cost basis less depreciation and impairment losses.

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

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 consolidated entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets is depreciated over their useful life to the consolidated entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of assets are:

Class of Fixed Asset	Depreciation Rate
Plant and Equipment	10–25% Straight Line
Computer Equipment	33.3% Straight Line
Furniture and Office Equipment	5–10% Straight Line

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

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. The gains and losses are included in profit or loss.

(L) DERIVATIVE FINANCIAL LIABILITIES

Obligations to settle fees payable to financiers as either cash or shares are reflected as derivative financial liabilities with changes in fair value recognised directly through profit and loss.

(M) EXPLORATION AND EVALUATION EXPENDITURE

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. Such expenditures comprise net direct costs and an appropriate portion of related overhead expenditure but do not include overheads or administration expenditure not having a specific nexus with a particular area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active or significant operations in relation to the area are continuing.

A regular review has been undertaken on each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

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

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

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

(N) INTANGIBLE ASSETS/DEVELOPMENT COSTS

Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;

- the availability of resources to complete the asset; and
- the ability to measure reliability the expenditure during development.

Following initial recognition of the development expenditures an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. During the period of development, the asset is tested for impairment annually.

(O) TRADE AND OTHER PAYABLES

Trade and other payables represent liabilities for goods and services provided to the Group prior to the year end and which are unpaid. These amounts are unsecured and have 7–60 day payment terms. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(P) EMPLOYEE BENEFITS

Wages and Salaries, Annual Leave and Sick Leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the end of the reporting period are recognised in respect of employees' services rendered up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when leave is taken and measured at the actual rates paid or payable. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements.

(Q) PROVISIONS

Provisions for legal claims, service warranties and make good obligations are recognised when the consolidated entity has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount can be reliably estimated.

(R) ISSUED CAPITAL

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit.

(S) SHARE-BASED PAYMENTS

The consolidated entity provides benefits to employees and consultants in the form of share-based payment transactions, whereby they render services in exchange for shares or options over shares (equity-settled transactions).

The fair value of share or options granted to employees and consultants is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees or consultants become unconditionally entitled to the instruments. For options, fair value is determined by an independent valuer using a Black-Scholes option pricing model. In determining fair value, no account is taken of any performance conditions other than those related to the share price of Stanmore Coal Limited (market conditions). The cumulative expense recognised between grant date and vesting date is adjusted to reflect the Directors' best estimate of the number of instruments that will ultimately vest because of internal conditions of the instruments, such as the employees having to remain with the consolidated entity until vesting date, or such that employees are required to meet internal sales targets. No expense is recognised for instruments that do not ultimately vest because internal conditions were not met. An expense is still recognised for instruments that do not ultimately vest because a market condition was not met.

Where the terms of options are modified, the expense continues to be recognised from grant date to vesting date as if the terms had never been changed. In addition, at the date of the modification, a further expense is recognised for any increase in fair value of the transaction as a result of the change.

Where options are cancelled, they are treated as if vesting occurred on cancellation and any unrecognised expenses are taken immediately to profit or loss. However, if new options are substituted for the cancelled options and designated as a replacement on grant date, the combined impact of the cancellation and replacement options are treated as if they were a modification.

(T) EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of Stanmore Coal Limited by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Earnings used to calculate diluted earnings per share are calculated by adjusting the amount used in determining basic earnings per share by the after-tax effect of dividends and interest associated with dilutive potential ordinary shares. The weighted average number of shares used is adjusted for the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(U) GST

Revenues, expenses and assets are recognised net of GST except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

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

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

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

(V) OPERATING SEGMENTS

The consolidated entity applies AASB 8 Operating Segments which requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner that is consistent with the internal reporting to the chief operating decision maker (CODM), which has been identified by the consolidated entity as the Managing Director and other members of the Board of Directors.

(W) NEW AND AMENDED STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 July 2011, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements, except for the following:

(i) AASB 9 Financial Instruments (effective from 1 January 2015)

AASB 9 Financial Instruments addresses the classification, measurement and de-recognition of financial assets and financial liabilities. It simplifies the approach for classification and measurement of financial assets compared with the requirements of AASB 139. Financial assets are to be classified based on (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139. The Economic Entity does not plan to adopt this standard early and the extent of the impact has not been determined.

In addition to the above, new and amended standards dealing with Consolidated Financial Statements, Separate Financial Statements, Joint Arrangements, Disclosure of Interests in Other Entities and Fair Value Measurement have recently been released. These standards are effective from 1 January 2013. The consolidated entity does not plan to adopt these standards early nor has the extent of their impact been determined.

(X) ACCOUNTING ESTIMATES AND JUDGMENTS

Critical accounting estimates and judgements

Details of critical accounting estimates and judgements made by management at the end of the reporting period are set out below:

(i) Key estimates – share-based payments

The consolidated entity uses estimates to determine the fair value of equity instruments issued to Directors, executives and employees. Further detail of estimates used in determining the value of share-based payments is included in Note 25.

(ii) Key estimates – impairment

The consolidated entity assesses impairment at each reporting date by evaluating conditions specific to the consolidated entity that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates. No assets are considered impaired at year end.

(iii) Key judgements – exploration and evaluation assets

The consolidated entity performs regular reviews on each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. While there are certain areas of interest from which no reserves have been extracted, the Directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded. Such capitalised expenditure is carried at the end of the reporting period at $28,659,306 (2011: $14,694,802).

(iv) Key judgements – fair value of development costs

Development costs are capitalised in accordance with the accounting policy in note 1(n). Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a PFS has been completed. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generating potential of the project, discount rates to be applied and the expected period of which cashflows are expected to be received. As at 30 June 2012, the carrying amount of capitalised developments costs was $5,827,179 (2011: nil)

(v) Key judgements – financial instruments

When the fair value of financial assets and financial liabilities cannot be derived from active markets, the fair value is determined using valuation techniques including the discounted cashflow model. The judgements applied in development of these models relate to inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(Y) PARENT ENTITY FINANCIAL INFORMATION

The financial information for the parent entity, Stanmore Coal Limited, included in note 19, has been prepared on the same basis as the consolidated financial statements, except as follows:

Investments in subsidiaries

Investments in subsidiaries, associates and joint ventures are accounted for at cost.

Note 2: Revenue and other income

Revenue from continuing operations:

	2012 $'000	2011 $'000
Interest received		
– Other persons	886	790
Other income	13	9
Total revenue and other income	**899**	**799**

Note 3: Profit/(loss) before income tax expense

Profit(loss) before income tax includes the following specific expenses:

	Note	2012 $'000	2011 $'000
Depreciation			
Plant and equipment		36	14
Finance costs			
Interest paid			
– external parties		18	139
Borrowing costs		14	0
Write-off of capitalised exploration expenditure		-	9
Costs of securing infrastructure capacity rights		902	-
Share-based payments (shares)	25	380	24
Share-based payments (options)	25	1,082	308
Superannuation expense		98	39
Minimum lease payments made under operating leases		76	86

Note 4: Income tax expense

	2012 $'000	2011 $'000
Reconcilliation		
Current income tax expense	(5,462)	(2,415)
Deferred income tax expense	5,647	2,400
Deferred income tax through equity	(29)	-
Under/over provision in prior year	(156)	14
The prima facie income tax on the loss is reconciled to the income tax expense as follows:		
Prima facie tax benefit (30%) on loss before income tax	(2,304)	(626)
Add tax effect of:		
– Permanent differences	392	103
– Deferred tax asset not recognised	2,068	507
– Prior year over/under provision	(156)	14
Income tax expense	-	-
Recognised deferred tax assets and liabilities		
Deferred tax assets		
Unused tax losses	9,458	3,811
Deductible temporary differences*	728	597
	10,186	**4,409**
Deferred tax liabilities		
Assessable temporary differences	(10,186)	(4,409)
Deferred tax	-	-
Unrecognised deferred tax assets		
Unused tax losses	11,220	5,464
Deferred tax assets not taken up at 30% (2011: 30%)	3,366	1,639

*At 30 June 2012 there are $396 (2011: $544) of deferred tax assets relating to share issue costs which were recognised in equity.

In order to recoup carried forward losses in future periods, either the Continuity of Ownership Test (COT) or Same Business Test must be passed. The majority of losses are carried forward at 30 June 2012 under COT.

Deferred tax assets which have not been recognised as an asset, will only be obtained if:

(i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the losses to be realised;

(ii) the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the consolidated entity in realising the losses.

Note 5: Employee benefits expense

(A) TOTAL EMPLOYEE COMPENSATION

	2012 $'000	2011 $'000
Short-term employee benefits	1,528	831
Post-employment benefits	52	18
Termination benefits	-	53
Share-based payments	1,249	205
	2,829	**1,107**

Further information regarding the identity of key management personnel and their compensation can be found in the Audited Remuneration Report contained in the Directors' report on pages 23 to 31 of this annual report.

(B) EQUITY INSTRUMENTS

Shareholdings

Details of ordinary shares held directly, indirectly or beneficially by key management personnel and their related parties are as follows:

	Balance 1 July 2011	Granted as remuneration	On exercise of options or Rights	Net change other	Balance 30 June 2012
Directors					
Neville Sneddon	-	-	-	-	-
Nicholas Jorss*	31,710,000	-	-	52,540	31,762,540
Andrew Martin*	31,680,000	-	-	20,270	31,700,270
Stephen Bizzell	7,138,347	-	-	234,167	7,372,514
Viv Forbes	2,068,000	-	-	20,270	2,088,270
Chris McAuliffe#	-	-	-	-	-
Senior Management					
Doug McAlpine^	-	47,534	-	-	47,534
Vaughan Wishart*	31,680,000	57,692	-	20,270	31,769,962
Michael McKee	44,143	235,955	-	-	280,098
Wesley Nichols	-	49,763	-	-	49,763
Duncan Cornish**	1,115,771	-	-	(1,115,771)**	-

* Shares are held by St Lucia Resources International Pty Ltd of which Nicholas Jorss, Andrew Martin and Vaughan Wishart are Directors, and each have interest in trusts which own >20%.

** Duncan Cornish stepped down as Chief Financial Officer on 19 September 2011 and is not considered to be key management personnel following that date, resulting in a nil balance key management personnel shareholding at 30 June 2012. The net reduction of 1,115,771 shares during the year is not a result of Mr Cornish selling his shares in the Company.

^ Opening balance on commencement of employment.

Chris McAuliffe commenced as a Director on 17 July 2012.

There were no shares held nominally at 30 June 2012.

	Balance 1 July 2010	Granted as remuneration	On exercise of options or Rights	Net change other	Balance 30 June 2012
Directors					
Neville Sneddon	-	-	-	-	-
Nicholas Jorss*	31,200,000*	-	480,000#	30,000	31,710,000
Andrew Martin*	31,200,000*	-	480,000#	-	31,680,000
Stephen Bizzell	6,186,564	-	-	951,783	7,138,347
Viv Forbes	2,036,595	-	-	31,405	2,068,000
Senior Management					
Vaughan Wishart*	31,200,000*	-	480,000#	-	31,680,000
Tim Jones	65,000	-	1,000,000	(1,065,000)	-
Michael McKee	-	20,000		24,143	44,143
Wesley Nichols^	-	-			
Duncan Cornish	967,000	-	148,771	-	1,115,771

*Shares are held by St Lucia Resources International Pty Ltd of which Nicholas Jorss, Andrew Martin and Vaughan Wishart are Directors, and each have interest in trusts which own >20%.

^Opening balance on commencement of employment.

#Relates to ordinary shares acquired by St Lucia Resources International Pty Ltd through a renounceable rights issue in November 2010.

There were no shares held nominally at 30 June 2011.

Options holdings

	Balance 1 July 2011	Granted as remuneration	Exercise of Options	Net Change Other	Balance 30 June 2012	Total vested at 30 June 2012	Total vested and exercisable at 30 June 2012	Total vested and not exercisable at 30 June 2012
Directors								
Neville Sneddon	1,350,000	-	-	-	1,350,000	1,350,000	1,350,000	-
Nicholas Jorss	2,000,000	-	-	-	2,000,000	2,000,000	2,000,000	-
Andrew Martin	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000	-
Stephen Bizzell	3,000,000	-	-	-	3,000,000	3,000,000	3,000,000	-
Viv Forbes	525,000	-	-	-	525,000	525,000	525,000	
Chris McAuliffe*	-	-	-	-	-	-	-	-
Senior Management								
Doug McAlpine^	-	1,800,000	-	-	1,800,000	-	-	-
Vaughan Wishart	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000	-
Michael McKee^	2,000,000	-	-	-	2,000,000	-	-	-
Wesley Nichols^	-	1,200,000	-	-	1,200,000	-	-	-
Duncan Cornish**	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000	-

^ Opening balance on commencement of employment

* Chris McAuliffe commenced as a Director on 19 July 2012

** Duncan Cornish stepped down as Chief Financial Officer on 19 September 2011 and is not considered to be key management personnel following that date.

	Balance 1 July 2010	Granted as remuneration	Exercise of Options	Net Change Other	Balance 30 June 2011	Total vested at 30 June 2011	Total vested and exercisable at 30 June 2011	Total vested and not exercisable at 30 June 2011
Directors								
Neville Sneddon	1,350,000	-	-	-	1,350,000	1,350,000	1,350,000	-
Nicholas Jorss	2,000,000	-	-	-	2,000,000	2,000,000	2,000,000	-
Andrew Martin	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000	-
Stephen Bizzell	3,000,000	-	-	-	3,000,000	3,000,000	3,000,000	-
Viv Forbes	525,000	-	-	-	525,000	525,000	525,000	-
Senior Management								
Vaughan Wishart	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000	-
Tim Jones	1,500,000	-	(1,000,000)	(500,000)	-	-	-	-
Michael McKee^	-	2,000,000	-	-	2,000,000	-	-	-
Wes Nichols^	-	-	-	-	-	-	-	-
Duncan Cornish	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000	-

^ opening balance on commencement of employment

(C) LOANS TO KEY MANAGEMENT PERSONNEL

There were no loans to Key Management Personnel during the year (2011: none).

(D) OTHER TRANSACTIONS AND BALANCES

Other transactions with Key Management Personnel are set out in Note 27 (c). There were no other transactions or balances with Key Management Personnel during the year.

Note 6: Dividends and franking credits

There were no dividends paid or recommended during the financial year.

There are no franking credits available to the shareholders of Stanmore Coal Limited.

Note 7: Auditors' remuneration

	2012 $	2011 $
Audit services		
Amounts paid/payable to BDO Audit Pty Ltd for audit or review of the financial statements for the entity or any entity in the consolidated entity	53,891	52,793
Taxation services		
Amounts paid/payable to BDO Audit Pty Ltd for non-audit taxation services performed for the entity or any entity in the consolidated entity: – Preparation of income tax return	20,892	20,800
	74,783	**73,593**

Note 8: Earnings per share

	2012 $'000	2011 $'000
Earnings		
Loss attributable to owners of Stanmore Coal Limited used to calculate basic and diluted earnings per share	(7,682)	(2,087)

	2012 Number '000	2011 Number '000
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	143,658	114,365
Adjustments for calculation of diluted earnings per share: – Options*	-	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	143,658	114,365

* Options are considered anti-dilutive as the consolidated entity is loss making. Options could potentially dilute earnings per share in the future. Refer to Note 17 (b) for details of options granted as at 30 June 2012.

Note 9: Cash and cash equivalents

	2012 $'000	2011 $'000
Cash at bank and in hand	23,957	18,182
Cash at bank attracts floating and fixed interest rates between 1% and 5.15% (2011: 1 and 6.15%)		
Reconciliation of cash		
The above figures are reconciled to the cash at the end of the financial year as shown in the statement of cash flows as follows:		
Balances as above	**23,957**	**18,182**
Balances per statement of cash flows	23,957	18,182

Cash and cash equivalents of $24 million held at 30 June 2012, includes a term deposit of nil (2011: $1.1 million) which relates to a bank guarantee lodged in support of Stanmore's WICET feasibility funding obligations. Further information regarding the Company's obligations in relation to WICET is disclosed in Note 21.

Note 10: Trade and other receivables

	2012 $'000	2011 $'000
Current		
GST receivable	806	567
Sundry receivables	894	155
	1,700	**722**

No receivables balances are past due or impaired at the end of the reporting period. Sundry receivables reflect grant proceeds receivable in respect of the Company's exploration activities.

Note 11: Subsidiaries

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

			Percentage Owned (%)*	
Name of entity	Country of Incorporation	Class of Shares	2012	2011
Mackenzie Coal Pty Ltd	Australia	Ordinary	100%	100%
Comet Coal & Coke Pty Ltd	Australia	Ordinary	100%	100%
Belview Coal Pty Ltd	Australia	Ordinary	100%	100%
Brown River Project Pty Ltd	Australia	Ordinary	100%	100%
Emerald Coal Pty Ltd	Australia	Ordinary	100%	100%
New Cambria Pty Ltd	Australia	Ordinary	100%	100%
Kerlong Coking Coal Pty Ltd	Australia	Ordinary	100%	100%
Stanmore Surat Coal Pty Ltd	Australia	Ordinary	100%	0%

Note 12: Property, plant and equipment

	2012 $'000	2011 $'000
Land Deposit		
At cost	1,930	1,930
Plant and equipment		
At cost	14	7
Accumulated depreciation	(2)	(1)
	12	**6**
Computer equipment		
At cost	91	41
Accumulated depreciation	(34)	(12)
	57	**29**
Furniture and office equipment		
At cost	134	78
Accumulated depreciation	(17)	(4)
	117	**74**
Total plant and equipment	**2,116**	**2,039**

MOVEMENTS IN CARRYING AMOUNTS

2012	Land Deposit $'000	Plant and equipment $'000	Computer equipment $'000	Furniture and office equipment $'000	Total $'000
Balance at the beginning of the year	1,930	6	29	74	**2,039**
Additions	-	7	50	56	**113**
Depreciation expense	-	(1)	(22)	(13)	**(36)**
Carrying amount at the end of the year	1,930	12	57	117	**2,116**

2011	Land Deposit $'000	Plant and equipment $'000	Computer equipment $'000	Furniture and office equipment $'000	Total $'000
Balance at the beginning of the year	-	-	21	2	**23**
Additions	1,930	7	18	75	**2,030**
Depreciation expense	-	(1)	(10)	(3)	**(14)**
Carrying amount at the end of the year	1,930	6	29	74	**2,039**

Note 13 (a): Exploration and evaluation expenditure

	2012 $'000	2011 $'000
Non-current		
Exploration and evaluation expenditure capitalised – Exploration and evaluation phases	28,659	14,697
Recoverability of the carrying amount of exploration and evaluation assets is dependent on the successful development and commercial exploitation of coal, or alternatively, sale of the respective areas of interest.		
Movements in carrying amounts		
Balance at the beginning of the year	14,697	7,187
Additions	13,962	7,519
Written-off	-	(9)
Carrying amount at the end of the year	28,659	14,697

Commitments for exploration and evaluation expenditure are disclosed in Note 21.

Note 13 (b): Capitalised development costs

	2012 $'000	2011 $'000
Non-current		
Capitalised development costs	5,827	-
Recoverability of the carrying amount of development assets is dependent on the successful completion of development activities, or alternatively, sale of the respective areas of interest.		
Movements in carrying amounts		
Balance at the beginning of the year	-	-
Additions	5,827	-
Written-off	-	-
Carrying amount at the end of the year	5,827	-

Note 14: Other assets

	2012 $'000	2011 $'000
Current		
Prepaid insurance	16	20
Prepaid borrowing costs	734	-
	750	**20**
Non-current		
Loans receivable^	6,213	-
Debt service reserve account#	1,069	-
Security deposits	769	82
Prepaid borrowing costs	734	-
	8,785	**82**

^Loans Receivable reflects amounts due from third parties in respect of funding provided for port infrastructure development.

#The Company is required to maintain a Debt Service Reserve Account in accordance with the requirements of a debt finance facility.

Note 15: Trade and other payables

	2012 $'000	2011 $'000
Current		
Trade payables	524	1,389
Sundry payables and accrued expenses	2,738	837
Employee benefits	62	17
	3,324	**2,243**
Other current financial liabilities		
Other payables	1,400	1,500

Current other payables at 30 June 2012 reflects the fair value of the Company's obligation to cash settle options which are to be granted to a financier subject to shareholder approval. This has been expensed as a borrowing cost.

Current other payables of $1,500,000 at 30 June 2011 represents the amount payable to the vendors of Comet Coal & Coke Pty Ltd.

Note 16: Interest bearing loans and liabilities

	2012 $'000	2011 $'000
Non-current		
Interest bearing loan	4,040	-

On 28 June 2012 the Company agreed a facility with Credit Suisse AG to provide funding support for infrastructure related financing commitments. The facility will assist the Company to finance its financial commitments to secure long term capacity at a coal export terminal which will allow the Company to export product once its projects are in the operating phase. As at 30 June 2012 the Company had drawn on $4.04 million of the available $25 million facility provided by Credit Suisse AG. The facility is priced with reference to a margin to the prevailing BBSY rate on a quarterly-in-arrears basis.

The facility is repayable in two years from initial draw and the Company has the option to extend for an additional year. The facility is secured against the assets and undertakings of the Company and its subsidiaries.

Note 17: Issued capital

	2012 $'000	2011 $'000
179,409,108 fully paid ordinary shares (2011: 125,676,177)	76,243	37,279
Share issue costs	(3,845)	(2,509)
	72,398	**34,770**

(A) ORDINARY SHARES

	2012 Number	2011 Number	2012 $'000	2011 $'000
At the beginning of the year	125,676,177	93,213,159	34,770	8,954
Shares issued during the year				
14 September 2010[1]	-	500,000	-	120
7 October 2010[2]	-	13,888,889	-	12,500
9 November 2010[3]	-	16,554,129	-	13,243
9 February 2011[4]	-	500,000	-	177
16 March 2011[5]	-	20,000	-	24
15 April 2011[6]	-	1,000,000	-	1,330
20 July 2011[7]	25,000	-	29	-
11 August 2011[8]	1,495,664	-	1,500	-
14 December 2011[9]	19,079,526	-	14,119	-
19 December 2011[10]	97,606	-	104	-
18 January 2012[11]	9,756,553	-	7,220	-
27 January 2012[12]	3,736,486	-	2,765	-
7 February 2012[13]	106,406	-	82	-
23 March 2012[14]	206,803	-	165	-
29 June 2012[15]	19,228,887	-	12,980	-
Share issue costs	-	-	(1,336)	(1,578)
At reporting date	**179,409,108**	**125,676,177**	**72,398**	**34,770**

1 On 14 September 2010 500,000 unlisted $0.24 options were exercised into ordinary shares.

2 On 7 October 2010 13,888,889 ordinary shares were issued, pursuant to an institutional placement, raising $12,500,000 before issue costs.

3 On 9 November 2010 16,554,129 ordinary shares were issued, pursuant to a renounceable entitlement offer, raising $13,243,303 before issue costs.

4 On 9 February 2011 500,000 unlisted $0.353 options were exercised into ordinary shares.

5 On 16 March 2011 20,000 ordinary shares (value of $23,600) were issued to an employee of the consolidated entity.

6 On 15 April 2011 1,000,000 ordinary shares (value of $1,330,000) were issued as partial consideration for the purchase of property at The Range Project.

7 On 20 July 2011, 25,000 ordinary shares (value of $29,000) were issued to an employee of the consolidated entity.

8 On 11 August 2011, 1,495,664 ordinary shares were issued at an exercise price of $1.0029 (value of $1,500,000) to the vendors of Comet Coke & Coal Pty Ltd in satisfaction of the third and final payment of the purchase of Comet Coal & Coke Pty Ltd.

9 On 14 December 2011, 19,079,526 ordinary shares were issued pursuant to a placement to investors, raising $14,118,849 before issue costs

10 On 19 December 2011, 97,606 ordinary shares (value of $104,000) were issued to employees of the consolidated entity.

11 On 18 January 2012, 9,756,553 ordinary shares were issued pursuant to a placement to investors, raising $7,219,849 before issue costs.

12 On 27 January 2012, 3,736,486 ordinary shares were issued pursuant a placement to investors, raising $2,765,000 before issue costs.

13 On 7 February 2012, 106,406 ordinary shares were issued to an employee of the consolidated entity (value of $81,600).

14 On 23 March 2012, 206,806 ordinary shares (value of $165,442) were issued to employees of the consolidated entity.

15 On 29 June 2012, 19,228,887 ordinary shares were issued to Greatgroup Investments Limited, raising $12,979,498 before issue costs.

Ordinary shares participate in dividends and the proceeds on winding up of the consolidated entity in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Ordinary shares have no par value and Stanmore Coal Limited does not have a limited amount of authorised capital.

(B) OPTIONS

For information relating to the Stanmore Coal Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end refer to Note 25.

All options on issue at 30 June 2012 were as follows:

Number of options	Exercise price	Expiry date
6,350,000	$0.19	9 December 2012
3,500,000	$0.19	31 December 2013
525,000	$0.15	16 January 2014
100,000	$0.73	31 December 2013
100,000	$0.87	31 December 2013
100,000	$1.09	31 December 2013
75,000	$1.44	30 March 2015
75,000	$1.68	30 March 2015
75,000	$1.80	30 March 2015
900,000	$1.75	31 December 2015
900,000	$2.00	31 December 2015
900,000	$2.25	31 December 2015
500,000	$2.50	31 December 2015
450,000	$1.75	31 March 2016
450,000	$2.00	31 March 2016
450,000	$2.25	31 March 2016
450,000	$2.50	31 March 2016
15,900,000		

(C) CAPITAL MANAGEMENT

Management controls the capital of the consolidated entity in order to provide capital growth to shareholders and ensure the consolidated entity can fund its operations and continue as a going concern.

The consolidated entity's capital comprises equity as shown in the Statement of Financial Position. There are no externally imposed capital requirements.

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

There have been no changes in the strategy adopted by management to control the capital of the consolidated entity since the prior year.

Note 18: Reserves

	2012 $'000	2011 $'000
Option Reserve – capital raising	286	286
Option Reserve – Director, executive and employee options	2,045	962
	2,331	**1,248**

The option reserve records the value of options issued as part of capital raisings, as well as expenses relating to Director, executive and employee share options.

Note 19: Accumulated losses

	2012 $'000	2011 $'000
Accumulated losses attributable to members of Stanmore Coal Limited at beginning of the financial year	(4,017)	(1,930)
Losses after income tax	(7,682)	(2,087)
Accumulated losses attributable to members of Stanmore Coal Limited at the end of the financial year	(11,699)	(4,017)

Note 20: Parent entity information

The Corporations Act requirement to prepare parent entity financial statements where consolidated financial statements are prepared has been removed and replaced by the new regulation 2M.3.01 which requires the following limited disclosure in regards to the parent entity (Stanmore Coal Limited). The consolidated financial statements incorporate the assets, liabilities and results of the parent entity in accordance with the accounting policy described in Note 1(a).

	2012 $'000	2011 $'000
Current assets	58,431	18,867
Non-current assets	13,437	16,947
Total assets	**71,868**	**35,814**
Current liabilities	4,724	3,742
Non-current liabilities	4,040	-
Total liabilities	**8,764**	**3,742**
NET ASSETS	**63,104**	**32,072**
Issued capital	72,316	34,770
Reserves	2,328	1,248
Accumulated losses	(11,540)	(3,946)
Total shareholder's equity	**63,104**	**32,072**
PROFIT/(LOSS) FOR THE YEAR	**(7,682)**	**(2,085)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(7,682)**	**(2,085)**

Guarantees
No guarantees have been entered into by the parent entity in relation to debts of its subsidiaries (2011: $nil).

Contingent liabilities
The parent entity has no contingent liabilities.

Capital commitments
The parent entity has no capital commitments.

Note 21: Commitments

(A) FUTURE EXPLORATION

The consolidated entity has certain obligations to expend minimum amounts on exploration in tenement areas. These obligations may be varied from time to time and are expected to be fulfilled in the normal course of operations of the consolidated entity.

The commitments to be undertaken are as follows:

	2012 $'000	2011 $'000
Payable		
- not later than 12 months	936	674
- between 12 months and 5 years	9,377	6,682
- greater than 5 years	-	-
	16,313	**7,356**

To keep tenements in good standing, work programs should meet certain minimum expenditure requirements. If the minimum expenditure requirements are not met, the consolidated entity has the option to negotiate new terms or relinquish the tenements. The consolidated entity also has the ability to meet expenditure requirements by joint venture or farm-in agreements.

(B) OPERATING LEASES

The commitments to be undertaken are as follows:

	2012 $'000	2011 $'000
Payable		
- not later than 12 months	96	94
- between 12 months and 5 years	32	130
- greater than 5 years	-	-
	128	**224**

The consolidated entity has an operating lease commitment in relation to the lease of commercial office premises. The lease commenced on 1 November 2010 for a term of three years. The economic entity has provided a bank guarantee of $25,121 as a security bond on the premises.

(C) CAPITAL COMMITMENTS

The commitments to be undertaken are as follows:

	2012 $'000	2011 $'000
Payable		
- not later than 12 months	-	-
- between 12 months and 5 years	3,100	3,100
- greater than 5 years	-	-
	3,100	**3,100**

Land Acquisitions

On 7 April 2011 the consolidated entity announced that it had completed an agreement for the right to purchase a key property at The Range thermal coal project in the Surat Basin. This agreement gives the Company access to undertake evaluation and development work as the project moves to first coal production in 2015. The terms of the acquisition are confidential but are within normal market expectations and involve a series of staged payments over a number of years.

A completion payment of $3,100,000 in cash is due the earlier of: 30 days after the Mining Lease is granted by the Department of Mines and Energy; or 29 November 2013.

WICET Port Infrastructure

On 27 June 2012 the Company executed a Capacity Commitment Deed (CCD) for five million tonnes per annum of port capacity in WEXP1. The CCD commits the Company to provide $44 million of early works costs for the project prior to WEXP1 financial close. $4 million of the obligation was satisfied in cash as at 30 June 2012 with an additional $21 million supported by a bank guarantee. The remaining $18 million is payable prior to financial close in accordance with the WEXP1 financing plan. Post execution of binding take or pay contracts at WEXP1 financial close, the $44 million of early works funding will be converted to an equity interest in WICET.

Note 22: Contingent liabilities and contingent assets

The Directors are not aware of any other significant contingent liabilities or contingent assets at the date of this report.

Note 23: Operating segments

The consolidated entity has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The consolidated entity is managed primarily on a geographic basis, that is, the location of the respective areas of interest (tenements) in Australia. Operating segments are determined on the basis of financial information reported to the Board which is at the consolidated entity level. The consolidated entity does not have any products or services it derives revenue from.

Accordingly, management currently identifies the consolidated entity as having only one reportable segment, being exploration for coal in Australia. There have been no changes in the operating segments during the year. Accordingly, all significant operating decisions are based upon analysis of the consolidated entity as one segment. The financial results from this segment are equivalent to the financial statements of the consolidated entity as a whole.

Note 24: Cash flow information

(A) RECONCILIATION OF PROFIT/(LOSS) AFTER INCOME TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2012 $'000	2011 $'000
Loss for the year	(7,682)	(2,087)
Depreciation	36	14
Write back of capitalised expenditure	-	9
Borrowing costs	1,400	-
Share-based payments expense	1,462	332
Change in operating assets and liabilities:		
- (Increase)/Decrease in trade and other receivables	(978)	126
- (Increase)/Decrease in other assets	4	(6)
- Increase/(Decrease) in trade and other payables	1,576	461
Net cash flow from operating activities	**(4,182)**	**(1,151)**

(B) NON-CASH INVESTING ACTIVITIES

On 15 April 2011 1,000,000 ordinary shares (value of $1,330,000) were issued as partial consideration for purchase of property at The Range Project. During the year ended 30 June 2012, 1,495,664 ordinary shares (value of $1,500,151) were issued as final consideration for the purchase of Comet Coke & Coal Pty Ltd. 152,027 ordinary shares (value of $112,500) were issued as final consideration in respect of the partial underwriting of the Company's Share Purchase Plan announced in December 2011.

Note 25: Share-based payments

The following share-based payment arrangements existed at 30 June 2012.

(A) SHARE-BASED PAYMENTS TO DIRECTORS, EXECUTIVES AND EMPLOYEES

During the year ended 30 June 2012 the following options were issued to employees and consultants of the consolidated entity:

- 400,000 unlisted options exercisable at $1.75, on or before 31 December 2015 (vesting 4 July 2012)
- 400,000 unlisted options exercisable at $2.00, on or before 31 December 2015 (vesting 4 July 2013)
- 400,000 unlisted options exercisable at $2.25, on or before 31 December 2015 (vesting 4 July 2014)
- 450,000 unlisted options exercisable at $1.75, on or before 31 March 2016 (vesting 30 September 2012)
- 450,000 unlisted options exercisable at $2.00, on or before 31 March 2016 (vesting 30 September 2013)
- 450,000 unlisted options exercisable at $2.25, on or before 31 March 2016 (vesting 30 September 2014)
- 450,000 unlisted options exercisable at $2.50, on or before 31 March 2016 (vesting 30 September 2015).

All of these options were issued by Stanmore Coal Limited and entitle the holder to one ordinary share in Stanmore Coal Limited for each option exercised. The options were granted for nil consideration. Once vested, options can be exercised at any time up to the expiry date. There are no market or performance based vesting criteria in respect of these options.

	2012		2011	
	No. of options	Weighted average exercise price $	No. of options	Weighted average exercise price $
Outstanding at beginning of year	10,700,000	0.63	9,675,000	0.28
Granted	3,000,000	2.08	2,525,000	1.98
Forfeited	(300,000)	1.19	-	-
Exercised	-	-	(1,000,000)	0.30
Expired	-	-	(500,000)	0.50
Outstanding at year-end	13,400,000	0.94	10,700,000	0.63
Exercisable at year-end	8,750,000	0.31	8,075,000	0.20

The options outstanding at 30 June 2012 had a weighted average exercise price of $0.31 (2011: $0.20) and weighted average remaining contractual life of 1.8 years (2011: 2.2 years). Exercise prices range from $0.15 to $2.50 in respect of options outstanding at 30 June 2012 (2010: $0.15 to $2.50).

No options were exercised during the year ended 30 June 2012 (2011: Exercise prices range from $0.24 to $0.353 in respect of options exercised during the year; weighted average exercise price of options exercised during the year of $0.30.)

Pursuant to the consolidated entity's Incentive Option Scheme, if an employee ceases to be employed by the consolidated entity then options will expire three months from the date employment ceases.

The weighted average fair value of the options granted during the year ended 30 June 2012 was $0.28 (2011: $0.47). This price was calculated by using a Black-Scholes options pricing model applying the following inputs:

	2012	2011
Weighted average exercise price	$2.08	$1.98
Weighted average life of the option	4.48 years	4.45 years
Weighted average share price	$0.91	$1.21
Weighted average expected share price volatility	58.63%	60.62%
Weighted average risk free interest rate	4.11%	4.85%

Historical volatility has been the basis for determining expected share price volatility.

The expected life of the options has been taken to be the full period of time from grant date to expiry date. The options pricing model assumes that options will be exercised on or immediately before the expiry date.

The settlement method for the above options is on a 1:1 basis. During the year ended 30 June 2012, no ordinary shares (2011: 1,000,000) in Stanmore Coal Limited were issued as a result of the exercise of options. The amount paid for the exercise of options into shares was therefore $nil (2011: $296,500).

During the year ended 30 June 2012, the following shares were granted to key management personnel as share-based payments:

Grant date	Number	Fair Value
20 July 2011	25,000	29,000
19 December 2012	97,606	70,276
7 February 2012	106,406	98,958
23 March 2012	206,803	165,442

The fair value of the shares, as determined by reference to the closing price on the date of grant, was $379,632.

These shares were issued as compensation to key management of the Group. Further details are provided in the Directors' Report.

The amount included in the statement of Comprehensive Income is as follows:

	2012 $'000	2011 $'000
Employee benefits expense	380	314
Administration and consulting expense	-	18
	380	**332**

These amounts have been recognised in equity in the Balance Sheet as follows:

	2012 $'000	2011 $'000
Share capital	380	24
Option reserve	1,082	308
	1,462	**332**

(B) OTHER SHARE-BASED PAYMENTS

During the year ended 30 June 2012, 1,495,664 ordinary shares were issued as final consideration for the purchase of Comet Coke & Coal Pty Ltd.

The fair value of the shares, as determined by reference to the closing price on the date of completion of the agreement, was $1,500,151.

152,027 ordinary shares (value of $112,500) were issued as final consideration in respect of the partial underwriting of the Company's Share Purchase Plan announced in December 2011.

Note 26: Events after balance date

On 7 June 2012 the consolidated entity announced it has agreed to acquire two large and prospective EPCs within the Surat Basin through a tenement exchange with Queensland Coal Corporation. The transaction settled after 30 June 2012. The transaction increases the Company's landholdings significantly and involves only the exchange of tenements with no further cash or equity consideration and completion of the swap is conditional on Ministerial Approval under the *Mineral Resource Act* 1989.

On 11 July 2012 a CMS was completed by MineCraft Consulting Pty Ltd for the Belview Coking Coal Project based on 3.4 Mtpa ROM coal produced from a multi-shaft, single longwall operation. The Belview coal resource occurs within the Rangal Coal Measures and contains two seams for potential underground extraction, the Aries seam (2–3 m thick) and the Gemini seam (5–6 m thick). Belview has a JORC-compliant Inferred Resource of 95 Mt and an additional exploration target[2] of 205–345 Mt for primary coking coal and secondary PCI product.

On 11 September 2012, the Queensland State Government announced an increase to the royalty rates payable for coal mining activities in Queensland which are effective from October 2012. The Company continues to assess the potential impact of the increase in State royalties on development and exploration projects.

There have been no other events since 30 June 2012 that impact upon the financial report as at 30 June 2012.

Note 27: Related party transactions

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

(A) PARENT ENTITY

The parent entity and ultimate controlling entity is Stanmore Coal Limited, which is incorporated in Australia.

(B) SUBSIDIARIES

Interests in subsidiaries are disclosed in Note 11.

(C) KEY MANAGEMENT PERSONNEL

Disclosures relating to key management personnel are set out in the Remuneration Report contained in the Directors' Report and in Note 5.

(D) TRANSACTIONS WITH DIRECTORS AND DIRECTOR-RELATED ENTITIES

During the financial year ended 30 June 2012, Bizzell Capital Partners Pty Ltd (of which Stephen Bizzell is a Director) received an underwriting fee of $112,500, paid in shares, pursuant to the share placement plan announced in November 2011. The terms of the Bizzell Capital Partners Pty Ltd underwriting agreement were negotiated on an arm's length basis. The underwriting agreement was on the same terms and conditions as the underwriting agreements with other (external) partial underwriter to the entitlement offer Wilson HTM Corporate Finance Limited.

Also during the financial year ended 30 June 2012, Bizzell Capital Partners Pty Ltd provided investor relations and general corporate advisory services to the consolidated entity. The services were based on normal commercial terms and conditions. Bizzell Capital Partners Pty Ltd received $179,102 (2011: $75,724) for these services during the financial year. As at 30 June 2012 the consolidated entity had an accounts payable amount of $1,141 (2011: $25,260) owing to Bizzell Capital Partners Pty Ltd.

Note 28: Financial risk management

(A) GENERAL OBJECTIVES, POLICIES AND PROCESSES

In common with all other businesses, the consolidated entity is exposed to risks that arise from its use of financial instruments. This note describes the consolidated entity's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the consolidated entity's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The consolidated entity's financial instruments consist mainly of deposits with banks, trade and other receivables, security deposits and trade and other payables.

The Board has overall responsibility for the determination of the consolidated entity's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the consolidated entity's finance function. The consolidated entity's risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the results of the consolidated entity where such impacts may be material.

The overall objective of the Board is to set polices that seek to reduce risk as far as possible without unduly affecting the consolidated entity's competitiveness and flexibility. Further details regarding these policies are set out below:

(B) CREDIT RISK

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the consolidated entity incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the consolidated entity. The consolidated entity's objective is to minimise the risk of loss from credit risk exposure.

The consolidated entity's maximum exposure to credit risk at the end of the reporting period, without taking into account the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments in relation to each class of recognised financial asset at reporting date, is as follows:

	2012 $'000	2011 $'000
Cash and cash equivalents	23,957	18,182
Receivables	1,700	722
Security deposits and debt service reserve	1,838	82
Loans receivable	6,213	-
	33,708	**18,986**

Credit risk is reviewed regularly by the Board and the audit committee.

The consolidated entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the consolidated entity. No receivables balances were past due or impaired at year end. The credit quality of receivables that are neither past due nor impaired is good. Bank deposits are held with Macquarie Bank Limited and Westpac Banking Corporation.

(C) LIQUIDITY RISK

Liquidity risk is the risk that the consolidated entity may encounter difficulties raising funds to meet financial obligations as they fall due. The object of managing liquidity risk is to ensure, as far as possible, that the consolidated entity will always have sufficient liquidity to meets its liabilities when they fall due, under both normal and stressed conditions. Liquidity risk is reviewed regularly by the Board and the audit committee.

The consolidated entity manages liquidity risk by monitoring forecast cash flows and liquidity ratios such as working capital. The consolidated entity's working capital, being current assets less current liabilities has increased from $15.182

million in 2011 to $27.896 million in 2012. As outlined in Note 1, the ability for the Company to deliver on its strategic objectives is dependent upon the ability to secure necessary funding through debt, equity or farm-out, or the successful exploration and subsequent exploitation of the consolidated entity's tenements. Should these avenues be delayed or fail to materialise, the Group has the ability to scale back its activities to allow the Group to continue as a going concern and meet its debts as and when they fall due.

Maturity analysis – consolidated 2012

	Carrying amount $'000	Contractual cash flows $'000	‹6 months $ '000	6–12 months $'000	1–3 years $'000	›3 years $ '000
Financial Liabilities						
– Trade payables	524	524	524	-	-	-
– Other payables	4,200	4,200	4,200	-	-	-
– Interest bearing loan	4,040	4,732	173	173	4,386	
	8,764	**9,456**	**4,897**	**173**	**4,386**	**-**

Maturity analysis – consolidated 2011

	Carrying amount $'000	Contractual cash flows $'000	‹6 months $ '000	6–12 months $'000	1–3 years $'000	›3 years $'000
Financial Liabilities						
– Trade payables	2,889	2,889	2,889	-	-	-
– Other payables	2,354	2,354	2,354	-	-	-
	5,243	**5,243**	**5,243**	**-**	**-**	**-**

Further information regarding commitments is included in Note 21.

(D) MARKET RISK

Market risk arises from the use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk). The entity does not have any material exposure to market risk other than as set out below.

Interest rate risk

Interest rate risk arises principally from cash and cash equivalents. The objective of interest rate risk management is to manage and control interest rate risk exposures within acceptable parameters while optimising the return.

Interest rate risk is managed with a mixture of fixed and floating rate debt. For further details on interest rate risk refer to the tables below:

	Floating interest rate 2012 $'000	Fixed interest rate 2012 $'000	Non-interest bearing 2012 $'000	Total carrying amount as per the statements of financial position 2012 $'000	Weighted average effective interest rate 2012 %
Financial assets					
Cash and cash equivalents	-	23,957	-	23,957	4.99
Receivables	-	-	1,700	1,700	-
Security deposits	1,742	-	96	1,838	4.99
Loans receivables	6,213	-	-	6,213	4.99
Total financial assets	**7,955**	**23,957**	**1,796**	**33,708**	**-**
Financial liabilities					
Trade payables	-	-	524	524	-
Other payables	-	-	4,200	4,200	-
Interest bearing loan	4,040	-	-	4,040	8.58
Total financial liabilities	**4,040**	**-**	**4,724**	**8,764**	**-**

	Floating interest rate 2011 $ '000	Fixed interest rate 2011 $'000	Non-interest bearing 2011 $'000	Total carrying amount as per the statements of financial position 2011 $'000	Weighted average effective interest rate 2011 %
Financial assets					
Cash and cash equivalents	554	17,628	-	18,182	4.72%
Receivables	-	-	722	722	-
Security deposits	-	-	82	82	-
Total financial assets	**554**	**17,628**	**804**	**18,986**	**-**
Financial liabilities					
Trade payables	-	-	2,889	2,889	-
Other payables	-	-	2,384	2,384	-
Total financial liabilities	**-**	**-**	**5,273**	**5,273**	**-**

The consolidated entity has performed a sensitivity analysis relating to its exposure to interest rate risk. This sensitivity demonstrates the effect on the current year results and equity which could result from a change in these risks.

At 30 June 2012 the effect on profit and equity as a result of changes in the interest rate would be as follows:

		Increase in interest rate by 1%		Decrease in interest rate by 1%	
2012	Carrying amount $'000	Profit $'000	Other comprehensive income $'000	Profit $'000	Other comprehensive income $
Cash and cash equivalents	23,957	240	-	(240)	-
Security deposits	1,742	17		(17)	
Loans receivable	6,213	62		(62)	
Interest bearing loan	(4,040)	(40)		40	
Tax charge of 30%	-	-	-	-	-
After tax increase/(decrease)	-	279	-	(279)	-

The above analysis assumes all other variables remain constant.

2011	Carrying amount $'000	Profit $'000	Other comprehensive income $'000	Profit $'000	Other comprehensive income $
Cash and cash equivalents	18,182	181	-	(181)	-
Tax charge of 30%	-	-	-	-	-
After tax increase/(decrease)	-	181	-	(181)	-

The above analysis assumes all other variables remain constant.

(E) FAIR VALUES

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Stanmore Coal Limited has adopted the amendment to AASB 7 Financial Instruments: Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the consolidated entity's assets and liabilities measured and recognised at fair value at 30 June 2011 and 2012.

2012	Level 1 $'000	Level 2 $'000	Level 3 $'000	Level 4 $'000
Financial liabilities				
Other payables	-	-	1,400	1,400
Total financial liabilities	**-**	**-**	**1,400**	**1,400**

2011	Level 1 $'000	Level 2 $'000	Level 3 $'000	Level 4 $'000
Financial liabilities				
Other payables	-	-	1,500	1,500
Total financial liabilities	**-**	**-**	**1,500**	**1,500**

The fair values disclosed in the above table have been determined using the probable future cash outflows payable, discounted to net present value.

The fair values of all remaining financial assets and financial liabilities approximate their carrying value.

DECLARATION
BY DIRECTORS

The Directors of the consolidated entity declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes are in accordance with the *Corporations Act* 2001 and:

   (a) comply with Accounting Standards and the Corporations Regulations 2001; and

   (b) give 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.

2. The consolidated entity has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

3. In the Directors' opinion, there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

4. The remuneration disclosures included in pages 23–31 of the Directors' report (as part of audited Remuneration Report) for the year ended 30 June 2011, comply with section 300A of the Corporations Act 2001.

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

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

Nicholas Jorss
Managing Director

Brisbane
Date: 27 September 2012

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the members of Stanmore Coal Limited

Report on the Financial Report

We have audited the accompanying financial report of Stanmore Coal Limited, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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 Company's preparation of the financial report that gives a true and fair view 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 Company'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*, which has been given to the directors of Stanmore Coal Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

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

- (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies *with International Financial Reporting Standards* as disclosed in Note 1.

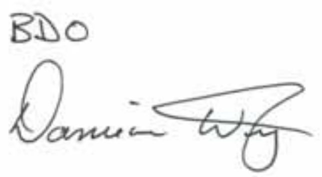
Report on the Remuneration Report

We have audited the Remuneration Report included in pages 20 to 27 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

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

BDO Audit Pty Ltd



D P WRIGHT
Director

Brisbane, 27 September 2012

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