

Annexure

**COALWORKS LIMITED  
ACN 114 702 831  
AND CONTROLLED ENTITIES**

**INCOME STATEMENT  
FOR THE PERIOD ENDED 31 DECEMBER 2007**

	Note	Actual 6 months ended 31 Dec 2007 \$	Pro forma 6 months ended 31 Dec 2007 \$	Actual 12 months ended 30 June 2007 \$
Revenue		325	325	712
Administration expenses		(26,640)	(26,640)	(21,583)
Share based payments	11	-	(3,230,475)	-
<b>Loss from ordinary activities before income tax expense</b>		<b>(26,315)</b>	<b>(3,256,790)</b>	<b>(20,871)</b>
Income tax expense		-	-	-
<b>LOSS ATTRIBUTABLE TO MEMBERS OF THE COMPANY</b>		<b>(26,315)</b>	<b>(3,256,790)</b>	<b>(20,871)</b>

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

**COALWORKS LIMITED**  
**ACN 114 702 831**  
**AND CONTROLLED ENTITIES**

**BALANCE SHEET**  
**AS AT 31 DECEMBER 2007**

	Note	Actual 6 months ended 31 Dec 2007 \$	Pro forma 6 months ended 31 Dec 2007 Minimum \$	Pro forma 6 months ended 31 Dec 2007 Maximum \$	Actual 12 months ended 30 June 2007 \$
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	8	2,131,814	15,866,814	25,266,814	57,778
Receivables		33,605	33,605	33,605	-
Other current assets		50,814	50,814	50,814	68,382
<b>TOTAL CURRENT ASSETS</b>		<u>2,216,233</u>	<u>15,951,233</u>	<u>25,351,233</u>	<u>126,160</u>
<b>NON-CURRENT ASSETS</b>					
Exploration Assets	9	255,589	255,589	255,589	61,991
<b>TOTAL NON-CURRENT ASSET</b>		<u>255,589</u>	<u>255,589</u>	<u>255,589</u>	<u>61,991</u>
<b>TOTAL ASSETS</b>		<u>2,471,822</u>	<u>16,206,822</u>	<u>25,606,822</u>	<u>188,151</u>
<b>CURRENT LIABILITIES</b>					
Payables		8,500	8,500	8,500	11,000
<b>TOTAL LIABILITIES</b>		<u>8,500</u>	<u>8,500</u>	<u>8,500</u>	<u>11,000</u>
<b>NET ASSETS</b>		<u>2,463,322</u>	<u>16,198,322</u>	<u>25,598,322</u>	<u>177,151</u>
<b>EQUITY</b>					
Contributed equity	10	2,519,069	16,254,069	25,654,069	206,583
Option reserve	11	-	3,230,475	3,230,475	-
Accumulated losses	12	(55,747)	(3,286,222)	(3,286,222)	(29,432)
<b>TOTAL EQUITY</b>		<u>2,463,322</u>	<u>16,198,322</u>	<u>25,598,322</u>	<u>177,151</u>

The above balance sheet should be read  
in conjunction with the accompanying notes.

**COALWORKS LIMITED**  
**ACN 114 702 831**  
**AND CONTROLLED ENTITIES**

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE PERIOD ENDED 31 DECEMBER 2007**

	Actual 6 months ended	Pro forma 6 months ended	Pro forma 6 months ended	Actual 12 months ended
Note	31 Dec 2007	31 Dec 2007 Minimum	31 Dec 2007 Maximum	30 June 2007
	\$	\$	\$	\$
<b>TOTAL EQUITY AT THE BEGINNING OF THE FINANCIAL PERIOD</b>	177,151	177,151	177,151	(8,472)
Issue of share capital (net of costs)	10 2,312,486	2,312,486	2,312,486	206,493
Issue of Prospectus shares	10 -	13,735,000	23,135,000	-
Option reserve	11 -	3,230,475	3,230,475	-
Loss for the period	12 (26,315)	(3,256,790)	(3,256,790)	(20,870)
<b>TOTAL EQUITY AT THE END OF THE FINANCIAL PERIOD</b>	<b>2,463,322</b>	<b>16,198,322</b>	<b>25,598,322</b>	<b>177,151</b>

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

**COALWORKS LIMITED  
ACN 114 702 831  
AND CONTROLLED ENTITIES**

**CASH FLOW STATEMENT  
FOR THE PERIOD ENDED 31 DECEMBER 2007**

	Note	Actual 31 Dec 2007 \$	Actual 30 June 2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received		325	712
Payments in the course of operations		<u>(45,177)</u>	<u>(26,421)</u>
<b>Net Cash Used in Operating Activities</b>	13ii	<u>(44,852)</u>	<u>(25,709)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment for exploration expenditure		<u>(193,598)</u>	<u>(61,991)</u>
<b>Net Cash Used in Investing Activities</b>		<u>(193,598)</u>	<u>(61,991)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from share issues		<u>2,312,486</u>	<u>145,000</u>
<b>Net Cash Provided by Financing Activities</b>		<u>2,312,486</u>	<u>145,000</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		2,074,036	57,300
Cash and Cash Equivalents at the Beginning of the Financial Period		<u>57,778</u>	<u>478</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD</b>	13i	<u>2,131,814</u>	<u>57,778</u>

The above cash flow statement should be read  
in conjunction with the accompanying notes.

**COALWORKS LIMITED**  
**ACN 114 702 831**  
**AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 31 DECEMBER 2007**

**1 REPORTING ENTITY**

Coalworks Limited (the 'Company') is a company incorporated in Australia under the Corporations Act 2001. The financial statements have been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The financial statements of the Company comply with International Financial Reporting Standards ('IFRSs') and interpretations adopted by the International Accounting Standards Board ('IASB').

**2 MEASUREMENT BASE**

The measurement base adopted is that of historical cost unless otherwise specified. Reliance has been placed on the fact that the Company is a going concern.

**3 FUNCTIONAL AND PRESENTATION CURRENCY**

The Company's financial statements are presented in Australian Dollars, which is the Company's functional and presentation currency. All values are rounded off to the nearest dollar.

**4 USE OF ESTIMATES AND JUDGEMENT**

The preparation of the financial statements requires management to make judgments, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods.

**5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following specific accounting policies which materially affect the measurement of financial performance and financial position have been applied:

**(a) Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

**(b) Goods and Services Tax (GST)**

The company has not registered for GST, however, revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**COALWORKS LIMITED**  
**ACN 114 702 831**  
**AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 31 DECEMBER 2007**

**5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(c) Income Tax**

The charge for current income tax expense is based on the profit for the period adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

**(d) Impairment of Assets**

At each reporting date, the entity reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives. Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

**COALWORKS LIMITED**  
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**AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 31 DECEMBER 2007**

**5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(e) Exploration Costs and Development Expenditure**

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable 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 that permits reasonable assessment of the existence of economically recoverable reserves.

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

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

**(f) Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of course of business, net of discounts and Goods and Services Tax ("GST") during the year.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

**(g) Risk Management Policies**

*Fair Value Risk*

Fair value is the amount at which assets and liabilities can be exchanged in a current transaction between willing parties, other than in a forced sale, and is best evidenced by a quoted market price, where one exists. The estimated fair values of assets and liabilities have been determined by the Company using available market information and appropriate valuation methodologies. However judgment is necessarily required to interpret market data to estimate fair values. Accordingly, the estimates are not necessarily indicative of the amounts the Company could realise in a current market exchange. The carrying amounts of the assets and liabilities approximate their fair values.

**6 CHANGES IN ACCOUNTING POLICIES**

There have been no changes in accounting policies. All policies have been applied on bases consistent with those used in previous years.

**COALWORKS LIMITED**  
**ACN 114 702 831**  
**AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 31 DECEMBER 2007**

**7 ACTUAL AND PROPOSED TRANSACTIONS USED IN COMPILING THE PRO-FORMA CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT**

The pro forma consolidated balance sheet and income statement has been prepared consistently with the accounting policies detailed above.

The purpose of the pro forma consolidated balance sheet and income statement is to incorporate the effect of the following actual and proposed events subsequent to balance date to 30 June 2007 as if they had occurred on that date:

- (i) The receipt of \$15,000,000 from the issue of 15,000,000 ordinary shares at an issue price of \$1.00 each. This is the minimum issue of ordinary shares proposed under the Prospectus.
- (ii) The receipt of \$25,000,000 from the issue of 25,000,000 ordinary shares at an issue price of \$1.00 each. This is the maximum issue of ordinary shares proposed under the Prospectus.
- (iii) The payment of a 5% underwriting and lead manager commission and 1% management fee of total capital raised to BBY Limited in connection with the issue and achieving quotation of the Company's shares on the ASX.
- (iv) The issue of 15,000,000 options to certain parties (see note 11).
- (v) The payment of other costs associated with the issue of \$365,000.

	Actual 6 months ended 31 Dec 2007	Pro forma 6 months ended 31 Dec 2007 Minimum	Pro forma 6 months ended 31 Dec 2007 Maximum	Actual 12 months ended 30 June 2007
	\$	\$	\$	\$
<b>8 CASH AND CASH EQUIVALENTS</b>				
Cash at bank and in hand	231,814	13,966,814	23,366,814	57,778
Cash on deposit	1,900,000	1,900,000	1,900,000	-
	<u>2,131,814</u>	<u>15,866,814</u>	<u>25,266,814</u>	<u>57,778</u>
<b>9 EXPLORATION ASSETS</b>				
Exploration expenditure capitalised -at cost	255,589	255,589	255,589	61,991

Ultimate recovery of exploration assets is dependent upon success in exploration and evaluation or sale or farm-out of the exploration interest.

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**AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 31 DECEMBER 2007**

	Actual 6 months ended 31 Dec 2007	Pro forma 6 months ended 31 Dec 2007 Minimum	Pro forma 6 months ended 31 Dec 2007 Maximum	Actual 12 months ended 30 June 2007
	\$	\$	\$	\$
<b>10 CONTRIBUTED EQUITY</b>				
Balance at the beginning of the period	206,583	206,583	206,583	90
Issue of 1,545 shares	-	-	-	206,493
Share issue <sup>1</sup>	2,509,561	2,509,561	2,509,561	-
Issue costs	(197,075)	(197,075)	(197,075)	-
Minimum subscription: 15,000,000 shares at \$1.00	-	15,000,000	-	-
Maximum subscription: 25,000,000 shares at \$1.00	-	-	25,000,000	-
Underwriting fees	-	(900,000)	(1,500,000)	-
Other costs of issue	-	(365,000)	(365,000)	-
	<u>2,519,069</u>	<u>16,254,069</u>	<u>25,654,069</u>	<u>206,583</u>
<b>Share reconciliation</b>				
	No. of shares	No. of shares	No. of shares	No. of shares
Balance at the beginning of the period	2,445	2,445	2,445	900
Issue of 1,545 shares	-	-	-	1,545
Share issue <sup>1</sup>	1,428	1,428	1,428	-
Share issue <sup>2</sup>	-	400	400	-
Share issue <sup>3</sup>	-	142	142	-
Share split – 1 share in to 17,575 shares	-	77,591,224	77,591,224	-
Minimum subscription	-	15,000,000	-	-
Maximum subscription	-	-	25,000,000	-
	<u>3,873</u>	<u>92,595,639</u>	<u>102,595,639</u>	<u>2,445</u>

<sup>1</sup> Shares were issued to seed capital investors in November 2007 to support the company's drilling programs. 1,428 shares were issued at a price of \$1,757 per share raising \$2,509,561.

<sup>2</sup> The company agreed to issue to BBY Limited at no cost, 400 shares in the Coalworks Limited as part of an agreement to underwrite the share issue.

<sup>3</sup> Shares were issued to consultants of the business at an issue price of 10 cents per share for their role in the successful granting of exploration licenses.

**COALWORKS LIMITED**  
**ACN 114 702 831**  
**AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 31 DECEMBER 2007**

	Actual 6 months ended 31 Dec 2007	Pro forma 6 months ended 31 Dec 2007 Minimum	Pro forma 6 months ended 31 Dec 2007 Maximum	Actual 12 months ended 30 June 2007
	\$	\$	\$	\$
<b>11 SHARE BASED PAYMENTS RESERVE</b>				
Grant of 15,000,000 incentive options	-	3,230,475	3,230,475	-

The company has held an Extraordinary General Meeting on 23 May 2008 to approve the granting of 15,000,000 incentive based shares to various parties as detailed below. The options are granted under the company's executive option plan. The options are to vest with the parties in three separate tranches and only upon the successful completion of certain operational benchmarks.

- a total of 4,100,000 options are to vest upon the successful Initial Public Offering of Coalworks Limited and listing on the ASX is achieved. These options are exercisable at \$1.00

- a total of 5,450,000 options are to vest upon the successful completion of the Pilot Coal Production. These options are exercisable at \$1.50.

- a total of 5,450,000 options are to vest upon the company obtaining Full Mine Approval. These options are exercisable at \$2.00

All options can be exercised before 31 December 2011. The options hold no voting or dividends rights and have been issued at no cost.

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**ACN 114 702 831**  
**AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 31 DECEMBER 2007**

**11 SHARE BASED PAYMENTS RESERVE (Continued)**

Director/ Consultant	Options granted on successful IPO @ exercise price of \$1.00 per option	Options granted on Pilot Coal Production @ exercise price of \$1.50 per option	Options granted on full mine approval @ exercise price of \$2.00 per option
W. Mitchell (director)	500,000	500,000	500,000
A. Firek (director)	1,000,000	1,500,000	1,500,000
G. Coall (director)	500,000	750,000	750,000
T. Teng (director)	500,000	500,000	500,000
C. Hagan (consultant)	1,000,000	1,500,000	1,500,000
G. Rosewall (consultant)	200,000	233,333	233,333
D. Smith (consultant)	200,000	233,333	233,333
BBY Ltd (consultant)	200,000	233,334	233,334
<b>Total</b>	<b>4,100,000</b>	<b>5,450,000</b>	<b>5,450,000</b>

The options have been valued using the Black-Scholes option pricing model. It has been determined that the value for each option for the tranches 1, 2 and 3 was \$0.435, \$0.306 and \$0.225 respectively. A probability factor of 50% was applied to the options for tranche 2 and 3 to take into account the uncertainty of the options ever vesting due to the criteria not being met.

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**AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 31 DECEMBER 2007**

	Actual 6 months ended 31 Dec 2007 \$	Pro forma 6 months ended 31 Dec 2007 Minimum \$	Pro forma 6 months ended 31 Dec 2007 Maximum \$	Actual 12 months ended 30 June 2007 \$
<b>12 ACCUMULATED LOSSES</b>				
Balance at the beginning of the period	(29,432)	(29,432)	(29,432)	(8,562)
Loss attributable to the company	(26,315)	(3,256,790)	(3,256,790)	(20,870)
	<u>(55,747)</u>	<u>(3,286,222)</u>	<u>(3,286,222)</u>	<u>(29,432)</u>

**13 NOTES TO THE CASH FLOW STATEMENT**

- i For the purpose of the Cash Flow Statement, Cash and cash equivalents includes Cash at bank and on hand and cash on deposit. Cash and cash equivalents at the end of the financial period as shown in the Cash Flows Statement is reconciled to the related items in the Balance Sheet as follows:

	Actual 31 Dec 2007 \$	Actual 30 June 2007 \$
Cash at bank and in hand	231,814	57,778
Cash on deposit	1,900,000	-
	<u>2,131,814</u>	<u>57,778</u>
<b>2 Reconciliation of Loss to Net Provided by Operating Activities</b>		
Loss after income tax	(26,315)	(20,871)
Change in other assets and receivables	(16,037)	(5,138)
Change in payables	(2,500)	300
	<u>(44,852)</u>	<u>(25,709)</u>

**14 RELATED PARTY TRANSACTIONS**

Other than the options issued to directors as detailed in note 11 and reimbursements of expenses incurred in the day to day operations on behalf of the Company, there were no transactions with related parties.