

Creating value through high quality coal mining in Pennsylvania USA

Leveraging production revenues for growth

Implementing a defined development plan to maximise production potential

Utilising industry experience to expand operations and consolidate regional position

For a short video to view operations at the Stockton mine please insert this link into your web browser:
<http://www.youtube.com/watch?v=IWcs8ikprXY>

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> Chairman's Report

2010 was an active year for Atlantic during which we increased production capacity through sustained investment in our primary asset, the Stockton Colliery ("Stockton"), an opencast anthracite mining and processing operation in the Pennsylvanian Coal Field, US, and continued to evaluate potential acquisition targets in line with our strategy to become a regional consolidator.

Stockton

Stockton, which encompasses an area of approximately 900 hectares located in Hazel Creek, provides the Company with a strong footprint in Pennsylvania, a prime anthracite region where there is local demand for our product. In order to improve the mine economics in the second quarter of 2010, we put a new excavator into service to develop the current reserves of 3.2 million tons run-of-mine ("ROM") coal and raise production levels. This had the desired effect and production for the year was 207,873 tons of ROM and 2,837,863 bank cubic yards, ("BCYs") of overburden removed (2009: 232,499 tons ROM and 1,804,435 BCYs), with an additional 125,000 tons produced in the first quarter of 2011, generating revenues of US\$10,720,103 (2009: US\$9,048,214), an upward trend that is continuing. The Company recorded a gross loss for the year ended 31 December of US\$1,980,488 (2009: gross profit US\$1,692,860) and this was mainly as a result of an increase in the Gowen reclamation charge (US\$1,400,000), and of the cyclical nature of the cut operation which resulted in a higher strip ratio of coal to overburden due to the operations being nearer to the surface where less coal is recovered. However with operations in the latter part of the year and the first quarter of 2011 being in the cut basin, the ratio decreased, ROM production has increased and we anticipate that our production profile should continue to gain from the benefits of this during the course of 2011.

During 2010, feed rate at the washing plant averaged 1,000 tons per shift, more than double the 2009 rate capacity of 450 tons per shift.

Current production continues to increase and a second hydraulic excavator has been ordered which we anticipate will become operational during the first quarter of 2012.

Additional Opportunities

We are actively looking to expand our portfolio in the Pennsylvanian Anthracite Field where Stockton is located and utilise our knowledge of anthracite mining and processing.

Funding

During the course of 2010 we raised £1.7 million (before expenses). Post-period end, in January 2011, we raised £300,000 (before expenses) in order to satisfy institutional demand, through a placing with the Blackrock UK Smaller Companies Fund and then in February 2011 we completed a further fundraising of £12.0 million (before expenses). These fundraisings have provided us with the finance required to accelerate the implementation of our mine plan through the purchase of a new drill rig, truck engine rebuilds and enable a necessary equipment overhaul to increase production at Stockton.

Board Changes

During 2010 Greg Kuenzel, John Menzies and Toby Howell stepped down from the Board to pursue other corporate interests. I would like to take this opportunity to thank them all for their support and assistance during a pivotal time in Atlantic's development.

Operations Review

During the year we invested in new equipment, most significantly a US\$3.5 million Liebherr R9250 19.6-yard bucket hydraulic excavator to enhance excavation capacity and facilitate the increase of ROM tons supplied to the wash plant. Since it began operating during the second quarter of 2010, production has risen.

Following this success, a second Liebherr R9250 19-yard bucket hydraulic excavator was ordered in April 2011 at a cost of US\$3.75 million funded through a conventional lease purchase agreement. This is scheduled to be operational during the first quarter of 2012 and its arrival will coincide with the completion of restoration work at the Company's Gowen site, 20km from Stockton, which will free two Cat 777 trucks and provide additional haul truck capacity for the two Liebherr excavators.

Engine rebuilds on the truck fleet are currently in progress and will be completed at the rate of one truck every six weeks. Trucks are taken out of service one at a time in order to facilitate this process with the minimal possible disruption to operations.

Work on the railroad diversion was deferred during 2009 and 2010 in an effort to preserve working capital. Subsequent to the February 2011 share placing work on the railway diversion was restarted and is scheduled to be completed during the third quarter of 2011.

During 2010 Atlantic mined 207,873 tons of ROM (2009: 232,499) and removed 2,837,863 bank cubic yards, ("BCYs") of overburden (2009: 1,804,435). 229,293 tons of ROM was washed which produced 88,597 tons of clean coal (2009: 81,765). Sales during the year amounted to 97,342 tons (2009: 74,566). Coal prices during 2010 remained strong and the Company benefited from the high alternative demand for coking coal.

In April 2010 we signed a memorandum of understanding ("MOU") with Xcoal Energy and Resource ("Xcoal"), a private US coal marketing company, which saw Xcoal agree to purchase up to the greater of 150,000 tons per year and 50 per cent. of Stockton's annual anthracite production.

Current Trading

Encouraging production levels have continued into the current financial year despite adverse weather conditions experienced throughout the region. For the three months ended 31 March 2011 Atlantic mined 125,148 tons of ROM and removed 658,785 BCYs of overburden (2010: 17,458 ROM and 651,866 respectively). 62,000 tons of ROM was washed, which produced 28,846 tons of clean coal (2010: 47,050 ROM and 19,097 tons respectively). In excess of 90,000 tons of good quality ROM is also currently held as stock. In October 2010 the

Company increased weekly working hours to improve production rates.

Sales for the first quarter of 2011 were 31,238 tons at an average price of US\$134.25 per ton (2010: 97,342 tons and US\$113.12 respectively). The Board is optimistic that prices will remain strong during the second quarter of 2011.

Outlook

2010 was a year of growth for Atlantic, during which our primary focus was on increasing our production rates. With a strong cash position we believe that we are well funded to drive growth. Additionally, we continue to evaluate other properties, both in the Pennsylvanian Anthracitic Belt and further afield, which we believe have the potential to be of benefit to the Company.

I look forward to the coming year and achieving our aims of building a significant multi-project coal company by utilising our cumulative experience in the resource and corporate sectors. Finally, I would like to take this opportunity to thank both the Atlantic shareholders and our dedicated team for their support over the past 12 months.

Adam Wilson
Chairman
8 June 2011

Directors' Report

The Directors present their Report, together with the Group Financial Statements and the Independent Auditors' Report, for the year ended 31 December 2010.

Principal Activities and Business Review

The principal activity of the Company is that of a holding company. The principal activity of the Group is the development and operation of the Stockton Colliery which comprises the Stockton Mine and an anthracite washing plant in Pennsylvania, USA.

A detailed review of the business of the Group during the year and an indication of likely future developments may be found in the Chairman's Report on pages 2 and 3.

Risks and uncertainties are discussed on pages 5 and 6 of this Directors' Report.

Results and Dividends

The loss of the Group for the year ended 31 December 2010 before taxation amounts to \$5,091,659 (year ended 31 December 2009 – \$2,571,672).

The Directors do not recommend the payment of a dividend for the year (year ended 31 December 2009 – \$nil).

Directors

The names of the Directors are shown in the Company Information on page 2.

Mr Gregory Kuenzel and Mr Toby Howell resigned on 24 September 2010. Mr John Menzies was appointed on 27 September 2010 and resigned on 27 October 2010, due to a conflict of interest.

Directors' Interests

The Directors who served during the year ended 31 December 2010 had the following beneficial interests in the shares of the Company:

	As at the date of appointment		31 December 2010		1 January 2010	
	Ordinary Shares	Options	Ordinary Shares	Options	Ordinary Shares	Options
Stephen Best ⁽¹⁾	136,492,199	15,000,000	286,885,199	77,500,000	224,385,199	15,000,000
Toby Howell	–	–	N/A	N/A	5,332,223	2,678,683
Gregory Kuenzel ⁽²⁾	1,140,000	–	N/A	N/A	7,440,000	10,500,000
John Menzies	–	–	N/A	N/A	N/A	N/A
Adam Wilson	56,673,000	22,074,070	118,733,000	84,574,070	86,233,000	22,074,070
Peter Chinneck	60,000,000	16,500,000	181,000,000	41,500,000	156,000,000	16,500,000

(1) Stephen Best's shares are held as follows, 194,828,633 by his spouse, 73,960,418 by American Investments Limited and 18,096,148 by Willoughby (465) Limited. 15,000,000 options are held in his name and 62,500,000 options by his spouse.

(2) Of the 7,440,000, 2,250,000 of Gregory Kuenzel's shares were held by his spouse and 3,300,000 by Freeside Limited.

Further details on options can be found in Note 13 to the Financial Statements.

Key Performance Indicators ("KPIs")

The Board monitors the activities and performance of the Group on a regular basis. The Board uses both financial and non-financial indicators based on budget versus actual to assess the performance of the Group. The indicators set out below were used during the period to 31 December 2010 and will continue to be used by the Board to assess performance over the year to 31 December 2011.

KPIs	31 December 2010	31 December 2009
Sales Revenue – per ton of coal sold before discounts (\$)	113.12	121.34
Cost Price – operating cost per ton of coal sold (\$)	119.57	98.64
Health and Safety – number of reportable accidents (number)	28	7
Environmental Incidents – breaches of environmental legislation (number)	2	1
Recovery Rates – amount of clean coal generated from raw coal mined	39%	41%

The decrease in sales revenue per ton was due to pressure from industrial customers in early 2010. Price per ton achieved increased throughout the second half of 2010 and the Board expects these strong prices to continue throughout 2011.

The increase in cost price per ton was due to an increase in the cost of extraction caused by overburden removed during the first quarter of 2010 and an increase in the Gowen reclamation costs. The nature of the geology of the coal seam means that there will be fluctuations in the cost per ton over the life of the mine. The Board expects cost per ton to reduce in 2011 having removed a lot of the overburden during 2010.

The Group is obliged to report any Health and Safety incidents to the Department of Environmental Protection. Of the 28 incidents reported during 2010, none resulted in hospital treatment.

Environmental Responsibility

The Company recognises that the Group's activities require it to have regard to the potential impact that it and its subsidiary may have on the environment. Wherever possible, the Company ensures that its subsidiary complies with the local regulatory requirements with regard to the environment.

Health and Safety

The Group operates a health and safety programme to ensure the wellness and security of its employees. The control and eventual elimination of all work related hazards requires a dedicated team effort involving the active participation of all employees. A comprehensive health and safety programme is the primary means for delivering best practices in health and safety management. This programme is regularly updated to incorporate employee suggestions, lessons learned from past incidents and new guidelines related to new projects with the aim of identifying areas for further improvement of health and safety management. This results in continuous improvement of the health and safety programme. Employee involvement is recognised as fundamental in recognising and reporting unsafe conditions and avoiding events that may result in injuries and accidents.

Principal Risks and Uncertainties

The management of the business and the execution of the Group's strategy are subject to a number of risks.

Risks are formally reviewed by the Board, and appropriate processes are put in place to monitor and mitigate them. If more than one event occurs, it is possible that the overall effect of such events would compound the possible adverse effects on the Group.

The key business risks affecting the Group are set out below.

Mining and processing risks

The Group's principal operation is the mining of coal. Its operations are subject to all of the hazards and risks normally encountered in mining and processing coal. These include unusual and unexpected geological formations, rock falls, flooding and other conditions involved in the extraction of material, any of which could result in damage to the mine and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although adequate precautions to minimise risk are taken, operations are subject to hazards, which may result in environmental pollution and consequent liability which could have a material adverse impact on the business, operations and financial performance of the Group.

As is common with all mining operations, there is uncertainty and therefore risk associated with the Group's operating parameters and costs. These can be difficult to predict and are often affected by factors outside the Group's control.

The Group may be required to undertake clean-up programmes resulting from any contamination from its operations or to participate in mine rehabilitation programmes which may vary from project to project. The Group follows all necessary laws and regulations and is not aware of any present material issues in this regard.

Environment, health and safety

While the Company believes that its operations are currently and will be in substantial compliance with all relevant material environmental, health and safety laws and regulations, there can be no assurance that new laws and regulations, or amendments to, or stringent enforcement of, existing laws and regulations will not be introduced. This could have a material adverse impact on the Group. Dust, noise and chemical reagents, among other factors, may pose a health risk to persons at the mine and the environment. There can be no assurance that all permits which the Group require will be retained or maintained on reasonable terms.

The Group is required to comply with Pennsylvania Department of Environmental Protection (DEP) regulations on mine reclamation and rehabilitation. Any breaches of these rules may result in the Group being fined or, in relation to serious offences, may result in the mining permit being cancelled.

Reserve and resource estimates

The Group's reported reserves and resources are only estimates. No assurance can be given that the estimated reserves and resources will be recovered or that they will be recovered at the rates estimated. Reserve and resource estimates are based on sampling and, consequently, are uncertain because the samples may not be representative. Reserve and resource estimates may require revision (either up or down) based on future actual production experience.

Directors' Report (continued)

Volatility of commodity prices

Historically, commodity prices have fluctuated and are affected by numerous factors beyond the Group's control, including global demand and supply, international economic trends, currency exchange fluctuations, expectations for inflation, speculative activity, consumption patterns and global or regional political events. The aggregate effect of these factors is impossible to predict. Fluctuations in commodity prices, over the long term, may adversely impact the returns of the Group's investments.

A significant reduction in global demand for coal, leading to a fall in coal prices, could lead to a significant fall in the cash flow of the Group, which may have a material adverse impact on the operating results and financial condition of the Group.

Dependence on key personnel

The Group and Company is dependent upon its executive management team. Whilst it has entered into contractual agreements with the aim of securing the services of these personnel, the retention of their services cannot be guaranteed. The development and success of the Group depends on the Company's ability to recruit and retain high quality and experienced staff. The loss of the service of key personnel or the inability to attract additional qualified personnel as the Group grows could have an adverse effect on future business and financial conditions.

Currency risk

The Group reports its results in US Dollars, whilst the functional currency of the Parent Company from which the Group derives the majority of its funding is Pound Sterling. This may result in additions to the Group's reported costs. Fluctuations in exchange rates between currencies in which the Group invests, reports or derives income may cause fluctuations in its financial results that are not necessarily related to the Group's underlying operations.

Financial Instruments and Risk Management

The Group's operations expose it to a variety of financial risks that include the effect of changes in debt market prices and foreign currency exchange rates, credit risk, liquidity risk and interest rate risk. The Group has a risk management programme in place that seeks to limit the adverse effects on the financial performance of the Group by monitoring levels of debt finance and the related finance costs. The Group does not use derivative financial instruments to manage interest rate costs and, as such, no hedge accounting is applied.

Details of the Group's financial risk management policies are set out in Note 1 to the Financial Statements.

Internal Controls

The Board recognises the importance of both financial and non-financial controls and has reviewed the Company's control environment and any related shortfalls during the year. Since the Company was established, the Directors are satisfied that, given the current size and activities of the Company, adequate internal controls have been implemented. Whilst they are aware that no system can provide absolute assurance against material misstatement or loss, in light of the current activity and proposed future development of the Company, continuing reviews of internal controls will be undertaken to ensure that they are adequate and effective.

Post Balance Sheet Events

The post balance sheet events are set out in Note 29 to the Financial Statements.

Policy and Practice on Payment of Creditors

The Company and its subsidiary agree terms and conditions for their business transactions with suppliers. Payment is then made in accordance with these terms, subject to the terms and conditions being met by the supplier. As at 31 December 2010, the Company had an average of 192 days' (2009 – 130 days') purchases outstanding in trade payables. The Group average was 147 days (31 December 2009 – 143 days).

In the Directors' opinion the number of days' purchases outstanding at 31 December 2010 for the Company is not reflective of the Company's general policies and procedures regarding the payment of suppliers. Amounts included within trade creditors at that date include a balance of £163,000 due to a specific supplier that is outside the Company's general terms for settlement. After removal of this balance, which was settled in full after the balance sheet date, the Company had an average of 66 days' purchases outstanding at 31 December 2010.

Going Concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and, therefore, continue to adopt the going concern basis in preparing the Annual Report and Financial Statements. Further details on their assumptions and their conclusion thereon are included in the statement on going concern on page 20.

Directors' and Officers' Indemnity Insurance

The Company has made qualifying third-party indemnity provisions for the benefit of its Directors and Officers. These were made during the previous period and remain in force at the date of this report.

Provision of Information to Auditors

So far as each of the Directors is aware at the time this report is approved:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

Littlejohn LLP has signified its willingness to continue in office as auditors.

This report was approved by the Board on 8 June 2011 and signed on its behalf.

Stephen Best
Managing Director

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and Parent Company Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company, and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website, www.atlanticcoal.com. Legislation in the United Kingdom governing the preparation and dissemination of the Financial Statements may differ from legislation in other jurisdictions.

The Company is compliant with AIM Rule 26 regarding the Company's website.

Corporate Governance Report

The Board of Directors currently comprises one Executive Director and two Non-Executive Directors, one of whom is the Chairman. The Directors recognise the importance of sound corporate governance and observe the requirements of the Code of Best Practice (commonly known as the "Combined Code"), as published by the Financial Reporting Council to the extent they consider appropriate in light of the Company's size, stage of development and resources.

In accordance with the Combined Code the Company is headed by an effective Board which is collectively responsible for promoting the success of the Company. The Board sets the Company's strategic aims, its values and standards, and ensures that its obligations to its shareholders and others are understood and met. All Directors are expected to bring independent judgement to bear, and to take decisions objectively in the interests of the Company. If Directors have concerns about the way the Company is being run or about any course of action that is proposed, they must ensure that such concerns are recorded in the board minutes if they cannot be resolved. Non-Executive Directors are expected to constructively challenge and contribute to the development of strategy, to scrutinise management performance, to satisfy themselves on the integrity of financial information and that financial controls and risk management systems are robust and defensible. Non-Executive Directors will have to undertake that they have sufficient time to fulfil the role, and must disclose any other commitments or future new appointments. New Directors to the Board receive a detailed induction pack on appointment, and are advised to regularly update and refresh their skills and knowledge. This includes skills and knowledge that they need to bring to their role, as well as matters relating to the Group itself.

Board Meetings

The Board meets regularly throughout the year. The Board is responsible for formulating, reviewing and approving the Company's strategy, financial activities and operating performance. Day to day management is devolved to the Executive Director who is charged with consulting the Board on all significant financial and operational matters.

Board Committees

The Company has established an audit committee, a remuneration committee and a working capital committee. In light of the size of the Board, the Directors do not consider it necessary to establish a nomination committee. However, this will be kept under regular review.

Audit Committee

An Audit Committee, comprising Peter Chinneck and Adam Wilson has been established by the Company. The Audit Committee is chaired by Peter Chinneck and meets at least two times each year. The Audit Committee reviews the Company's annual and interim financial statements before submission to the Board for approval. The Committee also reviews regular reports from management and external auditors on accounting and internal control matters. Where appropriate, the committee monitors the progress of action taken in relation to such matters. The committee also recommends the appointment of, and reviews the fees of, the external auditors.

Remuneration Committee

The Company has in addition established a Remuneration Committee, comprising Adam Wilson and Peter Chinneck. The Remuneration Committee is chaired by Adam Wilson. The Committee is responsible for reviewing the performance of the Executive Director and for setting the scale and structure of his remuneration, determining the payment of bonuses, considering the grant of options under any share option scheme and, in particular, the price per share and the application of performance standards which may apply to any such grant, paying due regard to the interests of shareholders as a whole and the performance of the Company.

Working Capital Committee

Adam Wilson reviews the group's working capital requirements from time to time. The Company intends to establish a formal Working Capital Committee with the expansion of the Board through the appointment of Non-Executive Directors.

Internal Controls

The Directors acknowledge their responsibility for the Group's systems of internal controls and for reviewing their effectiveness. These internal controls are designed to safeguard the assets of the Company and to ensure the reliability of financial information for both internal use and external publication. Whilst they are aware that no system can provide absolute assurance against material misstatement or loss, in light of increased activity and further development of the Company, continuing reviews of internal controls will be undertaken to ensure that they are adequate and effective.

Corporate Governance Report (continued)

Risk Management

The Board considers risk assessment to be important in achieving its strategic objectives. There is a process of evaluation of performance targets through regular reviews by senior management to forecasts. Project milestones and timelines are regularly reviewed.

Securities Trading

The Company has adopted a share dealing code for dealings in shares by Directors and senior employees which is appropriate for an AIM company. The Directors will comply with Rule 21 of the AIM Rules for Companies relating to Directors' dealings and will take all reasonable steps to ensure compliance by the Group's applicable employees.

Relations with Shareholders

The Board is committed to providing effective communication with the shareholders of the Company. Significant developments are disseminated through stock exchange announcements and regular updates of the Company website. The Board views the Annual General Meeting as a forum for communication between the Company and its shareholders and encourages their participation in its agenda.

Independent Auditor's Report to the Members of Atlantic Coal Plc

We have audited the Financial Statements of Atlantic Coal plc for the year ended 31 December 2010 which comprise the Group and Parent Company Balance Sheets, the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Shareholders' Equity, the accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances, and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the Financial Statements.

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2010 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Matters on which we are required to report by exception

The Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of the above matters.

Nicholas Light (Senior statutory auditor)
For and on behalf of Littlejohn LLP
Statutory auditor
8 June 2011

1 Westferry Circus
Canary Wharf
London E14 4HD

Balance Sheets

As at 31 December 2010

Company number: 05315929

	Note	Group		Company	
		As at 31 Dec 2010 \$	As at 31 Dec 2009 \$	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$
Non-Current Assets					
Property, plant and equipment	5	6,915,151	4,320,491	2,047	4,197
Land, coal rights and restoration	6	7,621,494	7,335,637	-	-
Investment in subsidiary	7	-	-	9,223,011	15,659,779
Trade and other receivables	8	-	201,823	14,368,596	12,427,969
		14,536,645	11,857,951	24,293,654	28,091,945
Current Assets					
Inventories	10	1,241,232	1,761,047	-	-
Trade and other receivables	8	1,310,932	1,093,695	35,318	75,332
Available for sale financial assets	9	-	-	-	-
Other assets	11	236,467	236,486	-	-
Cash and cash equivalents	12	292,433	843,807	83,117	726,015
		3,081,064	3,935,035	118,435	801,347
Total Assets		17,617,709	15,792,986	24,412,089	28,893,292
Current Liabilities					
Trade and other payables	15	4,604,594	3,517,161	436,827	564,212
Borrowings	16	5,595,593	5,222,749	2,195,857	1,592,800
Accrued restoration costs	17	3,256,865	3,732,189	-	-
		13,457,052	12,472,099	2,632,684	2,157,012
Non-Current Liabilities					
Borrowings	16	4,665,043	2,864,936	-	637,184
Accrued restoration costs	17	3,923,710	2,953,327	-	-
		8,588,753	5,818,263	-	637,184
Total Liabilities		22,045,805	18,290,362	2,632,684	2,794,196
Net (Liabilities)/Assets		(4,428,096)	(2,497,376)	21,779,405	26,099,096
Capital and Reserves Attributable to Equity Holders of the Company					
Called up share capital	13	2,394,507	1,804,719	2,394,507	1,804,719
Share premium account		19,415,088	16,616,252	19,415,088	16,616,252
Merger reserve		15,326,850	15,326,850	11,824,997	17,112,462
Reverse acquisition reserve		(12,999,288)	(12,999,288)	-	-
Other reserves	14	352,518	263,426	352,518	263,426
Foreign currency translation reserve		(2,672,814)	(2,352,466)	(6,975,265)	(6,201,159)
Retained earnings/(losses)		(26,244,957)	(21,156,869)	(5,232,440)	(3,496,604)
Total Equity		(4,428,096)	(2,497,376)	21,779,405	26,099,096

The Financial Statements were approved and authorised for issue by the Board of Directors on 8 June 2011 and were signed on its behalf by:

Stephen Best
Managing Director

The Accounting Policies and Notes on pages 18 to 44 form part of these Financial Statements.

Group Income Statement

For the year ended 31 December 2010

	Note	Group	
		For the year ended 31 Dec 2010	For the year ended 31 Dec 2009
		\$	\$
Revenue	3	10,720,103	9,048,214
Cost of sales		(12,700,591)	(7,355,354)
Gross (loss)/profit		(1,980,488)	1,692,860
Administration expenses		(2,181,545)	(2,298,161)
Other gains/(losses) - net	18	370,825	(1,124,539)
Other income	21	17,187	141,848
Operating Loss		(3,774,021)	(1,587,992)
Finance income	22	-	21,246
Finance costs	22	(1,317,638)	(1,004,926)
Loss Before Taxation		(5,091,659)	(2,571,672)
Corporation tax expense	24	-	-
Loss for the Year		(5,091,659)	(2,571,672)
Attributable to the equity owners of the Parent		(5,091,659)	(2,571,672)
Loss per share attributable to the equity owners of the Parent during the year:			
Basic and diluted	25	0.31 cents	0.19 cents

All activities are classified as continuing.

Group Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	Group	
		For the year ended 31 Dec 2010	For the year ended 31 Dec 2009
		\$	\$
Loss for the year		(5,091,659)	(2,571,672)
Other comprehensive income:			
Exchange differences on translating foreign operations		(320,348)	969,548
Total comprehensive income for the year attributable to the equity owners of the Parent		(5,412,007)	(1,602,124)

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 from presenting the Parent Company Income Statement and Statement of Comprehensive Income.

The loss for the Parent Company for the year was \$7,026,872 (2009: \$1,260,626) and the total comprehensive income for the year was (\$7,800,978) (2009: \$1,133,901).

The Accounting Policies and Notes on pages 18 to 44 form part of these Financial Statements.

Group Statement of Changes in Shareholders' Equity

For the year ended 31 December 2010

Attributable to the owners of the parent

	Share capital \$	Share Premium \$	Merger reserves \$	Other reserves \$	Reserve acquisition reserve \$	Translation reserve \$	Retained losses \$	Total equity \$
At 1 January 2009	1,640,945	15,604,095	15,326,850	121,786	(12,999,288)	(3,322,014)	(18,585,197)	(2,212,823)
Comprehensive income								
Loss for the year	-	-	-	-	-	-	(2,571,672)	(2,571,672)
Other comprehensive income								
Currency translation differences	-	-	-	-	-	969,548	-	969,548
Total comprehensive income	-	-	-	-	-	969,548	(2,571,672)	(1,602,124)
Transactions with owners								
Share capital issued	163,774	1,012,157	-	-	-	-	-	1,175,931
Share based payments	-	-	-	141,640	-	-	-	141,640
Total transactions with owners	163,774	1,012,157	-	141,640	-	-	-	1,317,571
At 31 December 2009	1,804,719	16,616,252	15,326,850	263,426	(12,999,288)	(2,352,466)	(21,156,869)	(2,497,376)
Comprehensive income								
Loss for the year	-	-	-	-	-	-	(5,091,659)	(5,091,659)
Other comprehensive income								
Currency translation differences	-	-	-	-	-	(320,348)	-	(320,348)
Total comprehensive income	-	-	-	-	-	(320,348)	(5,091,659)	(5,412,007)
Transactions with owners								
Share capital issued	589,788	2,871,882	-	-	-	-	-	3,461,670
Convertible bond - equity component	-	-	-	12,535	-	-	-	12,535
Share based payments	-	(73,046)	-	80,128	-	-	-	7,082
Cancellation of warrants	-	-	-	(3,571)	-	-	3,571	-
Total transactions with owners	589,788	2,798,836	-	89,092	-	-	3,571	3,481,287
At 31 December 2010	2,394,507	19,415,088	15,326,850	352,518	(12,999,288)	(2,672,814)	(26,244,957)	(4,428,096)

The Accounting Policies and Notes on pages 18 to 44 form part of these Financial Statements.

Company Statement of Changes in Shareholders' Equity

For the year ended 31 December 2010

	Share capital \$	Share Premium \$	Merger reserve \$	Other reserves \$	Translation reserve \$	Profit and loss account \$	Total equity \$
At 1 January 2009	1,640,945	15,604,095	17,112,462	121,786	(8,595,686)	(2,235,978)	23,647,624
Comprehensive income							
Loss for the year	-	-	-	-	-	(1,260,626)	(1,260,626)
Other comprehensive income							
Currency translation differences	-	-	-	-	2,394,527	-	2,394,527
Total comprehensive income	-	-	-	-	2,394,527	(1,260,626)	1,133,901
Transactions with owners							
Share capital issued	163,774	1,012,157	-	-	-	-	1,175,931
Share based payments	-	-	-	141,640	-	-	141,640
Total transactions with owners	163,774	1,012,157	-	141,640	-	-	1,317,571
At 31 December 2009	1,804,719	16,616,252	17,112,462	263,426	(6,201,159)	(3,496,604)	26,099,096
Comprehensive income							
Loss for the year	-	-	-	-	-	(7,026,872)	(7,026,872)
Other comprehensive income							
Currency translation differences	-	-	-	-	(774,106)	-	(774,106)
Total comprehensive income	-	-	-	-	(774,106)	(7,026,872)	(7,800,978)
Transactions with owners							
Share capital issued	589,788	2,871,882	-	-	-	-	3,461,670
Convertible bond - equity component	-	-	-	12,535	-	-	12,535
Transfer of investment impairment	-	-	(5,287,465)	-	-	5,287,465	-
Share based payments	-	(73,046)	-	80,128	-	-	7,082
Cancellation of warrants	-	-	-	(3,571)	-	3,571	-
Total transactions with owners	589,788	2,798,836	(5,287,465)	89,092	-	5,291,036	3,481,287
At 31 December 2010	2,394,507	19,415,088	11,824,997	352,518	(6,975,265)	(5,232,440)	21,779,405

The Accounting Policies and Notes on pages 18 to 44 form part of these Financial Statements.

Group Cash Flow Statement

For the year ended 31 December 2010

	Group	
	For the year ended 31 Dec 2010	For the year ended 31 Dec 2009
Note	\$	\$
Cash flows from operating activities		
Operating loss	(3,774,021)	(1,587,992)
Adjustments for:		
Depreciation	1,067,976	1,001,142
Amortisation	315,270	348,852
Consultancy fees paid in shares	52,407	-
Share options expensed	-	81,071
Accretion, accrued restoration costs	1,718,279	806,106
Reclamation work performed	(1,824,347)	(1,300,649)
Provision for Doubtful Debts	280,098	-
Profit on sale of assets	-	(131,342)
Foreign exchange gains	(379,142)	1,099,216
(Increase) in trade and other receivables	(219,431)	(414,676)
Decrease/(increase) in inventories	519,816	(1,280,856)
Increase/(decrease) in trade and other payables	928,569	(273,297)
Increase/(decrease) in provisions	-	(388,377)
Net cash used in operations	(1,314,526)	(2,040,802)
Cash flows from investing activities		
Purchase of property, plant and equipment	(884,466)	(221,049)
Decrease/(increase) in deposits	19	(6,164)
Loans granted to third parties	(100,000)	(200,000)
Loan repayments received from third parties	10,000	-
Purchase of available-for-sale financial assets	-	(441,827)
Proceeds from the sale of available-for-sale financial assets	-	1,014,995
Interest paid	(203,844)	(77,245)
Interest received	-	19,451
Net cash (used in) from investing activities	(1,178,291)	88,161
Cash flows from financing activities		
Proceeds from issue of share capital	3,217,417	813,087
Transaction costs of share issue	(65,947)	(33,116)
Proceeds from loans & borrowings	1,206,321	1,840,376
Repayments of borrowings	(1,415,219)	(156,612)
Borrowing Costs	(389,577)	-
Interest paid	(222,106)	-
Finance lease payments	(342,516)	(65,169)
Net cash from Financing Activities	1,988,373	2,398,566
Net (decrease)/increase in cash and cash equivalents	(504,444)	445,925
Effect of foreign exchange rate changes	(46,930)	70,792
Cash and cash equivalents at beginning of period	843,807	327,090
Cash and cash equivalents at end of period	12 292,433	843,807

Significant Non-Cash Transactions

On 5 August 2010 the Company issued 50,000,000 ordinary shares fully paid at 0.5 pence per share in settlement of consultancy fees and outstanding loans. The aggregate value of these shares was \$310,200 which was calculated with reference to the fair value of the services rendered and the outstanding loans.

During the year ended 31 December 2010 the Group purchased a new excavator for the Stockton mine. \$2,778,291 of the cost of this excavator was funded through a finance lease.

The Accounting Policies and Notes on pages 18 to 44 form part of these Financial Statements.

Company Cash Flow Statement

For the year ended 31 December 2010

	Company	
	For the year ended 31 Dec 2010	For the year ended 31 Dec 2009
Note	\$	\$
Cash flows from operating activities		
Operating loss	(6,535,581)	(1,144,866)
Adjustments for:		
Depreciation	2,029	1,241
Profit on sale of assets	-	(131,342)
Share options expensed	-	81,071
Foreign exchange losses	(4,443)	3,352
Consultancy Fees	52,407	-
Provision for Doubtful Debts	280,098	-
Impairment of Investment	5,287,465	-
Decrease/(increase) in trade and other receivables	37,819	(662)
Decrease in operating payables	(41,988)	(69,074)
Net cash used in operations	(922,194)	(1,260,280)
Cash flows from investing activities		
Loans to subsidiary	(2,625,921)	(1,283,782)
Loan repayments received from subsidiary	146,258	-
Interest received	-	9
Purchase of property, plant & equipment	-	(5,225)
Purchase of available-for-sale financial assets	-	(441,827)
Proceeds from the sale of available-for-sale financial assets	-	1,014,995
Loan repayments received from third parties	10,000	-
Loans granted to third parties	(100,000)	(200,000)
Net cash used in investing activities	(2,569,663)	(915,830)
Cash flows from financing activities		
Proceeds from issue of share capital	3,217,417	813,087
Transaction costs of share issue	(65,947)	(33,116)
Borrowing Costs	(389,577)	-
Interest paid	(222,106)	-
Repayment of borrowings	(850,219)	-
Proceeds from borrowings	1,206,321	1,840,376
Net cash from Financing Activities	2,895,889	2,620,347
Net (Decrease)/Increase in cash and cash equivalents	(595,968)	444,237
Cash and cash equivalents at beginning of period	726,015	210,986
Effect of foreign exchange rate changes	(46,930)	70,792
Cash and cash equivalents at end of period	12 83,117	726,015

Significant Non-Cash Transactions

On 5 August 2010 the Company issued 50,000,000 ordinary shares fully paid at 0.5 pence per share in settlement of consultancy fees and outstanding loans. The aggregate value of these shares was \$310,200 which was calculated with reference to the fair value of the services rendered and the outstanding loans.

The Accounting Policies and Notes on pages 18 to 44 form part of these Financial Statements.

Accounting Policies

For the year ended 31 December 2010

Summary of Significant Accounting Policies

The principal Accounting Policies applied in the preparation of these Financial Statements are set out below. These Policies have been consistently applied to all the periods presented, unless otherwise stated.

a) Basis of Preparation of Financial Statements

The Financial Statements have been prepared in accordance with EU-endorsed International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations and the parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Financial Statements have also been prepared under the historical cost convention other than financial assets and financial liabilities at fair value through profit or loss.

The Financial Statements are presented in US Dollars rounded to the nearest dollar.

Atlantic Coal Plc, the legal parent, is domiciled and incorporated in the United Kingdom.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's Accounting Policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements are disclosed in Note 2.

b) Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

IFRS 3 (revised), 'Business Combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28 'Investments in associates', and IAS 31 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared to IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. All acquisition costs are expensed.

The adoption of these standards has no impact on the current period, as no further business combinations occurred during the year.

(ii) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group

The following standards and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2010, but are not relevant to the Group.

Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated and Separate Financial Statements" addressed concerns that retrospectively determining the cost of an investment in separate financial statements and applying the cost method in accordance with IAS 27 on first-time adoption of IFRSs cannot, in some circumstances, be achieved without undue cost or effort. These amendments were effective for periods beginning on or after 1 July 2009.

Further amendments to IFRS 1 addressed the retrospective application of IFRSs to particular situations (oil and gas assets and leasing contracts), and are aimed at ensuring that entities applying IFRSs will not face undue cost or effort in the transition process. These amendments were effective for periods beginning on or after 1 January 2010.

Amendments to IFRS 2 "Share-based Payment" clarified the accounting for group cash-settled share-based payment transactions. These amendments were effective for periods beginning on or after 1 January 2010.

Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" provided additional guidance on what can be designated as a hedged item. These amendments were effective for periods beginning on or after 1 July 2009.

IFRIC 17 "Distributions of Non-cash Assets to Owners" standardised practice in the measurement of distributions of non cash assets to owners. This interpretation was effective for periods beginning on or after 1 July 2009.

IFRIC 18 "Transfers of Assets from Customers" clarified the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). This interpretation was effective for periods beginning on or after 1 July 2009.

(iii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted

The group and parent entity's assessment of the impact of these new standards and interpretations is set out below.

IFRS 9 "Financial Instruments" specifies how an entity should classify and measure financial instruments, including some hybrid contracts, with the aim of improving and simplifying the approach to classification and measurement compared with IAS 39. This standard is effective for periods beginning on or after 1 January 2013, subject to EU endorsement. The Directors are assessing the possible impact of this standard on the Group's financial statements.

A revised version of IAS 24 "Related Party Disclosures" simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. This revision is effective for periods beginning on or after 1 January 2011 and is not expected to have an impact on the Group's financial statements.

An amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" relieves first-time adopters of IFRSs from providing the additional disclosures introduced in March 2009 by "Improving Disclosures about Financial Instruments" (Amendments to IFRS 7). This amendment is effective for periods beginning on or after 1 July 2010 and is not expected to have an impact on the Group's financial statements.

Further amendments to IFRS 1 replace references to a fixed date of 1 January 2004 with "the date of transition to IFRSs", thus eliminating the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs, and provide guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. This amendment is effective for periods beginning on or after 1 July 2011, subject to EU endorsement, and is not expected to have an impact on the Group's financial statements.

Amendments to IFRS 7 "Financial Instruments: Disclosures" are designed to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position. These amendments are effective for periods beginning on or after 1 January 2011, subject to EU endorsement. The Directors are assessing the possible impact of these amendments on the Group's financial statements.

Amendments to IAS 12 "Income Taxes" introduce a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 "Investment Property" will normally be through sale. These amendments are effective for periods beginning on or after 1 January 2012, subject to EU endorsement, and are not expected to have an impact on the Group's financial statements.

Amendments to IAS 32 "Financial Instruments: Presentation" address the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. These amendments are effective for periods beginning on or after 1 February 2010, and are not expected to have an impact on the Group's financial statements.

"Improvements to IFRSs" are collections of amendments to IFRSs resulting from the annual improvements project, a method of making necessary, but non-urgent, amendments to IFRSs that will not be included as part of another major project. These improvements have various implementation dates; for May 2010 improvements, the earliest is effective for periods beginning on or after 1 July 2010 subject to EU endorsement. The Directors are assessing the possible impact of these improvements on the Group's financial statements.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" clarifies the treatment required when an entity renegotiates the terms of a financial liability with its creditor, and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. This interpretation is effective for periods beginning on or after 1 July 2010. The Directors are assessing the possible impact of this interpretation on the Group's financial statements.

An amendment to IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", on prepayments of a minimum funding requirement, applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. This amendment is effective for periods beginning on or after 1 January 2011, and is not expected to have an impact on the Group's financial statements.

Accounting Policies (continued)

For the year ended 31 December 2010

c) Basis of Consolidation

The Group Financial Statements consolidate the Financial Statements of Atlantic Coal plc and the audited management accounts of its subsidiary made up to 31 December 2010.

Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the company controls another entity.

The Company acquired the Stockton Coal Group (consisting of Coal Contractors (1991) Inc, Stockton Anthracite LLC and Stockton Anthracite LP) on 19 November 2007 through a share exchange. As the shareholders of the Stockton Coal Group had control of the legal parent, Atlantic Coal plc, the transaction was accounted for as a reverse acquisition in accordance with IFRS 3 "Business Combinations". Consequently, although the financial statements are prepared in the name of the legal parent, they are in substance a continuation of those of the legal subsidiaries. The following accounting treatment was applied in respect of the reverse acquisition:

- the assets and liabilities of the legal subsidiaries within the Stockton Coal Group are recognised and measured in the consolidated financial statements at their pre-combination carrying amounts, without restatement to fair value;
- the equity structure appearing in the consolidated financial statements reflects the equity structure of the legal parent, Atlantic Coal plc, including the equity instruments issued to effect the business combination.

The cost of acquisition was measured as the fair value of the assets acquired, equity instruments issued and liabilities acquired or assumed at the date of exchange, plus certain costs directly attributable to the acquisition. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated.

On 31 December 2009 the companies within the Stockton Coal Group merged into Coal Contractors (1991) Inc.

d) Going Concern

The Financial Statements have been prepared on a going concern basis notwithstanding that the Group incurred a net loss of \$5,091,659 during the year ended 31 December 2010 (loss for year ended 31 December 2009 : \$2,571,672) and has net liabilities of \$4,428,096 as at 31 December 2010 (31 December 2009 : net liabilities of \$2,497,376).

After the balance sheet date the Company raised an aggregate of £12,300,000 (being approximately \$19,029,000) through the issue of new shares and £975,000 (\$1,508,000) through the exercise of warrants. In addition, the Company benefited from a reduction in its net debt as a result of the conversion of approximately £590,000 (\$913,000) through the conversion of existing debt into equity (refer Note 29).

In 2011 the Company expects cost per ton of coal mined at the Stockton Colliery to decrease as the work clearing overburden during 2010 has left coal reserves closer to the surface and easier to extract.

The Group's and Company's business activities, together with the factors likely to affect their future development, performance and position are set out in the Chairman's Statement on pages 3 to 4. In addition, Note 1 to the Financial Statements includes the Group's and Company's objectives, policies and processes for managing its capital, their financial risk management objectives and their exposure to credit risk and liquidity risk.

For these reasons, the Directors continue to adopt the going concern basis of accounting in preparing the Financial Statements.

e) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

f) Foreign Currencies

(i) Functional and presentation currency

Items included in the financial information of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The functional currency of the UK parent entity is sterling and the functional currency of the US subsidiary is US Dollars. The Financial Statements are presented in pound sterling, rounded to the nearest pound, which is the Group's functional and Company's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where such items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign currency gains and losses are presented in the income statement within 'other (losses)/gains – net'.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of monetary items receivable from foreign subsidiaries for which settlement is neither planned nor likely to occur in the foreseeable future, are taken to other comprehensive income. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

g) Property, Plant and Equipment

Property, plant and equipment, including coal lands and mine development costs, are recorded at cost, which includes construction overheads and capitalised interest. Interest cost applicable to major asset additions are capitalised during the construction period. Expenditures for major renewals and betterments are capitalised while expenditures for maintenance and repairs are expensed as incurred. Coal land costs are depleted using the units of production method, based on estimated recoverable interest. Mine development costs are amortised using the units of production method, based on estimated recoverable interest. Other property, plant and equipment is depreciated using the straight-line method with estimated useful lives substantially as follows:

Buildings	10 to 45 years
Mining and other equipment and related facilities	1 to 20 years
Land improvements	15 years
Transportation equipment	2 to 7 years
Furniture and fixtures	3 to 10 years

h) Coal Mine Reclamation Costs

Future cost requirements for land reclamation are estimated where surface and deep mining operations have been conducted, based on the Group's interpretation of the technical standards of regulations enacted by the U.S. Office of Surface Mining, as well as state regulations. These costs relate to reclaiming the pit and support acreage at surface mines and sealing portals at deep mines. Other costs common to both types of mining are related to reclaiming refuse and slurry ponds as well as holding and related termination/exit costs.

The Group records these reclamation obligations under the provisions of International Accounting Standard 37, 'Provisions, Contingent Liabilities and Contingent Assets', which addresses asset retirement obligations that result from the acquisition, construction or normal operation of long-lived assets. It requires companies to recognise asset retirement obligations at fair value when the liability is incurred. Upon the initial recognition of a liability, that cost should be capitalised as part of the related long-lived asset and allocated to expense over the useful life of the asset. The asset retirement costs are recorded in coal lands.

The Group expenses reclamation performed prior to final mine closure. The establishment of the end of mine reclamation and closure liability is based upon permit requirements and requires significant estimates and assumptions, principally associated with regulatory requirements, costs and recoverable coal lands. Annually, the end of mine reclamation and closure liability is reviewed and necessary adjustments are made, including adjustments due to mine plan and permit changes and revisions of cost and production levels to optimize mining and reclamation efficiency. The amount of such adjustments is reflected in the year end reclamation provision calculation.

Accounting Policies (continued)

For the year ended 31 December 2010

i) Land and Coal Rights and Restoration Costs

The land and coal rights are stated at cost. Restoration costs are based on estimated amounts. Depletion of coal rights and depreciation of restoration costs are being provided over the estimated amount of coal to be recovered.

j) Accrued restoration costs

The Group has also recorded an asset retirement obligation for its current mining operation for costs to reclaim the site when mining is completed.

The remaining amount provided for restoration on a site previously mined by the Group and currently being restored is based on an independent third party appraisal of current costs to reclaim the site. The liability for the total estimated restoration costs is adjusted as estimates are revised.

The third party appraisal of reclamation costs reviewed site specific information related to total cubic yards of material required to be placed in the mine, support area restoration and total acres to be reseeded. Costs were derived from recent state mine reclamation project bids by qualified contractors, State Bond Rates required for annual recalculation of reclamation bonds and comparable company reclamation projects.

k) Leasing Commitments

The Group leases certain plant and equipment. Leases of plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased assets and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in long-term borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Assets obtained under finance leases are depreciated over their useful lives.

l) Financial Assets

Classification

The Group classifies its financial assets in the following categories: loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet.

(ii) Available-for-Sale Financial Assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period.

Recognition and measurement

Financial assets are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred, and the Group has transferred substantially all of the risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value unless the Group is precluded from doing so as, in the case of unlisted equity securities, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. In such circumstances available-for-sale financial assets are held at cost and reviewed annually for impairment. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as "gains and losses from investment securities."

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of Other Income when the Group's right to receive payments is established.

Impairment of Financial Assets

(i) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset, or a group of financial assets, is impaired. A financial asset, or a group of financial assets, is impaired and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a "loss event"), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset, or group of financial assets, that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal repayments;
- the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

(ii) Assets Classified as Available-for-Sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset, or a group of financial assets, is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Components of inventories consist of coal, parts and supplies, net of allowance for obsolescence. Coal inventories represent coal contained in stockpiles and includes tons that have been mined and hauled to the wash plant (raw coal) for processing and coal that has been processed (crushed, washed and sized) and stockpiled for shipment to customers.

The cost of raw and prepared coal comprises extraction costs, direct labour other direct costs and related production overheads (based on operating capacity for the 6 months prior to the date of valuation). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

n) Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

o) Cash and Cash Equivalents

In the Group Cash Flow Statement, cash and cash equivalents comprise cash at bank and in hand and demand deposits.

p) Taxation

Current tax is the tax currently payable based on the taxable profit for the year. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Accounting Policies (continued)

For the year ended 31 December 2010

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax is calculated at tax rates that have been substantially enacted and are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets and liabilities are not discounted.

q) Share Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

r) Employee Benefits

The Group sponsors a 401(k) savings and retirement defined contribution plan for substantially all employees based in the US. The plan matches voluntary contributions of participants up to a maximum contribution based upon a percentage of a participants' salary with an additional matching contribution possible at the discretion of the Group. No contributions were made under the plan for the year ended 31 December 2010 or the year ended 31 December 2009.

The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in current and prior years. Agreed contributions are charged to the income statement as they become payable.

s) Revenue Recognition

Revenues include sales to customers of coal produced by the Group. Revenue is shown net of sales taxes, returns, rebates and discounts.

The Group recognises revenue when the amount of revenue can be reliably measured and when it is probable that future economic benefits will flow to the entity. Revenue is derived from the sale of coal and recognised at the time delivery occurs and title passes to the customer, which is either upon shipment or upon customer receipt of coal based on contractual terms. Also, the sale price must be determinable and collection reasonably assured.

t) Share Based Payments

The Group operates a number of equity-settled, share-based schemes, under which the entity receives services from employees or third party suppliers as consideration for equity instruments (options and warrants) of the Group. The Group may also issue warrants to share subscribers as part of a share placing. The fair value of the equity-settled share based payments is recognised as an expense in the income statement or charged to equity depending on the nature of the service provided or instrument issued. The total amount to be expensed or charged is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability or sales growth targets, or remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

In the case of warrants the amount charged to the share premium account is determined by reference to the fair value of the services received if available. If the fair value of the services received is not determinable the warrants are valued by reference to the fair value of the warrants granted as described previously.

Non-market vesting conditions are included in assumptions about the number of options or warrants that are expected to vest. The total expense or charge is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement or equity as appropriate, with a corresponding adjustment to a separate reserve in equity.

When the options are exercised, the Company issues new shares. The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised.

u) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value, and subsequently measured at amortised cost using the effective interest method.

v) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings, using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services, and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

All borrowing costs are expensed in the period in which they are incurred and are included in finance costs in the income statement.

w) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible loan notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is measured initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

x) Impairment of Non-Financial Assets

The entity assesses whether an asset may be impaired when circumstances indicate that an impairment may exist. If any such indicator exists, the entity tests the asset for impairment by estimating the recoverable amount. If the recoverable amount is less than the carrying value of the asset, an impairment loss is required. In addition to this, assets with indefinite lives and goodwill are tested for impairment at least annually.

Notes to the Financial Statements

For the year ended 31 December 2010

1. Financial Risk Management

Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Market Risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar. Foreign exchange risk arises from future commercial transactions denominated in a foreign currency. The Group maintains bank accounts in these currencies to reduce its exposure to this risk. The volume of transactions is not deemed sufficient to enter into forward contracts. At 31 December 2010, if the currency had weakened/strengthened by 2% against Pound Sterling with all other variables held constant, post tax loss for the year would have been approximately \$307,000 higher/lower mainly as a result of foreign exchange losses/gains on translation of Sterling denominated balances.

The Group is exposed to commodity price risk as a result of its operations. However, given the size of the Group's operations, the costs of managing exposure to commodity price risk exceed any potential benefits. Changes in individual commodity prices that were possible at the Balance Sheet date would have no significant effect upon profit or loss or equity.

The Group has no exposure to equity securities price risk, as it has no listed equity investments.

The Group has both interest-bearing assets and liabilities. Interest-bearing assets include only cash balances, all of which earn interest at a fixed rate. The Group has a policy of maintaining the majority of its debt at a fixed rate to ensure certainty of future interest cash flows. The effect of fluctuations in rates on debt at variable rates is not expected to have a material effect. Thus the Group is only exposed to fair value interest rate risk, which is not expected to have a significant impact on profit or loss or equity.

Credit Risk

Credit risk arises from cash and cash equivalents as well as exposure to customers including outstanding receivables.

The Group has implemented policies that require appropriate credit checks on potential customers before sales are made. Where debt finance is utilised, this is subject to pre-approval by the Board of Directors. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the Board. The Group considers the credit ratings of banks in which it holds funds in order to reduce exposure to credit risk.

Liquidity Risk

The Group actively maintains a mixture of long-term and short-term debt finance that is designed to ensure that the Group has sufficient available funds for operations and planned expansions.

The following table analyses the Group's financial liabilities, which will be settled on a net basis, into relevant maturity groupings, based on the remaining period to maturity at the Balance Sheet date. The amounts disclosed are the contractual undiscounted cash flows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2010				
Borrowings	5,595,593	3,156,030	1,509,013	-
Trade and other payables	4,604,594	-	-	-
At 31 December 2009				
Borrowings	5,222,749	2,392,795	472,141	-
Trade and other payables	3,517,161	-	-	-

Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital using a gearing ratio which is Net Debt divided by EBITDA. Net debt is calculated as securitisation, finance lease liabilities and group loans less cash and cash equivalents.

Fair Value Estimation

The carrying value less impairment provision of trade receivables and payables is assumed to approximate to their fair values, due to their short-term nature. The fair value of 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. As this is an observable input all fair value estimates fall within level two.

2. Critical Accounting Estimates and Judgements

The preparation of the combined financial statements in conformity with IFRSs requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses during the year. Actual results may vary from the estimates used to produce these Financial Statements.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant items subject to such estimates and assumptions include, but are not limited to:

Impairment of investment in subsidiary

The Company's investment in its subsidiary has a carrying value at 31 December 2010 of \$9,923,011 (2009: \$15,659,779). Management tests annually whether the investment in subsidiary has future economic value in accordance with the accounting policies. The investment is subject to an annual impairment review by an independent consultant. This review calculates the net present value of future cash flows of the subsidiary's operations over the life of the Stockton mine, the subsidiary's main cash generating asset. The review takes into consideration long term coal prices, anticipated resource volumes, sales volumes and costs of production as well as supply and demand outlook. The estimated future cash flows are discounted to their present value at the Company's cost of capital in order to determine the recoverable amount of the mine. In the event that the net present value of future cash flows is below the investment's carrying amount, after considering repayment of the inter-company loan, an impairment charge will be made. The Directors have reviewed the estimated value of the mine prepared by the consultant and have concluded that an impairment charge of \$5,287,465 is appropriate.

If the estimated cost of capital used in determining the discount rate for the valuation of the investment had been 2% higher than Management's estimates (for example, 12% instead of 10%), the Company would have recognised a further impairment against the investment of \$2,169,000.

Valuation of accrued restoration costs

The Group's accrued restoration costs have a carrying value at 31 December 2010 of \$7,180,575 (2009: \$6,685,516) and relates to the Group's reclamation obligations at the Gowen and Stockton mines. The Group obtains a third party estimate of the expected costs of reclamation from an independent consultant. For the Stockton mine these estimates are based on the anticipated future size of the mine pit at the completion of the mine's life. Reclamation is already taking place at the Gowen site and, therefore, estimations are based on the Group's remaining obligations.

The costs of reclamation are calculated on a cubic yard basis and consider State Bond Rates, comparable reclamation projects and historical data from the Group's existing reclamation activities. For the Stockton mine Management escalates reclamation costs estimates at an annual inflation rate to the anticipated future mine closure date. This inflation rate is based on the historical rate for the industry for a comparable period. The future reclamation provision is discounted to its present value based on the Group's incremental cost of borrowing. If the actual inflation rate for the industry is 2% higher/lower than Management's estimates, the carrying value of accrued restoration costs at 31 December 2010 would be approximately \$709,000 higher or \$597,000 lower respectively.

Valuation of coal inventory

The amount of coal held in inventory in the Group's financial statements at 31 December 2010 has a carrying value of \$1,087,955 (2009: \$1,611,632). The Group values inventory in accordance with the relevant accounting policy. The tonnage of coal included within coal inventory at the balance sheet date is estimated by an independent third party. The estimate of tonnage is based on survey data and sample densities of the year end coal piles.

Share based payment transactions

The Group has made awards of options and warrants over its unissued share capital to certain Directors and employees as part of their remuneration package. Certain warrants have also been issued to shareholders as part of their subscription for shares and to suppliers for various services received.

The valuation of these options and warrants involves making a number of critical estimates relating to price volatility, future dividend yields, expected life of the options and forfeiture rates. These assumptions have been described in more detail in Note 13.

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

2. Critical Accounting Estimates and Judgements (continued)

Other estimates include but are not limited to the allowance for doubtful accounts; employee benefit liabilities; future cash flows associated with assets; useful lives for depreciation, depletion and amortisation; workers' compensation claims; income taxes; and fair value of financial instruments. Due to the subjective nature of these estimates, actual results could differ from those estimates.

3. Segmental Information

Management has determined the operating segments based on reports reviewed by the Board of Directors that are used to make strategic decisions. During the year Group had interests in two geographical segments, the United Kingdom and the United States of America ("USA"). Activities in the UK are mainly administrative in nature whilst the activities in the USA relate to coal sales and production.

The reportable operating segments derive their revenue from the sale of prepared coal to industrial and retail customers.

	For the year ended 31 December 2010				For the year ended 31 December 2009			
	USA \$	UK \$	Intra- segment balances \$	Total \$	USA \$	UK \$	Intra- segment balances \$	Total \$
Revenue from external customers	10,720,103	-	-	10,720,103	9,048,214	-	-	9,048,214
Gross profit/(loss)	(1,980,488)	-	-	(1,980,488)	1,692,860	-	-	1,692,860
Operating loss	(2,521,462)	(6,535,581)	5,283,022	(3,774,021)	(433,126)	(1,144,866)	-	(1,587,992)
Depreciation	1,065,947	2,029	-	1,067,976	999,901	1,241	-	1,001,142
Amortisation	315,270	-	-	315,270	348,852	-	-	348,852
Capital expenditure	3,662,757	-	-	3,662,757	247,876	5,225	-	253,101
Total assets	17,497,225	24,412,089	(24,291,605)	17,617,709	14,785,619	28,893,292	(27,885,925)	15,792,986
Total liabilities	33,781,347	2,632,684	(14,368,226)	22,045,805	27,721,931	2,794,196	(12,225,765)	18,290,362

Included in the UK segment is the impairment of investment in subsidiary described in Note 7.

A reconciliation of operating loss to loss before taxation is provided as follows:

	For the year ended 31 Dec 2010 \$	For the year ended 31 Dec 2009 \$
Operating loss for reportable segments	(3,774,021)	(1,587,992)
Finance income	-	21,246
Finance costs	(1,317,638)	(1,004,926)
Loss before tax	(5,091,659)	(2,571,672)

Information about major customers

Revenues of approximately \$1.565 million (2009: \$1.738 million) were derived from a single external customer. These revenues were all generated in the USA.

4. Operating Loss

The operating loss is stated after charging:

	Group	
	For the year ended 31 Dec 2010 \$	For the year ended 31 Dec 2009 \$
Fees payable to the Company's auditors for the audit of the Parent Company and consolidated accounts	23,070	38,396
Fees payable to the Company's auditors for other services provided to the Company and its subsidiaries:		
Fees payable to the Company's auditors for the audit of the Company's subsidiaries	60,000	60,000
Fees payable to the Company's auditors for tax services	2,000	2,000
Lease rentals:		
Land and Buildings	68,136	66,275
Other assets	391,722	216,904
Provision for doubtful debts	280,098	68,120
Share-based payments	-	81,071
Depreciation	1,067,976	1,001,142
Amortisation	315,270	348,852

5. Property, Plant and Equipment

	Group				Total \$
	Land and buildings \$	Plant and machinery \$	Motor vehicles \$	Furniture and equipment \$	
Cost					
As at 1 January 2009	332,957	15,105,927	365,546	72,851	15,877,281
Additions	-	95,251	123,530	5,224	224,005
Exchange differences	-	-	-	505	505
As at 31 December 2009	332,957	15,201,178	489,076	78,580	16,101,791
Additions	47,452	3,607,631	4,555	3,119	3,662,757
Transfer	-	94,000	(94,000)	-	-
Exchange differences	-	-	-	(308)	(308)
As at 31 December 2010	380,409	18,902,809	399,631	81,391	19,764,240
Depreciation					
As at 1 January 2009	239,723	10,116,376	354,492	69,063	10,779,654
Charge for the year	14,988	971,590	11,110	3,454	1,001,142
Exchange differences	-	-	-	504	504
As at 31 December 2009	254,711	11,087,966	365,602	73,021	11,781,300
Charge for the year	16,237	1,040,227	7,602	3,910	1,067,976
Exchange differences	-	-	-	(187)	(187)
As at 31 December 2010	270,948	12,128,193	373,204	76,744	12,849,089
Net book value as at 1 January 2009	93,234	4,989,551	11,054	3,788	5,097,627
Net book value as at 31 December 2009	78,246	4,113,212	123,474	5,559	4,320,491
Net book value as at 31 December 2010	109,461	6,774,616	26,427	4,647	6,915,151

During the year ended 31 December 2010 the Group reclassified certain assets from motor vehicles to plant and machinery as this is more reflective of the assets' use.

The Group leases various vehicles and machinery under non-cancellable finance lease agreements. The lease terms are between five and 10 years, and ownership of the assets lie within the Group. The net book value of assets under finance lease is \$3,430,530 (31 December 2009: \$101,555).

Depreciation expense of \$1,062,967 (2009: \$996,587) has been charged in 'cost of sales' and \$5,009 (2009: \$4,555) in administration expenses.

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

5. Property, Plant and Equipment (continued)

	Company
	Furniture and equipment
	\$
Cost	
Balance as at 1 January 2009	5,049
Additions	5,225
Exchange differences	505
As at 31 December 2009	10,779
Additions	-
Exchange differences	(308)
As at 31 December 2010	10,471
Depreciation	
Balance as at 1 January 2009	4,837
Charge for the year	1,241
Exchange differences	504
As at 31 December 2009	6,582
Charge for the year	2,029
Exchange differences	(187)
As at 31 December 2010	8,424
Net book value as at 1 January 2009	212
Net book value as at 31 December 2009	4,197
Net book value as at 31 December 2010	2,047

6. Land, coal rights and restoration costs

	Group	
	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$
Stockton mine costs brought forward and carried forward		
Land costs	3,000,000	3,000,000
Development costs	2,437,098	2,437,098
Railroad relocation costs ⁽¹⁾	1,451,338	1,451,338
Retirement obligation cost		
Brought forward	846,701	847,569
Increase/(Decrease) in retirement obligation estimate	601,127	(868)
Carried forward	1,447,828	846,701
Total Stockton mine costs	8,336,264	7,735,137
Stockton mine costs depreciation		
Brought forward	2,525,330	2,299,925
Charge for the year	205,204	225,405
Stockton accumulated depreciation	2,730,534	2,525,330
Stockton mine costs net book value brought forward	5,209,807	5,436,080
Stockton mine costs net book value carried forward	5,605,730	5,209,807
Land and mineral costs brought forward and carried forward		
Land – 154.2 Acres surface and mineral	3,400,000	3,400,000
Land – 181 Acres mineral only	150,000	150,000
	3,550,000	3,550,000
Mineral depreciation		
Brought forward	1,424,170	1,300,723
Charge for the year	110,066	123,447
Mineral accumulated depreciation	1,534,236	1,424,170
Land and mineral net book value brought forward	2,125,830	2,249,277
Land and mineral net book value carried forward	2,015,764	2,125,830
Total net book value brought forward	7,335,637	7,685,357
Total net book value carried forward	7,621,494	7,335,637

(1) In the course of construction

The asset retirement provision for the Stockton mine property is calculated using current cost estimates provided by an independent third party consultant. The current cost estimates are applied to the required reclamation activities for closure of the mine. The cost estimates are escalated at 7.29% annually to the anticipated future mine closure date. The escalation factor was derived from the prior 10 year average increase in the US Producer Price Index for Anthracite producers. The future reclamation cost value is discounted at 10% (incremental cost of borrowing) to arrive at the recorded reclamation liability.

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

7. Investments in Subsidiary Undertaking

	Company	
	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$
At 1 January	15,659,779	14,235,180
Additions	-	-
Impairment charge recognised in the income statement	(5,287,465)	-
Foreign currency translation	(449,303)	1,424,599
At 31 December	9,923,011	15,659,779

Investments in Group undertakings are stated at cost less impairment. The original cost of the investment represents the fair value of the consideration paid.

Impairment review

An impairment review of the investment is carried out on an annual basis in order to ensure that it is valued at the lower of cost and recoverable amount. The main asset of the Company's subsidiary is the Stockton mine and the value of the investment will naturally decline over the life of the mine as coal reserves are extracted.

The recoverable amount of the investment in Coal Contractors Inc has been determined based on value in use calculations prepared by an independent third party. These calculations use pre-tax cash-flow projections based on financial budgets approved by management covering the useful life of the estimated resource at the Stockton mine. Management compare the recoverable amount resulting from the calculations to the carrying value of investment after accounting for the recovery of the inter-company loan balance to determine whether an impairment charge is necessary.

The discount rate used was 10%, which reflects the cost of capital for the Company and the Group.

Details of Subsidiary Undertaking

Details of subsidiary undertaking at 31 December 2010 are as follows:

Name of subsidiary	Place of establishment	Registered capital	Share capital held	Principal activities
Coal Contractors (1991) Inc	USA	Ordinary shares \$100	100%	Anthracite mining and processing

8. Trade and Other Receivables

	Group		Company	
	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$
Trade receivables	1,156,498	781,403	-	-
Less: provision for impairment of trade receivables	(22,671)	(22,671)	-	-
Trade receivables net	1,133,827	758,732	-	-
Other receivables	-	166,855	-	-
Prepayments	153,423	145,312	11,636	52,536
Accrued income	-	1,823	-	1,823
VAT receivable	23,682	22,796	23,682	22,796
Loans to third parties	280,098	200,000	280,098	200,000
Provision for impairment of loans to third parties	(280,098)	-	(280,098)	-
Loans to related parties (Note 27)	-	-	14,368,596	12,226,146
	1,310,932	1,295,518	14,403,914	12,503,301
Less non-current portion	-	(201,823)	(14,368,596)	(12,427,969)
Current portion	1,310,932	1,093,695	35,318	75,332

The fair value of all current receivables is as stated above. Non-current receivables have no fixed date of repayment and as such the Directors' believe a calculation of a reliable estimate of their fair value cannot be made at the balance sheet date.

Group

At 31 December 2010 trade receivables of \$893,714 (2009: \$Nil) were fully performing.

At 31 December 2010, trade receivables of \$238,981 (31 December 2009: \$700,894) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing of these receivables is:

	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$
Up to 3 months	234,519	692,608
3 to 6 months	4,462	8,286
Total	238,981	700,894

At 31 December 2010, trade receivables of \$23,803 (31 December 2009: \$80,509) were impaired and provided for. The amount of the provision was \$22,671 as of 31 December 2010 (2009: \$22,671). The individually impaired receivables mainly relate to customers who are in unexpectedly difficult economic circumstances. It is assessed that a proportion of the receivables is expected to be recovered.

The ageing of the receivables is as follows:

	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$
Up to 3 months	-	57,838
3 to 6 months	2,635	14,119
6 to 12 months	6,128	-
Over 12 months	15,040	8,552
Total	23,803	80,509

The creation and release of provisions for impaired receivables have been included in administration expenses in the income statement.

From November 2009 to January 2010 Atlantic Coal advanced \$300,000 to Maple Carpenter Creek by way of a loan that carried an interest rate of 10%. Maple Carpenter Creek defaulted on their repayments. A provision for doubtful debts has been made for the remaining balance of \$280,098 at the balance sheet date as the Directors do not believe the loan is recoverable. The Company is actively pursuing legal action against Maple Carpenter Creek for the recovery of this loan.

Other than those previously discussed, the Group and Company's trade and other receivables do not include any impaired assets.

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

8. Trade and other receivables (continued)

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

The carrying amounts of the Group and Company's trade and other receivables are denominated in the following currencies:

	Group		Company	
	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$
US dollar	1,275,614	1,220,186	-	201,823
UK pound	35,318	75,332	14,403,914	12,301,478
Total	1,310,932	1,295,518	14,403,914	12,503,301

Total loans and receivables were \$1,157,509 (2009: \$1,148,383).

9. Available-for-sale financial assets

	Group		Company	
	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$
Balance at 1 January	-	-	-	-
Additions	-	883,654	-	883,654
Disposals	-	(883,654)	-	(883,654)
At 31 December	-	-	-	-

Available-for-sale financial assets represent UK Listed equity securities that were acquired and disposed of during the prior year. All securities were denominated in pound sterling. Details of the profit from disposal of available-for-sale financial assets are disclosed in Note 21.

10. Inventories

	Group		Company	
	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$
Coal	1,087,955	1,611,631	-	-
Supplies	153,277	149,416	-	-
	1,241,232	1,761,047	-	-

The cost of inventories recognised as an expense and included in cost of sales was \$523,678 (31 December 2009: \$1,295,650).

11. Other assets

	Group	
	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$
Certificate of deposit	236,467	236,486
	236,467	236,486

The Group has provided certificates of deposit as collateral to secure mine reclamation obligations as required by the Department of Environmental Protection. The certificates are not released until the underlying reclamation obligations have been completed by the Group and released by the Department of Environmental Protection.

12. Cash and Cash Equivalents

	Group		Company	
	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$
Cash at bank and in hand	292,433	843,807	83,117	726,015

All of the Group's cash at bank is held with institutions with an AA credit rating.

13. Called-Up Share Capital

	Number	£
Authorised		
Ordinary shares of 0.07p each	20,000,000,000	14,000,000

There has been no movement in the authorised share capital during the year.

Group and Company

Issued	Number of shares	Ordinary shares \$	Share premium \$	Total \$
At 1 January 2009	1,233,712,000	1,640,945	15,604,095	17,245,040
Issue of new shares – 30 April 2009	100,000,000	103,026	524,838	627,864
Issue of new shares – 31 July 2009	9,384,350	10,806	66,380	77,186
Issue of new shares – 10 August 2009	42,750,000	49,942	420,939	470,881
At 31 December 2009	1,385,846,350	1,804,719	16,616,252	18,420,971
Issue of new shares – 11 February 2010 ⁽¹⁾	100,000,000	110,180	560,926	671,106
Issue of new shares – 5 August 2010 ⁽²⁾	427,500,000	464,137	2,175,865	2,640,002
Issue of new shares – 31 August 2010 ⁽³⁾	14,250,000	15,471	62,045	77,516
At 31 December 2010	1,927,596,350	2,394,507	19,415,088	21,809,595

(1) Includes placing costs of \$115,894

(2) Includes placing costs of \$12,208

(3) Includes placing costs of \$10,891

On 5 August 2010 the Company issued 50,000,000 ordinary shares fully paid at 0.5 pence per share in settlement of consultancy fees and outstanding loans. The value of these shares was calculated with reference to the fair value of the services rendered and the outstanding loans.

Share options and warrants

Share options and warrants outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price in £ per share	Shares	
		2010	2009
7 June 2011	0.02	24,348,142	24,348,142
3 December 2011	0.0045	16,500,000	16,500,000
4 August 2012	0.0065	427,500,000	–
18 November 2012	0.025	15,240,000	15,240,000
18 November 2012	0.035	6,000,000	6,000,000
18 November 2012	0.055	6,000,000	6,000,000
18 November 2012	0.075	5,000,000	5,000,000
26 August 2012	0.0065	14,250,000	–
20 August 2013	0.0075	7,620,000	7,620,000
15 September 2013	0.005	28,074,070	28,074,070
15 September 2013	0.012	4,500,000	4,500,000
30 April 2014	0.005	13,337,120	13,337,120
27 August 2014	0.01	86,956,522	23,500,000
25 September 2014	0.01	–	26,500,000
14 February 2015	0.005	29,716,927	–
		685,042,781	176,619,332

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

13. Called-Up Share Capital (continued)

Share options and warrants (continued)

The options and warrants are exercisable starting immediately from the date of grant and lapse between two and five years from the date of grant. The Company and Group has no legal or constructive obligation to settle or repurchase the options in cash.

The fair value of the share options was determined using the Black Scholes valuation model. The parameters used are detailed below:

	2010 Options		
	15/02/2010	05/08/2010	27/08/2010
Option granted on:	15/02/2010	05/08/2010	27/08/2010
Option life (years)	5 years	2 years	2-4 years
Weighted average exercise price	0.5 pence	0.65 pence	0.59 pence
Options granted	29,716,927	427,500,000	101,206,522
Risk free rate	2.78%	1.76%	1.76%
Expected volatility	9.09%	15.48%	17.52%
Expected dividend yield	-	-	-
Marketability discount	5%	5%	5%
Total fair value of options granted (\$000)	39	8	4

	2009 Options	2008 Options	2007 Options	2006 Options
Option life (years)	5 years	3-5 years	5 years	5 years
Weighted average exercise price	0.5 pence	0.57 pence	4 pence	2 pence
Options granted	13,337,120	56,694,070	32,240,000	24,348,144
Risk free rate	2.59%	2.71%-4.41%	5%	4.6%
Expected volatility	32%	30%	15%	15%
Expected dividend yield	-	-	-	-
Marketability discount	20%	20%	20%	80%
Total fair value of options granted (\$000)	80	80	65	13

The expected volatility is based on historical volatility for the 6 months prior to the date of granting.

The risk free rate of return is based on zero yield government bonds for a term consistent with the option life.

A reconciliation of options granted over the year to 31 December 2010 is shown below:

	2010		2009	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding as at 1 January	176,619,332	0.015	105,662,212	0.019
Granted	558,423,449	0.0063	80,341,470	0.008
Cancelled	(50,000,000)	0.01	-	-
Exercised	-	-	(9,384,350)	0.005
Outstanding as at 31 December	685,042,781	0.01	176,619,332	0.015
Exercisable at 31 December	685,042,781	0.01	176,619,332	0.015

The total fair value has resulted in a charge to the income statement for the year ended 31 December 2010 of \$nil (2009: \$81,071) and a charge to Share Premium of \$73,046 (2009: \$60,569).

	2010				2009			
Range of exercise prices (£)	Weighted average exercise price (£)	Number of shares	Weighted average remaining life expected (years)	Weighted average remaining life contracted (years)	Weighted average exercise price (£)	Number of shares	Weighted average remaining life expected (years)	Weighted average remaining life contracted (years)
0 - 0.01	0.006	623,954,639	2.1	2.1	0.007	115,531,190	3.95	3.95
0.01 - 0.075	0.03	61,088,142	1.37	1.37	0.03	61,088,142	2.37	2.37

The total fair value has resulted in a charge to the income statement for the year ended 31 December 2010 of \$nil (2009: \$81,071) and a charge to Share Premium of \$73,046 (2009: \$60,569).

Share warrant costs of \$7,086 (2009: \$Nil) have been capitalised as part of the costs of issuing the convertible loan note (refer note 16). The charge in respect of these warrants will be released to the income statement over the term of the convertible loan note.

During the year ended 31 December 2010 the Company cancelled 50,000,000 warrants. \$3,571 of previous charges in respect of these warrants was released to retained earnings in the statement of changes in equity.

14. Other Reserves

Group and Company

	Share option reserve \$	Borrowing reserve \$	Total \$
At 1 January 2009	121,786	-	121,786
Share based payments	141,640	-	141,640
At 31 December 2009	263,426	-	263,426
Share based payments	80,128	-	80,128
Cancellation of warrants	(3,571)	-	(3,571)
Convertible loan – equity component	-	12,535	12,535
At 31 December 2010	339,983	12,535	352,518

15. Trade and Other Payables

	Group		Company	
	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$
Trade payables	3,081,367	2,623,463	385,476	333,659
Other payables	13,097	-	13,097	-
Social security and other taxes	605,984	155,309	9,991	21,921
Accrued expenses	904,146	738,389	28,263	208,632
	4,604,594	3,517,161	436,827	564,212

16. Borrowings

	Group		Company	
	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$
Non-Current				
Debentures and other loans	2,730,143	2,841,146	-	637,184
Finance lease liabilities	1,934,900	23,790	-	-
	4,665,043	2,864,936	-	637,184
Current				
Debentures and other loans	3,618,289	5,120,941	845,026	1,592,800
Convertible loan	1,350,831	-	1,350,831	-
Finance lease liabilities	626,473	101,808	-	-
	5,595,593	5,222,749	2,195,857	1,592,800

At 31 December 2010 total borrowings include secured liabilities of \$4,374,245 (31 December 2009: \$4,258,066). Borrowings are secured as explained below.

In 2010 the Group defaulted on the loan from General Electric Capital Corporation (GECC) on which interest was being incurred at 5% per annum. On 30 November Mayford LLC purchased this loan for \$1,500,000. The balance of the loan at the date of purchase was \$2,401,559 including accrued interest. The loan continued under the same terms as were previously in effect when the debt was owned by GECC. From 30 November 2010 Mayford LLC exercised their right to charge the group interest at the default rate and from that date interest was charged at a rate of 18% per annum. At 31 December the loan due to Mayford had a carrying value of \$2,178,388 plus accrued interest of \$259,622 which has been included in trade and other payables.

Mary Catherine Best (spouse of Managing Director Stephen Best) and Adam Wilson, who is a director of Atlantic Coal plc are shareholders and beneficial owners of Mayford LLC (refer Note 27).

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

16. Borrowings (continued)

The Group is currently in advanced negotiations with Mayford LLC over the settlement of this loan. The settlement is subject to approval by an independent third party. Mr Best and Mr Wilson have both been excluded entirely from the settlement process. Settlement is likely to be at a discount to carrying value.

The loan from GECC was secured on all anthracite coal to be extracted from the property and all anthracite coal inventories through the grant of a first mortgage on all the real property of Coal Contractors (1991) Inc. On purchasing the loan from GECC the rights over this mortgage transferred to Mayford LLC.

At 31 December 2009 the Company had non-convertible loan notes from Cornhill Capital Limited with a carrying value at that date of \$1,592,800. During the year the Company repaid these loan notes and replaced them with convertible loan notes. At 31 December 2010 the convertible loan notes had a carrying value of \$1,350,831 (2009: \$Nil) and are secured on all real property of Coal Contractors (1991) Inc. through the grant of a second mortgage on the property and an unconditional, absolute and irrevocable guarantee by Coal Contractors (1991) Inc. The loan notes are repayable on 27 August 2011 and carry an interest charge of 13.5% per annum payable on maturity.

The working capital facility provided by Stephen Best (refer Note 27) of \$845,026 (2009: \$637,184) is secured by way of a third charge over all anthracite coal to be extracted from the property and all anthracite coal inventories through the grant of a mortgage on all the real property of Coal Contractors (1991) Inc. The maturity date of this facility is 31 December 2011. Interest is charged on the loan at a rate of 9% per annum.

The carrying amounts and fair value of the non-current borrowings are:

	Carrying amount		Fair value	
	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$
Debenture and other loans	2,730,143	2,841,146	2,594,766	2,841,146
Finance lease liabilities	1,934,900	23,790	1,718,367	23,790
	4,665,043	2,864,936	4,313,133	2,864,936

With the exception of the Group's convertible loan note, as discussed below, the fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using the borrowing rate of 10%, which represents the cost of capital of the Group.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$
US dollar	7,930,752	5,559,825
UK pound	2,329,884	2,527,860
Total	10,260,636	8,087,685

The Group has the following undrawn borrowing facilities:

	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$
Fixed rate		
– Expiring within one year	3,154,974	–
– Expiring beyond one year	–	3,362,816
	3,154,974	3,362,816

Undrawn loan facilities relate to undrawn amounts on Stephen Best's working capital facility (refer Note 27).

Convertible loan

The Company issued 13.75% convertible loan notes with a par value of £1,000,000 on 27 August 2010. The loan notes mature one year from their issue date at their nominal value of £1,000,000 or can be converted into shares at the holder's option at a rate of 0.55 pence per share at any time up to the date of maturity. The values of the liability component and the equity conversion component were determined at the issuance of the loan notes.

The fair value of the liability component, included within current borrowings, was calculated using the interest rate for an equivalent non-convertible loan. The residual amount, representing the fair value of the equity conversion option, is included in shareholders' equity in other reserves (Note 14), net of taxes.

The convertible bond in the balance sheet is calculated as follows:

	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$
Face value of convertible loan issued on 27 August 2010	1,547,100	–
Equity component (Note 14)	(12,535)	–
Liability component on initial recognition at 27 August 2010	1,534,565	–
Interest expense	209,947	–
Finance costs paid	(389,577)	–
Exchange differences	(4,104)	–
Liability component at 31 December 2010	1,350,831	–

The fair value of the liability component of the convertible bond at 31 December 2010 amounted to \$1,652,628. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 10%.

Lease Liabilities

Lease liabilities are effectively secured, as the rights to the leased asset revert to the lessor in the event of default.

	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$
Finance lease liabilities – minimum lease payments		
– due within one year	791,607	110,072
– due within two to five years	2,139,401	25,085
– due later than five years	–	–
	2,931,008	135,157
Finance charges allocated to future periods	(369,635)	(9,559)
Present value of finance lease liabilities	2,561,373	125,598

The present value of finance lease liabilities is as follows:

	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$
Due within one year	626,473	101,808
Due within two to five years	1,934,900	23,790
Due later than five years	–	–
Present value of finance lease liabilities	2,561,373	125,598

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

17. Accrued Restoration Costs

	Group	
	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$
Non-Current		
Gowen	351,211	203,130
Stockton	3,572,499	2,750,197
	3,923,710	2,953,327
Current		
Gowen	3,256,865	3,732,189
	3,256,865	3,732,189
Total reclamation costs	7,180,575	6,685,516
Gowen total costs		
Brought forward	3,935,319	4,634,625
Expense reclamation costs offset	(1,824,347)	(1,300,649)
Increase in estimated reclamation liability	1,497,104	601,343
Carried forward	3,608,076	3,935,319
Gowen costs split:		
Current	3,256,865	3,732,189
Non-current	351,211	203,130
Total	3,608,076	3,935,319
Stockton total costs		
Brought forward	2,750,197	2,546,302
Accretion	221,175	204,763
Increase/(Decrease) in estimated Stockton mine reclamation liability	601,127	(868)
Carried forward	3,572,499	2,750,197

The asset provision for the Stockton mine property is calculated using current cost estimates provided by an independent third party consultant. The current cost estimates are applied to the required reclamation activities for closure of the mine. The cost estimates are escalated at 7.29% annually to the anticipated future mine closure date. The escalation factor was derived from the prior 10 year average increase in the US Producer Price Index for Anthracite producers. The future reclamation cost value is discounted at 10% (incremental cost of borrowing) to arrive at the recorded reclamation liability.

18. Other Gains/(losses) - Net

	Group	
	For the year ended 31 Dec 2010 \$	For the year ended 31 Dec 2009 \$
Net foreign exchange gains/ (losses)	370,825	(1,124,539)

19. Employees

Staff Costs (including Executive Directors)

	Group		Company	
	For the year ended 31 Dec 2010 \$	For the year ended 31 Dec 2009 \$	For the year ended 31 Dec 2010 \$	For the year ended 31 Dec 2009 \$
Wages and salaries	3,225,753	2,696,649	366,052	258,932
Social security costs	332,905	278,923	36,408	42,804
Share options granted to Directors	-	43,345	-	43,345
	3,558,658	3,018,917	402,460	345,081

Included within staff costs above are \$350,588 (2009: \$201,129) of costs incurred at the Gowen site that have been charged against the reclamation provision in the year.

Average Number of Employees (including Executive Directors)

	Group	
	For the year ended 31 Dec 2010	For the year ended 31 Dec 2009
Administration	8	6
Coal miners	63	51
Total average headcount	71	57

The average number of administration staff employed by the Company during the year including executive Directors was 2 (2009: 2).

20. Directors' Remuneration

	Directors' Fees		Options Issued	
	For the year ended 31 Dec 2010 \$	For the year ended 31 Dec 2009 \$	For the year ended 31 Dec 2010 \$	For the year ended 31 Dec 2009 \$
Non-executive Directors				
Adam Wilson	77,810	117,445	-	18,824
Toby Howell ⁽¹⁾	38,954	43,063	-	-
Ken Ford ⁽²⁾	-	18,791	-	-
Max Crosland ⁽²⁾	-	18,791	-	-
Peter Chinneck	37,099	37,582	-	21,760
John Menzies ⁽³⁾	25,453	-	-	-
Executive Directors				
Stephen Best	125,210	107,005	-	-
Gregory Kuenzel ⁽¹⁾	86,410	97,610	-	2,761
Raymond Petrilla ⁽²⁾	-	80,000	-	-
	390,936	520,287	-	43,345

(1) Resigned 24 September 2010

(2) Resigned 30 June 2009

(3) Appointed 27 September 2010 and resigned 27 October 2010

No pension benefits are provided for any Director.

21. Other Income

	Group	
	For the year ended 31 Dec 2010 \$	For the year ended 31 Dec 2009 \$
Gains from investment securities	-	131,342
Other income	17,187	10,506
	17,187	141,848

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

22. Finance Income and Costs

	Group	
	For the year ended 31 Dec 2010 \$	For the year ended 31 Dec 2009 \$
Interest Expense:		
Other loans and finance leases	(1,107,691)	(1,004,926)
Convertible loan (Note 16)	(209,947)	-
Finance Costs	1,317,638	(1,004,926)
Finance Income		
Interest received from bank	-	7,665
Other Finance Income	-	13,581
	-	21,246
Net Finance Costs	1,317,638	(983,680)

23. Expenses by Nature

	Group	
	For the year ended 31 Dec 2010 \$	For the year ended 31 Dec 2009 \$
Staff benefit expenses	4,213,562	3,621,554
Depreciation, amortisation and impairment charges	1,383,246	1,349,994
Fuel and oil	2,127,497	1,506,828
Rental expenses	459,858	972,416
Other expenses	6,697,973	2,202,723
Total cost of sales, administration and other expenses	14,882,136	9,653,515

24. Taxation

	Group	
	For the year ended 31 Dec 2010 \$	For the year ended 31 Dec 2009 \$
Loss before tax	(5,091,659)	(2,571,672)
Tax at the applicable rate of 36% (2009: 36%)	(1,832,997)	(925,802)
Permanent and timing differences	(71,493)	-
Tax losses utilised	-	47,283
Net tax effect of losses carried forward	1,904,490	878,519
Tax charge	-	-

No tax charge or credit arises on the loss for the year.

The tax rate used is a combination of the 28% (2009: 28.25%) standard rate of corporation tax in the UK, 34% (2009: 34%) US federal tax rate and 6% (2009: 6%) Pennsylvania state tax rate for the Stockton Coal Group to give an applicable rate of 36% (2009: 36%).

The Group has tax losses of approximately \$15,441,107 (2009: \$10,254,525) available to carry forward against future taxable profits. A deferred tax asset has not been recognised because of uncertainty over the timing of future taxable profits against which the losses may be offset.

25. Loss per Share

The calculation of the basic loss per share of 0.31 cents (31 December 2009 loss per share: 0.19 cents) is based on the loss attributable to ordinary shareholders of \$5,091,659 (31 December 2009 loss: \$2,571,672) and on the weighted average number of ordinary shares of 1,653,929,227 (31 December 2009: 1,321,934,438) in issue during the year.

The basic and diluted loss per share is the same, as the effect of the exercise of share options and warrants would be to decrease the loss per share.

Details of share options and warrants that could potentially dilute earnings per share in future periods are set out in Note 13.

Since the year end the Company has issued ordinary shares. These shares will have a dilutive effect on earnings per share in future periods. Details of the shares issued since the year end are set out in Note 29.

26. Commitments

The Group has provided certificates of deposit as collateral to secure mining bonds required to secure mine reclamation obligations. The certificates are not released until the underlying reclamation obligations have been completed by the Group and released by the Department of Environmental Protection. The balance of certificates of deposit at 31 December 2010 is \$236,467 (31 December 2009: \$236,486).

The Group has entered into a contractual arrangement with The Railroad Associates Corporation for work to be performed in relation to the relocation of the Norfolk and Southern railway line. An amount of \$218,257 (2009: \$218,257) remains committed under this contract.

27. Related Party Transactions

Shareholder Loans

Included within borrowings are the following amounts owed to shareholders:

	Group	
	As at 31 Dec 2010 \$	As at 31 Dec 2009 \$
Willoughby (465) Limited ⁽¹⁾	617,511	590,231
Mary Catherine Best ⁽²⁾	1,645,967	1,503,963
Mayford LLC ⁽³⁾	2,178,388	–
	4,441,866	2,094,194

(1) Willoughby (465) Limited is a company controlled by Stephen Best, who is a Director and shareholder of the Company.

(2) Mary Catherine Best is the spouse of Stephen Best.

(3) Mayford LLC is a company controlled by Mary Catherine Best and Adam Wilson.

Amounts due to Mary Catherine Best and Willoughby (465) Limited are repayable on 31 December 2012. Interest is charged on the loans at a fixed rate of 9% per annum payable on maturity.

Credit Facility

On 27 June 2008 the Company entered into an agreement with Stephen Best, who is a Director and major shareholder of the Company, whereby Stephen Best has agreed to make available a credit facility of up to \$4,000,000 with a maturity date of 31 December 2011, secured over the assets of the Coal Contractors Group. Interest accrues at 9% per annum on monies drawn down.

As at 31 December 2010 the Group had drawn down \$845,025 (31 December 2009: \$637,184) of the available balance of the facility.

Mayford LLC

On 30 November 2010 Mayford LLC purchased a loan outstanding to GECC with a balance of \$2,401,559 (including accrued interest) at that date for \$1,500,000. Mary Catherine Best (spouse of Managing Director Stephen Best) and Adam Wilson, who is a director of Atlantic Coal are shareholders in Mayford LLC. At present the Company is in advanced negotiations with Mayford LLC over the settlement of this loan. Mr Best and Mr Wilson have both been excluded entirely from settlement negotiations. This loan is secured on all anthracite coal to be extracted from the property and all anthracite coal inventories through the grant of a first mortgage on all the real property of Coal Contractors (1991) Inc.

Loan from Atlantic Coal plc to Coal Contractors (1991) Inc

As at 31 December 2010 there are amounts receivable of \$14,368,596 (31 December 2009: \$12,226,146) due from Coal Contractors (1991) Inc to the Company. This loan is interest free and is repayable in Sterling when sufficient cash resources are available in the subsidiary.

During the year ended 31 December 2010 the Company charged fees of \$256,404 (31 December 2009: \$288,629) to Coal Contractors Inc for certain administrative and consulting services.

All Group transactions were eliminated on consolidation.

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

27. Related Party Transactions (continued)

Other Transactions

Included in trade payables is a balance of \$53,707 payable to Stephen Best, who is a Director and shareholder of the Company (31 December 2009: \$251,135). This relates to out of pocket expenses incurred by Mr Best relating to the operations of the Stockton Coal Group.

Freeside Limited, a company of which Gregory Kuenzel is a director and beneficial owner, was paid a fee for company secretarial and the provision of office administrative and receptionist services provided to the Group. The total fees paid during the year for the time that he was a director of the Company amounted to \$57,711 (31 December 2009: \$84,149).

28. Ultimate Controlling Party

The Directors believe there to be no ultimate controlling party.

29. Events after the Balance Sheet Date

Share Issue

During January 2011 the Company raised an aggregate of £975,306 (approximately \$1,508,000) from the exercise of 158,911,190 warrants and options into new ordinary shares of the Company.

During January 2011 the Company issued 107,264,476 new ordinary shares through the conversion of loan notes with a par value of £560,000 (\$913,000) and accrued interest charges up to the date of conversion of £29,953.

During January 2011 the Company raised an aggregate of £300,000 (\$464,000) from the issue of 75,000,000 new shares through a new allotment.

On 9 February and 11 February the Company raised a total of £12,000,000 (\$18,565,000) (before issue costs) from the placement of 1,600,000,000 new ordinary shares.

Option to Acquire Anthracite Property

On 14 March 2011 the Company secured an option to buy a 158 acre anthracite mining property located in the Boroughs of Duryea and Hughestown in Luzerne County, Pennsylvania, which could consist of up to 12,000,000 tons of colliery spoil, estimated to contain 10-15% of recoverable sized coal and in excess of 1,000,000 tons of coal silt on surface, as well as approximately 2,500,000 tons of subsurface coal reserves recoverable by opencast mining. On performing due diligence the Directors decided not to pursue the acquisition and terminated the option on 3 June 2011.

Purchase of Second Liebherr R9250

On 13 April 2011 the Company placed an order for a second Liebherr R9250 19-yard bucket hydraulic excavator at a cost of \$3.75 million funded through a conventional lease purchase agreement. This is due at Stockton by the end of 2011 and will be operational during the first quarter of 2012.

30. Contingencies

There are no legal or arbitration proceedings which may have or have had a material effect on the financial position of the Stockton Coal Group other than:

South Tamaqua Coal Pockets, Inc., as agent for Brook Contracting Corporation vs. Coal Contractors (1991), Inc. Raymond J. Petrilla and John T. Munley, Jr. (Common Pleas, Luzerne County No. 801-2007)

Brook Contracting Corp. alleges that it made prepayments, at the request of the Stockton Coal Group's management, for coal to be supplied pursuant to a coal supply agreement. Brook Contracting made prepayments aggregating \$202,270 by early 2006, for which the coal was not delivered as agreed because the Stockton Coal Group's mining operations were idled during that time. Suit was filed in February 2007. Brook Contracting has made a claim for return of \$202,270 with interest and damages in an unspecified amount caused by its having to obtain replacement coal from other sources at higher prices.

Since the mine resumed operations in late 2006, deliveries of coal have been made to Brook Contracting in amounts sufficient to satisfy the claims for return of the prepaid amounts, and the Group is seeking a written acknowledgment from Brook Contracting of the same, and a voluntary dismissal of other claims. The amount of coal which Coal Contractors allocated to Brook Contracting for this purpose was 558 tons of lump coal and 5,770 tons of run of mine coal.