

Registered number: 05315929

ATLANTIC COAL PLC

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31 DECEMBER 2007

ATLANTIC COAL PLC

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ATLANTIC COAL PLC

COMPANY INFORMATION

Directors	Christopher Lambert (Non-Executive Chairman) Stephen Best (Managing Director) Raymond Petrilla (Executive Finance Director) Toby Howell (Non-Executive Director) Gregory Kuenzel (Non-Executive Director)
Company Secretary	Gregory Kuenzel
Registered Office	200 Strand London WC2R 1DJ
Company Number	05315929
Bankers	HSBC 129 New Bond Street London W1J 2JA
Nominated Adviser and Broker	HB Corporate 40 Marsh Wall London E19 4TP
Auditors	Littlejohn 1 Westferry Circus Canary Wharf London E14 4HD
Solicitors	Kerman & Co LLP 200 Strand London WC2R 1DJ

ATLANTIC COAL PLC

CHAIRMAN'S REPORT

This is my first full year report as Chairman since Atlantic Coal plc ('Atlantic Coal' or 'the Company') commenced trading on AIM, following the acquisition of the Stockton Coal Group ('SCG') in Pennsylvania, USA by way of a Reverse Takeover of Summit Resources plc. As shareholders will know, SCG is an open cast production and processing business focussing on incremental reserves of high grade coal for immediate and near term production. SCG's assets include the ownership and operation of the Stockton Colliery which is comprised of the producing Stockton Mine and an adjacent anthracite washing plant.

Operational Review

SCG operates the Stockton Colliery which comprises an open-cast anthracite mine and an adjacent anthracite washing plant. The mine is an established non-union surface mine encompassing circa 900 land acres in the Hazle Creek Valley, Pennsylvania and has an estimated probable reserve of over 2 million tonnes of recoverable clean (washed) coal product. Mining of raw coal is predominantly from the high quality Mammoth seam, while washing and sizing takes place in the 150 tonne per hour coal preparation plant. At re-admission to AIM, J T Boyd Company, the Company's Competent Person, estimated that there is over 10 years of mine life from existing reserves at an average production rate of 400,000 Run of Mine ('ROM') tonnes per annum. Based on historic production levels, the mine is capable of and is projected to produce approximately 450,000 ROM tonnes of coal per year.

Mining operations are conducted by the use of hydraulic excavators. Uncovered raw coal is then loaded into 100 tonne trucks for delivery to the onsite preparation plant. As each section of the mine is developed, mining progresses from the northern and southern faces into the basin. This yields a constant flow of raw coal to the preparation plant.

Coal production is currently reduced as SCG's mining operations are being restricted by the Norfolk Southern railroad track which is located on the southern face of the mine. The railroad tracks' present location prevents extraction of coal reserves located near and under the track. Coal is currently mined from the northern face into the basin while coal located on the southern face remains in place. After relocation of the railroad track is completed, coal will be mined from both faces into the basin. Resulting production will provide full feed to the preparation plant which will raise production levels significantly. The Board expects track relocation to be completed in the second half of 2008 although the final timings will be dependent on the timely response from the railroad related to track design and acceptance of the designated relocation area. Clean coal processed from 1 September to 31 December 2007 was 33,427 tonnes. Clean coal processed from 1 January 2008 to 30 June 2008 was 10,833 tonnes.

Operating one eight hour shift, the on-site preparation plant has an estimated production capacity of up to 147,000 tonnes per annum of clean sized coal. However, post year end, full production has been constrained by lower yields from the mine. An additional crushing circuit has been installed at the preparation plant to provide sizing flexibility to meet increased small size coal demand.

SCG is one of five operating anthracite companies within the region capable of producing annually more than 100,000 tonnes of clean coal. Competition with other producers remains constrained due to the balance of supply and demand in the market. Barriers to entry are formidable preventing substantial increases in short term production. The capital-intensive nature of the industry along with environmental concerns and protracted permitting regulations enforced by federal and state agencies, precludes significant short-term increases in local production. Importantly, SCG has in place all necessary permits and bonding to operate the mine and preparation plant.

SCG practices concurrent mine reclamation at its Stockton mine. Overburden removed to expose the coal seam is trucked to a disposal area located in a previously mined section of the active mine. This practice insures all reclamation remains current and maintains the open pit area of the mine within allowed limits. Areas refilled are restored to approximate original contour and completed by seeding with grass and planting trees. A previous mine site must be reclaimed by SCG. Reclamation expenditures are estimated at \$1.2M annually over a two year period beginning in 2009.

Anthracite coal, washed and sized into eight products, is sold into the domestic heating and industrial markets. Domestic heating market demand remains robust and commands the highest prices. Coal is sold to dealers for final delivery to households utilizing coal as a primary or secondary heating fuel. The north eastern states of the US consume approximately 85% of total USA fuel oil used for heat. As the price of fuel oil has escalated unabated, demand for anthracite coal as a primary fuel for heating has surged. This demand is further bolstered by the substantial increase in shipments of hand fired coal stoves into the market. The weighted average selling price for this segment of the market was \$130 per tonne. It remains an attractive and dynamic segment of the market.

Industrial market consumption is concentrated on steel producers using anthracite as a carbon additive in their melting shop operations. Steel production continues at high levels with concomitant demand for coal. The high quality of Mammoth seam anthracite mined by SCG creates a superior high fixed carbon product for the steel market. These very characteristics also make our coal desirable for use in ore reduction processes with potential future demand by this segment. Industrial markets are price competitive with the weighted average selling price.

The weighted average selling price for all coal sold was \$122 per tonne. As global oil prices continue to increase it is anticipated that future coal prices will follow. The price of coal sold for domestic heating will most likely increase to offset operating cost increase and will climb higher due to greater consumption brought on by stronger domestic heating market demand.

Financial Review

The loss for the period 1 September 2007 to 31 December 2007 was \$3,615,463. This performance was impacted by lower raw coal production from the mine. Turnover was \$2,523,054 with 21,303 tonnes sold. The Company has secured an interim funding facility from Stephen Best to complete relocation of the railroad track and fund ongoing operations pending the return to expected production levels and profitability. However the Board intends to replace this interim funding facility with additional debt or equity finance in the second half of the year.

Atlantic Coal remains well positioned as an anthracite producer in Pennsylvania. With the relocation of the railroad track production at the site will be able to increase, moving the Company towards positive cash flow generation. Market metrics remain strong for domestic heating use driven by the high cost of oil and uncertainty of supply. Industrial demand continues to impress given the current economic climate in the US and foreign demand for steel coupled with favourable exchange rates. Importantly, we are in talks with major industrial companies for off-take agreements, which could provide the Company with the opportunity to increase overall output. To this extent, the Board is examining a number of transactions that will expand its regional asset base and allow Atlantic Coal to significantly increase its critical mass. These are both in Pennsylvania in the US as well as in the UK.

In the current markets with coal prices on the increase, Atlantic Coal is ideally placed to take advantage of this and I believe that the Company has a bright future to look forward to.

Christopher Lambert
Non-Executive Chairman
16 July 2008

ATLANTIC COAL PLC

DIRECTORS' REPORT

The Directors present their Report, together with the Group Financial Statements and Auditors' Report, for the period ended 31 December 2007.

Acquisitions

The Company acquired the Stockton Coal Group (consisting of Coal Contractors (1991) Inc, Stockton Anthracite LLC and Stockton Anthracite LP) on 19 November 2007. This acquisition constituted a reverse acquisition under IFRS 3 and as a result is accounted for as such.

As a consequence of this acquisition the Company changed its name from Summit Resources plc to Atlantic Coal plc.

As a result the Group has presented consolidated results for the period 1 September 2007 to 31 December 2007 with comparative results being for the year ended 31 August 2007. The consolidated balance sheet is as at 31 December 2007 with the comparative being 31 August 2007.

A Company balance sheet is also presented as at 31 December 2007 with the comparative being 31 December 2006.

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 3 and 4.

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

Results and Dividends

The loss of the Group of the period 1 September 2007 to 31 December 2007 before taxation amounts to \$3,615,463 (year ended 31 August 2007 - \$7,442,853).

The Directors do not recommend the payment of a dividend for the period (year ended 31 August 2007 - \$nil).

Directors

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

Mr Stephen Best, Mr Raymond Petrilla and Mr Gregory Kuenzel were appointed on 19 November 2007. Mr Malcolm James and Ms Jade Styants resigned as Directors on 19 November 2007.

Directors' Interests

The Directors who served during the year ended 31 December 2007 had, at that time the following beneficial interests in the shares of the Company:

	As at the date of appointment		31 December 2007		As at the date of this report	
	Ordinary Shares	Options	Ordinary Shares	Options	Ordinary Shares	Options
Christopher Lambert	-	-	4,600,000	1,339,341	4,600,000	1,339,341
Malcolm James (1)	-	-	6,454,989	1,339,341	6,454,989	1,339,341
Jade Styants (1) & (2)	-	-	4,265,429	1,339,341	4,265,429	1,339,341
Stephen Best (3) & (4)	136,492,199	15,000,000	137,154,752	15,000,000	137,154,752	15,000,000
Raymond Petrilla (3)	4,127,331	2,000,000	4,127,331	2,000,000	4,127,331	2,000,000
Toby Howell	-	-	4,275,000	2,678,683	4,275,000	2,678,683
Gregory Kuenzel (3) & (5)	1,140,000	-	1,140,000	-	1,140,000	-

(1) Malcolm James and Jade Styants both resigned on 19 November 2007

(2) Jade Styant's shares and options are held by Black Ivory Ltd. The interest is a non beneficial interest

(3) Stephen Best, Raymond Petrilla and Gregory Kuenzel were appointed on 19 November 2007

(4) Stephen Best's shares are held as follows, 41,098,186 by his spouse, 77,960,418 by American Investments Limited and 18,096,148 by Willoughby (465) Limited. 15,000,000 options are held in his name.

(5) 250,000 of Gregory Kuenzel's shares are held by his spouse.

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

ATLANTIC COAL PLC

DIRECTORS' REPORT (continued)

Key Performance Indicators

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 Board has only recently adopted these key performance indicators from which to assess performance; therefore there are no comparatives for this report. However, the indicators set out below will continue to be used by the Board to assess performance over the period to 31 December 2008 and will be reported on in the 2008 Directors' Report.

KPI's

- Sales Revenue – per tonne of coal sold (\$)
- Cost Price – operating cost per tonne of coal sold (\$)
- Health and Safety – number of reportable accidents (number)
- Environmental Incidents – breaches of environmental legislation (number)

Environmental Responsibility

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

Principal Risks and Uncertainties

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

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

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.

General and economic risks:

- Contractions in the world economies or increases in the rate of inflation resulting from international conditions.
- Movements in global equity and share markets and changes in market sentiment towards the resource industry.
- Currency exchange rate fluctuations and, in particular, the relative prices of the UK pound and US dollar.
- Adverse changes in factors affecting the success of mining operations, such as increases in expenses, changes in government policy and further regulation of the mining industry; unforeseen major failure, breakdowns or repairs required to key items of mining plant and equipment or mine structure resulting in significant delays, notwithstanding regular programmes of repair, maintenance and upkeep; and unforeseen adverse geological, mining or prolonged weather conditions.

Funding risk:

- The Company may not be able to raise, either by debt or further equity, sufficient funds to enable completion of planned exploration, investment and/or mine development projects.

Commodity risk:

- Commodities are subject to high levels of volatility in price and demand. The cost of commodities depends on a wide range of factors, most of which are outside the control of the Company. Production costs depend on a wide range of factors, including commodity prices and capital and operating costs in relation to any operational site.

Mining exploration and development risks:

- Mining exploration and development activity is subject to numerous risks, including failure to achieve estimated mineral resource, recovery and production rates and capital and operating costs.
- Success in identifying recoverable reserves can never be guaranteed. The Company can also not guarantee that it will be able to obtain the necessary permits and approvals required for development of its projects.
- The Company 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.

ATLANTIC COAL PLC

DIRECTORS' REPORT (continued)

Financial Instruments

The Company's approach to financial instruments is set out in Note 1 to the Financial Statements.

Financial 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 Company's financial risk management policies are set out in Note 2 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 undertakings 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 2007, the Company had an average of 92 days' (2006 - 6 days') purchases outstanding in trade payables. The Group average was 94 days (31 August 2007 - 173 days).

International Financial Reporting Standards

The Directors have implemented International Financial Reporting Standards for the first time to 31 December 2007 in the Group Financial Statements, as required by the rules for AIM Companies. The 31 August 2007 Financial Statements have been restated to comply with these new standards.

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

Chapman Davis LLP resigned as auditors during the year and, Littlejohn, having been appointed to fill the casual vacancy during the year, will be proposed for reappointment in accordance with Section 485 of the Companies Act 2006.

This report was approved by the Board on 16 July 2008 and signed on its behalf.

Stephen Best
Managing Director

ATLANTIC COAL PLC

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 prepared the Group and Parent Company Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that year. In preparing these Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state that the Financial Statements comply with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group, and enable them to ensure that the Financial Statements comply with the Companies Act 1985 and, as regards the Group Financial Statements, Article 4 of the International Accounting Standard ("IAS") Regulation. They are also responsible for safeguarding the assets of the Company and the Group, 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. Legislation in the United Kingdom governing the preparation and dissemination of the Financial Statements may differ from legislation in other jurisdictions.

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CORPORATE GOVERNANCE

The Board of Directors currently comprises two Executive Directors and three Non-Executive Directors, one of whom is the Chairman. The Directors recognise the importance of sound corporate governance and intend to observe the requirements of the Code of Best Practice, as published by the Committee on Corporate Governance (commonly known as the "Combined Code") 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 ensure that its obligations to its shareholders and others are understood and met. All Directors are expected to bring an 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. It is expected that the Non-Executive Directors will hold separate meetings without Executive Directors or Chairman present. The scope of their responsibilities is enlarging, and 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 Company 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 Directors who are 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 Gregory Kuenzel, Christopher Lambert and Toby Howell has been established by the Company. The Audit Committee is chaired by Gregory Kuenzel 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 Gregory Kuenzel, Christopher Lambert and Toby Howell. The Remuneration Committee is chaired by Christopher Lambert. The Committee is responsible for reviewing the performance of the Executive Directors and for setting the scale and structure of their 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

The Board has established a Working Capital Committee for the specific purpose of reviewing the group's working capital requirements from time to time. The members of this committee are Gregory Kuenzel, Christopher Lambert and Toby Howell.

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CORPORATE GOVERNANCE (continued)

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.

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 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 AGM as a forum for communication between the Company and its shareholders and encourages their participation in its agenda.

ATLANTIC COAL PLC

INDEPENDENT AUDITORS' REPORT

We have audited the Group and Parent Company Financial Statements (the "Financial Statements") of Atlantic Coal plc for the period ended 31 December 2007 which comprise the Group and Parent Company Balance Sheets, the Group Income Statement, 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. These Financial Statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We report to you our opinion as to whether the Financial Statements give a true and fair view and whether the Financial Statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group Financial Statements, Article 4 of the International Accounting Standards ("IAS") Regulation. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the Financial Statements. In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. The other information comprises only the Chairman's Report and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

Opinion

In our opinion:

- the Group Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of the Group's loss for the period 1 September 2007 to 31 December 2007;
- The Parent Company Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 December 2007.
- the Financial Statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Financial Statements.

Littlejohn

Chartered Accountants
and Registered Auditors

1 Westferry Circus
Canary Wharf
London E14 4HD

16 July 2008

ATLANTIC COAL PLC

BALANCE SHEETS

As at 31 December 2007

	Note	Group		Company	
		As at 31 December 2007 \$	As at 31 August 2007 (restated) \$	As at 31 December 2007 \$	As at 31 December 2006 \$
Non-Current Assets					
Property, plant and equipment	5	6,159,182	6,492,461	3,065	5,704
Land, coal rights and restoration	6	6,378,121	6,427,589	-	-
Intangible assets	7	-	-	-	-
Investment in subsidiaries	8	-	-	19,072,306	-
Trade and other receivables	9	-	-	8,217,677	-
		12,537,303	12,920,050	27,293,048	5,704
Current Assets					
Inventories	10	751,589	966,776	-	-
Trade and other receivables	9	2,135,420	1,376,134	541,721	2,634,999
Other assets	11	653,216	640,285	-	-
Cash and cash equivalents	12	1,591,300	133,087	1,469,689	4,311,342
		5,131,525	3,116,282	2,011,410	6,946,341
Total Assets		17,668,828	16,036,332	29,304,458	6,952,045
Current Liabilities					
Trade and other payables	14	3,525,155	3,536,937	428,786	24,763
Provisions	15	1,080,000	648,000	-	-
Borrowings	16	950,500	9,063,388	-	-
Accrued restoration costs	17	428,000	428,000	-	-
		5,983,655	13,676,325	428,786	24,763
Non-Current Liabilities					
Borrowings	16	3,988,413	4,001,902	-	-
Accrued restoration costs	17	6,624,209	6,561,713	-	-
		10,612,622	10,563,615	-	-
Total Liabilities		16,596,277	24,239,940	428,786	24,763
Net Assets		1,072,551	(8,203,608)	28,875,672	6,927,282
Capital and Reserves Attributable to Equity Holders of the Company					
Called up share capital	13	1,057,101	1	1,057,101	348,784
Share premium account		12,108,661	2,674,078	12,108,661	6,593,569
Merger reserve		17,112,462	-	17,112,462	-
Reverse acquisition reserve		(12,562,742)	-	-	-
Other reserves		78,381	-	78,381	13,030
Foreign currency translation reserve		(277,968)	-	(277,968)	345,920
Retained earnings / (losses)		(16,443,344)	(10,877,687)	(1,202,965)	(374,021)
Total Equity		1,072,551	(8,203,608)	28,875,672	6,927,282

The Financial Statements were approved and authorised for issue by the Board of Directors on 16 July 2008 and were signed on its behalf by:

Raymond Petrilla
Finance Director

The Notes on pages 17 to 37 form part of these Financial Statements.

ATLANTIC COAL PLC

GROUP INCOME STATEMENT For the period 1 September 2007 to 31 December 2007

	Note	Group	
		For the period from 1 September 2007 to 31 December 2007 \$	For the year ended 31 August 2007 (restated) \$
Revenue	3	2,523,054	4,450,695
Cost of sales		(3,252,089)	(7,587,274)
Gross loss		(729,035)	(3,136,579)
Administration expenses		(848,628)	(3,405,493)
Other (losses) / gains - net	18	268,143	(352,330)
Other income	19	1,602	50,729
Operating Loss		(1,307,918)	(6,843,673)
Impairment of goodwill	7	(1,785,612)	-
Finance income	22	21,834	49,183
Finance costs	22	(543,767)	(648,363)
Loss Before Taxation		(3,615,463)	(7,442,853)
Corporation tax expense	23	-	-
Loss for the Period		(3,615,463)	(7,442,853)
Attributable to Equity Holders		(3,615,463)	(7,442,853)
Loss per share attributable to the equity holders of the Company:			
Basic and diluted	24	1.11 cents	2.28 cents

The Company has elected to take the exemption under Section 230 of the Companies Act 1985 from presenting the Parent Company Income Statement.

The Notes on pages 17 to 37 form part of these Financial Statements.

ATLANTIC COAL PLC

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY For the period 1 September to 31 December 2007 and the year ended 31 December 2007

Group (\$)	Share capital	Share Premium	Merger reserve	Share option reserve	Reverse acquisition reserve	Translation reserve	Profit and loss account (restated)	Total equity
At 1 September 2006	1	2,674,078	-	-	-	-	(3,434,834)	(760,755)
Loss for the year	-	-	-	-	-	-	(7,442,853)	(7,442,853)
At 31 August 2007	1	2,674,078	-	-	-	-	(10,877,687)	(8,203,608)
Partnership capital	-	1,950,194	-	-	-	-	(1,950,194)	-
Capital contribution	-	1,000,000	-	-	-	-	-	1,000,000
Loss for the period	-	-	-	-	-	-	(3,615,463)	(3,615,463)
Reverse merger	1,057,100	6,484,389	17,112,462	78,381	(12,562,742)	(277,968)	-	11,891,622
At 31 December 2007	1,057,101	12,108,661	17,112,462	78,381	(12,562,742)	(277,968)	(16,443,344)	1,072,551

Company (\$)	Share capital	Share Premium	Merger reserve	Share option reserve	Translation reserve	Profit and loss account	Total equity
As at 1 January 2006	-	-	-	-	-	-	-
Share capital issued	348,784	6,952,759	-	-	-	-	7,301,543
Cost of share issue	-	(359,190)	-	-	-	-	(359,190)
Foreign currency	-	-	-	-	345,920	-	345,920
Loss for the year	-	-	-	-	-	(374,021)	(374,021)
Share based payments	-	-	-	13,030	-	-	13,030
As at 31 December 2006	348,784	6,593,569	-	13,030	345,920	(374,021)	6,927,282
Share capital issued	708,317	5,532,086	17,112,462	-	-	-	23,352,865
Share based payments	-	(16,994)	-	65,351	-	-	48,357
Foreign currency	-	-	-	-	(623,888)	-	(623,888)
Loss for the year	-	-	-	-	-	(828,944)	(828,944)
As at 31 December 2007	1,057,101	12,108,661	17,112,462	78,381	(277,968)	(1,202,965)	28,875,672

The Notes on pages 17 to 37 form part of these Financial Statements.

ATLANTIC COAL PLC

GROUP CASH FLOW STATEMENT For the period 1 September to 31 December 2007

	Group	
	For the period from 1 September 2007 to 31 December 2007	For the year ended 31 August 2007 (restated)
Note	\$	\$
Cash flows from operating activities		
Operating loss	(1,307,918)	(6,843,673)
Adjustments for:		
Depreciation	365,133	1,193,693
Amortisation	49,468	185,237
Gain on disposal of property, plant and equipment	-	5,853
Accretion, accrued restoration costs	62,496	484,336
Foreign exchange (gains) / losses	(268,143)	352,330
Decrease in trade and other receivables	(9,286)	(892,686)
Less: Trade & other receivables acquired on reverse acquisition	(541,721)	-
(Increase) / decrease in inventories	215,187	(792,968)
Increase / (decrease) in trade and other payables	(11,782)	570,046
Less: Trade and other payables acquired on reverse acquisition	(428,786)	-
Increase in provisions	432,000	648,000
Increase in accrued restoration costs	-	1,817,841
Net cash used in operations	(1,443,352)	(3,271,991)
Cash flows from investing activities		
Purchase of property, plant and equipment	(28,404)	(1,766,564)
Payment for deposits	(12,930)	(42,917)
Additions of cash from reverse acquisition	3,157,195	-
Interest paid	(301,938)	(242,707)
Interest received	21,834	49,183
Net cash from (used in) investing activities	2,835,757	(2,003,005)
Cash flows from financing activities		
Proceeds from equity contribution	250,000	-
Proceeds from borrowings	-	6,280,074
Repayments of borrowings	(207,959)	(978,026)
Net cash from Financing Activities	42,041	5,302,048
Net increase in cash and cash equivalents	1,434,446	27,052
Effect of foreign exchange rate changes	23,767	-
Cash and cash equivalents at beginning of period	133,087	106,035
Cash and cash equivalents at end of period	12 1,591,300	133,087

The Notes on pages 17 to 37 form part of these Financial Statements.

ATLANTIC COAL PLC

COMPANY CASH FLOW STATEMENT For the year ended 31 December 2007

	Company	
	For the year ended 31 December 2007	For the year ended 31 December 2006
Note	\$	\$
Cash flows from operating activities		
Operating loss	(953,621)	(374,021)
Adjustments for:		
Depreciation	2,678	1,128
Share options expensed	64,521	13,029
Increase in deposits paid	-	(97,834)
Increase in VAT due	(132,315)	(66,709)
Decrease in prepayments	108,129	-
Increase in trade and other receivables	(128,622)	(217,491)
Increase in trade payables	364,543	9,090
Increase in accruals	34,035	15,673
Net cash used in operations	(640,652)	(717,135)
Cash flows from investing activities		
Purchase of property, plant and equipment	-	(6,831)
Loans to subsidiary	(1,070,388)	-
Costs relating to acquisition of subsidiary	(1,249,330)	-
Loans	-	(2,252,965)
Interest received	125,349	84,418
Net cash used in investing activities	(2,194,369)	(2,175,378)
Cash flows from financing activities		
Proceeds from issue of share capital	-	7,960,153
Transaction costs of share issue	-	(378,308)
Net cash from Financing Activities	-	7,581,845
Net increase / (decrease) in cash and cash equivalents	(2,835,021)	4,419,332
Cash and cash equivalents at beginning of period	4,311,342	-
Exchange difference on cash	(6,633)	(107,990)
Cash and cash equivalents at end of period	12	1,469,689
		4,311,342

Significant Non-Cash Transactions

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. The consideration for this acquisition comprised the issue of 494,131,736 ordinary shares in Atlantic Coal plc.

The Notes on pages 17 to 37 form part of these Financial Statements.

ATLANTIC COAL PLC

ACCOUNTING POLICIES

For the period ended 31 December 2007

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 (IFRSs), International Financial Reporting Interpretations Committee (IFRIC) interpretations and the parts of the Companies Act 1985 applicable to companies reporting under IFRS. The Financial Statements have also been prepared under the historical cost convention and financial assets and financial liabilities at fair value through profit or loss.

The Financial Statements are presented in US Dollars.

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

The preparation of financial statements in conformity with IFRSs 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) First-Time Adoption of International Financial Reporting Standards (IFRSs)

The Group has adopted IFRSs for the first time. The Company continues to prepare its Financial Statements in accordance with IFRSs.

The Group has applied IFRS 1 "First-time Adoption of International Financial Reporting Standards" to provide a starting point for reporting under IFRSs. The date of transition to IFRSs was 1 September 2006, and all comparative information in these Financial Statements has been restated to reflect the Group's adoption of IFRSs.

The transition to IFRS reporting has resulted in changes to the Financial Statements, the Notes thereto and the Accounting Policies, compared with previous annual reports. These changes are set out in Note 31. The Accounting Policies that have been applied in the opening Balance Sheet have also been applied throughout all periods presented in these Financial Statements.

c) Standards and Interpretations in Issue but not yet Effective or not yet Relevant

IFRS 8 "Operating Segments" requires companies to adopt a management approach to reporting on their operating segments. This standard is effective for the period ended 31 December 2009 and is not expected to have an impact on the Group financial statements.

A revised version of IAS 1 "Presentation of Financial Statements" will require information in financial statements to be aggregated on the basis of shared characteristics, and introduce a statement of comprehensive income. This standard is effective for the period ended 31 December 2009 and is not expected to have a major impact on the Group Financial Statements.

A revised version of IAS 23 "Borrowing Costs" removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. This standard is effective for the period ended 31 December 2009 and is not expected to have an impact on the Group Financial Statements.

An amendment to IFRS 2 "Share-based Payment" clarifies that vesting conditions are service conditions and performance conditions only, and specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. This standard is effective for the period ended 31 December 2009 and is not expected to have a major impact on the Group Financial Statements.

IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" considers how certain grants of equity instruments should be treated under IFRS 2 "Share-based Payment". This standard is effective for the period ended 31 December 2008 and is not expected to have a major impact on the Group Financial Statements.

IFRIC 12 "Service Concession Arrangements" addresses how service concession operators should apply existing IFRSs to account for the obligations they undertake and rights they receive in service concession arrangements. This standard is effective for the period ended 31 December 2009 and is not expected to have an impact on the Group's financial statement. IFRIC 13 "Customer Loyalty Programmes" addresses accounting by entities that grant loyalty award credits to customers who buy goods or services. This standard is effective for the period ended 31 December 2009 and is not expected to have an impact on the Group Financial Statements.

ATLANTIC COAL PLC

ACCOUNTING POLICIES

For the period ended 31 December 2007

Summary of Significant Accounting Policies (continued)

c) Standards and Interpretations in Issue but not yet Effective or not yet Relevant (continued)

IFRIC 14 "IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" provides guidance on how to assess the limit in IAS 19 "Employee Benefits" on the amount of the surplus that can be recognised as an asset. This standard is effective for the period ended 31 December 2008 and is not expected to have an impact on the Group Financial Statements.

d) Basis of Consolidation

The Group Financial Statements consolidate the Financial Statements of Atlantic Coal plc and the audited management accounts of all of its subsidiary undertakings made up to 31 December 2007.

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 have control of the legal parent, Atlantic Coal plc, the transaction has been 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 subsidiary. The following accounting treatment has been 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;
- comparative numbers presented in the consolidated financial statements are those reported in the financial statements of the legal subsidiaries consolidated within the Stockton Coal Group.

The cost of acquisition is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus certain costs directly attributable to the acquisition.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated.

e) Going Concern

The Financial Statements have been prepared on a going concern basis notwithstanding that the Group incurred a net loss of \$3,615,463 during the period ended 31 December 2007 (loss for year ended 31 August 2007 : \$7,442,853). The continuance of the business as a going concern is dependent upon the Group achieving future profitable operations and the continuing financial support from a shareholder of the Company. A director and shareholder has agreed to provide adequate funding for the Group to meet its liabilities as they fall due (refer Note 29). The Directors believe that it is appropriate to prepare the Financial Statements on a going concern basis.

f) Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns different from those of other geographical segments.

ATLANTIC COAL PLC

ACCOUNTING POLICIES

For the period ended 31 December 2007

g) Foreign Currencies

Items included in the Financial Statements are initially measured using the currency of the primary economic environment in which the entities in the Group operate (their "functional currency"). This is Pounds Sterling for the legal parent and US Dollars for the subsidiaries. The presentation currency for both the parent and the Group is US Dollars. This reflects the primary economic environment in which the Group as a whole operates.

Assets and liabilities of the legal parent are translated into the presentation currency using the rate of exchange ruling at the Balance Sheet date, and income and expenses at the average rate for the year. Foreign exchange differences are recognised in equity.

Transactions in currencies other than the functional currency are translated into the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities are retranslated at the rates of exchange ruling at the balance sheet date. Foreign exchange differences on retranslation and settlement are recognised in the Income Statement.

h) 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

i) 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 Statements of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations ("SFAS No. 143"), 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 SFAS No. 143 year end calculation.

SFAS No. 143 is in line with International Accounting Standard No.37, Provisions, Contingent Liabilities and Contingent Assets which covers the accounting for asset retirement obligations.

ATLANTIC COAL PLC

ACCOUNTING POLICIES

For the period ended 31 December 2007

j) 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.

k) Accrued restoration costs

The Group also has 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 Group believes that in the event that the contractor fails to perform there is sufficient bonding in place to cover a significant portion of the incremental cost to complete the reclamation.

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 projects bid by qualified contractors and state bond rates required for annual recalculation of reclamation bonds.

l) Leasing Commitments

A finance lease is one in which a significant portion of the risks and rewards of ownership are transferred to the lessee. Assets obtained under finance leases and hire purchase contracts are capitalised in the Balance Sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged to the Income Statement over the period of the lease, and represents a constant proportion of the balance of capital repayments outstanding.

m) Financial Assets

Financial assets consist of financial assets at fair value through profit or loss and loans and receivables.

All financial assets are recognised when the group becomes a party to the contractual provisions of the instrument.

Financial assets other than those categorised as at fair value through profit or loss are recognised initially at fair value plus transaction costs. Financial assets categorised as at fair value through profit or loss are recognised initially at fair value with transaction costs expensed through the Income Statement.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Any change in their value through impairment or reversal of impairment is recognised in the Income Statement.

Provision for impairment of trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is the difference between the receivable's carrying amount and the present value of the estimated future cash flows.

Company investments in subsidiaries are carried at cost less impairment losses, less any pre-acquisition dividends received.

An assessment for impairment is undertaken at least annually.

n) Inventories

Inventories are stated at lower of cost and net realisable value. 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.

ATLANTIC COAL PLC

ACCOUNTING POLICIES

For the period ended 31 December 2007

o) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, demand deposits, bank overdrafts, and short-term, highly liquid investments that are readily convertible into known amounts of cash, and are subject to an insignificant risk of changes in value.

p) Taxation

Current tax is the tax currently payable based on the taxable profit for the year.

Tax losses available to be carried forward, and other tax credits to the Group, are recognised as deferred tax assets, to the extent that it is probable that there will be future taxable profits against which the temporary differences can be utilised.

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 period ended 31 August 2007 or the year ended 31 December 2007.

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. The Group recognises revenue from the sale of coal 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 reasonable assured.

t) Share Based Payments

The Group operates a share option scheme to encourage participation by Directors in the Group's performance. The fair value of the services received in exchange for the grant of options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of any options granted, excluding non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Company revises its estimate of options that are expected to vest.

Where shares were issued in exchange for services rendered, the fair value of the shares was calculated as the fair value of the services provided.

ATLANTIC COAL PLC

NOTES TO THE FINANCIAL STATEMENTS For the period ended 31 December 2007

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, cash flow 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.

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 reasonably 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 debt at a fixed rate to ensure certainty of future interest cash flows. 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 Company 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 2007				
Borrowings	950,500	3,116,148	872,265	-
Trade and other payables	3,525,155	-	-	-
At 31 August 2007				
Borrowings	9,063,388	605,914	3,395,988	-
Trade and other payables	3,536,937	-	-	-

ATLANTIC COAL PLC

NOTES TO THE FINANCIAL STATEMENTS For the period ended 31 December 2007

1. Financial Risk Management (continued)

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.

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 revenues and expenses during the period. Significant items subject to such estimates and assumptions include, but are not limited to, the allowance for doubtful accounts; inventories, coal lands, asset retirement obligations; 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

At 31 December 2007, the Group operates in one business segment, the extraction and processing of anthracite coal. The Group has interests in two geographical segments, the United Kingdom and the United States of America. The Group revenues and assets are substantially attributable to the coal activities in the US. The parent company operates a head office based in the United Kingdom which incurred certain administration and corporate costs.

Geographical Segments

The Group's business segments operate in two main geographical areas. The Group's revenues are wholly within the US.

	Group	
	For the period from 1 September 2007 to 31 December 2007	For the year ended 31 August 2007
Revenue	\$	\$
USA	2,523,054	4,450,695

Revenue is allocated based customer location.

	Group	
	As at 31 December 2007	As at 31 August 2007
Total Assets	\$	\$
USA	15,654,354	17,036,332
UK	2,014,474	-
Total	17,668,828	17,036,332

Total assets are allocated based on asset location.

ATLANTIC COAL PLC

NOTES TO THE FINANCIAL STATEMENTS For the period ended 31 December 2007

3. Segmental Information (continued)

	Group	
	For the period from 1 September 2007 to 31 December 2007	For the year ended 31 August 2007
Capital Expenditure	\$	\$
USA	28,403	1,767,063

Capital expenditure is allocated based on asset location.

4. Operating Loss

The operating loss is stated after charging:

	Group	
	For the period from 1 September 2007 to 31 December 2007	For the year ended 31 August 2007
	\$	\$
Fees payable to the Company's auditors for the audit of the Parent Company and consolidated accounts	40,036	-
Fees payable to the Company's auditors for other services provided to the Company and its subsidiaries:	34,030	-
Fees payable to the Company's auditors for the audit of the Company's subsidiaries	75,000	37,000
Fees payable to the Company's auditors for tax services	2,000	-
Depreciation	365,133	1,193,693
Amortisation	49,468	185,237

ATLANTIC COAL PLC

NOTES TO THE FINANCIAL STATEMENTS For the period ended 31 December 2007

5. Property, Plant and Equipment

	Land and buildings \$	Plant and machinery \$	Group Motor vehicles \$	Furniture and equipment \$	Total \$
Cost					
Balance as at 1 September 2006	332,957	13,281,286	393,394	62,220	14,069,857
Additions	-	1,765,885	-	1,178	1,767,063
Disposals	-	-	(27,848)	-	(27,848)
As at 31 August 2007	332,957	15,047,171	365,546	63,398	15,809,072
Additions	-	24,000	-	4,403	28,403
Additions on reverse acquisition	-	-	-	6,831	6,831
Exchange differences	-	-	-	-	-
As at 31 December 2007	332,957	15,071,171	365,546	74,632	15,844,306
Depreciation					
Balance as at 1 September 2006	206,139	7,545,122	334,768	58,385	8,144,414
Charge for the year	13,487	1,158,834	20,655	2,314	1,195,290
Disposals	-	-	(23,093)	-	(23,093)
As at 31 August 2007	219,626	8,703,956	332,330	60,699	9,316,611
Charge for the period	5,110	353,004	5,583	1,436	365,133
On reverse acquisition	-	-	-	3,475	3,475
Exchange differences	-	-	-	(95)	(95)
Disposals	-	-	-	-	-
As at 31 December 2007	224,736	9,056,960	337,913	65,515	9,685,124
Net book value as at 31 August 2007	113,331	6,343,215	33,216	2,699	6,492,461
Net book value as at 31 December 2007	108,221	6,014,211	27,633	9,117	6,159,182

The net book value of assets under finance lease is \$140,800 (31 August 2007: \$157,867).

	Company Furniture and equipment \$
Cost	
Balance as at 1 January 2006	-
Additions	6,831
As at 31 December 2006	6,831
Exchange differences	89
As at 31 December 2007	6,920
Depreciation	
Balance as at 1 January 2006	-
Charge for the year	1,128
As at 31 December 2006	1,128
Charge for the year	2,736
Exchange differences	(9)
As at 31 December 2007	3,855
Net book value as at 31 December 2006	5,703
Net book value as at 31 December 2007	3,065

ATLANTIC COAL PLC

NOTES TO THE FINANCIAL STATEMENTS For the period ended 31 December 2007

6. Land, coal rights and restoration costs

	Group	
	As at 31 December 2007 \$	As at 31 August 2007 \$
Stockton mine costs		
Land costs	3,000,000	3,000,000
Development costs	2,437,098	2,437,098
Retirement obligation cost		
Brought forward	914,472	2,290,617
Decrease in retirement obligation estimate	-	(1,376,145)
Carried forward	914,472	914,472
Total Stockton mine costs	6,351,570	6,351,570
Stockton mine costs depreciation		
Brought forward	2,222,419	2,091,551
Charge for the year	27,404	130,868
Stockton accumulated depreciation	2,249,823	2,222,419
Stockton mine costs net book value	4,101,747	4,129,151
Land costs		
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	1,251,562	1,197,193
Charge for the year	22,064	54,369
Land accumulated depreciation	1,273,626	1,251,562
Land net book value	2,276,374	2,298,438
Total	6,378,121	6,427,589

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 4.4% annually to the anticipated future mine closure date. The escalation factor was derived from the prior 15 year average increase in the US Producer Price Index for Anthracite producers. The future reclamation cost value is discounted at 8% (incremental cost of borrowing) to arrive at the recorded reclamation liability.

7. Intangible Fixed Assets

	Group	
	Goodwill \$	
Cost		
Balance as at 31 August 2007		-
Arising on reverse acquisition		1,785,612
Impairment losses		(1,785,612)
As at 31 December 2007		-

The goodwill arising on the reverse acquisition has been impaired in full as the Directors' do not consider this reflects any increase in the value of the group's assets.

ATLANTIC COAL PLC

NOTES TO THE FINANCIAL STATEMENTS For the period ended 31 December 2007

8. Investments in Subsidiary Undertakings

	Company	
	As at 31 December 2007	As at 31 December 2006
	\$	\$
Shares in Group Undertakings		
At 1 January	-	-
Additions	19,072,306	-
At 31 December	19,072,306	-

Investments in Group undertakings are stated at cost, which is the fair value of the consideration paid.

Details of Subsidiary Undertakings

Name of subsidiary	Place of establishment	Registered capital	Share capital held	Principal activities
Coal Contractors (1991) Inc	USA	Ordinary shares \$100	100%	Anthracite mining
Stockton Anthracite LP	USA	-	100%	Operation of anthracite washing plant
Stockton Anthracite LLC	USA	-	100%	Dormant

9. Trade and Other Receivables

	Group		Company	
	As at 31 December 2007	As at 31 August 2007	As at 31 December 2007	As at 31 December 2006
	\$	\$	\$	\$
Trade receivables	631,593	1,236,079	130,276	-
Other receivables	239,361	-	-	-
Prepayments	213,790	140,055	110,769	217,491
Deposits	99,091	-	99,091	97,834
Equity contributions receivable	750,000	-	-	-
VAT receivable	201,585	-	201,585	66,709
Loans	-	-	-	2,252,965
Loans to related parties (note 27)	-	-	8,217,677	-
	2,135,420	1,376,134	8,759,398	2,634,999
Less non-current portion: loans to related entities	-	-	8,217,677	-
Current portion	2,135,420	1,376,134	541,721	2,634,999

Equity contributions receivable relate to an agreement by former individual shareholders of the Coal Contractors (1991), Inc. to make total cash payments of \$1,000,000 in respect of four quarterly payments of \$250,000 due to General Electric Capital Corporation.

All non-current receivables are due within five years of the Balance Sheet date.

Group

At 31 December 2007, trade receivables of \$501,317 (31 August 2007: \$996,717) were overdue 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 December 2007	As at 31 August 2007
	\$	\$
Up to 3 months	320,746	745,238
3 to 6 months	135,123	206,031
6 to 12 months	45,448	45,448
Total	501,317	996,717

ATLANTIC COAL PLC

NOTES TO THE FINANCIAL STATEMENTS For the period ended 31 December 2007

10. Inventories

	Group		Company	
	As at 31 December 2007 \$	As at 31 August 2007 \$	As at 31 December 2007 \$	As at 31 December 2006 \$
Coal	601,348	796,682	-	-
Supplies	150,241	170,094	-	-
	751,589	966,776	-	-

The cost of inventories recognised as an expense and included in cost of sales was \$186,815 (31 August 2007: (\$792,968)).

11. Other assets

	Group	
	As at 31 December 2007 \$	As at 31 August 2007 \$
Certificate of deposit	230,649	221,976
Escrow account	422,567	418,309
	653,216	640,285

The Group, as part of a purchase agreement on a portion of the site currently being mined, has provided a supply agreement to the seller. The Group is required to provide, at the option of the purchaser, up to 100,000 tons of coal annually, with minimum quality specifications, until the date of exhaustion of the coal reserves on the site (refer Note 15). As part of the agreement, the Group is required to deposit into an escrow account \$1.00 for every ton of prepared coal produced from the site until the escrow account accumulates to \$2,500,000. Should the Group default on the terms of the agreement, the escrow account could be forfeited as liquidating damages.

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 December 2007 \$	As at 31 August 2007 \$	As at 31 December 2007 \$	As at 31 December 2006 \$
Cash at bank and on hand	1,591,300	133,087	1,469,689	4,311,342

ATLANTIC COAL PLC

NOTES TO THE FINANCIAL STATEMENTS For the period ended 31 December 2007

13. Called-Up Share Capital

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

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

Issued	Number of shares	Ordinary shares \$	Share premium \$	Total \$
At 31 December 2006	267,868,264	348,784	6,593,569	6,942,353
Acquisition of subsidiaries	494,131,736	708,317	5,515,093	6,223,410
At 31 December 2007	762,000,000	1,057,101	12,108,662	13,165,763

Share Options

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

Expiry date	Exercise price in £ per share	Shares	
		2007	2006
7 June 2011	0.02	24,348,142	24,348,142
18 November 2012	0.025	15,240,000	-
18 November 2012	0.035	6,000,000	-
18 November 2012	0.055	6,000,000	-
18 November 2012	0.075	5,000,000	-
		56,588,142	23,348,142

The options are exercisable starting immediately from the date of grant and lapse on the fifth anniversary of the date of grant. The Company or 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:

	2007 Options	2006 Options
Option granted on:	19 November 2007	6 June 2006
Option life (years)	5 years	5 years
Risk free rate	5%	4.6%
Expected volatility	15%	15%
Expected dividend yield	-	-
Marketability discount	20%	80%
Total fair value of options granted (\$000)	65	13

The expected volatility is based on historical volatility since listing on AIM on 8 June 2006.

The total fair value has resulted in a charge to the Income Statement for the year ended 31 December 2007 of \$30,832 (2006: \$13,030).

ATLANTIC COAL PLC

NOTES TO THE FINANCIAL STATEMENTS For the period ended 31 December 2007

14. Trade and Other Payables

	Group		Company	
	As at 31 December 2007 \$	As at 31 August 2007 \$	As at 31 December 2007 \$	As at 31 December 2006 \$
Trade payables	2,661,675	1,717,685	326,016	9,090
Social security and other taxes	75,772	26,310	-	-
Accrued expenses	787,708	1,792,942	102,770	15,673
	3,525,155	3,536,937	428,786	24,763

15. Provisions

	Group	
	As at 31 December 2007 \$	As at 31 August 2007 (restated) \$
Provision for supply of coal	1,080,000	648,000

In connection with the acquisition of the Stockton Mine real estate in November, 2000, the Stockton Coal Group entered into a ROM Coal Sale and Purchase Agreement to supply coal to Jeddo, an affiliate of the vendor of the property, Pagnotti Enterprises, Inc.. It grants Jeddo the option to purchase up to 100,000 standard long tons of coal annually, divided into an "annual" amount of at least 50,000 tons, provided that Jeddo gives notice of its election to exercise by 31 December of the previous year, and a quarterly optional amount where Jeddo can buy up to 50,000 tons more per year by exercising quarterly increase rights of up to 5,000 tons per month. The term of the Group's obligation under this agreement lasts until all the coal reserves at the Stockton mine are depleted.

As a result, a provision has been recognised for the Group's obligations under this agreement.

A charge of \$432,000 has been recognised in the current period. A charge of \$648,000 has been reflected in the results for the year ended 31 August 2007.

16. Borrowings

	Group	
	As at 31 December 2007 \$	As at 31 August 2007 \$
Non-Current		
Debenture and other loans	3,860,161	3,858,935
Finance lease liabilities	128,252	142,967
	3,988,413	4,001,902
Current		
Convertible bond	-	1,664,153
Debentures and other loans	908,328	7,358,848
Finance lease liabilities	42,172	40,387
	950,500	9,063,388

ATLANTIC COAL PLC

NOTES TO THE FINANCIAL STATEMENTS For the period ended 31 December 2007

16. Borrowings (continued)

Total borrowings include secured liabilities of \$2,707,857 (31 August 2007: \$3,917,393). Borrowings are secured as follows:

American Investments Ltd loan note in the amount of \$55,000 is secured by a lien on a 1998 Volvo Model L220D Rubber Tired Loader S/N L220DV1117 located at the Stockton mine site.

Cleveland Brothers Equipment Co, Inc loan note in the amount of \$257,410 is secured by liens on two Caterpillar Model D9N dozers, S/N 14Y75640 and S/N 14Y75637.

Cleveland Brothers Equipment Co, Inc loan note in the amount of \$86,906 is secured by liens on two Caterpillar Model 777B trucks, S/N04YC00229 and S/N 04YC01410.

General Electric Capital Corporation loan note in the amount of \$2,308,541 is secured by all anthracite coal to be extracted from the property and all anthracite coal inventory through the grant of a mortgage on all the real property of the Stockton Coal Group.

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

	Carrying amount		Fair value	
	As at 31 December 2007	As at 31 August 2007	As at 31 December 2007	As at 31 August 2006
	\$	\$	\$	\$
Debenture and other loans	3,860,161	3,858,935	3,860,161	3,858,935
Finance lease liabilities	128,252	142,967	128,252	142,967
	3,988,413	4,001,902	3,988,413	4,001,902

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on the face values of the loans.

The carrying amounts of short-term borrowings are approximately their fair value.

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 December 2007	As at 31 August 2007
	\$	\$
Finance lease liabilities – minimum lease payments		
- due within one year	60,210	60,210
- due within two to five years	146,532	166,602
- due thereafter	-	-
	206,742	226,812
Finance charges allocated to future periods	36,318	43,458
Present value of finance lease liabilities	170,424	183,354

ATLANTIC COAL PLC

NOTES TO THE FINANCIAL STATEMENTS For the period ended 31 December 2007

17. Accrued Restoration Costs

	Group	
	As at 31 December 2007 \$	As at 31 August 2007 \$
Gowen	4,206,625	4,206,625
Stockton	2,417,584	2,355,088
	6,624,209	6,561,713
Gowen total costs		
Brought forward	4,634,625	2,667,979
Increase in estimated reclamation liability	-	1,966,646
Carried forward	4,634,625	4,634,625
Gowen costs split:		
Current	428,000	428,000
Non-current	4,206,625	4,206,625
Stockton total costs		
Brought forward	2,355,088	3,454,845
Accretion	62,496	276,388
Decrease in estimated Stockton mine reclamation liability	-	(1,376,145)
Carried forward	2,417,584	2,355,088

18. Other (Losses) / Gains - Net

	Group	
	For the period from 1 September 2007 to 31 December 2007 \$	For the year ended 31 August 2007 \$
Net foreign exchange gains / (losses)	268,143	(352,330)

19. Other Income

	Group	
	For the period from 1 September 2007 to 31 December 2007 \$	For the year ended 31 August 2007 \$
Sale of scrap metal	1,572	50,729
Other	30	-
	1,602	50,729

ATLANTIC COAL PLC

NOTES TO THE FINANCIAL STATEMENTS For the period ended 31 December 2007

20. Employees

Staff Costs(including Executive Directors)	Group		Company	
	For the period from 1 September 2007 to 31 December 2007	For the year ended 31 August 2007	For the year ended 31 December 2007	For the year ended 31 December 2006
	\$	\$	\$	\$
Wages and salaries	718,277	1,268,949	120,109	34,095
Social security costs	51,976	144,908	7,152	-
Share options granted to Directors	-	-	-	4,904
Pension contributions – defined contribution plans	-	-	-	-
	770,253	1,413,857	127,261	38,999

Average Number of Employees (including Executive Directors)	Group	
	For the period from 1 September 2007 to 31 December 2007	For the year ended 31 August 2007
	\$	\$
Admin	9	8
Coal miners	29	26
Total average headcount	38	34

21. Directors' Remuneration

	Directors' Fees		Options Issued	
	For the year ended 31 December 2007	For the year ended 31 December 2006	For the year ended 31 December 2007	For the year ended 31 December 2006
	\$	\$	\$	\$
Non-executive Directors				
Christopher Lambert	37,033	18,706	-	2,451
Malcolm James ⁽¹⁾	31,929	18,706	-	2,451
Jade Styants ⁽¹⁾	31,929	18,706	-	2,451
Toby Howell	110,100	34,095	-	4,904
Gregory Kuenzel	2,803	-	-	-
Executive Directors				
Stephen Best ⁽²⁾	10,009	-	1,695	-
Raymond Petrilla ⁽²⁾	43,939	-	337	-
	267,742	90,212	2,032	12,257

(1) Resigned 19 November 2007

(2) Appointed 19 November 2007

No pension benefits are provided for any Director.

ATLANTIC COAL PLC

NOTES TO THE FINANCIAL STATEMENTS For the period ended 31 December 2007

22. Finance Income and Costs

	Group	
	For the period from 1 September 2007 to 31 December 2007	For the year ended 31 August 2007
	\$	\$
Interest Expense:		
Convertible bond	63,733	287,260
Other loans	480,034	361,103
Finance Costs	543,767	648,363
Finance Income		
Interest received from bank	21,834	49,183
Net Finance Costs	521,933	599,180

23. Taxation

	Group	
	For the period from 1 September 2007 to 31 December 2007	For the year ended 31 August 2007 (restated)
	\$	\$
Loss before tax	(3,615,463)	(7,442,853)
Tax at the applicable rate of 39% (2007: 40%)	(1,410,030)	(2,977,141)
Net tax effect of losses carried forward	1,410,030	2,977,141
Tax charge	-	-

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

The tax rate used is a combination of the 30% standard rate of corporation tax in the UK, 34% US federal tax rate and 6% Pennsylvania state tax rate for the Stockton Coal Group to give an applicable rate of 39% (2007: 40%). The results for the year ended 31 August 2007 consist of only the 34% federal tax rate and 6% state tax rate for the Stockton Coal Group.

The group has tax losses of approximately \$3,500,000 (2007: \$11,000,000) 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.

ATLANTIC COAL PLC

NOTES TO THE FINANCIAL STATEMENTS For the period ended 31 December 2007

24. Loss per Share

The calculation of the basic loss per share of 1.11 cents (31 August 2007 loss per share: 2.28 cents) is based on the loss attributable to ordinary shareholders of \$3,615,463 (31 August 2007 loss: \$7,442,853) and on the weighted average number of ordinary shares of 326,081,044 (31 August 2007: 326,081,044) in issue during the period.

In accordance with IAS 33, no diluted earnings per share is presented as the effect on the exercise of share options would be to decrease the loss per share.

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

25. Commitments

The Group as part of a purchase agreement on a portion of the site currently being mined, has provided a supply agreement to the seller. The Group is required to provide, at the option of the purchaser of the coal, up to 100,000 tons of coal annually, with minimum quality specifications, until the date of exhaustion of the coal reserves on the site. As part of the agreement, the Group is required to deposit into an escrow account \$1.00 for every ton of prepared coal produced from the site until the escrow account accumulates to \$2,500,000. Should the Group default on the terms of the agreement, the escrow account could be forfeited as liquidating damages. The balance as at 31 December 2007 is \$422,567 (31 August 2007: \$418,309).

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 2006 is \$230,648 (31 August 2007: \$221,976).

Mine production has been temporarily reduced from expected levels due to the location of railroad tracks that prevent mining raw coal situated in proximity to and under the tracks. The Group requested the seller for a suspension of its obligation to supply run of mine coal until the tracks are relocated and normal mine production resumes. The seller consented provided that make up tonnage be delivered in future years.

26. Business Combinations

On 19 November 2007, Atlantic Coal plc acquired 100% of Coal Contractors (1991) Inc, Stockton Anthracite LLC and Stockton Anthracite LP (the Stockton Coal Group). This was a reverse acquisition, as described in note 1 (d).

In the absence of a reliable valuation for the Stockton Coal Group (as its shares are not quoted), the cost of combination has been calculated using the fair value of all of the issued equity instruments of Atlantic Coal plc at the date of acquisition.

Included in the consolidated results is the loss for the period 19 November 2007 to 31 December 2007 relating to Atlantic Coal plc of \$302,643.

ATLANTIC COAL PLC

NOTES TO THE FINANCIAL STATEMENTS For the period ended 31 December 2007

27. Related Party Transactions

Shareholder Loans

Included within borrowings are the following amounts owed to shareholders:

	Group	
	As at 31 December 2007	As at 31 August 2007
	\$	\$
Willoughby (465) Limited	600,060	1,219,594
Hichens, Harrison & Co Plc	218,273	-
Mary Catherine Best ⁽¹⁾	1,242,300	-
American Investments Ltd ⁽²⁾	55,000	55,000
	2,115,633	1,274,594

⁽¹⁾ Mary Catherine Best is the spouse of Stephen Best who is a Director and shareholder of the Company.

⁽²⁾ American Investments Ltd is a company controlled by Stephen Best.

American Investments Limited

As at 31 December 2007 there are amounts receivable of \$72,506 (31 August 2007: \$72,506) due from American Investments Limited in respect of the shortfall in receipts from the 10 per cent. convertible debentures.

Partnorth Limited

As at 31 December 2007 there are amounts receivable of \$166,855 (31 August 2007: \$166,855) due from Partnorth Limited. Partnorth Limited is controlled by Stephen Best.

Credit Facility

On 17 October 2007 the Company entered into an agreement with Stephen Best ('Facility Letter'), whereby Stephen Best has agreed to make available a credit facility of up to \$1,000,000, for a period of 18 months following Admission, solely for the purposes of working capital. Interest is payable at a rate of 10% per annum on monies drawn and an arrangement fee of \$50,000 is payable on first draw down or maturity, whichever is the earlier. As at 31 December 2007 the Company had not drawn down on this facility. Refer to Note 29 for further information.

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

As at 31 December 2007 there are amounts receivable of \$8,217,677 due from Coal Contractors (1991) Inc to the Company.

All group transactions were eliminated on consolidation.

Other Transactions

Claridge House Services Limited (CHS) was a company set up for the purpose of administering the serviced office for a number of companies, including the Company. The directors of CHS include Toby Howell and Gregory Kuenzel, with Gregory Kuenzel being the beneficial owner. The Company has entered into an agreement with CHS for the provision of services and accommodation in relation to Suite 4, 32 Davies Street, London W1K 4ND. During the period ended 31 December 2007 CHS invoiced the Company \$20,469 in respect of serviced office costs.

Freeside Limited a company of which Gregory Kuenzel is a Director and beneficial owner was paid a fee for company secretarial services and other corporate consulting services provided to the Company. The total fees paid during the period ended 31 December 2007 amounted to \$24,380.

All transactions with related parties are made on an arm's length basis.

ATLANTIC COAL PLC

NOTES TO THE FINANCIAL STATEMENTS For the period ended 31 December 2007

28. Ultimate Controlling Party

The Directors believe there to be no ultimate controlling party.

29. Events after the Balance Sheet Date

Credit Facility

On 17 October 2007 the Company entered into an agreement with Stephen Best ('Facility Letter'), whereby Stephen Best has agreed to make available a credit facility of up to \$1,000,000, for a period of 18 months following Admission, solely for the purposes of working capital. Interest is payable at a rate of 10% per annum on monies drawn and an arrangement fee of \$50,000 is payable on first draw down or maturity, whichever is the earlier. As at the date of signing these accounts \$600,578 has been drawn down on this facility.

On 27 June 2008 this facility was extended by an additional \$4,000,000 with a maturity date of 31 December 2010, interest accruing at 9% per annum of on monies drawn down, secured over the assets of the Coal Contractors Group.

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 for this purpose was 558 tons of lump coal and 5,770.20 tons of run of mine coal.

Kemper Equipment, Inc. vs. Coal Contractors (1991), Inc. (No. 10065-2007) Court of Common Pleas of Luzerne County, Pennsylvania

Kemper is the vendor of conveyance equipment purchased as a part of the coal scrubbing facility in 2006. Kemper has approximately \$170,654 of unpaid invoices relating to the equipment it supplied. However, the Stockton Coal Group alleges counterclaims of about \$20,000 in costs incurred to adapt or replace certain equipment that did not conform to specifications. Kemper filed suit in March, 2007 seeking to enforce a mechanics' lien, and the Stockton Coal Group's counsel has filed objections asserting that the mechanics' lien claim is legally defective.

Lyndon vs Coal Contractors, et al (No. 08-CI-406) Franklin Circuit Court, Kentucky

Lyndon filed a claim for past due premiums for mining bonds. A settlement agreement was entered into providing for three monthly payments to satisfy all past due premiums as full settlement of the complaint. The first monthly payment of \$25,000 was made on 27 June 2008.

31. Comparative Period

The corresponding accounts in the audited Financial Statements for the year ended 31 August 2007 have been adjusted for the effects of changes to accounting policies on transition to IFRSs as follows:

Exchange differences arising on the translation of foreign currency loans amounting to \$352,330 have been taken to the Profit and Loss account (refer Note 18).