

ENERGYBUILD GROUP PLC

Report and Financial Statements

30 June 2008

REPORT AND FINANCIAL STATEMENTS 2008

| CONTENTS | Page |
|--------------------------------------------------------------|-------------|
| Officers and professional advisers | 1 |
| Chairman's statement | 2 |
| Review of operations | 3 |
| Directors' report | 11 |
| Corporate governance | 17 |
| Consolidated statement of directors' responsibilities | 18 |
| Consolidated independent auditors' report | 19 |
| Consolidated income statement | 20 |
| Consolidated statement of changes in equity | 21 |
| Consolidated balance sheet | 22 |
| Consolidated cash flow statement | 23 |
| Notes to the consolidated financial statements | 24 |
| Company statement of directors' responsibilities | 52 |
| Company independent auditors' report | 53 |
| Company balance sheet | 54 |
| Notes to the company financial statements | 55 |

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Colin Ivor Cooke (Non-executive Chairman)
Morgan Rhidian Davies (Managing Director)
Karl Picton-Jones (Finance Director)
Robert Llewellyn Morgan (Non-executive Director)
Alwyn Kevin Davey (Non-executive Director) (appointed 6 August 2007)

SECRETARY

Alwyn Kevin Davey

REGISTERED OFFICE

Level 2
27 Albemarle Street
London
W1S 4DW

NOMINATED ADVISER AND BROKER

Seymour Pierce Limited
20 Old Bailey
London
EC4M 7EN

BANKERS

HSBC Bank Plc

AUDITORS

Deloitte & Touche LLP
Cardiff, United Kingdom

CHAIRMAN'S STATEMENT

In my second annual review as Chairman of Energybuild Group, I am pleased to report the Group's progress since it listed on AIM on 6 August 2007. As shareholders will already be aware, the Company is focussed on the production of anthracite coal in the Neath and Dulais valleys of South Wales. Our primary assets are the Aberpergwm and Treforgan Drift mines, which have proven and probable coal reserves of 7.6 million tonnes and estimated recoverable inferred coal resource of 36.2 million tonnes: and the Nant y Mynydd opencast mine, which together with its extension currently runs at production levels of between 2,000 and 3,000 tonnes of saleable coal per week.

It is not surprising that the Group's first twelve months as a listed entity have been extremely busy. We have substantially delivered the first stage of our business plan, reporting both a profit and a strengthened balance sheet, thus creating a base for generating value for the Group and its shareholders in the future.

Financial highlights

Revenue for the year amounted to £6.5 million (2007: £4.8 million), a 37% increase, with operating profit £0.802 million (2007: loss £0.262 million). Profit before tax for the year is £0.954 million (2007: loss £0.504 million). There will be no corporation tax charge in the current year but a deferred tax provision of £0.125 million has been made to take account of temporary differences.

Cash balances at the year end are in excess of £3.4 million and the Group began to generate cash in the last two months of the year from operations. The Group has no borrowings apart from some lease purchase agreements for surface machinery purchased in the year.

No dividend is proposed as cash generated will be utilised to continue the development of the mining operations.

Operations

The Group's main focus for the year has been the continued development of the Aberpergwm drift mine. Having set our clear operational goals, Energybuild has succeeded in attaining its main objective for the year: to complete the recovery of the two old British Coal drifts into the 18ft seam, complete an air circuit, install road heading machinery and commence developing the seam for future production.

By successfully achieving this target the mine has been opened up not only in order to access the 9ft seam but also the vast virgin Treforgan coal reserves which have an in situ coal resource in excess of 110 million tonnes. These reserves will create substantial value over time, particularly if the current coal prices were to prevail.

The opencast activity underwent a challenging first half to the year but with a restructuring of management and a new site successfully brought on line, it has recovered significantly in the last six months and has contributed greatly to the overall performance of the Group.

People

Energybuild has increased the number of people employed considerably during the year and we are fortunate to have such an experienced and committed team. We are increasing this resource through training and would like to congratulate our apprentices who have qualified this year and welcome those who have commenced on our scheme in the current academic year. I would like to thank all of our employees for their valued efforts during the year.

Outlook

The market for coal, and in particular quality anthracite coal, has had a remarkable year with world prices increasing month on month from January 2008 to the end of June 2008. Our business plan anticipated a selling price of £38 per tonne, for coal into the Aberthaw Power Station and the prices currently being achieved have exceeded all expectations. Similar increases have been witnessed in coal being sold into the sized market.

With the current strong international coal price, the successful completion of the first stage of the mine development and an investment programme designed to increase production and drive operating costs down I remain increasingly confident that the Group will become a highly profitable mining business.

Chairman
Colin Cooke
23 September 2008

REVIEW OF OPERATIONS

This review of operations has been prepared for the Group as a whole and therefore gives greater emphasis to those matters that are significant to Energybuild Group Plc and its subsidiary undertakings (“the Group”) when viewed as a whole.

Operations

Energybuild Group Plc is principally a coal miner operating the Aberpergwm and Treforgan mines located in the Neath and Dulais Valleys of South Wales, which have between them 7.6 million tonnes of measured and indicated coal resources with a further inferred coal resource of 36.2 million tonnes and an in situ coal seam resource in excess of 110 million tonnes. The coal is high quality anthracite.

The Group also operates the Nant y Mynydd and Forest Quarry opencast coal sites situated on the Aberpergwm Estate for which the Group has a 25 year lease over 2,428 hectares.

The Group has existing sales contracts into the nearby Aberthaw Power Station and supplies sized coal into the local and national domestic markets.

Competitive environment

The number of deep and drift coal mining operations that exist locally has reduced significantly over recent years to the extent that the last remaining deep mine in Wales, Tower Colliery ceased production in January 2008. The principal competition therefore comes from coal produced abroad and from local opencast operations such as those owned by Celtic Energy and Miller Argent. However, due to the rise in the coal price and it becoming more economical to mine coal, we have recently witnessed a number of new mines reopening in Wales, such as the Unity Mine.

Regulatory environment

The key legislative requirements which affect the Group are the Mines and Quarries Act, the Health and Safety at Work Act and the Environmental Act 1990. These are enforced primarily by the Health and Safety executive and the Environment Agency Wales.

Macro-economic environment

The economic environment over the last year has seen significant increases in the price of coal as a result of increased demand worldwide. The increasing price of oil and gas and the cost of shipping have increased the competitive advantage for coal produced in the UK.

REVIEW OF OPERATIONS (continued)**Strategy and objectives**

Our objectives:

Achieve accelerating growth

Create real shareholder value

There are three key elements to our strategy for achieving our objectives:

- Achieve a position in markets capable of long-term growth;
- Target investment in developing mining assets under the Group's control, thus supporting strong organic growth and profitability; and
- Focus on acquiring interests in additional coal reserves.

We have made significant progress in the year on the three elements of our strategy. We have continued to supply markets capable of long term growth through our contract into the Aberthaw Power Station and have increased our sales into the local and domestic markets for sized coal with the achieved prices increasing significantly throughout the year. We have invested significant amounts of capital into the development of the Aberpergwm and Treforgan mines in order to access large reserves of coal and increase our production capabilities. During the year we also obtained a further planning consent for our opencast operations and entered into a joint venture arrangement for coal tip washing while pursuing other opencast opportunities.

Key performance indicators

We monitor our performance with reference to clear financial targets set for key performance indicators (KPIs).

The financial targets used are:

Sales revenue per tonne of coal sold

Operating cost per tonne of coal sold

These financial targets are supported by non-financial targets which are:

Number of major injuries per one hundred thousand man shifts

Environmental incidents

Development metres achieved

| | 2008 | 2007 | Target |
|--------------------------|-------------|-------------|---------------|
| Sales revenue per tonne | £69 | £40 | £40 |
| Operating cost per tonne | £50 | £39 | £47 |
| Number of major injuries | 4.5 | Nil | N/A |
| Environmental incidents | Nil | Nil | N/A |
| Development metres | 1,101 | 569 | 1,130 |

The results in the table show that the targeted sales revenue per tonne was exceeded in the year, due in large part to the increased world price of coal in the period. Operating costs were higher than expected predominantly due to the poor performance of opencast operations in the first six months of the year and increasing fuel and consumables costs. The number of development metres was on forecast.

REVIEW OF OPERATIONS (continued)**Results for the 2008 financial year**

A summary of the key financial results is set out in the table below and discussed in this section.

| | Revenue | | Underlying operating profit* | |
|------------------|---------------|---------------|------------------------------|---------------|
| | 2008 £'000 | 2007 £'000 | 2008 £'000 | 2007 £'000 |
| Drift mine | 1,113 | 252 | 126 | 16 |
| Opencast | 4,589 | 4,228 | 738 | (285) |
| Other activities | 839 | 280 | 239 | 7 |
| | <u>6,541</u> | <u>4,760</u> | <u>1,103</u> | <u>(262)</u> |

* Underlying operating profit is profit before interest, tax and one – off items such as listing expenses and reconciles to the consolidated income statement as follows:

| | 2008 £'000 | 2007 £'000 |
|---------------------------------------------------------|---------------|---------------|
| Profit /(loss) from operations per financial statements | 1,103 | (262) |
| Cost of flotation | <u>301</u> | <u>-</u> |
| Underlying operating Profit/(loss) | <u>802</u> | <u>(262)</u> |

Review by operation

We have organised the business around three operations supported by the Group global functions with a fourth due to commence in 2009. Each operation has its own manager who is responsible for meeting the key targets set for each.

The performance for each operation is analysed below:

Drift mine

In the year under consideration the Group successfully implemented its business plan after listing on AIM. Its first objective, recovering the old British Coal intake and return drifts across the Pentreclwydau fault into the 18ft seam, was achieved in September 2007 on time and within budget. The second objective, to complete an air circuit in the seam, was met by February 2008 and coal mining commenced in March 2008.

The Group produced approximately 30,000 tonnes of clean coal from the 18ft seam in the period to June 2008. Of that tonnage 13,600 tonnes has been sold at an average price of £82 per tonne generating revenues of £1.1 million with the balance being in inventory at 30 June 2008. The operating cost of this operation was £73 per tonne. This cost represents the full operating cost of mining coal from the 18ft seam while “blocking out” the first production area. The cost of recovering the drifts and setting up the ventilation circuit in the 18ft seam was £3.8 million before Coal Investment Aid of £1.272 million. This was on budget.

The Group has acquired a significant amount of the mining equipment in the year including plant from Tower Colliery, which ceased production due to the exhaustion of its reserves, in January 2008. The cost of this equipment, which included the entire coal preparation plant, was £1.4 million. The Group also acquired and put into production two heading machines with a third commencing cutting coal at the end of August 2008 and has acquired a further two heading machines which will commence operations driving the new drift in the year to June 2009. The fleet of underground material delivery machines acquired from Tower Colliery has been enhanced with two new Free Steered vehicles and a further two ordered. Delivery of these should be taken in September and December 2008.

A significant amount of work has taken place on the mine surface in order to cater for the increased manpower and production forecast over the next two years. This includes a second supply of electricity, a new control room and pit head baths to cater for over 200 men.

The Group has entered into an agreement with Tower Colliery to utilise its railhead facility so that it has a secure rail route to deliver its coal to the Aberthaw Power Station.

REVIEW OF OPERATIONS (continued)**Opencast**

In the first six months of the year the performance of the opencast operation was disappointing, with operating costs exceeding those expected and production volumes less than expected. This was due to the Nant y Mynydd site being a higher ratio coal site than anticipated and operational inefficiencies. Additionally the Group had envisaged commencing sandstone activities in the year which would have added revenue to operations and reduced costs, as the coal seam beneath would have been produced at marginal cost.

The Group therefore reorganised the management structure, in order to drive down operating costs and applied for a new site with lower coaling ratios. Planning consent was received for this site in November 2007 and production commenced in February 2008 at an average of 2,000 tonnes per week. Sandstone operations are now expected to commence in the year to June 2009.

Overall opencast activities have produced 70,000 tonnes in the year generating revenues of £4.6 million at an average selling price of £65 per tonne.

Management is developing a portfolio of continuity sites on the Aberpergwm Estate and is actively examining other local opportunities for opencast activities.

Coal purchases

The Group purchases coal where available at a price that enables the Group to make a margin. 11,000 tonnes was purchased and sold in the year to June 2008.

Coal tip recovery

The Group entered into a joint venture in the year under consideration to recover coal from tips in South Wales. Although the site already had planning consent this was originally granted some time ago and in order to complete the operation an extension of time application had to be made to the local authority. This was finally granted on 4 September 2008 and the project is now fully funded and should contribute to the Group's overall performance in the year to June 2009.

Future outlook

The market for coal is at present extremely positive, with prices at their highest levels since privatisation of the industry in the UK.

Generators are now burning more coal, having achieved a competitive advantage over oil and gas as a result of the well publicised price increases. More importantly perhaps, due to increases in transport costs in relation to seaborne transport and the high cost of fuel, UK produced coal now has a leading advantage in relation to imported coal. Furthermore the UK's infrastructure capacity for importing coal is at its limit and needs to maintain indigenous production in the region of 20 million tonnes per annum just to maintain its current burn with imports running at about 35 million tonnes.

Indigenous production is also being recognised by Government and Industry as a key strategic resource as our reliance on coal imports from countries with unstable political regimes can become problematic and subject to high prices and large variations in quality.

Energybuild has under its control one of the largest anthracite coal reserves, not only in the UK but in Europe, which is of a very high quality and with Far Eastern economies growing fast, notably China, and consumption of coal in this region increasing correspondingly, the Group is ideally placed to take advantage of low supply and high demand for this commodity in the future.

The Group has successfully accessed the anthracite reserves under its control in the year and it is the intention of management to increase production to 265,000 tonnes of clean coal in the year to June 2009. It will do this by introducing a coal production system in January 2009 in the area of the 18ft seam blocked out by that date. It also intends to increase production to 440,000 of clean coal by June 2010 and to 750,000 by June 2011, while linking the Aberpergwm mine to the Treforgan mine underground, which is approximately six miles away.

An important stage of the development of the mine will be driving the new drift which received full planning consent in July 2008. This drift will increase the ventilation capacity of the mine and assist in reducing production costs, due to the efficiencies it will bring in terms of coal clearance, material handling and conveying men to production areas faster.

It is also the intention of management to introduce roof bolting techniques in production areas as a means of primary and secondary support. Trials of this technique have already taken place with positive results and will continue in

REVIEW OF OPERATIONS (continued)

the current year until the technique is proven. When proven this technique will allow the Group to drive down its material costs of production and increase advance rates in headings.

A further key activity in the year to June 2009 will be the recovery of the drifts from the 18ft landings into the 9ft seam. The successful conclusion of this will allow further production units in that seam and reduce the risk attached to production from a single seam.

Opencast activities will continue, but will become less important to the Group as production increases from the drift mine. It is the Group's intention to produce approximately 100,000 tonnes from opencast operations in the current year from the Nant y Mynydd, Forest Quarry and continuity sites. Although this is dependent upon planning consents, the Group is confident that these will be obtained, due to the positive record on restoration and rehabilitation of old derelict sites. Work also continues on developing the sandstone reserve in the Nant y Mynydd area which will allow the release of a coal seam at marginal cost and it is anticipated this will be brought into production within the current year. The Group will continue to examine other possible opencast sites in the area and is actively developing a portfolio of sites on the Aberpergwm Estate.

The Group will continue to purchase coal from external sources when the economics are favourable.

Energybuild's coal tip recovery joint venture has now received final planning consent and work has now commenced on site. It is anticipated that this project will produce in excess of 200,000 tonnes over an eighteen month period. The project is fully funded and will provide positive cash flow in the current year. Other sites are being actively examined by the joint venture company.

Risks and uncertainties

There are a number of risks and uncertainties, which could have a material impact on the Group's performance and could cause actual results to differ materially from those expected. These, together with the actions that the Group has taken to mitigate these risks are set out below:

General and economic risks:

- Contractions in the world economies or increases in the rate of inflation resulting from international conditions. At present the Group is experiencing the benefit of rising coal prices, but is also experiencing pressure on some of its costs that are oil and gas related, in particular diesel and power costs. The Group mitigate this risk by resisting price increases imposed by suppliers and fixing prices at favourable terms where possible. It has also adopted a policy of investing in capital to drive down operating costs and increase productivity while coal prices are high.
- Movements in global equity and share markets and changes in market sentiment towards the resource industry. The Group is unable to mitigate this risk to any significant degree until it is in a position to diversify away from its core business.
- Currency exchange rate fluctuations and, in particular, the relative prices of the UK pound. The Group does have some exposure to this risk, as world coal prices are denominated in dollars. The Group is examining the possibility of hedging against this risk whilst considering locking a proportion of production to fixed price sale contracts.
- 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. Increases in expenses are resisted where possible by using as wide a range of suppliers as possible and agreeing favourable terms, while the Group continually lobbies both Central and Local Government to apply a favourable policy towards the coal mining industry in Wales. It also liaises with the Health and Safety Executive and the Coal Authority on a regular basis to ensure that policy is fair and reasonable to the industry. It maintains where possible enough spares to ensure that breakdowns can be efficiently managed and delays minimised. It is developing a low risk mining programme to mitigate against concentrating mining using one technique or one seam.

REVIEW OF OPERATIONS (continued)

Funding risk:

- Energybuild 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. It mitigates against this by monitoring its cash flows closely, highlighting at an early stage funding requirements and then matching those requirements as closely as possible with the correct type of funding.

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 Group. 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. The Group mitigates this risk by being as prudent as possible with its forecasts and carries insurance against mine collapse and other insurable risks.
- Success in identifying economically recoverable reserves can never be guaranteed. The Group also cannot guarantee that it will be able to obtain the necessary permits and approvals required for development of its projects. To mitigate this risk it works closely with the planning authorities and the community to ensure that it complies with planning consents and that the planning authority and the community understands the Companies objectives and plans.
- The Group may be required to undertake clean-up programmes resulting from any contamination from its operations or to participate in mine rehabilitation programmes which may vary from project to project. The Group mitigates against this by following all necessary laws and regulations and is not aware of any present material issues in this regard. It also carries public liability insurance to mitigate the cost of an event that is beyond the Group's control.

Market risk:

Exposure to interest rate fluctuations is minimal as the Group currently has no debt.

Resources available to the Group

The Group has the following key resources which assist it in the pursuit of its objectives:

- Leases and licences with the Aberpergwm Estate and Coal Authority over 7.6 million tonnes of measured and indicated coal resources with a further inferred coal resource of 36.2 million tonnes and an in situ coal seam resource in excess of 110 million tonnes for the Aberpergwm/ Treforgan mine together with planning consent for fifteen years;
- 25 year lease over 2,428 acres of the Aberpergwm Estate encompassing all the mineral rights;
- Management team with over 30 years of mining experience in Wales;
- Local manpower resources with significant mining experience gained in the South Wales coal field.
- The support of Cambrian Mining Plc, a coal mining company that now holds 50.6% of the Group and provides ongoing support for the Group's activities as they develop.

Corporate responsibility

The Group takes its Corporate Responsibility seriously and is committed to implementing appropriate policies and systems across the Group, including concern for employees and their health and safety, the environment and the community.

Health and safety

The Group regards health and safety as a very important aspect of its operations and ensures that it complies with all its obligations and regulations.

It employs a health and safety officer who is supported by other senior management with the appropriate training.

REVIEW OF OPERATIONS (continued)

Training for all staff is continually updated in line with industry requirements and resources committed towards ensuring that each employee is aware of the dangers involved in the environment in which they work. Safety inductions take place for all new employees and weekly safety meetings are held.

The sites operated by the Group are regularly visited by officers from the appropriate regulatory authorities.

There were two major injuries reported to the Health and Safety Executive to June 2008, over some 44,000 man shifts worked or an average of 4.5 per 100,000 man shifts. There were no major injuries in the year to June 2007.

All sites have emergency procedures in place and the drift mine is covered by membership of the Approved National Mine Rescue Scheme.

We screen our employees on a regular basis to ensure that any risk to their health from the work environment is kept to a minimum.

All directors are aware of their own and the Group's responsibility towards health and safety and the resources that need to be committed.

Environment

The environmental policy of the Group is to minimise pollution, comply with environmental legislation and to maintain management systems to a high standard in order to ensure that environmental incidents are kept to a minimum.

Social and community issues

We support community projects and have put £10,000 into an Energybuild Community Fund for that purpose and intend to increase this fund annually. The funds will be spent on projects authorised by the Energybuild Site Liaison Committee. This committee includes members of the local Community Council on its board.

REVIEW OF OPERATIONS (continued)**Financial review**

Group revenue for the year amounted to £6.5 million (2007: £4.8 million), a 37% increase, with operating profit before depreciation (£0.629 million; 2007: £0.320 million), amortisation of grants (credit of £0.052 million; 2007: credit of £0.013 million) and costs of flotation that were expensed (£0.301 million; 2007: £nil) of £1.680 million (2007: £0.045 million). The revenue increase is due mainly to increased coal prices experienced in the year. Overall average prices increased from £40 per tonne in 2007 to £69 per tonne in 2008.

Production costs overall were £50 per tonne in 2008 compared to £39 per tonne in 2007 and gross margins achieved were 27% in 2008 compared to 3% in 2007.

Overall the Group made a profit before tax of £0.954 million (2007: loss before tax of £0.504 million) after expensing £301,000 of flotation costs.

Profit after tax is £0.829 million (2007: Loss £0.504 million) after providing for deferred tax of £0.125 million (2007: £nil) to take account of short term temporary differences.

Earnings per share has increased from a loss per share of 1.0p in 2007 to earnings of 0.7p per share in 2008.

Group cash flows

The key event in the year, in terms of cash flow was the listing of the Group on AIM in August 2007. This generated £15 million (£9.7 million net of expenses and loan repayments) through the issue of 75 million ordinary shares at 20 pence each. Operating cash flows before movements in working capital were £1.177 million, compared to cash utilisation in 2007 of £0.449 million.

Of this cash flow £1.319 million was used to finance working capital, primarily an increase in stock and debtors, with a further £7.432 million invested in the Aberpergwm mine (before grants of £1.272 million). This capital was spent recovering the drifts, establishing the air circuit and purchasing plant and machinery.

The Group began to generate cash in the last two months of the year as a result of the increases in production and the high price of coal currently being experienced.

Interest received was £0.226 million and interest paid £0.019 million. The difference between the interest charge and interest paid being the unwinding of discounts.

The Group also financed some of its surface machinery through favourable hire purchase agreements.

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2008.

UNAUDITED INFORMATION**PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The principal activity of the Group is the development of the Aberpergwm mine which has significant anthracite coal reserves and resources located in the Neath and Dulais valleys of South Wales. It also operates the nearby Forest Quarry opencast mine and continues to develop the Nant y Mynydd opencast and stone mine. It has identified further possible opencast sites within the Aberpergwm surface lease for potential development and is building up a portfolio of these sites while examining the potential for additional sites in the surrounding area, and particularly on the adjacent Ynysdawley Estate.

A detailed review of the business of the Group during the year may be found in the Chairman's statement on page 2 and in the review of operations on pages 3 to 9. The directors are pleased with the progress to date.

Risks and uncertainties are discussed on page 6 of the review of operations.

RESULTS AND DIVIDENDS

The profit for the Group for the year to 30 June 2008, before taxation amounts to £0.954 million (2007: loss of £0.504 million) including the cost of equity-settled share-based payments of £ nil (2007: £0.045 million). The profit after tax amounts to £0.829 million (2007: loss £0.504 million) after providing for deferred tax of £0.125 million (2007: £nil).

The directors do not recommend the payment of a dividend for the year (2007: £nil).

Information about the use of financial instruments by the Group is given in note 28 to the financial statements.

Details of significant events since the balance sheet date are contained in note 31 to the financial statements.

CAPITAL STRUCTURE

Details of the authorised and issued share capital, together with details of the movements in issued share capital during the year are shown in note 23. Energybuild Group Plc has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Energybuild Group Plc's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 31.

No person has any special rights of control over Energybuild Group Plc's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of directors, Energybuild Group Plc is governed by its Articles of Association, the Combined Code, the Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of directors are described in the Main Board Terms of Reference, copies of which are available on request, and the Corporate Governance Statement on page 16.

Under the agreement governing the Group's 50% share in the joint venture ("JV") with Coal Recovery Investments Limited, if a competitor directly or indirectly takes control of the company, Coal Recovery Investments Limited may require the Group to sell its shares in the joint venture company, Energy Recovery Investments Limited to them. There are also a number of other agreements that take effect, alter or terminate upon a change of control of the company such as commercial contracts, bank loan agreements, property lease arrangements and employees' share plans. None of these are considered to be significant in terms of their likely impact on the business of the group as a whole. Furthermore, the directors are not aware of any agreements between the company and its directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

DIRECTORS' REPORT (continued)**DIRECTORS**

The current directors of the Energybuild Group Plc, who served throughout the financial year unless stated otherwise, are as shown on page 1. Richard Nugent, Colin Stocks and John Conlon resigned as directors on 6 July 2007 prior to the listing of the Energybuild Group Plc on AIM on 6 August 2007.

Details of the current directors are as follows:

Colin Ivor Cooke

(Non-Executive Chairman, aged 68, British) (Remuneration, Nominations and Audit Committee Member)

Colin started his career as a metallurgist at GKN South Wales in 1956 and remained there until 1963. Colin went to work at Hepworth Refractory until 1971. In 1972, he joined Duport Steels Limited, which later became part of Duport Group Plc, as commercial director and moved up to managing director and then eventually served as an executive director until 1986. Subsequent to this, he worked as non-executive director for Magnetic Materials Limited (1982-89), Ash and Lacy Plc (1987-97), British Dredging (1990-93) and Yorkshire Water Plc (1995-97). Colin was non-executive Board member of the Welsh Development Agency between 1987 and 1989 and also worked as deputy chairman and then non-executive chairman for Triplex Lloyd Plc (1989-98). Colin has also held the position of non-executive chairman of Transtec Plc (1998-99) and Money Controls (1999-2000). Between 2002 and 2006, Colin was on the Board of Advanced Fluid Connections Plc and remains on the Boards of Fenner Plc as non-executive chairman, where he started in 1993, and Dowlis Corporate Solutions (since 2005). Colin holds an HNC in metallurgy and is a Fellow of the Institute of Metallurgy.

Morgan Rhidian Davies (Managing Director, aged 48, British)

Rhidian comes from a coal mining family and has spent his whole working life in both the underground and surface coal mining industry in South Wales, initially starting at the age of 16 with British Coal. In 1987, at the age 27, he obtained a licence from British Coal and planning permission that enabled him to start and operate his own private sector mine from a greenfield site. He then set up and managed Signalfern which was successfully developed and expanded to include a small mine, a washery and coal sales outlet. These were further expanded to three licensed mines and two further greenfield sites.

In 1995, Signalfern was reversed into Consolidated Coal Plc of which Rhidian became Managing Director. When Consolidated Coal went into receivership, Anthracite Mining Limited (AML) bought Consolidated Coal's assets and added other mining assets to the group. AML was subsequently placed into liquidation and Energybuild Holdings Limited (EBH) acquired the Aberpergwm mine and related assets. During this period, Rhidian served as a director, firstly of AML and then EBH. Rhidian also formed Mineral Extraction and Handling Limited (MEHL) which he used to acquire land associated with the Treforgan coal reserves - which are adjacent to the Aberpergwm coal reserves - his primary aim being to keep together a mineral reserve in which he had previously invested.

Karl Picton-Jones (Finance Director, aged 46, British)

Karl joined Deloitte Haskins and Sells as an articled clerk in 1984 before leaving in 1990 to join Griffiths & Miles as a senior audit manager.

Karl subsequently joined Consolidated Coal Plc, a fully listed coal mining company, in May 1996 as financial controller and became finance director from April 1999 to September 1999. In October 1999, Karl joined Stones & Co. as an insolvency manager where he gained wide experience in liquidations and receiverships, moving to JD Jones & Co., his family accountancy practice, as partner in May 2002. Karl continues to work for this company and also began working for Energybuild Limited in August 2004 as financial controller.

DIRECTORS' REPORT (continued)**DIRECTORS (continued)**

Robert Llewellyn Morgan (Non-executive Director, aged 41, British) (Remuneration, Nominations and Audit Committee Member)

Robert graduated in 1988 with a BSc (Hons) in Business Economics and Statistics from UWIST Cardiff and joined BCCI on their graduate training scheme. In 1990 he joined O'Connor Securities as a trainee options market maker on the London Traded Options Market.

In 1992, O'Connor Securities merged with Swiss Bank Corporation ("SBC") where Robert was responsible for the UK equity derivatives portfolio. When SBC acquired Warburg in 1995, Robert was personally responsible for the integration of UK equity derivatives positions and personnel. In 1998, SBC merged with UBS and Robert became one of the youngest managing directors of the firm. He was seconded to UBS as part of the due diligence process for the merger and became responsible for pricing and risk management of the Global Equity Derivatives portfolio. Later that year, he became responsible for the US sell side Equity Derivatives business out of Stamford, Connecticut, and helped them to become market leaders in this area. He also set up and managed US equity proprietary trading which became a significantly profitable activity.

In 2001, Robert moved back to the UK and into UBS O'Connor under the UBS Asset Management umbrella where he set up a \$110 million equity long volatility fund and co-managed the European and cross border activities of the \$2.5 billion Global Equity Arbitrage fund. Due to a general slowdown in stock markets, he decided to pursue other interests outside traditional investment banking in August 2003. Robert is also a partner in Vertigo Films and has helped to raise funding for a number of low-budget projects. Robert has a long-standing interest in an equity and FX brokerage business and a global recruitment business.

Alwyn Kevin Davey (Non-executive Director, aged 32, New Zealander) (Audit Committee Member)

Alwyn graduated with an LLB in 1997 from the University of Waikato (NZ). After moving to London, he joined a boutique corporate finance house. His role included the structuring of both start-up and existing companies in preparation for public fundraisings as well as cross border merger transactions. In 2002 he worked on the formation and ongoing business development of Cambrian Mining Plc, where he remains as the senior corporate manager and is a director of Cambrian Mining's wholly owned subsidiary Cambrian Investment Holdings Limited. He has been company secretary of Coal International Plc since its formation in April 2005 and is a director of Coal International's wholly owned subsidiaries, King-Coal Corporation Limited and Maple Coal Co. Limited, which have coal mining operations in West Virginia, USA.

AUDITED INFORMATION**DIRECTORS' REMUNERATION**

The Group remunerates the directors at a level commensurate with the size of the Group and the experience of its directors. The Remuneration Committee consists of Colin Cooke and Robert Morgan. They have reviewed the directors' remuneration and believe it upholds the objectives of the Group with regard to this issue.

The remuneration paid to the directors for the 12-month period ended 30 June 2008 was £237,000.

With effect from 31 July 2007, the following remuneration was agreed with the directors:

| Director | Annual salary | Consulting |
|-----------------------|----------------------|----------------------------------------------------|
| Colin Cooke | £36,000 | £1,500 per day spent in excess of 2 days per month |
| Morgan Rhidian Davies | £90,000 | None |
| Karl Picton-Jones | £70,000 | None |
| Robert Morgan | £20,000 | None |
| Alwyn Davey | £20,000 | £500 per day spent in excess of 2 days per month |

Since the 1 September 2008 the remuneration of the executive directors was increased to £100,000 and £77,500 respectively.

In addition, some of the directors hold warrants as set out in the statement of directors' interests and the executive directors have, since the year-end been awarded share options the details of which are disclosed in note 31.

DIRECTORS' REPORT (continued)**DIRECTORS' REMUNERATION (continued)**

Under Colin Cooke's service contract from 31 July 2007, he is eligible for a one-off bonus payable on 31 May 2010 which comprises a cash payment based on the following:

$$\text{Bonus} = (\text{CS} - \text{£}0.20) \times 250,000 \times \text{£}1$$

Where: CS = Current share price (in British pounds) calculated as the average five-day closing price of the Energybuild Group Plc on AIM (or other recognised stock exchange) commencing on 24 May 2010 and ending on 28 May 2010 (or such other days as constitute five consecutive trading days). The above bonus is only payable in the event that Mr Cooke remains a director of Energybuild Group Plc until at least 31 May 2010.

UNAUDITED INFORMATION**DIRECTORS' INDEMNITIES**

The Group maintains directors' and officers' liability insurance which gives appropriate cover for legal action brought against its directors. The Group has also provided an indemnity for its directors and officers, which is a qualifying third party indemnity provision for the purpose of section 309B of the Companies Act 1985.

DIRECTORS' INTERESTS

The directors who held office at 30 June 2008 have the following interests:

| | 30 June 2008 | | 30 June 2007 | | As at the date of this report | |
|----------------|-----------------|-----------|-----------------|-----------|-------------------------------|-----------|
| | Ordinary shares | Warrants | Ordinary shares | Warrants | Ordinary shares | Warrants |
| C Cooke | 100,000 | - | 50,000 | - | 100,000 | - |
| M R Davies | 3,175,000 | 1,500,000 | 7,000,000 | 1,500,000 | 3,175,000 | 1,500,000 |
| K Picton-Jones | - | 1,000,000 | - | 1,000,000 | - | 1,000,000 |
| R Morgan | 2,500,000 | 1,500,000 | 7,000,000 | 1,500,000 | 2,500,000 | 1,500,000 |
| A Davey | - | - | - | - | - | - |

Further details of the warrants can be found in note 24 to the financial statements. On the 16 July 2008 M.R.Davies and K Picton-Jones were awarded 1,500,000 options each details of which are set out in note 31.

SUBSTANTIAL INTERESTS IN SHARE CAPITAL AND TOP 10 SHAREHOLDERS

Since the Disclosure and Transparency Rules of the FSA came into force, the Group has been notified or is aware of the following significant holdings of voting rights in its shares:

| Shareholder | Number of shares | % of issued capital |
|-------------------------------------------|------------------|---------------------|
| Cambrian Mining Plc | 35,760,000 | 27.51% |
| Coal International Ltd | 30,000,000 | 23.08% |
| The Bank of New York (Nominees) Limited | 8,981,000 | 6.91% |
| Hanover Nominees Limited | 7,252,645 | 5.58% |
| HSBC Global Custody Nominee (UK) Limited | 6,295,000 | 4.84% |

Corporate Governance

A statement on Corporate Governance is set out on page 16.

The Group is not required to comply with the Combined Code on corporate governance ("the Code"). The directors have not sought to comply with the Code; however, the directors have chosen to provide selected disclosures that they believe are necessary and valuable to readers.

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 key performance indicators have been reported on in the review of operations on page 4.

ENVIRONMENTAL RESPONSIBILITY

The Group 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 Group ensures that all related companies comply with the local regulatory requirements with regard to the environment.

INTERNAL CONTROLS

The Board recognises the importance of both financial and non-financial controls and has reviewed the Group's control environment and any related shortfalls during the year. Since the Group was established, the directors are satisfied that, given the current size and activities of the Group, 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 Group, continuing reviews of internal controls will be undertaken to ensure that they are adequate and effective.

RELATIONS WITH SHAREHOLDERS

The Board is committed to providing effective communications with the shareholders of the Group, with significant development disseminated through stock exchange announcements. The Board sees the Annual General Meeting as a forum for communication between the Group and its shareholders and encourages their participation in its agenda.

GOING CONCERN

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. On this basis, it continues to adopt the going concern basis in preparing the financial statements.

CREDITOR PAYMENT POLICY

It is the Group's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction so as to ensure that suppliers and the Group are aware of those terms and abide by them. The number of days' purchases outstanding for payment by the Group at the year-end was 90.

POLITICAL AND CHARITABLE DONATIONS

No political contributions or donations for political purposes or charitable donations were made during the period.

ANNUAL GENERAL MEETING

Energybuild Group Plc will hold an annual general meeting on 28 October 2008 to lay the annual financial statements before the shareholders and to deal with any other business for the consideration of the shareholders. Due notice of the meeting, with full details of the business to be considered at that meeting will be distributed.

DIRECTORS' REPORT (continued)

AUDITORS

In the case of each of the persons who are directors of Energybuild Group Plc at the date when this report is approved:

- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Group's auditors are unaware; and
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information (as defined) and to establish that the Group's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Deloitte & Touche LLP were appointed as the Group's auditors during the year and have expressed their willingness to continue in office. A resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

Alwyn Davey
Company Secretary

Date: 23 September 2008

CORPORATE GOVERNANCE

THE BOARD OF DIRECTORS

The Board of directors currently comprises five members, two being executive directors and three non-executive directors. The directors have significant experience in the development and operation of coal mines and in the management of quoted and unquoted companies.

BOARD MEETINGS

The Board will meet as and when required and ordinarily meets every month, to provide effective leadership and overall management of the Group's affairs through the schedule of matters reserved for its decision. This includes the approval of the budget and business plan, major capital expenditure, acquisitions and disposals, risk management policies and the approval of the financial statements. Formal agendas, papers and reports are sent to the directors in a timely manner, prior to the Board meetings. The Board delegates certain of its responsibilities to the Board committees which have terms of reference as listed below.

All directors have access to the advice of the Company Secretary who is responsible for ensuring that all Board procedures are followed. Any director may take independent professional advice at the Group's expense in the furtherance of his duties.

CORPORATE GOVERNANCE PRACTICES

The Group is not required to comply with the Combined Code on corporate governance ("the Code"). The directors have not sought to comply with the Code; however, the Board recognises the importance of sound corporate governance commensurate with the size of the Group and the interests of shareholders. As the Group grows, the directors intend that it should develop policies and procedures which reflect the Code as far as is practicable, taking into account the size and nature of the Group, the directors will take steps to comply with the Code.

The Board has elected to provide the following information in respect of current corporate governance practices which it believes is necessary and valuable to readers.

The Group has adopted a Share Dealing Code that applies to directors, senior management and any employee who is in possession of 'inside information'. All such persons are prohibited from trading in the Group's securities if they are in possession of 'inside information'.

The Board has established Remuneration, Audit and Nominations Committees. The Remuneration Committee is made up of Colin Cooke and Robert Morgan and is responsible for reviewing the performance of the executive directors and for setting the framework and broad policy for scale and structure of their remuneration, taking into account all factors which it shall deem necessary. The Remuneration Committee will also determine allocations of share options and is responsible for setting any performance criteria in relation to the exercise of options granted under any share option schemes adopted by the Group. The Audit Committee is made up of Robert Morgan, Colin Cooke and Alwyn Davey, and monitors the integrity of the Group's annual and interim financial statements. The committee also monitors and reviews the effectiveness of the management and reviews the fees and performance of the external auditors. The Nominations Committee is made up of Colin Cooke and Robert Morgan and has responsibility for identifying, evaluating and recommending candidates to join the Board and make recommendations on Board composition and balance.

CONSOLIDATED STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements. The directors have prepared financial statements for the group in accordance with International Financial Reporting Standards (IFRSs) and have elected to prepare financial statements for the Group in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). Company law requires the directors to prepare such financial statements in accordance with IFRSs, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of the directors' report which comply with the requirements of the Companies Act 1985.

The directors are responsible for the maintenance and integrity of the Group website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Directors' responsibility statement

We confirm to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and
2. the management report, which is incorporated into the directors' report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board

Managing Director
Morgan Rhidian Davies
23 September 2008

Finance Director
Karl Picton - Jones
23 September 2008

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ENERGYBUILD GROUP PLC

We have audited the consolidated financial statements (the "consolidated financial statements") of Energybuild Group Plc for the year ended 30 June 2008 which comprise the consolidated income statement, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated cash flow statement and the related notes 1 to 31. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Report that is described as having been audited

This report is made solely to the company's members, 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 members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the consolidated 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 consolidated 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 consolidated financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the consolidated 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 the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited group financial statements. The other information comprises only the unaudited part of the Directors' Report, the Chairman's Statement, the Review of Operations and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any further information outside the Annual Report

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 consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the group'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 consolidated 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 consolidated financial statements.

Opinion

In our opinion:

- the consolidated 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 30 June 2008 and of its profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the consolidated financial statements.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Cardiff, United Kingdom

23 September 2008

CONSOLIDATED INCOME STATEMENT

Year ended 30 June 2008

| | Note | 2008 £'000 | 2007 £'000 |
|--------------------------------------------------------------------------------------------------|------|---------------|---------------|
| Continuing operations | | | |
| Revenue | 5 | 6,541 | 4,760 |
| Cost of sales | | (4,756) | (4,601) |
| | | <u>1,785</u> | <u>159</u> |
| Gross profit | | | |
| Cost of flotation | | (301) | - |
| Other administration expenses | | (682) | (421) |
| | | <u>(983)</u> | <u>(421)</u> |
| Total administration expenses | | | |
| OPERATING PROFIT/(LOSS) | 6 | 802 | (262) |
| Investment income | 8 | 226 | 25 |
| Finance costs | 9 | (74) | (267) |
| | | <u>954</u> | <u>(504)</u> |
| PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION | | | |
| Tax on profit/(loss) on ordinary activities | 10 | (125) | - |
| | | <u>829</u> | <u>(504)</u> |
| PROFIT/(LOSS) FOR THE FINANCIAL YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | | | |
| Earnings per share – from continuing operations | | | |
| Basic | 11 | 0.7p | (1.0)p |
| Diluted | 11 | 0.6p | (0.9)p |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**Year ended 30 June 2008**

| | Share capital £'000 | Share premium account £'000 | Merger reserve £'000 | Retained earnings £'000 | Total £'000 |
|----------------------------------------------------------------------|------------------------------------|------------------------------------------------|-------------------------------------|----------------------------------------|------------------------|
| At 1 July 2006 | 50 | - | 1,876 | (161) | 1,765 |
| New shares issued | 5,450 | 1,000 | - | - | 6,450 |
| Share issue expenses | - | (75) | - | - | (75) |
| Share warrants issued in connection with share issue (note 24) | - | (104) | - | - | (104) |
| Loss for the financial year | - | - | - | (504) | (504) |
| Credit to equity for equity settled shares (note 24) | - | - | - | 149 | 149 |
| Shares issued to acquire Energybuild Holdings Limited | - | - | (4,450) | - | (4,450) |
| At 1 July 2007 | 5,500 | 821 | (2,574) | (516) | 3,231 |
| Profit for the financial year | - | - | - | 829 | 829 |
| New shares issued | 7,500 | 7,500 | - | - | 15,000 |
| Share issue expenses | - | (996) | - | - | (996) |
| At 30 June 2008 | <u>13,000</u> | <u>7,325</u> | <u>(2,574)</u> | <u>313</u> | <u>18,064</u> |

The Group has taken advantage of section 131 of the Companies Act 1985 and so the excess over the nominal value of shares issued other than for cash has been allocated to the merger reserve.

CONSOLIDATED BALANCE SHEET
30 June 2008

| | Note | 2008 £'000 | 2007 £'000 |
|------------------------------------------------------------|------|----------------------|----------------------|
| NON-CURRENT ASSETS | | | |
| Other intangible assets | 12 | 2,133 | 1,083 |
| Property, plant and equipment | 13 | 17,245 | 10,384 |
| Investments | 14 | 527 | 150 |
| | | <u>19,905</u> | <u>11,617</u> |
| CURRENT ASSETS | | | |
| Inventories | 15 | 1,232 | 332 |
| Trade and other receivables | 16 | 2,487 | 901 |
| Cash and cash equivalents | | 3,413 | 238 |
| | | <u>7,132</u> | <u>1,471</u> |
| TOTAL ASSETS | | <u><u>27,037</u></u> | <u><u>13,088</u></u> |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 18 | 4,004 | 2,794 |
| Obligations under finance lease | 17 | 30 | - |
| Borrowings | 17 | - | 3,678 |
| Deferred income | 20 | 167 | 13 |
| | | <u>4,201</u> | <u>6,485</u> |
| NON-CURRENT LIABILITIES | | | |
| Long-term provision | 22 | 1,015 | 1,204 |
| Contingent consideration | 19 | 276 | - |
| Deferred tax | 21 | 125 | - |
| Deferred income | 20 | 3,233 | 2,168 |
| Obligations under finance lease | 17 | 123 | - |
| | | <u>4,772</u> | <u>3,372</u> |
| TOTAL LIABILITIES | | <u><u>8,973</u></u> | <u><u>9,857</u></u> |
| NET ASSETS | | <u><u>18,064</u></u> | <u><u>3,231</u></u> |
| EQUITY | | | |
| Share capital | 23 | 13,000 | 5,500 |
| Share premium account | | 7,325 | 821 |
| Merger reserve | | (2,574) | (2,574) |
| Retained earnings | | 313 | (516) |
| EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | | <u><u>18,064</u></u> | <u><u>3,231</u></u> |

These financial statements were approved by the Board of Directors on 23 September 2008.
Signed on behalf of the Board of Directors

M R Davies
Director

K Picton-Jones
Director

CONSOLIDATED CASH FLOW STATEMENT**Year ended 30 June 2008**

| | Note | 2008 £'000 | 2007 £'000 |
|------------------------------------------------------------------------------|-------|---------------|---------------|
| NET CASH OUTFLOW FROM OPERATING ACTIVITIES | 27 | (161) | (445) |
| INVESTING ACTIVITIES | | | |
| Interest received | | 226 | 25 |
| Purchase of property, plant and equipment | | (7,432) | (2,700) |
| Grant received | | 1,272 | 718 |
| Acquisition of subsidiaries – deferred and contingent consideration payments | 12,29 | (483) | - |
| Proceeds on disposal of property, plant and equipment | | 167 | - |
| Loan to joint venture company | | (20) | - |
| Increase in mine restoration bonds | | (357) | - |
| NET CASH USED IN INVESTING ACTIVITIES | | (6,627) | (1,957) |
| FINANCING ACTIVITIES | | | |
| Repayment of obligations under finance leases | | (72) | - |
| Repayment of borrowings | | - | (50) |
| New loans raised | | - | 950 |
| Proceeds on issue of share capital | | 10,035 | 474 |
| NET CASH USED IN FINANCING ACTIVITIES | | 9,963 | 1,374 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | 3,175 | (1,028) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | 238 | 1,266 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | 3,413 | 238 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**Year ended 30 June 2008****1. GENERAL INFORMATION**

Energybuild Group Plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 1. The nature of the Group's operations and its principal activities are set out in the business review and principal activity section on page 10.

2. TRANSITION TO IFRS AND ADOPTION OF NEW AND REVISED STANDARDS

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to financial statements of the Group for the year ended 30 June 2008 and applied in accordance with the Companies Act 1985.

For all periods up to and including the year ended 30 June 2007, the Group prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). These statements, for the year ended 30 June 2008, are the first the Group is required to prepare in accordance with International Financial Reporting Standards as adopted by the European Union.

The date of transition to IFRS was 1 July 2006, which is the beginning of the comparative period for the year ended 30 June 2007. The Group has applied IFRS 1 for first-time adoption.

The adoption of IFRS has not resulted in any changes to the income and expenditure or assets and liabilities previously presented on the basis of UK GAAP.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

| | |
|----------|----------------------------------------------------------------------------------------------------------|
| IAS 23 | <i>Borrowing Costs</i> |
| IFRIC 13 | <i>Customer Loyalty Programmes</i> |
| IFRS 8 | <i>Operating segments</i> |
| IFRIC 11 | <i>IFRS 2 – Group and Treasury Share Transactions</i> |
| IFRIC 12 | <i>Service Concession Arrangements</i> |
| IFRIC 14 | <i>IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i> |

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional segment disclosures when IFRS 8 comes into effect for periods commencing on or after 1 January 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**Year ended 30 June 2008****3. SIGNIFICANT ACCOUNTING POLICIES****Basis of accounting**

The financial statements are prepared in accordance with IFRS as adopted by the European Union as they apply to financial statements of the Group for the year ended 30 June 2008 and applied in accordance with the Companies Act 1985.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are outlined below.

These financial activities are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

Basis of consolidation

The consolidated financial information consolidates the financial information of Energybuild Group Plc and its subsidiary undertakings drawn up to 30 June 2008.

The Group undertook a group reorganisation on 20 July 2006. Under this arrangement, Energybuild Group Plc acquired the whole of the issued share capital of Energybuild Holdings Limited from its shareholders. Consideration for the acquisition was by way of the issue of ordinary shares to the shareholders of Energybuild Holdings Limited. Energybuild Group Plc and Energybuild Holdings Limited were controlled, and continued to be controlled, by the same individuals and companies. A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Accordingly, the pooling of interest method has been used to account for the reorganisation with the result that the consolidated financial statements are presented as if the entities had always been combined, reflecting the carrying values of each of the entities and including comparative figures for all of the entities acquired by Energybuild Group Plc. This type of reorganisation is outside the scope of IFRS 3 and therefore no adjustments were required on transition to IFRS.

The consolidated financial information has been prepared on a going concern basis under the historical cost convention, except where fair value has been used. The Group financial information is presented in pounds sterling and all values are rounded to the nearest thousand (£'000) unless otherwise indicated.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 30 June 2008**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****Jointly controlled entities**

A joint venture is an entity over which the Group has joint control, through the ability to govern financial and operating policy decisions of the economic activity so as to obtain benefits from it.

The Group accounts for its jointly controlled entities on an equity method of accounting.

Revenue and revenue recognition

Revenue comprises sales of coal and other external sales. Revenue is generally recognised when delivery of the product or service has been made and when the customer has a legally binding obligation to settle under the terms of the contract and has assumed all the risks and rewards of ownership. In most instances this is when the product is delivered to the location specified by the customer, which is typically when despatched, where the customer pays the transportation costs.

Segmental analysis is presented in note 5 below.

Coal Investment Aid

Coal Investment Aid is received as a contribution towards qualifying expenditure, as defined by the Department for Business, Enterprise and Regulatory Reform (“DBERR”) incurred by the group. If the expenditure has been charged in the consolidated income statement the related Investment Aid is credited to the consolidated income statement in the same period. When the Investment Aid relates to mine development or the purchase of plant and equipment, then the Investment Aid is held on the consolidated balance sheet as deferred income and is credited to the consolidated income statement over the life of the asset to which it relates.

Grants

Grants in respect of capital expenditure are credited to a deferred income account and are released to the income statement over the expected useful lives of the relevant assets. Grants of a revenue nature are credited to income in the year to which they relate.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance lease are recognised as assets in the balance sheet at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a financial lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals under operating leases are charged to the income statement on a straight-line basis over the lease term.

Operating profit/(loss)

Operating profit/(loss) is stated after crediting/(charging) the share of results of joint ventures and charging provisions for impairments in investment in associates, but before investment income and finance costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**Year ended 30 June 2008****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****Taxation**

The tax expense represents the sum of the tax currently payable, and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method except where the acquisition is a common control transaction. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

The excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised is assigned to mineral reserves if the acquiree has mineral rights which exceed this value, otherwise the balance would be classified as goodwill. If, after reassessment, the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**Year ended 30 June 2008****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****Contingent consideration**

The cost of business combinations is adjusted for the net present value of contingent consideration at the acquisition date if the adjustment is probable and can be measured reliably. No adjustment is included in the cost of the combination at the time of initial accounting for the combination if it is either not probable or cannot be measured reliably. However, if that adjustment subsequently becomes probable and can be measured reliably, the additional consideration is treated as an adjustment to the cost of combination. Once recorded, the discount in respect of the liability is unwound in the finance costs to the income statement.

Mineral reserve

The mineral reserves were recognised on the acquisition of Mineral Extraction and Handling Limited, representing the excess of the fair value of consideration paid and payable over the fair value of the identifiable assets and liabilities acquired. Mineral reserves are stated at cost less accumulated amortisation. Amortisation will be charged on a tonnage extracted basis over the estimated life of the recoverable reserves.

Property, plant and equipment

Property, plant and equipment are held at cost less accumulated depreciation and any recognised impairment loss. They are depreciated to their residual value using the straight-line method over their expected useful lives as follows:

| | | |
|---------------------------|---|------------------------------|
| Leasehold buildings | - | Over the period of the lease |
| Heavy mining equipment | - | 8 to 20 years |
| Other plant and equipment | - | 3 to 15 years |
| Motor vehicles | - | 3 to 5 years |

Assets held under finance leases are depreciated over their useful lives as set out above.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset, and is recognised in the income statement.

Mine development costs

The purpose of mine development is to establish secure working conditions and infrastructure to allow the safe and efficient extraction of recoverable reserves. Depreciation on mine development is not charged until full production commences or the assets are put to use. On commencement of full production, depreciation is charged on a tonnage extracted basis over the estimated life of the recoverable reserves.

The cost of mine development includes all costs, including labour and materials, associated with development of the mine infrastructure and surface.

Surface mine development and restoration assets

Expenditure incurred immediately prior to the commencement of working surface mines, net of any residual value and taking into account the likelihood of the site being developed, is capitalised within tangible fixed assets and charged to the income statement over the coaling life of the site. Expenditure on sites not expected to be worked within ten years is written off as incurred.

The restoration asset includes the cost of restoration and closure.

Restoration and closure costs

Surface mines – the total costs of reinstatement of soil excavation and of surface restoration are recognised as a provision on site commissioning when the obligation arises. The amount provided represents the fair value of expected costs. Costs are charged to the provision as incurred. A tangible asset is created for an amount equivalent to the initial provision. This is charged to the income statement on a unit of production basis over the life of the site.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Drift mine – closure costs related to the drift restoration are recognised as a provision on a discounted basis at the commissioning stage or on acquisition. The amount provided represents the present value of the expected costs. Costs are charged to the provision as incurred. A tangible asset is created for an amount equivalent to the initial provision and is depreciated in accordance with the accounting policy set out above. Provision for other closure costs is made when there is a demonstrable commitment to the closure.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indications exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct material costs. Net realisable value represents the estimated selling price less all estimated costs of completion.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the group becomes a party to the contractual provision of the instrument.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits held at call with banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**Year ended 30 June 2008****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****Trade payables**

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

Equity instruments

Equity instruments issued by the Group are recorded as proceeds received, net of direct issue costs.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

Share-based payment

The Group has applied the requirements of IFRS 2 share-based payments. In accordance with the transitional provision, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 July 2006.

The group issues equity-settled, share-based payments to certain employees. Equity-settled, share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled, share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of share that will eventually vest.

Fair value is measured by use of a Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make estimates and assumptions that effect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for revenue and expenses during the year. The nature of estimation means the actual outcomes could differ from those estimates. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities for the next financial year are discussed below.

Fair values recognised in business combinations

The estimation of fair value of intangible mineral rights and mineral assets and associated property, plant and equipment acquired in business combinations involves estimates over the quantities of minerals that may be recovered and the technical and commercial feasibility of extraction, which may be highly uncertain. Generally, fair values assigned to exploration and evaluation assets are limited so as not to generate negative goodwill where there is significant uncertainty over the estimates of fair value.

Restoration provision

The estimation of the amount of the restoration provision involves estimates over expected future cash flows associated with rehabilitation and restoration activities, which may be highly uncertain. Management has estimated the provision based on an assessment of the expected future cash flows relating to certain "clean-up" activities.

Impairment

Determining whether intangible and tangible assets are impaired requires an estimation of the value in use of the cash generating units to which the asset has been allocated. The value in use calculation requires the entity to estimate future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**Year ended 30 June 2008****4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION
UNCERTAINTY (continued)****Capitalisation of development costs**

Mine development costs are capitalised to the point where production commences from an economically viable block of coal and these costs are then amortised over the tonnage of coal expected to be extracted in the future from that block. Assumptions are made in establishing the viability of the area of coal to be mined such as expected geology, coal prices, vend, product yield and cost of development. The validity of these assumptions will affect the carrying value of the asset.

Depreciation of development costs

Capitalised mine development costs are amortised over the tonnage of coal expected to be extracted in the future. If the amount of coal varies, this will impact on the amount of the asset which should be carried forward in the consolidated balance sheet.

Inventory valuation

Coal inventory for the mine is being valued on the basis of expected normal costs of production. If these normal costs of production vary from that expected, the carrying value of inventory may differ from that recorded in the balance sheet.

Contingent consideration

Contingent consideration is calculated based on future revenues and costs. These may differ in the future from those expected and may result in variations to the carrying value of the liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2008

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Geographical segments

The Group only operates in the UK and only has one geographical segment.

Business segments

For management purposes, the Group is currently organised into three operating divisions – Drift Mining, Opencast Mining and Other operations. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

| | Drift Mine Year ended 2008 £'000 | Opencast Year ended 2008 £'000 | Other operations Year ended 2008 £'000 | Total Year ended 2008 £'000 |
|--------------------------------------------------------------|---------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------------------|----------------------------------------------------|
| 2008 Revenue | | | | |
| External sales | 1,113 | 4,589 | 839 | 6,541 |
| | <u>1,113</u> | <u>4,589</u> | <u>839</u> | |
| Inter-segment sales are charged at prevailing market prices. | | | | |
| Result | | | | |
| Segment result | 126 | 738 | 239 | 1,103 |
| | <u>126</u> | <u>738</u> | <u>239</u> | |
| Unallocated corporate expenses | | | | 301 |
| Operating profit | | | | 802 |
| Investment revenues | | | | 226 |
| Finance costs | | | | (74) |
| Profit before tax | | | | 954 |
| Tax | | | | (125) |
| Profit after tax | | | | <u>829</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2008

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

| | Drift Mine Year ended 2008 £'000 | Opencast Year ended 2008 £'000 | Other operations Year ended 2008 £'000 | Total Year ended 2008 £'000 |
|-----------------------------------|----------------------------------------------|--------------------------------------------|-------------------------------------------------------|-----------------------------------------|
| Other information | | | | |
| Capital additions | 7,064 | 593 | - | 7,657 |
| Depreciation and amortisation | 189 | 440 | - | 629 |
| Balance sheet | | | | |
| Assets | | | | |
| Segment assets | 22,809 | 4,057 | 127 | 26,993 |
| Unallocated corporate assets | | | | 44 |
| Consolidated total assets | | | | 27,037 |
| Liabilities | | | | |
| Segment liabilities | 5,958 | 2,401 | 89 | 8,448 |
| Unallocated corporate liabilities | | | | 525 |
| Consolidated total liabilities | | | | 8,973 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2008

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

| | Drift Mine | Opencast | Other operations | Consolidated |
|---------------------|------------|--------------|------------------|--------------|
| | Year | Year | Year | Year |
| | ended | ended | ended | ended |
| 2007 | 2007 | 2007 | 2007 | 2007 |
| | £ '000 | £ '000 | £'000 | £ '000 |
| Revenue | | | | |
| External sales | 252 | 4,228 | 280 | 4,760 |
| | <u>16</u> | <u>(285)</u> | <u>7</u> | <u>(262)</u> |
| Result | | | | |
| Segment result | | | | |
| Operating loss | | | | (262) |
| Investment revenues | | | | 25 |
| Finance costs | | | | (267) |
| Profit before tax | | | | (504) |
| Tax | | | | - |
| Loss after tax | | | | <u>(504)</u> |

Inter-segment sales are charged at prevailing market prices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2008

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

| | Drift Mine Year ended 2007 £'000 | Opencast Year ended 2007 £'000 | Other operations Year ended 2007 £'000 | Total Year ended 2007 £'000 |
|-----------------------------------|----------------------------------------------|--------------------------------------------|-------------------------------------------------------|-----------------------------------------|
| Other information | | | | |
| Capital additions | 2,573 | 126 | - | 2,699 |
| Depreciation and amortisation | 59 | 261 | - | 320 |
| Balance sheet | | | | |
| Assets | | | | |
| Segment assets | 10,036 | 2,886 | - | 12,922 |
| Unallocated corporate assets | | | | 166 |
| Consolidated total assets | | | | 13,088 |
| Liabilities | | | | |
| Segment liabilities | 6,356 | 3,335 | 2 | 9,693 |
| Unallocated corporate liabilities | | | | 164 |
| Consolidated total liabilities | | | | 9,857 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2008

6. OPERATING PROFIT/(LOSS)

| | 2008 £'000 | 2007 £'000 |
|-------------------------------------------------------------|-------------------|-------------------|
| This has been arrived at after charging/(crediting) | | |
| Released in respect of government grants (see note 20) | 52 | 13 |
| Depreciation of property, plant and equipment (see note 13) | | |
| - owned assets | 462 | 261 |
| - leased assets | 167 | 59 |
| Amortisation of intangible fixed assets (see note 12) | - | - |
| Staff costs (see note 7) | 3,568 | 2,002 |
| Auditors' remuneration – audit services | 65 | 35 |
| Auditors' remuneration – non-audit services | 4 | 4 |
| | <u> </u> | <u> </u> |

A more detailed analysis of Group auditors' remuneration for services to the entire Group is provided below:

| | £'000 | £'000 |
|----------------------------------------------------------------|-------------------|-------------------|
| Audit services: | | |
| - statutory audit | 35 | 30 |
| - other services (interim review and audit of IFRS transition) | 30 | - |
| | <u> </u> | <u> </u> |
| Total audit fees | 65 | 30 |
| | <u> </u> | <u> </u> |
| Tax services: | | |
| - compliance services | 4 | 4 |
| | <u> </u> | <u> </u> |
| Total non-audit fees | 4 | 4 |
| | <u> </u> | <u> </u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2008

7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

| | 2008 | 2007 |
|------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Directors' emoluments | | |
| Emoluments | 237 | 103 |
| | <u>£'000</u> | <u>£'000</u> |
| Highest paid director | | |
| Emoluments | 90 | 65 |
| | <u>£'000</u> | <u>£'000</u> |

The Group did not make any pension contribution payments for any of the directors during the year or the prior year.

| | Number | Number |
|---------------------------------------------------------------------------|---------------|---------------|
| Average number of persons employed (including executive directors) | | |
| Directors | 2 | 2 |
| Production | 95 | 57 |
| Administration | 4 | 3 |
| | <u>101</u> | <u>62</u> |
| | £'000 | £'000 |
| Staff costs during the year (including executive directors) | | |
| Wages and salaries | 3,267 | 1,786 |
| Social security costs | 301 | 171 |
| Equity-settled share-based payments | - | 45 |
| | <u>3,568</u> | <u>2,002</u> |

£2,038,166 (2007: £1,281,839) of wages and salaries costs and £165,099 (2007: £126,608) of social security costs has been capitalised as part of mine development costs.

8. INVESTMENT INCOME

| | 2008 | 2007 |
|---------------------------|--------------|--------------|
| | £'000 | £'000 |
| Interest on bank deposits | 226 | 25 |
| | <u>£'000</u> | <u>£'000</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2008

9. FINANCE COSTS

| | 2008 £'000 | 2007 £'000 |
|---------------------------------------------------------------|---------------|---------------|
| Interest on directors' loans (see note 29) | - | 157 |
| Interest on related party loans (see note 29) | - | 100 |
| Interest on obligations under finance lease and hire purchase | 8 | - |
| Other interest and similar charges | 11 | 10 |
| Unwinding of discount on provisions | 55 | - |
| | <u>74</u> | <u>267</u> |

10. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

| | 2008 £'000 | 2007 £'000 |
|-------------------------------------------------------|---------------|---------------|
| Current taxation | | |
| United Kingdom corporation tax: | | |
| Current tax on income for the year at 30% (2007: 19%) | - | - |
| | <u>-</u> | <u>-</u> |
| Total current tax | - | - |
| Deferred tax | 125 | - |
| | <u>125</u> | <u>-</u> |
| Total tax charge for the year | <u>125</u> | <u>-</u> |

The difference between the total taxation shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit/(loss) before tax is as follows:

| | £'000 | £'000 |
|----------------------------------------------------------------------------|------------|--------------|
| Profit/(loss) on ordinary activities before tax | 954 | (504) |
| | <u>954</u> | <u>(504)</u> |
| Tax on profit/(loss) on ordinary activities before tax at 30% (2007 - 19%) | 286 | (96) |
| | <u>286</u> | <u>(96)</u> |
| Factors affecting charge for the year | | |
| Expenses not deductible for tax purposes | 168 | - |
| Equity-settled share-based payments | - | (8) |
| Excess capital allowances | (776) | (114) |
| Other | (16) | - |
| Marginal relief | - | 26 |
| Un-utilised tax losses | 463 | 192 |
| | <u>168</u> | <u>(106)</u> |
| Total tax charge for the year | <u>125</u> | <u>-</u> |

The reduction in the corporation tax rate to 28% is not expected to materially affect the future tax charge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2008

11. EARNINGS PER SHARE

From continuing operations

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings

| | 2008 | 2007 |
|----------------------------------------------------------------------------------------------------------------------------------------|--------------------|-------------------|
| | £'000 | £'000 |
| Earnings for the purposes of basic and diluted earnings per share being net profit/(loss) attributable to equity holders of the parent | 829 | (504) |
| | <u>2008</u> | <u>2007</u> |
| Number of shares | | |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 122,387,260 | 52,013,753 |
| Effect of dilutive potential ordinary shares: | | |
| Weighted average number of share warrants in issue | 10,000,000 | 6,493,151 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | <u>132,387,260</u> | <u>58,506,904</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2008

12. INTANGIBLE FIXED ASSETS

| | Mineral reserves £'000 |
|-------------------------|---------------------------------------|
| Cost | |
| At 1 July 2006 and 2007 | 1,083 |
| Additions | 1,050 |
| | <hr/> |
| At 30 June 2008 | 2,133 |
| | <hr/> |
| Carrying amount | |
| At 30 June 2008 | 2,133 |
| | <hr/> <hr/> |
| At 30 June 2007 | 1,083 |
| | <hr/> <hr/> |

On 14 June 2006, the Group acquired Mineral Extraction and Handling Limited (“MEHL”), which owned the Treforgan freehold land and mineral reserves. On the same date, the group agreed to pay Rhidian Davies, the vendor of MEHL and now the Group’s Managing Director, 60 pence per tonne of saleable coal extracted from the Treforgan reserves. On 31 July 2007, this agreement was changed so that the Group agreed to pay Rhidian £750,000 plus 1.85% of the operating profit in relation to the Treforgan reserves.

The net present value of the contingent consideration in respect of the acquisition of MEHL (including the amount paid on 31 July 2007) has been estimated at £1.1 million using a discount rate of 14.5% and further discounted to reflect the inherent uncertainty and difficulty in being able to access the reserves.

A reliable estimate of the contingent consideration could not have been made at the time the original agreement was reached because significant funding was required before the reserves could be accessed, and there was no realistic expectation of when or whether extraction of the Treforgan take would commence.

The mineral reserves recognised at 30 June 2007 represented the excess of the fair value of consideration paid, excluding the contingent consideration, over the fair value of the identifiable assets and liabilities acquired. Mineral reserves are stated at cost less accumulated amortisation.

Amortisation will be charged on a tonnage-extracted basis over the estimated life of the recoverable reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2008

13. PROPERTY, PLANT AND EQUIPMENT

| | Freehold property £'000 | Leasehold buildings £'000 | Plant and machinery £'000 | Mines and surface works £'000 | Surface development and restoration assets £'000 | Total £'000 |
|-----------------------|-------------------------------|---------------------------------|---------------------------------|----------------------------------------|-----------------------------------------------------------------|----------------|
| Cost | | | | | | |
| At 1 July 2006 | 167 | - | 512 | 5,744 | 2,553 | 8,976 |
| Additions | - | - | 117 | 2,582 | - | 2,699 |
| At 1 July 2007 | 167 | - | 629 | 8,326 | 2,553 | 11,675 |
| Additions | - | 270 | 2,994 | 4,039 | 354 | 7,657 |
| Disposals | (167) | - | - | - | - | (167) |
| At 30 June 2008 | - | 270 | 3,623 | 12,365 | 2,907 | 19,165 |
| Depreciation | | | | | | |
| At 1 July 2006 | - | - | 127 | 261 | 583 | 971 |
| Charge for the year | - | - | 59 | 53 | 208 | 320 |
| At 1 July 2007 | - | - | 186 | 314 | 791 | 1,291 |
| Charge for the year | - | - | 167 | 154 | 308 | 629 |
| At 30 June 2008 | - | - | 353 | 468 | 1,099 | 1,920 |
| Net book value | | | | | | |
| At 30 June 2008 | - | 270 | 3,270 | 11,897 | 1,808 | 17,245 |
| At 30 June 2007 | 167 | - | 443 | 8,012 | 1,762 | 10,384 |

The net book value of plant and machinery includes £177,867 (2007: £nil), related to assets held under hire purchase and finance lease agreements.

14. INVESTMENTS

The investments consist of bonds held with the Coal Authority and Neath and Port Talbot Council in respect of mine reinstatement commitments for both drift mine and opencast activities.

A list of the significant investments in subsidiaries, including the name, country of incorporation, proportion of ownership interest, is given in note 4 to the Company's separate financial statements.

| | Mine reinstatement bonds £,000 | Investment in joint ventures £'000 | Total £'000 |
|--------------------------------|-----------------------------------------|---------------------------------------------|----------------|
| Cost and net book value | | | |
| At 1 July 2007 | 150 | - | 150 |
| Additions | 357 | 20 | 377 |
| At 30 June 2008 | 507 | 20 | 527 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2008

14. INVESTMENTS (continued)

| | 2008 £'000 | 2007 £'000 |
|-----------------------------------------------------|-------------------|-------------------|
| Aggregated amounts relating to joint venture | | |
| Total assets | 40 | - |
| Total liabilities | - | - |
| | <u> </u> | <u> </u> |
| Revenues | - | - |
| Profit/(loss) | - | - |
| | <u> </u> | <u> </u> |

A list of the significant investments in joint ventures, including the name, country of incorporation, proportion of ownership interest, is given in note 4 to the Company's separate financial statements.

15. INVENTORIES

| | 2008 £'000 | 2007 £'000 |
|-------------------------------------|-------------------|-------------------|
| Finished goods and goods for resale | 1,232 | 332 |
| | <u> </u> | <u> </u> |

16. OTHER FINANCIAL ASSETS

Trade and other receivables

| | 2008 £'000 | 2007 £'000 |
|--------------------------------|-------------------|-------------------|
| Trade receivables | 1,060 | 173 |
| Other receivables | 790 | 426 |
| Prepayments and accrued income | 637 | 302 |
| | <u> </u> | <u> </u> |
| | 2,487 | 901 |
| | <u> </u> | <u> </u> |

The average credit period taken on sale was 32 days (2007: 30 days).

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

Cash and cash equivalents

These comprise cash in hand and deposits held on short-term deposit. The carrying amount of these assets approximates to their fair value.

Credit risk

The Group's principal financial assets are bank balances and cash, and trade and other receivables.

The Group's credit risk is primarily attributable to its trade and other receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and its assessment of the current economic environment. There is a concentration of receivables credit risk with the Group's principal customer, RWE Innogy.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by the international credit rating agencies. There is no significant concentration of credit risk on liquid funds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2008

17. INTEREST-BEARING LOANS AND BORROWINGS

| | 2008 £'000 | 2007 £'000 |
|--------------------------------------------|---------------|---------------|
| Current liabilities | | |
| Hire purchase and finance lease agreements | 30 | - |
| Amounts owed to related parties | - | 2,000 |
| Director's loan account | - | 1,678 |
| | <u>30</u> | <u>3,678</u> |
| Non-current liabilities | | |
| Hire purchase and finance lease agreements | <u>123</u> | <u>-</u> |

The hire purchase and finance lease obligations are repayable as follows:

| | £'000 | £'000 |
|--------------------------------------------------|------------|------------|
| Hire purchase contracts and finance lease | | |
| Within one year | 30 | 232 |
| Between one and two years | 123 | 87 |
| Between two and five years | - | 24 |
| | <u>153</u> | <u>343</u> |

Obligations under finance lease and hire purchase contracts are secured on the related assets.

18. OTHER FINANCIAL LIABILITIES

Trade and other payables

| | 2008 £'000 | 2007 £'000 |
|------------------------------------|---------------|---------------|
| Current liabilities | | |
| Trade accounts payable | 2,913 | 2,138 |
| Other taxation and social security | 357 | 113 |
| Other creditors | - | - |
| Accruals | 734 | 543 |
| | <u>4,004</u> | <u>2,794</u> |

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 90 days (2007: 191 days). The directors consider that the carrying amount of trade and other payables approximates their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2008

19. CONTINGENT CONSIDERATION

| | 2008 £'000 | 2007 £'000 |
|--------------------------------|---------------|---------------|
| Non-current liabilities | | |
| Contingent consideration | 276 | - |
| | <u>276</u> | <u>-</u> |

The contingent consideration is the net present value of the Group's best estimate of future additional payments expected to be made in respect of entities previously acquired (see notes 12 and 29). The contingent consideration is expected to be payable as follows:

| | £'000 | £'000 |
|-------------------------------------------|------------|----------|
| Between two and five years | 276 | - |
| | <u>276</u> | <u>-</u> |
| | £'000 | £'000 |
| Movement in deferred consideration | | |
| At 1 July | - | - |
| Acquisitions (see note 12) | 1,050 | - |
| Unwind of discount | 43 | - |
| Payments made | (817) | - |
| | <u>276</u> | <u>-</u> |
| At 30 June | <u>276</u> | <u>-</u> |

20. DEFERRED INCOME

| | 2008 £'000 | 2007 £'000 |
|-------------------------|---------------|---------------|
| Current liabilities | 167 | 13 |
| Non-current liabilities | 3,233 | 2,168 |
| | <u>3,400</u> | <u>2,181</u> |

The deferred income relates to DBERR grant movement in respect of the Coal Investment Aid scheme.

The grants were in relation to costs which have been capitalised as part of mine development – the grant income is being released to the income statement to match the depreciation charge on the related mine development assets.

| | £'000 | £'000 |
|------------------------------------|--------------|--------------|
| Movement in deferred income | | |
| At 1 July | 2,181 | 1,476 |
| Grant received | 1,271 | 718 |
| Amortisation | (52) | (13) |
| | <u>3,400</u> | <u>2,181</u> |
| At 30 June | <u>3,400</u> | <u>2,181</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2008

21. DEFERRED TAX

| | 2008 £'000 | 2007 £'000 |
|---------------------------------|---------------|---------------|
| Balance at 1 July | - | - |
| Charged to the income statement | 125 | - |
| | <hr/> | <hr/> |
| Balance at 30 June | 125 | - |
| | <hr/> <hr/> | <hr/> <hr/> |

The amounts of deferred taxation provided in the financial statements are as follows:

| | £'000 | £'000 |
|--------------------------------|-------------|-------------|
| Accelerated capital allowances | 2,177 | 897 |
| Other temporary differences | (1,006) | (506) |
| Un-used revenue losses | (1,046) | (391) |
| | <hr/> | <hr/> |
| | 125 | - |
| | <hr/> <hr/> | <hr/> <hr/> |

22. PROVISIONS

| | Restoration costs | | |
|-----------------|----------------------|---------------------------|----------------|
| | Drift mines £'000 | Surface mines £'000 | Total £'000 |
| Group | | | |
| At 1 July 2006 | 123 | 1,620 | 1,743 |
| Utilised | - | (539) | (539) |
| | <hr/> | <hr/> | <hr/> |
| At 1 July 2007 | 123 | 1,081 | 1,204 |
| Additions | 12 | 354 | 366 |
| Utilised | - | (555) | (555) |
| | <hr/> | <hr/> | <hr/> |
| At 30 June 2008 | 135 | 880 | 1,015 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

Restoration and closure costs – Drift mines

Shaft treatment and pit-top provisions are made to meet the liability to fill and cap all mine shafts and return pit-top areas to a condition consistent with the required planning permission. No transfer of economic benefits will arise until decommissioning of each individual colliery. The current pit-top provision reflects existing planning permissions that require pit-top areas to be restored to former use, usually agriculture.

The provision level has been reassessed and the amount of £135,000 represents the cost of the restoration obligations discounted to present day value. In future years, the discount will be released to the income statement. The initial provision is not expected to be utilised for at least ten years.

The provision along with the mine life will be reconsidered annually.

Restoration and closure costs – Surface mines

This provision relates to the total estimated costs of the reinstatement of soil excavation and of surface restoration such as topsoil replacement and landscaping. Restoration costs will be payable when individual sites are completed, and payments against aftercare liabilities will extend beyond the life of each contract. The costs accrued are expected to be incurred during the next two years.

The restoration liability is expected to be completed in the near term and therefore discounting the provisions is not required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2008

23. CALLED UP SHARE CAPITAL

| | 2008 £'000 | 2007 £'000 |
|------------------------------------------------------------|---------------|---------------|
| Authorised | | |
| 500,000,000 ordinary shares of 10p each | 50,000 | 50,000 |
| Called up, allotted and fully paid | | |
| 130,000,000 (2007: 55,000,000) ordinary shares of 10p each | 13,000 | 5,500 |

On 20 July 2006, the Company acquired the whole of the share capital of Energybuild Holdings Limited in a group reconstruction in return for the issue of 44,499,000 ordinary shares of 10p.

On 20 July 2006, 10,000,000 ordinary shares were subscribed for at a price of 10p, fully paid.

On 6 August 2007, the Company issued 75 million ordinary shares at 20 pence each raising £15.0 million (£9.7 million net of listing expenses and loan conversions). Of the 75 million shares issued, 18.26 million were issued to Cambrian Mining Plc in settlement of its loans of £3.6 million prior to flotation and 1.675 million were issued to Rhidian Davies in part settlement of the additional consideration in respect of the MEHL acquisition. Issue and listing costs were £1.3 million of which £1.0 million was charged to the share premium account and £0.3 million to the income statement.

24. SHARE-BASED PAYMENTS

Equity-settled directors' and certain other parties' warrants

The Group has issued warrants to directors and certain other parties. Warrants are exercisable at a price of 20p for three or four years from the date of grant. All vesting conditions had been met on the date of grant.

Details of the warrants outstanding during the year are as follows:

| | 2008 | | 2007 | |
|--------------------------------------|-----------------------|-----------------------------------------------|-----------------------|-----------------------------------------------|
| | Number of warrants | Weighted average exercise price £ | Number of warrants | Weighted average exercise price £ |
| Outstanding at the beginning of year | 10,000,000 | 0.20 | 6,000,000 | 0.20 |
| Granted during the year | - | 0.20 | 4,000,000 | 0.20 |
| Outstanding at the end of the year | 10,000,000 | 0.20 | 10,000,000 | 0.20 |
| Exercisable at the end of the year | 10,000,000 | 0.20 | 10,000,000 | 0.20 |

No warrants were exercised during the year or the prior year. The warrants outstanding at 30 June 2008 and 2007 had a weighted average exercise price of £0.20 and a weighted average remaining contractual life of 3.3 years. 4,000,000 warrants were granted on 15 May 2007. 6,000,000 warrants were granted on 15 May 2006. The aggregate of the estimated fair values of the warrants granted on those dates is £149,094.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**Year ended 30 June 2008****24. SHARE-BASED PAYMENTS (continued)**

The inputs into the Black-Scholes model are as follows:

| | 2008 | 2007 |
|---------------------------------|---------|---------|
| Weighted average share price | 15p | 15p |
| Weighted average exercise price | 20p | 20p |
| Expected volatility | 16% | 16% |
| Expected life | 3 years | 4 years |
| Risk-free rate | 5.5% | 5.5% |
| Expected dividend yield | 0% | 0% |

The Group granted 5,000,000 warrants to Logical Investments and 1,000,000 warrants to Giltspur Nominees Limited on 15 May 2006. These were granted in respect of the assistance provided with the private placing that was completed on 20 July 2006. Though these warrants were issued in exchange for goods and services, the fair value of the goods and services is determined by the fair value of the warrant rather than the fair value of the warrant being measured with reference to the fair value of those services, as no fixed value of the services provided was stipulated in negotiating the issue of the warrants. The fair value has been charged to the share premium account as an issue cost in 2007 when the warrants vested (see Consolidated Statement of Changes in Equity). The inputs resulted in a Market Warrant Value of £0.017 per share. The charge to the share premium account was £103,974.

The warrants issued on 15 May 2007 were to the directors (refer to the directors' report). The warrants vested on grant. The fair value of the warrants was charged to the profit and loss account in 2007. The 2007 inputs resulted in a Market Warrant Value of £0.013 per share. The charge to the profit and loss account was £45,120.

Expected volatility was determined by the volatility of the share price since listing.

No warrants were issued prior to 2006, therefore no restatement of group reserves was required as a result of the adoption of IFRS 2.

25. OPERATING LEASE ARRANGEMENTS

The Group has leases in relation to the land and buildings from which it operates.

Annual rent is payable to the Aberpergwm Estate (Jersey) Limited and the Forestry Commission on a unit of production basis over the period of the lease which expires in more than five years time.

Fixed annual rent is payable in respect of the Treforgam lease in the sum of £12,000 to M R and K P Davies.

26. CAPITAL COMMITMENTS

Prior to the year end the Group committed to upgrading its surface coal loading machines and entered into agreements to purchase two Caterpillar loading shovels for the sum of £204,000 net of part exchange allowances. These have been financed at favourable rates after the year end.

The Group further committed to purchase two refurbished Free Steered Vehicles for the sum of £249,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2008

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

| | 2008 £'000 | 2007 £'000 |
|---------------------------------------------------------|---------------|---------------|
| Profit from operations | 829 | (504) |
| Adjustment for: | | |
| Investment revenues | (226) | (25) |
| Finance costs | 74 | 267 |
| Deferred tax | 125 | - |
| Depreciation of property, plant and equipment | 629 | 320 |
| Amortisation of government grant | (53) | (13) |
| Decrease in provisions | (201) | (539) |
| Equity-settled share-based payments | - | 45 |
| | <hr/> | <hr/> |
| Operating cash flows before movement in working capital | 1,177 | (449) |
| Increase in receivables | (1,587) | (287) |
| Increase in payables | 1,168 | 229 |
| Increase in inventory | (900) | 72 |
| | <hr/> | <hr/> |
| Cash utilised by operations | (142) | (435) |
| Income taxes paid | - | - |
| Interest paid | (19) | (10) |
| | <hr/> | <hr/> |
| Net cash outflow from operating activities | <u>(161)</u> | <u>(445)</u> |

28. FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in balance sheet on page 21.

The Group is not subject to externally imposed capital requirements.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

Financial risk management objectives

The board manages the financial risks of the Group. These risks may include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**Year ended 30 June 2008****28. FINANCIAL INSTRUMENTS (continued)****Market risk**

The Group's activities have not yet exposed it to the financial risks of changes in foreign currency exchange rates and interest rates. If these risks arise in future the board will consider whether it is appropriate to enter into derivative financial instruments to manage its exposure to interest rate and foreign currency risk.

Credit risk management

Credit risk refers to the risk that a customer will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy customers and obtains sufficient detail on creditworthiness before making terms available.

Trade receivables consist of a small number of customers at present. However as the customer base grows the evaluation of customer creditworthiness will become more important. Ongoing credit evaluation is performed on the financial condition of accounts receivable. No credit guarantee insurance has been obtained at present as none of our customers have yet been identified as a credit risk.

The Group is exposed to one customer, RWE Innogy which currently represents approximately 80% of sales in terms of value. It has concluded that this Group is of sufficient size and financial strength as to not expose it to any significant credit risk.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors. The Group manages liquidity risk by maintaining adequate cash reserves and continuously monitors forecast and actual cash flows. It has no bank borrowings at present.

Liquidity and interest risk tables

The Group expects to meet its obligations from its cash reserves and its operating cash flows and proceeds of maturing financial assets.

The only interest bearing liabilities relate to the hire purchase and finance lease arrangements as detailed in note 17

Fair value of financial instruments

The fair value of non-derivative financial assets and financial liabilities is considered to equal the carrying value of the related assets and liabilities in the financial statements.

The Group does not presently have any derivative financial instruments.

29. RELATED PARTY TRANSACTIONS

The Group had an outstanding loan of £1,677,880 at 1 July 2007 from Mr R L Morgan. The Group incurred no interest on the loan during the year (2007: £156,476). The loan was assigned to Cambrian Mining Plc on 2 July 2007.

The Group had an outstanding loan of £2,000,018 on 1 July 2007 from Cambrian Mining Plc which was increased by the assignment of the R L Morgan loan on 3 July 2007 to £3,677,898. This loan was settled upon listing the company on AIM on 6 August 2007 by the issue of 18,260,000 shares.

Mineral Extraction and Handling Limited had the benefit of an Option Agreement and agreement for lease between it and Rhidian Davies. By this Option Agreement MEHL granted to Rhidian Davies the right to purchase six parcels of freehold land at Crynant in Neath (the Treforgan land). The Option Agreement requires that immediately following completion of a transfer of the Treforgan land from MEHL to Rhidian Davies, Rhidian Davies must lease back part of the Treforgan land to MEHL. Rhidian Davies triggered this option. The leaseback is for a term of 51 years from the date of the lease subject to a certain rent of £12,000 per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 30 June 2008**29. RELATED PARTY TRANSACTIONS (continued)**

The above agreement also provided that Rhidian Davies is paid a fee of 60p per tonne of clean and saleable coal extracted from the Treforgan Mine. This agreement was later terminated and replaced with a new fee arrangement payable to Rhidian Davies being (1) the sum of £750,000, less any advances paid to Rhidian Davies under the original fee; and (2) a commission payable quarterly in arrears for the duration of the lease granted by Rhidian Davies to MEHL, which is equal to 1.85 per cent of the net revenue of the group which is attributable to the Treforgan Mine, after the deduction of operating mine costs. The whole agreement was finally completed on 31 July 2007.

The legal form of this transaction, as described in the AIM admission document was that this payment was in consideration for the work undertaken by Rhidian in brokering the deal for the acquisition of shares in Energybuild Holdings Limited by Coal International Plc. However, the substance of this transaction was that the payment was in relation to the acquisition of MEHL as the intention had always been that Rhidian would receive this amount as additional consideration in relation to his sale of MEHL. Consistent with this the payment has been treated as additional consideration in respect of the acquisition of MEHL.

The net present value of the contingent consideration in respect of the acquisition of MEHL (including the amount paid on 31 July 2007) has been estimated at £1.1 million using a discount rate of 14.5 % and further discounted to reflect the inherent uncertainty and difficulty in being able to access the reserves.

A reliable estimate of the contingent consideration could not have been made at the time the original agreement was reached because significant funding was required before the reserves could be accessed and there was no realistic expectation of when or whether extraction of the Treforgan take would commence.

30. ULTIMATE PARENT

From the 1 July 2007 to the 6 August 2007 the ultimate parent company was considered to be Coal International Plc. From 6 August 2007 to the 30 June 2008 Energybuild Group Plc was considered to be the ultimate parent as neither of its largest shareholders, Cambrian Mining Plc or Coal International Plc had a controlling interest. However on the 1 August 2008 Cambrian Mining Plc acquired a 100% interest in Coal International Plc and now has a 50.6% interest in Energybuild Group Plc. Cambrian Mining Plc is now considered to be the ultimate parent.

31. POST BALANCE SHEET EVENTS

On 16 July 2008 the Group awarded 7,500,000 options to management and executive directors under approved and unapproved schemes. The two executive directors, M R. Davies and K. Picton-Jones were awarded 1,500,000 options each. The options are exercisable at 30 pence per share (the market price on the date of issue was 23 pence per share). The options are exercisable after 16 July 2010.

COMPANY FINANCIAL STATEMENTS
Year ended 30 June 2008

COMPANY STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

COMPANY INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ENERGYBUILD GROUP PLC

We have audited the financial statements of Energybuild Group Plc for the year ended 30 June 2008 which comprise the company balance sheet and the related notes 1 to 10. These parent company financial statements have been prepared under the accounting policies set out therein. We have reported separately on the group financial statements of Energybuild Group Plc for the year ended 30 June 2008.

This report is made solely to the company's members, 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 members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. 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 the directors' report and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any further information outside the annual report.

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 parent company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the 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 parent company 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 parent company financial statements.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2008;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report in the group financial statements is consistent with the parent company financial statements.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Cardiff, United Kingdom

23 September 2008

COMPANY BALANCE SHEET
30 June 2008

| | Note | 2008 £'000 | 2007 £'000 |
|----------------------------------------------------------------|------|---------------|---------------|
| FIXED ASSETS | | | |
| Investments | 4 | 4,450 | 4,450 |
| CURRENT ASSETS | | | |
| Debtors | 5 | 13,919 | 1,978 |
| Cash at bank and in hand | | 2,087 | 16 |
| | | <u>16,006</u> | <u>1,994</u> |
| CREDITORS: amounts falling due within one year | 6 | <u>(366)</u> | <u>-</u> |
| NET CURRENT ASSETS | | <u>15,640</u> | <u>1,994</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES, BEING NET ASSETS | | <u>20,090</u> | <u>6,444</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 7 | 13,000 | 5,500 |
| Share premium account | 8 | 7,325 | 821 |
| Profit and loss account | 8 | <u>(235)</u> | <u>123</u> |
| SHAREHOLDERS' FUNDS | 8 | <u>20,090</u> | <u>6,444</u> |

These financial statements were approved by the Board of Directors on 23 September 2008.
Signed on behalf of the Board of Directors

M R Davies
Director

K Picton-Jones
Director

NOTES TO THE COMPANY FINANCIAL STATEMENTS**Year ended 30 June 2008****1. ACCOUNTING POLICIES - COMPANY**

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted, which have been applied consistently throughout the current and the prior financial year, are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Cash flow statement

Under Financial Reporting Standard No. 1 (revised 1996), the company is not required to prepare a cash flow statement as a group cash flow statement has been included in the financial statements of the group.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Investments

Investments in subsidiaries and associates are held as fixed assets and are stated at cost less provision for any impairment.

2. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The directors were the only employees of the company and they were remunerated by Energybuild Limited for their services to the group as a whole. It is not practicable to allocate their remuneration between services to the company and services to the group as a whole.

3. PROFIT FOR THE YEAR

As permitted by Section 230 of the Companies Act 1985, the company has elected not to present its own profit and loss account for the year. The loss for the year is shown in note 8 below.

Auditors' remuneration for audit services for the company was £5,000 (2007: £5,000). Auditors' remuneration for non-audit services for the company was £nil (2007: £nil).

NOTES TO THE COMPANY FINANCIAL STATEMENTS

Year ended 30 June 2008

4. INVESTMENTS

| | |
|---------------------------------|---------------------------------------------|
| Cost and net book value | Investment in subsidiaries £'000 |
| At 1 July 2007 and 30 June 2008 | 4,450 |

The company's investments in group companies relate to:

| Subsidiaries | Holding (£1 ordinary shares) | Activity | Country of incorporation |
|------------------------------------------|------------------------------------|-------------------------------------------------------|--------------------------|
| Energybuild Holdings Limited | 100% | Intermediate holding company | Wales |
| Energybuild Limited* | 100% | Extraction of coal by drift mining and surface mining | Wales |
| Energybuild Mining Limited* | 100% | Dormant | Wales |
| Energybuild Opencast Limited* | 100% | Dormant | Wales |
| Mineral Extraction and Handling Limited* | 100% | Property | Wales |
| Joint ventures | | | |
| Energy Recovery Investments Limited* | 50% | Coal tip recovery | Wales |

All of the subsidiary companies have been consolidated.

* Indirect holding

5. DEBTORS

| | | |
|------------------------------------|-----------------------|-----------------------|
| | 2008 £'000 | 2007 £'000 |
| Amounts owed by group undertakings | 13,875 | 1,950 |
| Prepayments and accrued income | 44 | 28 |
| | <u>13,919</u> | <u>1,978</u> |

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | | |
|-----------------|-----------------------|-----------------------|
| | 2008 £'000 | 2007 £'000 |
| Other creditors | 366 | - |
| | <u>366</u> | <u>-</u> |

NOTES TO THE COMPANY FINANCIAL STATEMENTS

Year ended 30 June 2008

7. CALLED UP SHARE CAPITAL

| | 2008 £'000 | 2007 £'000 |
|-------------------------------------------------------------|---------------|---------------|
| Authorised | | |
| 50,000,000 ordinary shares of 10p each | 50,000 | 50,000 |
| Called up, allotted and fully paid | | |
| 130,000,000 (2007 – 55,000,000) ordinary shares of 10p each | 13,000 | 5,500 |

On 20 July 2006 the company acquired the whole of the share capital of Energybuild Holdings Limited in a group reconstruction in return for the issue of 44,499,000 ordinary shares of 10p.

On 20 July 2006, 10,000,000 ordinary shares were subscribed for at a price of 10p, fully paid.

On 6 August 2007, the company issued 75 million ordinary shares at 20 pence each raising £15.0 million (£9.7 million net of listing expenses and loan conversions). Of the 75 million shares issued, 18.26 million were issued to Cambrian Mining Plc in settlement of its loans of £3.6 million prior to flotation and 1.675 million were issued to Rhidian Davies in part settlement of the additional consideration in respect of the MEHL acquisition. Issue and listing costs were £1.3 million of which £1.0 million was charged to the share premium account and £0.3 million to the income statement.

8. COMBINED RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENTS ON RESERVES

| | Share capital £'000 | Share premium account £'000 | Profit and loss account £'000 | Total 2008 £'000 | Total 2007 £'000 |
|----------------------------------------------------------------------|---------------------------|--------------------------------------|----------------------------------------|------------------------|------------------------|
| Balance at 1 July | 5,500 | 821 | 123 | 6,444 | 50 |
| Loss for the financial year | - | - | (358) | (358) | (26) |
| New shares issued | 7,500 | 7,500 | - | 15,000 | 6,450 |
| Issue expenses | - | (996) | - | (996) | (75) |
| Share warrants issued in connection with share issue (note 9) | - | - | - | - | (104) |
| Credit to equity for equity-settled share-based payments (note 9) | - | - | - | - | 149 |
| Balance at 30 June | 13,000 | 7,325 | (235) | 20,090 | 6,444 |

The company has taken advantage of section 131 of the Companies Act 1985 and amounts payable above the nominal value of shares in consideration for purchasing more than 90% of the share capital of a company have been allocated to merger reserve.

9. SHARE-BASED PAYMENTS

Refer to note 24 to the group financial statements.

10. ULTIMATE PARENT

From the 1 July 2007 to the 6 August 2007 the ultimate parent company was considered to be Coal International Plc. From 6 August 2007 to the 30 June 2008 Energybuild Group Plc was considered to be the ultimate parent as neither of its largest shareholders, Cambrian Mining Plc or Coal International Plc had a controlling interest. However on the 1 August 2008 Cambrian Mining Plc acquired a 100% interest in Coal International Plc and now has a 50.6% interest in Energybuild Group Plc. Cambrian Mining Plc is now considered to be the ultimate parent.