HUNNU COAL

ABN 83 138 962 124

Annual Report

31 December 2010

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CORPORATE DIRECTORY

Directors
Mr. Matthew Wood (Chairman)
Mr. George Tumur (Managing Director)
Mr. Timothy Flavel (Executive Director)
Mr. Daniel Crennan (Non-Executive Director)

Company Secretary
Mr. Timothy Flavel

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Stock Exchange
Australian Stock Exchange
(Home Exchange: Perth, Western Australia)
ASX Code: HUN

Directors' Report

The Directors present their report for Hunnu Coal Limited ("Hunnu Coal" or "the Company") and its subsidiaries ("the Group") for the period from incorporation on 19 August 2009 to 31 December 2010.

DIRECTORS

The names, qualifications and experience of the Company's Directors in office during the period and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Mr. Matthew Wood (appointed 19 August 2009)

Chairman

Mr. Wood has over 18 years experience in the resource sector with both major and junior resource companies and has extensive experience in the technical and economic evaluation of resource projects throughout the world. Mr. Wood's expertise is in project identification, negotiation, acquisition and corporate development. Mr. Wood has an honours degree in geology from the University of New South Wales in Australia and a graduate certificate in mineral economics from the Western Australian School of Mines.

Mr. Wood is currently a director of Signature Metals Limited (appointed 19 February 2007), Voyager Resources Limited (appointed 12 June 2009), Copper Range Limited (appointed 29 May 2009), Haranga Resources Limited (appointed 2 February 2010) and Avanco Resources Limited (appointed 4 July 2007). In the last three years, Mr. Wood has been a Director of Overland Resources Limited (appointed 9 May 2005, resigned 30 June 2008), Bellamel Mining Limited (appointed 16 May 2007, resigned 31 December 2008), Laguna Resources NL (appointed 6 August 2009, resigned 8 December 2010) and Black Range Minerals Limited (appointed 27 June 2005, resigned 15 May 2009).

Mr. George Tumur (appointed 19 August 2009)

Managing Director

Mr. Tumur is a Mongolian citizen and has a Masters of Science in Mining Engineering and a Bachelor of Science in Metallurgical Engineering from the Colorado School of Mines, as well as a Technical degree in Mineral Processing from a Ukrainian Industrial Technical School. He has worked in senior management positions for various Mongolian mining companies, and most notably, recently managed the development of a large coking coal deposit with over 400 million tons in resources. This mine is currently exporting over two million tons per year to China. Mr. Tumur has an intricate understanding of the mining and legal landscape in Mongolia and has been one of the leaders in introducing western contract mining and mineral processing technologies into the Mongolian mining industry. Mr. Tumur is a director of ASX listed Voyager Resources Limited (appointed 17 September 2009).

Mr. Timothy Flavel (appointed 23 December 2009)

Executive Director

Mr. Flavel is a Chartered Accountant and Company Secretary, with more than 20 years experience in the mining industry and accounting profession both in Australia and overseas. Mr. Flavel currently assists a number of resources companies operating throughout Australia and overseas with corporate advice, financial accounting, stock exchange compliance and regulatory activities.

Mr. Flavel is currently a Director of Signature Metals Limited (appointed 20 February 2007), Voyager Resources Limited (appointed 12 June 2009), Haranga Resources Limited (appointed 15 December 2009) and Copper Range Limited (appointed 29 May 2009).

Mr. Daniel Crennan (appointed 31 December 2009)

Non-Executive Director

Mr. Crennan completed his Articles at Griffith Hack Patent and Trade Mark Attorneys, Lawyers. He also completed a research internship at the International Criminal Tribunal for former Yugoslavia in the Hague under Judge Richard May. Daniel co-authored the Law Council of Australia submission to the Joint Standing Committee on Treaties in relation to the establishment of the International Criminal Court. Whilst undertaking his law degree, Mr. Crennan studied Public International Law at Leiden University, the Netherlands. Mr. Crennan appears primarily in major commercial disputes or prosecutions conducted by regulators.

COMPANY SECRETARY

Mr. Flavel held the position of Company Secretary during the financial period.

INTERESTS IN THE SECURITIES OF THE COMPANY

As at the date of this report, the interests of the Directors and their related parties in the securities of Hunnu Coal Limited are:

Director	Ordinary Shares	Options – exercisable at $0.20 each on or before 31 December 2014	Options – exercisable at $1 each on or before 30 June 2015
Matthew Wood	7,725,001	500,000	-
Timothy Flavel	4,922,500	500,000	-
George Tumur	6,012,501	500,000	-
Daniel Crennan	215,000	-	500,000

RESULTS OF OPERATIONS

The Group's net loss after taxation attributable to the members of Hunnu Coal for the period from incorporation on 19 August 2009 to 31 December 2010 was $7,218,627.

DIVIDENDS

No dividend was paid or declared by the Company during the period and up to the date of this report.

CORPORATE STRUCTURE

Hunnu Coal Limited is a company limited by shares, which is incorporated and domiciled in Australia.

NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The principal activities of companies within the Group during the financial period were mineral exploration and examination of new resource opportunities.

REVIEW OF OPERATIONS

The Company was formed with the aim of acquiring and developing coking and thermal coal projects in Mongolia. The Company was listed on the Australian Stock Exchange on 12 February 2010. The Company operates in Mongolia through its subsidiary company Hunnu Resources LLC, a Mongolian incorporated company. The Company has majority interests in 13 coking and thermal coal projects in Mongolia and commenced exploration activities during 2010.

To date the Company has reported total JORC coal resources of 414Mt on its Unst Khudag Thermal Coal Project and the Tsant Uul Coking Coal Project. Updates to resource numbers are expected during 2011.

The Company's exploration effort during the year focussed primarily on the Unst Khudag, Tsant Uul and the Tenuun 2 Coal Projects with aggressive drilling programs undertaken on each of these projects. Additionally geophysical survey and mapping works were completed on other projects.

Following acquisition of the Unst Khudag Project in April 2010 the Company further increased its interest in the project to 80%. A total of 22,665 metres of drilling for 258 boreholes was completed during 2010. An initial JORC Code compliant reported resource of 324Mt was announced to the market during December 2010. The estimate is based on approximately 30% of available data. An updated JORC Resource is currently being calculated for the Unst Khudag Project.

A total of 28,029 metres of drilling for 187 holes was completed on the Tsant Uul project in 2010. A total of eight drilling rigs are currently operating at the site. An initial JORC Code compliant resource of 90Mt was announced to the market during February 2011. This included 61Mt in the Measured and Indicated categories (34Mt Measured, 27Mt Indicated).

Drilling rigs are currently being mobilized to test coking coal targets identified at Tsokhio and Khuree-2 Coal projects. Both projects are located in the South Gobi Province.

During 2010 the Company completed a transaction resulting in 70% ownership of the Zuun Gol and Ar Zuun Gol Coal projects. The Company plans to commence exploration on these projects in the second quarter of 2011 targeting coking coal prospects.

Review of Projects

The Company's coking and thermal coal projects are located in South and Middle Gobi regions and the Gobi-Altai and Eastern Mongolia regions. Located in the South Gobi region are the Tsant Uul, Tenuun-2, Baruun Tsokhio, Khuree-2 and Buyan coal projects. The company is currently drilling at the Tsant Uul project and will commence drilling in the next few months at the Khuree-2, Baruun Tsokhio and Buyan projects.

Tsant Uul Coal Project (Hunnu Coal 90%)
The Tsant Uul Coking Coal Project is located 40 km south of the Tavan Tolgoi coal deposit and covers over 69,000 hectares.

The average coal quality analyses of five coal seam groups from drill core samples showed:
- Total Moisture=3.99% to 6.51%
- Ash=17.54% to 39.01%
- Volatile Matters= 22.02 to 42.44%
- Fixed Carbon= 35.85% to 42.31%
- Sulfur= 0.28% to 0.65%
- Gross Qdaf= 7,008 to 7,455 kCal/kg
- FSI (Raw Coal, including ash)= 1.54 to 1.69

A total of 28,029 metres of drilling for 187 holes was completed on the Tsant Uul project. A total of seven drilling rigs are still operating on site. An initial JORC Code resource was reported to the market during February 2011 as detailed below.

JORC Category	Tsant Uul Project (Mt)
Measured	34.3
Indicated	27.7
Inferred	27.7
TOTAL	**89.7**

Tenuun-2 Coal Project (Hunnu Coal 60%)
The Tenuun-2 thermal Coal project covers approximately 30,360 hectares and has two main areas of interest in the southern and northwest parts of the licence. Extensive drilling, geological mapping and geophysical survey studies were undertaken during 2010. A total of 5,212 metres of drilling for 27 holes was completed on the Tenuun-2 project during 2010. A JORC compliant resource estimate is currently being calculated.

Unst Khudag Coal Project (Hunnu Coal 80%)
The Unst Khudag Thermal Coal Project is located in Dundgobi province, 290km from Ulaanbaatar and approximately 180km from the Mongolian railway grid. The Project consists of two exploration licenses and one mining license covering over 59,000 hectares. The Company has increased its interest in the Unst Khudag Coal project to 80% from an initial 60% at acquisition.

Exploration programmes undertaken at the Unst Khudag Coal Project have included mapping at various scales, trenching, geophysical surveys and drilling. A total of 260 drill holes have now been completed on the project for a total of 22,655 metres. The project so far includes two deposits – the Unst Khudag deposit and the Har Toirom deposit. An initial JORC Code resource for the Har Toirom deposit of 324Mt was announced to the market during December 2010. The calculation was based on approximately 30% of available data to a depth of 140 metres. An updated JORC Resource is currently being calculated for the Unst Khudag Project.

JORC Category	Unst Khudag Project Har Toirom Deposit (Mt)
Measured	18.85
Indicated	207.4
Inferred	98
TOTAL	**324.25**

Buyan Coal Project (Hunnu Coal 60%)
The Buyan Coking Coal Project is located within the giant Tavan Tolgoi Coking Coal Field and is within 10km of existing exporting coking coal mines in the South Gobi region. The Project covers approximately 76 hectares. It is expected to benefit from existing infrastructure in place and advanced construction of a rail line. A detailed exploration program is planned to commence on the project during the second quarter 2011.

Baruun Tsokhio Coal Project (Hunnu Coal 60%)
The Baruun Tsokhio Coal Project is highly prospective for both coking and thermal coals. The Project covers 38,600 hectares. Exploration is planned to commence on the project during 2011.

Khuree-2 Coal Project (Hunnu Coal 60%)
The Khuree-2 Coal Project is located in the South Gobi coal province. The Project covers approximately 28,823 hectares. Exploration to date has consisted of 14 trenches and 230 metres of drilling in 2 boreholes. Geological mapping and geophysical survey studies have also been undertaken.

Tsagaan Delger Coal Project (Hunnu Coal 70%)
The Tsagaan Delger Thermal Coal Project is located in Middle Gobi province. The Project covers approximately 10,454 hectares. The Project is at an early stage with minimal exploration to date, however further exploration has been planned for 2nd and 3rd quarter of 2011.

Delgerekh Coal Project (Hunnu Coal 70%)
The Delgerekh Thermal Coal Project is located in Middle Gobi province. The Project covers approximately 10,943 hectares. The Project has has minimal exploration to date, however further exploration has been planned for 3rd quarter of 2011.

Ar Zuun Gol/ Zuun Gol Coal Project (Hunnu Coal 70%)
The Company completed a transaction during 2010 resulting in 70% ownership of the Zuun Gol and Ar Zuun Gol Coal projects. The Company intends to commence exploration on these projects in the second quarter of 2011 targeting coking coal deposits. The projects consist of 2 contiguous exploration licences covering over 25,640 hectares. Planned work includes drilling, analysis and modelling.

Munkhhaan (Hunnu Coal 70%), Nariin Khudgiin Khundii & Havtsaliin Khudgiin Khundii (Hunnu Coal 60%)
The Project covers over 36,233 hectares. Further exploration has been planned for 2nd and 3rd quarter of 2011.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Hunnu Coal was incorporated in Australia on 19 August 2009 for the purpose of acquiring and developing coal projects in Mongolia. The Company lodged a Prospectus with ASIC in January 2010, offering 100,000,000 Shares at an issue price of 20 cents each to raise $20,000,000. Hunnu Coal successfully listed on the Australian stock Exchange on 12 February 2010.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 8 March 2011, the Company announced that it had signed a Strategic Shareholder Agreement and Memorandum of Understanding to form a strategic partnership with Banpu Public Company Limited through its 100% owned subsidiary Banpu Minerals (Singapore) Pte Ltd. Pursuant to the terms of the Agreement Banpu Minerals (Singapore) Pte Ltd acquired 30,000,000 shares in Hunnu through a private placement at $1.50 per share for a total consideration of $45,000,000.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Directors have excluded from this report any further information on the likely developments in the operations of the Company and the expected results of those operations in future financial years, as the Directors believe that it would be speculative and prejudicial to the interests of the Company.

ENVIRONMENTAL REGULATIONS AND PERFORMANCE

The operations of the Group are presently subject to environmental regulation under the laws of the Commonwealth of Australia and Mongolia. The Group is at all times in full environmental compliance with the conditions of its licences.

SHARE OPTIONS

As at the date of this report, there were 19,300,000 unissued ordinary shares under options (19,000,000 options at the reporting date). The details of the options are as follows:

Number	Exercise Price $	Expiry Date
1,000,000	$0.20	31 December 2011
1,000,000	$0.40	31 December 2011
15,000,000	$0.20	31 December 2014
2,000,000	$1.00	30 June 2015
300,000	$1.25	28 February 2016
19,300,000		

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

No options expired or were exercised during the financial period or since the end of the financial period.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has made an agreement indemnifying all the Directors and officers of the Company against all losses or liabilities incurred by each Director or officer in their capacity as Directors or officers of the Company to the extent permitted by the Corporations Act 2001. The indemnification specifically excludes wilful acts of negligence. The Company paid insurance premiums in respect of Directors' and Officers' Liability Insurance contracts for current officers of the Company, including officers of the Company's controlled entities. The liabilities insured are damages and legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group. The total amount of insurance premiums paid has not been disclosed due to confidentiality clauses in the contracts.

DIRECTORS' MEETINGS

During the financial period, in addition to regular Board discussions, the number of meetings of directors held during the period and the number of meetings attended by each director were as follows:

Director	Number of Meetings Eligible to Attend	Number of Meetings Attended
Matthew Wood	3	3
Timothy Flavel	3	3
George Tumur	3	3
Daniel Crennan	3	3

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the period.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Hunnu Coal Limited support and have adhered to the principles of sound corporate governance. The Board recognises the recommendations of the Australian Securities Exchange Corporate Governance Council, and considers that Hunnu Coal is in compliance with those guidelines to the extent possible, which are of importance to the commercial operation of a junior listed resources company. During the financial period, shareholders continued to receive the benefit of an efficient and cost-effective corporate governance policy for the Company. The Company's Corporate Governance Statement and disclosures are contained elsewhere from page 10 to page 12 in the annual report.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Section 307C of the Corporations Act 2001 requires the Company's auditors to provide the Directors of Hunnu Coal with an Independence Declaration in relation to the audit of the annual financial report. A copy of that declaration is included on page 39 of this report.

There were no non-audit services provided by the Company's auditor.

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for directors and executives of Hunnu Coal Limited in accordance with the requirements of the Corporation Act 2001 and its Regulations. For the purpose of this report, Key Management Personnel (KMP) of the Company and the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the Company, and includes the executives in the Company and the Group receiving the highest remuneration.

Details of Key Management Personnel

Directors

Mr. Matthew Wood	Chairman (appointed 19 August 2009)
Mr. Timothy Flavel	Executive Director, Company Secretary (appointed 23 December 2009)
Mr. George Tumur	Executive Director (appointed 19 August 2009)
Mr. Daniel Crennan	Non-Executive Director (appointed 31 December 2009)
Executives	
Mr. Angus Caithness	Chief Financial Officer (appointed 30 August 2010)
Mr. Batjargal Tsog	Chief Operating Officer (appointed 25 May 2010)

There are no changes to the Key Management Personnel after the reporting date and before the date of signing the report.

Remuneration Policy

The Board is responsible for determining and reviewing compensation arrangements for the Directors and management. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. The Company does not link the nature and amount of the emoluments of such officers to the Company's financial or operational performance. The expected outcome of this remuneration structure is to retain and motivate Directors and executive team.

As part of its Corporate Governance Policies and Procedures, the Board has adopted a formal Remuneration Committee Charter. Due to the current size of the Company and number of directors, the Board has elected not to create a separate Remuneration Committee but has instead decided to undertake the function of the Committee as a full Board under the guidance of the formal charter.

The rewards for Directors' have no set or pre-determined performance conditions or key performance indicators as part of their remuneration due to the current nature of the business operations. The Board determines appropriate levels of performance rewards as and when they consider rewards are warranted. The Company has no policy on executives and directors entering into contracts to hedge their exposure to options or shares granted as part of their remuneration package.

The table below shows the performance of the Group as measured by loss per share since incorporation on 19 August 2009:

As at 31 December	2010
Loss per share (cents)	(5.87)

Details of the nature and amount of each element of the emolument of each Director and Executive of the Company for the financial period from incorporation on 19 August 2009 to 31 December 2010 are as follows:

	Short Term				Post employment		
2010	Base Salary & Fees $	Director Fees $	Consulting Fees $	Share Based Payments (Shares and Options) $	Superannuation $	Total $	Option related %
Directors							
Matthew Wood	-	-	294,880	69,200	-	364,080	19.0
Timothy Flavel	-	-	160,000	69,200	-	229,200	30.2
George Tumur	-	-	270,977	69,200	-	340,177	20.3
Daniel Crennan	-	40,000	-	153,419	-	193,419	79.3
Executives						-	
Angus Caithness	-	-	71,288	64,290	-	135,578	47.4
Batjargal Tsog	-	-	84,241	61,827	-	146,068	42.3
Total	-	40,000	881,386	487,136	-	1,408,522	

There were no other executive officers of the Company during the financial period ended 31 December 2010. The share options issued as part of the remuneration to Directors and executives are not subject to a performance hurdle as these options are issued as a form of retention bonus and incentive to contribute to the creation of shareholder wealth. On resignation, any unvested options will be forfeited.

The terms and conditions of each grant of options affecting remuneration in this or future reporting periods are as follows:

2010	Grant Date	Vesting Date	Grant Number	Expiry date/last exercise date	Fair Value per option at grant date	Exercise price per option	Total value granted $	Vested	% vested
Directors									
Matthew Wood	31/12/2009	31/12/2010	500,000	31/12/2014	0.138	$0.20	69,200	500,000	100
Timothy Flavel	31/12/2009	31/12/2010	500,000	31/12/2014	0.138	$0.20	69,200	500,000	100
George Tumur	31/12/2009	31/12/2010	500,000	31/12/2014	0.138	$0.20	69,200	500,000	100
Daniel Crennan	30/07/2010	01/07/2011	500,000	30/06/2015	0.612	$1.00	306,000	-	
Executives									
Angus Caithness	01/07/2010	01/07/2011	200,000	30/06/2015	0.543	$1.00	108,600	-	-
	01/07/2010	01/07/2012	200,000	30/06/2015	0.559	$1.00	111,800	-	-
Batjargal Tsog	01/07/2010	01/07/2011	150,000	30/06/2015	0.543	$1.00	81,450	-	-
	01/07/2010	01/07/2012	150,000	30/06/2015	0.559	$1.00	83,850	-	-
Total			2,700,000				899,300	1,500,000	

There were no alterations to the terms and conditions of options granted as remuneration since their grant date. There were no forfeitures during the period. No options were exercised for the period ended 31 December 2010.

Executive Directors

The Managing Director, Mr. George Tumur is employed under a consulting services agreement, which commenced on 1 September 2009 for a period of 24 months unless extended by both parties. Under the agreement Mr. Tumur is to be paid an annual fee of US$120,000 in year 1 and AU$300,000 in year 2. Mr. Tumur may terminate the agreement at any time by giving three months notice in writing, or a shorter period of notice as may be agreed. The Company may terminate the agreement by giving three months written notice or by paying an amount equivalent to three months fees (based on agreed consulting fee) or without notice in the case of serious misconduct, at which time Mr. Tumur would be entitled to that portion of consulting fees services arising up to the date of termination. No additional Directors fees will be paid to Mr. Tumur in addition to the fees paid under the consulting agreement.

The Chairman, Mr. Matthew Wood is employed under a consulting services agreement, which commenced on 1 September 2009 for a period of 24 months unless extended by both parties. Under the agreement Mr. Wood is to be paid an annual fee of $150,000 in year 1 and $300,000 in year 2. Mr. Wood may terminate the agreement at any time by giving three months notice in writing, or a shorter period of notice as may be agreed. The Company may terminate the agreement by giving three months written notice or by paying an amount equivalent to three months fees (based on agreed consulting fee) or without notice in the case of serious misconduct, at which time Mr. Wood would be entitled to that portion of consulting fees services arising up to the date of termination. No additional Directors fees will be paid to Mr. Wood in addition to the fees paid under the consulting agreement.

Mr. Timothy Flavel, an Executive Director of the Company, is paid a consulting fee on a monthly basis. Mr. Flavel's services may be terminated by either party at any time.

Non-Executive Director

The Non-Executive Chairman, Mr. Daniel Crennan is paid a consulting fee on a monthly basis. His consulting services may be terminated by either party at any time.

The aggregate remuneration for Non-Executive Directors has been set at an amount not to exceed $500,000 per annum. This amount may only be increased with the approval of Shareholders at a general meeting.

Other Executive Key Management Personnel

The Chief Financial Officer, Mr. Angus Caithness is employed under a consulting services agreement, which commenced on 30 August 2010 for a period of 24 months unless extended by both parties. Under the agreement Mr. Caithness was to be paid an annual fee of $190,000, however this was increased to $240,000 in November 2010. Mr. Caithness may terminate the agreement at any time by giving three months notice in writing, or a shorter period of notice as may be agreed. The Company may terminate the agreement by giving three months written notice or by paying an amount equivalent to three months fees (based on agreed consulting fee) or without notice in the case of serious misconduct, at which time Mr. Caithness would be entitled to that portion of consulting fees services arising up to the date of termination.

The Chief Operating Officer, Mr. Batjargal Tsog is employed under a consulting services agreement, which commenced on 25 May 2010 for a period of 24 months unless extended by both parties. Under the agreement Mr. Tsog was to be paid an annual fee of US$120,000, however this was increased to US$240,000 in November 2010. Mr. Tsog may terminate the agreement at any time by giving three months notice in writing, or a shorter period of notice as may be agreed. The Company may terminate the agreement by giving three months written notice or by paying an amount equivalent to three months fees (based on agreed consulting fee) or without notice in the case of serious misconduct, at which time Mr. Tsog would be entitled to that portion of consulting fees services arising up to the date of termination.

Service Agreements

The Company entered a service agreement for certain administrative services and office space for a term of two years with Garrison Capital Pty Ltd, a company of which Mr. Wood and Mr. Flavel are Directors. The Company is required to give three months written notice to terminate the agreement.

END OF REMUNERATION REPORT

Signed on behalf of the Board in accordance with a resolution of the Directors.

Matthew Wood
Chairman
17 March 2011

Competent Person Statements

The information in this report that relates to Mineral Resources and Exploration Results are based on information compiled by Mr. George Tumur who is a Member of the Australasian Institute of Mining and Metallurgy. Mr. Tumur is the Managing Director of Hunnu Coal Limited. Mr. Tumur has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr. Tumur consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The Board of Directors of Hunnu Coal Limited ("Hunnu Coal" or "the Company") is responsible for corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Company has established a set of corporate governance policies and procedures and these can be found within the Company's Corporate Governance Plan and Trading Policy located on the Company's website: www.hunnucoal.com. These are based on the Australian Securities Exchange Corporate Governance Council's (the Council's) "Principles of Good Corporate Governance and Best Practice Recommendations" (the Recommendations). In accordance with the Council's recommendations, the Corporate Governance Statement must now contain certain specific information and must disclose the extent to which the Company has followed the guidelines during the period. Where a recommendation has not been followed, that fact must be disclosed, together with the reasons for the departure.

Structure of the Board

The skills, experience and expertise relevant to the position of Director held by each Director in office at the date of the annual report is included in the Directors' Report. Directors of the Company are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

The Board has accepted the following definition of an Independent Director:

"An Independent Director is a Director who is not a member of management, is a Non-Executive Director and who:

- is not a substantial shareholder (under the meaning of Corporations Law) of the Company or an officer of, or otherwise associated, directly or indirectly, with a substantial shareholder of the Company;
- has not within the last three years been employed in an executive capacity by the Company or another Company member, or been a Director after ceasing to hold any such employment;
- is not a principal of a professional adviser to the Company or another Company member;
- is not a significant consultant, supplier or customer of the Company or another Company member, or an officer of or otherwise associated, directly or indirectly, with a significant consultant, supplier or customer;
- has no significant contractual relationship with the Company or another Company member other than as a Director of the Company;
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company."

In accordance with the definition of independence above, Mr. Daniel Crennan is the only Independent Director. Accordingly, a majority of the Board is not considered independent.

There are procedures in place, as agreed by the Board, to enable Directors to seek independent professional advice on issues arising in the course of their duties at the Company's expense. The term in office held by each Director in office at the date of this report is as follows:

Name	Term in office
Matthew Wood	19 months
Timothy Flavel	15 months
George Tumur	19 months
Daniel Crennan	15 months

Nomination Committee

The Board has formally adopted a Nomination Committee Charter but given the present size of the Company, has not formed a separate Committee. Instead the function will be undertaken by the full Board in accordance with the policies and procedures outlined in the Nomination Committee Charter. At such time when the Company is of sufficient size a separate Nomination Committee will be formed.

Audit and Risk Management Committee

The Board has formally adopted an Audit and Risk Management Committee Charter but given the present size of the Company, has not formed a separate Committee. Instead the function of the Committee will be undertaken by the full Board in accordance with the policies and procedures outlined in the Audit and Risk Management Committee Charter. At such time when the Company is of sufficient size a separate Audit and Risk Management Committee will be formed.

It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes both internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial and non financial-information. It is the Board's responsibility for the establishment and maintenance of a framework of internal control of the Company.

Performance

The Board of Hunnu Coal conducts its performance review of itself on an ongoing basis throughout the period. The small size of the Company and hands on management style requires an increased level of interaction between directors and executives throughout the period. Board members meet amongst themselves both formally and informally. The Board considers that the current approach that it has adopted with regard to the review of its performance provides the best guidance and value to the Company.

Remuneration

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality board by remunerating directors fairly and appropriately with reference to relevant employment market conditions. The Company does not link the nature and amount of executive and directors' emoluments to the Company's financial and operational performance.

For details of remuneration of Directors and Executives please refer to the Directors' Report.

The Board is responsible for determining and reviewing compensation arrangements for executive directors. The Board has formally adopted a Remuneration Committee Charter however given the present size of the Company, has not formed a separate Committee. Instead the function is undertaken by the full Board in accordance with the policies and procedures outlined in the Remuneration Committee Charter. At such time when the Company is of sufficient size a separate Remuneration Committee will be formed.

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

Trading Policy

Under the Company's securities trading policy, an executive or director must not trade in any securities of the Company at any time when they are in possession of unpublished, price-sensitive information in relation to those securities.

Before commencing to trade, an executive must first obtain the approval of the Managing Director to do so and a Director must first obtain approval of the Chairman. Only in exceptional circumstances will approval be forthcoming inside of the period commencing on the tenth day of the month in which the Company is required to release its Quarterly Activities Report and Quarterly Cashflow Report and ending two days following the date of that release.

Risk

The Board has continued its proactive approach to risk management. The identification and effective management of risk, including calculated risk-taking is viewed as an essential part of the Company's approach to creating long-term shareholder value.

In recognition of this, the Board determines the Company's risk profile and is responsible for overseeing and approving the risk management strategy and policies, internal compliance and internal control.

The Board oversees an annual assessment of the effectiveness of risk management and internal compliance and control. The tasks of undertaking and assessing risk management and internal control effectiveness are delegated to management through the CFO, including responsibility for the day to day design and implementation of the Company's risk management and internal control system. Management reports to the Board on the Company's key risks and the extent to which it believes these risks are being adequately managed.

CFO and Managing Director

In accordance with section 295A of the *Corporations Act*, the CFO and Managing Director have provided a written statement to the Board that:

- Their view provided on the Company's financial report is founded on a sound system of risk management and internal control compliance and control which implements the financial polices adopted by the Board
- The Company's risk management and internal compliance and control system is operating effectively in all material respects

The Board agrees with the views of the ASX on this matter and notes that due to its nature, internal control assurance from the CFO and Managing Director can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in control procedures.

Shareholder Communication Policy

Pursuant to Principle 6, the Company's objective is to promote effective communication with its shareholders at all times.

Hunnu Coal Limited is committed to:

- Ensuring that shareholders and the financial markets are provided with full and timely information
- Complying with continuous disclosure obligations contained in the ASX listing rules and the *Corporations Act* in Australia
- Communicating effectively with its shareholders and making it easier for shareholders to communicate with the Company

To promote effective communication with shareholders and encourage effective participation at general meetings, information is communicated to shareholders:

- Through the release of information to the market via the ASX
- Through the distribution of the annual report and notices of annual general meeting
- Through shareholder meetings and investor relations presentations
- Through letters and other forms of communications directly to shareholders
- By posting relevant information on the Company's website: www.hunnucoal.com

The external auditors are required to attend the annual general meeting and are available to answer any shareholder questions about the conduct of the audit and preparation of the audit report.

Corporate Governance Compliance

During the financial period Hunnu Coal has complied with each of the 8 Corporate Governance Principles and the corresponding Best Practice Recommendations, other than in relation to the matters specified below:

Best Practice Recommendation	Notification of Departure	Explanation of Departure
2.1	The Company does not have a majority of independent directors	The Directors consider that the current structure and composition of the Board is appropriate to the size and nature of operations of the Company.
2.2	The Chairman is not an independent director	The Directors consider that the current structure and composition of the Board is appropriate to the size and nature of operations of the Company.
2.4	The Group does not have a Nomination Committee	The role of the Nomination Committee has been assumed by the full Board operating under the Nomination Committee Charter adopted by the Board.
4.1 & 4.2	The Group does not have an Audit and Risk Management Committee	The role of the Audit and Risk Management Committee has been assumed by the full Board operating under the Audit and Risk Management Committee Charter adopted by the Board.
8.1	The Group does not have a Remuneration Committee	The role of the Remuneration Committee has been assumed by the full Board operating under the Remuneration Committee Charter adopted by the Board.

Consolidated Statement of Comprehensive Income *for the period from incorporation on 19 August 2009 to 31 December 2010*

	Note	Incorporation to 31 December 2010 $
Continuing operations		
Interest revenue		523,283
Other income		58,622
		581,905
Serviced office and outgoings		(300,039)
Depreciation and amortisation		(90,187)
Employee benefits expense		(1,762,865)
Foreign exchange loss		(417,820)
Impairment of exploration expenditure		(730,928)
Rental expenses		(285,675)
Professional and consulting fees		(528,355)
Share based payments expense		(2,186,797)
Travel expenses		(745,923)
Other expenses		(762,695)
Loss from continuing operations before income tax		(7,229,379)
Income tax benefit	4	-
Loss from continuing operations after income tax		**(7,229,379)**
Net loss for the period		**(7,229,379)**
Other comprehensive income		
Foreign currency translation		17,356
Other comprehensive income for the period, net of tax		**17,356**
Total comprehensive loss for the period		**(7,212,023)**
Loss for the period attributable to:		
Owners of Hunnu Coal Limited		(7,218,627)
Non-controlling interests		(10,752)
		(7,229,379)
Comprehensive loss for the period attributable to:		
Owners of Hunnu Coal Limited		(7,201,271)
Non-controlling interests		(10,752)
		(7,212,023)
Loss per share attributable to ordinary equity holders of Hunnu Coal Limited		
Basic loss per share (cents)	21	(5.87)
Diluted loss per share (cents)	21	(5.87)

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

Consolidated Statement of Financial Position *as at 31 December 2010*

	Note	2010 $
Current Assets		
Cash and cash equivalents	5	32,941,336
Other receivables	6	430,177
Other current assets	7	217,220
Total Current Assets		33,588,733
Non-Current Assets		
Other receivables	8	186,050
Plant and equipment	9	970,776
Deferred exploration and evaluation expenditure	10	25,302,871
Total Non-Current Assets		26,459,697
Total Assets		60,048,430
Current Liabilities		
Trade and other payables	11	915,194
Total Current Liabilities		915,194
Total Liabilities		915,914
Net Assets		**59,133,236**
Equity		
Issued capital	12	59,731,438
Reserves	13	2,856,164
Accumulated losses	14	(7,218,627)
Capital and reserves attributable to equity holders of Hunnu Coal Limited		55,368,975
Non-controlling interest		3,764,261
Total Equity		**59,133,236**

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

Consolidated Statement of Cash Flows *for the period from incorporation on 19 August 2009 to 31 December 2010*

	Note	Incorporation to 31 December 2010 $
Cash flows from operating activities		
Payments to suppliers and employees		(3,651,795)
Interest received		523,283
Other receipts		58,622
Net cash used in operating activities	5	(3,069,890)
Cash flows from investing activities		
Purchase of plant and equipment		(1,065,373)
Payments for exploration expenditure and acquisition costs		(20,829,725)
Net cash used in investing activities		(21,895,098)
Cash flows from financing activities		
Proceeds from issue of shares		61,800,352
Payments for share issue costs		(3,619,914)
Net cash provided by financing activities		58,180,438
Net increase in cash held		33,215,450
Net foreign exchange differences		(274,114)
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at end of the period	5	32,941,336

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

Consolidated Statement of Changes in Equity *for the period from incorporation on 19 August 2009 to 31 December 2010*

	Issued capital $	Accumulated Losses $	Share based payments reserve $	Foreign currency translation reserve $	Owners of the parent $	Non-controlling interests $	Total $
Balance at 19 August 2009	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loss for the period	-	(7,218,627)	-	-	(7,218,627)	(10,752)	(7,229,379)
Other comprehensive income	-	-	-	17,356	17,356	-	17,356
Total comprehensive loss for the period	-	(7,218,627)	-	17,356	(7,201,271)	(10,752)	(7,212,023)
Transactions with owners in their capacity as owners							
Shares issued for cash on incorporation	2	-	-	-	2	-	2
Issue of seed capital	1,800,350	-	-	-	1,800,350	-	1,800,350
Shares issued as part consideration for acquisition	1,551,000	-	-	-	1,551,000	-	1,551,000
Shares issued pursuant to prospectus	20,000,000	-	-	-	20,000,000	-	20,000,000
Shares issued pursuant to placement	40,000,000	-	-	-	40,000,000	-	40,000,000
Share based payments	-	-	2,838,808	-	2,838,808	-	2,838,808
Costs of issue	(3,619,914)	-	-	-	(3,619,914)	-	(3,619,914)
Acquisition of subsidiaries	-	-	-	-	-	3,775,013	3,775,013
Balance at 31 December 2010	**59,731,438**	**(7,218,627)**	**2,838,808**	**17,356**	**55,368,975**	**3,764,261**	**59,133,236**

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

1. Corporate Information

The financial report of Hunnu Coal Limited ("Hunnu Coal" or "the Company") for the period from incorporation on 19 August 2009 to 31 December 2010 was authorised for issue in accordance with a resolution of the directors on 16 March 2011.

Hunnu Coal Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange ("ASX").

The nature of the operations and the principal activities of the Company are described in the Directors' Report.

2. Summary of Significant Accounting Policies

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars.

Comparatives

The Company was incorporated on 19 August 2009 and this is the first annual report, therefore there are no comparatives.

(b) Compliance Statement

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Hunnu Coal Limited ('the Company') and its subsidiaries as at 31 December each year ('the Group').

Subsidiaries are those entities over which the Company has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a Company controls another entity. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-company transactions have been eliminated in full. Unrealised losses are also eliminated unless costs cannot be recovered.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position respectively.

(d) New accounting standards and interpretations issued not yet effective

The following applicable accounting standards and interpretations have been issued or amended but are not yet effective. These standards have not been adopted by the Group for the period ended 31 December 2010:

Reference	Title	Summary	Impact on Group's financial report	Application date for Group
AASB 9 and 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: ▪ two categories for financial assets being amortised cost or fair value ▪ removal of the requirement to separate embedded derivatives in financial assets ▪ strict requirements to determine which financial assets can be classified as amortised cost or fair value, Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows ▪ an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition ▪ reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes ▪ changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income	The Group has not yet determined the impact on the Group's financial statements.	1 January 2013
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. The amendment to AASB 124 clarifies and simplifies the definition of a related party as well as providing some relief for government-related entities (as defined in the amended standard) to disclose details of all transactions with other government-related entities (as well as with the government itself)	The Group has not yet determined the impact on the Group's financial statements.	1 January 2011

Reference	Title	Summary	Impact on Group's financial report	Application date for Group
AASB 2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]	Limits the scope of the measurement choices of non-controlling interest at proportionate share of net assets in the event of liquidation. Other components of NCI are measured at fair value. Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated. Eliminates the requirement to restate financial statements for a reporting period when significant influence or joint control is lost and the reporting entity accounts for the remaining investment under AASB 139. This includes the effect on accumulated foreign exchange differences on such investments.	The Group has not yet determined the impact on the Group's financial statements.	1 January 2011
AASB 2010-4, 2010 -5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.	The Group has not yet determined the impact on the Group's financial statements.	1 January 2011
AASB 124 (Revised)	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: • the definition now identifies a subsidiary and an associate with the same investor as related parties of each other; • entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and • the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other. A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.	The Group has not yet determined the impact on the Group's financial statements.	1 January 2011

(e) Foreign Currency Translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional and presentation currency of Hunnu Coal Limited is Australian dollars. The functional currency of the overseas subsidiaries is Mongolian Tugrik.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(iii) Group entities

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are taken to foreign currency translation reserve.

When a foreign operation is sold, a proportionate share of such exchange differences would be transferred out of equity and recognised in the statement of comprehensive income.

(f) Plant and Equipment

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Repairs and maintenance expenditure is charged to the statement of comprehensive income during the financial period in which it is incurred.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the Group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	*Depreciation Rate*
Motor vehicles	10%
Plant and equipment	10-20%
Computer equipment and software	30-40%
Furniture, fixtures and fittings	10%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

Derecognition

Additions of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in the statement of comprehensive income.

(g) Impairment of non financial assets other than goodwill

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, it makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets of the Group and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

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. Impairment losses relating to continuing operations are recognised in the statement of comprehensive income.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(h) Exploration expenditure

Exploration and evaluation expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure. Each area of interest is limited to a size related to a known or probable mineral resource capable of supporting a mining operation.

Exploration and evaluation expenditure for each area of interest is carried forward as an asset provided that one of the following conditions is met:

- such costs are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or

- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

Expenditure which fails to meet the conditions outlined above is written off, furthermore, the directors regularly review the carrying value of exploration and evaluation expenditure and make write downs if the values are not expected to be recoverable.

Identifiable exploration assets acquired are recognised as assets at their cost of acquisition. Exploration assets acquired are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions referred to above is met.

Exploration and evaluation expenditure incurred subsequent to acquisition in respect of an exploration asset acquired, is accounted for in accordance with the policy outlined above for exploration expenditure incurred by or on behalf of the entity.

When an area of interest is abandoned, any expenditure carried forward in respect of that area is written off.

Expenditure is not carried forward in respect of any area of interest unless the Group's right of tenure to that area of interest is current.

(i) Other Receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(j) Cash and Cash Equivalents

Cash and cash equivalents in the statement of financial position include cash on hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown as current liabilities in the statement of financial position. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as described above and bank overdrafts.

(k) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money, and where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(l) Trade and other payables

Liabilities for trade creditors and other amounts are measured at amortised cost, which is the fair value of the consideration to be paid in the future for goods and services received that are unpaid, whether or not billed to the Group.

(m) Income Tax

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

Deferred income tax is provided for on all temporary differences at balance date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. No deferred income tax will be recognised from the initial recognition of goodwill or of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance date and only recognised to the extent that sufficient future assessable income is expected to be obtained.

No deferred income tax liabilities or assets will be recognised in respect of temporary differences between the carrying value and tax bases of investments in controlled entities if the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the near future.

Current and deferred income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

(n) Issued Capital

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

(o) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue is capable of being reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest revenue

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(p) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of Hunnu Coal Limited.

(q) Investments in controlled entities

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. Subsequent to the initial measurement, investments in controlled entities are carried at cost less accumulated impairment losses.

(r) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit/loss attributable to equity holders of the Company, excluding any costs of servicing equity other than dividends, by the weighted average number of ordinary shares, adjusted for any bonus elements.

Diluted earnings per share

Diluted earnings per share is calculated as net profit/loss attributable to members of the Company, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus elements.

(s) Goods and Services Tax and Value Added Tax

Revenues, expenses and assets are recognised net of the amount of GST/VAT, except where the amount of GST/VAT incurred is not recoverable from the Government. In these circumstances the GST/VAT is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST/VAT.

The net amount of GST/VAT recoverable from, or payable to, the Government is included as part of receivables or payables in the statement of financial position. Cash flows are presented in the cash flow statement on a gross basis, and the GST/VAT component of investing and financing activities, which is recoverable from, or payable to, the Government, are classified as part of the operating cash flows.

(t) Share based payment transactions

The group provides benefits to individuals acting as, and providing services similar to employees (including Directors) of the group in the form of share based payment transactions, whereby individuals render services in exchange for shares or rights over shares (‘equity settled transactions’).

There is currently an Employee Share Option Plan (ESOP) in place, which provides benefits to employees (including Directors) and individuals providing services similar to those provided by an employee.

The cost of these equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black Scholes formula taking into account the terms and conditions upon which the instruments were granted, as discussed in note 23.

In valuing equity settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Hunnu Coal Limited ('market conditions').

The cost of the equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of the market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The charge or credit for a period represents the movement in cumulative expense recognised at the beginning and end of the period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of the modification.

Where an equity settled award is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognised for the award is recognised immediately. However if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The cost of equity-settled transactions with non-employees is measured by reference to the fair value of goods and services received unless this cannot be measured reliably, in which case the cost is measured by reference to the fair value of the equity instruments granted.

The dilutive effect, if any, of outstanding options is reflected in the computation of the loss per share (see note 21).

(u) Critical accounting estimates and judgements

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

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Capitalised exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors which could impact the future recoverability include the level of measured, indicated and inferred mineral resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent that it is determined in the future that this capitalised expenditure should be written off, this will reduce profits and net assets in the period in which this determination is made.

Share based payment transactions
The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black Scholes formula taking into account the terms and conditions upon which the instruments were granted, as discussed in note 23.

3. Segment Information

For management purposes, the Group is organised into one main operating segment, which involves exploration for coal. All of the Group's activities are interrelated, and discrete financial information is reported to the Board (Chief Operating Decision Makers) as a single segment.

Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole. The accounting policies used for preparing internal reports are consistent with the policies adopted in note 2.

The Group operates in Australia and Mongolia. As at 31 December 2010, all non-current assets are in Mongolia.

	Consolidated 2010 $
4. Income Tax	
(a) Income tax benefit	
Major component of tax benefit for the period:	
Current tax	-
Deferred tax	-
	-

(b) Numerical reconciliation between aggregate tax benefit recognised in the statement of comprehensive income and tax benefit calculated per the statutory income tax rate.

A reconciliation between the tax benefit and the product of accounting loss before income tax multiplied by the Company's applicable tax rate is as follows:

	Consolidated 2010 $
Loss from continuing operations before income tax benefit	(7,229,379)
Tax at the group rate of 30%	(2,168,814)
Share based payments	851,642
Others	549,957
Income tax benefit not brought to account	767,215
Income tax benefit	-

(c) Deferred tax

The following deferred tax balances have not been bought to account:

	Consolidated 2010 $
Liabilities	
Deferred tax liability recognised	-
Assets	
Losses available to offset against future taxable income	386,289
Share issue costs deductible over five years	680,797
Accrued expenses	7,500
Foreign exchange loss	360,972
Deferred tax assets offset against deferred tax liabilities	-
Deferred tax asset not recognised	**1,435,558**

(d) Unused tax losses

	Consolidated 2010 $
Unused tax losses	1,287,630
Potential tax benefit not recognised at 30%	**386,289**

The benefit for tax losses will only be obtained if:

(i) the Group derives future assessable income in the relevant country of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;

(ii) the Group continues to comply with the conditions for deductibility imposed by tax legislation in the relevant country; and

(iii) no changes in tax legislation in the relevant country, adversely affects the Group in realising the benefit from the deductions for the losses.

		Consolidated 2010 $
5.	**Cash and Cash Equivalents**	
	Reconciliation of Cash	
	Cash comprises of:	
	Cash at bank	**32,941,336**
	Reconciliation of operating loss after tax to net the cash flows from operations	
	Loss after tax	(7,229,379)
	Non cash items	
	Share based payment	2,838,808
	Depreciation and impairment charges	90,187
	Impairment of exploration and evaluation expenditure	730,928
	Foreign exchange losses	417,820
	Change in assets and liabilities	
	Trade and other receivables	(833,447)
	Trade and other payables	915,193
	Net cash outflow from operating activities	**(3,069,890)**

Non-cash financing activities include share-based payments as discussed in note 23.

6.	**Other Receivables – Current**	
	GST receivable	209,865
	Other receivables	220,312
		430,177

Other debtors and goods and services taxes are non-interest bearing and generally receivable on 30 day terms. They are neither past due nor impaired. The amount is fully collectible. Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

7.	**Other Current Assets**	
	Prepayments	131,259
	Other	85,961
		217,220
8.	**Other Receivables – Non-current**	
	VAT receivable	186,050
		186,050
9.	**Plant and Equipment**	
	Motor Vehicles	
	Opening balance	-
	Additions	633,587
	Disposals	-
	Depreciation	(29,638)
	Net exchange differences on translation	(1,449)
	Closing balance	602,500
	Plant and Equipment	
	Opening balance	-
	Additions	81,435
	Disposals	-
	Depreciation	(2,213)
	Net exchange differences on translation	(108)
	Closing balance	79,114

	Consolidated 2010 $
Computer Equipment and Software	
Opening balance	-
Additions	277,086
Disposals	-
Depreciation	(55,271)
Net exchange differences on translation	(2,703)
Closing balance	219,112
Furniture, Fixtures and Fittings	
Opening balance	-
Additions	73,265
Disposals	-
Depreciation	(3,065)
Net exchange differences on translation	(150)
Closing balance	70,050
Total Plant and Equipment	**970,776**

10. Deferred Exploration and Evaluation Expenditure

Opening balance	-
Exploration and evaluation expenditure incurred during the period	10,830,335
Acquisition of exploration tenements	15,513,448
Net exchange differences on translation	(309,984)
Impairment of exploration expenditure	(730,928)
Closing balance	25,302,871

During the financial period, the Group acquired a number of tenements in Mongolia. These acquisitions did not constitute business combinations and the cost of the acquisitions have been allocated to the individual identifiable assets and liabilities on the basis of their respective fair values.

The ultimate recoupment of costs carried forward for exploration expenditure is dependent on the successful development and commercial exploitation or sale of the respective mining areas.

11. Trade and Other Payables

Trade payables	751,239
Accruals	163,901
Other payables	54
	915,194

Trade creditors and other creditors and are non-interest bearing and generally payable on 30 day terms. Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

12. Issued Capital

(a) Issued and paid up capital

Ordinary shares fully paid	59,731,438

	2010 Number of shares	2010 $
(b) Movements in shares on issue		
Opening balance	-	-
Shares issued for cash on incorporation	2	2
Issue of seed capital	58,000,000	1,800,350
Issue of shares to acquire tenement rights[1]	2,500,000	250,000
Issue of shares pursuant to prospectus	100,000,000	20,000,000
Issue of shares to acquire tenement rights[2]	600,000	456,000
Shares issued pursuant to placement – Tranche 1	24,000,000	19,200,000
Shares issued pursuant to placement – Tranche 2	26,000,000	20,800,000
Issue of shares to acquire tenement rights[3]	1,000,000	845,000
Costs of issue	-	(3,619,914)
Closing balance	**212,100,002**	**59,731,438**

[1] Shares issued to acquire 60% of the Tenuun-2, Khuree-2, Nariin and Khavtsal Tenements.
[2] Shares issued to acquire 60% of the Buyan Coal Tenement.
[3] Shares issued as part of the consideration to acquire 70% of the Ar Zuun Gol and Zuun Gol Tenements.

(c) Ordinary shares

The Company does not have authorised capital nor par value in respect of its issued capital. Ordinary shares have the right to receive dividends as declared and, in the event of a winding up of the Company, to participate in the proceeds from sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or proxy, at a meeting of the Company.

(d) Capital risk management

The Group's capital comprises share capital, reserves less accumulated losses amounting to a net equity of $59,133,236 at 31 December 2010. The Group manages its capital to ensure its ability to continue as a going concern and to optimise returns to its shareholders. The Group was ungeared at period end and not subject to any externally imposed capital requirements. Refer to note 22 for further information on the Group's financial risk management policies.

(e) Share options

At 31 December 2010, there were 19,000,000 unissued ordinary shares under options. The details of the options are as follows:

Number	Exercise Price $	Expiry Date
1,000,000	$0.20	31 December 2011
1,000,000	$0.40	31 December 2011
15,000,000	$0.20	31 December 2014
2,000,000	$1.00	30 June 2015
19,000,000		

No option holder has any right under the options to participate in any other share issue of the company or any other entity. Information relating to the Hunnu Coal Limited's Employee Share Option Plan, including details of options issued under the plan, is set out in note 23.

	Consolidated 2010 $
13. Reserves	
Share based payments reserve	2,838,808
Foreign currency translation reserve	17,356
	2,856,164

	Consolidated 2010 $
Movements in Reserves	
Share based payments reserve	
Opening balance	-
Share based payments	2,838,808
Closing balance	2,838,808

The share based payment reserve is used to record the value of equity benefits provided to directors and executives as part of their remuneration and non-employees for their services. Refer to note 23 for further details of the options issued during the financial period.

Foreign currency translation reserve	
Opening balance	-
Foreign currency translation	17,356
Closing balance	17,356

The Foreign Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in note 2(e).

14. Accumulated losses

Movements in accumulated losses were as follows:

Opening balance	-
Loss for the period	(7,218,627)
Closing balance	(7,218,627)

15. Parent Entity Information

The following details information related to the parent entity, Hunnu Coal Limited, at 31 December 2010. The information presented here has been prepared using consistent accounting policies as presented in Note 2.

Current assets	33,013,901
Total assets	56,222,696
Current liabilities	224,124
Total liabilities	224,124
Net Assets	55,998,572
Issued Capital	59,731,438
Share based payments reserve	2,838,808
Accumulated losses	(6,571,674)
	55,998,572
Net loss of the parent entity	(6,571,674)
Other comprehensive income for the period	-
Total comprehensive loss of the parent entity	(6,571,674)

The parent entity has contractual obligations to Garrison Capital Pty Ltd, a related party (refer note 18), for $135,000 at balance date principally relating to the provision of administrative services and office space. Refer to note 16 for further details of the commitment.

	Consolidated 2010 $

16. Expenditure Commitments

(a) Services agreement

The Group entered a service agreement for certain administrative services and office space for a term of 2 years starting in 2009. The Group is required to give 3 month's written notice to terminate the agreement.

Within one year	135,000
After one year but not longer than 5 years	-
	135,000

(b) Rental agreement

The Group entered into lease agreements for office space in Mongolia for a term of 2 years starting in 2010.

Within one year	243,629
After one year but not longer than 5 years	35,593
	279,222

(c) Expenditure commitments

Exploration expenditure commitments – cancellable

The Company has a total statutory commitment of $836,093 for its current projects located in Mongolia, but the Company may cancel these commitments by letting the licenses lapse.

The Company's outstanding acquisition costs in respect of its current projects is $984,252 for the year ended 31 December 2011 and $2,952,756 for the year ended 31 December 2012. From the commencement date of the project agreements, Hunnu Coal may withdraw from any project without making any further payments by providing 30 days written notice.

(d) Executive remuneration commitments

The Group entered into consulting agreements for key management personnel for services provided. The Company is able to terminate the agreements by three months written notice or paying an amount equivalent to three months fees. Total commitments at 31 December 2010 are $270,000.

17. Auditors' Remuneration

The auditor of Hunnu Coal Limited is Ernst & Young (Australia)

Amounts received or due and receivable by Ernst & Young for:

- an audit or review of the financial report of the entity and any other entities in the Consolidated group	42,772
	42,772

18. Key Management Personnel Disclosures

(a) Details of Key Personnel

Mr. Matthew Wood	Chairman (appointed 19 August 2009)
Mr. George Tumur	Managing Director (appointed 19 August 2009)
Mr. Timothy Flavel	Executive Director, Company Secretary (appointed 23 December 2009)
Mr. Daniel Crennan	Non-Executive Director (appointed 31 December 2009)
Mr. Angus Caithness	Chief Financial Officer (appointed 30 August 2010)
Mr. Batjargal Tsog	Chief Operating Officer (25 May 2010)

(b) Remuneration of Key Management Personnel

Details of the nature and amount of each element of the emolument of each Director and Executive of the Group for the period ended 31 December 2010 are as follows:

Short term employee benefits	921,386
Post employment benefits	-
Share based payments	487,136
Total remuneration	1,408,522

(c) Shareholdings of Key Management Personnel

Share holdings

The number of shares in the Company held during the financial period by the Key Management Personnel of Hunnu Coal Limited, including their personally related parties, is set out below. There were no shares granted during the reporting period as compensation.

2010	Balance at the start of the period	Granted during the period as compensation	On exercise of share options	Other changes during the period	Balance at the end of the period
Mr Matthew Wood	-	-	-	7,725,001	7,725,001
Mr Timothy Flavel	-	-	-	4,922,500	4,922,500
Mr George Tumur	-	-	-	6,012,501	6,012,501
Mr Daniel Crennan	-	-	-	215,000	215,000
Mr Angus Caithness	-	-	-	250,000	250,000
Mr Batjargal Tsog	-	-	-	-	-

All other changes refer to shares purchased directly or indirectly by Key Management Personnel either on the market or through seed capital and the initial public offering.

All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Company would have adopted if dealing at arm's length.

(d) Option holdings of Key Management Personnel

The number of options over ordinary shares in the Company held during the financial period by the Key Management Personnel of Hunnu Coal Limited, including their personally related parties, is set out below:

						Vested options	
2010	Balance at the start of the period	Granted during the period as compensation	Exercised during the period	Other changes during the period	Balance at the end of the period	Exercisable	Non-exercisable
Mr Matthew Wood	-	500,000	-	-	500,000	500,000	-
Mr Timothy Flavel	-	500,000	-	-	500,000	500,000	-
Mr George Tumur	-	500,000	-	-	500,000	500,000	-
Mr Daniel Crennan	-	500,000	-	-	500,000	-	500,000
Mr Angus Caithness	-	400,000	-	-	400,000	-	400,000
Mr Batjargal Tsog	-	300,000	-	-	300,000	-	300,000

There were no forfeitures and no options lapsed during the period ended 31 December 2010.

Options granted as part of remuneration have been valued using the Black-Scholes option pricing model, which takes account of factors such as the option exercise price, the current level and volatility of the underlying share price and the time to maturity of the option. Options granted under the plan carry no dividend or voting rights. For details on the valuation of options, including models and assumptions used, please refer to note 23.

(e) Other transactions with Key Management Personnel

Garrison Capital Pty Ltd, a company of which Mr. Wood and Mr. Flavel are directors, provided the Company with a fully serviced office including administration and information technology support totalling $240,000 for the period and reimbursement of payments for financial accounting fees, courier and other minor expenses, at a cost of $55,739. A total of $22,791 was outstanding at period end.

Mineral Quest Pty Ltd, a company of which Mr. Wood is a director, was reimbursed for payments of secretarial expenses, at a cost of $4,600 during the period.

These transactions have been entered into under normal commercial terms.

19. Events Subsequent to Balance Date

On 8 March 2011, the Company announced that it had signed a Strategic Shareholder Agreement and Memorandum of Understanding to form a strategic partnership with Banpu Public Company Limited through its 100% owned subsidiary Banpu Minerals (Singapore) Pte Ltd. Pursuant to the terms of the Agreement Banpu Minerals (Singapore) Pte Ltd acquired 30,000,000 shares in Hunnu through a private placement at $1.50 per share for a total consideration of $45,000,000.

20. Related Party Disclosures

(a) Key management personnel

For related party transactions please refer to Note 18 "Key Management Personnel Disclosures".

(b) Subsidiaries

The consolidated financial statements include the financial statements of Hunnu Coal Limited and the subsidiaries listed in the following table.

Name of Entity	Country of Incorporation	Equity Holding 2010
Hunnu Resources LLC	Mongolia	100%
Golden Gobi LLC	Mongolia	60%
Munkh Noyon LLC	Mongolia	90%
Bilegt Hairhan Uul LLC	Mongolia	65%
Zuchid Ord LLC	Mongolia	70%
Borganchan LLC	Mongolia	60%

(c) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated 2010 $
Sales to related parties	
Administration fees	58,584
Transfer of plant and equipment	3,186
	61,770
Purchases from related parties	
Transfer of plant and equipment	50,601
	50,601

(d) Terms and conditions

There are no impaired related party receivables, and no expense has been recognised during the period relating to receivables due from related parties.

All other transactions were made on normal commercial terms and conditions and at market rates. Outstanding balances are unsecured and are repayable in cash.

21. Loss per Share

Loss used in calculating basic and dilutive EPS	(7,218,627)
	Number of Shares
Weighted average number of ordinary shares used in calculating basic loss per share:	122,963,729
Effect of dilution:	
Share options	-
Adjusted weighted average number of ordinary shares used in calculating diluted loss per share:	122,963,729

There is no impact from 19,000,000 options outstanding at 31 December 2010 on the earnings per share calculation because they are anti-dilutive. These options could be potentially dilutive in the future. Between the reporting date and the date of completion of these financial statements The Company issued Banpu Minerals (Singapore) Pte Ltd 30,000,000 shares through a private placement and 300,000 options to a consultant pursuant to the company's employee share option plan. These post balance date transactions involving ordinary shares or potential ordinary shares significantly change the number of ordinary shares or potential ordinary shares outstanding.

22. Financial Risk Management

Exposure to interest rate, liquidity, commodity price risk, foreign currency risk and credit risk arises in the normal course of the Group's business. The Group does not hold or issue derivative financial instruments.
The Group uses different methods as discussed below to manage risks that arise from these financial instruments. The objective is to support the delivery of the financial targets while protecting future financial security.

(a) Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities.

The Group manages liquidity risk by maintaining sufficient cash facilities to meet the operating requirements of the business and investing excess funds in highly liquid short term investments. The responsibility for liquidity risk management rests with the Board of Directors.

Alternatives for sourcing the future capital needs of the Group include the use of the current cash balances and the issue of equity instruments. These alternatives are evaluated to determine the optimal mix of capital resources for the Group's capital needs. The Group expects that, absent a material adverse change in a combination of the Group's sources of liquidity, present levels of liquidity along with future capital raising will be adequate to meet the expected capital needs.

Maturity analysis for financial liabilities
Financial liabilities of the Group comprise trade and other payables. As at 31 December 2010, all financial liabilities are contractually matured within 30 days.

(b) Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments.

The Group's exposure to interest rate risk relates primarily to interest on cash and term deposits. The Group manages the risk by investing in short term deposits.

	Consolidated 2010 $
Cash and cash equivalents	32,941,336

Interest rate sensitivity
The following table demonstrates the sensitivity of the Group's statement of comprehensive income to a reasonably possible change in interest rates, with all other variables constant.

Judgements of reasonably possible movements	Effect on Post Tax Losses Increase/(Decrease)	Effect on Other comprehensive income Increase/(Decrease)
	2010 $	**2010 $**
Increase 100 basis points	(329,413)	-
Decrease 100 basis points	329,413	-

A sensitivity of 100 basis points has been used as this is considered reasonable given the current level of both short term and long term Australian Dollar interest rates. The change in basis points is derived from a review of historical movements and management's judgement of future trends.

(c) Credit Risk Exposures

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Group to incur a financial loss. The Group's maximum credit exposure is the carrying amounts on the statement of financial position. The Group holds financial instruments with credit worthy third parties.

At 31 December 2010, the Group held cash at bank. These were held with financial institutions with a rating from Standard & Poor's of AA or above (long term). The Group has no past due or impaired debtors as at 31 December 2010.

(d) Foreign Currency Risk

Currency risk is the risk of fluctuation in the value of monetary assets which are denominated in foreign currencies.

The Group's exposure to foreign currency risk relates primarily to cash and term deposits in United States dollars. The Group ensures its net exposure to foreign currencies is kept at an acceptable level by buying or selling foreign currencies at spot rates when necessary. The Group does not hold foreign currency positions for trading purposes.

	Consolidated 2010 AU$
Cash and cash equivalents in US$	6,902,903

Foreign currency risk sensitivity

The following table demonstrates the sensitivity of the Group's statement of comprehensive income to a reasonably possible change in US$/AU$ foreign exchange rates, with all other variables constant.

Judgements of reasonably possible movements	Effect on Post Tax Losses Increase/(Decrease)	Effect on Other comprehensive income Increase/(Decrease)
	2010 **$**	**2010** **$**
AU$/US$ + 5%	345,145	-
AU$/US$ - 5%	(345,145)	-

The change in foreign exchange rates is derived from a review of historical movements and management's judgement of future trends.

23. Share Based Payment Plan

(a) Recognised share based payment transactions

Share based payment transactions recognised either as operational expenses in the statement of comprehensive income or as capital raising costs in equity during the period were as follows:

	Consolidated 2010 $
Operating expenses	
Employee and supplier share based payments	2,838,808
Exploration and Evaluation expenses	
Share issued to suppliers to acquire tenements	1,551,000

(b) Employee share based payment plan

The Group has established an employee share option plan (ESOP). The objective of the ESOP is to assist in the recruitment, reward, retention and motivation of employees of Hunnu Coal Limited. Under the ESOP, the Directors may invite individuals acting in a manner similar to employees to participate in the ESOP and receive options. An individual may receive the options or nominate a relative or associate to receive the options. The plan is open to executive officers, nominated consultants and employees of Hunnu Coal Limited.

The fair value at grant date of options granted during the reporting period was determined using the Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, the expected price volatility of the underlying share and the risk free interest rate for the term of the option.

The table below summarises options granted under the ESOP:

Grant Date	Expiry date	Exercise price	Balance at start of the period Number	Granted during the period Number	Exercised during the period Number	Forfeited during the period Number	Balance at end of the period Number	Exercisable at end of the period Number
31/12/2009	31/12/2014	$0.20	-	1,500,000	-	-	1,500,000	1,500,000
01/07/2010	30/06/2015	$1.00	-	750,000	-	-	750,000	-
01/07/2010	30/06/2015	$1.00	-	750,000	-	-	750,000	-
30/07/2010	30/06/2015	$1.00	-	500,000	-	-	500,000	-
				3,500,000			3,500,000	1,500,000
Weighted remaining contractual life (years)				4.29				
Weighted average exercise price				$0.66				

The weighted average fair value per option granted during the period was $0.39.

The model inputs, not included in the table above, for options granted during the period ended 31 December 2010 included:

(a) options are granted for no consideration and vest over a period of up to two years;
(b) expected life of options had a range of one to five years;
(c) share prices at various grant dates had a range of $0.20 to $0.94;
(d) expected volatility had a range of 90% to 100%;
(e) expected dividend yield of Nil; and
(f) a risk free interest rate from 4.93% to 5.23%.

The expected price volatility is based on the historic volatility (based on the remaining life of the options) adjusted for any expected changes to future volatility due to publicly available information.

c) Share-based payment to suppliers:

The table below summarises options granted to the Lead Managers and other parties of the Company's Initial Public Offering.

Grant Date	Expiry date	Exercise price	Balance at start of the period Number	Granted during the period Number	Exercised during the period Number	Expired during the period Number	Balance at end of the period Number	Exercisable at end of the period Number
31/12/2009	31/12/2014	$0.20	-	13,500,000	-	-	13,500,000	13,500,000
31/12/2009	31/12/2011	$0.20	-	1,000,000	-	-	1,000,000	1,000,000
31/12/2009	31/12/2011	$0.40	-	1,000,000	-	-	1,000,000	1,000,000
				15,500,000			15,500,000	15,500,000
Weighted remaining contractual life (years)				3.6				
Weighted average exercise price				$0.21				

The options were issued to Lead Manager's of the Company and other parties for services provided. The fair value per option granted during the year was $0.14.

The model inputs, not included in the table above, for options granted during the period ended 31 December 2010 included:

(a) Options are granted for no consideration and vest immediately;
(b) expected life of options had a range of one to five years;
(c) share price at grant date was $0.20;
(d) expected volatility of 95%;
(e) expected dividend yield of Nil; and
(f) a risk free interest rate from 4.56% to 5.40%.

The expected price volatility is based on the historic volatility (based on the remaining life of the options) adjusted for any expected changes to future volatility due to publicly available information.

The fair value of services received in return for share options has been determined based upon the fair value of the equity securities granted, measured using the Black-Scholes option pricing model.

(d) Share issued to suppliers to acquire tenements

2,500,000 ordinary shares were issued during the period as part of the consideration to acquire the Tenuun-2, Khuree-2, Nariin and Khavstal tenements. The fair value of the shares at the date of acquiring the assets amounting to $250,000 was used to determine the cost as the fair value of the underlying assets could not be measured reliably.

600,000 ordinary shares were issued during the period as part of the consideration to acquire the Buyan Coal tenement. The fair value of the shares at the date of acquiring the assets amounting to $456,000 was used to determine the cost as the fair value of the underlying assets could not be measured reliably.

1,000,000 ordinary shares were issued during the period as part of the consideration to acquire the Ar Zuun Gol and Zuun Gol tenements. The fair value of the shares at the date of acquiring the assets amounting to $845,000 was used to determine the cost as the fair value of the underlying assets could not be measured reliably.

24. Contingent Liabilities

There are no known contingent liabilities.

25. Dividends

No dividend was paid or declared by the Company in the period since the end of the financial year and up to the date of this report. The Directors do not recommend that any amount be paid by way of dividend for the financial period ended 31 December 2010.

Directors' Declaration

In accordance with a resolution of the Directors of Hunnu Coal Limited, I state that:

1. In the opinion of the directors:

   a) the financial statements and notes of Hunnu Coal Limited for the period ended 31 December 2010 are in accordance with the Corporations Act 2001, including:

      i. giving a true and fair view of the consolidated financial position as at 31 December 2010 and of its performance for the period ended on that date; and

      ii. Complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

   b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(b).

2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

3. This declaration has been made after receiving the declarations required to be made by the Director's in accordance with sections of 295A of the Corporations Act 2001 for the financial period ended 31 December 2010.

On behalf of the Board

Matthew Wood
Director
17 March 2011

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Auditor's independence declaration to the Directors of Hunnu Coal Limited

In relation to our audit of the financial report of Hunnu Coal Limited and its controlled entities for the period from incorporation on 19 August 2009 to 31 December 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

F Drummond
Partner
Perth
17 March 2011

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Independent auditor's report to the members of Hunnu Coal Limited

Report on the Financial Report

We have audited the accompanying financial report of Hunnu Coal Limited, which comprises the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period from incorporation on 19 August 2009 to 31 December 2010, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the period's end or from time to time during the financial period.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(b), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' report.

Auditor's Opinion

In our opinion:

1. the financial report of Hunnu Coal Limited is in accordance with the Corporations Act 2001, including:

   i giving a true and fair view of the consolidated entity's financial position at 31 December 2010 and of its performance for the period from incorporation on 19 August 2009 to 31 December 2010; and

   ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 9 of the directors' report for the period from incorporation on 19 August 2009 to 31 December 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Hunnu Coal Limited for the period from incorporation on 19 August 2009 to 31 December 2010, complies with section 300A of the Corporations Act 2001.

Ernst & Young

Ernst & Young

F Drummond
Partner
Perth
17 March 2011

ASX Additional Information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows.

The information is current at 16 March 2011.

Distribution of Share Holders

	Ordinary Shares	
	Number of Holders	**Number of Shares**
1 - 1,000	114	79,774
1,001 - 5,000	435	1,401,896
5,001 - 10,000	338	2,894,795
10,001 - 100,000	754	26,067,690
100,001 - and over	208	211,655,847
TOTAL	**1,849**	**242,100,002**

There were 15 holders of ordinary shares holding less than a marketable parcel.

Top Twenty Share Holders

Name	**Number of Ordinary Shares held**	**%**
Banpu Minerals (Singapore) Pte Ltd	30,000,000	12.39
Credit Suisse Securities (Europe) Ltd <Collateral A/C>	15,140,000	6.25
National Nominees Limited	12,360,614	5.11
ABN AMRO Clearing Sydney Nominees Pty Ltd <Custodian A/C>	8,816,982	3.64
JP Morgan Nominees Australia Limited <Cash Income A/C>	8,134,328	3.36
JP Morgan Nominees Australia Limited	7,762,896	3.21
Mitchell Grass Holdings Pty Ltd <Wood Family A/C>	7,600,000	3.14
Mr Lkhagvadorj (George) Tumur	6,000,001	2.48
HSBC Custody Nominees (Australia) Limited	5,347,404	2.21
UBS Wealth Management Australia Nominees Pty Ltd	5,310,512	2.19
Azure Capital Investments Pty Ltd	5,000,000	2.07
TM Consulting Pty Ltd <Super Fund A/C>	4,940,000	2.04
HSBC Custody Nominees (Australia) Limited-GSCO ECA	4,628,931	1.91
Mr Jason Peterson + Mrs Lisa Peterson <J & L Peterson S/F A/C>	4,000,000	1.65
Bannaby Investments Pty Ltd <Super Fund Account>	3,825,000	1.58
Cogent Nominees Pty Limited	3,751,739	1.55
Mr Timothy James Flavel <The Flavel Investment A/C>	3,722,500	1.54
Citicorp Nominees Pty Limited	3,306,819	1.37
Surfboard Pty Ltd <ARW Super Fund No 1 A/C>	2,530,000	1.05
Dr Salim Cassim	2,500,000	1.03
	144,677,726	**59.76**

On-Market Buy Back

There is no current on-market buy back.

Voting Rights

All ordinary shares carry one vote per share without restriction.

Use of Proceeds

In accordance with listing rule 4.10.19, the Company confirms that it has used cash and assets in a form readily convertible to cash in a way consistent with its business objectives during the period from admission (12 February 2010) to the end of the financial year (31 December 2010).

Unquoted Equity Securities

Shares

Class	Number of securities	Holders with more than 20%
Fully paid ordinary shares voluntarily escrowed until 12 February 2012	29,535,000	-

Options

Class	Number of securities	Holders with more than 20%
Options over ordinary shares exercisable at $0.20 on or before 12 February 2012	17,000,000	Azure Capital Investments Pty Ltd 5,000,000 options Nefco Nominees Pty Ltd 7,000,000 options

Substantial Shareholders
The names of shareholders who have notified the Company in accordance with Section 671B of the Corporations Act 2001 are:

Shareholder Name	No. of Ordinary Shares	Percentage %
Banpu Minerals (Singapore) Pte Ltd	30,000,000	12.39
Credit Suisse Securities (Australia) Limited	17,980,020	8.52

Tenement Table

Project	Location	Tenement	Area (km^2)	Interest
Tenuun-2	South Gobi Basin	15147X	30,325	60%
Khuree-2	South Gobi Basin	14049X	28,655	60%
Nariin	East Mongolia	14490X	8,766	60%
Khavtsal	East Mongolia	14289X	5,674	60%
Tsokhio (K3)	South Gobi Basin	13476X	38,569	60%
Buyan	South Gobi Basin	15589X	75	60%
Zuun Gol	West Mongolia	10306X	5,996	70%
Ar Zuun Gol	West Mongolia	7854X	19,626	70%
Tsagaan Delger	Middle Gobi	13710X	10,447	70%
Delgereh	East Mongolia	14419X	10,934	70%
Munh Haan	East Mongolia	13329X	21,781	70%
Unst Khudag	Middle Gobi	14911A	1,638	80%
Khar toirom-1	Middle Gobi	14907X	28,165	80%
Khar toirom	Middle Gobi	13544X	29,549	80%
Tsant-Uul	South Gobi Basin	4333X	69,256	90%