Company Registration No. 6995899

TOWER REGENERATION LIMITED

Report and Consolidated Financial Statements

31 May 2012

TOWER REGENERATION LIMITED

REPORT AND FINANCIAL STATEMENTS 2012

CONTENTS

TOWER REGENERATION LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	K J S Dougan	
	I A C Parkin	
	G N Davies	
	V R James	
	T O'Sullivan	
	G J Roberts	
	A Shott	
	C Thomas	(appointed 10 October 2011)
	J Birkett	(appointed 10 October 2011)
SECRETARY:	S MacQuarrie	
REGISTERED OFFICE:	Tower Colliery Treherbert Road Rhigos Aberdare Mid Glamorgan CF44 9UF	
BANKERS:	Lloyds TSB Bank plc Black Horse House 91 Sandyford Road Newcastle upon Tyne NE99 1JW	
SOLICITORS:	Swinburne Maddison LLP Venture House Aykley Heads Business Centre Durham DH1 5TS	
AUDITOR:	Deloitte LLP Cardiff	

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended 31 May 2012

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the group and company in the year was the regeneration of the site and the development of a surface mine

Work continued in the first half of the financial year on advancing the project through the planning process On 16 December 2011 the company received the final planning certificate for the project from Rhondda Cynon Taf County Borough Council Pre-commencement planning conditions, allowing coaling operations to commence, were satisfied in April 2012 enabling operations to commence in full

During the year the company entered into a contract with the Hargreaves Services plc Group which will manage and operate the site A contract to supply the majority of the expected thermal coal output in the first year has been signed with RWE's Aberthaw Power Station and will run for three years with the option for a one-year extension Coal shipments to the Aberthaw Power station commenced in April 2012

The group also successfully agreed banking terms in line with its business plan The company's facilities comprise working capital of £10 5m and asset financing credit lines of £32m The working capital lines have been committed to for two years from the drawdown date of 13 May 2012, the asset financing lines are committed to for five years

Key performance indicators

	2012	2011
	£'000	£'000
Revenue	5,807	-
Operating profit	843	-
Operating cash flow	10,011	723
Health and safety incidents	-	-

The profit for the year, before taxation, amounted to £270,000 (2011 - £nil) The directors do not recommend the payment of a dividend for the current financial year (2011 - £nil)

RISKS AND UNCERTAINTIES

Mining and operational risk

The group's operations are subject to all of the hazards and risks normally encountered with the production of coal from a surface mine The risks include adverse weather conditions, flooding, mechanical plant failure, and uncertain geological and challenging operating conditions Appropriate levels of site investigation are undertaken to minimise the risks of flooding and to understand the site's geology Investing in state-of-the-art operational equipment with a rigorous maintenance programme and employing highly skilled operatives mitigates risk

Markets and commodities

The business produces and sells coal, a tradable commodity, the price of which is subject to variations that are unpredictable and uncontrollable These include international supply and demand, currency exchange rate fluctuation and global economic and political events The business aims to manage risk through fixed price contracts

Health and safety

The working environment has numerous and varied risks which are mitigated through the provision of systems, training, equipment, and supervision Risk is evaluated and monitored by management to identify potential risks and ensure safe working practices

DIRECTORS' REPORT (continued)

RISKS AND UNCERTAINTIES (continued)

Credit risk
Credit risk arises from the possibility that customers may not be able to pay their debts The company closely monitors customer debt levels

Human resources and operations
People are the company's most important asset and are the key to ensuring its systems operate effectively The company works hard at recruiting, training and developing staff to mitigate the risk of system or human error

FUTURE DEVELOPMENTS

Once the site is fully operational the company will be targeting production at a rate of approximately 1 million tonnes per annum The site is expected to operate for approximately seven years, and will produce coal that is suitable for power generation and may be suitable for other industrial uses Although the company expects all tonnage to be placed in the UK market, any surplus will be exported to Europe

DIRECTORS

The current directors of the company, who served throughout the year unless stated otherwise, are as shown on page 1 In addition, D Ball and G Lewis resigned as directors on 10 October 2011

GOING CONCERN

These financial statements are prepared on the basis that the group is a going concern In forming its opinion as to going concern, the Board prepares forecasts and projections based on detailed assumptions and taking into account the risks and uncertainties facing the group

After making enquiries, the directors have formed the opinion, at the time of approving the financial statements, that there is a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future

For these reasons the directors believe it is appropriate to use the going concern basis of preparation for these financial statements

POLICY ON PAYMENT OF CREDITORS

The company does not follow any code or standard on payment practice It is the company's policy

(i) to settle the terms of payment with suppliers when agreeing the terms of transactions with that supplier,
(ii) to ensure that suppliers are made aware of the terms of payment, and
(iii) to abide by the terms of payment

DIRECTORS' REPORT (continued)

AUDITOR

In the case of each of the persons who are directors of the company at the date when this report is approved

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditor is unaware, and

- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Deloitte LLP have indicated their willingness to continue in office as the company's auditor and a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting

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

G N Davies

Geoffrey Neil Davies
Director

Date 24/9/2012

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period In preparing these financial statements, International Accounting Standard 1 requires that directors

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the company's ability to continue as a going concern

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

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF TOWER REGENERATION LIMITED

We have audited the financial statements of Tower Regeneration Limited for the year ended 31 May 2012 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Statement of Cash Flows and the related notes 1 to 30 The financial reporting framework that has been applied in their preparation is applicable law and the International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

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

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 May 2012 and of the group's profit for the year then ended,
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

David Hedditch

David Hedditch (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cardiff, United Kingdom

24 September 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 May 2012

	Note	2012 £'000	2011 £'000
REVENUE	2	5,807	-
Cost of sales		(1,800)	-
GROSS PROFIT		4,007	-
Administrative expenses		(3,164)	-
OPERATING PROFIT		843	-
Interest payable and similar charges	7	(573)	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	270	-
Tax on profit on ordinary activities	8	(55)	-
PROFIT FOR THE FINANCIAL YEAR AND TOTAL COMPREHENSIVE INCOME	14	215	-
Attributable to			
Equity holders of the company		215	-

All amounts in the current and prior financial year relate to continuing operations

TOWER REGENERATION LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 May 2012

	Note	2012 £'000	2011 £'000	2010 £'000
NON-CURRENT ASSETS				
Property, plant and equipment	9	56,358	4,596	3,873
CURRENT ASSETS				
Inventories	11	302	-	-
Trade and other receivables	12	15,132	-	-
Cash and cash equivalents	13	3,604	-	-
TOTAL CURRENT ASSETS		19,038	-	-
TOTAL ASSETS		75,396	4,596	3,873
CURRENT LIABILITIES				
Trade and other payables	15	(17,106)	-	-
Deferred tax	17	(55)	-	-
Provisions	20	(145)	-	-
Borrowings	19	(6,348)	-	-
Amounts due under finance leases	18	(2,784)	-	-
		(26,438)	-	-
NON-CURRENT LIABILITIES				
Creditors Amounts falling due after more than one year	16	(12,294)	(4,596)	(3,873)
Provisions	20	(23,975)	-	-
Amounts due under finance leases	18	(12,474)	-	-
		(48,743)	(4,596)	(3,873)
TOTAL LIABILITIES		(75,181)	-	-
NET ASSETS		215	-	-
EQUITY				
Issued capital	23	-	-	-
Retained earnings	14	215	-	-
TOTAL EQUITY	24	215	-	-

The financial statements of Tower Regeneration Limited, registered number 6995899, were approved by the Board of Directors and authorised for issue on 24 September 2012

Signed on behalf of the Board of Directors by

G N Davies

Geoffrey Neil Davies
Director

COMPANY STATEMENT OF FINANCIAL POSITION
As at 31 May 2012

		2012 £'000	2011 £'000	2010 £'000
NON-CURRENT ASSETS				
Property, plant and equipment	9	37,351	4,596	3,873
Investments	10	-	-	-
CURRENT ASSETS				
Inventories	11	302	-	-
Trade and other receivables	12	15,023	-	-
Cash and cash equivalents	13	3,577	-	-
TOTAL CURRENT ASSETS		18,902	-	-
TOTAL ASSETS		56,253	4,596	3,873
CURRENT LIABILITIES				
Trade and other payables	15	(13,221)	-	-
Deferred tax	17	(55)	-	-
Provisions	20	(145)	-	-
Borrowings	19	(6,348)	-	-
		(19,769)	-	-
NON-CURRENT LIABILITIES				
Creditors Amounts falling due after more than one year	16	(12,294)	(4,596)	(3,873)
Provisions	20	(23,975)	-	-
		(36,269)	(4,596)	(3,873)
TOTAL LIABILITIES		(56,038)	(4,596)	(3,873)
NET ASSETS		215	-	-
EQUITY				
Issued capital	23	-	-	-
Retained earnings	14	215	-	-
TOTAL EQUITY	24	215	-	-

The financial statements of Tower Regeneration Limited, registered number 6995899, were approved by the Board of Directors and authorised for issue on 24 September 2012

Signed on behalf of the Board of Directors by

Geoffrey Neil Davies
Director

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY
Year ended 31 May 2012

Group and Company	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 June 2010	-	-	-
Profit for the year and total comprehensive income	-	-	-
Balance as at 1 June 2011	-	-	-
Profit for the year and total comprehensive income	-	215	215
Balance as at 31 May 2012	-	215	215

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 May 2012

	Note	2012 £'000	2011 £'000
Net cash flows from operating activities	26	10,011	723
Investing activities			
Purchase of property, plant and equipment		(27,930)	(723)
Net cash used in investing activities		(27,930)	-
Financing activities			
Payment of finance lease liabilities		(147)	-
New asset-backed finance raised		15,322	-
New bank loans raised		6,348	-
Net cash used in investing activities		21,523	-
Net increase in cash and cash equivalents		3,604	-
Cash and cash equivalents at beginning of year	13	-	-
Cash and cash equivalents at end of year	13	3,604	-

COMPANY STATEMENT OF CASH FLOWS
Year ended 31 May 2012

	Note	2012 £'000	2011 £'000
Net cash flows from operating activities	26	5,985	723
Investing activities			
Purchase of property, plant and equipment		(8,756)	(723)
Net cash used in investing activities		(8,756)	(723)
Financing activities			
New bank loans raised		6,348	-
Net cash from investing activities		6,348	-
Net increase in cash and cash equivalents		3,577	-
Cash and cash equivalents at beginning of year	13	-	-
Cash and cash equivalents at end of year	13	3,577	-

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 May 2012

1 STATEMENT OF ACCOUNTING POLICIES

General information

The company is a limited company incorporated and domiciled in the United Kingdom under the Companies Act The address of the registered office is given on page 1 The nature of the company's operations and its principal activities are set out in the business review on page 2

Adoption of new and revised standards

The financial statements for the year ended 31 May 2012 are the company's first financial statements prepared under IFRS, with a transition date of 1 June 2010 Consequently, the comparative figures for 2011 have been restated in accordance with the accounting policies set out below IFRS 1 allows certain exemptions from retrospective application of IFRS in the opening balance sheet at 1 June 2010 Where these have been used, they are explained in the relevant policy below

The company has chosen to early adopt IFRIC 20 (stripping costs in the production phase of a surface mine), which is effective for annual periods beginning on or after 1 January 2013 The effects of early adoption of IFRIC 20 are described within the mining asset accounting policy on page 14

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

Amendments to IAS 12 (December 2010)	*Deferred tax – Recovery of underlying assets*
IFRS 9 (November 2009)	*Financial Instruments – Classification and Measurement*
Amendments to IFRS 7 (October 2010 and December 2011)	*Financial Instruments – Disclosures*
IFRS 10 (May 2011)	*Consolidation*
IFRS 11 (May 2011)	*Joint ventures*
IFRS 12 (May 2011)	*Disclosure of interests in other entities*
IFRS 13 (May 2011)	*Fair value measurement*
IAS 27 revised (May 2011)	*Separate Financial Statements*
IAS 28 revised (May 2011)	*Investments in Associates and Joint Ventures*
Amendment to IAS 1 (June 2011)	*Presentation of Financial Statements*
Amendment to IAS 19 (June 2011)	*Post-employment benefits*
Amendment to IAS 32 (December 2011)	*Financial Instruments - Presentation*

The directors do not anticipate that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements

1 STATEMENT OF ACCOUNTING POLICIES (continued)

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to financial statements of the company for the year ended 31 May 2012 and applied in accordance with the Companies Act 2006

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) made up to 31 May each year Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities

Going concern

These financial statements are prepared on the basis that the group is a going concern In forming its opinion as to going concern, the Board prepares forecasts and projections based on detailed assumptions and taking into account the risks and uncertainties facing the group After making enquiries, the directors have formed the opinion, at the time of approving the financial statements, that there is a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future For this reason the directors believe it is appropriate to use the going concern basis of preparation for these financial statements

Property, plant and equipment

The cost of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in accordance with agreed specifications Plant and equipment is stated at historic cost less accumulated depreciation

Mining assets

Surface mine development asset

Costs incurred in preparing and developing sites are referred to as 'surface mine development costs' and are capitalised within 'property, plant and equipment' as part of the 'mining assets' Surface mine development costs principally comprise

- the costs associated with achieving necessary planning permission and consents, licences and permits required to operate the site,
- drilling, geology and mine design costs,
- site development and infrastructure costs

This asset is amortised to the statement of comprehensive income on a units of production method Production is deemed to commence when work to extract coal from the first production box cut begins

Income from incidental coal that is extracted during the development phase is included within the consolidated statement of comprehensive income together with the associated direct costs

Stripping costs

The company has chosen to early adopt IFRIC 20 (stripping costs in the production phase of a surface mine), which is effective for annual periods beginning on or after 1 January 2013

During the production phase, a non-current "stripping activity asset" will be recognised within 'mining assets' to capitalise costs of removing overburden to gain access to or improve access to coal deposits, to the extent that future economic benefits are probable, the deposit of coal to which access has been improved can be identified, and costs reliably measured The stripping activity asset will be initially measured at cost and subsequently carried at cost or its revalued amount less amortisation and impairment The stripping activity asset will be amortised over the units of production of the coal deposit identified as being made more accessible as a result of the stripping activity

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 May 2012

1. STATEMENT OF ACCOUNTING POLICIES (continued)

Depreciation

The costs of surface mining and other plant and equipment are depreciated at varying rates depending upon their expected useful economic lives Excluding freehold land, the cost of plant and equipment, less estimated residual value, are written off on a straight-line basis over the asset's expected useful economic life Residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date Changes to the estimated residual values or useful lives are accounted for prospectively

Depreciation is recorded over the useful life of the asset, as follows

	Basis
- Freehold land	not depreciated
- Plant and equipment	
- plant and equipment	2 to 12 years
- motor vehicles	3 to 5 years
- Mining assets	
- surface mine development	units of production coal
- restoration asset	units of production coal
- stripping activity asset	units of production coal from the specific box cut to which the stripping relates

Restoration and rehabilitation costs

Activities of the company normally give rise to obligations for site restoration Restoration works can include site decommissioning and dismantling and site and land rehabilitation The extent of work required and the associated costs are dependent on the requirements of relevant authorities and the company's environmental policies

Provisions for the cost of site restoration are recognised at the commencement of the production phase Costs included in the provision encompass all restoration activity expected to occur progressively over the life of the site

Restoration provisions are measured at the expected value of future cash flows, discounted to their present value applying an appropriate risk-adjusted rate Significant judgements and estimates are involved in forming expectation of future activities and the amount and timing of the associated cash flows Such expectations are based on existing planning requirements and management's future development plans which give rise to a constructive obligation

Upon initial recognition of the restoration provision, the corresponding cost is capitalised as an asset, representing part of the cost of acquiring the future economic benefits of the operation The capitalised cost is recognised as 'restoration assets' within 'mining assets' This asset is amortised to the statement of comprehensive income on a units of production method

The value of the provision is progressively increased over time as the effect of discounting unwinds, creating an expense recognised in 'other finance costs'

Restoration provisions are also adjusted for changes in estimates, which are accounted for as a change in the corresponding capitalised cost, except where a reduction in the provision is greater than the unamortised capitalised cost of the related assets, in which case the capitalised cost is reduced to nil and the remaining adjustment is recognised in the statement of comprehensive income Changes to the capitalised cost result in an adjustment to future amortisation and financial charges

Given the significant judgements and estimates involved, adjustments to the estimated amount and timing of future restoration and rehabilitation cash flows are a normal occurrence Factors influencing those changes include but are not limited to revisions to estimated reserves and site operations, planning requirements and management's development plans, changes in the estimated cost and scope of anticipated activities

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 May 2012

1. STATEMENT OF ACCOUNTING POLICIES (continued)

Leases

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease

Inventories

Inventories relate to coal stocks and are valued at the lower of cost and net realisable value Cost is primarily on the basis of average production costs and compromises direct materials, plant costs, labour and relevant overheads or, with regard to purchased coal, cost of acquisition, and includes transport and port costs where applicable Appropriate allowances are made for slow-moving and obsolete inventories

Trade receivables

Trade receivables, which generally have 30 to 60 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount Where the time value of money is material, receivables are carried at amortised cost Provision is made when there is objective evidence that the company will not be able to recover balances in full Balances are written off when the probability of recovery is assessed as being remote

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits

Trade payables

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

Financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the relevant instrument Financial assets are derecognised when the rights to receive benefits have expired or been transferred, and the company has transferred substantially all risks and rewards of ownership Financial liabilities are derecognised when the obligation is extinguished

Non-derivative financial assets are classified as either receivables or cash and cash equivalents They are stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of those receivables The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, and is recognised in the statement of comprehensive income For interest-bearing assets, their carrying value includes accrued interest receivable

Cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments Non-derivative financial liabilities are stated at amortised cost using the effective interest method For borrowings, their carrying value includes accrued interest payable, as well as any unamortised issue costs

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 May 2012

1. STATEMENT OF ACCOUNTING POLICIES (continued)

Taxation

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

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

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

Pensions

The company operates a defined contribution pension scheme The amount charged to the statement of comprehensive income in respect of pension costs and other post-retirement benefits is the amount payable in the year Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the statement of financial position

Critical accounting judgements

In the application of the company's accounting policies, which are described above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant Actual results may differ from these estimates

The estimates and underlying assumptions are reviewed on an ongoing basis Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods

2. REVENUE

The analysis of revenue by geographical area is as follows

	2012 £'000	2011 £'000
Group		
United Kingdom	5,807	-

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 May 2012

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2012	2011
Group	**£'000**	**£'000**
The profit before taxation is stated after charging		
Auditor's remuneration – audit fees	14	-
Depreciation of property, plant and equipment	171	-
Operating lease rentals – land and buildings	39	-
Costs of inventories recognised as an expense	1,795	-

4. AUDITOR'S REMUNERATION

The analysis of the auditor's remuneration is as follows

	2012	2011
	£'000	**£'000**
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	12	2
Fees payable to the company's auditor and its associates for other services to the proof		
–The audit of the company's subsidiaries	2	-
Total audit fees	14	2

The audit fee of the subsidiary of £2,000 was borne by the parent company in the current financial period

5. DIRECTORS' REMUNERATION

The directors have not taken any emoluments during the current or previous financial year as the company is still in its development phase The directors have, however, been remunerated by their immediate employers It is not practicable to allocate their services to the company from the services provided to their immediate employees and group companies of their immediate employers

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 May 2012

6. STAFF COSTS

Group	**2012** **No.**	**2011** **No.**
Average number of persons employed by the company, including directors, during the year		
Directors	9	11
Administration	5	-
Security	9	-
	23	11

Staff costs incurred during the year in respect of these employees (excluding directors)

	£'000	**£'000**
Wages and salaries	177	-
Social security costs	18	-
Other pension costs	1	-
	196	-

7. INTEREST

	2012 **£'000**	**2011** **£'000**
Related party loan interest	477	-
Bank interest	96	-
	573	-

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2012 **£'000**	**2011** **£'000**
Corporation tax	-	-
Deferred taxation (note 17)	55	-
	55	-

Reconciliation of tax charge

	£'000	**£'000**
Profit on ordinary activities before taxation	270	-
Tax at the UK corporation tax rate of 20% (2011 - 21%)	54	-
Deferred tax on pension accrual	1	-
Total tax charge	55	-

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 May 2012

9. PROPERTY, PLANT AND EQUIPMENT

Group	**Freehold land £'000**	**Mining assets £'000**	**Plant, equipment and motor vehicles £'000**	**Total £'000**
Cost				
At 1 June 2010	337	1,536	2,000	3,873
Additions	709	-	14	723
At 31 May 2011	1,046	1,536	2,014	4,596
Additions	-	32,606	19,327	51,933
At 31 May 2012	1,046	34,142	21,341	56,529
Accumulated depreciation				
At 1 June 2010 and 31 May 2011	-	-	-	-
	-	-	-	-
Charge for the year	-	-	(171)	(171)
At 31 May 2012	-	-	(171)	(171)
Net book value				
At 31 May 2012	1,046	34,142	21,170	56,358
At 31 May 2011	2,582	-	2,014	4,596
At 31 May 2010	1,873	-	2,000	3,873

Included in the above net book value is £19,001,000 (2011 - £nil) of assets held under finance leases

The group's obligations under finance leases (see note 18) are secured by the lessors' title to the leased assets

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 May 2012

9. PROPERTY, PLANT AND EQUIPMENT (continued)

Company	Freehold land £'000	Mining assets £'000	Plant, equipment and motor vehicles £'000	Total £'000
Cost				
At 1 June 2010	337	1,536	2,000	3,873
Additions	709	-	14	723
At 31 May 2011	1,046	1,536	2,014	4,596
Additions	-	32,606	153	32,759
At 31 May 2012	1,046	34,142	2,167	37,355
Accumulated depreciation				
At 1 June 2010 and 31 May 2011	-	-	-	-
Charge for the year	-	-	(4)	(4)
At 31 May 2012	-	-	(4)	(4)
Net book value				
At 31 May 2012	1,046	34,142	2,163	37,351
At 31 May 2011	2,582	-	2,014	4,596
At 31 May 2010	1,873	-	2,000	3,873

10. INVESTMENTS

Details of the company's subsidiaries at 31 May 2012 are as follows

	Place of incorporation and operation	Proportion of ownership interest %	Proportion of voting power held %
Tower Regeneration Leasing Limited	Great Britain	100	100

The cost and carrying value of the investment is £1 (2011 - £nil)

11. INVENTORIES

	2012 £'000	2011 £'000	2010 £'000
Group			
Finished goods	302	-	-
	£'000	£'000	£'000
Company			
Finished goods	302	-	-

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 May 2012

12. TRADE AND OTHER RECEIVABLES

	2012 £'000	2011 £'000	2010 £'000
Group			
Trade receivables	2,956	-	-
Receivables from related parties	325	-	-
Other receivables	10,186	-	-
Prepayments and accrued income	1,665	-	-
	15,132	-	-

	£'000	£'000	£'000
Company			
Trade receivables	2,956	-	-
Receivables from related parties	25	-	-
Other receivables	6,402	-	-
Prepayments and accrued income	1,664	-	-
Amounts receivable from group company	3,976	-	-
	15,023	-	-

13. CASH AND CASH EQUIVALENTS

	2012 £'000	2011 £'000	2010 £'000
Group			
Cash at bank and in hand	3,604	-	-

	£'000	£'000	£'000
Company			
Cash at bank and in hand	3,577	-	-

14. RETAINED EARNINGS

	2012 £'000	2011 £'000	2010 £'000
Group			
Balance at beginning of year	-	-	-
Profit for the financial year	215	-	-
Balance at end of year	215	-	-

	£'000	£'000	£'000
Company			
Balance at beginning of year	-	-	-
Profit for the financial year	215	-	-
Balance at end of year	215	-	-

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 May 2012

15. TRADE AND OTHER PAYABLES

	2012	2011	2010
	£'000	£'000	£'000
Group			
Trade payables	316	-	-
Amounts owed to related parties	15,951	-	-
Other taxation and social security	21	-	-
Other creditors and accruals	818		
	17,106	-	-

	£'000	£'000	£'000
Company			
Trade payables	315	-	-
Amounts owed to related parties	12,115	-	-
Other taxation and social security	21	-	-
Other creditors and accruals	770	-	-
	13,221	-	-

16 CREDITORS: Amounts falling due after more than one year

	2012	2011	2010
	£'000	£'000	£'000
Group and Company			
Amounts owed to related party	12,294	4,596	3,873

17. DEFERRED TAX

The following are the deferred tax liabilities recognised by the company and the movements thereon during the current and prior reporting period

		Provided	
Group and Company	2012	2011	2010
	£'000	£'000	£'000
Deferred taxation			
Accelerated capital allowances	55	-	-

All deferred taxation has been fully provided and the liability has been included within current liabilities

	£'000	£'000	£'000
Movements on deferred taxation provision			
Transfer during the year	55	-	-

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 May 2012

18. OBLIGATIONS UNDER FINANCE LEASES

It is the group's policy to lease certain of its fixtures and equipment under finance leases The average lease term is five years For the year ended 31 May 2012, the average effective borrowing rate was 5 1 per cent (2011 - nil per cent) Interest rates are fixed at the contract date All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments

All lease obligations are denominated in sterling

The fair value of the group's lease obligations is approximately equal to their carrying amount

The group's obligations under finance leases are secured by the lessors' rights over the leased assets disclosed in note 9

	Minimum lease payments		
	2012 £'000	**2011 £'000**	**2010 £'000**
Amounts payable under finance leases			
Within one year	3,497	-	-
In the second to fifth years inclusive	13,887	-	-
	17,384	-	-
Less future finance charges	(2,126)	-	-
Present value of lease obligations	15,258	-	-

	Present value of minimum lease payments		
	2012 £'000	**2011 £'000**	**2010 £'000**
Amounts payable under finance leases			
Within one year	2,784	-	-
In the second to fifth years inclusive	12,474	-	-
Present value of lease obligations	15,258	-	-

19. BORROWINGS

Group	**2012**	**2011**	**2010**
Secured bank loans	**£'000**	**£'000**	**£'000**
Amount due for settlement within 12 months	6,348	-	-

Terms	**Interest %**	**2012 Amount £'000**	**Interest %**	**2011 Amount £'000**	**Interest %**	**2010 Amount £'000**
Revolving Credit Facility	5 02%	6,348	-	-	-	-

Company			
	£'000	**£'000**	**£'000**
Secured bank loans			
Amount due for settlement within 12 months	6,348	-	-

The principal features of the group and company's borrowings are as follows

The group and company have a revolving loan facility of £8 5million (2011 - £nil) The loan was taken out on 2 May 2012 and is a 24-month facility The loan carries interest rate at 4% above three-month LIBOR The loan is secured on the group's assets and the group is subject to financial and non-financial covenants

20. PROVISIONS

Group and Company	**2012**	**2011**	**2010**
Provisions in respect of surface mine restoration	**£'000**	**£'000**	**£'000**
Carrying amount at the beginning of the year	-	-	-
Provisions made during the year	24,003	-	-
Unwinding of discount	117	-	-
Carrying amount at the end of the year	24,120	-	-
Amounts due in less than one year	145	-	-
Amounts due in more than one year	23,975	-	-
Carrying amount at the end of the year	24,120	-	-

The above provision solely represents the restoration liability of the company to restore the Tower Surface Mine site to required specifications when coaling operations cease

21. OPERATING LEASES

At 31 May, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows

	2012	**2011**
	£'000	**£'000**
Land and buildings		
Due in less than one year	233	-
Due in the second to fifth year inclusive	2,518	-
	2,751	-

22 CAPITAL COMMITMENTS

The group has, over time, contractually committed to the acquisition of plant and machinery with a total expected price of £18 million (2011 - £nil)

23. SHARE CAPITAL

	2012	2011	2010
	£	£	£
Group and Company			
Allotted, called up and fully paid	200	200	200

24. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2012	2011	2010
	£'000	£'000	£'000
Group			
Profit for the financial year	215	-	-
Opening shareholder's funds	-	-	-
Closing shareholder's funds	215	-	-

	£'000	£'000	£'000
Company			
Profit for the financial year	215	-	-
Opening shareholder's funds	-	-	-
Closing shareholder's funds	215	-	-

25 COMPANY PROFIT AND LOSS ACCOUNT

As permitted by section 408 of the Companies Act 2006, the statement of comprehensive income of the parent company is not presented as part of these financial statements The parent company achieved a profit for the financial year of £215,000 (2011 - £nil)

26. NOTES TO THE CASH FLOW STATEMENT

	2012 £'000	2011 £'000
Group		
Operating profit for the year	270	-
Adjustment for		
Depreciation	171	-
Finance costs	199	-
Increase in inventories	(302)	-
Increase in receivables	(15,132)	-
Increase in payables	24,805	723
Net cash from operating activities	10,011	723

	£'000	£'000
Company		
Operating profit for the year	270	-
Adjustment for		
Depreciation	4	-
Finance costs	117	-
Increase in inventories	(302)	-
Increase in receivables	(15,023)	-
Increase in payables	20,919	723
Net cash from operating activities	5,985	723

27. FINANCIAL INSTRUMENTS

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability and equity instrument, are disclosed in note 1 to the financial statements

Categories of financial instruments comprise short-term receivables and payables, bank loans and obligations under finance leases Neither the group nor the company uses derivative financial instruments The main purpose of these financial instruments is to raise finance for the group's and company's ongoing operations and manage the working capital requirements

27. FINANCIAL INSTRUMENTS (continued)

Categories of financial instruments

Group

	2012 £'000	2011 £'000	2010 £'000
Financial assets			
Cash	3,604	-	-
Amount owed by related party	325	-	-
Trade receivables	2,956	-	-
Other receivables	10,186	-	-
	17,071	-	-
Financial liabilities at amortised cost			
Trade payables	315	-	-
Borrowings	6,348	-	-
Finance leases	15,258	-	-
Amounts owed to related parties	28,245	-	-
	50,166	-	-

Company

	£'000	£'000	£'000
Financial assets			
Cash	3,577	-	-
Trade receivables	2,956	-	-
Amounts receivable from group company	3,976	-	-
Other receivables	6,402	-	-
Amounts owed by related parties	25	-	-
	16,936	-	-
Financial liabilities at amortised cost			
Trade payables	315	-	-
Borrowings	6,348	-	-
Amounts owed to group undertakings	24,409	-	-
	31,072	-	-

27. FINANCIAL INSTRUMENTS (continued)

Financial risks

The company's activities expose it to various financial risks - liquidity risk, credit risk and market risk
Liquidity risk

Liquidity risk is the risk that the group and company will not be able to access the necessary funds to finance their operations They finance their operations through a mix of short and medium-term facilities

The group manages its liquidity risk by monitoring existing facilities and cash flows against forecast requirements based on rolling cash forecast

The table below analyses the group's and parent company's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date With the exception of finance leases, all the amounts disclosed in the table are equal to their carrying balances as the impact of discounting is not significant The amounts disclosed for finance leases are the contractual undiscounted cash flows including interest and hence will not agree to the amount disclosed on the statement of financial position

Group

At 31 May 2012	< 1 year £'000	1-2 years £'000	2-5 years £'000	> 5 years £'000
Trade and other payables (non-interest bearing)	1,155	-	-	-
Amounts due to related parties (non-interest bearing)	15,080	-	-	-
Amount due to related parties	871	10,061	2,233	-
Finance leases	3,496	3,496	10,391	-
Borrowings	6,348	-	-	-
Total	26,950	13,557	12,624	-

At 31 May 2011	< 1 year £'000	1-2 years £'000	2-5 years £'000	> 5 years £'000
Amounts due to related parties (non – interest bearing)	-	4,596	-	-

Parent Company

At 31 May 2012	< 1 year £'000	1-2 years £'000	2-5 years £'000	> 5 years £'000
Trade and other payables (non-interest bearing)	1,106	-	-	-
Amounts due to related parties (non-interest bearing)	11,244	-	-	-
Amount due to related parties	871	10,061	2,233	-
Borrowings	6,348	-	-	-
Total	18,569	10,061	12,624	-

At 31 May 2011	< 1 year £'000	1-2 years £'000	2-5 years £'000	> 5 years £'000
Amounts due to related parties (non – interest bearing)	-	4,596	-	-

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 May 2012

27. FINANCIAL INSTRUMENTS (continued)

Credit risk

The group and parent company are at the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the group's receivables from customers The group's risk is influenced by the nature of its customers New customers are analysed for creditworthiness before the group's standard payment terms and conditions are offered and appropriate credit limits set The group does not have any financial assets that are past due or impaired

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the group's or company's income or the value of its holdings of financial instruments

Foreign currency risk

The group and company operate within the UK in GBP and therefore are not exposed to foreign exchange risk arising from various currency exposures

Interest rate risk

The group and company is exposed to interest rate risk as it borrows funds on three-month revolving credit with interest rates fixed at time of drawdown The group and company have no loans or receivables which have floating interest rates

At the statement of financial position date the interest rate profile of the group's interest-bearing financial instruments was

Group

	2012 £000	2011 £'000	2010 £'000
Fixed rate instruments			
Financial liabilities	28,423	-	-
Variable rate instruments			
Financial liabilities	6,348	-	-

27. FINANCIAL INSTRUMENTS (continued)

Company

	2012 £'000	2011 £'000	2010 £'000
Fixed rate instruments			
Financial liabilities	13,165	-	-
Variable rate instruments			
Financial liabilities	6,348	-	-

Sensitivity analysis

An increase of 1 basis point in interest rates throughout the period would have decreased profit by the amounts shown below This calculation assumes that the change occurred at all points in the period and had been applied to the average risk exposure throughout the period

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates

	2012 £'000	2011 £'000	2010 £'000
Group			
Decrease profit	6	-	-
Company			
Decrease profit	6	-	-

28. EXPLANATION OF TRANSITION TO ADOPTED IFRSs

As stated in note 1, these are the group's first financial statements prepared in accordance with IFRSs The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 May 2012, the comparative information presented in these financial statements for the year ended 31 May 2011 and in the preparation of an opening IFRS balance sheet at 1 June 2010 (the company's date of transition)

No adjustments have arisen in equity within the financial statements of the company as a result of the transition to adopted IFRSs

The classifications of certain fixed assets have been restated in order to more accurately reflect the nature of the assets An amount of £1,536,000 has been reclassified from freehold land to mining assets There is no alteration in the result or the net assets for the current or prior financial year following this change

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 May 2012

29. RELATED PARTY TRANSACTIONS

Balances and transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in the group disclosure below The company is owned 50% by Forward Sound Limited, a 100% owned subsidiary of the Hargreaves Services plc group, the remaining 50% is owned by Tower Colliery Limited, a 100% owned subsidiary of Goitre Tower Anthracite Limited During the financial periods the company provided services to or were provided services by members of the group headed by Hargreaves Services plc and Goitre Tower Anthracite Limited as follows

Companies entered into the following transactions with related parties

Group

	2012 Purchases from £'000	2012 Balance owed to £'000	2011 Purchases from £'000	2011 Balance owed to £'000
Forward Sound Limited	(455)	(14,160)	-	(3,596)
Tower Colliery Limited*	(3,843)	(4,594)	-	(1,000)
Hargreaves Surface Mining Limited	(3,308)	(1,505)	-	-
Hargreaves Services plc	(900)	(4,914)	-	-
Hargreaves (UK) Services Limited	(525)	(525)	-	-
Hargreaves (UK) Limited	(2,113)	(2,546)	-	-
Hargreaves Transport	(1)	(1)	-	-

	2012 Sales to £'000	2012 Balance owed from £'000	2011 Sales to £'000	2011 Balance owed from £'000
Hargreaves Surface Mining Limited	250	301	-	-
Coal 4 Energy Limited	20	24	-	-

Company

	2012 Purchases from £'000	2012 Balance owed to £'000	2011 Purchases from £'000	2011 Balance owed to £'000
Forward Sound Limited	(455)	(14,160)	-	(3,596)
Tower Colliery Limited*	(3,843)	(4,594)	-	(1,000)
Hargreaves Surface Mining Limited	(3,308)	(1,505)	-	-
Hargreaves Services plc	(900)	(1,078)	-	-
Hargreaves (UK) Services Limited	(525)	(525)	-	-
Hargreaves (UK) Limited	(2,113)	(2,546)	-	-
Hargreaves Transport	(1)	(1)	-	-

	2012 Sales to £'000	2012 Balance owed from £'000	2011 Sales to £'000	2011 Balance owed from £'000
Hargreaves Surface Mining Limited	-	1	-	-
Coal 4 Energy Limited	20	24	-	-

*All of the related parties listed above with the exception of Tower Colliery Limited are members of the group headed by Hargreaves Services plc Tower Colliery Limited is a member of the Goitre Tower Anthracite Limited group

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 May 2012

29. RELATED PARTY TRANSACTIONS (CONTINUED)

The company has provided a loan of £3,976,000 to a 100% subdiariary, Tower Regeneration Leasing Limited Amounts repayable from Tower Regeneration Leasing Limited are short term and non-interest bearing The outstanding amount at 31 May is £3,976,000 (2011 £nil)

30. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The company is owned 50% by Forward Sound Limited and 50% by Tower Colliery Limited There is, therefore no controlling party