Pan Asia Corporation Ltd

ABN 45 098 448 269

Annual Financial Report

For the Year Ended

30 June 2012

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CORPORATE INFORMATION

Directors

Domenic Martino	Non-Executive Chairman
Luke Martino	Non-Executive Director
Michael Pixley	Non-Executive Director
Jason Campbell	CFO/Company Secretary

Senior Executive Team

Alan Hopkins	CEO
Jason Campbell	Commercial Manager/ CFO
Bill Hewitt	In Country Manager
Cicip Hadi	Project Appraiser
Agus Sucipto	Exploration Manager (TCM Project)
Dadzui Ismail	Underground Mining Manager (TCM Project)

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REVIEW OF OPERATIONS

HIGHLIGHTS OF AN ACTIVE YEAR

- The JORC resource at TCM South was expanded from an initial 53.23 Mt to 128.8Mt, with seams for exploitation totalling 76Mt and a mineable resource of 49Mt.
- Drilling at TCM North targeting an increase to >200mt* was completed and intersected coal in all holes.
- A base case Feasibility Study was undertaken on TCM South concluding the project was technically and commercially viable
- “Clean & Clear“ status (i.e. no competing claims) & “PMA” status (i.e. foreign ownership or locally known in Indonesia as “Penanaman Modal Asing”) was obtained for the TCM project. These are important milestones and provide a solid legal foundation for the project.
- The Ranrich arrangements were restructured with the US$4.5 Million loan being repaid to Pan Asia / Noble and Pan Asia additionally receiving a free carried royalty of USD 1/t (up to US$15million) on the PT Baramega Citra Kutim Permai (“BCKP”) exploration project in East Kalimantan
- Pan Asia established a compact but capable team in the Company’s Jakarta office providing strong technical, accounting and administrative support to the Company’s operations in Indonesia.

Overview

During the year, Pan Asia Corporation Limited (“Pan Asia” or “the Company”) made significant progress with its flagship underground high CV thermal coal project, the PT Transcoal Minergy (“TCM”) Project.

A busy drilling programme at TCM South resulted in a total JORC resource of 128mt being established. This was followed by additional drilling at TCM North targeting an increase to 200mt or more*. Drilling in the north was positive with coal being intersected in all holes and an updated JORC resource will be completed soon when all results have been received.

An independent base case feasibility study was undertaken assuming low recoveries and average coal prices over the last year. This study concluded that the project was technically and commercially viable.

However with a significant decline in world thermal coal prices (~30% over the year), the Company initiated a review of the base case with particular scrutiny on expected recoveries and capital expenditure. Feedback from a leading underground coalmine design group with considerable experience in TCM style ground conditions has given the Company confidence that recoveries should be significantly higher than that assumed in the base case.

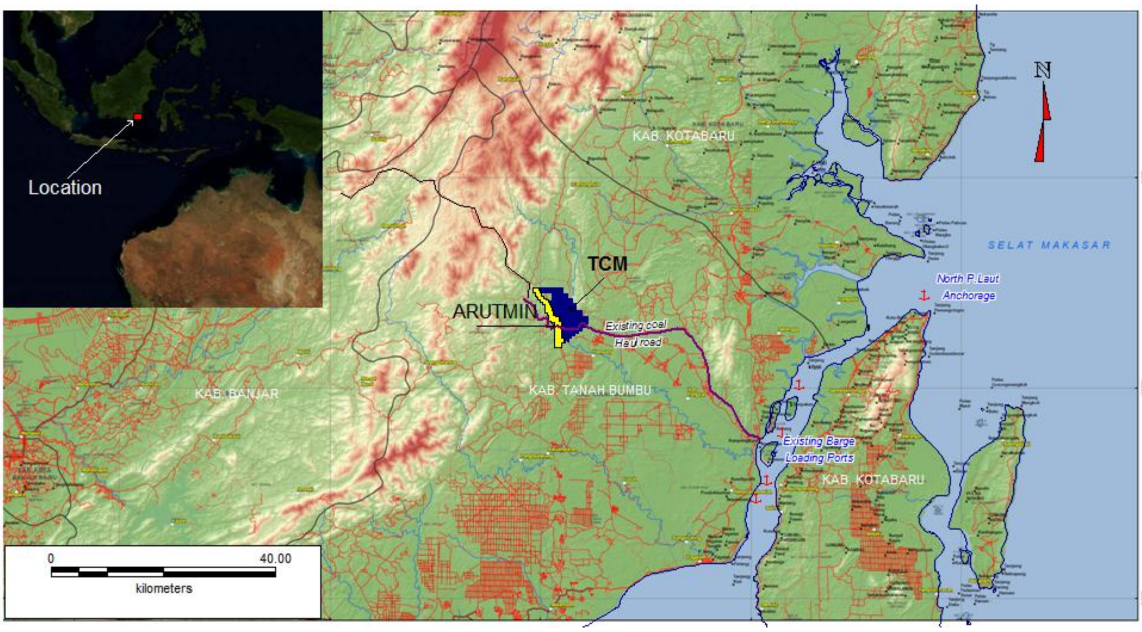
The Company is currently in the process of appointing this group to update the mine plan and feasibility study with a view to offsetting the impact of recent falls in coal prices. This updated study will then form the basis for development for this project with expected improvements in midterm coal prices also providing a “rising tide”.

This should deliver the project to a significantly value added point in an improved macro environment where shareholders can realise full value for this emerging asset.

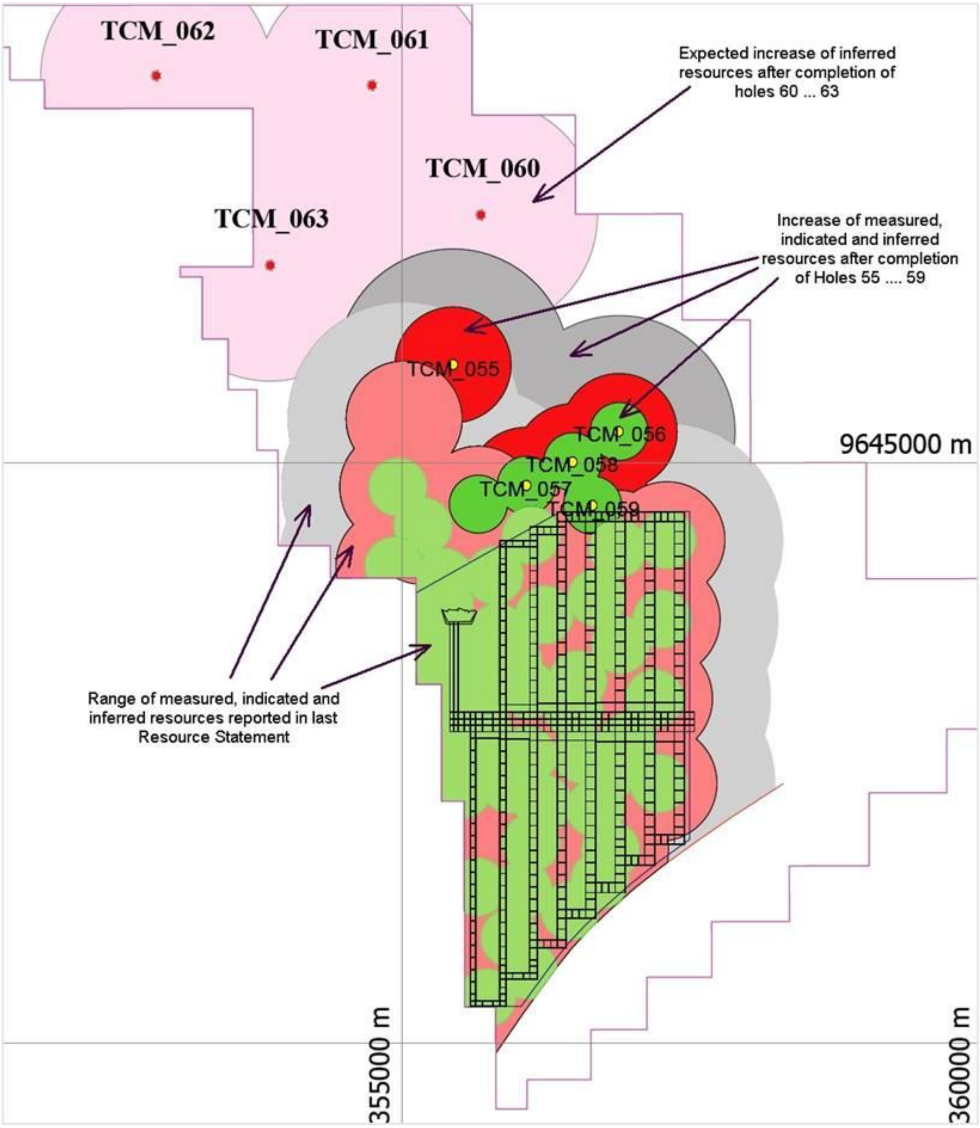
TCM Project (75% interest in Production Mining Business Licence ("IUP") – South Kalimantan)

The TCM Project is situated in the Tanah Bumbu Regency of South Kalimantan, approximately 51km from Batulicin. It is adjacent to the east of Arutmin's ATA open pit coal mine and as such it benefits from having well known high CV coal quality and good established infrastructure.

PT Arutmin ATA Coal Mine Adjacent to TCM



During the year the Company undertook several phases of drilling on the TCM project. Drilling in the south resulted in the JORC resource increasing to 128mt while subsequent wider spaced drilling in the north was completed targeting to increase this to more than 200mt in total. Coal was intersected in all holes in the north where expected and the update to JORC will be completed soon after all results are processed.



JORC (TCM South)

Measured	50,270,464 tonnes
Indicated	38,108,017 tonnes
Inferred	40,436,597 tonnes
Total	128,815,078 tonnes

As part of a base case Feasibility Study undertaken by European group Kopex, the seams for exploitation totalled ~ 76 million tonnes with the mineable resource estimated at ~ 49 million tonnes and mineable reserve at ~25 million tonnes (based on a very conservative 50% recovery). The run of mine material contains parting, that is the claystone between (and necessarily mined together with) the two main coal seams to be mined. After washing out the parting, the sellable tonnes were estimated to be ~ 18 million tonnes.

Based on this, project parameters for TCM South were established as below:

- **High CV coal** ~ 6200 GAR
- **Target Sellable Coal** 1.5mt pa
- **Mine life** 15 years +
- **Operating Cost / t on MV** USD 52/t
- **Style of Mining** Mechanised Longwall Preferable

Peer review by a leading underground coal group with very extensive experience in similar ground conditions to the TCM project indicate that recoveries of at least 60%, if not 70%, should be achievable which should substantially increase mineable reserves at TCM South. The additional tonnages that come from TCM North would also support a larger & longer life operation.

Coal Quality (High CV thermal coal)

Proximate Analysis		**14% Ash Spec**	
Total Moisture	ar	8.5	
Inherent Moisture	adb	3.0	
Ash content	ar	14.0	
Volatile Matter	ar	38.1	
	daf	49.8	
Fixed Carbon		by difference	
Total Sulfur	ar	1.00	
Calorific Value	ar	6200	
	adb	6600	
	daf	8000	
Ultimate Analysis - From F1.6 Analysis			
Carbon	daf	79.6	
Hydrogen	daf	6.05	
Nitrogen	daf	1.12	
Total Sulphur	daf	0.75	
Oxygen + error	daf	12.48	
Ash Fusion Temperature			
		Reducing Atmosphere	Oxidising Atmosphere
Deformation	^{o}C	>1600	>1600
Spherical	^{o}C	>1600	>1600
Hemispherical	^{o}C	>1600	>1600
Flow	^{o}C	>1600	>1600
Ash Chemistry - From F1.60 coal analysis only			
Silica as SiO_2	%	51.4	
Aluminium as Al_2O_3	%	31.0	
Iron as Fe_2O_3	%	8.6	
Calcium as CaO	%	2.35	
Magnesium as MgO	%	0.50	
Titanium as TiO_2	%	3.05	
Sodium as Na_2O	%	0.50	
Potassium as K_2O	%	0.12	
Manganese as Mn_3O_4	%	0.039	
Phosphorus as P_2O_5	%	0.221	
Sulphur as SO_3	%	1.15	
Crucible Swelling Number		-	
Physical Properties			
Hardgrove Grindability Index		45	
Nominal Top Size	mm	50	
Minus 2mm	%	15	
Estimated Yields			
Based on 3.63m of coal and 0.79m parting		78%	

The TCM product is very marketable commodity. It is characterised as a High Volatile (C) Bituminous Coal in accordance with ASTM D388-05. All thermal properties associated with TCM products are highly suited to power generation, cement manufacture or general industry. The coal has low chemical impurities making it environmentally suitable for export.

Ash fusion temperatures are very high for Indonesian coal and are in line with Australian thermal coal products. TCM coal has low slagging and fouling index and this is highly beneficial in boiler performance and fly ash recoveries.

Foreign ownership structure completed

PT Transcoal Minergy received full official foreign owned company status in June 2012 from the Capital Investment Coordinating Board ("BKPM") in Indonesia by way of conversion of TCM from an Indonesian company to foreign owned status in the form of a PMA company (known locally in Indonesia as "Penanaman Modal Asing"). This PMA approval is an important milestone that facilitates the planned incoming substantial foreign investment for the development of the project.

Clean & Clear Status received

The Company received Clean and Clear status for its TCM Project from the Ministry of Energy and Mineral Resources (MoEMR) in Indonesia, by way of official release in May 2012. The designation of "Clean and Clear" provides comfort to mining companies that the validity of their relevant mining concession, and in this case Pan Asia's flagship TCM Project, has been scrutinized by MoEMR who have determined that the concession does not overlap with other concessions.

Ranrich Settlement

The Company moved early in the year to restructure its arrangements with Ranrich Investments Limited (RRI) following 18 months of RRI struggling to meet its coal delivery shipments to Pan Asia's designated buyer.

Ranrich Investments Limited, (a company controlled by Honardy Boentario) and Innovation West Pty Ltd (IW), (a company wholly owned by Pan Asia Corporation Limited) originally entered into a Memorandum of Agreement in 2010 for the financing of and investment in various coal projects. The repayment of the finance was based on RRI making contracted coal shipments to a designated buyer arranged by IW. Since entering into the original financing arrangement, RRI struggled to provide the scheduled coal deliveries and as a result, Pan Asia moved to restructure the arrangements and to have the principal monies outstanding under the contract repaid.

A Memorandum of Agreement was executed in the presence of a Notary in Jakarta in February 2012 with the parties agreeing to the following material terms:

- Repayment to Pan Asia of the amount outstanding of US$4.5m;
- Pan Asia exchanges its right to earn a 50% interest in BCKP for a royalty of US$1 per tonne on all coal sold from the BCKP IUP, limited to a total of US$15m;
- Ranrich undertook to deliver its current outstanding contracted shipments, at the time being ~220,000MT of coal to Pan Asia's designated buyer.

Following the restructured arrangements, Honardy Boentario tendered his resignation as a director of Pan Asia in June 2012.

Summary & Prospects

The Company established a significant resource of high CV coal with good logistics and infrastructure at its flagship TCM project. Two key legal approvals for this project were also obtained and a base case feasibility study undertaken concluding that the project was technically and commercially viable. While coal prices retreated during the year, initial peer review of the base case study provides significant scope to offset lower revenue from current softer lower coal prices.

The Company now plans to update the study to optimise recoveries and capex with a view to achieving maximum value for all shareholders as we move discussions forward with possible development / offtake partners.

We thank you all for your ongoing support during what has been a significant down year for equities and commodities and look forward to the coming year with great expectation.

Refer page 73 for Competent Person’s Statement and *Exploration Target.

DIRECTORS' REPORT

Your Directors present their report on the Company and its controlled entities for the financial year ended 30 June 2012.

The names of Directors of the Company at any time during or since the end of the financial year are:

Domenic Martino	Non-Executive Chairman	
Luke Martino	Non-Executive Director	
Michael Pixley	Non-Executive Director	
Honardy Boentario	Non-Executive Director	Resigned 21 June 2012

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

PARTICULARS OF DIRECTORS AND COMPANY SECRETARY

Domenic Martino *(Non- Executive Chairman)*

Qualifications

- Bachelor of Business
- Fellow, Institute of Chartered Accountants Australia (FCA)
- Fellow, Australian Society of Certified Practising Accountants (FCPA)
- Fellow, Australian Institute of Company Directors (FAICD)

Experience

Domenic was appointed as a Director of Pan Asia Corporation on 24 December 2010 and became Chairman of the Company on 1 March 2011. Domenic is a Chartered Accountant by profession and a former Chief Executive Officer of Deloitte Touche Tohmatsu in Australia. Domenic specialises in the resources and energy sector, including mergers and acquisitions, initial public offerings and strategic opportunities.

Luke Martino *(Non-Executive Director)*

Qualifications & Affiliations

- Bachelor of Commerce
- Fellow, Institute of Chartered Accountants in Australia (FCA)
- Member, Australian Society of Certified Practicing Accountants (CPA)
- Fellow, Australian Institute of Company Directors (FAICD)

Experience

Luke was appointed as a Non-Executive Director on 4 March 2010.

Luke has over 20 years experience at Partner and Board level with major accounting firms and is a Director of several private and public companies. He has gained significant experience and established credibility in the mining and resources industry (particularly in Indonesia) and the property and hospitality industries. Luke has an entrepreneurial passion for nurturing businesses and specialises in corporate and growth business consulting.

Michael Pixley *(Non-Executive Director)*

Qualifications

- Bachelor of Business

Experience

Michael has worked as a merchant banker specialising in strategic corporate development, joint ventures and acquisitions. He has over 20 years experience in the Asian business sector, and has extensive networks and relationships with key personnel in the government, corporate and private business sectors, in the Asia Pacific region.

Jason Campbell *(Chief Financial Officer & Company Secretary)*

Qualifications

- Bachelor of Business
- Member of Certified Practising Accountants
- Diploma in Applied Corporate Governance with Chartered Secretaries Australia

Experience

Jason commenced with Company in March 2011 as Chief Financial Officer and Commercial Manager. He was appointed Company Secretary in October 2011. Prior to joining Pan Asia, Jason spent 7 years at Argonaut Limited, an Investment Banking and Corporate Stocking business in Perth.

OTHER CURRENT DIRECTORSHIPS

Domenic Martino	Cokal Limited (Director), Resourcehouse Limited (Chairman), Australasian Resources Limited (Chairman), ORH Limited (Chairman), Gladstone Pacific Nickel Limited (Director), Clean Global Energy Limited (Director), Synergy Plus Limited (Chairman),
Luke Martino	NIL
Michael Pixley	NIL

PREVIOUS DIRECTORSHIPS IN THE LAST 3 YEARS

Domenic Martino	NIL
Luke Martino	NuEnergy Capital Limited (ASX: NGY) Non-Executive Director
Michael Pixley	Holista Colltech Limited

DIRECTORS' INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

As at the date of this report, the interests of the Directors in the shares and options of the Company were:

Director	Shares Held		Performance Shares Held		Options Held	
	Directly	Indirectly	Directly	Indirectly	Directly	Indirectly
Mr Domenic Martino	-	7,450,000*	-	-	-	-
Mr Michael Pixley	-	-	-	-	-	-
Mr Luke Martino	-	5,315,000#	-	-	-	200,000**

*Indirect interests are held via Domenal Enterprises Pty Ltd, Impact Nominees Pty Ltd and Indian West Pty Ltd. 1,000,000 of these Shares included above are held indirectly but Domenic Martino has no beneficial interest in the same.

**Options exercisable for $1.00 each on or before 11 January 2013. Indirect interest held by Indian Ocean Capital Pty Ltd.

Indirect interests are held via LJM Capital Corporation Pty Ltd and LJM Capital Corporation Pty Ltd.

DIRECTORS' MEETINGS

During the financial year, 6 meetings of Directors were held. Attendances by each Director during the year were:

	Directors' Meetings		Audit & Risk		Remuneration	
	Number of meetings eligible to attend	Number attended	Number of meetings eligible to attend	Number attended	Number of meetings eligible to attend	Number attended
Domenic Martino	6	6	-	-	1	1
Luke Martino	6	6	1	1	1	1
Michael Pixley	6	6	1	1	-	-
Honardy Boentario	6	6	-	-	-	-

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Pan Asia support the principles of corporate governance. The Company's corporate governance statement is contained on page 20.

DIVIDENDS

No dividends were paid or recommended during the year.

OPERATING RESULTS

For the financial year the consolidated entity incurred a consolidated loss after tax from ordinary activities of $3,763,716 (2011: $4,418,045).

PRINCIPAL ACTIVITIES

Pan Asia owns a 75% interest in its flagship underground high CV thermal coal project, the PT Transcoal Minergy Project in South Kalimantan, Indonesia. To date, drilling in Southern Concession of TCM South has resulted in a JORC resource of 128.8Mt A Feasibility Study was then completed in June 2012, indicating that the TCM project was economically viable and feasible. The Company has the right to earn a royalty of US$1 per tonne on all coal sold from the BCKP IUP, limited to a total of US$15m, after the Company exchanged its right to earn a 50% interest in BCKP IUP in the first quarter 2012.

The Company continues to further explore and seek other Indonesian coal opportunities. Pan Asia's goal is to continue to source and develop key resources for the Asian markets.

LIKELY DEVELOPMENTS AND FUTURE RESULTS

The Company is now seeking development partnerships for the TCM Project and continues to identify future opportunities that will assist in adding shareholder value.

It is not possible to estimate the future results at this stage.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the consolidated entity to the date of this report other than what has been disclosed in this report.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

- PT Transcoal Minergy received notification of official foreign owned company status from the Indonesian Capital Investment Coordinating Board ("BKPM");
- Further drilling in the Northern area of the TCM concession has been completed after the balance date;
- The IUP's for PT Roda Niaga and PT Kusan Pursada expired on 7 September 2012.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity is not subject to any environmental regulations or licences. However, the Indonesian controlled entities are subject to Indonesian environmental laws and regulations in respect to its projects located in Indonesia. Currently, PT TCM, 75% owned by the Company, commissioned PT Hatfield consultants of Indonesia to revise and update its existing Indonesian Environmental Impact Assessment (AMDAL), which is expected to be completed by March 2013. There have been no known breaches of environmental laws or regulations by the consolidated entity in this jurisdiction.

SHARE OPTIONS

As at the date of this report, the Company has the following options on issue:

- 600,000 options which have an exercise price of $0.50 per option and an expiry date of 27 November 2012
- 200,000 options which have an exercise price of $1.00 per option and an expiry date of 29 November 2012
- 632,740 options which have an exercise price of $0.20 per option and an expiry date of 30 December 2012
- 632,740 options which have an exercise price of $0.24 per option and an expiry date of 30 December 2012
- 200,000 options which have an exercise price of $1.00 per option and an expiry date of 11 January 2013
- 100,000 options which have an exercise price of $1.00 per option and an expiry date of 30 March 2013
- 500,000 options which have an exercise price of $0.25 per option and an expiry date of 11 October 2014
- 5,600,000 options which have an exercise price of $0.25 per option and an expiry date of 1 February 2015

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate or in the interest issue of any other registered scheme.

INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year, the Company established insurance covers in respect of the Directors of the Company (as named in this report), the Company Secretary, and all executive officers of the Company and of any related body corporate against a liability incurred as such a Director, secretary or executive officer to the extent permitted by the Corporations Act 2001. As per usual with such cover, the contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such by an officer or auditor.

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for key management personnel ("KMP") of Pan Asia Corporation Limited. KMP are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any Director (whether executive or otherwise) of the parent company.

The following persons acted as KMP during or since the end of the financial year:

- Domenic Martino (Non-Executive Chairman)
- Luke Martino (Non-Executive Director)
- Michael Pixley (Non-Executive Director)
- Honardy Boentario (Non-Executive Director) – Resigned 21 June 2012
- Alan Hopkins (Chief Executive Officer)
- Jason Campbell (Chief Financial Officer & Company Secretary)

Remuneration Philosophy

The performance of the Company depends upon the quality of its Directors and executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and executives.

Remuneration Committee

The Company has a formal Remuneration Committee. The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing the compensation arrangements for the Directors and executive management team. The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of Directors and the executive management team.

Remuneration Structure

In accordance with the best practice Corporate Governance, the structure of the non-executive Directors and executives of the Company is separate and distinct.

Non-Executive Director Remuneration

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders. The level of fees is not linked to the Directors' or the Company's performance.

The ASX Listing Rules specify that the aggregate remuneration of non-executive Directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting when shareholders approved an aggregate remuneration of $250,000 per year. Further, shareholders must approve the framework for any equity schemes. If a Director is recommended for being able to participate in an equity scheme, this participation must be approved by the shareholders.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The Board considers advice from external shareholders as well as the fees paid to non-executive Directors of comparable companies when undertaking the annual review process.

Each Director receives a fee for being a Director of the Company. An additional fee may also be paid for each Board committee, where warranted, on which a Director sits. The payment of additional fees for serving on a committee recognises the additional time commitment required by Directors who serve on one or more sub committees.

Senior Manager and Executive Director Remuneration

Remuneration consists of fixed remuneration.

Fixed Remuneration

Fixed remuneration is reviewed annually by the Board. The process consists of a review of relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. The Board has access to external, independent advice where necessary.

REMUNERATION REPORT

Remuneration of Key Management Personnel

Table 1: Directors' remuneration for the year ended 30 June 2012:

		Primary Benefits				Post Employment					
		Salary & Fees	**Cash STI**	**LTI**	**Non Monetary Benefits**	**Equity Options**	**Super-annuation**	**Retirement**	**Other**	**Total**	**% Performance Related**
D Martino	2011	24,750	-	-	-	-	-	-	-	24,750	-
Non Executive Chairman	**2012**	**60,000**	-	-	-	-	-	-	-	**60,000**	-
L Martino	2011	36,000	-	-	-	-	-	-	-	36,000	-
Non Executive Director	**2012**	**36,000**	-	-	-	-	-	-	-	**36,000**	-
M Pixley	2011	30,969	-	-	-	-	-	-	-	30,969	-
Non Executive Director	**2012**	**36,000**	-	-	-	-	-	-	-	**36,000**	-
H Boentario *	2011	-	-	-	-	-	-	-	-	-	-
Non Executive Director	**2012**	-	-	-	-	-	-	-	-	-	-
Total	2011	91,719	-	-	-	-	-	-	-	91,719	-
	2012	**132,000**	-	-	-	-	-	-	-	**132,000**	-

* Resigned 21 June 2012

REMUNERATION REPORT (continued)

Remuneration of Key Management Personnel (continued)

Table 2: Senior Management and Executives' remuneration for the year ended 30 June 2012:

		Primary Benefits					Post Employment				
		Salary & Fees	Cash STI	LTI	Non Monetary Benefits	Equity Options	Super-annuation	Retirement	Other	Total	% Performance Related
A Hopkins CEO	2011	200,000	-	-	-	-	-	-	-	200,000	-
	2012	**240,000**	-	-	**11,141**	**115,218**	-	-	-	**366,359**	-
L Martino Company Sec*	2011	60,000	-	-	-	-	-	-	-	60,000	-
	2012	**5,660**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,660**	**-**
J Campbell Company Sec**	2011	-	-	-	-	-	-	-	-	-	-
	2012	**180,000**	-	-	-	**26,603**	-	-	-	**206,603**	-
Total	2011	260,000	-	-	-	-	-	-	-	260,000	-
	2012	**425,660**	**-**	**-**	**11,141**	**141,821**	**-**	**-**	**-**	**578,622**	**-**

* Resigned 11 October 2011

** Appointed 11 October 2011

End of Remuneration Report.

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 year.

AUDITORS' INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the Directors of the Company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 19 and forms part of this Directors' report for the year ended 30 June 2012.

NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services provided by the auditor are outlined in Note 21 to the financial statements. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the impartiality and objectivity of the auditor and none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board.

Signed in accordance with a resolution of the Directors.

Luke Martino
Director

Dated this 28th September 2012

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Pan Asia Corporation Limited for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Pan Asia Corporation Limited.

Perth, Western Australia
28 September 2012

N G NEILL
Partner, HLB Mann Judd

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CORPORATE GOVERNANCE STATEMENT

The Board of Pan Asia Corporation Limited is responsible for the corporate governance of Pan Asia Corporation Limited and its subsidiary companies. The Board determines all matters relating to the strategic direction and governance, policies, practices and management of the Company in the best interests of shareholders, stakeholders, clients and employees.

To the extent that they are applicable, the Company has adopted the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (**ASX Corporate Governance Recommendations**).

Commensurate with the spirit of the ASX Corporate Governance Recommendations, the Company has followed each ASX Corporate Governance Recommendation where the Board has considered it to be an appropriate benchmark for corporate governance practices, taking into account factors such as the size of the Company and the Board, the resources available and the activities of the Company. Where, after due consideration, the Company's corporate governance practices depart from the ASX Corporate Governance Recommendations, the Board sets out below its "if not, why not" report.

Corporate governance policies and practice of the Company are reflective of the Company's current position. As the Company's activities develop in size, nature and scope, the Board will reconsider and review the Company's corporate governance structures. Copies of the Company's corporate governance policies are available on the website.

Structure & Role of the Board

The Board operates pursuant to a formal Board charter, which sets out the functions and responsibilities of the Board and management of the Company, and is available in the corporate governance section of the Pan Asia website.

The skills, experience and expertise relevant to the position of each Director who is in office at the date of the annual report, including their term of office, are detailed in the Directors' Report.

The Board of the Company is responsible for:

(a) the overall operation and stewardship of the Company and its subsidiaries;
(b) charting the direction, strategies and financial objectives for the Company; and
(c) monitoring the implementation of those policies, strategies and financial objectives,

and is committed to protecting and enhancing shareholder values and conducting the Company's business ethically and in accordance with the highest standards of corporate governance.

Each of the Directors, when representing the Company, must act in the best interest of the shareholders of the Company and in the best interests of the Company as a whole.

A Director is considered to be independent where they are a non-executive Director, are not a member of management and are free of any relationship that could, or could reasonably be perceived to, materially interfere with the independent exercise of their judgment. Directors are expected to bring independent views and judgement to the Board's deliberations. The Board Charter requires that at least the majority of the Directors of Pan Asia Corporation Limited will be non-executive (preferably independent) Directors and that the Chair will be a non-executive Director. The existence of the following relationships may affect the independent status if the Director:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with a substantial shareholder of Pan Asia (as defined in section 9 of the Corporations Act);
- is employed, or has previously been employed in an executive capacity by the Company, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- has within the last three years been a principal of a material professional adviser or a material consultant to the Company, or an employee materially associated with the services provided;

- is a material supplier or customer of the Company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has a material contractual relationship with Pan Asia Corporation other than as a Director.

In the context of Director independence "materiality" is considered from both the Company and individual Director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount, being the monetary value of the transaction or item in question. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it.

In accordance with the definition of independence above, and the materiality thresholds set, the Board reviewed the positions and associations of each of the 3 Directors in office at the date of this statement and considers that 3 of the Directors are independent as follows:

Name	Position
Domenic Martino	Non-Executive Director
Luke Martino	Non-Executive Director
Michael Pixley	Non Executive Director

The Board will assess the independence of new Directors upon appointment, and the independence of other Directors, as appropriate. To facilitate independent judgement in decision-making, each Director has the right to seek independent professional advice at the expense of Pan Asia Corporation Limited. However, prior approval from the Chair is required, which may not be unreasonably withheld.

The term in office held by each Director in office at the date of this statement is as follows:

Name	Term in office
Domenic Martino	Appointed 24 December 2010 – no fixed term
Luke Martino	Appointed 4 March 2010 – no fixed term
Michael Pixley	Appointed 9 December 2008 – no fixed term

The Board is assisted by the Nomination & Remuneration Committee and the Audit & Risk Committee.

Nomination & Remuneration Committee

The Board has an established Nomination and Remuneration Committee. The Nomination and Remuneration Committee is comprised of two members, Domenic Martino and Luke Martino, both of whom are non-executive Directors. The functions of the Nomination and Remuneration Committee include the following:

- assisting the Board in examining the selection & appointment practices of the Company;
- ensuring remuneration arrangements are equitable and transparent and enable the Company to attract and retain executives and Directors who will create sustainable value for members & other stakeholders;
- ensuring the Board is of an effective composition, size and commitment to adequately discharge its responsibilities and duties;
- reviewing Board succession plans and Board renewal;
- reviewing the processes for evaluating the performance of the Board its committees and individual Directors and ensuring that a fair and responsible reward is provided to executives and Directors having regard to their performance and evaluation;

- reviewing levels of diversity within the Company and Board and reporting on achievements pursuant to any diversity policy developed by the Board;
- reviewing the Company's remuneration, recruitment, retention and termination policies for Board and senior executives.

Due to the Company's size and that of the Board, the committee consists of 2 members. As the Company grows in size, the Company will consider appointing additional members.

For details of Directors' attendance at meetings of the Remuneration Committee, please refer to the Directors' Report.

For additional details regarding the Remuneration Committee, including the committee charter, please refer to our website.

Audit and Risk Committee

The Board has an established Audit and Risk Committee that operates under a charter approved by the Board. The Audit and Risk Committee comprises two members, Luke Martino and Michael Pixley, both of who are non-executive Directors.

The purpose of the Committee with respect to audit is to assist the Board of Directors of the Company in fulfilling its corporate governance and oversight responsibilities by:

<u>Monitoring and reviewing</u>

- the integrity of financial statements
- the effectiveness of internal financial controls;
- the independence, objectivity and competency of internal and external auditors;
- the policies on risk oversight and management; and
- making recommendations to the Board in relation to the appointment of external auditors and approving the remuneration and terms of their engagement.

The Committee is to also assist the Board in fulfilling its responsibilities relating to the risk management and compliance practices of the Company.

Due to the Company's size and that of the Board, the Committee currently consists of 2 members both of whom are non-executive independent Directors. As the Company grows in size, the Company will appoint additional members.

Details of the skill and experience of the committee members are detailed in the Directors' report.

For details on the number of meetings of the Audit and Risk Committee held during the year and the attendees at those meetings, please refer to the Directors' Report.

For additional details regarding the Audit and Risk Committee, including the committee charter, please refer to our website.

Dealing in Securities Policy

The Board has an established Dealing in Securities Policy. The policy sets out the rules and regulations that apply to the Directors, Key Management Personnel, their associates and employees of the Company in regards to trading in the securities of the Company. The policy aims to develop a culture of awareness of individual responsibilities in regards to trading in the Company's securities and having regard to the insider trading provisions.

For additional details regarding the Dealing in Securities policy, please refer to our website.

Code of Conduct

Pan Asia has established a code of conduct. The code of conduct is located on the Company's website in the Corporate Governance section.

Shareholder Communication Policy

The Board aims to ensure that shareholders are informed of all major developments affecting Pan Asia's state of affairs. In particular, the Board believes that communicating with shareholders by electronic means, particularly through its website, is an efficient way of distributing information in a timely and convenient manner.

The Company's website includes a section on the Company's corporate governance policies and practices, a reports section containing copies of annual, half yearly and quarterly reports and reports from stockbroking firms, a news section, containing copies of ASX announcements made by the Company, and details of the Company's projects and activities including presentation material provided to investors or stockbroking analysts, briefing material from any Company site visits and the Company profile and contact details.

Diversity

Whilst Pan Asia has not yet formally adopted a Diversity Policy, the Company recognises that a talented and diverse workforce is a key competitive advantage and that success is a reflection of the quality and skills of its people. Diversity assists the business in achieving its objectives and delivering for its stakeholders by enabling it to attract and retain the most qualified and experienced individuals to the workforce.

The Company's general policy when choosing employees is to recruit and manage on the basis of competence and performance regardless of age, nationality, race, gender, religious beliefs, sexuality, physical ability or cultural background.

Pan Asia workforce gender profile

	Female	Female %	Male	Male %
Administration	2	33.33	4	66.67
Supervisory/Professional	1	33.33	2	66.67
Executive Management	0	0	3	100
Total	**3**	**25**	**9**	**75**
Board	0	0	3	100

Explanations for departures from ASX Corporate Governance Recommendations

Recommendations that have not been adopted by the Company prior to the date of this Prospectus, together with the reasons why they have not been adopted.

Principle 3- Recommendations 3.2 & 3.3

Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy.

Explanation from Departure

Due to the Company's size and nature, the Company has not yet adopted a diversity policy. The Company will consider adopting a diversity policy in FY 2013.

Principle 4 – Recommendation 4.2

The Audit Committee composition should include at least 3 members.

Explanation for Departure

Due to the Company's size and that of the Board, this Committee currently consists of 2 members both of whom are non-executive independent Directors. As the Company grows in size, the Company will consider appointing additional members.

Principle 8 – Recommendation 8.2

The Remuneration and Nomination Committee composition should include at least 3 members.

Explanation for Departure

Due to the Company's size and that of the Board, this Committee currently consists of 2 members both of whom are non-executive independent Directors. As the Company grows in size, the Company will consider appointing additional members.

BEST PRACTICE RECOMMENDATION

Outlined below are the 8 Essential Corporate Governance Principles as outlined by the ASX and the Corporate Governance Council as they applied for the financial year ended 30 June 2012. The Company has complied with the Corporate Governance Principles and Recommendations except as identified on the next page.

Corporate Governance Policy	Action taken and reasons if not adopted
Establish and disclose the respective roles and responsibilities of Board and management	
Principle 1: Lay solid foundation for management and oversight	
1.1 Companies should establish the functions reserved to the Board and to those delegated to senior executives and disclose those functions.	Adopted
1.2 Companies should disclose the process for evaluating the performance of senior executives	Adopted
1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1.	Adopted
Have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties	
Principle 2: Structure the Board to add value	
Recommendation	
2.1 A majority of the Board should be independent Directors	Adopted
2.2 The Chair should be an independent Director	Adopted
2.3 The roles of Chair and Chief Executive Officer should not be exercised by the same individual	Adopted
2.4 The Board should establish a Nomination Committee	Adopted
2.5 Companies should disclose the process for evaluating the performance of the Board, its Committees and individual Directors	Adopted
2.6 Companies should provide the information indicated in 'Guide to reporting on Principle 2'	Adopted

Corporate Governance Policy	Action taken and reasons if not adopted
Actively promote ethical and responsible decision-making Principle 3: Promote ethical and responsible decision-making	
3.1 Companies should establish a code of conduct and disclose the code or a summary of the code to: 3.1.1 the practices necessary to maintain confidence in the Company's integrity; 3.1.2 the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and 3.1.3 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Adopted
3.2 Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.	The Company plans to adopt a diversity policy in FY 2013- refer explanation regarding the reason that the Company has not yet adopted.
3.3 Companies should disclose in each annual report the measurable objectives for achieving gender diversity.	The Company plans to adopt a diversity policy in FY 2013- refer explanation regarding the reason that the Company has not yet adopted.
3.4 Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	Adopted
3.5 Companies should provide the information indicated in the Guide to reporting on Principle 3.	Adopted
Have a structure in place to independently verify and safeguard the integrity of the Company's financial reporting Principle 4: Safeguard integrity in financial reporting	
4.1 The Board should establish and Audit Committee	Adopted
4.2 The Audit Committee should be structured so that it: • Consists of non-executive Directors • Consists of a majority of independent Directors • Is chaired by an independent Chair, who is not the Chair of the Board • Has at least 3 members	Adopted / Refer explanation regarding the Company having only 2 members

Corporate Governance Policy	Action taken and reasons if not adopted
4.3 The Audit Committee should have a formal charter	Adopted
4.4 Companies should provide the information indicated in the Guide to reporting on Principle 4.	Adopted
Promote timely and balanced disclosure of all material matters concerning the Company	
Principle 5: Make timely and balanced disclosure	
5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies	Adopted
5.2 Companies should provide the information indicated in the Guide to reporting on Principle 5.	Adopted
Respect the rights of shareholders and facilitate the effectiveness of those rights	
Principle 6: Respect the rights of shareholders	
6.1 Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings, and disclose their policy or a summary of that policy	Adopted
6.2 Companies should provide information indicating the Guide to reporting on Principle 6.	Adopted
Establish a sound system of risk oversight and management and internal control	
Principle 7: Recognise and manage risk	
7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies	Adopted
7.2 The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Adopted

Corporate Governance Policy	Action taken and reasons if not adopted
7.3 The Board should disclose whether it has received assurance from the CEO (or equivalent) and the CFO (or equivalent) that the declaration provided, in accordance with section 295A of the Corporations Act, is founded on a sound system of risk management and internal control and that the system is operating efficiently and effectively, in all material respects, in relation to reporting financial risks.	Adopted
7.4 Provide the information indicated in the Guide to reporting on Principle 7.	Adopted
Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship performance is clear.	
Principle 8: Remunerate fairly and responsibly	Adopted
8.1 The Board should establish a Remuneration Committee.	
8.2 The Remuneration Committee should be structured so that it: • Consists of a majority of independent Directors • Is chaired by an independent Director • Has at least 3 members	Adopted / Refer explanation regarding the Company having only 2 members
8.3 Companies should clearly distinguish the structure of non-executive Directors remuneration from that of executive Directors and senior executives.	Adopted
8.4 Companies should provide the information indicated in the Guide to reporting on Principle 8.	Adopted

STATEMENT OF COMPREHENSIVE INCOME

	Notes	CONSOLIDATED	
		2012	2011
		$	$
Other income	3(a)	179,420	185,795
Impairment of non-current assets	9(b)(iii)	(912,728)	-
Impairment of royalty receivable	3(b)	(1,266,271)	-
Other expenses	3(c)	(1,764,137)	(4,603,840)
Loss before income tax		(3,763,716)	(4,418,045)
Income tax benefit	4	-	-
Net loss for the period		(3,763,716)	(4,418,045)
Other comprehensive income for the period			
Exchange differences on translation of foreign operations		229,894	(315,799)
Total comprehensive loss for the period		(3,533,822)	(4,733,844)
The net loss for the period is attributable to:			
Owners of the parent		(3,758,221)	(4,417,448)
Non-controlling interest		(5,495)	(597)
		(3,763,716)	(4,418,045)
The other comprehensive income for the period is attributable to:			
Owners of the parent		350,975	(315,375)
Non-controlling interest		(121,081)	(424)
		229,894	(315,799)
Basic loss per share	5	(3.20)	(5.14)

The statement of comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

	Notes	CONSOLIDATED	
		2012	2011
ASSETS		$	$
Current Assets			
Cash and cash equivalents	6	1,288,357	1,091,031
Trade and other receivables	7	25,301	14,655
Prepayments		19,640	17,488
Other financial assets	8(a)	34,000	1,139,557
Loans to other entities	9(a)	472,735	3,631,623
Total Current Assets		1,840,033	5,894,354
Non-Current Assets			
Plant and equipment	10	174,283	47,729
Deferred exploration expenditure	11	14,395,370	10,336,873
Other financial assets	8(b)	13,561	1,061,372
Loans to other entities	9(b)	144,203	1,705,476
Total Non-Current Assets		14,727,417	13,151,450
TOTAL ASSETS		16,567,450	19,045,804
LIABILITIES			
Current Liabilities			
Trade and other payables	12	347,966	488,805
Borrowings	14	7,033	-
Loans from other entities	13	2,928,149	1,763,754
Total Current Liabilities		3,283,148	2,252,559
Non-Current Liabilities			
Loans from other entities	13	-	267,244
Borrowings	14	85,818	-
Deferred tax liability	15	2,315,499	2,315,499
Total Non-Current Liabilities		2,401,317	2,582,743
TOTAL LIABILITIES		5,684,465	4,835,302
NET ASSETS		10,882,985	14,210,502
EQUITY			
Issued capital	16	53,698,707	53,663,707
Reserves	17	974,055	551,775
Accumulated losses		(45,190,811)	(41,269,040)
Parent entity interest		9,481,951	12,946,442
Non-controlling interest		1,401,034	1,264,060
TOTAL EQUITY		10,882,985	14,210,502

The Statement of financial position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

	Issued Capital $	Option Reserve $	Share based Payments Reserve $	Foreign Currency Translation Reserve $	Non-controlling Interest $	Accumulated Losses $	Total Equity $
Balance at 30 June 2010	**43,761,349**	**100,000**	**660,000**	**28,049**	**(43,083)**	**(36,841,681)**	**7,664,634**
Loss for the year	-	-	-	-	9,314	(4,427,359)	**(4,418,045)**
Exchange differences arising on translation of foreign operations	-	-	-	(315,375)	(424)	-	**(315,799)**
Total comprehensive loss	**-**	**-**	**-**	**(315,375)**	**8,890**	**(4,427,359)**	**(4,733,844)**
Shares issued during the year (net of share issue costs)	2,646,219	-	-	-	-	-	**2,646,219**
Shares issued as consideration on acquisition of subsidiary	5,895,000	-	-	-	-	-	**5,895,000**
Options issued during the year	-	-	-	-	-	-	**-**
Options converted during the year	1,361,139	-	-	-	-	-	**1,361,139**
Recognition of share based payments	-	-	79,101	-	-	-	**79,101**
Equity associated with non-controlling interest	-	-	-	-	1,298,253	-	**1,298,253**
Balance at 30 June 2011	**53,663,707**	**100,000**	**739,101**	**(287,326)**	**1,264,060**	**(41,269,040)**	**14,210,502**
Loss for the year	-	-	-	-	258,055	(4,021,771)	**(3,763,716)**
Exchange differences arising on translation of foreign operations	-	-	-	350,975	(121,081)	-	**229,894**
Total comprehensive loss	**-**	**-**	**-**	**350,975**	**136,974**	**(4,021,771)**	**(3,533,822)**
Shares issued as payment for services	35,000	-	-	-	-	-	**35,000**
Options issued during the year	-	-	171,305	-	-	-	**171,305**
Options expired during the year	-	(100,000)	-	-	-	100,000	**-**
Balance at 30 June 2012	**53,698,707**	**-**	**910,406**	**63,649**	**1,401,034**	**(45,190,811)**	**10,882,985**

The statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

	Notes	CONSOLIDATED	
		2012	2011
		$	$
Cash flows from operating activities			
Receipts from customers		214,190	211,152
Interest received		5,345	8,606
Payments to suppliers and employees		(1,462,151)	(1,890,132)
Mining tenement expenditure		(3,232,542)	(1,705,302)
Interest and income taxes paid		(13,692)	(8,246)
Net cash flows from/(used in) operating activities	6	(4,488,850)	(3,383,922)
Cash flows from investing activities			
Purchase of property, plant and equipment		(146,131)	(47,622)
Proceeds from sale of investments and fixed assets		694,476	-
Payment for subsidiary net of cash acquired		-	10,430
Funds advanced to / (received from) non-related parties		4,165,703	174,571
Net cash flows from/(used in) investing activities		4,714,048	137,379
Cash flows from financing activities			
Proceeds from issue of shares (net of share issue costs)		(33,750)	4,041,107
Proceeds from issue of options		-	79,101
Net cash flows from/(used in) financing activities		(33,750)	4,120,208
Net increase in cash and cash equivalents		191,448	873,665
Cash and cash equivalents at beginning of year		1,091,031	217,413
Exchange rate fluctuations on cash held		5,878	(51)
Cash and cash equivalents at end of year	6	1,288,357	1,091,031

The statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT 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, Accounting Standards and Interpretations and complies with other requirements of the law.

The financial report has also been prepared on a historical cost basis.

The accounting policies detailed below have been consistently applied to all of the years presented unless otherwise stated.

The financial report is presented in Australian dollars.

The Company is a listed public Company incorporated in Australia. The entities principal activities are coal exploration and development in Indonesia.

(b) Adoption of new and revised standards

Changes in accounting policies on the application of Accounting Standards

In the year ended 30 June 2012, the Company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operation and effective for the current annual reporting period.

It has been determined by the Directors that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Company has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2012. As a result of this review, the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

(c) Statement of Compliance

The financial report was authorised for issue on 28 September 2012.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Pan Asia Corporation Limited and the entities it controlled (“the Group”) for the year ended 30 June 2012.

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-Group transactions have been eliminated in full.

(d) Basis of consolidation (continued)

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Business combinations have been accounted for using the acquisition method of accounting (refer note 1(j)).

Unrealised gains or transactions between the Group and its subsidiaries are eliminated to the extent of the Group's interests in the subsidiaries. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the statement of comprehensive income and within equity in the consolidated statement of financial position. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised within equity attributable to owners of Pan Asia Corporation Limited.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(e) Critical accounting judgements and key sources of estimation uncertainty

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values 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.

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 using a Black and Scholes model, as discussed in Note 25.

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Black and Scholes formula taking into account the terms and conditions upon which the instruments were granted, as discussed in Note 25.

(e) Critical accounting judgements and key sources of estimation uncertainty (continued)

Exploration and evaluation costs carried forward

The recoverability of the carrying amount of exploration and evaluation costs carried forward has been reviewed by the Directors. In conducting the review, the recoverable amount has been assessed by reference to the higher of "fair value less costs to sell" and "value in use". In determining value in use, future cash flows are based on:

- Estimates of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- Estimated production and sales levels;
- Estimate future commodity prices;
- Future costs of production;
- Future capital expenditure; and/or
- Future exchange rates

Variations to expected future cash flows, and timing thereof, could result in significant changes to the impairment test results, which in turn could impact future financial results.

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

(f) Revenue recognition

Revenues are stated net of the amount of goods and services tax (GST) payable to the taxation authority.

Revenue is measured at fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

- Sale of goods

  Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

- Interest income

  Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(g) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

(g) Goods and services tax (GST) (continued)

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(h) Income Tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary difference and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to complete the amount are those that are enacted or substantially enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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 taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

(h) Income Tax (continued)

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

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

(i) Foreign currency translation

Both the functional and presentation currency of Pan Asia Corporation Ltd is Australian dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the foreign operations PT PZC Services and PT Transcoal Minergy, is United States dollars (US$).

The cost of the exploration activities are primarily denominated and settled in US dollars. The US dollar is more representative of the primary economic environment in which the subsidiary Company operates.

As at the balance date the assets and liabilities of these subsidiaries are translated into the presentation currency of Pan Asia Corporation Limited at the rate of exchange ruling at balance date and their Statement of Comprehensive Income are translated at the weighted average exchange rate for the year.

The exchange differences arising on the translation are taken directly to a separate component of recognised in the foreign currency translation reserve in equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

(j) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or business under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified as either equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(k) Cash and cash equivalents

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(l) Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Trade receivables are generally due for settlement within periods ranging from 15 days to 30 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Group in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Group. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

(l) Trade and other receivables (continued)

The amount of the impairment loss is recognised in the Statement of Comprehensive Income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Statement of Comprehensive Income.

(m) Impairment of assets

The Group assesses at each balance 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, the Group 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 or Groups of assets 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 those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each balance 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 unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. 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.

(n) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

(o) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

(p) 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.

(q) Exploration and evaluation

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

i. the rights to tenure of the area of interest are current; and

ii. at least one of the following conditions is also met:

(a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or

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

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortised of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Where a decision has been made to proceed with development, in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

(r) Financial Assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition & Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

(r) Financial Assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process

(s) Impairment of financial assets

The Group assesses at each balance date whether a financial asset or Group of financial assets is impaired.

i. Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a Group of financial assets with similar credit risk characteristics and that Group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(t) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Plant and equipment – 1-5 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

i. Impairment

The carrying values of plant and equipment are reviewed for impairment at each balance date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

(t) Plant and equipment (continued)

Impairment (continued)

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the Statement of Comprehensive Income in the impairment of non-current assets line item.

ii. De-recognition and disposal

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

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

(u) Share-based payment transactions

Equity settled transactions

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes model, further details of which are given in Note 25.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Pan Asia Corporation Limited (market conditions) if applicable.

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

The cumulative expense recognised for equity-settled transactions at each balance date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The Statement of Comprehensive Income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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

(u) Share-based payment transactions (continued)

If 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 modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of 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 dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 5).

Share based payments with parties other than employees and contractors acting in the capacity of employees is measured by reference to the fair value goods or services rendered at the date of which the Group obtains the goods or the counterparty renders services.

(v) 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 Pan Asia Corporation Limited.

(w) Earnings per share

Basic earnings per share is calculated as net profit or loss attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

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

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interests 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 element.

(x) Going Concern

In the year ended 30 June 2012, the Company recorded a net loss of $3,763,716 and a net operating cash outflow of $4,488,850. The Company has a working capital deficiency of $1,443,115 at 30 June 2012, due to recognition of a loan with Kopex of US$1,573,613 for the drilling activities in the TCM Project. This can be repaid in equity or cash.

Notwithstanding the above, the financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and liabilities in the ordinary course of business and on the assumption of sufficient funds becoming available for the operations of the entity and its subsidiaries.

(x) Going Concern (continued)

The Board considers that the Company is a going concern and recognises that additional funding may be required to ensure that the Company can continue to fund its and the consolidated entity's operations and further develop its resource assets during the twelve month period from the date of this financial report. Such additional funding can be derived by raising additional equity or the partial sell down of its assets.

Accordingly, the Directors believe the Company will obtain sufficient funding to enable it and the consolidated entity to continue as going concerns and that it is appropriate to adopt that basis of accounting in the preparation of the financial report.

NOTE 2: SEGMENT REPORTING

Segment Information

The following table presents revenue and result information and certain asset and liability information regarding the relevant segments for the period ended 30 June 2012 for the consolidated entity.

The chief operating decision-maker has been identified as the Board of Pan Asia Corporation Limited.

The reportable segments have been identified around geographical areas and regulatory environments. Operating segments have been aggregated. Specifically PT Roda Niaga, PT Kusan Persada, PT PZC Services and PT Transcoal Minergy have been aggregated in the Indonesian reporting segment.

The Australian reporting segment derives its revenues from its investments in the entities making up the Indonesian reporting segment and from interest on its cash deposit It is intended that the Indonesian reporting segment will derive revenue from the exploration assets it currently holds and from royalty and off-take agreements currently in place.

Transactions between reportable segments are accounted for in the same manner as transactions with external parties.

30 June 2012 segments

	Australia $	Indonesia $	Total $
Segment result			
Other revenue	(5,328)	(174,092)	(179,420)
Supplier, consulting, investor relations and other	420,089	9,690	430,779
Employment and occupancy costs	323,375	130,822	454,197
Depreciation	15,315	6,151	21,465
Foreign exchange loss	214,597	(2,123)	212,474
Segment result	3,522,327	241,389	3,763,716

NOTE 2: SEGMENT REPORTING (continued)

30 June 2012 segments (continued)

	Australia $	Indonesia $	Total $
Segment assets and liabilities			
Property, plant and equipment	137,827	36,456	174,283
Deferred exploration expenditure	830,359	13,565,011	14,395,370
Loans to/(from) other entities	144,203	(2,455,415)	(2,311,212)
Segment assets	3,519,560	13,047,890	16,567,450
Segment liabilities	(1,053,193)	(4,631,272)	(5,684,466)

30 June 2011 segments

	Australia $	Indonesia $	Total $
Segment result			
Other revenue	(37,616)	(148,179)	(185,794)
Supplier, consulting, investor relations and other	1,547,924	3,720	1,551,645
Employment and occupancy costs	171,179	42,439	213,618
Depreciation	2,667	3,316	5,983
Share based payments	253,782	-	253,782
Foreign exchange loss (unrealised)	1,092,392	(66)	1,092,327
Segment result	4,340,554	77,491	4,418,045
Segment assets and liabilities			
Property, plant and equipment	11,165	36,564	47,729
Deferred exploration expenditure	-	10,336,873	10,336,873
Loans to other entities	652,119	-	652,119
Segment assets	17,183,724	1,862,080	19,045,804
Segment liabilities	(2,184,128)	(2,651,174)	(4,835,302)

NOTE 3: REVENUES AND EXPENSES

Revenue and Expenses from Continuing Operations

		CONSOLIDATED	
		2012	**2011**
		$	**$**
(a)	**Other income**		
	Interest income	134,256	8,606
	Off-take margin & other income (i)	45,164	177,189
		179,420	**185,795**
(b)	**Impairment of royalty receivable**		
	Surrender of rights (ii)	1,266,271	-
		1,266,271	**-**
(c)	**Other expenses**		
	Accounting, audit and legal fees	261,232	763,344
	Bank charges	9,312	7,247
	Consulting, supplier, investor relations and other	430,779	1,551,645
	Company secretary fees	5,660	60,000
	Corporate and other administration fees	270,253	233,868
	Directors' fees	132,000	109,719
	Interest	101,281	95,789
	Depreciation expense	21,465	5,983
	Employment and occupancy costs	454,197	324,232
	Stock exchange and share registry expenses	62,654	100,243
	Travel and accommodation expense	188,012	242,938
	Foreign exchange loss	(212,472)	1,092,327
	Other	39,764	16,505
		1,764,137	**4,603,840**

(i) Note any Royalty portion of receipts from coal shipped from the Ranrich projects have been recorded in the Statement of Financial Position against Royalty Receivable and not in the Statement of Comprehensive Income.

(ii) As part of the purchase of Innovation West Pty Ltd in December 2010, $2,150,343 was recorded as royalty receivable. In March 2012, the Company entered into a restructured Memorandum of Agreement with Ranrich Investments Limited whereby the Company surrendered its royalty rights to the Ranrich Projects for a lump sum settlement of US$4.5m that included the repayment of the Ranrich loan. With the cessation of future cash flows from this coal royalty, the royalty receivable has been impaired. In addition to the repayment of the Ranrich loan, the Company is to receive a royalty of US$1 per tonne of coal produced and sold from production at the BCKP Project (up to a limited US$15 million). However, as BCKP is in the exploration phase, the BCKP royalty has not, at this point, been brought to account.

NOTE 4: INCOME TAX BENEFIT

The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax expense as follows:

	CONSOLIDATED	
	2012	**2011**
	$	**$**
Operating loss before income tax	**3,763,716**	**4,418,045**
Prima facie benefit on (loss) from ordinary activities (30%)	**1,129,115**	**1,325,413**
Tax effect of amounts which are taxable (deductible) in calculating taxable income		
- Non deductible expenditure	(6,051)	12,311
- Assessable unwinding of royalty	25,014	35,883
- Impairment expenses	273,818	-
- Capitalised costs	(291,992)	(284,190)
- Capitalised legal fees	47,697	110,756
Deferred Tax Asset (DTA) on temporary differences and tax losses not brought to account	**1,177,601**	**1,200,173**
Income tax benefit for the year	**-**	**-**
Deferred tax assets not brought to account at balance date		
Tax losses not brought to account	**12,398,821**	**8,473,485**
Potential tax benefit	**3,719,646**	**2,542,045**

The DTA not brought to account will only be obtained if:

(a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;

(b) the conditions for deductibility imposed by tax legislation continue to be complied with; and

(c) the Company and consolidated entity is able to meet the continuity of business tests and or continuity of ownership.

NOTE 5: LOSS PER SHARE

Basic earnings per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Share options with an exercise price above the average market price during the period have been excluded from the calculation of the diluted earnings per share. Diluted earnings per share are not reflected as the result is anti-dilutive in nature.

The following reflects the income and share data used in the basic loss per share computations:

	CONSOLIDATED	
	2012	**2011**
	$	**$**
Loss for the year	(3,763,716)	(4,418,045)
Weighted average number of ordinary shares (excluding reserved shares) for basic loss per share	117,581,883	85,995,325

There have been no other transactions involving ordinary shares or potential ordinary shares between the balance date and the date of completion of these financial statements.

NOTE 6: CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2012	**2011**
	$	**$**
Cash at bank and cash on hand	1,288,357	1,091,031
	1,288,357	1,091,031

Cash at bank earns interest at floating rates based on daily bank deposit rates. The entity has no credit standby arrangements, loan or overdraft facilities for the periods ended 30 June 2011 and 30 June 2012.

The fair value of cash and cash equivalents is $1,288,357 (2011: $1,091,031).

At 30 June 2012, the Company had $40,000 held in a bank deposit that is held as collateral against a credit card facility.

NOTE 6: CASH AND CASH EQUIVALENTS (continued)

Reconciliation of losses from ordinary activities after income tax to net cash provided by operating activities

	CONSOLIDATED	
	2012 $	2011 $
Loss from ordinary activities after income tax	(3,763,716)	(4,418,045)
Add/(less) non-cash flows in loss from ordinary activities:		
Depreciation and amortisation of property, plant and equipment	21,465	5,983
(Increase)/decrease in capitalised exploration cost	(3,147,203)	(417,613)
(Increase)/decrease in current receivables	(12,799)	242,098
(Increase)/decrease in non current receivables	1,683,826	-
(Decrease)/increase in payables	(140,839)	165,835
Foreign exchange (gain)/loss	(212,472)	1,092,326
Impairment allowance on external loans	912,728	-
Issue of Employee Share Options	171,305	-
(Increase)/decrease in other assets	(1,145)	(54,506)
Net cash flows (used in) operating activities	**(4,488,850)**	**(3,383,922)**

Non-cash investing activities
The company incurred, through a Hire Purchase agreement, assets for $131,404.

NOTE 7: TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	2012 $	2011 $
(a) Current		
Trade receivables (i)	25,301	14,655
	25,301	**14,655**

(i) Trade receivables are non-interest bearing.

NOTE 8: OTHER FINANCIAL ASSETS

		CONSOLIDATED	
		2012	**2011**
		$	**$**
(a)	**Current**		
	Cash advance (i)	4,537	4,305
	Security deposit (ii)	29,463	29,463
	Royalty receivable (iii)	-	1,105,789
	Total other financial assets	**34,000**	**1,139,557**
(b)	**Non Current**		
	Deposit paid (iv)	13,561	12,868
	Royalty receivable (iii)	-	1,048,504
	Total other financial assets	**13,561**	**1,061,372**

(i) A cash advance of US$4,623 was paid to PT Maxidrill Indonesia for drilling services provided.

(ii) A security deposit was required as part of the sublease agreement for the Jakarta office and apartment.

(iii) In December 2010, the Company recorded $2,150,343 royalty receivable as part of the purchase of Innovation West Pty Ltd, which had entered into an agreement with Ranrich Investments Limited to receive royalty income at an agreed rate per tonne of coal shipped.

In March 2012, the Company entered into a restructured Memorandum of Agreement with Ranrich that included exchanging its right to this royalty income from the Ranrich Project in favour of a cash payment US$4.5 million and the right to receive a royalty on production from the BCKP Project of US$1 per tonne up to a maximum of US$15m. The BCKP Project is not yet in production.

(iv) A deposit of US$13,820 was paid to a contractor for the construction of a drill rig which is to be used in the Company's exploration program.

NOTE 9: LOANS TO OTHER ENTITIES

		CONSOLIDATED	
		2012	**2011**
		$	**$**
(a)	**Current**		
	Loans made to Ranrich (i)	-	3,631,623
	Loans made to Ranrich (ii)	472,735	-
	Total loans to other entities	**472,735**	**3,631,623**

NOTE 9: LOANS TO OTHER ENTITIES (continued)

		CONSOLIDATED	
		2012	2011
		$	$
(b)	**Non Current**		
	Loans made to Ranrich (i)	-	652,119
	Loans made to Gerald Nirahuwa (iii)	912,728	1,053,357
	Provision for loan made to Gerald Nirahuwa (iii)	(912,728)	-
	Other loans	144,203	-
	Total loans to other entities	**144,203**	**1,705,476**

(i) A loan for US$5,000,000 was provided to Ranrich Investments Ltd in 2010 under an agreement that the funds be used to further exploration on various projects. The loan principal was repayable at US$2 per tonne of coal shipped from the Ranrich Projects. In March 2012, the arrangements of the original loan were restructured and the loan funds outstanding were repaid in full.

(ii) Under the terms of the Company's exchange of BCKP rights, Ranrich Investments Ltd is responsible for the non-delivery of two coal shipments to Noble Resources, valued at US$481,764. However, in the event Ranrich defaults, the Company will ultimately be liable for this amount due to Noble Resources.

(iii) A loan was given to Gerald Nirahuwa for planned acquisition of coal and manganese assets. The acquisition did not eventuate and although the Company continues to seek avenues to recovery, it has been unsuccessful to date. As a result, the amount has been impaired.

NOTE 10: PLANT & EQUIPMENT

	CONSOLIDATED	
	2012	2011
	$	$
At beginning of the year, net of accumulated depreciation and impairment	47,729	5,825
Additions	148,019	47,886
Depreciation	(21,465)	(5,982)
At end of the year, net of accumulation depreciation and impairment	**174,283**	**47,729**

At 30 June 2011	
Cost at fair value	54,181
Accumulated depreciation and Impairment	(6,452)
Net carrying amount	**47,729**
At 30 June 2012	
Cost at fair value	202,442
Accumulated depreciation and Impairment	(28,159)
Net carrying amount	**174,283**

NOTE 11: DEFERRED EXPLORATION EXPENDITURE

	CONSOLIDATED	
	2012	2011
	$	$
Balance at beginning of the year	10,336,873	1,278,146
Exploration assets acquired in Innovation West (refer to note 15)	-	8,841,683
Expenditure incurred (i)	3,942,972	1,340,397
Foreign currency translation movement	115,525	(1,123,353)
Balance at end of the year	**14,395,370**	**10,336,873**

(i) The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas. The Company has investments in Indonesia predominantly a pre-development project (the TCM Project).

NOTE 12: TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2012	2011
Current Unsecured Liabilities:	$	$
Trade payables (i)	263,236	285,684
Accrued expenses (ii)	84,730	203,122
	347,966	**488,805**

(i) Trade payables are non-interest bearing and are normally settled on 30 day terms.

(ii) Accrued expenses are non-interest bearing.

NOTE 13: LOANS FROM OTHER ENTITIES

	CONSOLIDATED	
	2012	2011
Current	$	$
Loans payable to Noble Resources (i)	-	1,763,754
Loans payable to Noble Resources (post surrender of BCKP rights) (ii)	472,735	-
Loan payable to KOPEX Mining (iii)	1,544,120	-
Loan payable to KOPEX Mining (iv)	911,294	-
Total loans from other entities	**2,928,149**	**1,763,754**
Non Current		
Loan payable to KOPEX Mining (iii)	-	186,237
Loans payable to other non-related parties	-	81,007
Total loans to other entities	**-**	**267,244**

NOTE 13: LOANS FROM OTHER ENTITIES (continued)

(i) A binding agreement with the advancement of US$2,000,000 was executed with Noble Resources in August 2010 for the delivery of 4.8 million tonnes from the Ranrich Projects. Following the restructuring and subsequent termination of the Memorandum of Agreement with Ranrich in March 2012, the outstanding loan amount was paid to Noble in full with the proceeds of loan repayment from the Ranrich restructure and settlement.

(ii) As per Note 9(a) (ii).

(iii) An agreement was entered into with KOPEX to co-fund part of the drilling program on the TCM Coal Project. Under the agreement, KOPEX funded a total of US$1,600,000 in drilling costs. As at 30 June 2012, the loan amount advanced for drilling is US$1,573,613. The Project is currently proceeding favourably with its Phase 4 of the drilling program recently completed. This loan is only repayable in cash or shares should the Company decide not to proceed with the Development and Production of the TCM Coal Project with Kopex or if Kopex decide that they will take no future part in the development and production of the TCM Project.

(iv) Kopex has funded and carried out US$928,700 worth of feasibility study work on the TCM project. This amount is the maximum amount that may become payable for the feasibility study work undertaken by Kopex.

NOTE 14: BORROWINGS

	CONSOLIDATED	
	2012	**2011**
	$	**$**
Current		
Motor vehicle hire purchase liability	7,033	-
Total borrowings	**7,033**	**-**
Non Current		
Motor vehicle hire purchase liability	85,818	-
Total borrowings	**85,818**	**-**

NOTE 15: ACQUISITION OF SUBSIDARY

There were no acquisitions during the year.

Prior Period Business Combination

Acquisition of Innovation West Pty Ltd

On 24 December 2010, the Company acquired 100% of Innovation West Pty Ltd and its holding of 75% of PT Transcoal Minergy, an Indonesian coal Company. The purchase price was satisfied by the payment of $5,895,000 in shares. The acquisition involves the receipt of royalties from coal sales with a discounted present value of $2,150,343 and is estimated to be received in the two years from the date of acquisition.

Purchase consideration:

32,750,000 shares at 18c each	5,895,000
Total consideration	**5,895,000**

The net assets acquired in the business combination at the date of acquisition are as follows:

	Acquiree's carrying amount before business combination	Fair value adjustments	Fair value
	$	$	$
Net assets acquired:			
Cash and cash equivalents	10,452	-	10,452
Other financial assets	8,497	2,150,343	2,158,840
Loan to other entities	5,963,848	-	5,963,848
Deferred exploration and evaluation expenditure	1,123,353	7,718,330	8,841,683
Loans from other entities	(7,468,464)	-	(7,468,464)
Deferred tax liabilities	-	(2,315,499)	(2,315,499)
	(362,314)	7,553,174	7,190,860
Less: non-controlling interest			(1,295,860)
Goodwill on consolidation			-
			5,895,000
The cash outflow on acquisition is as follows:			
Net cash acquired with subsidiary			10,452
Cash paid			-
Net cash inflow			10,452

Acquisition related costs of $448,200 are included in other expenses in the statement of comprehensive income.

NOTE 16: ISSUED CAPITAL

	CONSOLIDATED	
	2012 $	2011 $
Ordinary shares issued and fully paid	**53,698,707**	**53,663,707**

	No. of Shares	2012 $	No. of Shares	2011 $
Movements in ordinary shares on issue				
At start of year	117,579,143	53,663,707	1,210,460,832	43,761,349
- Shares issued under Prospectus (i)	-	-	5,000,000	1,000,000
- Shares issued under Placement	-	-	22,000,000	1,900,000
- Conversion of options during the period	-	-	49,678,300	1,361,139
- Consolidation of shares 20 to 1	-	-	(1,202,309,989)	-
- Shares issued to Innovation West vendors	-	-	32,750,000	5,895,000
- Shares issued in satisfaction of services	250,000	35,000	-	-
- Less share issue costs	-	-	-	(253,781)
At end of year	117,829,143	53,698,707	117,579,143	53,663,707

NOTE 17: RESERVES

(a) Option Reserve

Movements in options over ordinary shares on issue

	CONSOLIDATED			
	No. of Options	2012 $	No. of Options	2011 $
At start of year	8,771,939	100,000	291,552,485	100,000
- Conversion of options to ordinary shares	-	-	(48,678,300)	-
- Consolidation of options 20 to 1	-	-	(234,102,246)	-
- Options expired	(8,771,939)	(100,000)	-	-
At end of year	**-**	**-**	**8,771,939**	**100,000**

NOTE 17: RESERVES (continued)

(b) Share Based Payment Reserve

Movements in share based payments

	CONSOLIDATED			
	No. of Options	2012 $	No. of Options	2011 $
At start of year	2,365,480	739,101	42,000,000	660,000
- Conversion of options to ordinary shares	-	-	(1,000,000)	-
- Consolidation of options 20 to 1	-	-	(39,900,000)	-
- Issue of options for underwriting services	-	-	1,265,480	79,101
- Issue of options to management	500,000	10,000	-	-
- Issue of options to employees	5,600,000	161,305	-	-
At end of year	**8,465,480**	**910,406**	**2,365,480**	**739,101**

(c) Foreign Currency Reserve

Movements in foreign currency reserve

	CONSOLIDATED	
	2012 $	2011 $
At start of year	(287,326)	28,049
- Exchange rate differences arising on translation of foreign currency	350,975	(315,375)
At end of year	**63,649**	**(287,326)**

Nature and purpose of reserves

Options reserve

This reserve is used to record the issue of options.

Share based payments reserve

This reserve is used to record the value of equity benefits provided to employees and Directors as part of their remuneration and to suppliers as payments for services. Details on share based payments are disclosed in Note 25.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

NOTE 18: FINANCIAL INSTRUMENTS

	CONSOLIDATED	
	2012	**2011**
	$	**$**
Categories of financial instruments		
Financial assets		
Cash and cash equivalents	1,288,357	1,091,031
Receivables	25,301	14,655
Other financial assets	47,561	2,294,048
Loans to other entities	616,938	5,337,099
	1,978,157	8,736,833
Financial liabilities		
Trade and other payables	347,966	488,805
Loans from other entities	2,928,149	2,030,997
	3,276,115	2,519,802

The Group's principal financial instruments comprise of cash and short-term deposits.

The main purpose of these financial instruments is to finance the Group's operations. The Group has other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

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.

<u>Cash flow interest rate risk</u>

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and short-term deposits. As at 30 June 2012, the interest-bearing loan with Noble was settled in full, hence reducing the Group's interest rate risk going into the next financial year. There are no other significant interest bearing loans within the Group.

<u>Credit risk</u>

The Group's policy is to trade only with recognised, creditworthy third parties.

It is the Group's policy that all customers who wish to trade on credit terms will be subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. There are no significant concentrations of credit risk within the Group.

NOTE 18: FINANCIAL INSTRUMENTS (continued)

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from 2011.

The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

None of the Group's entities are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand operations, as well as to make routine expenditures such as tax, dividends and general administrative outgoings.

Gearing levels are reviewed by the Board on a regular basis in line with its target gearing ratio, the cost of capital and the risks associated with each class of capital.

Foreign Exchange Risk

The Company's revenues are in US dollars (USD) and many expenditures, including some loans in and out, are also in USD. Wherever possible, payments in and out are made in US dollars. The Group however, undertakes certain transactions denominated in currencies, such as AUD and IDR, hence exposures to exchange rate fluctuations arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the balance date expressed in Australian dollars are as follows:

30 June 2012	Liabilities	Assets
US dollars	2,984,077	628,721

- Foreign currency sensitivity analysis.

The Group is exposed to US Dollar current fluctuations.

The following table details the Group's sensitivity to a 10% increase and decrease in the Australian dollar against the US dollar. The sensitivity analysis includes only outstanding US dollar denominated monetary items and adjusts their translation at the year end for a 10% change in foreign currency rates. The sensitivity analysis focuses on external loans where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in equity where the Australian Dollar strengthens against the US dollar. For a weakening of the Australian Dollar against the US dollar there would be an equal and opposite impact on the equity and the balances below would be negative.

	CONSOLIDATED
	2012
AUD/USD +10%	210,110
AUD/USD - 10%	(256,801)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility using bank overdrafts, bank loans and capital raising.

NOTE 18: FINANCIAL INSTRUMENTS (continued)

Interest rate risk

The following table sets out the carrying amount, by maturity, of the Group's non-derivative financial liabilities.

Year ended 30 June 2012	<1 month $	1-3 months $	3 months-1year $	1-5 years $	5+ years $	Total $
CONSOLIDATED						
NON INTEREST BEARING LIABILITIES						
Fixed interest rate instruments	-	-	2,928,149	-	-	2,928,149

Year ended 30 June 2011	<1 month $	1-3 months $	3 months-1year $	1-5 years $	5+ years $	Total $
CONSOLIDATED						
NON INTEREST BEARING LIABILITIES						
Fixed interest rate instruments	488,805	-	-	267,244	-	756,049

NOTE 19: RELATED PARTY DISCLOSURE

The consolidated financial statements include the financial statements of Pan Asia Corporation Limited and the controlled entities listed in the following table.

	Country of incorporation	% Interest 30 June 2012	% Interest 30 June 2011
Innovation West Pty Ltd	Australia	100	100
PT Transcoal Minergy	Indonesia	75	75
PT PZC Services	Indonesia	100	100
Triumph West Pty Ltd	Australia	100	100
PT Roda Niaga	Indonesia	80	80
PT Kursan Pursada	Indonesia	80	80

Through a number of agreements, Triumph West Pty Ltd (a wholly owned subsidiary of the Company) has an 80% interest in the operations and assets of PT Roda Niaga and PT Kursan Persada. Innovation West Pty Ltd (a wholly owned subsidiary of the Company) has a 75% interest in PT Transcoal Minergy.

During the reporting period, fees for administrative, accounting and consulting fees of $161,152 (excluding GST) were incurred to Indian Ocean Advisory Group. These services were provided on normal commercial terms and conditions and at market rates. Mr L Martino is a Director of Indian Ocean Advisory Group.

A short-term loan of $50,000 was provided by Ridgescan Pty Ltd, a company related to a key management personnel. The loan and total financing fee of $1,000 was repaid during the period.

NOTE 20: EVENTS AFTER THE BALANCE DATE

- Completed phase 4 drilling at the TCM Project;
- The Company was notified that it had received PMA status;
- The IUP's for PT Roda Niaga and PT Kusan Persada expired on 7 September 2012.

Apart from the above, there are no events that occurred subsequent to balance date.

NOTE 21: AUDITORS' REMUNERATION

The auditor of Pan Asia Corporation Ltd is HLB Mann Judd.

	CONSOLIDATED	
	2012	**2011**
	$	**$**
Amounts due and received by the auditor on		
- audit or review of the financial report	39,720	25,450
- non-audit services	-	8,500
	39,720	33,950

NOTE 22: COMMITMENTS AND CONTINGENCIES

As at 30 June 2012, there are no commitments and contingent liabilities to be disclosed.

NOTE 23: KEY MANAGEMENT PERSONNEL

Key management personnel remuneration has been included in the Remuneration Report Section of the Directors Report.

(a) Shareholdings of Directors and CEO

Shares held in the Company (number)

30 June 2012	Balance at beginning of period	Exercised Options	Net change Other	Balance at end of period
D.Martino	6,850,000	-	600,000	7,450,000
M.Pixley	-	-	-	-
L.Martino	200,000	-	5,115,000	5,315,000
H Boentario *	5,000,000	-	(5,000,000)	-
A.Hopkins	4,440,000	-	360,000	4,800,000
J.Campbell **	-	-	-	-
Total	16,490,000	-	1,075,000	17,565,000

* Resigned 21 June 2012
** Appointed 11 October 2011

30 June 2011	Balance at beginning of period	Exercised Options	Net change Other	Balance at end of period
D.Martino	-	-	6,850,000	6,850,000
M.Pixley	-	-	-	-
L.Martino	-	-	200,000	200,000
H Boentario	-	-	5,000,000	5,000,000
A.Hopkins	250,000	-	4,190,000	4,440,000
Total	250,000	-	16,240,000	16,490,000

(b) Option holdings of Directors and CEO

Options held in the Company (number)

30 June 2012	Balance at beginning of period	Purchases	Exercised options	Net change Other	Balance at end of period
D Martino	-	-	-	-	-
M Pixley	-	-	-	-	-
L Martino	200,000	-	-	-	200,000
A Hopkins	-	-	-	4,000,000	4,000,000
J.Campbell **	-	-	-	1,000,000	1,000,000
H Boentario *	-	-	-	-	-
Total	200,000	-	-	5,000,000	5,200,000

* Resigned 21 June 2012
** Appointed 11 October 2011

NOTE 23: KEY MANAGEMENT PERSONNEL (continued)

Option holdings of Directors and CEO (continued)

30 June 2011	Balance at beginning of period	Purchases	Exercised options	Net change Other	Balance at end of period
D Martino	-	-	-	-	-
M Pixley	1,000,000	-	(1,000,000)	-	-
L Martino	200,000	-	-	-	200,000
H Boentario	-	-	-	-	-
A Hopkins	-	-	-	-	-
Total	1,200,000	-	(1,000,000)	-	200,000

NOTE 24: PARENT ENTITY DISCLOSURES

Financial position

	2012 $	2011 $
Assets		
Current assets	4,285,289	6,730,837
Non-current assets	6,124,419	6,882,976
Total assets	10,409,708	13,613,813
Liabilities		
Current liabilities	294,494	456,785
Non-current liabilities	85,818	-
Total liabilities	380,312	456,785
Equity		
Issued capital	53,698,707	53,663,707
Accumulated losses	(44,579,717)	(41,345,780)
Option reserve	-	100,000
Share based payments reserve	910,406	739,101
Total equity	10,029,396	13,157,028

Financial performance

	2012 $	2011 $
Loss for the year	2,333,937	4,709,263
Other comprehensive income	-	-
Total comprehensive loss	2,333,937	4,709,263

NOTE 25: SHARE BASED PAYMENTS

The following share-based payment arrangements were in place during the current year:

Unlisted Option Series	Number	Grant Date	Expiry date	Exercise price $	Fair value at grant date $
PZCOPT7	632,740	30/12/2010	30/12/2012	$0.24	$30,000
PZCOPT8	632,740	30/12/2010	30/12/2012	$0.20	$49,101
PZCOPT9	500,000	11/10/2011	11/12/2014	$0.25	$10,000
PZCOPT10	5,600,000	01/02/2012	01/02/2015	$0.25	$161,305

The following table illustrates the number (No.), weighted average exercise prices of, and movements in share options issued during the year:

	2012 No.	2012 Weighted average exercise price
Outstanding at the beginning of the year	11,137,419	$0.69
Granted during the year	6,100,000	$0.25
Exercised during the year	-	-
Expired during the year	(8,771,939)	$0.90
Outstanding at the end of the year	8,465,480	$0.31
Exercisable at the end of the year	8,465,480	$0.31

The outstanding balance as at 30 June 2012 is represented by:

- 600,000 options over ordinary shares with an exercise price of $0.50 each, exercisable until 27/11/2012
- 200,000 options over ordinary shares with an exercise price of $1.00 each, exercisable until 29/11/2012
- 632,740 options over ordinary shares with an exercise price of $0.24 each exercisable until 30/12/2012
- 632,740 options over ordinary shares with an exercise price of $0.20 each exercisable until 30/12/2012
- 200,000 options over ordinary shares with an exercise price of $1.00 each, exercisable until 11/01/2013
- 100,000 options over ordinary shares with an exercise price of $1.00 each, exercisable until 30/03/2013
- 500,000 options over ordinary shares with an exercise price of $0.25 each, exercisable until 11/12/2014
- 5,600,000 options over ordinary shares with an exercise price of $0.25 each, exercisable until 1/02/2015

The range in contractual life for the share options outstanding is from 27 November 2012 to 1 February 2015.

The range of exercise prices for options outstanding at the end of the year was $0.20 - $1.00 (2011:$ $0.20- $1.00).

The fair value of options granted during the year was $171,305 (2011: $79,101).

The fair value of the equity-settled share options granted to the other parties as consideration for services rendered is measured as at the date of grant using the fair value of the service received.

The fair value of the equity-settled share options granted to employees and consultants acting in the capacity of employees is estimated as at the date of grant using the Black and Scholes model taking into account the terms and conditions upon which the options were granted.

NOTE 25: SHARE BASED PAYMENTS (continued)

The following table lists the inputs to the model used for the year ended 30 June 2012:

	PZCOPT7	PZCOPT8	PZCOPT9	PZCOPT10
Dividend yield (%)	0%	0%	0%	0%
Expected volatility (%)	99.51%	99.51%	101.99%	89.86%
Expected life of option (years)	2	2	3	3
Exercise price ($)	$0.24	$0.20	$0.25	$0.25
Grant date share price ($)	$0.18	$0.18	$0.08	$0.10

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

1. In the opinion of the Directors of Pan Asia Corporation Limited (the 'Company'):

   a. the financial statements, notes and the additional disclosures are in accordance with the Corporations Act 2001 including:

   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year then ended; and

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

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

   c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2012.

This declaration is signed in accordance with a resolution of the Board of Directors.

Luke Martino
Director

Dated this 28th September 2012

Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of Pan Asia Corporation Ltd

Report on the Financial Report

We have audited the accompanying financial report of Pan Asia Corporation Ltd ("the company"), which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In Note 1(c), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial report complies with International Financial Reporting Standards.

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. Those 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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 control. 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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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 complied with the independence requirements of the *Corporations Act 2001*.

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HLB Mann Judd

Accountants | Business and Financial Advisers

Matters relating to the electronic presentation of the audited financial report and remuneration report

This auditor's report relates to the financial report and remuneration report of Pan Asia Corporation Ltd for the financial year ended 30 June 2012 published in the annual report and included on the company's website. The company's directors are responsible for the integrity of the company's website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report and remuneration report. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report and remuneration report. If users of the financial report and remuneration report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information contained in this website version of the financial report and remuneration report.

Auditor's opinion

In our opinion:

(a) the financial report of Pan Asia Corporation Ltd is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(c).

Report on the Remuneration Report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2012. 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 Pan Asia Corporation Ltd for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

Norman Glass

N G NEILL
Partner

Perth, Western Australia
28 September 2012

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is complete up to 17 September 2012.

(a) Ordinary Shares

i) Distribution of ordinary shares

- 117,829,143 fully paid shares held by 2,773 shareholders. All issued ordinary shares carry one vote per share and carry the rights to dividends.

ii) The number of shareholders, by size of holding, in each class is:

	Fully Paid Ordinary Shares
1 – 1,000	352,994
1,001 – 5,000	1,465,504
5,001 – 10,000	1,667,853
10,001 – 100,000	24,020,994
100,001 and over	90,321,798
Holding less than a marketable parcel	1,408,498

(iii) Substantial Shareholders (fully paid shares)

There is one shareholder holding 5% or more of the issued shares of the Company as of 17 September, 2012.

	Fully Paid Number	%IC
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,502,001	5.52%

(iv) Twenty largest holders of quoted equity securities (fully paid shares)

Name	Fully Paid Number	%IC
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,502,001	5.52%
LJM ENTERPRISES (WA) PTY LTD	5,000,000	4.24%
RIDGESCAN PTY LTD	4,400,000	3.73%
JP MORGAN NOMINEES AUSTRALIA LIMITED	2,976,338	2.53%
DOMENAL ENTERPRISES PTY LTD	2,500,000	2.12%
PERSHING AUSTRALIA NOMINEES PTY LTD	2,392,455	2.03%
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	2,363,184	2.01%
MR JOHN DESMOND MARTIN	2,000,000	1.70%
JOHN WARDMAN & ASSOCIATES PTY LTD	2,000,000	1.70%
MR SAM FRANCIPANE	1,976,367	1.68%
ADRIAN BORIELLO	1,700,000	1.44%
FIORI PTY LTD	1,660,000	1.41%
MARK SOMMERS HILL	1,500,000	1.27%
UOB KAY HIAN (HONG KONG) LIMITED	1,458,334	1.24%
FANCHEL PTY LTD	1,359,829	1.15%
MCGEE CONSTRUCTIONS PTY LTD	1,150,000	0.98%
BOAMBEE BAY PTY LTD	1,000,000	0.85%
WEALTH ENTERPRISES LTD	1,000,000	0.85%
PEGARI PTY LIMITED	1,000,000	0.85%
DR DAVID KAY KENNEDY	1,000,000	0.85%
IMPACT NOMINEES PTY LTD	850,000	0.72%
MR PETER ALAN BUTLER & MRS MARY RUTH BUTLER	805,926	0.68%
INDIAN WEST PTY LTD	800,000	0.68%
MR TERRY MCINERNEY & MS JUDY MCINERNEY	750,000	0.64%
TOTAL	**48,185,171**	**40.86%**

(b) Unlisted options – PZCOPT2

i) Distribution of unlisted options

600,000 unlisted options held by one (1) option holder. These unlisted options have an exercise price of $0.50 per option and an expiry date of 29 November 2012.

ii) The number of option holders, by size of holding, in each class is:

	Unlisted options
1 – 1,000	0
1,001 – 5,000	0
5,001 – 10,000	0
10,001 – 100,000	0
100,001 and over	1
	1

(iii) Substantial unlisted option holders

The option holder is not a substantial holder of unlisted options.

(iv) Twenty largest holders of unlisted options

	Unlisted Options	**%**
TRANSOCEAN NOMINEES PTY LTD	600,000	100%
TOTAL	600,000	100%

(c) Unlisted options – PZCOPT3

i) Distribution of unlisted options

200,000 unlisted options held by 2 (two) option holders. These unlisted options have an exercise price of $1.00 per option and an expiry date of 29 November 2012.

ii) The number of option holders, by size of holding, in each class is:

	Unlisted options
1 – 1,000	0
1,001 – 5,000	0
5,001 – 10,000	0
10,001 – 100,000	2
100,001 and over	0
	2

iii) Substantial unlisted option holders

The option holder is not a substantial holder of unlisted options.

iv) Twenty largest holders of unlisted options

	Unlisted options	**%**
BRETT MCKAY	100,000	50%
ANYTHING COMMUNICATIONS PTY LTD	100,000	50%
TOTAL	200,000	100%

(d) Unlisted options – PZCOPT4

i) Distribution of unlisted options

200,000 unlisted options held by 1 (one) option holder. These unlisted options have an exercise price of $1.00 per option and an expiry date of 11 January 2013.

ii) The number of option holders, by size of holding, in each class is:

	Unlisted options
1 – 1,000	0
1,001 – 5,000	0
5,001 – 10,000	0
10,001 – 100,000	0
100,001 and over	1
	1

iii) Substantial unlisted option holders

The option holder is not a substantial holder of unlisted options.

iv) Twenty largest holders of unlisted options

	Unlisted options	%
INDIAN OCEAN ADVISORY GROUP PTY LTD	200,000	100%
TOTAL	200,000	100%

(e) Unlisted options – PZCOPT5

i) Distribution of unlisted options

100,000 unlisted options held by 1 (one) option holder. These unlisted options have an exercise price of $1.00 per option and an expiry date of 30 March 2013.

ii) The number of option holders, by size of holding, in each class is:

	Unlisted options
1 – 1,000	0
1,001 – 5,000	0
5,001 – 10,000	0
10,001 – 100,000	1
100,001 and over	0
	1

(iii) Substantial unlisted option holders

The option holder is not a substantial holder of unlisted options.

(iv) Twenty largest holders of unlisted options

	Unlisted options	%
TIMOTHY DEVLIN MARTINO	100,000	100.00%
TOTAL	100,000	100.00%

(f) Unlisted options – PZCOPT7

i) Distribution of unlisted options

632,740 unlisted options held by two (2) option holders. These unlisted options have an exercise price of $0.24 per option and an expiry date of 30 December 2012.

ii) The number of option holders, by size of holding, in each class is:

	Unlisted options
1 – 1,000	0
1,001 – 5,000	0
5,001 – 10,000	0
10,001 – 100,000	0
100,001 and over	2
	2

(iii) Substantial unlisted option holders

The option holder is not a substantial holder of unlisted options.

(iv) Twenty largest holders of unlisted options

	Unlisted Options	%
STONEBRIDGE SECURITIES LTD	316,370	50%
NATHAN DAVID TAYLOR	316,370	50%
TOTAL	632,740	100%

(h) Unlisted options – PZCOPT8

i) Distribution of unlisted options

632,740 unlisted options held by two (2) option holders. These unlisted options have an exercise price of $0.20 per option and an expiry date of 30 December 2012.

ii) The number of option holders, by size of holding, in each class is:

	Unlisted options
1 – 1,000	0
1,001 – 5,000	0
5,001 – 10,000	0
10,001 – 100,000	0
100,001 and over	2
	2

(iii) Substantial unlisted option holders

The option holder is not a substantial holder of unlisted options.

(iv) Twenty largest holders of unlisted options

	Unlisted options	%
STONEBRIDGE SECURITIES LTD	316,370	50.00%
NATHAN DAVID TAYLOR	316,370	50.00%
TOTAL	632,740	100.00%

(i) Unlisted options – PZCOPT9

i) Distribution of unlisted options

500,000 unlisted options held by two (2) option holders. These unlisted options have an exercise price of $0.25 per option and an expiry date of 11 October 2014.

ii) The number of option holders, by size of holding, in each class is:

	Unlisted options
1 – 1,000	0
1,001 – 5,000	0
5,001 – 10,000	0
10,001 – 100,000	0
100,001 and over	2
	2

(iii) Substantial unlisted option holders

The option holder is not a substantial holder of unlisted options.

(iv) Twenty largest holders of unlisted options

	Unlisted options	%
WILLIAM VIGORS HEWITT	250,000	50.00%
MR JASON CAMPBELL	250,000	50.00%
TOTAL	500,000	100.00%

(j) Unlisted options – PZCOPT10

i) Distribution of unlisted options

5,600,000 unlisted options held by four (4) option holders. These unlisted options have an exercise price of $0.25 per option and an expiry date of 1 February 2015.

ii) The number of option holders, by size of holding, in each class is:

	Unlisted options
1 – 1,000	0
1,001 – 5,000	0
5,001 – 10,000	0
10,001 – 100,000	1
100,001 and over	3
	4

(iii) Substantial unlisted option holders

	Unlisted options	%
ALAN HOPKINS	4,000,000	71.43%

(iv) Twenty largest holders of unlisted options

	Unlisted options	%
ALAN HOPKINS	4,000,000	71.43%
WILLIAM VIGORS HEWITT	750,000	13.39%
MR JASON CAMPBELL	750,000	13.39%
AMISHA MILLER	100,000	1.79%
TOTAL	5,600,000	100.00%

(k) Interest in Mining Tenements

Holder	Exploration KP	Location	% interest
PT Transcoal Minergy (TCM)	Operation Production IUP	Mantewe District, Tanah Bumbu Regency, South Kalimantan Province, Indonesia	75%

Competent Persons' Statement

The information in this release that relates to the Coal Resources of PT. Transcoal Minergy ("TCM") is based on information compiled and reviewed by Mr. Marek Rosa, who is a Member of the Australasian Institute of Mining and Metallurgy (The AusIMM) and works full time for PT Kopex Mining Contractors based in Jakarta, Indonesia (Member of Kopex Group Poland).

Mr Rosa is a qualified geologist who has more than 20 years of relevant mining and geological experience in coal, working for major mining companies in Poland (17 years) and in Indonesia (4 years) as a consultant. He has National Polish geological license No II-1140 for research, exploration, resource and reserve estimation of deposits of basic minerals and coalbed gas methane. During this time he has either managed or contributed significantly to numerous mining studies related to the estimation, assessment, evaluation and economic extraction of coal in Poland and Indonesia. He has sufficient experience which is relevant to the style and type of deposit under consideration especially for Underground Mining and to the activity he is undertaking to qualify him as a Competent Person for Reporting of Exploration Results, Mineral Resources and Ore Reserves.

The estimates of Coal Resources have been carried out in accordance with the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (December,2004) and Mr Rosa consents to the inclusion in this release of the Mineral Resources in the form and content in which it appears.

MAREK ROSA M.Sc. (Geology), MAusIMM

*** Exploration Target**

The Company has stated that it has an exploration target of 200 to 220 million tonnes of 6500 – 6800 CV (adb) coal for the TCM project (including the current JORC resource for the TCM coal project of 128.8Mt). The basis for this target is that the current JORC Resource of 128.8Mt has been based on drilling only part of the concession. The potential quantity & quality target is however currently conceptual in nature with insufficient exploration undertaken to define a mineral resource and it is uncertain if further exploration will result in a mineral resource.

Forward Looking Statements

Statements regarding plans with respect to the Company's exploration properties are forward looking Statement. There can be no assurance that the Company's plans for development of its properties will proceed as currently expected. There can also be no assurance that the Company will be able to confirm the presence of additional deposits, that any mineralisation will prove to be economic or that a mine will successfully be developed on the Company's exploration property. Such information contained herein represents management's best judgement as of the date hereof based on information currently available. The Company does not assume the obligation to update any forward looking statement.