# Westralian Gas and Power Limited

**ABN 53 109 213 470**

# Annual Report 2011

## CORPORATE DIRECTORY

| | |
|---|---|
| **DIRECTORS:** | Darren Levy (Chairman)<br>Stephen Thomas<br>Paul Garner |
| **COMPANY SECRETARY:** | Jack Hugh Toby FCA MACS |
| **ABN:** | 53 109 213 470 |
| **REGISTERED OFFICE:** | 31 Ord St<br>West Perth, Western Australia 6005<br><br>Tel: +61 (8) 9322 6955<br>Fax: +61 (8) 9322 6722 |
| **AUDITORS:** | Somes and Cooke<br>1304 Hay St, West Perth WA 6005<br>PO Box 709, West Perth WA 6872<br><br>Tel: +61 (8) 9426 4500<br>Fax: +61 (8) 9481 5645 |
| **SHARE REGISTRY:** | Computershare Investor Services Pty Ltd<br>Level 2, Reserve Bank Building<br>45 St Georges Terrace<br>Perth, Western Australia 6000<br><br>GPO Box D182<br>Perth, Western Australia 6840<br><br>Tel: +61 1300 557 010<br>Fax: +61 (8) 9323 2033 |

This annual report covers both Westralian Gas and Power Limited as an individual entity and the consolidated entity comprising Westralian Gas and Power Limited and its subsidiaries. The Group's presentation currency is Australian Dollars ($). The functional currency of Westralian Gas and Power Limited is Australian Dollars ($) and the functional currency of all subsidiaries of Westralian Gas and Power Limited is Australian Dollars ($), except for Sunset Energy LLC whose functional currency is United States Dollars (US$). A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report. The directors' report is not part of the financial report.

# DIRECTORS' REPORT

The directors of Westralian Gas and Power Limited A.C.N. 109 213 470 ("Parent Entity" or "Company") present their report including the consolidated financial report of the Company and its controlled entities ("Consolidated Entity" or "Group") for the year ended 30th June 2011. The Company is a listed public company limited by shares, incorporated and domiciled in Australia.

## DIRECTORS

The names of the directors of the Company in office at any time during or since the financial year and up to the date of this financial report are as follows. Directors were in office for the entire period unless otherwise stated.

Darren Stephen Levy (appointed 8 July 2011)
Stephen Leslie Thomas
Paul Charles Garner (appointed 19 July 2011)
Peter Briggs (resigned 7 July 2011)
Chong Kwee Ch'ng (appointed 30 September 2010, resigned 19 July 2011)
Kristian John Barnes (resigned 30 September 2010)

## PRINCIPAL ACTIVITIES

The principal activities of the Company during the year were exploration, development and production for oil and gas (including coal seam methane gas) and investment in the resources industry.

There were no significant changes in the nature of the principal activities during the financial year.

## OPERATING RESULTS

The operating loss for the Consolidated Entity, after income tax amounted to $1,338,809 (2010: $1,844,618).

## DIVIDENDS

No dividends have been paid or declared since the start of the financial year by the Company.

The directors have recommended that no dividend be paid by the Company in respect of the year ended 30th June 2011.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS AND REVIEW OF OPERATIONS

The following significant changes in the state of affairs of the Consolidated Entity occurred during the financial year:

On 26 July 2010, the Company issued 5,000,000 fully paid ordinary shares for $0.02 each and 5,000,000 free options. The options are exercisable at $0.05 each and expire on 1 October 2011.The issue of these shares and options was ratified at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 29 July 2010, the Company issued 1,193,869 fully paid ordinary shares for $0.02 each pursuant to the Share Purchase Plan announced on 3 May 2010.

On 5 August 2010, the Company entered into a Convertible Loan facility for a Principal Amount of $200,000. This loan was unsecured and repayable by 15 November 2010. Pursuant to the loan agreement, the Company agreed to pay a fee of 5% of the Principal Amount in lieu of interest and agreed to accept, subject to approval by the shareholders of the Company in General Meeting of resolutions, or other circumstances, which permit the Board of the Company to so do in compliance with the ASX Listing Rules, applications from the Lender or the Lender's nominees for fully paid ordinary shares in the Company at either 2 cents per share or at an issue price of no less than 80% of the average market price for shares calculated over the 5 days on which sales in shares are recorded on ASX before the day on which the issue is made, for a total amount (comprising the cost of the shares applied for) equal to the principal amount, provided that the applications are received from sophisticated or professional investors for the purposes of the Corporations Act. The Company also agreed to issue to the Lender or the Lender's nominees a free option for each share issued. Each option will entitle the holder to acquire shares in the Company for 5 cents each expiring on 1 October 2011. The full terms and conditions of the options will be the same as the existing options on issue with the same expiry date. In addition the Company agreed to pay a loan arrangement fee of $5,000, and agreed to approve and accept, subject to approval by the shareholders of the Company in General Meeting of resolutions, or other circumstances, which permit the Board of the Company to so do in compliance with the ASX Listing Rules, applications from the Lender or the Lender's nominees for up to 5,000,000 options at an issue price of 0.1 cent per option to subscribe for fully paid ordinary shares in the Company for 5 cents each expiring on 31 July 2015.

On 12 August 2010, the Company issued 8,333,333 fully paid ordinary shares for $0.012 per share, issued 8,333,333 free options exercisable at 5 cents each and expiring on 1 October 2011 and issued 5,000,000 options exercisable at 5 cents each and expiring on 31 July 2015 at an issue price of $0.001 each. These shares and options were issued pursuant to the Convertible Loan facility of 5 August 2010. The issue of the shares and the options expiring on 1 October 2011 extinguished $100,000 of the convertible loan. The issue of the options expiring on 31 July 2015 at an issue price of $0.001 are pursuant to the loan arrangement fee clause of the Convertible Loan Facility. The issue of these shares and also the options expiring on 31 July 2015 were approved at the General Meeting of shareholders of the Company held on 5 August 2010. The issue of the options expiring on 1 October 2011 was ratified at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 10 September 2010, the Company issued 10,000,000 fully paid ordinary shares for $0.01 per share and issued 10,000,000 free options exercisable at 5 cents each and expiring on 1 October 2011. These shares and options were issued pursuant to the Convertible Loan facility of 5 August 2010. The issue of these shares and options extinguished $100,000 of the convertible loan. The issue of these shares was approved at the General Meeting of shareholders of the Company held on 5 August 2010. The issue of these options was ratified at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 23 September 2010, the Company issued 30,000,000 fully paid ordinary shares for $0.01 each. The issue of these shares was approved at the General Meeting of shareholders of the Company held on 5 August 2010. The shares were issued on the basis that subject to approval by the Company's shareholders, the subscriber would receive one free attaching option for each share issued. The options would be exercisable at 2.75 cents each and expire on 31 October 2013. These options were subsequently issued on 3 December 2010 after approval by the Company's shareholders.

On 4 October 2010, the Company issued 5,000,000 fully paid ordinary shares for $0.01 per share and issued 5,000,000 free options exercisable at 3 cents each and expiring on 31 October 2015. The issue of these shares was approved at the General Meeting of shareholders of the Company held on 5 August 2010. The issue of these options was ratified at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 11 November 2010, the Company announced that an independent evaluation of the Kaloorup Road #2 Well in the Vasse Coal Seam Methane Project by independent geological consultants had recommended further seismic data be undertaken to delineate extensions of the known gas horizon as well as the fault/fracture patterns of the area. The consultants also recommended the deepening of Kaloorup Road # 2 to the base of the Permian Sue River Coal Measures to determine the gas content of the lower section. During the drilling of Kaloorup Road #2 rock chip samples were taken every three metres with selected samples every metre. Ten of these samples were submitted to the laboratory for analysis and of these, three samples showed methane gas readings significant enough to warrant further work.

On 3 December 2010, the Company issued 30,000,000 free options exercisable at 2.75 cents each and expiring on 31 October 2013. These options were issued as free attaching options to the 30,000,000 shares that were issued on 23 September 2010. The issue of these options was approved at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 3 December 2010, the Company issued 10,000,000 fully paid ordinary shares for $0.01 per share, 12,500,000 fully paid ordinary shares for $0.02 per share and 34,250,000 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of $0.001 each. The issue of these shares and options was approved at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 10 January 2011, the Company announced that the Company had surrendered its 50 per cent interest in offshore petroleum permits WA-381-P and WA-382-P. The Company had surrendered its interest as it had not been able to find an appropriate joint venture partner after the termination of its previous farmin agreement for these permits. The surrender is intended to focus the Company's time and money on the Company's shale gas exploration program.

On 17 February 2011, the Company issued 27,750,000 fully paid ordinary shares for $0.02 per share and issued 13,875,000 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of $0.001 each. The issue of these shares and options was approved at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 28 February 2011, the Company issued 12,500,000 fully paid ordinary shares for $0.02 per share and issued 35,500,000 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of $0.001 each. The issue of these shares and options was approved at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 28 February 2011, the Company issued 6,000,000 fully paid ordinary shares for $0.021 per share and issued 6,000,000 free options exercisable at 3 cents each and expiring on 31 October 2015. The issue of these shares and options was approved at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 7 April 2011, the Company issued 27,500,000 fully paid ordinary shares for $0.02 per share and issued 20,500,000 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of $0.001 each. The issue of these shares and options was ratified at the General Meeting of shareholders of the Company held on 17 June 2011.

**SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE**

On 28 July 2011, the Company issued 52,163,972 fully paid ordinary shares for $0.01 per share and issued 47,387,991 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of $0.001 each. The issue of these options was approved at the General Meeting of shareholders of the Company held on 17 June 2011.

On 22 August 2011, the Company lodged a prospectus with ASIC for an underwritten non-renounceable pro rata offer of fully paid ordinary shares to existing shareholders. The offer was on the basis of two fully paid ordinary shares in the Company ("Shares") for every three Shares held by shareholders on the record date of 2 September 2011 at an issue price of $0.01 (1 cent) per Share, with one free Attaching Option for every two new Shares issued. The Attaching Options issued will be exercisable at $0.015 on or before 31 December 2012. The maximum number of Shares to be issued pursuant to the offer is 266,615,858 new Shares and approximately 133,307,929 free Attaching Options (assuming none of the existing options on issue are exercised) and raise approximately $2,666,159 before costs.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in subsequent financial years.

## LIKELY DEVELOPMENTS

The directors intend to actively pursue the exploration and development of the oil and gas leases and coal seam gas interests in Australia and the USA in which it has an interest.

## ENVIRONMENTAL ISSUES

The Company's operations have not been subject to any environmental regulation.

## INFORMATION ON DIRECTORS AND COMPANY SECRETARY

**DARREN STEPHEN LEVY**
CHAIRMAN (NON-EXECUTIVE) )
APPOINTED: 8 JULY 2011

*Qualifications and Experience:*

Mr Levy holds a Bachelor of Commerce degree from Melbourne University, Post Graduate Diploma from the Securities Institute of Australia and has been admitted as a Fellow of the financial services institute of Australia (F.Fin.). He has had 25 years experience in the finance and stockbroking industry.

*Directorships of other listed companies in the 3 years prior to the end of the Financial Year:*

None.

*Special Responsibilities:*

Chairman of Directors.

*Interest in shares and options of the Company as at the date of signing this report:*

1,000,000 options expiring 31 October 2015 exercisable at 3 cents each in Westralian Gas and Power Limited.

*Directors meetings attended during the financial year:*

Mr Levy was appointed a director subsequent to the end of the financial year. Consequently he attended no directors meetings during the financial year.

**STEPHEN LESLIE THOMAS**
MANAGING DIRECTOR

*Qualifications and Experience:*

Bachelor of Science (Hons) in Geology and Geophysics from the University of Cardiff in 1978.

Mr Thomas has held a number of managerial positions both technical and corporate within the field of oil and gas exploration since 1978. Mr Thomas moved into the coal seam methane industry in 1997 when he became managing director of Growth Resources NL.

Appointed Managing Director at incorporation on 24 May 2004.

*Directorships of other listed companies in the 3 years prior to the end of the Financial Year:*

None.

*Special Responsibilities:*

Managing director.

*Interest in shares and options of the Company as at the date of signing this report:*

9,744,843 Ordinary Shares and 10,000,000 options expiring 1 October 2011 exercisable at 5 cents each in Westralian Gas and Power Limited.

*Directors meetings attended: 16.*

**PAUL CHARLES GARNER**
DIRECTOR (EXECUTIVE)
APPOINTED: 19 JULY 2011

*Qualifications and Experience:*

Mr Garner has extensive experience in international business and over 35 years experience in the property and equities market. He has extensive experience with public company capital raising and restructuring. He has served on the Boards of various listed oil and gas companies at various stages of their development.

*Directorships of other listed companies in the 3 years prior to the end of the Financial Year:*

Director of Entek Energy Limited from 10-Aug-2005 to 30-Aug-2008.

*Interest in shares and options of the Company as at the date of signing this report:*

7,750,000 options expiring 31 October 2015 exercisable at 3 cents each in Westralian Gas and Power Limited.

*Directors meetings attended during the financial year:*

Mr Garner was appointed a director subsequent to the end of the financial year. Consequently he attended no directors meetings during the financial year.

**JACK TOBY**
COMPANY SECRETARY

*Qualifications*

Mr Toby is a Fellow of the Institute of Chartered Accountants in Australia, a Fellow of the Institute of Chartered Accountants in England and Wales and an Associate member of the Australian Computer Society.

*Experience*

Mr Toby has extensive experience as Company Secretary and Chief Financial Officer of several listed public companies and major corporations over the last 27 years.

**DIRECTORS MEETINGS**

During the year ended 30th June 2011, 17 meetings of directors were held.

Mr Peter Briggs, who resigned as a director subsequent to the end of the financial year attended 16 of the 17 meetings held during the financial year while he was a director.

Mr Chong Kwee Ch'ng, who was appointed a director during the financial year and resigned as a director subsequent to the end of the financial year attended all of the 8 meetings held during the financial year while he was a director.

Mr Kristian John Barnes, who resigned as a director during the year attended all of the 8 meetings held during the financial year while he was a director.

**REMUNERATION REPORT (AUDITED)**

The information provided in this remuneration report has been audited as required by Section 308(3c) of the Corporations Act 2001.

Remuneration is based on fees approved by the Board of directors.

There is no relationship between the performance or the impact on shareholder wealth of the Company for the current financial year or the previous four financial years and either the remuneration of directors and executives or the issue of shares and options to directors. Remuneration is set at levels to reflect market conditions and encourage the continued services of directors and executives. There are no service contracts with directors or executives.

Mr Darren Levy was appointed a Director and Chairman of the Company subsequent to the end of the financial year. Remuneration for Mr Levy has been set at $120,000 per year plus a further $30,000 per year for additional services to be performed.

Mr Paul Garner was appointed an Executive Director of the Company subsequent to the end of the financial year. Remuneration for Mr Garner has been set at $150,000 per year.

The names and positions of key management personnel of the Company and of the Consolidated Entity who have held office during the financial year are:

DIRECTORS

| | |
|---|---|
| Peter Briggs | Executive Chairman |
| Stephen Leslie Thomas | Managing Director |
| Chong Kwee Ch'ng | Director (appointed 30 September 2010) |
| Kristian John Barnes | Director (resigned 30 September 2010) |

EXECUTIVES

| | |
|---|---|
| Jack Toby | Company Secretary |

| | Primary Remuneration 2011 | | | |
|---|---|---|---|---|
| | Salary and Fees $ | Bonus $ | Super-annuation $ | Total $ |
| REMUNERATION OF DIRECTORS BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS. | | | | |
| Peter Briggs | 217,459 | — | 4,541 | 222,000 |
| Stephen Leslie Thomas | 172,000 | — | 50,000 | 222,000 |
| Chong Kwee Ch'ng | 41,250 | — | — | 41,250 |
| Kristian John Barnes | 7,500 | — | — | 7,500 |
| **TOTAL PRIMARY REMUNERATION FOR DIRECTORS** | 438,209 | — | 54,541 | 492,750 |
| REMUNERATION OF EXECUTIVES BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS. | | | | |
| Jack Toby | 80,000 | — | — | 80,000 |
| **TOTAL PRIMARY REMUNERATION FOR EXECUTIVES** | 80,000 | — | — | 80,000 |

| | Total Remuneration 2011 | | | |
|---|---|---|---|---|
| | Primary Remuneration $ | Equity Remuneration $ | Total $ | Equity Remuneration % of Total |
| REMUNERATION OF DIRECTORS BASED ON APPROVAL BY THE BOARD OF DIRECTORS. | | | | |
| Peter Briggs | 222,000 | — | 222,000 | — |
| Stephen Leslie Thomas | 222,000 | — | 222,000 | — |
| Chong Kwee Ch'ng | 41,250 | — | 41,250 | — |
| Kristian John Barnes | 7,500 | — | 7,500 | — |
| **TOTAL REMUNERATION FOR DIRECTORS** | 492,750 | — | 492,750 | — |
| REMUNERATION OF EXECUTIVES BASED ON APPROVAL BY THE BOARD OF DIRECTORS. | | | | |
| Jack Toby | 80,000 | — | 80,000 | — |
| **TOTAL REMUNERATION FOR EXECUTIVES** | 80,000 | — | 80,000 | — |

| | Primary Remuneration 2010 | | | |
|---|---|---|---|---|
| | Salary and Fees $ | Bonus $ | Super-annuation $ | Total $ |
| REMUNERATION OF DIRECTORS BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS. | | | | |
| Peter Briggs | 191,000 | — | — | 191,000 |
| Stephen Leslie Thomas | 196,500 | — | — | 196,500 |
| Kristian John Barnes | 30,000 | — | — | 30,000 |
| **TOTAL PRIMARY REMUNERATION FOR DIRECTORS** | 417,500 | — | — | 417,500 |

| | Primary Remuneration 2010 | | | |
|---|---|---|---|---|
| | Salary and Fees $ | Bonus $ | Super-annuation $ | Total $ |
| REMUNERATION OF EXECUTIVES BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS. | | | | |
| Jack Toby | 78,000 | — | — | 78,000 |
| **TOTAL PRIMARY REMUNERATION FOR EXECUTIVES** | 78,000 | — | — | 78,000 |

| | Total Remuneration 2010 | | | |
|---|---|---|---|---|
| | Primary Remuneration $ | Equity Remuneration $ | Total $ | Equity Remuneration % of Total |
| REMUNERATION OF DIRECTORS BASED ON APPROVAL BY THE BOARD OF DIRECTORS. | | | | |
| Peter Briggs | 191,000 | — | 191,000 | — |
| Stephen Leslie Thomas | 196,500 | — | 196,500 | — |
| Kristian John Barnes | 30,000 | — | 30,000 | — |
| **TOTAL REMUNERATION FOR DIRECTORS** | 417,500 | — | 417,500 | — |
| REMUNERATION OF EXECUTIVES BASED ON APPROVAL BY THE BOARD OF DIRECTORS. | | | | |
| Jack Toby | 78,000 | — | 78,000 | — |
| **TOTAL REMUNERATION FOR EXECUTIVES** | 78,000 | — | 78,000 | — |

End of Audited Section

## SHARE OPTIONS ISSUED

On 26 July 2010, the Company issued 5,000,000 fully paid ordinary shares for $0.02 each and 5,000,000 free options. The options are exercisable at $0.05 each and expire on 1 October 2011.The issue of these shares and options was ratified at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 12 August 2010, the Company issued 8,333,333 fully paid ordinary shares for $0.012 per share, issued 8,333,333 free options exercisable at 5 cents each and expiring on 1 October 2011 and issued 5,000,000 options exercisable at 5 cents each and expiring on 31 July 2015 at an issue price of $0.001 each. These shares and options were issued pursuant to the Convertible Loan facility of 5 August 2010. The issue of the shares and the options expiring on 1 October 2011 extinguished $100,000 of the convertible loan. The issue of the options expiring on 31 July 2015 at an issue price of $0.001 are pursuant to the loan arrangement fee clause of the Convertible Loan Facility. The issue of these shares and also the options expiring on 31 July 2015 were approved at the General Meeting of shareholders of the Company held on 5 August 2010. The issue of the options expiring on 1 October 2011 was ratified at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 10 September 2010, the Company issued 10,000,000 fully paid ordinary shares for $0.01 per share and issued 10,000,000 free options exercisable at 5 cents each and expiring on 1 October 2011. These shares and options were issued pursuant to the Convertible Loan facility of 5 August 2010. The issue of these shares and options extinguished $100,000 of the convertible loan. The issue of these shares was approved at the General Meeting of shareholders of the Company held on 5 August 2010. The issue of these options was ratified at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 23 September 2010, the Company issued 30,000,000 fully paid ordinary shares for $0.01 each. The issue of these shares was approved at the General Meeting of shareholders of the Company held on 5 August 2010. The shares were issued on the basis that subject to approval by the Company's shareholders, the subscriber would receive one free attaching option for each share issued. The options would be exercisable at 2.75 cents each and expire on 31 October 2013. These options were subsequently issued on 3 December 2010 after approval by the Company's shareholders.

On 4 October 2010, the Company issued 5,000,000 fully paid ordinary shares for $0.01 per share and issued 5,000,000 free options exercisable at 3 cents each and expiring on 31 October 2015. The issue of these shares was approved at the General Meeting of shareholders of the Company held on 5 August 2010. The issue of these options was ratified at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 3 December 2010, the Company issued 30,000,000 free options exercisable at 2.75 cents each and expiring on 31 October 2013. These options were issued as free attaching options to the 30,000,000 shares that were issued on 23 September 2010. The issue of these options was approved at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 3 December 2010, the Company issued 10,000,000 fully paid ordinary shares for $0.01 per share, 12,500,000 fully paid ordinary shares for $0.02 per share and 34,250,000 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of $0.001 each. The issue of these shares and options was approved at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 17 February 2011, the Company issued 27,750,000 fully paid ordinary shares for $0.02 per share and issued 13,875,000 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of $0.001 each. The issue of these shares and options was approved at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 28 February 2011, the Company issued 12,500,000 fully paid ordinary shares for $0.02 per share and issued 35,500,000 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of $0.001 each. The issue of these shares and options was approved at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 28 February 2011, the Company issued 6,000,000 fully paid ordinary shares for $0.021 per share and issued 6,000,000 free options exercisable at 3 cents each and expiring on 31 October 2015. The issue of these shares and options was approved at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 7 April 2011, the Company issued 27,500,000 fully paid ordinary shares for $0.02 per share and issued 20,500,000 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of $0.001 each. The issue of these shares and options was ratified at the General Meeting of shareholders of the Company held on 17 June 2011.

Subsequent to the end of the financial year, on 28 July 2011, the Company issued 52,163,972 fully paid ordinary shares for $0.01 per share and issued 47,387,991 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of $0.001 each. The issue of these options was approved at the General Meeting of shareholders of the Company held on 17 June 2011.

No person entitled to exercise any of these options had or has any right by virtue of the option to participate in any share issue of any other body corporate.

**SHARE OPTIONS EXPIRED**

During the year ended 30th June 2011, 2,250,000 options to subscribe for unissued fully paid ordinary shares in the Company for 25 cents per share expired unexercised on 30 November 2010.

**SHARE OPTIONS OUTSTANDING**

During the year ended 30th June 2011, no ordinary shares were issued by virtue of the exercise of options.

Subsequent to the year ended 30th June 2011, no ordinary shares were issued by virtue of the exercise of options.

There are 190,186,639 options to subscribe for unissued fully paid ordinary shares in the Company for 5 cents per share expiring 1 October 2011 outstanding at the date of this report.

There are 30,000,000 options to subscribe for unissued fully paid ordinary shares in the Company for 2.75 cents per share expiring 31 October 2013 outstanding at the date of this report.

There are 5,000,000 options to subscribe for unissued fully paid ordinary shares in the Company for 5 cents per share expiring 31 July 2015 outstanding at the date of this report.

There are 162,512,991 options to subscribe for unissued fully paid ordinary shares in the Company for 3 cents per share expiring 31 October 2015 outstanding at the date of this report.

No person entitled to exercise any of these options had or has any right by virtue of the option to participate in any share issue of any other body corporate.

**INDEMNIFYING AND INSURING DIRECTORS, OFFICERS OR AUDITORS**

During the financial year, the Company paid premiums for Directors and Officers liability insurance of $18,326. Except as disclosed above, the Company has not, during or since the financial year, in respect of any person who is or has been an officer or auditor of the Company or a related body corporate:

a) indemnified or made any relevant agreement for indemnifying against a liability, including costs and expenses in successfully defending legal proceedings; or

b) paid or agreed to pay a premium in respect of a contract insuring against a liability for the costs or expenses to defend legal proceedings.

**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.

## AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the Corporations Act 2001 section 307C a signed Auditor's Independence Declaration to the directors in relation to the year ended 30 June 2011 has been provided to the Company. This declaration has been included in this document.

Other fees charged by the auditors to the Company or related entities were tax return preparation costs of $5,775 charged by a related entity of the auditor. The directors are satisfied that the services disclosed did not compromise the auditor's independence.

Signed in accordance with a resolution of the directors.

Paul Garner
Director

23 August 2011
Perth, Western Australia

## DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Westralian Gas and Power Limited A.C.N. 109 213 470 ("Company"), I state that:

In the opinion of the directors:

1) the financial statements and notes of the Company and of the Consolidated Entity are in accordance with the Corporations Act 2001 including:

    a) complying with International Financial Reporting Standards and the Corporations Regulations 2001, other mandatory professional reporting requirements; and

    b) giving a true and fair view of the financial position as at 30 June 2011 and of the performance for the year ended on that date of the Company and the Consolidated Entity; and

    c) the remuneration report disclosures set out on pages 6 to 8 of the directors' report (as part of the Remuneration Report), for the year ended 30 June 2011, comply with section 300A of the Corporations Act 2001.

2) As required by section 295A of the Corporations Act 2001, the Chief Executive Officer, Mr Stephen Thomas, and Chief Finance Officer, Mr Jack Toby, have each declared in writing that:

    a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;

    b) the financial statements and notes for the financial year comply with the International Financial Reporting Standards; and

    c) the financial statements and notes for the financial year give a true and fair view.

3) in the director's opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board of Directors.

Paul Garner
Director

23 August 2011
Perth, Western Australia

## COMPREHENSIVE INCOME STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2011

| | Note | Consolidated Entity 2011 $ | Consolidated Entity 2010 $ |
|---|---|---|---|
| Oil and gas sales | 2 | 27,354 | 38,537 |
| Revenue from non-operating activities | 2 | 239,853 | 419,289 |
| Other expenses | 2 | (1,606,016) | (2,302,444) |
| **PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE** | | (1,338,809) | (1,844,618) |
| Income tax expense | 3 | — | — |
| **PROFIT/(LOSS) AFTER RELATED INCOME TAX EXPENSE** | | (1,338,809) | (1,844,618) |
| OTHER COMPREHENSIVE INCOME | | | |
| Exchange differences on translating foreign operations | | — | 56,093 |
| Income tax relating to components of other comprehensive income | | — | — |
| **OTHER COMPREHENSIVE INCOME AFTER INCOME TAX** | | — | 56,093 |
| **TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR** | | (1,338,809) | (1,788,525) |
| **BASIC EARNINGS/(LOSS) PER SHARE (CENTS PER SHARE)** | 4 | (0.49) | (1.02) |
| **DILUTED EARNINGS/(LOSS) PER SHARE (CENTS PER SHARE)** | 4 | (0.49) | (1.02) |

The accompanying notes form part of these financial statements

## STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2011

| | Note | Consolidated Entity 2011 $ | 2010 $ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 15 | 1,173,445 | 132,057 |
| Trade and other receivables | 5 | 15,290 | 33,381 |
| Inventories | 6 | 5,623 | 7,085 |
| **TOTAL CURRENT ASSETS** | | 1,194,358 | 172,523 |
| **NON-CURRENT ASSETS** | | | |
| Plant and equipment | 7 | 84,146 | 127,710 |
| Receivables | 8 | 12,000 | 12,000 |
| Capitalised oil and gas expenditure | 9 | 23,497 | 30,882 |
| **TOTAL NON-CURRENT ASSETS** | | 119,643 | 170,592 |
| **TOTAL ASSETS** | | 1,314,001 | 343,115 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 10 | 76,809 | 274,856 |
| Provisions | 11 | 2,244 | 1,238 |
| **TOTAL CURRENT LIABILITIES** | | 79,053 | 276,094 |
| **TOTAL LIABILITIES** | | 79,053 | 276,094 |
| **NET ASSETS** | | 1,234,948 | 67,021 |
| **EQUITY** | | | |
| Issued capital | 12 | 12,542,332 | 10,144,721 |
| Reserves | 13 | 1,488,067 | 1,378,942 |
| Accumulated losses | | (12,795,451) | (11,456,642) |
| **TOTAL EQUITY** | | 1,234,948 | 67,021 |

The accompanying notes form part of these financial statements

## CASH FLOW STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2011

| | Note | Consolidated Entity 2011 $ | 2010 $ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | | 36,661 | 29,230 |
| Payments to suppliers and employees | | (1,439,445) | (1,319,818) |
| Interest received | | 22,778 | 17,791 |
| Other income | | 216,493 | 201,498 |
| **NET CASH OUTFLOW USED IN OPERATING ACTIVITIES** | 15 | (1,163,513) | (1,071,299) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisition of oil and gas interests | | | |
| Exploration expenditure | | (213,249) | (429,023) |
| Production expenditure | | (82,322) | (72,233) |
| Purchase of plant and equipment | | (6,762) | (30,482) |
| Proceeds from disposal of plant and equipment | | 1,630 | — |
| Sale of oil and gas interests | | — | 200,000 |
| Fee for termination of joint venture | | — | (200,000) |
| **NET CASH OUTFLOW USED IN INVESTING ACTIVITIES** | | (300,703) | (531,738) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from equity issues | | 2,614,002 | 880,000 |
| Capital raising expenses | | (107,266) | (37,714) |
| Borrowings | | 200,000 | — |
| Repayment of borrowings | | (200,000) | — |
| **NET CASH INFLOW FROM FINANCING ACTIVITIES** | | 2,506,736 | 842,286 |
| **NET INCREASE/(DECREASE) IN CASH HELD** | | 1,042,520 | (760,751) |
| Net foreign exchange differences | | (1,132) | (355) |
| Cash and cash equivalents at beginning of year | | 132,057 | 893,163 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 15 | 1,173,445 | 132,057 |

The accompanying notes form part of these financial statements

# STATEMENTS OF CHANGES IN EQUITY
# FOR THE YEAR ENDED 30TH JUNE 2011

| ATTRIBUTABLE TO MEMBERS OF THE COMPANY | CONSOLIDATED ENTITY | | | | |
|---|---|---|---|---|---|
| | **Issued Capital** $ | **Option Premium Reserve** $ | **Currency Translation Reserve** $ | **Accumulated Losses** $ | **Total Equity** $ |
| *At 1 July 2009* | 9,337,435 | 1,343,942 | (56,093) | (9,612,024) | 1,013,260 |
| Currency translation | — | — | 56,093 | — | 56,093 |
| Loss for year | — | — | — | (1,844,618) | (1,844,618) |
| **TOTAL LOSS FOR THE PERIOD** | — | — | 56,093 | (1,844,618) | (1,788,525) |
| Securities issued | 845,000 | 35,000 | — | — | 880,000 |
| Equity raising costs | (37,714) | — | — | — | (37,714) |
| **AT 30 JUNE 2010** | 10,144,721 | 1,378,942 | — | (11,456,642) | 67,021 |
| Currency translation | — | — | — | — | |
| Loss for year | — | — | — | (1,338,809) | (1,338,809) |
| **TOTAL LOSS FOR THE PERIOD** | — | — | — | (1,338,809) | (1,338,809) |
| Securities issued | 2,504,877 | 109,125 | — | — | 2,614,002 |
| Equity raising costs | (107,266) | — | — | — | (107,266) |
| **AT 30 JUNE 2011** | 12,542,332 | 1,488,067 | — | (12,795,451) | 1,234,948 |

The accompanying notes form part of these financial statements

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies adopted by Westralian Gas and Power Limited A.C.N. 109 213 470 (“Parent Entity” or "Company") and by the Parent Entity and its controlled entities (“Consolidated Entity” or “Group”) in the preparation of these financial statements.

Basis of Preparation of Accounts

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) and the Corporations Act 2001. The consolidated financial report of the Group also complies with the International Financial Reporting Standards (“IFRS”) and interpretations adopted by the International Accounting Standards Board.

The financial report has been prepared on an accruals basis and is based on a historical cost basis, except for any available-for-sale financial assets that have been measured at fair value. The presentation currency used in this financial report is Australian Dollars.

This financial report is issued in accordance with a resolution of the directors of the Company on the same date as the Directors’ Declaration above.

Adoption of new and revised Accounting Standards

In the current year, the Group has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in any material changes to the Group’s accounting policies.

At the date of authorisation of the financial report, the following Standards and Interpretations were issued but not yet effective:

AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard is not expected to impact on the Group’s accounting for financial assets as it does not have any available for sale assets. There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The Group has decided not to early adopt AASB 9.

Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party. The Group will apply the amended standard from 1 July 2011. When the amendments are applied, the Group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

Other Standards that have been issued but not yet effective are considered to have no significant effect on the financial statements.

Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies adopted by Westralian Gas and Power Limited A.C.N. 109 213 470 ("Company") in the preparation of these financial statements. The Company is a listed public company limited by shares, incorporated and domiciled in Australia.

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at and for the period ended 30 June each year (the Group). Interests in associates are equity accounted and are not part of the consolidated Group. Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intragroup transactions have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised. The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition. A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction. Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary; derecognises the carrying amount of any non-controlling interest; derecognises the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received; recognises the fair value of any investment retained; recognises any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

b) Foreign currency translation

The presentation currency of the Company and its Australian subsidiaries is Australian dollars. The functional currency of the Company is Australian dollars. Transactions in foreign currencies are initially recorded in the functional currency at 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 sheet date. All differences in the consolidated financial report are taken to the income statement 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 the income statement. 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 overseas subsidiaries is United States dollars. As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of the Company at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the period. The exchange differences arising on the retranslation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement as part of the gain or loss on sale as applicable.

c) Taxes

Income Tax

Deferred income tax is provided on all temporary differences at the balance sheet 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 where the deferred income tax liability 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; and

in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences 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 assets and unused tax losses can be utilised:

except where 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; and

in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet 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. 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 the balance sheet date. Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

d) Employee Benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave. Employee benefits, expenses and revenues arising in respect of wages and salaries; non monetary benefits; annual leave; long service leave and other leave and other employee entitlements are charged against profits on a net basis.

Contributions are made by the Group to employee superannuation funds and are charged as expenses when incurred. The Group has no legal obligation to cover any shortfall in any superannuation fund's obligation to provide benefits to employees on retirement.

e) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with a maturity of three months or less. For the purpose of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts and investments in money market instruments with less than 14 days to maturity.

f) Revenue recognition

Revenue from services rendered is recognised upon the delivery of goods or services to customers. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. Oil sales are recognised when an invoice for the sale is issued. Management fees are recognised on a proportional basis.

g) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except: where 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 are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority. Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from the investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

h) Impairment of assets

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

i) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership. The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis. Contingent rentals are recognised as an expense in the financial year in which they are incurred.

j) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

k) Property, Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Land and buildings are measured at fair value less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Plant and equipment – over 1 to 15 years

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any indication of impairment exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater 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.

An item of property, 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.

l) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivable) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default and delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the assets carrying amount and the present value of estimated future cashflows, discounted at the original effective interest rate. Cashflows relating to short term receivables are not discounted if the effect of discounting is immaterial. The amount of the impairment loss is recognised in the income statements within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectable 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 income statement.

m) Trade and other payables

Trade payables and other payables are carried at amortised cost which represents future liabilities for goods and services received, whether or not billed to the Company.

n) Investments

Investments and other financial assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

Impairment of financial assets

Impairment of available-for-sale investments

If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses for debt instruments are reversed through profit or loss if the increase in an instrument's fair value can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when: the rights to receive cash flows from the asset have expired; the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay. When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

o) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of mineral stocks includes direct materials, direct labour, transportation costs and variable and fixed overhead costs relating to mining activities.

p) Significant accounting judgements, estimates and assumptions

Significant accounting judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Exploration and evaluation assets

The Group's accounting policy for exploration and evaluation expenditure is set out below. The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves are found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under our policy, we conclude that we are unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to the income statement.

Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Key Estimates - Taxation

Balances disclosed in the financial statements and the notes thereto, related to taxation, are based on the best estimates of directors. These estimates take into account both the financial performance and position of the Company as they pertain to current income taxation legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that directors' best estimate, pending an assessment by the Australian Taxation Office.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences when management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

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 the Black-Scholes or a binomial model, using the assumptions detailed. The Group measures the cost of cash-settled share-based payments at fair value at the grant date using a binomial formula taking into account the terms and conditions upon which the instruments were granted.

q) Exploration and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made. When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis. Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

r) Share-based payment transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, 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 at the date at which they are granted. The fair value is determined by using the Black-Scholes or a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company (‘market conditions’). The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (‘vesting date’). The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification. Where 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.

s) Earnings/(loss) per share

Basic earnings per share is calculated as net profit 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 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 interest associated with dilutive potential ordinary shares that have been recognised as expenses; and other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

## NOTE 2. REVENUE AND EXPENSES

The profit/(loss) before income tax has been determined after:

| | Consolidated Entity 2011 $ | Consolidated Entity 2010 $ |
|---|---|---|
| REVENUE FROM CONTINUING OPERATIONS | | |
| *Operating activities* | | |
| Oil and gas sales | 27,354 | 38,537 |
| **TOTAL REVENUE FROM OPERATING ACTIVITIES** | 27,354 | 38,537 |
| *Non-Operating activities* | | |
| Interest received from other persons | 22,778 | 17,791 |
| Research and development tax concession rebate | 211,138 | — |
| Profit on sale of plant and equipment | 582 | — |
| Other revenue | 5,355 | 1,498 |
| Farmin fees received | — | 200,000 |
| Fees received on early termination of farmin agreement | — | 200,000 |
| **TOTAL REVENUE FROM NON-OPERATING ACTIVITIES** | 239,853 | 419,289 |
| **TOTAL REVENUE FROM CONTINUING OPERATIONS** | 267,207 | 457,826 |
| CHARGING AS EXPENSES | | |
| Production lease costs | 64,471 | 58,508 |
| Employee benefits and consultants expenses | 773,026 | 681,143 |
| Depreciation and amortisation expense | 48,215 | 61,333 |
| Exploration expenditure written off | 63,249 | 562,257 |
| Administrative expenses | 543,536 | 530,861 |
| Unrealised exchange loss | 28,521 | 72,842 |
| Rental expense on operating lease | 69,998 | 96,646 |
| Termination of joint venture | — | 200,000 |
| Loss on disposal of oil leases | — | 38,854 |
| Other expenses | 15,000 | — |
| | 1,606,016 | 2,302,444 |

| | Consolidated Entity 2011 $ | 2010 $ |
|---|---|---|

## NOTE 3. INCOME TAX

| | 2011 $ | 2010 $ |
|---|---|---|
| **INCOME TAX BENEFIT** | — | — |
| Numerical reconciliation between tax expense and pre-tax net loss: | | |
| **LOSS BEFORE INCOME TAX BENEFIT** | (1,338,809) | (1,844,618) |
| Income tax using the Company's domestic tax rate of 30% | (401,643) | (553,385) |
| Capital raising costs | (24,020) | (10,968) |
| Joint venture termination payment payable | — | (45,000) |
| Research and development tax offset received | (63,341) | — |
| Movement in provisions | 302 | 157 |
| Other non-deductible expenses/(deductible tax adjustments) | 3,330 | 4,717 |
| Unrealised exchange losses/(gains) | 8,556 | 21,853 |
| Current year losses for which no deferred tax asset was recognised | 476,816 | 582,626 |
| **INCOME TAX BENEFIT (EXPENSE) ATTRIBUTABLE TO ENTITY** | — | — |

Unused tax losses of $10,521,929 (2010: $8,932,542. The 2010 Annual Report showed unused tax losses of $9,495,576. The difference of $563,034 relates to expenditure claimed by the Company in its 2010 Research and Development Tax Concession claim which was prepared and lodged subsequent to issue of the 2010 Annual Report) have not been recognised as a deferred tax asset as the future recovery of these losses is subject to the Company satisfying the requirements imposed by the relevant regulatory authorities in each of the jurisdictions in which the Company operates. The benefit of deferred tax assets not brought to account will only be brought to account if future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised and the conditions for deductibility imposed by the relevant tax legislation continue to be complied with and no changes in tax legislation adversely affect the Company in realising the benefit.

UNRECOGNISED TEMPORARY DIFFERENCES

Net deferred tax assets (calculated at 30%) have not been recognised in respect of the following items:

| | 2011 $ | 2010 $ |
|---|---|---|
| Capital raising costs recognised directly in equity | 35,338 | 24,375 |
| Accrued expenses | 5,250 | 5,250 |
| Provisions | 673 | 371 |
| **UNRECOGNISED DEFERRED TAX ASSETS RELATING TO THE ABOVE TEMPORARY DIFFERENCES** | 41,261 | 29,996 |

| | Consolidated Entity 2011 $ | 2010 $ |
|---|---|---|
| **NOTE 4. EARNINGS PER SHARE** | | |
| Basic loss per share (cents per share) | (0.49) | (1.02) |
| Diluted loss per share (cents per share) | (0.49) | (1.02) |
| Profit/(loss) used in the calculation of basic EPS | (1,338,809) | (1,844,618) |
| Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share | 275,737,408 | 180,405,339 |
| Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share | 275,737,408 | 180,405,339 |

During the year ended 30 June 2011, 173,458,333 options to subscribe for ordinary shares were issued, no options were exercised and 2,250,000 options expired unexercised, leaving 340,311,639 options outstanding at 30 June 2011 (note 12). These options are not considered dilutive for the purposes of the calculation of diluted earnings per share as their conversion to ordinary shares would not decrease the net profit from continuing operations per share nor increase the net loss from continuing ordinary operations per share. Consequently, diluted earnings per share is the same as basic earnings per share.

During the year ended 30 June 2010, 35,000,000 options to subscribe for ordinary shares were issued, no options were exercised and 22,750,000 options expired unexercised, leaving 169,103,306 options outstanding at 30 June 2010 (note 12). These options are not considered dilutive for the purposes of the calculation of diluted earnings per share as their conversion to ordinary shares would not decrease the net profit from continuing operations per share nor increase the net loss from continuing ordinary operations per share. Consequently, diluted earnings per share is the same as basic earnings per share.

## NOTE 5. RECEIVABLES (CURRENT)

| | | |
|---|---|---|
| Trade debtors | — | 9,307 |
| Other debtors and prepayments | 15,290 | 24,074 |
| | 15,290 | 33,381 |

Other debtors are non-interest bearing and generally on 30 day terms.

## NOTE 6. INVENTORIES

| | | |
|---|---|---|
| Oil stock at cost | 5,623 | 7,085 |
| | 5,623 | 7,085 |

## NOTE 7. PLANT AND EQUIPMENT

PLANT AND EQUIPMENT

| | | |
|---|---|---|
| At cost | 259,128 | 292,016 |
| Accumulated depreciation | (174,982) | (164,306) |
| **TOTAL PLANT AND EQUIPMENT** | 84,146 | 127,710 |

| | Consolidated Entity | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| MOVEMENTS IN THE CARRYING AMOUNT OF PLANT AND EQUIPMENT | | |
| PLANT AND EQUIPMENT | | |
| At the beginning of the financial year | 127,710 | 141,558 |
| Additions | 6,762 | 30,482 |
| Depreciation expense | (27,935) | (38,377) |
| Disposals | (1,048) | — |
| Currency exchange adjustment | (21,343) | (5,953) |
| **TOTAL PLANT AND EQUIPMENT** | 84,146 | 127,710 |

## NOTE 8. RECEIVABLES (NON-CURRENT)

| | | |
|---|---|---|
| Deposits | 12,000 | 12,000 |
| | 12,000 | 12,000 |

## NOTE 9. CAPITALISED OIL AND GAS EXPENDITURE

| | | |
|---|---|---|
| MOVEMENTS IN THE CARRYING AMOUNT OF EXPLORATION EXPENDITURE | | |
| At the beginning of the financial year | — | — |
| Expenditure incurred during the year | 48,776 | 246,119 |
| Amortised during the year | (30,923) | (246,119) |
| **AT THE END OF THE FINANCIAL YEAR** | 17,853 | — |
| MOVEMENTS IN THE CARRYING AMOUNT OF PRODUCTION EXPENDITURE | | |
| At the beginning of the financial year | 30,882 | 99,772 |
| Expenditure incurred during the year | — | — |
| Exchange rate adjustment | (4,958) | (7,080) |
| Amortised during the year | (20,280) | (22,956) |
| Loss on disposal | — | (38,854) |
| **AT THE END OF THE FINANCIAL YEAR** | 5,644 | 30,882 |
| **TOTAL CAPITALISED OIL AND GAS EXPENDITURE** | 23,497 | 30,882 |

Recoverability of the carrying amount of the capitalised oil and gas expenditure is dependent on the successful development and commercial exploitation or sale of the respective areas of interest.

## NOTE 10. PAYABLES (CURRENT)

| | | |
|---|---|---|
| Sundry creditors and accrued expenses | 76,809 | 274,856 |
| | 76,809 | 274,856 |

## NOTE 11. PROVISIONS (CURRENT)

| | | |
|---|---|---|
| Employee benefits | 2,244 | 1,238 |
| | 2,244 | 1,238 |

| | Consolidated Entity 2011 $ | 2010 $ |
|---|---|---|
| **NOTE 12. ISSUED CAPITAL** | | |
| 347,759,814 (2010: 191,982,612) fully paid ordinary shares | 12,542,332 | 10,144,721 |
| | 12,542,332 | 10,144,721 |

| MOVEMENTS IN ORDINARY SHARES | | |
|---|---|---|
| At the beginning of the financial year | 10,144,721 | 9,337,435 |
| 5,000,000 shares issued on 26 July 2010 | 100,000 | — |
| 1,193,869 shares issued on 29 July 2010 | 23,877 | — |
| 8,333,333 shares issued on 12 August 2010 | 100,000 | — |
| 10,000,000 shares issued on 10 September 2010 | 100,000 | — |
| 30,000,000 shares issued on 23 September 2010 | 300,000 | — |
| 5,000,000 shares issued on 4 October 2010 | 50,000 | — |
| 12,500,000 shares issued on 3 December 2010 | 250,000 | — |
| 10,000,000 shares issued on 3 December 2010 | 100,000 | — |
| 27,750,000 shares issued on 17 February 2011 | 555,000 | — |
| 12,500,000 shares issued on 28 February 2011 | 250,000 | — |
| 6,000,000 shares issued on 28 February 2011 | 126,000 | — |
| 27,500,000 shares issued on 7 April 2011 | 550,000 | — |
| 16,064,616 shares issued on 29 July 2009 | — | 401,615 |
| 3,935,384shares issued 18 September 2009 | — | 98,385 |
| 15,000,000 shares issued 17 February 2010 | — | 345,000 |
| Share issue expenses | (107,266) | (37,714) |
| **AT THE END OF THE FINANCIAL YEAR** | 12,542,332 | 10,144,721 |

On 26 July 2010, the Company issued 5,000,000 fully paid ordinary shares for $0.02 each and 5,000,000 free options. The options are exercisable at $0.05 each and expire on 1 October 2011.The issue of these shares and options was ratified at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 29 July 2010, the Company issued 1,193,869 fully paid ordinary shares for $0.02 each pursuant to the Share Purchase Plan announced on 3 May 2010.

On 12 August 2010, the Company issued 8,333,333 fully paid ordinary shares for $0.012 per share, issued 8,333,333 free options exercisable at 5 cents each and expiring on 1 October 2011 and issued 5,000,000 options exercisable at 5 cents each and expiring on 31 July 2015 at an issue price of $0.001 each. These shares and options were issued pursuant to a Convertible Loan facility. The issue of the shares and the options expiring on 1 October 2011 extinguished $100,000 of the convertible loan. The issue of the options expiring on 31 July 2015 at an issue price of $0.001 are pursuant to the loan arrangement fee clause of the Convertible Loan Facility. The issue of these shares and also the options expiring on 31 July 2015 were approved at the General Meeting of shareholders of the Company held on 5 August 2010. The issue of the options expiring on 1 October 2011 was ratified at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 10 September 2010, the Company issued 10,000,000 fully paid ordinary shares for $0.01 per share and issued 10,000,000 free options exercisable at 5 cents each and expiring on 1 October 2011. These shares and options were issued pursuant to a Convertible Loan facility. The issue of these shares and options extinguished $100,000 of the convertible loan. The issue of these shares was approved at the General Meeting of shareholders of the Company held on 5 August 2010. The issue of these options was ratified at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 23 September 2010, the Company issued 30,000,000 fully paid ordinary shares for $0.01 each. The issue of these shares was approved at the General Meeting of shareholders of the Company held on 5 August 2010. The shares were issued on the basis that subject to approval by the Company's shareholders, the subscriber would receive one free attaching option for each share issued. The options would be exercisable at 2.75 cents each and expire on 31 October 2013. These options were subsequently issued on 3 December 2010 after approval by the Company's shareholders.

On 4 October 2010, the Company issued 5,000,000 fully paid ordinary shares for $0.01 per share and issued 5,000,000 free options exercisable at 3 cents each and expiring on 31 October 2015. The issue of these shares was approved at the General Meeting of shareholders of the Company held on 5 August 2010. The issue of these options was ratified at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 3 December 2010, the Company issued 10,000,000 fully paid ordinary shares for $0.01 per share, 12,500,000 fully paid ordinary shares for $0.02 per share and 34,250,000 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of $0.001 each. The issue of these shares and options was approved at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 17 February 2011, the Company issued 27,750,000 fully paid ordinary shares for $0.02 per share and issued 13,875,000 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of $0.001 each. The issue of these shares and options was approved at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 28 February 2011, the Company issued 12,500,000 fully paid ordinary shares for $0.02 per share and issued 35,500,000 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of $0.001 each. The issue of these shares and options was approved at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 28 February 2011, the Company issued 6,000,000 fully paid ordinary shares for $0.021 per share and issued 6,000,000 free options exercisable at 3 cents each and expiring on 31 October 2015. The issue of these shares and options was approved at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 7 April 2011, the Company issued 27,500,000 fully paid ordinary shares for $0.02 per share and issued 20,500,000 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of $0.001 each. The issue of these shares and options was ratified at the General Meeting of shareholders of the Company held on 17 June 2011.

At 30 June 2011 there were 340,311,639 unissued ordinary shares for which options were outstanding. These comprise 190,186,639 options which entitle the holder to subscribe for one ordinary share in the Company for 5 cents per share and expire on 1 October 2011, 30,000,000 options which entitle the holder to subscribe for one ordinary share in the Company for 2.75 cents per share and expire on 31 October 2013, 5,000,000 options which entitle the holder to subscribe for one ordinary share in the Company for 5 cents per share and expire on 31 July 2015 and 115,125,000 options which entitle the holder to subscribe for one ordinary share in the Company for 3 cents per share and expire on 31 October 2015.

At 30 June 2010 there were 169,103,306 unissued ordinary shares for which options were outstanding. These comprise 2,250,000 options which entitle the holder to subscribe for one ordinary share in the Company for 25 cents per share and expire on 30 November 2010 and 166,853,306 options which entitle the holder to subscribe for one ordinary share in the Company for 5 cents per share and expire on 1 October 2011.

### Capital management

Management controls the capital of the Group comprising the liquid assets held by the Group in order to maintain an appropriate debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern. The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements. Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues. There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

### Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from sale of all surplus assets in proportion to the number of, and amounts paid up, of shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at any meeting of the Company.

| | Consolidated Entity 2011 $ | Consolidated Entity 2010 $ |
|---|---|---|
| **NOTE 13. RESERVES** | | |
| Option premium reserve | 1,488,067 | 1,378,942 |
| Currency translation reserve | — | — |
| | 1,488,067 | 1,378,942 |
| MOVEMENTS IN OPTION PREMIUM RESERVE | | |
| At the beginning of the financial year | 1,378,942 | 1,343,942 |
| 5,000,000 options issued on 12 August 2010 | 5,000 | — |
| 34,250,000 options issued on 3 December 2010 | 34,250 | — |
| 13,875,000 options issued on 17 February 2011 | 13,875 | — |
| 35,500,000 options issued on 28 February 2011 | 35,500 | — |
| 20,500,000 options issued on 7 April 2011 | 20,500 | — |
| 16,064,616 options issued on 29 July 2009 | — | 16,065 |
| 3,935,384options issued 18 September 2009 | — | 3,935 |
| 15,000,000 options issued 17 February 2010 | — | 15,000 |
| **AT THE END OF THE FINANCIAL YEAR** | 1,488,067 | 1,378,942 |
| MOVEMENTS IN CURRENCY TRANSLATION RESERVE | | |
| At the beginning of the financial year | — | (56,093) |
| Consolidation adjustment for the year | — | 56,093 |
| **AT THE END OF THE FINANCIAL YEAR** | — | — |

The option premium reserve is used to accumulate the fair value of options issued and premiums received on the issue of options.

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

On 26 July 2010, the Company issued 5,000,000 fully paid ordinary shares for $0.02 each and 5,000,000 free options. The options are exercisable at $0.05 each and expire on 1 October 2011.The issue of these shares and options was ratified at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 12 August 2010, the Company issued 8,333,333 fully paid ordinary shares for $0.012 per share, issued 8,333,333 free options exercisable at 5 cents each and expiring on 1 October 2011 and issued 5,000,000 options exercisable at 5 cents each and expiring on 31 July 2015 at an issue price of $0.001 each. These shares and options were issued pursuant to a Convertible Loan facility. The issue of the shares and the options expiring on 1 October 2011 extinguished $100,000 of the convertible loan. The issue of the options expiring on 31 July 2015 at an issue price of $0.001 are pursuant to the loan arrangement fee clause of the Convertible Loan Facility. The issue of these shares and also the options expiring on 31 July 2015 were approved at the General Meeting of shareholders of the Company held on 5 August 2010. The issue of the options expiring on 1 October 2011 was ratified at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 10 September 2010, the Company issued 10,000,000 fully paid ordinary shares for $0.01 per share and issued 10,000,000 free options exercisable at 5 cents each and expiring on 1 October 2011. These shares and options were issued pursuant to a Convertible Loan facility. The issue of these shares and options extinguished $100,000 of the convertible loan. The issue of these shares was approved at the General Meeting of shareholders of the Company held on 5 August 2010. The issue of these options was ratified at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 4 October 2010, the Company issued 5,000,000 fully paid ordinary shares for $0.01 per share and issued 5,000,000 free options exercisable at 3 cents each and expiring on 31 October 2015. The issue of these shares was approved at the General Meeting of shareholders of the Company held on 5 August 2010. The issue of these options was ratified at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 3 December 2010, the Company issued 10,000,000 fully paid ordinary shares for $0.01 per share, 12,500,000 fully paid ordinary shares for $0.02 per share and 34,250,000 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of $0.001 each. The issue of these shares and options was approved at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 17 February 2011, the Company issued 27,750,000 fully paid ordinary shares for $0.02 per share and issued 13,875,000 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of $0.001 each. The issue of these shares and options was approved at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 28 February 2011, the Company issued 12,500,000 fully paid ordinary shares for $0.02 per share and issued 35,500,000 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of $0.001 each. The issue of these shares and options was approved at the Annual General Meeting of shareholders of the Company held on 30 November 2010.

On 7 April 2011, the Company issued 27,500,000 fully paid ordinary shares for $0.02 per share and issued 20,500,000 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of $0.001 each. The issue of these shares and options was ratified at the General Meeting of shareholders of the Company held on 17 June 2011.

## NOTE 14. PARENT ENTITY

FINANCIAL INFORMATION ON THE PARENT ENTITY AS AT THE END OF THE FINANCIAL YEAR:

| | Company 2011 $ | Company 2010 $ |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | 1,168,189 | 126,573 |
| Trade and other receivables | 14,673 | 23,296 |
| **TOTAL CURRENT ASSETS** | 1,182,862 | 149,869 |
| **NON-CURRENT ASSETS** | | |
| Plant and equipment | 17,690 | 17,130 |
| Receivables | 12,000 | 12,000 |
| Other financial assets | 110 | 110 |
| **TOTAL NON-CURRENT ASSETS** | 29,800 | 29,240 |
| **TOTAL ASSETS** | 1,212,662 | 179,109 |
| **CURRENT LIABILITIES** | | |
| Trade and other payables | 55,971 | 241,990 |
| Provisions | 2,244 | 1,238 |
| **TOTAL CURRENT LIABILITIES** | 58,215 | 243,228 |
| **TOTAL LIABILITIES** | 58,215 | 243,228 |
| **NET ASSETS/(LIABILITIES)** | 1,154,447 | (64,119) |
| **EQUITY** | | |
| Issued capital | 12,542,332 | 10,144,721 |
| Reserves | 1,488,067 | 1,378,942 |
| Accumulated losses | (12,875,952) | (11,587,782) |
| **TOTAL EQUITY** | 1,154,447 | (64,119) |

FINANCIAL INFORMATION ON THE PARENT ENTITY FOR THE FINANCIAL YEAR:

| | Company 2011 $ | Company 2010 $ |
|---|---|---|
| Profit/(loss) after related income tax expense | (1,288,170) | (1,741,648) |
| Other comprehensive income | — | — |
| **TOTAL COMPREHENSIVE INCOME** | (1,288,170) | (1,741,648) |

There are no contingent liabilities of the Parent Entity as at the reporting date.

| | Consolidated Entity 2011 $ | 2010 $ |
|---|---|---|

## NOTE 15. CASH FLOW INFORMATION

RECONCILIATION OF CASH FLOW FROM OPERATIONS WITH PROFIT/(LOSS) AFTER INCOME TAX

| | 2011 $ | 2010 $ |
|---|---|---|
| Profit/(loss) after tax | (1,338,809) | (1,844,618) |
| *Cash flows in profit/(loss) attributable to non-operating activities* | | |
| Exploration expenditure | 78,944 | 374,646 |
| Termination of joint venture | — | 200,000 |
| *Non-cash flows in profit/(loss)* | | |
| Amortisation | 69,056 | 22,956 |
| Depreciation of plant and equipment | 27,935 | 38,377 |
| Exploration expenditure written off | — | 246,119 |
| Cost of share based payment | — | — |
| Loss/(Profit) on disposal of oil and gas properties | | (161,146) |
| Loss/(Profit) on disposal of plant & equipment | (582) | — |
| Foreign exchange loss | 28,521 | 72,842 |
| Charges to provisions | 1,006 | 524 |
| *Changes in assets and liabilities* | | |
| Decrease/(increase) in debtors and receivables | 18,091 | (29,124) |
| Decrease/(increase) in inventories | 1,462 | 4,883 |
| Increase/(decrease) in creditors and accruals | (49,137) | 3,242 |
| **NET CASH FROM/(USED IN) OPERATING ACTIVITIES** | (1,163,513) | (1,071,299) |

RECONCILIATION OF CASH AND CASH EQUIVALENTS

*Cash and cash equivalents at the end of the financial year is shown in the accounts as:*

| | 2011 $ | 2010 $ |
|---|---|---|
| Cash | 1,173,445 | 132,057 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR** | 1,173,445 | 132,057 |

SECURITY OVER CASH DEPOSITS

At 30 June 2011, cash deposits of $20,000 were committed as security for credit cards (2010: $10,000).

NON-CASH FINANCING AND INVESTING ACTIVITIES

There were no non-cash financing and investing activities during the year.

There are no financing facilities in place for the Company.

## NOTE 16. AUDITOR'S REMUNERATION

Remuneration of the auditor and a related entity of the Company for:

| | 2011 $ | 2010 $ |
|---|---|---|
| Auditing or reviewing the financial report | 26,000 | 26,300 |
| Tax compliance services | 5,775 | 4,575 |
| | 31,775 | 30,875 |

| | Consolidated Entity 2011 $ | 2010 $ |
|---|---|---|
| **NOTE 17. EXPENDITURE COMMITMENTS** | | |
| Non-Cancellable operating leases contracted for but not capitalised in the accounts: | | |
| *Payable* | | |
| not later than one year | 75,402 | 73,350 |
| later than 1 year but not later than 5 years | 18,966 | 94,098 |
| **AGGREGATE EXPENDITURE CONTRACTED FOR AT REPORTING DATE** | 94,368 | 167,448 |

The property lease is a non-cancellable lease which expires on 30 September 2012 with rent payable monthly in advance. Contingent rental provisions within the lease agreement require that the minimum lease payments shall be increased on each 1 October during the lease by the higher of 2.5% or the CPI per annum.

CAPITAL EXPENDITURE COMMITMENTS

*Coal Seam Methane Projects*
*onshore Western Australia*

The Company is the sole holder of a drilling reservation (DR11) for the area known as Eneabba North with a work commitment of two stratigraphic wells and a 2D seismic survey in the first year. Due to a delay in the Governmental work approval process, the commitment is carried forward and will remain the same. The estimated cost of the seismic survey and two coal seam methane wells is $550,000.

AWE Limited (“AWE”) will farm-in for a 90 per cent equity share in Exploration Permit (‘EP’) for an area known as Eneabba South (EP455) in the North Perth Basin. Pursuant to the farmin agreement, AWE will carry WGP through a gross permit expenditure of up to $7,500,000 after which AWE will pay 90 per cent and WGP 10 per cent of approved work programs and budget expenditure. The estimated expenditure requirements established under the permit for EP455 are $2,100,000 by 21 June 2012 and a further $2,000,000 by 21 June 2013. The estimated expenditure requirements established under the permit for EP455 is well within the agreed gross permit expenditure by AWE.

Tenements EL 70/3478 and EL 70/2738 have an expenditure commitment of $20,000 per year for each. The permit for EL 70/3478 is valid until 21 May 2014. The permit for EL 70/2738 is valid until 1 May 2013.

Red Mountain Energy Pty Ltd (on behalf of The Company) has applied for a new SPA for the areas previously known as Vasse (DR 10) and Treeton (DR 8) as these drilling reservation permits have expired. The area is now referred to as Vasse - Treeton. The SPA application has not yet been granted and there will be no expenditure commitment until the SPA application has been approved. Red Mountain Energy Pty Ltd is a company controlled by Mr Stephen Thomas, a director of the Company.

The Company is continuing to farm into the Margaret River Exploration Permit (EP 445). The work commitment is for a five well drilling program by 15 March 2012. The estimated cost for the drilling program is $600,000.

The Company's expenditure commitments for these EL's, SPA's, DR's and EP's is estimated as follows:

| | Consolidated Entity 2011 $ | 2010 $ |
|---|---|---|
| *Payable* | | |
| not later than one year | 3,290,000 | 1,200,000 |
| later than 1 year but not later than 5 years | 2,060,000 | 5,250,000 |
| **AGGREGATE EXPENDITURE CONTRACTED FOR AT REPORTING DATE** | 5,350,000 | 6,450,000 |

Should the Company fail to meet these expenditure commitments, they could forfeit the permit concerned. However, a significant proportion of this commitment relates to EP455 and is covered by the AWE farmin agreement. In the directors' opinion, the Company will be able to meet these commitments as and when they fall due.

*Onshore Kentucky United States of America*

Sunset Energy LLC (a wholly owned subsidiary of Westralian Gas and Power Ltd) has acquired oil and gas leases in Kentucky USA. The Company's commitment on these leases is to produce oil each year thereby providing a royalty to the landowner. Wells in all leases have produced oil and there are no further commitments.

## NOTE 18. KEY MANAGEMENT PERSONNEL

REMUNERATION OF KEY MANAGEMENT PERSONNEL

| | Consolidated Entity 2011 $ | 2010 $ |
|---|---|---|
| REMUNERATION OF KEY MANAGEMENT PERSONNEL | | |
| Short term employee benefits | 518,209 | 495,500 |
| Post employment benefits | 54,541 | — |
| Share based payment benefits | — | — |
| | 572,750 | 495,500 |

SHARES HELD BY KEY MANAGEMENT PERSONNEL

*Year Ended 30 June 2011*

| | Number of Ordinary Shares | | | |
|---|---|---|---|---|
| | 1 July 2010 or Appointment | Issued as Remuneration | Net Change Other | 30 June 2011 or Resignation |
| Peter Briggs | 10,647,535 | — | — | 10,647,535 |
| Stephen Leslie Thomas | 9,744,843 | — | — | 9,744,843 |
| Chong Kwee Ch'ng (appointed 30-Sep-2010) | 2,000,000 | — | 500,000 | 2,500,000 |
| Kristian John Barnes (resigned 30-Sep-2010) | — | — | — | — |
| Jack Toby | — | — | — | — |
| | 22,392,378 | — | 500,000 | 22,892,378 |

*Year Ended 30 June 2010*

| | Number of Ordinary Shares | | | |
|---|---|---|---|---|
| | **1 July 2009 or Appointment** | **Issued as Remuneration** | **Net Change Other** | **30 June 2010 or Resignation** |
| Peter Briggs | 10,647,535 | — | — | 10,647,535 |
| Stephen Leslie Thomas | 9,744,843 | — | — | 9,744,843 |
| Kristian John Barnes | — | — | — | — |
| Jack Toby | 2,250,000 | — | (2,250,000) | — |
| | 22,642,378 | — | (2,250,000) | 20,392,378 |

OPTIONS HELD BY KEY MANAGEMENT PERSONNEL

*Year Ended 30 June 2011*

| | Number of Options | | | |
|---|---|---|---|---|
| | **1 July 2010 or Appointment** | **Granted as Remuneration** | **Net Change Other** | **30 June 2011 or Resignation** |
| Peter Briggs | 15,000,000 | — | — | 15,000,000 |
| Stephen Leslie Thomas | 10,000,000 | — | — | 10,000,000 |
| Chong Kwee Ch'ng (appointed 30-Sep-2010) | — | — | — | — |
| Kristian John Barnes (resigned 30-Sep-2010) | 2,000,000 | — | — | 2,000,000 |
| Jack Toby | — | — | 9,000,000 | 9,000,000 |
| | 27,000,000 | — | 9,000,000 | 36,000,000 |

*Year Ended 30 June 2010*

| | Number of Options | | | |
|---|---|---|---|---|
| | **1 July 2009 or Appointment** | **Granted as Remuneration** | **Net Change Other** | **30 June 2010 or Resignation** |
| Peter Briggs | 19,040,000 | — | (4,040,000) | 15,000,000 |
| Stephen Leslie Thomas | 10,000,000 | — | — | 10,000,000 |
| Kristian John Barnes | 2,000,000 | — | — | 2,000,000 |
| Jack Toby (appointed 23 May 2008) | 7,250,000 | — | (7,250,000) | — |
| | 38,290,000 | — | (11,290,000) | 27,000,000 |

All options are vested and exercisable.

## NOTE 19. SHARE BASED PAYMENTS

No share based payments were issued by the Company or by the Consolidated Entity during the year ended 30 June 2011 or during the year ended 30 June 2010.

| | **Number of Options** | **Weighted Average Exercise Price** |
|---|---|---|
| Outstanding at beginning of year | 39,250,000 | $0.0615 |
| Granted | — | — |
| Forfeited | — | — |
| Exercised | — | — |
| Expired | (2,250,000) | $0.25 |
| **OUTSTANDING AND EXERCISABLE AT YEAR END** | 37,000,000 | $0.05 |

The weighted average remaining contractual life subsequent to 30 June 2011 of these options is 93 days.

The cost of share based payments for the year ended 30 June 2011 was Nil (2010: $Nil).

## NOTE 20. SEGMENT INFORMATION

### IDENTIFICATION OF REPORTABLE SEGMENTS

The Group has identified its operating segments based on internal reports that are reviewed and used by the board of directors (chief operating decision maker) in assessing performance and determining the allocation of resources.

The Group's principal activities are exploration, development and production for oil and gas (including coal seam methane gas) and investment in the resources industry. These activities are managed on a project by project basis. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics.

### BASIS OF ACCOUNTING FOR PURPOSES OF REPORTING BY OPERATING SEGMENTS

Unless stated otherwise, all amounts reported to the board of directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent with those adopted in the annual financial statements of the Group.

Segment assets are clearly identifiable on the basis of their nature and physical location.

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Segment liabilities include trade and other payable and certain direct borrowings.

Items of revenue, expense, assets and liabilities are not allocated to operating segments if they are not considered part of the core operations of any segment.

| | Year to 30 June 2011 | | | Year to 30 June 2010 | | |
|---|---|---|---|---|---|---|
| | **Oil and Gas Exploration Australia $** | **Oil Production USA $** | **Total $** | **Oil and Gas Exploration Australia $** | **Oil Production USA $** | **Total $** |
| SEGMENT PERFORMANCE | | | | | | |
| External revenue | — | 27,354 | 27,354 | 400,000 | 38,537 | 438,537 |
| **TOTAL SEGMENT REVENUE** | — | 27,354 | 27,354 | 400,000 | 38,537 | 438,537 |
| Segment net profit/(loss) before tax | (63,249) | (181,296) | (244,545) | (349,023) | (229,629) | (578,652) |
| RECONCILIATION OF SEGMENT RESULT TO NET PROFIT/(LOSS) BEFORE TAX | | | | | | |
| *Amounts not included in segment results but reviewed by the Board:* | | | | | | |
| Interest received | | | 22,778 | | | 17,791 |
| Other income | | | 5,937 | | | 1,498 |
| Research and development tax concession rebate | | | 211,138 | | | — |
| Unrealised exchange loss | | | (28,521) | | | (72,842) |
| Other expenses | | | (1,305,596) | | | (1,212,413) |
| **NET PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS** | | | (1,338,809) | | | (1,844,618) |

| | 30 June 2011 | | | 30 June 2010 | | |
|---|---|---|---|---|---|---|
| | **Oil and Gas Exploration Australia $** | **Oil Production USA $** | **Total $** | **Oil and Gas Exploration Australia $** | **Oil Production USA $** | **Total $** |
| SEGMENT ASSETS | | | | | | |
| Segment assets | — | 101,449 | 101,449 | — | 164,117 | 164,117 |
| RECONCILIATION OF SEGMENT ASSETS TO TOTAL ASSETS | | | | | | |
| *Unallocated assets:* | | | | | | |
| Cash and cash equivalents | | | 1,168,189 | | | 126,573 |
| Receivables | | | 26,673 | | | 35,295 |
| Plant and equipment | | | 17,690 | | | 17,130 |
| **TOTAL ASSETS FROM CONTINUING OPERATIONS** | | | 1,314,001 | | | 343,115 |

| | 30 June 2011 | | | 30 June 2010 | | |
|---|---|---|---|---|---|---|
| | **Oil and Gas Exploration Australia $** | **Oil Production USA $** | **Total $** | **Oil and Gas Exploration Australia $** | **Oil Production USA $** | **Total $** |
| SEGMENT LIABILITIES | | | | | | |
| Segment liabilities | — | 20,838 | 20,838 | 150,000 | 32,868 | 182,868 |
| RECONCILIATION OF SEGMENT LIABILITIES TO TOTAL LIABILITIES | | | | | | |
| *Unallocated liabilities:* | | | | | | |
| Other liabilities | | | 58,215 | | | 93,226 |
| **TOTAL LIABILITIES FROM CONTINUING OPERATIONS** | | | 79,053 | | | 276,094 |

REVENUE BY GEOGRAPHICAL REGION

Revenue attributed to external customers is disclosed below based on the location of the external customers.

| | **Year to 30 June 2011 $** | **Year to 30 June 2010 $** |
|---|---|---|
| Australia | — | 400,000 |
| USA | 27,354 | 38,537 |
| | 27,354 | 438,537 |

ASSETS BY GEOGRAPHICAL REGION

The location of assets is disclosed below by the geographical location of the assets.

| | **30 June 2011 $** | **30 June 2010 $** |
|---|---|---|
| Australia | 1,212,552 | 178,998 |
| USA | 101,449 | 164,117 |
| | 1,314,001 | 343,115 |

MAJOR CUSTOMERS

Due to the nature of its current operations, the Group does not provide products and services.

## NOTE 21. CONTROLLED ENTITIES

| | % Owned | | Book value of shares held | | Contribution to consolidated profit/(loss) | |
|---|---|---|---|---|---|---|
| | | | 2011 | 2010 | 2011 | 2010 |
| | 2011 | 2010 | $ | $ | $ | $ |
| *Parent Entity* | | | | | | |
| Westralian Gas and Power Limited | | | | | (1,147,513) | (1,787,236) |
| *Entities controlled by Westralian Gas and Power Limited* | | | | | | |
| Westralian Petroleum Ltd | 100% | 100% | 10 | 10 | (10,000) | 172,247 |
| Sunset Energy LLC | 100% | 100% | — | — | (181,296) | (229,629) |
| Sunset Energy Pty Ltd | 100% | 100% | 100 | 100 | — | — |
| Flamestar Corporation Pty Ltd | 100% | 100% | — | — | — | — |
| | | | 110 | 110 | (1,338,809) | (1,844,618) |

Sunset Energy LLC is registered in the State of Delaware in the United States of America.

## NOTE 22. SUPERANNUATION COMMITMENTS

The Company makes contributions to complying superannuation funds based on the requirements of the Australian Superannuation Guarantee Charge or such higher amount as has been agreed with individual employees. There is a legally enforceable obligation on the Company to contribute to the superannuation plan for those contributions that have been agreed with individual employees as part of their conditions of employment.

## NOTE 23. CONTINGENT LIABILITIES

There has been no significant change in contingent liabilities since the last annual reporting date.

## NOTE 24. FINANCIAL INSTRUMENTS

### FINANCIAL RISK MANAGEMENT POLICIES

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable and loans to and from subsidiaries, which arise directly from its operations. The Group’s policy is that no trading in financial instruments shall be undertaken. The main purpose of non-derivative financial instruments is to finance Group operations. Derivatives are not used by the Group and the Group does not speculate in the trading of derivative instruments.

### TREASURY RISK MANAGEMENT

The Board considers the Group’s financial risk exposure and treasury management strategies in the context of the Group’s operations. The Board's overall risk management strategy seeks to assist the consolidated Group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

### FINANCIAL RISK EXPOSURES AND MANAGEMENT

The main risks the Group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and price risk. The Board reviews each of these risks on an on-going basis.

### INTEREST RATE RISK

The Company has a policy of minimising its exposure to interest payable on debt. The Group has no debt that requires the payment of interest.

| FINANCIAL INSTRUMENTS | TERMS AND CONDITIONS AND INTEREST RATE RISK |
|---|---|
| Bank Deposits | Bank deposits are either held at call, subject to notice of withdrawal or subject to maturity after a specified period of time. All cash held is subject to floating interest rate risk. |
| Receivables | There are no specific terms and conditions that may affect the amount, timing and certainty of future cash flows as they are all managed on a case by case basis. These are non interest bearing and there is no exposure to interest rate risk. |
| Accounts Payable | There are no specific terms and conditions that may affect the amount, timing and certainty of future cash flows as they are all managed on a case by case basis. These are non interest bearing and there is no exposure to interest rate risk. |

### FOREIGN CURRENCY RISK

The Group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the Group's measurement currency. The Group is also exposed to fluctuations in foreign currencies arising from deposits with banks denominated in foreign currencies. The Group does not seek to hedge this exposure.

### LIQUIDITY RISK

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate funds are available through on-going business activity, the sale of assets, joint venture arrangements and capital raising.

### CREDIT RISK

At 30 June 2011, cash deposits of $20,000 were committed as security for credit cards (2010: $10,000)

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. There are no other material amounts of collateral held as security at 30 June 2011 or at 30 June 2010. Credit risk is managed on a Group basis and reviewed by the Board. It arises from exposures to customers as well as through deposits with financial institutions. The Board monitors credit risk by actively assessing the quality and liquidity of counter parties, consequently only banks are utilised for deposits and all potential customers are assessed for credit worthiness taking into account their size, market position and financial standing. The counterparties included in trade and other receivables at 30 June 2011 and at 30 June 2010 are not rated, however given the amount and nature of these financial instruments, the Board is satisfied that they represent a low credit risk for the Group. There are no significant concentrations of credit risk within the Group.

### PRICE RISK

The Group is exposed to commodity price risk through its own activities and its joint venture interests. Oil and gas prices have improved substantially over the last 12 months and the Group does not currently hedge the price it sells oil and gas at.

### FINANCIAL INSTRUMENT COMPOSITION AND MATURITY ANALYSIS

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts may not reconcile to the balance sheet.

| | Consolidated Entity 2011 $ | Consolidated Entity 2010 $ |
|---|---|---|
| TRADE AND SUNDRY PAYABLES ARE EXPECTED TO BE PAID AS FOLLOWS: | | |
| Less than 6 months | 76,809 | 274,856 |
| 6 months to 1 year | — | — |
| later than 1 year but not later than 5 years | — | — |
| over 5 years | — | — |
| | 76,809 | 274,856 |

FAIR VALUES

The aggregate net fair values of the Consolidated Entity's financial assets and financial liabilities, both recognised and unrecognised are as follows:

| | CARRYING AMOUNT IN THE FINANCIAL STATEMENTS 2011 $ | AGGREGATE NET FAIR VALUE 2011 $ | CARRYING AMOUNT IN THE FINANCIAL STATEMENTS 2010 $ | AGGREGATE NET FAIR VALUE 2010 $ |
|---|---|---|---|---|
| *Financial Assets* | | | | |
| Cash assets | 1,173,445 | 1,173,445 | 132,057 | 132,057 |
| Receivables | 27,290 | 27,290 | 45,381 | 45,381 |
| Other financial assets | — | — | — | — |
| *Financial Liabilities* | | | | |
| Payables | 76,809 | 76,809 | 274,856 | 274,856 |

*The following methods and assumptions are used to determine the net fair value of financial assets and liabilities:*

Cash assets and financial assets are carried at amounts approximating fair value because of their short term nature to maturity. Receivables and payables are carried at amounts approximating fair value. The Group does not carry financial instruments at fair value at 30 June 2011.

Listed investments have been valued at the quoted market bid price at balance date, adjusted for transaction costs expected to be incurred. For unlisted investments where there is no organised financial market, the net fair value has been based on a reasonable estimation of the underlying net assets or discounted cash flows of the investment.

SENSITIVITY ANALYSIS

The Group has performed a sensitivity analysis relating to its exposure to interest rate risk and foreign currency risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

INTEREST RATE SENSITIVITY ANALYSIS

At 30 June 2011, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

| | Consolidated Entity | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| CHANGE IN PROFIT DUE TO:: | | |
| Increase in interest rate by 2% | 11,922 | 12,164 |
| Decrease in interest rate by 2% | (11,922) | (12,164) |
| CHANGE IN EQUITY DUE TO:: | | |
| Increase in interest rate by 2% | 11,922 | 12,164 |
| Decrease in interest rate by 2% | (11,922) | (12,164) |

FOREIGN CURRENCY RISK SENSITIVITY ANALYSIS

At 30 June 2011, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

| | Consolidated Entity | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| CHANGE IN PROFIT DUE TO:: | | |
| Improvement in AUD to USD by 5% | 4,242 | 6,908 |
| Decline in AUD to USD by 5% | (3,839) | (6,250) |
| CHANGE IN EQUITY DUE TO:: | | |
| Improvement in AUD to USD by 5% | 4,242 | 6,908 |
| Decline in AUD to USD by 5% | (3,839) | (6,250) |

## NOTE 25. RELATED PARTY TRANSACTIONS

The Company is not controlled by any other entity.

During the year ended 30 June 2011, the Company lent monies to its subsidiaries totalling $159,178 (2010: $199,500) and as at 30 June 2011 this amount has been written off.

During they year ended 30 June 2011, the Company received no loan repayments from its subsidiaries (2010: $172,247).

During the year ended 30 June 2011, the Company earned management fees from its subsidiaries of $10,000 (2010: $27,753).

Natural Resource Finance Pty Ltd received benefits from the Company for services performed by Mr Peter Briggs, a director of the Company. This remuneration received by Natural Resource Finance Pty Ltd is included in the remuneration of Mr Peter Briggs in the Remuneration Report which is within the Directors' Report.

At 30 June 2011, directors and their related entities held directly, indirectly or beneficially 22,892,378 ordinary shares in the Company and 25,000,000 options over ordinary shares in the Company.

At 30 June 2010, directors and their related entities held directly, indirectly or beneficially 20,392,378 ordinary shares in the Company and 27,000,000 options over ordinary shares in the Company.

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

### Contractual Arrangements with Director Related Entities

### RME Farm In Agreement

The RME Farm-in Agreement is between Red Mountain Energy Pty Ltd (RME), an entity controlled by director Stephen Thomas and the Company. Under it the Company may earn a 100% interest in the following Titles when granted:

- Drilling Reservation Licence DR7 (DR7 has now expired however a new application for the same area has been lodged).
- Exploration Permit EP 445.
- DR 10 has now expired and has been replaced with an application for an SPA (stp-spa-0006)

While it is performing its farm-in obligations the Company is appointed the operator to carry out all activities in respect of those titles and accordingly, has Operator Rights.

The Company has not yet completed its minimum work commitments on the titles.

### RMEI Royalty

Under the RMEI Royalty, the Company must pay Red Mountain Energy Inc. (RMEI) a 2.25% royalty in respect of the royalty value (as defined in the Petroleum Act 1967) of petroleum recovered from each Royalty Title. Royalty Titles are those transferred to the Company pursuant to the RME Farm-In Agreement.

The royalty will be payable at the same time as that payable to the Minister under the Act. If no royalty is payable to the Minister under the Act, then no royalty is payable under the RMEI Royalty. If the Company is able to negotiate a reduced royalty arrangement with the Minister in respect of a Royalty Title, then the amount of royalty payable by the Company under the RMEI Royalty in respect of that Royalty Title will be reduced for the same period and in the same proportion.

### Exploration JVA

The Exploration JVA is binding on the parties, but upon request by a party is to be replaced by a more formal joint operating agreement. The Exploration JVA is preliminary in nature and does not contain the detailed provisions contained in a formal joint venture agreement to deal with matters like the manager's powers and default. The Exploration JVA does make provision for programmes and budgets and a management committee. Decisions of the management committee are by majority vote and accordingly unanimous approval will be required for programmes and budgets.

### Director-related Entities

Executive Chairman Mr Briggs was paid consulting fees via his controlled entity Natural Resource Finance Pty Ltd. Fees paid to this Companies are disclosed in the directors remuneration note.

| | Consolidated Entity 2011 $ | 2010 $ |
|---|---|---|
| Amount owing to Stephen Thomas | 14,850 | 14,850 |
| Managing Director, Mr Stephen Thomas, controls Red Mountain Energy Inc (RMEI) which charges a fee for equipment rental and premises used by the Company's subsidiary Sunset Energy LLC. Fees charged by Red Mountain Energy Inc | 21,021 | 20,930 |

At 30 June 2011, Sunset Energy LLC, a wholly owned subsidiary of the Company owed US$21,000 to Red Mountain Energy Inc, an entity controlled by director Stephen Thomas (2010: US$11,000).

## NOTE 26. DIVIDENDS

No dividends have been paid or proposed during the year.

## NOTE 27. EVENTS SUBSEQUENT TO BALANCE DATE

On 28 July 2011, the Company issued 52,163,972 fully paid ordinary shares for $0.01 per share and issued 47,387,991 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of $0.001 each. The issue of these options was approved at the General Meeting of shareholders of the Company held on 17 June 2011.

On 22 August 2011, the Company lodged a prospectus with ASIC for an underwritten non renounceable pro rata offer of fully paid ordinary shares to existing shareholders. The offer was on the basis of two fully paid ordinary shares in the Company ("Shares") for every three Shares held by shareholders on the record date of 2 September 2011 at an issue price of $0.01 (1 cent) per Share, with one free Attaching Option for every two new Shares issued. The Attaching Options issued will be exercisable at $0.015 on or before 31 December 2012. The maximum number of Shares to be issued pursuant to the offer is 266,615,858 new Shares and approximately 133,307,929 free Attaching Options (assuming none of the existing options on issue are exercised) and raise approximately $2,666,159 before costs.

There have been no other conversions to, calls of or subscriptions for ordinary shares or issues of potential ordinary shares.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

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# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESTRALIAN GAS AND POWER LIMITED AND ITS CONTROLLED ENTITIES

## REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Westralian Gas and Power Limited and its controlled entities, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

*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, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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 about 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 of the financial report that gives a true and fair view 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.

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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Westralian Gas and Power Limited and its controlled entities, would be in the same terms if given to the directors as at the time of this auditor's report.

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SomesandCooke

**OPINION**

In our opinion:

a) the financial report of Westralian Gas and Power Limited is in accordance with the *Corporations Act 2001*, including:

   i) giving a true and fair view of the entity's financial position as at 30 June 2011 and of its performance for the period 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.

**REPORT ON THE REMUNERATION REPORT**

We have audited the Remuneration Report included in pages 6 to 8 of the directors' report for the year ended 30 June 2011. 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 2011*. Our responsibility is to express and option on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

OPINION

In our opinion the Remuneration Report within the directors' report of Westralian Gas and Power Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

Somes & Cooke

**Somes & Cooke**

K Somes

**Kevin Somes**

Perth
Dated: 23 August 2011

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West Perth WA 6005
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SomesandCooke

**Auditor's Independence Declaration**

To those charged with governance of Westralian Gas and Power Limited and its controlled entities

As auditor for the audit of Westralian Gas and Power Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been:

i) no contraventions of the independence requirements of the Corporations Act 2001 in relation to the audit; and

ii) no contraventions of any applicable code of professional conduct in relation to the audit.

**Kevin Somes**

Partner
23 August 2011

Partners
Kevin Somes FCA
John Cooke FCA ACIS

Associates
Julie Burns CA
Rachelle Rose CA CFP®

Chartered Accountants, Business Consultants and Financial Advisers

## ANALYSIS OF HOLDINGS OF LISTED SHARES AND OPTIONS IN THE COMPANY

| | Ordinary Shares | Options expiring 1 Oct 2011 5 cents |
|---|---|---|
| 1 — 1,000 | 168 | 0 |
| 1,001 — 5,000 | 87 | 0 |
| 5,001 — 10,000 | 130 | 0 |
| 10,001 — 100,000 | 736 | 14 |
| 100,001 — and over | 463 | 102 |
| Total number of holders | 1,584 | 116 |
| Holdings of less than a marketable parcel | 790 | |

## ANALYSIS OF HOLDINGS OF UNLISTED SHARES AND OPTIONS IN THE COMPANY

| | Options expiring 31 Oct 2013 5 cents | Options expiring 31 Jul 2010 25 cents | Options expiring 31 Oct 2015 25 cents |
|---|---|---|---|
| 1 — 1,000 | 0 | 0 | 0 |
| 1,001 — 5,000 | 0 | 0 | 0 |
| 5,001 — 10,000 | 0 | 0 | 0 |
| 10,001 — 100,000 | 0 | 0 | 0 |
| 100,001 — and over | 1 | 2 | 64 |
| Total number of holders | 1 | 2 | 64 |

## REGISTERED OFFICE OF THE COMPANY

31 Ord St
West Perth
Western Australia 6005

Tel: +61 (8) 9322 6955
Fax: +61 (8) 9322 6722

## STOCK EXCHANGE LISTING

Quotation has been granted for all ordinary shares and all options expiring 1 October 2011 on the Australian Securities Exchange. The State Office of Australian Securities Exchange in Perth, Western Australia has been designated the Home Branch of Westralian Gas and Power Limited.

There are no current on-market buy-back arrangements for the Company.

A Level One American Depositary Receipt (ADR) program has been declared eligible by the US Securities and Exchange Commission. The Bank of New York Mellon had been appointed as the depositary bank for the ADR program. A Level One ADR program facilitates the purchase of Westralian Gas and Power shares by US investors. Under the program, one ADR is equivalent to 200 ordinary shares of Westralian Gas and Power. The ADRs trade in the US over-the-counter (OTC) market under the ADR trading symbol WGPRY and the CUSIP number is 961436102.

## SHARE REGISTRY

The registers of shares and options of the Company are maintained by:-

Computershare Registry Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth, Western Australia 6000

Tel: +61 (8) 9323 2000
Fax: +61 (8) 9323 2033

# ADDITIONAL INFORMATION AS AT 17 AUGUST 2011

## COMPANY SECRETARY

The name of the Company Secretary is Jack Hugh Toby.

## TAXATION STATUS

Westralian Gas and Power Limited is taxed as a public company.

## VOTING RIGHTS

For all ordinary shares, voting rights are one vote per member on a show of hands and one vote per share in a poll.

## TWENTY LARGEST HOLDERS OF ORDINARY SHARES

| | Number of Shares | Percentage of Total |
|---|---|---|
| Sunvest Corporation Limited | 30,000,000 | 7.50% |
| Mrs Jirachaya Charnchayasuk | 11,247,872 | 2.81% |
| Sunbeam Securities Pty Ltd <Sunbeam S/F A/C> | 10,647,535 | 2.66% |
| Scintilla Strategic Investments Ltd | 10,000,000 | 2.50% |
| Dr Michael Ian Nissen | 9,677,400 | 2.42% |
| Mr Stephen Leslie Thomas <S L T Family A/C> | 9,008,670 | 2.25% |
| Dyamond Developments Pty Ltd | 8,000,000 | 2.00% |
| Naturaliste Holdings Pty Ltd <Dhu Fish Investment A/C> | 7,500,000 | 1.88% |
| S M B A Investments Pty Ltd | 6,000,000 | 1.50% |
| J P Morgan Nominees Australia Limited | 5,900,000 | 1.48% |
| Mr Larry James Gibson | 5,500,000 | 1.38% |
| The Trust Company (Superannuation) Limited <Korn Personal Super Fund A/C> | 5,100,000 | 1.28% |
| Bouta Pty Limited <Jb Martel Practice S/F A/C> | 5,000,000 | 1.25% |
| Buckland Capital Pty Ltd <D Millar S/F A/C> | 5,000,000 | 1.25% |
| Mr Raymond Joseph Sinnott | 4,604,667 | 1.15% |
| Jp Morgan Nominees Australia Limited <Cash Income A/C> | 4,136,000 | 1.03% |
| Mr David Frederick Hughes | 4,025,806 | 1.01% |
| Loxden Pty Ltd <Frank Brady Super Fund A/C> | 4,000,000 | 1.00% |
| Mrs Elaine Rose Gibson | 3,200,000 | 0.80% |
| Bouta Pty Limited | 3,000,000 | 0.75% |
| | 151,547,950 | 37.90% |

## TWENTY LARGEST HOLDERS OF 2.75 CENT OPTIONS EXPIRING 31 OCTOBER 2013

| | Number of Options | Percentage of Total |
|---|---|---|
| Sunvest Corporation Limited | 30,000,000 | 100.00% |
| | 30,000,000 | 100.00% |

## TWENTY LARGEST HOLDERS OF 5 CENT OPTIONS EXPIRING 31 JULY 2015

| | Number of Options | Percentage of Total |
|---|---|---|
| Andwendrod Services Pty Ltd | 3,000,000 | 60.00% |
| Northgold Pty Ltd <Northgold Super Fund A/C> | 2,000,000 | 40.00% |
| | 5,000,000 | 100.00% |

## TWENTY LARGEST HOLDERS OF 5 CENT OPTIONS EXPIRING 1 OCTOBER 2011

| | Number of Options | Percentage of Total |
|---|---|---|
| Jacobs Corporation Pty Ltd | 20,000,000 | 10.52% |
| Sacha Investments Pty Ltd | 17,500,000 | 9.20% |
| Sunbeam Securities Pty Ltd <Sunbeam S/F A/C> | 15,000,000 | 7.89% |
| Mrs Marie-Michele Kyriakopoulos + Mr John Kyriakopoulos | 14,116,000 | 7.42% |
| Mr Alan Robert Burns | 10,000,000 | 5.26% |
| Mr Stephen Leslie Thomas <S L T Family A/C> | 10,000,000 | 5.26% |
| Naturaliste Holdings Pty Ltd <Dhu Fish Investment A/C> | 7,500,000 | 3.94% |
| Lamonde Industries Pty Ltd <Dorizzi Super Fund A/C> | 5,500,000 | 2.89% |
| H E 2 Holdings Pty Ltd | 5,300,000 | 2.79% |
| ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C> | 5,000,000 | 2.63% |
| Mr Guilong Li | 4,710,000 | 2.48% |
| Mr Peter James Green | 3,609,489 | 1.90% |
| Mr David Frederick Hughes | 3,225,806 | 1.70% |
| Ms Lusia Ding | 3,050,000 | 1.60% |
| Dr Christopher John Kelly | 3,000,000 | 1.58% |
| Traders Macquarie Pty Ltd <Trading A/C> | 3,000,000 | 1.58% |
| Sked Pty Ltd <Super Fund A/C> | 2,500,000 | 1.31% |
| Ms Mervat Youssef | 2,500,000 | 1.31% |
| Mr Kristian John Barnes | 2,000,000 | 1.05% |
| Mr Graeme Kevin Johnston + Mrs Melina Luree Johnston | 2,000,000 | 1.05% |
| | 139,511,295 | 73.36% |

## TWENTY LARGEST HOLDERS OF 3 CENT OPTIONS EXPIRING 31 OCTOBER 2015

| | Number of Options | Percentage of Total |
|---|---|---|
| Mrs Jirachaya Charnchayasuk | 30,000,000 | 18.46% |
| Northgold Pty Ltd <Northgold Super Fund A/C> | 12,600,000 | 7.75% |
| Mainpass Holdings Pty Ltd | 10,500,000 | 6.46% |
| Kyle Parade Pty Ltd <The Player S/F A/C> | 9,750,000 | 6.00% |
| Playercorp Pty Ltd <Sj Player Family A/C> | 8,400,000 | 5.17% |
| Bouta Pty Limited <J B Martel Practice S/F A/C> | 7,800,000 | 4.80% |
| Ohio Holdings Pty Ltd | 7,000,000 | 4.31% |
| Mocter Pty Ltd <The Noel Carter Family A/C> | 6,000,000 | 3.69% |
| Dyamond Developments Pty Ltd | 5,400,000 | 3.32% |
| Bill Brooks Pty Ltd <Bill Brooks Super Fund A/C> | 5,000,000 | 3.08% |
| Lsaf Holdings Pty Ltd <Owen Family A/C> | 5,000,000 | 3.08% |
| Scintilla Strategic Investments Ltd | 5,000,000 | 3.08% |
| Mrs Jirachaya Charnchayasuk | 3,750,000 | 2.31% |
| Scarlet Investments (Wa) Pty Ltd | 3,500,000 | 2.15% |
| Mr Michael Ian Nissen | 3,225,800 | 1.98% |
| Rexi Marketing Pty Ltd | 3,050,000 | 1.88% |
| Loeb Aron & Company Ltd | 3,000,000 | 1.85% |
| Jirachaya Charnchayasuk <Tawanrat A/C> | 2,500,000 | 1.54% |
| Lt Col Tongjai Charnchayasuk | 2,250,000 | 1.38% |
| Mr Noraset Charnchayasuk | 2,000,000 | 1.23% |
| | 135,725,800 | 83.52% |

## INTERESTS IN OIL & GAS TENEMENTS

| LEASE | INTEREST |
|---|---|
| *AUSTRALIA* | |
| EP 455 | 10.00% |
| EP 445[(1)] | 100.00% |
| EL 70/3478 | 100.00% |
| EL 70/2738 | 100.00% |
| DR 11 | 100.00% |

Notes:
(1) Registered in the name of Red Mountain Energy Pty Ltd and the Company's interest is pursuant to the RME Farm In Agreement.

| | |
|---|---|
| *KENTUCKY USA ** | |
| Riddle Lease: 250 acres | 100.00% |
| Stockton Lease: 123 acres | 100.00% |
| Carter Lease: Approx 600 acres | 100.00% |
| Dyer Lease: Approx 800 acres | 100.00% |
| Shepherd Lease: Approx 650 acres | 100.00% |

* All leases in Kentucky USA are subject to a 12.5% royalty to the landowner.

## SUBSTANTIAL SHAREHOLDERS

| Date Announced | Name | Number of Shares |
|---|---|---|
| 24-Sep-2010 | Sunvest Corporation Limited | 30,000,000 |

## PRINCIPLES OF GOOD CORPORATE GOVERNANCE AND RECOMMENDATIONS

### INTRODUCTION

The directors are focussed on fulfilling their responsibilities individually, and as a Board, for the benefit of all the Company's stakeholders. That involves recognition of, and a need to adopt, principles of good corporate governance. The Board supports the guidelines on the "Principles of Good Corporate Governance and Recommendations – 2nd Edition" established by the ASX Corporate Governance Council.

Given the size and structure of the Company, the nature of its business activities, the stage of its development and the cost of strict and detailed compliance with all of the recommendations, it has adopted a range of modified systems, procedures and practices which it considers will enable it to meet the principles of good corporate governance.

The Company's practices are mainly consistent with those of the guidelines and where they do not correlate with the recommendations in the guidelines the Company considers that its adopted practices are appropriate to it. At the end of this statement a table is included detailing the recommendations with which the Company does not strictly comply.

The following section addresses the Company's practices in complying with the principles.

### BOARD CHARTER

The business of the Company is managed under the direction of the Board of Directors. The Board is accountable to shareholders of the Company for the performance of the Company.

The Board has primary responsibility to shareholders for the sustainability and relevance of the Company by guiding and monitoring its business and affairs.

Each Director of the Company will act in good faith in the best interests of the Company and collectively oversee and appraise the strategies, major policies, processes and performance of the company using care and diligence to ensure that Company's long term sustainability is assured.

Directors will not misuse their position on the Board to advance personal interests nor to represent particular constituencies. Directors will not use information available to them as Board members to advance personal interests or agendas.

Directors are required to inform the Board of any conflicts or potential conflicts of interest they may have in relation to particular items of business. Directors must absent themselves from discussion or decisions on those matters.

The Company's Constitution and Australian corporations law specifies the minimum and maximum number of directors of the Company.

The Directors must elect one of their number as Chairman.

## PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

### *Role and Responsibilities of the Board*

The Company has established the functions reserved to the Board. The Board is responsible for:

- overseeing the Company, including its control and accountability systems;
- appointing and removing the chief executive officer, managing director, or equivalent;
- ratifying the appointment and the removal of senior executives;
- providing input into and final approval of management's development of corporate strategy;
- reviewing, ratifying and monitoring risk management, internal control, codes of conduct and legal compliance;
- monitoring senior executives performance and implementation of strategy;
- ensuring appropriate resources are available to senior executives;
- approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestitures;
- approving and monitoring financial and other reporting.

### *Role and Responsibilities of Senior Executives*

The Company has established the functions reserved to senior executives. Those who have the opportunity to materially influence the integrity, strategy and operation of the Company and its financial performance are considered to be senior executives. The functions delegated to senior executives are:

- Managing and administer the day-to-day operations of the Company;
- Making recommendations to the Board on corporate strategy, risk management, internal control, codes of conduct and legal compliance.
- Supervising other staff and represent them to the Board
- Exercising such specific and express powers as are delegated to them by the Board from time to time;

*Evaluation of the performance of Senior Executives*

The Board monitors the performance of senior executives on an on-going basis and conducts an evaluation of the performance of senior executives as and when the Board considers appropriate. A formal evaluation of the performance of senior executives was not carried out in the financial year ended 30 June 2011.

*Availability to public*

The matters reserved for the Board, the matters delegated to senior executives and the Board Charter is included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

*Composition of the Board*

The names of the directors of the Company and their qualifications are: set out in the section headed Directors' Report in the Annual Report for the year ended 30 June 2011.

The mix of skills and diversity for which the Board of directors is looking to achieve in membership of the Board is that required so as to provide the Company with a broad base of industry, business, technical, administrative, financial and corporate skills and experience considered necessary to represent shareholders and fulfil the business objectives of the Company.

The recommendations are that a majority of the directors and in particular the chairperson should be independent. An independent director is one who:

- is not a substantial shareholder of the Company or an officer or otherwise associated directly or indirectly with a substantial shareholder of the Company;
- has not within the last 3 years been employed in an executive capacity by the Company or another Group member or been a director after ceasing to hold such employment;
- has not within the last 3 years been a principal of a material professional adviser or a material consultant to the Company or another Group member, or an employee materially associated with such a service provided;
- is not a material supplier or customer of the Company or another Group member, or an officer of, or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the Company or any other Group member other than as a director of the Company; and
- is free from any interest and any business or other relationship which could or could reasonably be perceived to materially interfere with the director's ability to act in the best interests of the Company.

None of the Board members meet these criteria except for Mr Darren Levy. Consequently, the Board does not have a majority of independent directors. Mr Darren Levy is the chairman of the Board. The Chairman is an independent director.

The Chief Executive Officer of the Company is the Managing Director, Mr Stephen Thomas.

The performance of the Board, its committees (if any) and the individual directors is assessed on an on-going basis by the Chairman of the Board. The performance of the Chairman of the Board is assessed on an on-going basis by the Board as a whole. A formal evaluation of the performance of the Board, or of individual directors, was not carried out in the financial year ended 30 June 2011.

*Gender Diversity*

There are no women on the Board. There are no women in senior executive positions in the Group. The proportion of women employees in the whole organisation is 17%.

*Nomination of Other Board Members*

Membership of the Board of directors is reviewed on an on-going basis by the Chairman of the Board to determine if additional core strengths are required to be added to the Board in light of the nature of the Company's businesses and its objectives. The Board does not believe that at this point in the Company's development it is necessary to appoint additional directors. Consequently, the Board has not established a nomination committee.

*Independent Advice*

Each of the directors is entitled to seek independent advice at the Company's expense to assist them to carry out their responsibilities however prior approval of the Chairman is required which is not unreasonably withheld.

*Availability to public*

The Board's policy for nomination and appointment of directors is included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

The Company has established a code of conduct as to the:

- Practices necessary to maintain confidence in the Company's integrity;
- Practices necessary to take into account their legal obligations and the expectations of their stakeholders;
- Responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The terms of the code of conduct are:

Directors, officers, employees and consultants to the Company are required to observe high standards of behaviour and business ethics in conducting business on behalf of the Company and they are required to maintain a reputation of integrity on the part of both the Company and themselves. The Company does not contract with or otherwise engage any person or party where it considers integrity may be compromised.

Directors are required to disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the director or the interests of any other party in so far as it affects the activities of the Company and to act in accordance with the Corporations Act if conflict cannot be removed or if it persists. That involves taking no part in the decision making process or discussions where that conflict does arise.

Each director and senior executive is required to advise the Chairman of the Board of any reports of unethical practises by any director, executive or employee of the Company. The Chairman of the Board will investigate the matter and report back to the Board as a whole.

*Availability to public*

The code of conduct is included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

Directors are required to make disclosure of any trading in securities of the Company. Prior to 1 October 2010, the Company policy in relation to share trading is that officers are prohibited to trade whilst in possession of unpublished price sensitive information concerning the Company. That is information which a reasonable person would expect to have a material affect on the price or value of the Company's shares. It is recommended that an officer discuss the proposal to acquire or sell shares with the directors or the Company Secretary prior to doing so to ensure that there is no price sensitive information of which that officer might not be aware. The undertaking of any trading in the Company's shares or options by a director must be notified by the director to the ASX.

The Company has changed its policy for trading in the securities of the Company, effective from 1 October 2010. The new policy is:

## POLICY FOR TRADING IN THE SECURITIES OF THE COMPANY

### DEFINITIONS

*Insider Trading:*

'Insider trading' includes the trading of securities or some wider set of financial products (including derivatives and financial products able to be traded on a financial market) while in possession of information that is not generally available and would be likely to have a material effect on their price or value if it were generally available. The prohibition against insider trading extends to applying for, acquiring or disposing of, or entering into an agreement to apply for, acquire or dispose of relevant financial products, or procuring another person to so trade, or communicating that information where trading in the relevant financial products is likely to take place.

The insider trading provisions are found in Part 7.10, Division 3 of the Corporations Act 2001 ("Corporations Act"). Section 677 of the Corporations Act defines material effect on price or value. A reasonable person would be taken to expect information to have a material effect on the price or value of securities if the information would, or would be likely to, influence persons who commonly invest in securities in deciding whether or not to subscribe for, or buy or sell, the first mentioned securities.

*Company Securities:*

Company Securities means shares, options or performance rights over those shares and other securities convertible into shares, and any financial products of the Company traded on ASX.

*Closed Periods:*

Closed Periods means the following periods of time:

a) From 7 January of each year until the next announcement to the ASX of financial results either in the form of a cashflow report or in the form of profit results; and

b) From 7 July of each year until the next announcement to the ASX of financial results either in the form of a cashflow report or in the form of profit results; and

*Key Management Personnel:*

Key Management Personnel are defined in the ASX Listing Rules.

*Declaration:*

A declaration may be validly issued in either written or electronic form. Electronic declarations may take the form of an email, fax or any other electronic recordable communication.

*Excluded Trading:*

Excluded trading means trading consistent with any of the following categories:

Transfers of Company's Securities already held into a superannuation fund or other saving scheme in which the restricted person is a beneficiary;

An investment in, or trading in units of, a fund or other scheme (other than a scheme only investing in the securities of the entity) where the assets of the fund or other scheme are invested at the discretion of a third party;

Where a restricted person is a trustee, trading in the Company's Securities of the entity by that trust provided the restricted person is not a beneficiary of the trust and any decision to trade during a closed period is taken by the other trustees or by the investment managers independently of the restricted person;

Undertakings to accept, or the acceptance of, a takeover offer;

Trading under an offer or invitation made to all or most of the security holders, such as, a rights issue, a security purchase plan, a dividend or distribution reinvestment plan and an equal access buy-back, where the plan that determines the timing and structure of the offer has been approved by the board. This includes decisions relating to whether or not to take up the entitlements and the sale of entitlements required to provide for the take up of the balance of entitlements under a renounceable pro rata issue;

A disposal of the Company's Securities that is the result of a secured lender exercising their rights, for example, under a margin lending arrangement, provided that the restricted person obtained the consent of the Chairman or Chief Executive Officer of the Company to enter into agreements that provide lenders with rights over their interests in the entity's securities;

Acquisition of the Company's Securities through an issue of securities by the Company;

The exercise (but not the sale of securities following exercise) of an option or a right, or the conversion of a convertible security;

Trading in accordance with a declaration by the Chairman or Chief Executive Officer which may be given in circumstances that they consider appropriate. The declaration may specify the circumstances and duration of excluded trading; or

Trading under a non-discretionary trading plan for which prior clearance by the Chairman or Chief Executive Officer of the Company has been provided and where:

a) the restricted person did not enter into the plan or amend the plan during a closed period;

b) the trading plan does not permit the restricted person to exercise any influence or discretion over how, when, or whether to trade; and

c) there was no cancellation of the trading plan during a closed period other than in exceptional circumstances.

### TRADING RESTRICTIONS

All Key Management Personnel and all employees of the Company are required to comply with the prohibition against Insider Trading at all times with respect to the Company's Securities. Contravention of the insider trading prohibition may result in significant penalties.

With the introduction of the continuous disclosure regime, public listed companies and other disclosing entities are now required to disclose Price Sensitive Information on an on-going basis (subject to limited exceptions) so that at all times in the year the market can be fully informed and trading can be lawful. As a result the Company has decided not to specify safe periods but rather to designate periods when Trading by Key Management Personnel should not occur.

All Key Management Personnel are required to refrain from trading in the Company's Securities on the ASX during a Closed Period except for Excluded Trading.

All directors of the Company are required to comply with the Corporations Act and the ASX Listing Rules with regard to disclosure of their interests in the Company's Securities on their appointment as a director, on any change in their interests in the Company's Securities and on resignation as a director.

### *Availability to public*

The policy for trading in the securities of the Company is included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

### PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

No audit committee has been established. The two executive directors play an active role in monitoring the daily affairs of the Company. As a result of the scale of operations it has not been considered necessary to form sub-committees.

Each Board member has access to the external auditors and the auditor has access to each Board member.

In the event of the resignation of external auditors, the Board will appoint a new external auditor which is subsequently ratified by shareholders in General Meeting. In all other cases an external auditor is nominated by a shareholder of the Company and is appointed by shareholders in General Meeting. An external auditor can be removed by shareholders in General Meeting. The Board does not have a policy for the rotation of external audit engagement partners.

*Availability to public*

The above policies and procedures are included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Company has established a policy to ensure compliance with ASX Listing Rule disclosure and accountability at senior executive level for that compliance. The terms of the policy are:

All directors, executives and staff are required to abide by all legal requirements, the Listing Rules of the Australian Stock Exchange and the highest standards of ethical conduct. This includes compliance with the continuous disclosure requirements of the listing rules.

The Company Secretary is the person responsible for overseeing and co-ordinating disclosure of information to ASX as well as communicating with the ASX.

*Availability to public*

The above policy is included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

The Company has a communications policy for promoting effective communication with shareholders and encouraging shareholder participation at its Annual General Meetings. The terms of the communications policy are:

The Board seeks to inform shareholders of all major developments affecting the Company by:

- preparing half yearly and yearly financial reports and announcing these reports to the ASX;
- preparing quarterly cash flow reports and reports as to activities and announcing these reports to the ASX;
- making announcement in accordance with the listing rules and the continuous disclosure obligations;
- maintaining the Company's website and hosting all of the above on the Company's website;
- annually, and more regularly if required, holding a general meeting of shareholders and forwarding to them the notice of meeting and proxy form; and
- voluntarily releasing other information which it believes is in the interest of shareholders.

The Annual General Meeting enables shareholders to receive the reports and participate in the meeting by attendance or by written communication. The Board seeks to notify all shareholders so they can be fully informed annually for the voting on the appointment of directors and so as to enable them to have discussion at the Annual General Meeting with the directors and/or the auditor of the Company who is invited to the Annual General Meeting. The Annual General Meeting is held each year at a convenient time and place.

*Availability to public*

The above policy is included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

## PRINCIPLE 7: RECOGNISE AND MANAGING RISK

The Board is conscious of the need to continually maintain systems of risk management and controls to manage all of the assets and affairs of the Company. The Company has established a policy for the oversight of material business risks and the management of material business risks. Risk management is a process of continuous improvement that is integrated into existing practices or business processes. The terms of these risk management policies are:

- Liaise with internal and external stakeholders as appropriate at each stage of the risk management process and concerning the process as a whole.
- Define the basic parameters within which risks must be managed and set the scope for the rest of the risk management process.
- Identify the risks to be managed.
- Identify and evaluate existing controls. Determine consequences and likelihood and hence the level of risk. This analysis should consider the range of potential consequences and how these could occur.
- Compare estimated levels of risk against pre-established criteria (see risk matrix in Risk Management Guide) and consider the balance between potential benefits and adverse outcomes. This enables decisions to be made about the extent and nature of treatments required and about priorities.
- Develop and implement specific cost-effective strategies and action plans for increasing potential benefits and reducing potential costs. Allocate responsibilities to those best placed to address the risk and agree on target date for action.
- The Chairman and Chief Executive Officer are responsible for the implementation and maintenance of sound risk management. In carrying out this responsibility, senior managers review the adequacy of internal controls to ensure that they are operating effectively and are appropriate for achieving corporate goals and objectives.
- The Board is responsible for oversight and for providing corporate assurance on the adequacy of risk management procedures.
- Managers at all levels are to create an environment where managing risk forms the basis of all activities.

The risk management includes asset risk, operational risk, personnel health and safety risk, currency fluctuation risk, amongst others. The Company identifies and manages those risks on a case by case and overall corporate basis.

The Board has required management to design and implement a risk management and internal control system to manage the Company’s material business risks and has required management to report to it on whether those risks are being managed effectively. The Chief Executive has reported to the board as to effectiveness of the Company’s management of its material business risks.

The Board has received assurance from the Chief Executive Officer and the Chief Financial Officer that the declaration under section 295A of the Corporations Act is founded on an appropriate system of risk management and internal control suitable for a small company, which is operating effectively in all material respects in relation to financial reporting risks.

### *Availability to public*

The above policies are included in the Company’s annual report which is announced to the ASX and is also available from the Company’s website.

## PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

There is no formal remuneration committee. The functions that would have been carried out by a remuneration committee are performed as follows:

- The remuneration of executive directors and senior executives is determined by the Board as a whole.

- A maximum amount of remuneration for non-executive directors is fixed by shareholders in general meeting and can be varied in that same manner. The Board as a whole determines the remuneration of each non-executive director. In determining the allocation of remuneration to each non-executive director, the Board takes account of the time demands made on the directors together with such factors as fees paid to other corporate directors and to the responsibilities undertaken by them.

- When the Board as a whole considers the remuneration of a particular director, that director will take no part in the decision making process or discussions.

- Each member of the Board has committed to spending sufficient time to enable them to carry out their duties as a director of the Company. One third of the directors retires annually in accordance with the Constitution and is free to seek re-election by shareholders.

There are no schemes for retirement benefits other than superannuation for non-executive directors. There is no policy on prohibiting transactions in associated products which limit the economic risk to directors and executives of participating in unvested entitlements under an equity based remuneration scheme. The Company does not currently have an unvested equity based remuneration scheme.

*Availability to public*

The above policy is included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

**TABLE OF DEPARTURES AND EXPLANATIONS (FROM THE RECOMMENDATIONS OF THE ASX CORPORATE GOVERNANCE COUNCIL)**

| "Recommendation" Ref ("Principle No" Ref followed by Recommendation Ref) | Departure | Explanation |
|---|---|---|
| 2.1 and 2.2 | The Board does not have a majority of independent directors. The Chairman is not an independent director. | Given the nature and size of the Company, its business interests and the stage of development, the Board is of the view that there is an adequate and broad mix of skills required and that given their experience each of the directors are aware of and capable of acting in an independent manner and in the best interests of the shareholders. |
| 2.4 | A separate Nomination Committee has not been formed. | The Board comprises three members each of who have valuable contributions to make in fulfilling the role of a nomination committee member. A director will excuse himself where there is a personal interest or conflict. |
| 3.2 | No formal diversity policy has been established. | Given the nature and size of the Company, its business interests and the stage of development, the Board is of the view that a diversity policy is not in the best interests of the Company at this time. |

| "Recommendation" Ref ("Principle No" Ref followed by Recommendation Ref) | Departure | Explanation |
|---|---|---|
| 4.1, 4.2 and 4.3 | No formal audit committee has been established or formal charter drawn | Given the size and nature of the Company, its business interests and the ongoing level of involvement of all directors it is not considered necessary that a formal audit committee be established or a charter be drawn. |
| 8.1 | No formal remuneration committee has been established. | Given the size and nature of the Company, its business interests and the ongoing level of involvement of all directors it is not considered necessary to establish a remuneration committee. |