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## **ODIN ENERGY LIMITED**

### ***ANNUAL REPORT***

FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2011

ANNUAL REPORT – 30 June 2011

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## CORPORATE INFORMATION

### Directors

Chairman	Alex Bajada
Director/Company Secretary	Roland Berzins
Non executive director	Anthony Short
Address	2/16 Ord Street WEST PERTH WA 6005 Telephone: + 618 9429 2900 Facsimile: + 618 9486 1011
Postal Address	P.O. Box 1779 WEST PERTH WA 6872
Auditors	BDO Audit (WA) Pty Ltd 38 Station St SUBIACO WA 6008
Solicitors - Perth	Muries Lawyers 16 Emerald Terrace WEST PERTH WA 6005
Bank	National Australia Bank 1232 Hay St West Perth WA 6005
Stock exchange listings	Odin Energy Limited shares and options are listed on the Australian Stock Exchange under the code ODN and ODNO respectively.
Website Address	<a href="http://www.odinenergy.com.au">www.odinenergy.com.au</a>

## CHAIRMAN'S LETTER

Dear Shareholder

The past 12 months have finally seen Odin become a gas and condensate producer with the completion of the Galveston 307 production platform and connection to the 3 mile flowline in July 2010.

Production in November 2010, production from the field has steadily increased to an average of 8,800 thousand cubic feet of gas equivalent per day (MCFEPD). At the end of the year, Odin's share of production was approximately 400 MCFEPD and the resultant cash flows now offset a significant proportion of the Company's administrative costs.

Odin and its joint venture partner, Black Pool Energy, have committed to selling their interests in the project should an acceptable price be achievable. Black Pool, as operator of the joint venture, is driving this process and will advise Odin if an offer is forthcoming.

Odin is continuing its legal action against Blue Energy Ltd for the recovery of \$4.5m plus legal costs and interest. The Board of Odin expects that the matter will finally be brought to trial within the current financial year and is confident that it will achieve a resolution in the Company's favour.

Odin continues to assess other investment opportunities and projects.

The Board continues to appreciate the support of shareholders throughout the year.

A handwritten signature in black ink, appearing to read 'Alex Bajada', with a long horizontal line extending from the end of the signature.

Alex Bajada  
Chairman  
30<sup>th</sup> September 2011

## REVIEW OF OPERATIONS

### Operational Overview

#### Galveston 307 Farm-in with Kilgore Oil and Gas Ltd (WI 5.625%, NRI 4.5%)

In February 2009, Odin executed a farm-in with Kilgore Oil and Gas Ltd to participate in the drilling of the Sandpiper, Snipe and Egret prospects in the Galveston 307 Block in offshore Texas waters. The three wells were all discoveries and were subsequently completed.

The wells commenced production in July 2010 but were shut-in in August 2010 as a result of scheduled maintenance on the downstream pipeline into which Galveston 307 wells flowed. The field re-commenced production in November 2010 and was gradually increased up to 8,800 mcf per day.

### Corporate Overview

#### Legal Action PEL 106 Spinel Block

The Company continued its legal action against Blue Energy Ltd and Great Artesian Oil and Gas Ltd for the return of \$4.5 million plus interest and accumulated legal costs, which could amount to over \$6 million. The Company hopes to resolve this issue within next 12 months.

#### Operating Results for the Year- Odin Energy

The net operating loss of the Group for the financial year ending 30 June 2011 after income tax amounted to \$1,252,174 (2010: \$2,286,168).

CORPORATE GOVERNANCE

COMPLIANCE WITH ASX CORPORATE GOVERNANCE RECOMMENDATIONS

Introduction

Odin Energy Limited ("Company") has adopted systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this section and additional information is provided on the Company's website.

Corporate governance is the system by which companies are directed and managed. It influences how the objectives of the Company are achieved, how risk is monitored and assessed and how performance is optimised.

The Board and management are committed to corporate governance and, to the extent they are applicable to the Company, have adopted the Eight Corporate Governance Principles and each of the Best Practice Recommendations as published by ASX Corporate Governance Council. Where a recommendation has not been followed, that fact is disclosed, together with the reasons for the departure. To obtain a copy of these principles please go to the ASX website:

([.asx.com.au/professionals/companies/index.htm](http://asx.com.au/professionals/companies/index.htm)).

Additional information about the Company's corporate governance practices is set out on the Company's website at [odinenergy.com.au](http://odinenergy.com.au) :

The table below summarises the Company's compliance with the Corporate Governance Council's Recommendations:

Principle	ASX Corporate Governance Council Recommendations	Comply
1	<b>Lay solid foundations for management and oversight</b>	
1.1	Establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	Yes
1.2	Disclose the process for evaluating the performance of senior executives.	Yes
1.3	Provide the information indicated in the Guide to reporting on principle 1.	Yes
2	<b>Structure the Board to add value</b>	
2.1	A majority of the Board should be independent Directors.	No
2.2	The chair should be an independent director.	No
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	No
2.4	The Board should establish a nomination committee.	No
2.5	Disclose the process for evaluating the performance of the Board, its committees and individual Directors.	Yes
2.6	Provide the information indicated in the Guide to reporting on principle 2.	Yes
3	<b>Promote ethical and responsible decision-making</b>	
3.1	Establish a code of conduct and disclose the code or a summary as to:	Yes
	<ul style="list-style-type: none"> <li>the practices necessary to maintain confidence in the Company's integrity;</li> </ul>	
	<ul style="list-style-type: none"> <li>the practices necessary to take into account the Company's legal obligations and the reasonable expectations of its stakeholders; and</li> </ul>	
	<ul style="list-style-type: none"> <li>the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	
3.2	Establish a policy concerning diversity and disclose the policy or a summary of that policy which includes requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually the objectives and progress in achieving them.	No
3.3	Disclose annually the measurable objectives set for achieving gender diversity and progress towards achieving them.	Yes
3.4	Disclose annually the proportion of woman employees in the whole organization, women in senior executive positions and women on the board.	Yes
3.5	Provide the information indicated in the Guide to reporting on principle 3.	Yes
4	<b>Safeguard integrity in financial reporting</b>	
4.1	The Board should establish an audit committee.	No
4.2	The audit committee should be structured so that it:	No
	<ul style="list-style-type: none"> <li>consists only of non-executive Directors;</li> </ul>	
	<ul style="list-style-type: none"> <li>consists of a majority of independent Directors;</li> </ul>	
	<ul style="list-style-type: none"> <li>is chaired by an independent chair, who is not chair of the Board; and</li> </ul>	

	<ul style="list-style-type: none"> <li>has at least three members.</li> </ul>	
4.3	The audit committee should have a formal charter	Yes
4.4	Provide the information indicated in the Guide to reporting on principle 4.	Yes
5	<b>Make timely and balanced disclosure</b>	
5.1	Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes
5.2	Provide the information indicated in the Guide to reporting on principle 5.	Yes
6	<b>Respect the rights of shareholders</b>	
6.1	Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of that policy.	Yes
6.2	Provide the information indicated in the Guide to reporting on principle 6.	Yes
7	<b>Recognise and manage risk</b>	
7.1	Establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes
7.2	The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Yes
7.3	The Board should disclose whether it had received assurance from the chief executive officer and the chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes
7.4	Provide the information indicated in the Guide to reporting on principle 7.	Yes
8	<b>Remunerate fairly and responsibly</b>	
8.1	The Board should establish a remuneration committee.	No
8.2	Clearly distinguish the structure on non-executive Directors' remuneration from that of executive Directors and senior executives.	Yes
8.3	Provide the information indicated in the Guide to reporting on principle 8.	Yes

#### Council Principle 1:

### Lay solid foundations for management and oversight

#### **Role of the Board**

The Board's primary role is the protection and enhancement of medium to long term shareholder value. To fulfil this role, the Board is responsible for the overall Corporate Governance of the consolidated entity including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

#### **Responsibility of the Board**

The Board is collectively responsible for promoting the success of the Company by:

- supervising the Company's framework of control and accountability systems to enable risk to be assessed and managed;
- ensuring the Company is properly managed;
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- approval of the annual budget;
- monitoring the financial performance of the Company;
- approving and monitoring financial and other reporting;
- overall corporate governance of the Company, including conducting regular reviews of the balance of responsibilities within the Company to ensure division of functions remain appropriate to the needs of the Company;
- liaising with the Company's external auditors as appropriate; and
- monitoring, and ensuring compliance with, all of the Company's legal obligations, in particular those obligations relating to the environment, native title, cultural heritage and occupational health and safety.

The Board must convene regular meetings with such frequency as is sufficient to appropriately discharge its responsibilities. Between regular meetings it will also ensure that important matters are addressed by way of circular resolutions. The Board may, from time to time, delegate some of the responsibilities listed above to its senior management team.

### **Materiality threshold**

The Board has agreed on both quantitative and qualitative guidelines for assessing the materiality of matters. Qualitative indications of materiality would include if:

- they impact on the reputation of the Company;
- they involve a breach of legislation;
- they are outside the ordinary course of business;
- they could affect the Company's rights to its assets; or
- if accumulated they would trigger the quantitative tests.

### **The Chairman**

The chairman is responsible for leadership of the Board, for the efficient organisation and conduct of the Board's function and for the briefing of all Directors in relation to issues arising at Board meetings. The chairman is also responsible for overall shareholder communication, chairing shareholder meetings, and arranging Board performance evaluation. Periodically the chairman may carry out the role of managing director where the managing director's position is not filled.

### **The Managing Director**

The managing director is responsible for running the affairs of the Company under delegated authority from the Board and to implement the policies and strategy set by the Board. In carrying out his/her responsibilities the managing director must report to the Board in a timely manner and ensure all reports to the Board present a true and fair view of the Company's financial condition and operational results.

### **Role and responsibility of management**

The role of management is to support the managing director and implement the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board.

Management is responsible for reporting all matters which fall within the materiality threshold at first instance to the managing director or if the matter concerns the managing director then directly to the chairman or the lead independent director, as appropriate.

### **Relationship of Board with management**

Management of the day-to-day business of the Company is to be conducted by or under the supervision of the Board, and by those other officers and employees to whom the management function is properly delegated by the Board.

The Board will adopt appropriate structures and procedures to ensure that the Board functions independently of management. Appropriate procedures may involve the Board meeting on a regular basis without management present, or may involve expressly assigning the responsibility for administering the Board's relationship to management to a Committee of the Board.

Information is formally presented to the Board at Board meetings by way of Board reports and review of performance to date. When Directors are providing information about opportunities for the Company, this should always be through the Board.

### **Council Principle 2:**

#### **Structure the Board to add value**

The Company presently has one executive director, one non-executive director and one non-executive Chairman (Mr Alex Bajada), who is not independent in terms of the ASX Corporate Governance Council's definition of an independent director, because of his relevant interest in the Company's securities. The Board believes that the Chairman is able and does bring quality and independent judgment to all relevant issues falling within the scope of the role of a Chairman. Therefore no director is independent in accordance with Council Principle 2. However the Board considers that its structure has been and continues to be appropriate in the context of the Company's current projects and operations. The Company considers that each director possesses skills and experience suitable for building the Company. Furthermore, the Board considers that in the current phase of the Company's growth, the Company's shareholders are better served by Directors who have a vested interest in the Company. The Board intends to reconsider its composition as the Company's operations evolve, and appoint independent Directors as appropriate. The chairman is responsible for evaluating the performance of the Board.

The Company has not established a nomination committee, believing that the Company is not currently of a size to justify its formation.

#### Council Principle 3:

##### **Promote ethical and responsible decision-making**

The Company complies with this recommendation. The Company has adopted a code of conduct incorporating all corporate executives. It requires all business affairs to be conducted legally, ethically and with integrity. The code provides for reporting of breach of the code by others.

The Board has prepared a draft diversity policy and currently is still taking advice with regard to a diversity policy prior to its adoption. The draft policy contemplates the recommendations of the Corporate Governance Council on diversity, which includes:

- requirements for the board to establish objectives for achieving gender diversity;
- the annual assessment and measurement of the company against these objectives;
- the annual disclosure of the measurement and progress in achieving the set objectives; and
- the disclosure of the proportion of women employed in the whole organization, women in senior executive positions and women on the board.

Currently there are no women in the organisation at any level. Other than the board members, there are no employees within the Company. The Company has a broad policy of "outsourcing" immediately. The formulation of a final policy will also contemplate these issues and how they affect the Company.

#### Council Principle 4:

##### **Safeguard integrity in financial reporting**

The Company's managing director and chief financial officer (or equivalent) report in writing to the Board that the consolidated financial statements of the Company and its controlled entities for each half and full year present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with accounting standards.

The Company has not established an audit committee believing that the Company is not of a size, nor are its financial affairs of such complexity to warrant its establishment. The Board as a whole fulfils the role of an audit committee by:

- Monitoring the integrity of the financial statements of the Company, and reviewing significant financial reporting judgments.
- Reviewing the Company's internal financial control system and risk management systems.
- Reviewing the appointment of the external auditor and approving the remuneration and terms of engagement.
- Monitoring and reviewing the external auditor's independence, objectivity and effectiveness, taking into consideration relevant professional and regulatory requirements.

#### Council Principle 5:

##### **Make timely and balanced disclosure**

Compliance procedures for ASX Listing Rule disclosure requirements have been adopted by the Company. It has appointed an officer of the Company to be responsible for compliance.

#### Council Principle 6:

##### **Respect the rights of shareholders**

Information will be communicated to shareholders as follows:

- The annual report is distributed to all shareholders. The Board ensures that the annual report includes relevant information about the operations of the consolidated entity during the year, changes in the state of affairs of the consolidated entity and details of future developments, in addition to the other disclosures required by the Corporations Act. The annual report is made available on the Company's website, and is provided in hard copy format to any shareholder who requests it.

- The half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year audited financial report is prepared in accordance with the requirements of applicable Accounting Standards and the Corporations Act and is lodged with the Australian Securities Exchange. The half-yearly report is made available on the Company's website, and is sent to any shareholder who requests it.
- The quarterly report contains summarised cash flow financial information and details about the Company's activities during the quarter. The quarterly report is made available on the Company's website, and is sent to any shareholder who requests it.
- Proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a general meeting of shareholders.
- The Company's website is well promoted to shareholders and shareholders may register to receive updates, either by email or in hard copy.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as resolutions.

The shareholders are requested to vote on the appointment and aggregate remuneration of Directors, the granting of options and shares to Directors and changes to the constitution. Copies of the constitution are available to any shareholder who requests it.

### **Company's website**

The Company maintains a website at [odinenergy.com.au](http://odinenergy.com.au)

On its website, the Company makes the following information available on a regular and up to date basis:

- Company announcements;
- latest information briefings;
- notices of meetings and explanatory materials;
- quarterly, half yearly and annual reports.

The website is being continuously updated with any information the Directors and management may feel is material.

The Company also ensures that the audit representative attends the Annual General Meeting.

### **Council Principle 7:**

#### **Recognise and manage risk**

The Company has developed a framework for risk management and internal compliance and control systems which covers organisational, financial and operational aspects of the Company's affairs. It appoints the managing director as being responsible for ensuring that the systems are maintained and complied with.

### **Council Principle 8:**

#### **Remunerate fairly and responsibly**

The Board believes the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of a remuneration committee. The Board as a whole is responsible for the remuneration arrangements for Directors and executives of the Company and considers it more appropriate to set time aside at Board meetings to specifically address matters that would ordinarily fall to the remuneration committee.

## DIRECTORS' REPORT

Your Directors present their report for Odin Energy Ltd and its controlled entities for the year ended 30 June 2011.

### a) Directors

The names and details of the Company's Directors in office at any time during the financial year and until the date of this report are detailed below.

A. Bajada  
R. Berzins  
D. Ballantyne (Resigned – 02 August 2011)  
A. Short (Appointed – 02 August 2011)

### b) Principal activities

Odin Energy Ltd was incorporated on 20 March 2007 and controls three wholly-owned operating subsidiaries, Glory Run Pty Ltd which was incorporated on 25 September 2007, Jet Strike Pty Ltd which was acquired on 31 May 2011 and Kilgore Exploration Inc which was acquired on 31 May 2011. The principal activity of the Group and Company during the financial year was the exploration for oil and gas predominantly in Australia and US.

There were no changes in the nature of the activities of the Group during the year.

### c) Operating results

The net operating loss of the Group for the year ended 30 June 2011 before income tax amounted to \$1,252,174 (2010: loss \$2,286,168).

### d) Dividends paid or recommended

No dividend was paid or declared during the period and the Directors do not recommend the payment of a dividend.

### e) Review of operations

A detailed review of the Group's activities is contained in the Operations Review section of the Annual Report.

### f) Significant changes in the state of affairs

The group acquired 100% interest in Kilgore Exploration Inc (KEI) and Jet Strike Pty Ltd (Jet Strike) on 31 May 2011. KEI is the legal beneficiary of 50% of the Galveston project which Odin controls the remaining 50%. Jet Strike holds a number of investments in listed shares. Refer to Note 33 of the financial statements for details of business combination.

### g) Matters subsequent to the end of the financial year

Subsequent to 30 June 2011 David Ballantyne has resigned and Anthony Short has joined the board.

### h) Likely Developments

Further information on operations and likely developments are supplied in the Review of Operations and Chairman's letter.

### i) Environmental Issues

The Group's operations are subject to various environmental regulations under the Federal and State Laws of United States of America. The majority of the Company's activities involve low level disturbance associated with its production facilities and exploration drilling programs. As at the date of this report the group complies fully with all such regulations.

The Group is subject to the reporting requirements of both the Energy Efficiency Opportunities Act 2006 and the National Greenhouse and Energy Reporting Act 2007.

The Energy Efficiency Opportunities Act 2006 requires the Group to assess its energy usage, including the identification, investigation and evaluation of energy saving opportunities, and to report publicly on the assessments undertaken, including what action the Group intends to take as a result.

The National Greenhouse and Energy Reporting Act 2007 require the Group to report its annual greenhouse gas emissions and energy use. The Group is in an early stage of production so no measurements have been recorded. The Group intends to implement system and process for the collection and calculation of the data required in financial year 2012.

j) **Information on Directors and Secretary**

**Names, qualifications, experience and special responsibilities**

***Mr Alex Bajada B.Econ (UWA) – Executive Chairman***

Mr Bajada is Executive Director of Spartan Nominees Pty Ltd, corporate consultants. He is a former stockbroker with many years experience in the corporate sector and has been involved in the management of public companies for many years fulfilling the roles of chairman and director.

***Other Current Directorships***

Executive Chairman of Excalibur Mining Corporation Limited (Appointed 30 November 2004), Chairman of AXG Limited (Appointed 13 February 2007), Wesbeam (appointed June 2003) and an Independent Director of the WA Local Government Superannuation Plan.

***Other Directorships within the last three years***

Vector Resources Ltd (19/02/2009 to 24/02/2009), Advance Energy Ltd (24/11/2004 to 21/06/2010).

***Mr Roland Berzins – Non-Executive Director – Company Secretary (appointed – 29 April 2011)***

Mr. Berzins graduated from the University of Western Australia with a Bachelor of Commerce degree majoring in accounting and finance. He has over 20 year experience in the mining industry and was previously Chief Accountant for 6 years at Kalgoorlie Consolidated Gold Mines Pty Ltd ("Kalgoorlie Super Pit"). Since 1996 Mr Berzins has been Company Secretary for a variety of ASX listed companies, and has also had experience in retail, merchant banking, venture capital and SME business advisory.

***Other Current Directorships***

AXG Mining Ltd (Appointed 15 December 2005) and Palace Resources Ltd (Appointed 20 May 2005).

***Other Directorships within the last three years***

Vector Resources Ltd (04/10/2005 to 23/02/2009), Palace Resources Ltd (20/05/2005 to 03/09/2011) and Red Sky Energy Ltd (24/05/2009 to 25/05/2010).

***Anthony Short, BPE, B.Comm, Grad Dip Fin, MAICD  
Non- Executive Director, Age 52 (appointed – 02 August 2011)***

Mr Short has 19 years experience in the administration and management of listed public companies. He has extensive experience at board level in the management and formation of public companies in the areas of oil and gas exploration and production and gold mining in the USA. Mr Short has held the position of chairman, CFO and managing director in a number of listed public companies and has also acted as corporate advisor on a number of successful public listings. He was a founding director of Advance Energy Ltd and has a very strong working relationship with strategic partners in the US.

***Current Directorship and date of appointment:***

He is currently the managing director of Advance Energy Ltd since 16/11/04.

***Other Directorships within the last three years:***

Vector Resources Ltd (appointed - 06/01/05 and resigned 11/01/2011), Kilgore Oil and Gas Ltd (appointed – 26/09/2007 and resigned 01/08/2011).

**David Ballantyne - Non Executive Director (resigned – 02/08/2011) and Company Secretary (resigned – 29/04/2011) MA (Hons) University of Edinburgh, ACA**

Mr. Ballantyne is a Chartered Accountant who has a significant level of commercial experience in the exploration / mining industry and in the biotechnology and aquaculture industries. He has previously worked for a former Big 4 accounting firm and second tier accounting firms in the areas of audit, corporate services and insolvency. Mr Ballantyne has also had extensive experience in the corporate management, Directorship and Company secretary roles of small mineral exploration and production companies and has completed listings on AIM and ASX.

**Other Current Directorships:**

None

**Other Directorships within the last three years:**

None

**Meetings of Directors**

The Company's board meetings held during the year ended 30 June 2011 and the number of meeting attended by each director were:

	Board meetings able to attend	Board meetings attended
A. Bajada	12	12
R. Berzins	12	12
D. Ballantyne	12	12

**Securities held and controlled by Directors**

As at the date of this report, the interests of the Directors in shares, Convertible Preference Shares ("CPS") and options of the Company were:

Holder	Ordinary shares	Options	Convertible Preference Shares (CPS)
Alex Bajada			
Indirect	14,193,334	2,687,500	1,750
Roland Berzins	-	-	-
David Ballantyne	1,200,000	-	-
Indirect			
Anthony Short	26,833,334	3,687,500	1,750
Direct/Indirect			

Details of the conditions relating to conversion of the Convertible Preference Shares are included in note 18.

**k) Remuneration Report (Audited)**

This report outlines the remuneration arrangements in place for Directors and executives of Odin Energy Limited. This report has been set out under the following main headings:

- A. Principles Used to Determine the Nature and Amount of Remuneration
- B. Service Agreements
- C. Details of Remuneration
- D. Additional Information

The Board is responsible for the remuneration of the Company's executives including share and benefit plans. This will result in the Company establishing appropriate remuneration levels and incentive policies for all executives. Establishment of a remuneration committee will be reviewed as the Company's operations evolve. Remuneration is not directly linked to performance as it is considered that all Directors have other material vested interests in the success of the business.

The information provided in this remuneration report has been audited as required by S308 (3c) of the Corporations Act, 2001.

## A. Principles Used to Determine the Nature and Amount of Remuneration

The Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors and Executive Officers. The Board will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered the Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage/alignment of executive compensation
- transparency
- capital management

The Board policy is to remunerate non-executive Directors at fair market rates for comparable companies for the relevant time, commitment and responsibilities. The Board determines payments to the non-executive Directors and reviews their remuneration annually based on market practice, duties and accountability. The maximum amount of fees that can be paid to Directors is subject to approval by shareholders at the Annual General Meeting to a fixed sum not exceeding the aggregate maximum of \$300,000 per annum. Fees for non-executive Directors are not linked to the performance of the Group. However, to align director's interests with shareholder interests the Directors are encouraged to hold shares in the Company and may be issued with additional securities as deemed appropriate.

The Board believes that the remuneration policy is appropriate given the stage of development of the Company and the activities which it undertakes and is appropriate for aligning director and executive objectives with shareholder and business objectives. The Board will look to develop new practices which are appropriate to the Company's size and stage of development.

Executive Officers are those directly accountable for the operational management and strategic direction of the Company and the consolidated entity.

All contracts with Directors and executives may be terminated by either party with three months notice.

### **Fixed remuneration**

Fixed remuneration consists of a base remuneration package, which includes Directors' fees (in the case of Directors), salaries, consulting fees and employer contributions to superannuation funds if applicable.

Fixed remuneration levels for Directors and executive officers will be reviewed annually by the Board through a process that considers the employee's personal development, achievement of key performance objectives for the year, industry benchmarks wherever possible and CPI data.

Appropriate key performance indicators (KPIs) will be developed by the Board for each director and executive officer each year, and reflect an assessment of how that employee can fulfil their particular responsibilities in a way that best contributes to Company performance and shareholder wealth in that year.

### **Performance-linked remuneration**

Bonuses to Directors and executives are paid based upon unspecified performance criteria as determined by the Board from time to time. No bonuses were paid in the current year.

## B. Service Agreements

Remuneration, consulting and other terms of employment for the key management personnel are determined by the Board and were not formalised by way of a Service Agreement but by a Board Resolution in the current financial year. Two of the current Directors have fully paid ordinary shares and convertible preference shares in the Company which gives them considerable incentive to see the Company perform well. Other current provisions are set out below or can be found in the Company's June 2007 prospectus.

The Directors and key management personnel during the year included:

**Directors**

Mr A Bajada, Chairman

Consulting fees (which includes Directors fees), for the year ended 30 June 2011 of \$150,000 to be reviewed annually by the Board with no termination date. A termination benefit on early termination by the Company, other than for gross misconduct, equal to three month's consulting will be paid.

Mr R Berzins, Director and Company Secretary (appointed - 29 April 2011)

Consulting fees (which includes Directors fees and company secretary fees) for the year ended 30 June 2011 of \$25,000 to be reviewed annually by the Board with no termination date. A termination benefit on early termination by the Company, other than for gross misconduct, equal to three month's consulting will be paid.

Mr D Ballantyne, Non Executive Director (resigned – 02 August 2011) and Company Secretary (resigned – 29 April 2011)

Consulting fee, based on time spent on Company business in the range of \$2,000 to \$6,000 per month. Effective 1 July the Company entered into a services agreement with a company for all standard corporate accounting and company secretarial work. Mr. Ballantyne will draw \$20,000 in director's fees in the current financial year.

As at reporting date, the Group had not yet entered a formal service agreement with Mr. Short.

**C. Details of Remuneration**

The key management personnel of Odin Energy Limited during the year ended 30 June 2011 includes all Directors and executives mentioned above.

Remuneration packages can contain the following key elements:

- primary benefits – salary/fees and bonuses;
- post-employment benefits – including superannuation and services provided after termination;
- equity – share options and other equity securities; and
- other benefits.

Nature and amount of remuneration for the year ended 30 June 2011.

		Short-term employee benefits		Post - employment benefits	Equity Performance Related		
		Salary, consulting fees	Bonus	Superannuation, Services after termination	Preference share based payments	Total	Proportion of remuneration performance related %
		\$	\$	\$	\$	\$	
<b>Executive Directors</b>							
A Dimsey	2011	-	-	-	-	-	-
	2010	137,441	-	105,363	-	242,804	-
A Bajada	2011	150,000	-	-	-	150,000	-
	2010	150,000	-	-	-	150,000	-
<b>Non-executive Directors</b>							
R Berzins	2011	25,500	-	-	-	25,500	-
	2010	97,178	-	-	-	97,178	-
R Hyndes	2011	-	-	-	-	-	-
	2010	13,548	-	-	-	13,548	-
D Ballantyne	2011	20,000	-	-	-	20,000	-
	2010	42,439	-	-	-	42,439	-
Total compensation	2011	195,500	-	-	-	195,500	-
	2010	440,606	-	105,363	-	545,969	-

No cash bonuses were paid for the year.

## D. Additional Information

### *Principles used to determine the nature and amount of remuneration: relationship between remuneration and Company performance.*

In considering the Company's performance and its effect on shareholder wealth, the Board have regard to a broad range of factors, some of which are financial and others of which relate to the progress on the Company's projects, results and progress of exploration and development activities, joint venture agreements etc. The Board also gives consideration to the Company's result and cash consumption for the year. It does not utilise earnings per share as a performance measure or contemplate payment of any dividends in the short to medium term given that all efforts are currently being expended to build the business and establish self-sustaining revenue streams.

## END OF AUDITED REMUNERATION REPORT

### l) Share-based Compensation

#### **Options**

No options were granted during the year.

#### Shares under option

Unissued ordinary shares of Odin Energy Ltd under option at the date of this report are as follow:

Date options granted	Expiry date	Issue price of shares	Number under options
31 August 2007	31 December 2012	\$0.139	1,000,000
31 August 2007	30 December 2012	\$0.139	1,000,000
			2,000,000

#### **Convertible Preference Shares**

There was no convertible performance shares were converted into ordinary shares during the year (2010: 3500 convertible performance shares converted into 3,500,000 ordinary shares).

### m) Indemnification and Insurance of Directors and Officers

During the financial period, the Company maintained an insurance policy which indemnifies the Directors and Officers of Odin Energy Limited in respect of any liability incurred in connection with the performance of their duties as Directors or Officers of the Company. The Company's insurers have prohibited disclosure of the amount of the premium payable and the level of indemnification under the insurance contract.

### n) Proceedings on Behalf of the Company

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

### o) Environmental Regulation and Performance

The Group's operations are subject to various environmental regulations under the Federal and State Laws of United States of America. The majority of the company's activities involve low level disturbance associated with its production facilities and exploration drilling programs. As at the date of this report the group complies fully with all such regulations.

The Group is subject to the reporting requirements of both the Energy Efficiency Opportunities Act 2006 and the National Greenhouse and Energy Reporting Act 2007.

The Energy Efficiency Opportunities Act 2006 requires the Group to assess its energy usage, including the identification, investigation and evaluation of energy saving opportunities, and to report publicly on the assessments undertaken, including what action the Group intends to take as a result.

The National Greenhouse and Energy Reporting Act 2007 requires the Group to report its annual greenhouse gas emissions and energy use. The Group is in early stage of production so no measurements have been recorded. The Group intends to implement the system and process for the collection and calculation of the data required in financial year 2012.

**p) Non-Audit Services**

The following non-audit services were provided by the entity's auditor, BDO Audit (WA) Pty Ltd or associated entities. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Board to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

BDO received or are due to receive the following amounts for the provision of audit / non-audit services:

- audit and assurance services \$ 56,904 (2010: \$ 42,000)
- tax and other services \$ Nil (2010: Nil)

Ferguson, Camp, Poll (US subsidiary auditor) received or are due to receive the following amounts for the provision of audit/non audit services:

- audit and assurance services US\$ 31,000 (2010: Nil)
- tax and other services US\$ Nil (2010: Nil)

**q) Auditors Independence Declaration**

The Auditor's Independence Declaration, as required under Section 307C of the Corporations Act 2001, for the financial year ended 30 June 2011 has been received and can be found on page 16.

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



Alex Bajada  
Chairman  
West Perth, W.A.  
30th September 2011

30 September 2011

Board of Directors  
Odin Energy Limited  
Level 1, 16 Ord Street  
WEST PERTH WA 6005

Dear Sirs,

DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF ODIN ENERGY LIMITED

As lead auditor of Odin Energy Limited for the period ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Odin Energy Limited and the entities it controlled during the period.



Glyn O'Brien  
Director



BDO Audit (WA) Pty Ltd  
Perth, Western Australia

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
For The Year Ended 30 June 2011

	Notes	Group	
		2011 A\$	2010 A\$
Revenue from continuing operations	5	325,024	424,674
Other income	5	1,649,293	-
Profit/(loss) on Sale of shares	5	(410,982)	412,165
Accounting and audit		(64,415)	(47,672)
Depreciation		(19,004)	(2,062)
Staff/consultancy		(379,248)	(923,169)
Legal expenses		(608,222)	(249,782)
Marketing and advertising		-	(2,251)
Regulatory expenses		(18,929)	(33,591)
Management facility fee		-	(134,024)
Research reports & maps		-	(10,000)
Travel expenses		(48,439)	(186,472)
Asset impairment	5	(1,287,451)	(1,403,154)
Other administrative expenses		(389,801)	(123,395)
Finance charges paid		-	(7,435)
<b>Operating loss before income tax</b>		<u>(1,252,174)</u>	<u>(2,286,168)</u>
Income tax expense	6	-	-
<b>Loss for the year</b>		<u>(1,252,174)</u>	<u>(2,286,168)</u>
<b>Loss attributed to owners of Odin Energy Ltd</b>		<u>(1,252,174)</u>	<u>(2,286,168)</u>
<b>Other comprehensive income for the year:</b>			
Available for sale reserve		674,553	(141,977)
Other equity reserve – share of other comprehensive income of associate		13,425	-
<b>Other comprehensive loss for the year net of tax</b>		<u>687,978</u>	<u>(141,977)</u>
<b>Total comprehensive loss for the year</b>		<u>(564,196)</u>	<u>(2,428,145)</u>
<b>Total comprehensive loss for the year attributed to owners of Odin Energy Ltd</b>		<u>(564,196)</u>	<u>(2,428,145)</u>
Loss per share for loss from continuing operations attributable to the ordinary equity holders of the Company:			
Basic loss per share/ Diluted loss per share	21	(0.67)	(2.01)

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
As at 30 June 2011

	Notes	Group	
		2011 A\$	2010 A\$
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	7	1,483,651	1,710,663
Trade and other receivables	8	472,340	276,375
Available for sale assets	12	1,281,896	1,031,352
Investments accounted for using the equity method	11	-	-
Interest bearing loans	13	179,045	782,881
<b>Total current assets</b>		<b>3,416,932</b>	<b>3,801,271</b>
<b>Non-current Assets</b>			
Property, plant and equipment	10	4,087	1,152
Oil & gas properties	14	3,204,885	2,557,143
Other financial assets	15	1,600,000	1,600,000
Exploration and evaluation costs	9	-	-
<b>Total non-current assets</b>		<b>4,808,972</b>	<b>4,158,295</b>
<b>Total assets</b>		<b>8,225,904</b>	<b>7,959,566</b>
<b>Current liabilities</b>			
Payables	16	914,624	235,607
Provisions	17	-	-
<b>Total current liabilities</b>		<b>914,624</b>	<b>235,607</b>
<b>Total liabilities</b>		<b>914,624</b>	<b>235,607</b>
<b>Net Assets</b>		<b>7,311,280</b>	<b>7,723,959</b>
<b>Equity</b>			
Contributed Equity	18	14,678,800	14,527,283
Reserves	19	2,053,116	1,365,138
Accumulated losses	20	(9,420,636)	(8,168,462)
<b>Total Equity</b>		<b>7,311,280</b>	<b>7,723,959</b>

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the year ended 30 June 2011

	Notes	Group	
		2011 A\$	2010 A\$
<b>Cash flows from operating activities</b>			
Receipt from customers		65,769	-
Payments to suppliers & employees		(1,518,854)	(1,578,822)
Interest paid		-	(7,435)
Interest received		245,914	424,674
<b>Net cash generated from/(used in) operating activities</b>	<b>22</b>	<b>(1,207,171)</b>	<b>(1,161,583)</b>
<b>Cash flows from investing activities</b>			
Cash from business combination		153,979	-
Investments		-	(2,930,510)
Proceeds from sale of shares and investment in subsidiary		403,313	412,165
Payment investments		(529,856)	-
Loans to third parties		-	2,591,080
<b>Net cash generated from/(used in) investing activities</b>		<b>27,436</b>	<b>72,735</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary shares		165,000	614,300
Capital raising costs		(13,483)	(22,000)
Proceed from repayment of loan		1,027,225	-
Loan to other entities		(226,019)	-
<b>Net cash generated from financing activities</b>		<b>952,723</b>	<b>592,300</b>
<b>Net movement in cash and cash equivalents</b>		<b>(227,012)</b>	<b>(496,548)</b>
Opening cash and cash equivalents		1,710,663	2,207,211
<b>Closing cash and cash equivalents</b>	<b>7</b>	<b>1,483,651</b>	<b>1,710,663</b>

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

CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

Consolidated							
Year ended 30 June 2011	Contributed Equity	Share Based Payment Reserve	Foreign Exchange Reserve	Option Reserve	Available for Sale Reserve	Accumulated losses	TOTAL
\$							
Balance at beginning of period	14,527,283	311,488	-	1,053,650	-	(8,168,462)	7,723,959
Loss for year	-	-	-	-	-	(1,252,174)	(1,252,174)
Other comprehensive income for the year	-	-	13,425	-	674,553	-	687,978
Total comprehensive income for the year	-	-	13,425	-	674,553	(1,252,174)	(564,196)
Transactions with equity holders in their capacity as equity holders							
Issues of share capital	165,000	-	-	-	-	-	165,000
Issue of options	-	-	-	-	-	-	-
Issue of share capital cost	(13,483)	-	-	-	-	-	(13,483)
Balance at end of the year	14,678,800	311,488	13,425	1,053,650	674,553	(9,420,636)	7,311,280

Consolidated							
Year ended 30 June 2010	Contributed Equity	Share Based Payment Reserve	Option Reserve	Available for Sale Reserve	Accumulated losses	TOTAL	
\$							
Balance at beginning of period	13,934,983	311,488	1,053,650	141,977	(5,882,294)	9,559,804	
Loss for year	-	-	-	-	(2,286,168)	(2,286,168)	
Other comprehensive income for the year	-	-	-	-	(141,977)	-	(141,977)
Total comprehensive income for the year	-	-	-	-	(141,977)	(2,286,168)	(2,428,145)
Transactions with equity holders in their capacity as equity holders							
Issues of share capital	614,300	-	-	-	-	-	614,300
Issue of options	-	-	-	-	-	-	-
Issue of share capital cost	(22,000)	-	-	-	-	-	(22,000)
Balance at end of the year	14,527,283	311,488	1,053,650	-	(8,168,462)	7,723,959	

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

NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements represent the consolidated entity consisting of Odin Energy Limited and its subsidiaries.

**(a) Basis of Preparation**

These general purpose financial statements have been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the Corporations Act 2001.

*i) Going concern*

This report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Directors believe that there is sufficient funding to meet the Company's working capital. The Directors have reviewed the business outlook and are of the opinion that the use of the going concern basis of accounting is appropriate.

*ii) Compliance with IFRSs*

The consolidated entity financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

*iii) Early adoption of standards*

The Group has not elected to apply any early pronouncements.

*iv) Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

**(b) Principles of Consolidation**

***Subsidiaries***

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Odin Energy Limited ("Company" or "parent entity") as at 30 June 2011 and the results of all subsidiaries for the year then ended. Odin Energy Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group (refer to note 1(y))

Inter-Company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Odin Energy Limited.

***Jointly controlled assets and operations***

The majority of operations are carried out subject to joint venture arrangements. The proportionate interests in the assets, liabilities, income and expenditure of a joint venture activity have been incorporated in the financial statements under the appropriate headings and have been prepared using the equity accounting method.

**(c) Segment reporting**

Operating segments are reported in a manner that is consistent with the internal reporting to the chief operating decision maker ("CODM"), which has been identified by the Company as the board.

**(d) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised as follows:

**(i) Interest income**

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

**(ii) Oil and Gas revenue**

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

**(e) Trade and other receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less allowance for doubtful debts. Trade receivables are due for settlement between thirty (30) and ninety (90) days from the date of recognition.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income within "other expenses". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other expense in the statement of comprehensive income.

Recoverability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the allowance is recognised in the statement of comprehensive income.

**(f) Property, Plant and Equipment****(i) Plant and equipment**

Plant and equipment is stated at cost less accumulated depreciation and any accumulated losses for impairment.

**(ii) Depreciation**

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset which is estimated to vary between 5 and 15 years.

**(iii) 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.

Impairment losses are recognised separately in the profit or loss.

Any item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the year the item is derecognised.

**(g) Leases**

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term.

**(h) Investments and other financial assets**

The Group classifies its investments in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

**(i) 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 arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the statement of financial position date which are classified as non-current assets. Loans and receivables are included in receivables in the statement of financial position (note 8).

**(ii) Available-for-sale financial assets**

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve (12) months of the statement of financial position date.

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value

through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the statement of comprehensive income within other income or other expenses in the period in which they arise.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for sale are impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the statement of comprehensive income as gains and losses from investment securities.

The Group assesses balances at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss- measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the profit or loss on equity instruments classified as available-for-sale are not reversed through the profit or loss.

#### **(i) Investments in associates**

The Group's investment in its associate is accounted for using the equity method of accounting in the consolidated financial statements. Associates are entities over which the Group has significant influence and that are neither subsidiaries nor joint ventures.

The Group generally deems they have significant influence if they have Board positions and a substantial shareholding which is determined on a case by case situation but in the vicinity of 20% of the equity.

Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associate. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in the associate.

The Group's share of its associate's post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The reporting dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

#### ***Derecognition***

An investment in an associate is derecognised when the Group ceases to have significant influence over an associate. The carrying amount of the investment at the date that it ceases to be an associate is regarded as its cost on initial measurement as a financial asset.

#### **(j) Exploration, evaluation and development expenditure**

Exploration, evaluation and development expenditure incurred is either written off as incurred or accumulated in respect of each identifiable area of interest. 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 which 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 period in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are transferred to oil & gas properties and 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.

Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are expensed as incurred and treated as exploration and evaluation expenditure.

### **(k) Oil and gas properties**

Following commencement of production activities all acquisition, exploration, evaluation and development expenditure in relation to an area of interest is accumulated into an oil and gas property.

When further development expenditure is incurred in respect of a property after the commencement of production, such expenditure is carried forward as part of the cost of that property only when substantial economic benefits are established, otherwise such expenditure is classified as part of the cost of production.

Amortisation of the cost of oil and gas properties is provided on the unit-of-production basis over the proved developed reserves of the field concerned with separate calculations being made for each resource. The unit-of-production basis results in an amortisation charge proportional to the depletion of the economically recoverable reserves. Amortisation is charged from the commencement of production.

The net carrying value of each property is reviewed regularly for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If the asset does not generate largely independent cash follows, the recoverable amount is determined for the cash generating unit to which the asset belongs. If such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount.

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

### **(l) Fair Value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measured or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the statement of financial position date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example convertible notes) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held.

Other techniques such as estimated discounted cash flows are used to determine fair value for remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

### **(m) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

**(n) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year, which remain unpaid at year end. The amounts are unsecured and are usually paid within 60 days of recognition. They are recognised initially at fair value and subsequently at amortised cost.

**(o) Provisions**

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

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

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

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

**(p) Employee benefits**

*(i) Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

*(ii) Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

**(q) Share Based Payments**

The Group may at times provide benefits to employees (including Directors) and consultants 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 an external valuer using the Black & Scholes method. The valuation will take into consideration the current market conditions affecting the equity.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than those specified in the Terms and Conditions of the Convertible Preference Shares.

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 reporting 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.

**(r) Borrowing Costs**

Borrowing costs are recognised as an expense when incurred except if costs were incurred for the construction of any qualifying asset, where the costs are capitalised over the period that is required to complete and prepare the asset for its intended use or sale.

**(s) Cash and cash equivalents**

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

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

**(t) Income Tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

Deferred income tax is provided on all temporary differences at the statement of financial position date arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements and are recognised for all taxable temporary differences:

- i) 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
- ii) 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 can be utilised:

- i) 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 the taxable profit or loss; and
- ii) In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests and 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 extent that it is probable that the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position 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 statement of financial position date. Deferred tax assets and liabilities are recognised when it is probable that the future taxable amounts will be available to utilise those temporary differences and losses or that it is probable that the timing differences will not reverse in the foreseeable future.

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

#### **Tax consolidation legislation**

Odin Energy Limited and its wholly owned Australian controlled entity have implemented the tax consolidation legislation. This came into effect on the 25th September 2007.

The head entity, Odin Energy Limited, and the controlled entity in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Odin Energy Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

#### **(u) Goods and Services Tax (GST)**

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

- i) Where the GST incurred on a purchase of goods and services is not recoverable from the taxation authorities, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense item as applicable; and
- ii) 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 statement of financial position.

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

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

#### **(v) Contributed Equity**

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, net of tax, of the share proceeds received.

#### **(w) Earnings per share**

- (i) *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

**(ii) Diluted earnings per share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary share and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**(x) New accounting standards and interpretations****(i) New and amended standards adopted by the Group**

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2010:

- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project;
- AASB 2009-8 Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions;
- AASB 2009-10 Amendments to Australian Accounting Standards - Classification of Rights Issues; and
- AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project.

The adoption of these standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

**(ii) New accounting standards and interpretations not yet adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods and have not yet been applied in the financial report. The Group's assessment of the impact of these new standards and interpretations is set out below.

- AASB 2010-6 Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets (effective for annual reporting periods beginning on or after 1 July 2011). Amendments made to AASB 7 Financial Instruments: Disclosures in November 2010, introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments are not expected to have any significant impact on the Group's disclosures. The Group intends to apply the amendment from 1 July 2011.
- AASB 10 Consolidated Financial Statements (effective for the annual reporting periods commencing on or after 1 January 2013). AASB 10 introduces certain changes to the consolidation principles, including the concept of de facto control and changes in relation to the special purpose entities. The Group is continuing to assess the impact of the standard.
- AASB 11 Joint Arrangements (effective for the annual reporting periods commencing on or after 1 January 2013). AASB 11 introduces certain changes to the accounting for joint arrangements. Joint arrangements will be classified as either joint operations (where parties with joint control have rights to assets and obligations for liabilities) or joint ventures (where parties with joint control have rights to the net assets of the arrangement). Joint arrangements structured as a separate vehicle will generally be treated as joint ventures and accounted for using the equity method. The Group is continuing to assess the impact of the standard.
- AASB 13 Fair Value Measurement (effective for annual reporting periods commencing on or after 1 January 2013). AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value on the statement of financial position or disclosed in the notes to the financial statements. The Group is continuing to assess the impact of the standard.
- AASB 2011-9 Presentation of Financial Statements (effective for annual reporting periods commencing on or after 1 July 2013). AASB 101, amended in June 2011, introduces amendments to align the presentation items of other comprehensive income with US GAAP. The Group will apply the amended standard from 1 July 2013. When the standard is first adopted, there will be changes to the presentation of the statement of comprehensive income. However, there will be no impact on any of the amounts recognised in the financial statements.
- AASB 1054 Australian Additional Disclosures (effective for annual reporting periods beginning on or after 1 July 2011). AASB 1054, issued in May 2011, moves additional Australian specific disclosure requirements for for-profit entities from various Australian Accounting Standards into this Standard as a result of Trans-Tasman Convergence Project. AASB 1054 Australian Additional Disclosures removes the requirement to disclose each class of capital commitments contracted for at the end of the reporting period (other than commitments for the supply of inventories). When the standard is adopted for the first time for the financial year ending 30 June 2012, the financial statements will no longer include disclosures about capital and other expenditure commitments as these are no longer required by AASB 1054.
- AASB 9 Financial Instruments and 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 for annual reporting periods beginning on or after 1 January 2013). AASB 9 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. The Group is continuing to assess its full impact.

- Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective for annual reporting periods beginning on or after 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's 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.
- AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective from 1 July 2013). On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. The Group is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards - Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.
- AASB 2010-8 Amendments to Australian Accounting Standards Deferred Tax: Recovery of Underlying Assets (effective from 1 January 2012). In December 2010, the AASB amended AASB 112 Income Taxes to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets and liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The amendment is not expected to have any significant impact on The Group's financial statements. The Group intends to apply the amendment from 1 July 2012.
- AASB 119 - Elimination of the 'corridor' approach for deferring gains/losses for defined benefit plans, actuarial gains/losses on remeasuring the defined benefit plan obligation/asset to be recognised in OCI rather than in profit or loss, and cannot be reclassified in subsequent periods, subtle amendments to timing for recognition of liabilities for termination benefits, and employee benefits expected to be settled (as opposed to due to settled under current standard) within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used within 12 months of end of reporting period will in future be discounted when calculating leave liability. This standard has no impact as there are no annual leave provision amounts that are non-current. The Group will apply this from 1 July 2013.

The Group does not anticipate early adoption of any of the above accounting standards.

## **(y) Business combinations**

The acquisition method of accounting is used to account for all business combination, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expenses as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

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

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

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

## 2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, and other price risks, and aging analysis for credit risk.

Risk management is carried out by the Board of Directors.

### (a) Market risk

#### (i) Foreign exchange risk

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. This is limited to returns from sale of asset. Carrying amounts for Parent and Australian subsidiary are in Australian dollars and US subsidiary in US dollar so there is no day to day exposure to foreign exchange risk.

#### (ii) Price Risk

The Group is in early stage of production so not exposed to price risk on its financial instruments.

#### (iii) Cash flow and fair value interest rate risk

Interest rate risk arises from both short and long-term bank deposits as well as from interest bearing loans to other entities. Deposits held at variable rates expose the Group to cash flow interest rate risk. Deposits held at fixed rates expose the Group to fair value interest rate risk. During 2010 and 2011, the Group deposits were held at variable rate. The interest bearing loans had fixed interest rates which limits the Group's exposure to the timings of payments only.

At 30 June 2011, if interest rates had changed by +/- 10%, based on a 7 year average of rate fluctuations, from the year-end rates with all other variables held constant, post-tax loss for the year would have been \$21,454 lower/higher (2010: \$42,500 lower/higher), mainly as a result of lower/higher interest income.

### (b) Credit risk

The Group's significant concentration of credit risk is with its loans to other entities and investments in convertible note. Further credit risk relates to the credit rating of the Group's Bank. The Group banks with the National Australia Bank which has an "AA" S&P Credit Rating. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The credit quality of financial assets that are neither due nor impaired is desired by reference to historical credit behavior of each counter party. The maximum exposure to credit risk is the financial assets (note 7, 8, 12, 13 and 15) disclosed in the statement of financial position.

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of cash facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims at maintaining flexibility in funding by keeping committed cash facilities available or the establishment of credit facilities if required with a variety of counterparties. The Group has no material risk to liquidity risk at 30 June 2011 and 30 June 2010. All payables are due within 60 days (2010: 60 days).

### (d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments and/or the inhabitant value of the financial assets where in active trading market exists (note 15).

### **(e) Capital risk management**

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern. Where possible they seek to optimise the use of longer term debt and to minimise additional equity capital, to avoid unnecessary shareholder dilution. Refer to note 1(a) for further information on working capital arrangements.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group had no material debt during the year ended 30 June 2011 or for the period ended 30 June 2010.

## **3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

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

### *(i) Estimated impairment*

The Group tests annually whether oil and gas properties have suffered any impairment, in accordance with the accounting policy stated in note 1(l). The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Some of these assumptions may be amended in the future and this may lead to the subsequent impairment of the assets concerned. The main assumptions used are:

- Longevity of tenure over the area of interest;
- Future planned expenditure in the area of interest; and
- Continued exploration in the area of interest.

### *(ii) Fair Value of Securities*

#### **- Convertible Preference Shares**

The assessed fair value at grant date of CPS's granted during the 2009 period was independently determined using a Black-Scholes pricing model that takes into account the exercise price, the term of the CPS, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the CPS, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Since issue the estimated full value of CPS is amortised to the Statement of comprehensive income with profit and loss by assuming the probability of conversion equal to the percentage production achieved. Should conversion quotas not be achieved however, these amounts will be written back to the Statement of comprehensive income.

No CPS's were granted in 2011 (2010: Nil).

### *(iii) Exploration expenditure*

Expenditure and development expenditure that does not form part of the cash generating units assessed for impairment has been carried forward on the basis that exploration and evaluation activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing. In the event that significant operations cease and/or economically recoverable reserves are not assessed as being present, this expenditure will be expensed to the statement of comprehensive income.

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

*(iv) Recoverability of loans*

The Group has certain loans to related parties, see notes 13, 15 and 24(c) for information relating to these loans. For all material loans the agreements have been made on normal business terms and have been secured by a fixed and floating charge over the assets of the respective mortgagees.

Should the related parties not be able to continue as going concerns, there exists a material uncertainty as to whether the respective companies will be able to repay the outstanding debts (Advance Energy Limited - \$1,869,045) in accordance with the terms of the loan agreements and therefore whether the Group will recover the loans at the amounts stated in the financial report.

*(v) Functional and presentation currency*

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates (the functional currency). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

*(vi) Estimated recoverable amount of oil and gas properties*

Reserve estimates

Estimates of recoverable quantities of proven, probable and possible reserves reported include judgemental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex and difficult geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact asset carrying values and the recognition of deferred tax assets due to changes in expected future cash flows. Reserves are integral to the amount of amortisation charged to the statement of comprehensive income. The Group uses suitably qualified persons to prepare an annual evaluation of proven hydrocarbon reserves compliant with US professional standards for petroleum engineers.

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect company's financial results and financial position in a number of ways, including the following:

- Asset carrying values may be affected due to changes in estimated future cash flows.
- Depreciation and amortisation charges in the statement of comprehensive income may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.
- The carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of tax benefits.

4. **SEGMENT REPORTING**

Management has determined the operating segments based on reports reviewed by the Board of Directors that are used to make strategic decisions. The Board of Directors considers the business from a geographic perspective and have identified the below reportable segments:

Geographical segment	2011 (AU\$)			2010 (AU\$)		
	USA	Australia	Consolidated	USA	Australia	Consolidated
Revenues from continuing operations	(79,110)	(1,529,595)	(1,608,705)	-	(836,839)	(836,839)
Segment result (loss)	(15,612)	(1,238,747)	(1,254,359)	-	(2,286,168)	(2,286,168)
Depreciation	17,852	1,152	19,004	-	2,062	2,062
Impairment	-	1,287,451	1,287,451	-	1,403,154	1,403,154
Total segment assets	1,968,646	6,635,629	8,604,275	2,557,143	4,372,510	6,929,653
Acquisition of assets	1,593,876	-	1,593,876	-	-	-
Total segment liabilities	(1,970,831)	(606,244)	(2,577,075)	-	(235,607)	(235,607)

1) Revenue from continuing operations

Segment revenue reconciles to total revenue from the continuing operations as follow:

	GROUP	
	2011 \$	2010 \$
Total segment revenue	(1,608,705)	(836,839)
Intersegment eliminations- intercompany loan interest	45,370	-
Total revenue from continuing operations (Note 5)	(1,563,335)	(836,839)

2) Segment results

Segment result reconciles to total comprehensive income as follows:

	GROUP	
	2011 \$	2010 \$
Total segment result	(1,254,359)	(2,286,168)
Intersegment eliminations	2,185	-
Total comprehensive income for the year	(1,252,174)	(2,286,168)

3) Segment assets

The amounts provided to the board with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Reportable segments' assets are reconciled to total assets as follows:

	GROUP	
	2011 \$	2010 \$
Total segment assets	8,604,274	6,292,653
Intersegment eliminations	(1,660,266)	(1)
Unallocated – available for sale financial assets	1,281,896	1,029,914
Total assets	8,225,904	7,959,566

4) Segment liabilities

The amounts provided to the board with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment and the physical location of the asset.

Reportable segments' liabilities are reconciled to total assets as follows:

	GROUP	
	2011	2010
	\$	\$
Total segment liabilities	(2,577,075)	(235,607)
Intersegment eliminations	1,662,451	-
Total liabilities	(914,624)	(235,607)

## 5. REVENUE AND EXPENSES

	GROUP	
	2011	2010
	\$	\$
Revenue		
i) Interest	325,024	424,674
ii) Other income	1,649,293	-
(Loss)/Profit on Sale of shares	(410,982)	412,165
<b>Total Revenue</b>	<b>1,563,335</b>	<b>836,839</b>
Expenses		
Impairment of assets	1,287,451	1,403,154
Reconciled as follows:		
Borrowings/Receivables		
AAG Management Pty Ltd	80,000	130,000
Kilgore Oil and Gas Ltd	132,244	-
GBU Capital Pty Ltd	-	77,500
Blaze Assets Pty Ltd	-	338,029
Hibernia Resources	-	75,568
	214,244	621,097
Investment		
Impairment for available for sale assets	-	782,057
Exploration expenses	1,075,207	-
	1,287,451	1,403,154

## 6. INCOME TAX

Income tax recognised in profit or loss

	Group	
	2011	2010
	\$	\$
Tax expense/(income) comprises:		
Current tax expense/(income) in respect of the current year	-	-
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	-	-
<b>Total tax expense/(income)</b>	<b>-</b>	<b>-</b>

The prima facie income tax expense/(income) on pre-tax accounting loss from operations reconciles to the income tax expense/(income) in the financial statements as follows:

	Group	
	2011	2010
	\$	\$
<b>Loss before tax</b>	(1,252,174)	(2,286,168)
Income tax expense/(income) calculated at 30% (2010:30%)	(375,652)	(685,850)
Effect of expenses that are not deductible in determining taxable profit	382,264	434,166
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	77,698	330,394
Effect of different tax rates of subsidiaries operating in other jurisdictions	(4,792)	-
Other	(79,518)	(78,710)
	-	-

The tax rate used for the 2011 and 2010 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

**Unrecognised deferred tax balances**

	Group	
	2011	2010
	\$	\$
<b>Deferred tax assets/(liabilities) recognised and un-recognised:</b>		
Tax losses:		
Tax losses – revenue	2,298,547	2,215,714
Temporary differences:		
Capitalised exploration and evaluation costs	231,355	(51,258)
Write down of investments	(178,232)	506,984
Other	29,940	28,848
<b>Un-recognised deferred tax assets</b>	2,381,610	2,700,288

Net deferred tax assets have not been brought to account as it is not probable that immediate future profits will be available against which deductible temporary differences and tax losses can be utilised.

Tax consolidation legislation is discussed in Note 1.

**7. CASH AND CASH EQUIVALENTS**

	GROUP	
	2011	2010
	\$	\$
Cash at bank	1,253,651	1,480,663
Term deposit at bank	230,000	230,000
	1,483,651	1,710,663

Cash at bank earned a floating rate of interest of between 0.00% and 4.75% (2010: between 0.01% and 4.50%).

The Group's exposure to interest rate risk is discussed in note 2. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

8. TRADE AND OTHER RECEIVABLES

	GROUP	
	2011	2010
	\$	\$
<b>Current</b>		
Trade receivables	279,295	38,000
Allowance for impairment of receivables	-	-
	<u>279,295</u>	<u>38,000</u>
<b>Other</b>		
Related party receivables	190,752	220,000
Prepayments	2,293	18,375
	<u>193,045</u>	<u>238,375</u>
	<u>472,340</u>	<u>276,375</u>

**Other receivables**

These amounts generally arise from transactions outside the usual operating activities of the Group. Interest may be charged at commercial rates where the terms of the repayment exceed six months. Collateral is not normally obtained. The amounts held for the Group relate to shares held in trust which have subsequently been repaid at the date of this Report.

During the year \$50,000 of the loan to AAG Management Pty Ltd of \$260,000 has been received and remaining balance of \$80,000 been written off (2010: \$130,000 was written off on an asset deficiency basis).

**Fair value and credit risk**

Due to the short-term nature of these receivables, their carrying amounts are assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 2 for more information on the risk management policy of the Group.

9. EXPLORATION & EVALUATION COSTS

	GROUP	
	2011	2010
	\$	\$
<b>Non-Current</b>		
Exploration, evaluation and development costs carried forward in respect of areas of interest in exploration and evaluation phases	-	-
<b>Reconciled as follows:</b>		
Opening balance	-	170,861
Expenditure during the period	-	-
Transfer to oil and gas properties (Note 14)	-	(170,861)
Write offs	-	-
<b>Closing Balance</b>	<u>-</u>	<u>-</u>

The ultimate recoupment of these costs is dependent on successful development and commercial exploitation, or alternatively, the sale of the respective areas. The expenditure carried forward has been transferred to oil and gas properties (note 14) as the assets are now flowing and will be subject to depletion/depreciation in subsequent years.

## 10. PROPERTY, PLANT AND EQUIPMENT

	GROUP	
	2011 \$	2010 \$
Plant and equipment – cost	12,909	6,864
Less accumulated depreciation	(8,822)	(5,712)
	4,087	1,152
Movements in carrying amounts are reconciled as follows:		
Balance at the beginning of period	1,152	3,214
Additions	11,757	-
Disposals	-	-
Depreciation expense	(8,822)	(2,062)
	4,087	1,152

## 11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

As at 30 June 2011, the investment in the associate is not brought to account, as the Company's shares of losses exceeds its interest in the associate and as such these further losses are not recognised.

**Summarised financial information**

The following table illustrates summarised financial information relating to the Group's joint venture:

Extract from the joint venture's statement of financial position:	Consolidated	
	2011 \$	2010 \$
Current assets	-	136,702
Non-current assets	-	-
	-	136,702
Current liabilities	-	-
Non-Current liabilities	-	607,339
	-	607,339
Net liabilities	-	(470,637)
Share of joint venture's net liabilities	-	(235,318)

## 12. AVAILABLE FOR SALE FINANCIAL ASSETS

	GROUP	
	2011 \$	2010 \$
Listed Securities		
Equity securities	1,281,896	1,031,352
	1,281,896	1,031,352

Investments in related parties:

Refer to note 24 for information on the carrying amount of investments in subsidiaries, joint ventures and associates.

All available for sale assets are denominated in Australian currency. For an analysis of the sensitivity of available for sale financial assets to price and interest rate risk refer to note 2.

13. INTEREST BEARING LOANS

	GROUP	
	2011 \$	2010 \$
Loans to related parties (Note 24)	179,045	782,881
	<u>179,045</u>	<u>782,881</u>

The interest rate for these loans is between nil and 15%.

(a) Impaired receivables

- During the year 2011, the loan to Kilgore Oil and Gas Ltd of \$132,244 has been written off.
- During 2010, the loan to Blaze Assets Pty Ltd of \$338,029 has been written down in full on an asset deficiency basis.
- During 2010, the loan to GBU Capital Pty Ltd \$77,500 has been written down in full on an asset deficiency basis.

The behavior of the impaired receivables is expected to be recoverable as there has been no recent history of default.

(b) Fair values

The carrying values of the current receivables approximate their fair value.

(c) Risk exposure

Information about the Group's exposure to credit risk, foreign exchange and interest risk is provided in note 2. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

(d) Kilgore Oil and Gas Ltd

The Company provided a loan facility of \$1.5 million to Kilgore Oil and Gas Ltd. During the year, \$50,000 was repaid by issuing shares and \$1,027,225 was received in cash. As at 30 June 2011, the outstanding balance of \$132,244 is written off (note 24 (c)).

14. OIL & GAS PROPERTIES

	GROUP	
	2011 \$	2010 \$
Oil & gas exploration	3,204,885	2,557,143
	<u>3,204,885</u>	<u>2,557,143</u>
Movements in carrying amounts are reconciled as follows:		
Balance at the beginning of period	2,557,143	2,386,282
Additions	1,589,789	170,861
Depreciation	(10,182)	-
Disposals	-	-
Impairment expense	(931,865)	-
	<u>3,204,885</u>	<u>2,557,143</u>

The ultimate recoupment of exploration expenditure carried forward is dependent on successful development and exploration, or alternatively sale of the respective area of interest.

15. OTHER FINANCIAL ASSETS

	GROUP	
	2011 \$	2010 \$
<b>Non-Current</b>		
Receivable	-	75,567
Investment in convertible notes*	1,600,000	1,600,000
Impairment of assets	-	(75,567)
	<u>1,600,000</u>	<u>1,600,000</u>

During 2010, the loan to Hibernia Resources \$75,567 was written down in full on an asset deficiency basis.

\* \$1.6mil was invested in Advance Energy Ltd by way of a listed convertible note earning interest at 9.5% p.a. The repayment of this convertible note is dependent upon their ability to continue on a going concern basis. See further comment in note 24 (c).

16. TRADE AND OTHER PAYABLES

	GROUP	
	2011 \$	2010 \$
Trade creditors	823,310	121,071
Accruals	91,314	114,536
	<u>914,624</u>	<u>235,607</u>

Details of the Group's exposure to risks arising from current borrowings are set out in note 2. All amounts are expected to be repaid within 12 months.

17. PROVISIONS

In 2009, the Group created a provision for its share of the offered price for each share in Target Energy Ltd as per the Joint Venture agreement with Advance Energy Ltd. The provision is recognised as a loan to Blaze Asset Pty Ltd. The amount of the provision was used during the 2010 financial year.

	GROUP	
	2011 \$	2010 \$
Balance at beginning of period	-	63,195
Provisions added – joint venture	-	-
Amounts used during period	-	(63,195)
Provisions at balance date	<u>-</u>	<u>-</u>

18. CONTRIBUTED EQUITY

Movement in ordinary fully paid shares on issue

	2011			2010	
	Date	Number of shares	\$	Number of shares	\$
Opening balance		172,660,034	14,527,283	107,730,005	13,934,983
Rights issue	03/09/2010	16,500,000	165,000	-	-
Conversion of 3,500 CPS	14/04/2010	-	-	3,500,000	-
Rights issue entitlements	28/05/2010	-	-	55,460,029	554,600
Rights issue shortfall shares	28/05/2010	-	-	3,570,000	35,700
Rights issue shortfall shares	16/06/2010	-	-	2,400,000	24,000
Transaction costs on share issues		-	(13,483)	-	(22,000)
<b>Closing balance</b>		<b>189,160,037</b>	<b>14,678,800</b>	<b>172,660,034</b>	<b>14,527,283</b>

- Effective 1 July 1998 the Corporations Legislation in place abolished the concepts of authorised capital and par value of shares. Accordingly the Parent does not have authorised capital or par value in respect of issued shares.
- Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.
- At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Options

No options have been issued or exercised in 2011 and 2010.

Expiry Date	Exercise Price	Number at beginning of year	Issued	Number at end of year
30 November 2012	\$0.25	105,364,999	-	105,364,999
31 December 2012	\$0.25	1,000,000	-	1,000,000
30 December 2012	\$0.50	1,000,000	-	1,000,000
		<b>107,364,999</b>	<b>-</b>	<b>107,364,999</b>

For further information regarding the above listed options please refer to the Company's prospectus dated 26 September 2007.

Converting Preference Shares

All convertible preference shares were issued during the period ended 30 June 2007. The movements in Converting Preference Shares during the period were as follows:

2011

Class	No. at beginning of year	Issued	Converted into ordinary shares	No. at end of year
CPS - A	-	-	-	-
CPS - B	-	-	-	-
CPS - C	3,500	-	-	3,500
CPS - D	3,500	-	-	3,500
	<b>7,000</b>	<b>-</b>	<b>-</b>	<b>7,000</b>

2010

Class	No. at beginning of year	Issued	Converted into ordinary shares	No. at end of year
CPS - A	-	-	-	-
CPS - B	3,500	-	(3,500)	-
CPS - C	3,500	-	-	3,500
CPS - D	3,500	-	-	3,500
	10,500	-	(3,500)	7,000

Each Converting Preference Share (CPS) converts into 1,000 ordinary shares as follows:

CPS-A – upon the Company's shares being listed on the main Board of the ASX; these were converted into ordinary shares on date of listing, being 5 September 2007.

CPS-B – upon completion of the first well in which the Company participates.

CPS-C – upon the Company proving up reserves of 2 Bcfe.

CPS-D – upon the Company proving up reserves of 4 Bcfe.

## 19. RESERVES

	GROUP	
	2011	2010
	\$	\$
Option reserve (1)	1,053,650	1,053,650
	1,053,650	1,053,650

There were no options issued during the year.

	GROUP	
	2011	2010
	\$	\$
Available for sale reserve (2)	674,553	-
	674,553	-
Available for sale reserve		
Opening balance	-	141,977
Fair value adjustment of assets during period	674,553	(141,977)
	674,553	-

	GROUP	
	2011	2010
	\$	\$
Share based payment reserve (3)	311,488	311,488
	311,488	311,488

There were no share based payments during the year.

	GROUP	
	2011	2010
	\$	\$
Foreign exchange reserve (4)	13,425	-
	13,425	-
Foreign exchange reserve		
Opening balance	-	-
Movement during the year	13,425	-
	13,425	-
<b>Total Reserves</b>	<b>2,053,116</b>	<b>1,365,138</b>

Nature and purpose of reserves

(1) Option reserve

The option reserve represents the cash from the options raised during the period.

(2) Available for sale reserve

The available for sale reserve represents the adjustment of the fair value of assets available for sale during the period.

(3) Share based payment reserve

The share based payment reserve is used to recognise the fair value of options issued but not exercised.

(4) Foreign exchange reserve

Exchange difference arising on translation of the foreign controlled entity is taken to the foreign currency translation reserve as described in note 1. The reserve is recognised in profit and loss when the net investment is disposed of.

## 20. ACCUMULATED LOSSES

	GROUP	
	2011 \$	2010 \$
Accumulated losses at the beginning of the year	(8,168,462)	(5,882,294)
Net loss attributable to the members of the parent entity	(1,252,174)	(2,286,168)
Accumulated losses at the end of the financial year	(9,420,636)	(8,168,462)

## 21. EARNINGS PER SHARE

	GROUP	
	2011 \$	2010 \$
Reconciliation of earnings to net loss		
Net loss	(1,252,174)	(2,286,168)
Earnings/(loss) used in the calculation of basic and dilutive EPS	(1,252,174)	(2,286,168)
	Number	Number
Weighted average number of ordinary shares outstanding during the period used in calculation of basic and dilutive EPS	186,221,678 (0.67)	113,916,556 (2.01)

Details of the shares issued are included under note 18. Dilutive EPS is not reflected as it would result in the reduction of the loss per share.

## 22. CASH FLOW INFORMATION

Reconciliation of cash flow from operations with loss from continuing operations after income tax

	GROUP	
	2011 \$	2010 \$
Loss after income tax	(1,252,174)	(2,286,168)
Net gain on sale of available for sale financial assets	410,982	(412,165)
Non cash flows in loss for the year		
<b>Gain on transfers of related party loans</b>	(1,804,441)	-
Depreciation	19,004	2,062
Impairment	1,075,207	1,403,154
Write of related party	214,244	
Changes in assets and liabilities		
Increase/(decrease) in trade creditors and accruals	87,956	44,830
(Increase)/decrease in trade and other receivables	42,050	86,704
Cash flows from (used in) operations	(1,207,172)	(1,161,583)

23. SUBSIDIARIES

The Company has the following Subsidiaries:

Name of Subsidiary	Place of Incorporation	Percentage held
Glory Run Pty Ltd	Perth WA	100% (2010:100%)
Kilgore Exploration Inc	Texas USA	100% (2010: 0%)
Jet Strike Pty Ltd	Perth WA	100% (2010:0%)

Glory Run Pty Ltd was incorporated on 25 September 2007 with initial issued capital of \$1. During the year, the Company purchased 100% of Kilgore Exploration Inc (KEI) and Jet Strike Pty Ltd for nil consideration.

24. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

Details of consulting fees paid to Directors or their related entities, including amounts accrued but unpaid at the end of the year are as follows:

Specified Director/Officer	Transaction	Note	30 June 2011 \$	30 June 2010 \$
Alex Bajada	Consulting fees	(i)	150,000	150,000
Andrew Dimsey	Consulting fees	(ii)	-	242,804
Robert Hyndes	Consulting fees	(iii)	-	13,548
Roland Berzins	Consulting fees	(iv)	25,500	97,178
David Ballantyne	Consulting fees	(v)	20,000	42,439
Anthony Short	Consulting fees	(vi)	74,104	100,000

- (i) The Company used the management consulting services of Spartan Nominees Pty Ltd, a Company of which Mr Alex Bajada is a director.
- (ii) The Company used the consulting services of Phoenix Mining Services Pty Ltd, a Company of which Mr Andrew Dimsey is a director. Mr Dimsey resigned on 18/12/2009.
- (iii) The Company used the consulting services of Splendour Investments Pty Ltd, a company of which Mr Hyndes is a director. Mr Hyndes resigned on 15/06/2010.
- (iv) The Company used the consulting services of Mr Roland Berzins.
- (v) The Company used the consultancy services of Sandgroper Pty Ltd, a Company of which Mr David Ballantyne is a director.
- (vi) The Company used the consultancy services of Cumberland Pty Ltd, a company of which Mr Anthony Short is a director. Mr Short is also director of Kilgore Exploration Inc.

Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms. Directors or their consulting companies are not receiving any additional fees except disclosed in above table.

AAG Management Pty Ltd is a management company which provides facilities (which includes rent, telephone and company secretarial), human resources, and other administration and consulting services. AAG Management is a related party because David Ballantyne, a non executive director of Odin Energy Ltd was the sole director and shareholder of AAG Management during the year. Effective 1 July 2010, AAG Management was acquired by GBU Capital and Mr Ballantyne is no longer a director. No interest is charged on this facility.

During the year following expenses are reimbursed by Odin Energy Ltd to AAG Management and/or director's consulting company for travel and other administrative expenses:

2011

Directors/Consultants	Travel expense reimbursed to consulting companies	Travel expenses reimbursed to AAG Management or GBU Capital
Mr. A Short	47,984	\$23,872
Mr. A Bajada	\$108	\$5,073
Mr. D Ballantyne	-	-
<b>Total</b>	<b>\$48,092</b>	<b>\$28,945</b>

**Administrative expenses reimbursed to AAG Management / GBU Capital**

AAG Management Pty Ltd	\$2,376
GBU Capital Pty Ltd	\$271,460
GBU Securities Pty Ltd – GBU Securities Pty Ltd is fully owned subsidiary of GBU Capital Pty Ltd. During the year GBU Securities has charged \$10,890 capital raising expenses (2010:Nil)	

2010

Directors/Consultants	Travel expense reimbursed to consulting companies	Travel expenses reimbursed to AAG Management or GBU Capital
Mr. G Sklenka	-	\$66,262
Mr. A Bajada	-	\$23,990
Mr. D Ballantyne	-	\$786
<b>Total</b>	<b>-</b>	<b>\$91,038</b>

**Administrative expenses reimbursed to AAG Management / GBU Capital**

AAG Management Pty Ltd	\$289,939
GBU Capital Pty Ltd	-

**(b) Wholly owned group transactions**

Odin has following receivables/(payables) from subsidiaries:

Subsidiaries	30 June 2011	30 June 2010
	\$	\$
Glory Run Pty Ltd	(127,930)	-
Jet Strike Pty Ltd	50,000	-
Kilgore Exploration Inc	1,482,334	-

(c) **During the period the following amounts were outstanding to Odin Energy Ltd from related parties.**

Entity	30 June 2011	30 June 2010	Relationship
GBU Capital Pty Ltd	-	-	GBU Capital Pty Ltd is a marketing Company which provides consulting services. Alex Bajada, Anthony Short and Gordon Sklenka are directors of GBU Capital Pty Ltd. GBU Securities Pty Ltd and AAG Management Pty Ltd are fully owned subsidiaries of GBU Capital Pty Ltd. During the year GBU Group has provide various admin and management services. Refer note 24(a). In 2011, the company has received \$50,000 from AAG Management and remaining balance of \$80,000 is written off.
GBU Securities Pty Ltd	-	-	
AAG management Pty Ltd	-	130,000	
<b>Kilgore Oil and Gas Ltd</b>			Anthony Short, a former director of Odin Energy Ltd, is a director of Kilgore Oil and Gas Limited ("Kilgore"). During the year Kilgore has paid \$50,000 by fully paid ordinary shares and \$1,027,225 was paid in cash. As at 30 June 2011, the outstanding balance of \$132,244 is written off.
Interest bearing loans	-	\$782,880	
<b>Advance Energy Ltd</b>			Anthony Short and Gordon Sklenka are Directors of Advance Energy Limited ("Advance"). Alex Bajada was a director of Advance until 21 June 2010. Advance Energy Ltd is a related party as Gordon Sklenka was director of Jet Strike Pty Ltd (fully owned subsidiary of Odin).The secured interest bearing loan earned interest at the rate of 12%.The investment of \$1.6 million in listed convertible notes earns interest at 9.5%. During the year the Company has receive interest \$152,000 with no default payment. The recoverability of these assets is dependent upon their ability to continue on a going concern basis, which contemplates the realisation of assets, the raising of capital, the production of operational cash flows, and the extinguishment of liabilities in the normal course of business. Should this not be the case, there is doubt as to whether the respective companies will be able to repay all of the outstanding amounts in accordance with the terms of the convertible notes agreement.
Interest bearing loans	\$179,045	-	
Investment in convertible notes	\$1,600,000	\$1,600,000	
Other receivables	\$90,000	\$90,000	
	<u>\$1,869,045</u>	<u>\$2,602,880</u>	

(d) **Share and option holdings**

The interests of the Directors in shares, Convertible Preference Shares ("CPS") and options of the Company as at 30 June 2011 were as disclosed in note 25 (c).

(e) **Shares in other entities**

The Group holds shares in Kilgore Oil and Gas Ltd. Mr Sklenka was a director of Kilgore Oil and Gas Ltd.

The Group holds shares in Excalibur Mining Corporation Ltd. Mr Bajada is a Directors of Excalibur Mining Corporation Ltd.

The Group holds shares in Advance Energy Limited and Mr Bajada is a former director of Advance Energy Limited and Mr Sklenka is a current director of the company.

The Group holds shares in Palace Resources Ltd and Mr Berzins is a director of Palace Resources Ltd.

(f) **Loans to/from related party**

Loans from/to related parties -2011	GBU Capital Pty Ltd	Advance Energy Ltd	Kilgore Oil and Gas Ltd	Blaze Assets Pty Ltd	AAG Management Pty Ltd
Beginning of the year	-	-	782,880	-	130,000
Loans/purchases	-	250,000	426,588	-	-
Loan/Interest repayments	-	(90,000)	(1,077,225)	-	(50,000)
Interest charged	-	19,045	-	-	-
Impairment of loans	-	-	(132,244)	-	(80,000)
End of the year	-	179,045	-	-	-

Loans from/to related parties -2010	GBU Capital Pty Ltd	Advance Energy Ltd	Kilgore Oil and Gas Ltd	Blaze Assets Pty Ltd	AAG Management Pty Ltd
Beginning of the year	65,000	2,000,000	1,752,739	239,695	60,000
Loans/purchases	12,500	-	790,000	161,529	200,000
Loan/Interest repayments	-	(2,093,846)	(1,975,000)	(63,195)	-
Interest charged	-	93,846	215,141	-	-
Impairment of loans	(77,500)	-	-	(338,029)	(130,000)
End of the year	-	-	782,880	-	130,000

(g) **Acquisition of business from related party**

On 31 May 2011, Odin Energy Ltd acquired 100% interest in Kilgore Exploration Inc (KEI) and Jet Strike Pty Ltd which previously were owned by Kilgore Oil and Gas Ltd (KOG). Refer to Note 33 for details of the business combination.

25. **KEY MANAGEMENT PERSONNEL DISCLOSURES**

(a) **Names and positions of key management personnel at any time during the financial period are:**

Mr A Bajada	-	Executive Chairman
Mr A Dimsey	-	Managing Director (Resigned 18 December 2009)
Mr R Hyndes	-	Non-Executive Director (Appointed 18 December 2009 – Resigned 15 June 2010)
Mr R Berzins	-	Non-Executive Director
Mr D Ballantyne	-	Non-Executive Director (Appointed 15 June 2010)
Mr A Short	-	Director of Kilgore Exploration Inc

(b) **Key management personnel remuneration:**

	30 June 2011 \$	30 June 2010 \$
Short-term employee benefits	195,500	440,606
Bonus	-	-
Post employment benefits	-	105,363
Equity performance related	-	-
	195,500	545,969

(c) Equity instrument disclosures relating to key management personnel.

Ordinary Shares

Holder		Held at beginning of period	Acquired	Sold	Converted CPS	Balance at end of period
Alex Bajada	2011	12,860,000	1,333,334	-	-	14,193,334
	2010	5,555,001	6,429,999	-	875,000	12,860,000
Roland Berzins	2011	-	-	-	-	-
	2010	-	-	-	-	-
David Ballantyne	2011	1,200,000	-	-	-	1,200,000
	2010	100,000	1,100,000	-	-	1,200,000
Anthony Short	2011	16,500,001	10,333,332	-	-	26,833,333

Converting Performance shares (CPS)

Holder		Held at beginning of period	Acquired	Sold	Converted CPS	Balance at end of period
Alex Bajada	2011	1,750	-	-	-	1,750
	2010	2,625	-	-	875	1,750
Roland Berzins	2011	-	-	-	-	-
	2010	-	-	-	-	-
David Ballantyne	2011	-	-	-	-	-
	2010	-	-	-	-	-
Anthony Short	2011	1,750	-	-	-	1,750

Options Issued

Holder		Held at beginning of period	Acquired	Sold	Converted CPS	Balance at end of period
Alex Bajada	2011	2,687,500	-	-	-	2,687,500
	2010	2,687,500	-	-	-	2,687,500
Roland Berzins	2011	-	-	-	-	-
	2010	-	-	-	-	-
David Ballantyne	2011	-	-	-	-	-
	2010	-	-	-	-	-
Anthony Short	2011	3,687,500	-	-	-	3,687,500

(d) Loans to Key Management Personnel

There were no loans to or from Key Management Personnel during the year.

26. REMUNERATION OF AUDITORS

	GROUP	
	2011	2010
	\$	\$
Amounts received or due and receivable by BDO Audit (WA) Pty Ltd for:		
Audit and audit review services of the financial reports	56,904	42,000
Other services – Taxation Compliance Services	-	-
– Other – Corporate Services	-	-
	56,904	42,000
Ferguson, Camp, Poll (US subsidiary auditor) received or are due to receive the following amounts for the provision of audit/non audit services:	US\$	US\$
Audit and assurance services	31,000	-
Tax and other services	-	-
	31,000	-

27. COMMITMENTS

There are no commitments (2010: Nil)

28. EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to 30 June 2011 David Ballantyne has resigned and Anthony Short has joined as non-executive director.

29. CONTINGENCIES

At the end of the period the Company was still involved in legal action against Blue Energy Ltd, and its subsidiary Kompliment Pty Ltd. Great Artesian Oil and Gas Ltd (a former farmin entity) is also a respondent. Pursuant to a farmin agreement and various amendments there to the Company was to earn a 25% WI in the Spinel 3D area by paying for the acquisition of the Spinel 3D survey and 50% of the drilling of four wells. The Company believes that there has been a breach of contract under the agreement. At the date of this report there has been no settlement and the Company continues to pursue Blue Energy Ltd for \$4.5 million plus interest and costs.

The Group is currently disputing approximately \$460,000 in joint interest from a third party operator of Apache Corporation. Kilgore Exploration Inc has requested an audit of these billings. As at 30 June 2011, the outcome of the matter is not determinable and full cost have been included in financial statements.

30. SHARE BASED PAYMENTS

During the year there were no share based payment issued (2010:Nil).

31. PARENT ENTITY INFORMATION

The ultimate holding Company of the group, Odin Energy Ltd (the "Parent") has not been reported in these financial statements other than the followings, pursuant to changes to the corporation act 2001;

	Parent Entity	
	2011	2010
	\$	\$
Current Assets	1,737,748	2,789,322
Non Current Assets	4,747,433	4,158,294
Total Assets	6,485,181	6,947,616
Current Liabilities	550,798	329,567
Non Current Liabilities	-	-
Total Liabilities	550,798	329,567
Issued Capital	14,678,801	14,527,282
Accumulated Losses	(10,113,421)	(9,274,371)
Reserve	1,369,003	1,365,138
Total Equity	(5,934,383)	(6,618,049)
Loss for the Year	(839,050)	(1,966,548)
Total Comprehensive income for the year	(835,185)	(1,966,548)

32. DIVIDENDS

There were no dividends paid or payable in respect of the current or previous financial period.

33. BUSINESS COMBINATION

A. Summary of acquisition

On 31 May 2011 Odin Energy Ltd acquired 100% of issued share capital of Kilgore Exploration Inc (KEI) and Jet Strike Pty Ltd (Jet Strike). KEI is the legal beneficiary of 50% of the Galveston project which Odin controls the remaining 50%. Jet Strike holds a number of investments in listed shares.

Details of the purchase consideration and the net assets acquired are as follows:

	\$
Purchase consideration (refer to (b) below):	
Cash paid	2
<b>Total purchase consideration</b>	<b>2</b>

Description	Fair Value
Cash	153,979
Account Receivable	227,926
Investment in Listed Shares	45,790
O&G Properties	1,895,785
PPE	4,998
Prepayments	39,310
Other Receivable	28
Account Payable	590,181
Loan & interest payable to Odin	1,776,753
Asset Retirement Obligation	880
<b>Net Assets/(Liabilities) Acquired</b>	<b>2</b>

There were no acquisitions in the year ending 30 June 2010.

(i) Revenue and profit contribution

The acquired business contributed revenues of \$79,162 and net loss of \$7,873 to the group for the period from 31 May 2011 to 30 June 2011.

B. Purchase consideration – cash outflow

	\$
Inflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	2
Less: Balances acquired	
Cash	153,981
<b>Inflow of cash – investing activities</b>	<b>153,979</b>

## DIRECTORS' DECLARATION

The directors of the Company declare that:

- 1) The financial statements and notes, as set out on pages 17 to 50, are in accordance with the Corporations Act 2001 and:
  - a) comply with Accounting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - b) give 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 Group;
- 2) In the directors' 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.
- 3) The financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board
- 4) The directors have been given the declaration by the chief executive officer and chief financial officer required by section 295A of the Corporation Act 2001.

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



Alex Bajada  
Chairman

West Perth, Western Australia  
30th September 2011

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ODIN ENERGY LIMITED

### Report on the Financial Report

We have audited the accompanying financial report of Odin Energy Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, 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 Odin Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's report.



## Opinion

In our opinion:

- (a) the financial report of Odin Energy Limited is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

## Emphasis of Matter

We draw attention to the recoverability of related party assets as disclosed in note 24 (c). The most recent financial statements of Advance Energy Limited include in its audit opinion, an emphasis of matter regarding its ability to continue as a going concern and therefore whether it will realise its assets and discharge its liabilities in the normal course of business. Should Advance Energy Limited not be able to continue as a going concern, significant uncertainty may exist over the consolidated entity's ability to realise the assets (\$1,869,045) at the value recorded in the consolidated statement of financial position. Our opinion is not qualified in respect of this matter.

## Report on the Remuneration Report

We have audited the Remuneration Report included in 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 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Odin Energy Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

Glyn O'Brien  
Director

Perth, Western Australia  
Dated this 30<sup>th</sup> day of September 2011