company highlights 2010

The year's major highlight was the acquisition of 80% equity interests in two Malian companies, Mali Goldfields SARL and Songhoi Resources SARL, both of which have a strong presence, via early stage exploration assets, in the highly prospective Birimian gold belt in West Africa.

The significance of this acquisition can be summarised as:

- **A portfolio of tenements in a world class gold region, providing access to 1,813km² in the Birimian gold belt in west and south Mali.**
- **JORC Code indicated and inferred resources of 650,000 ounces of gold, grading 3.17g/t at Fadougou Main Zone, Medinandi Project. Fadougou Main Zone extends more than 2.5km north and south along the strike, and at depth has significant potential to add to the resource inventory.**
- **New gold discoveries with ore grade intercepts at Fadougou North East and Fadougou South West at Medinandi Project, with the potential to add to the resource inventory.**
- **Multiple walk-up drill targets defined within the Medinandi Project.**
- **Extensive land holdings in Mali South, generating a pipeline of new opportunities.**

chairman's message

Dear Fellow Shareholder,

On behalf of your Board of Directors, I have pleasure in presenting the 2010 Annual Report and Financial Statements of Papillon Resources Limited ("Papillon" or the "Company") for the 30 June 2010 financial year.

Over the period under report the Company underwent a major strategic shift, redirecting its total resources from the mature exploration targets in Western Australia to enable it to focus strongly on the highly prospective Birimian gold belt of West Africa.

Significant milestones achieved by Papillon during the year were as follows:

- A fully subscribed and underwritten non-renounceable entitlements offer which raised $9.1 million;
- The appointment of a new Managing Director;
- Completion of the acquisition of 80% equity interests in two Malian companies, Mali Goldfields SARL and Songhoi Resources SARL in March 2010; and
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As at 30 June 2010 the Company was in a good financial position with cash on hand of $3,887,828. Papillon recorded an operating loss after tax of $1,919,061 for the period ended 30 June 2010. The result was achieved on revenue of $75,272 and there was a total comprehensive loss for the year of $2,239,914. The majority of the operating expenses related to the very active exploration of Papillon's Malian gold assets, recognition of an expense related to the impairment of goodwill, and expense associated with the grant of options to the Managing Director during the financial year.

The Board of Papillon is committed to pursuing an active exploration programme in Mali, with the aim of discovering new gold mineralisation and advancing those discoveries as quickly as possible. This strategy is intended to deliver long-term growth to shareholders. Papillon has sufficient cash reserves with no debt, allowing the Company to pursue its ambitions of achieving growth through discovery and acquisitions in the resources sector.

I wish to thank shareholders for their loyalty and support throughout the year and extend my sincere thanks to the Board of Papillon, all our employees and consultants for their contributions and efforts to date. We look forward to continued success in the financial year ahead.

Yours faithfully

Jeremy Shervington
Chairman

managing director's message

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Following completion of the acquisition of the Malian Assets in March 2010, an aggressive exploration programme has commenced, with particular focus at the Company's flagship Medinandi Project in Mali West. Excellent shallow high grade gold intercepts at the Fadougou Main Zone and new discoveries, and significant indications of underlying bedrock mineralisation, were reported from the maiden 13,100m Reverse Circulation ("RC") drilling programme completed at the Medinandi Project.

In Mali South, results from the analysis of regional geochemical samples combined with regional data assessment, have provided a pipeline of new opportunities for the growth of the Company.

Subsequent to the end of the financial year, the El Dorado Project in the Eastern Goldfields of Western Australia was surrendered.

The safety of our staff is a corporate priority, and it is a point of pride that no lost time injuries or environmental incidents were reported in 2010.

The Company is in a sound financial position with cash on hand of $3.9 million as at 30 June 2010. The share price has increased to $0.38 at time of writing (2009: $0.05).

2010 has been a significant period in your Company's development and the year ahead promises to be another exciting one for Papillon. I would like to thank all our staff, our contractors and joint venture partners for their dedication to getting the job done well, my fellow directors for their support and guidance, and the shareholders for their strong support and contribution to our success. Papillon is commited to delivering long-term growth to shareholders.

Alan Campbell
Managing Director

managing director's operations report

malian assets

During the year the Company acquired 80% equity interests in each of Mali Goldfields SARL ("Mali Goldfields") and Songhoï Resources SARL ("Songhoi Resources") (collectively referred to as "Malian Assets"). The Malian Assets consist of 18 prospecting authorizations ("ADE") and research permits ("PDR") spanning circa 1,813km^2 in Mali West and Mali South (Figure 1). The tenements are located in highly prospective Birimian sequences on the NE margin of the West African Shield and contain multiple walk up drill targets defined by surface sampling, costeaning, ground geophysics and geological interpretations.

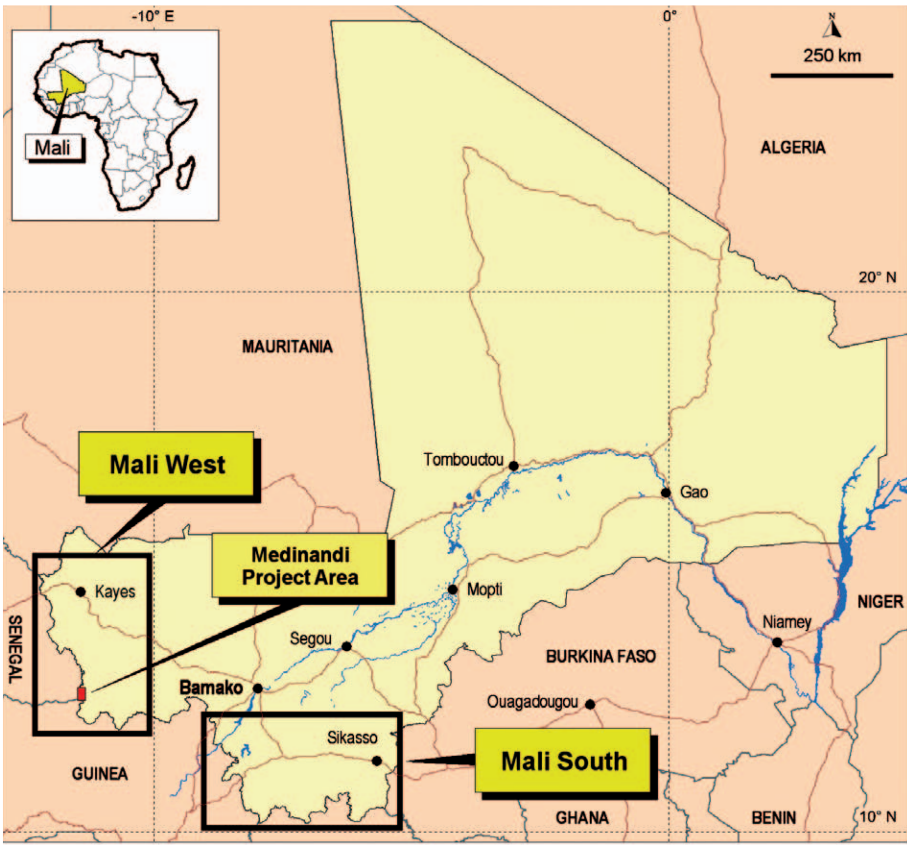


Figure 1: **Mali Projects – Location**

mali west

An aggressive exploration programme was carried out on the Company's flagship Medinandi Project. A JORC Code indicated and inferred resource of 650,000 ounces gold is held by Songhoi Resources at the Medinandi Project. The resource is open along strike to the north and south and at depth. The exploration programme included the assay of soil geochemical samples; geological prospecting; ground geophysical IP surveys; trenching of soil geochemical and geophysical anomalies; RC drilling of the 650,000oz Au indicated and inferred mineral resource; and RC drilling of a further four new prospects that have the potential to add to the Fadougou Main Zone ("FMZ") indicated and inferred mineral resource (Figure 2: Medinandi Project Prospects).

The results received for confirmation infill drilling at the FMZ, demonstrate excellent continuity of mineralisation along a 2km strike length. Mineralisation remains open along strike north and south and at depth, with all significant intersections within 100m of the surface. They include:

- 9m @ 16.70g/t Au from 14 to 23m, includes 3m @ 34.1g/t Au
- 12m @ 8.06g/t Au from 33 to 45m, includes 5m @ 15.9g/t
- 7m @ 7.29g/t Au from 55 to 62m
- 4m @ 11.33g/t Au from 8 to 12m
- 4m @ 4.72g/t Au from 50 to 54m
- 3m @ 19.34g/t Au from 45 to 48m, includes 1m @ 49.2g/t
- 2m @ 28.59g/t Au from 89 to 91m, includes 1m @ 56.8g/t
- 7m @ 5.83g/t Au from 30 to 37m.

New discoveries were made at the Fadougou North East ("FNE") and Fadougou South East ("FSE") prospects (Figure 2.) Drilling at the FNE zone has returned significant wide, shallow, gold intercepts in a north-south trending mineralised zone extending in excess of 700m of strike. This new discovery has a central 240m zone of strong bedrock gold mineralisation. The consistency and grade of intercepts is demonstrated by results such as 18m @ 7.36g/t Au and 10m @ 5.02g/t Au in hole FNER_015; 13m @ 3.460g/t Au (FNER003) from 19m to 32m; 13m @ 3.20g/t Au (FNER006) from 40m to 53m; and 5m @ 9.85g/t Au (FNER006) from 101m to 106m.

At FSE follow up drilling at zones of anomalous geochemistry identified in historical drill holes returned strong intercepts of 12m @ 8.59g/t Au, including 2m @ 36.48g/t Au., Papillon is greatly encouraged by the potential of the FSE to deliver high-grade intercepts.

In the southern portion of the Medinandi Project, the Fekola area of soil anomalism extends over 3.5km (Figure 2). Soil geochemical results include individual samples returning up to 6.13g/t Au in the soil profile. Two reconnaissance drill traverses returned very encouraging bedrock geochemical anomalism over broad zones including results of 11m @ 1.38g/t Au and 6m @ 1.26g/t Au in adjoining holes. These lie within very wide anomalism including 41m @ 0.76g/t Au and 32m @ 0.66g/t Au. The Fekola results are seen as excellent early-stage confirmation that soil anomalism is reflective of underlying bedrock mineralisation.

Mineral resource statement for Fadougou Main Zone

				PIR's attributable
May 2009	Tonnes	g/t Au	Total oz Au	oz Au (80%)
Measured	-	-	-	-
Indicated	2,772,097	3.14	280,776	224,621
Total Indicted	**2,772,097**	**3.14**	**280,776**	**224,621**
Inferred	3,626,456	3019	372,207	297,766
Total	**6,398,553**	**3.17**	**652,983**	**522,386**

Reported in accordance with SAMREC and JORC Code for mineral resource statements - calculated at a bottom cut-off grade of 1.0g/t and top cut-off of 80g/t

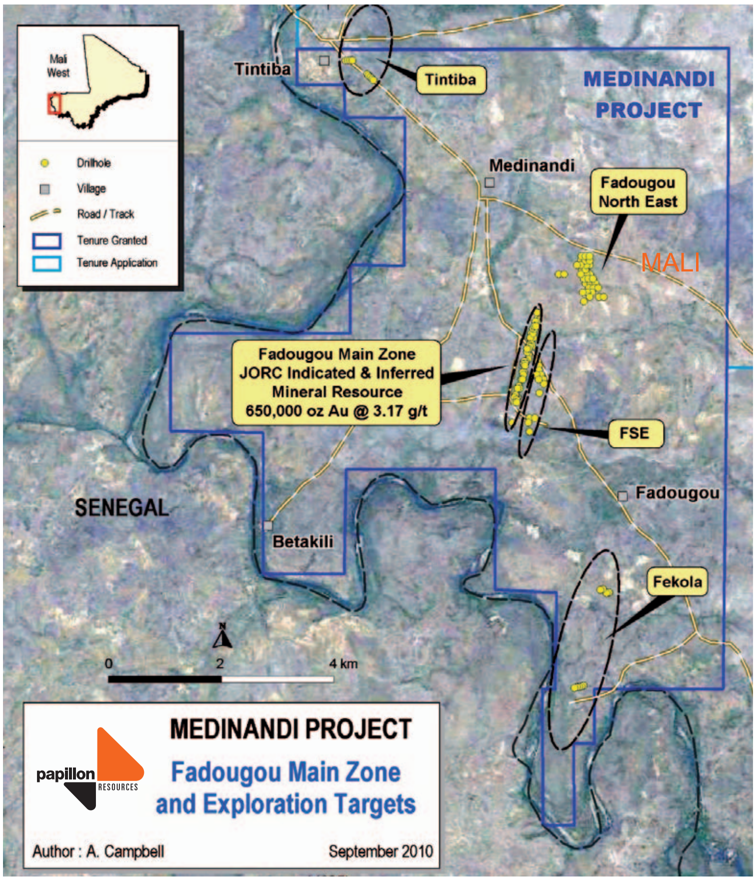
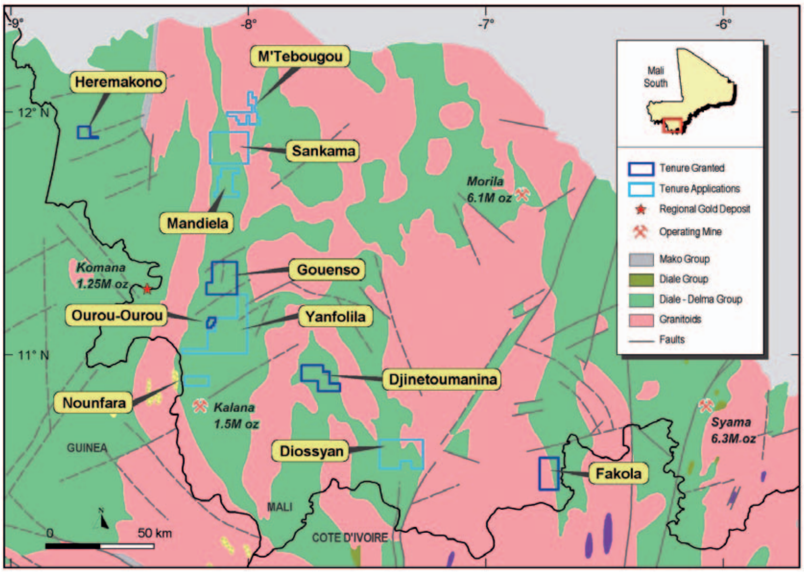


Figure 2:
Medinandi Project – Prospects



mali south

The Company has an extensive land holding in southern Mali (Figure 3: Mali South Tenements). All tenements are at the early stage exploration phase. More than 3,000 geochemical soil samples have been submitted for analysis, and interpretation of the results is in progress. Further exploration is proposed.

Figure 3: **Mali South Tenements**

Competent Persons Statement

Information in this report relates to exploration results or mineral resources are based on information compiled by Mr Stuart Hall who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Hall has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Hall consents to the inclusion in the report of the statements based on his information in the form and context in which it appears.

"Please note with regard to exploration targets, the potential quantity and grade is conceptual in nature, that there has been insufficient exploration to define a Mineral Resource and that it is uncertain if further exploration will result in the determination of a Mineral Resource."

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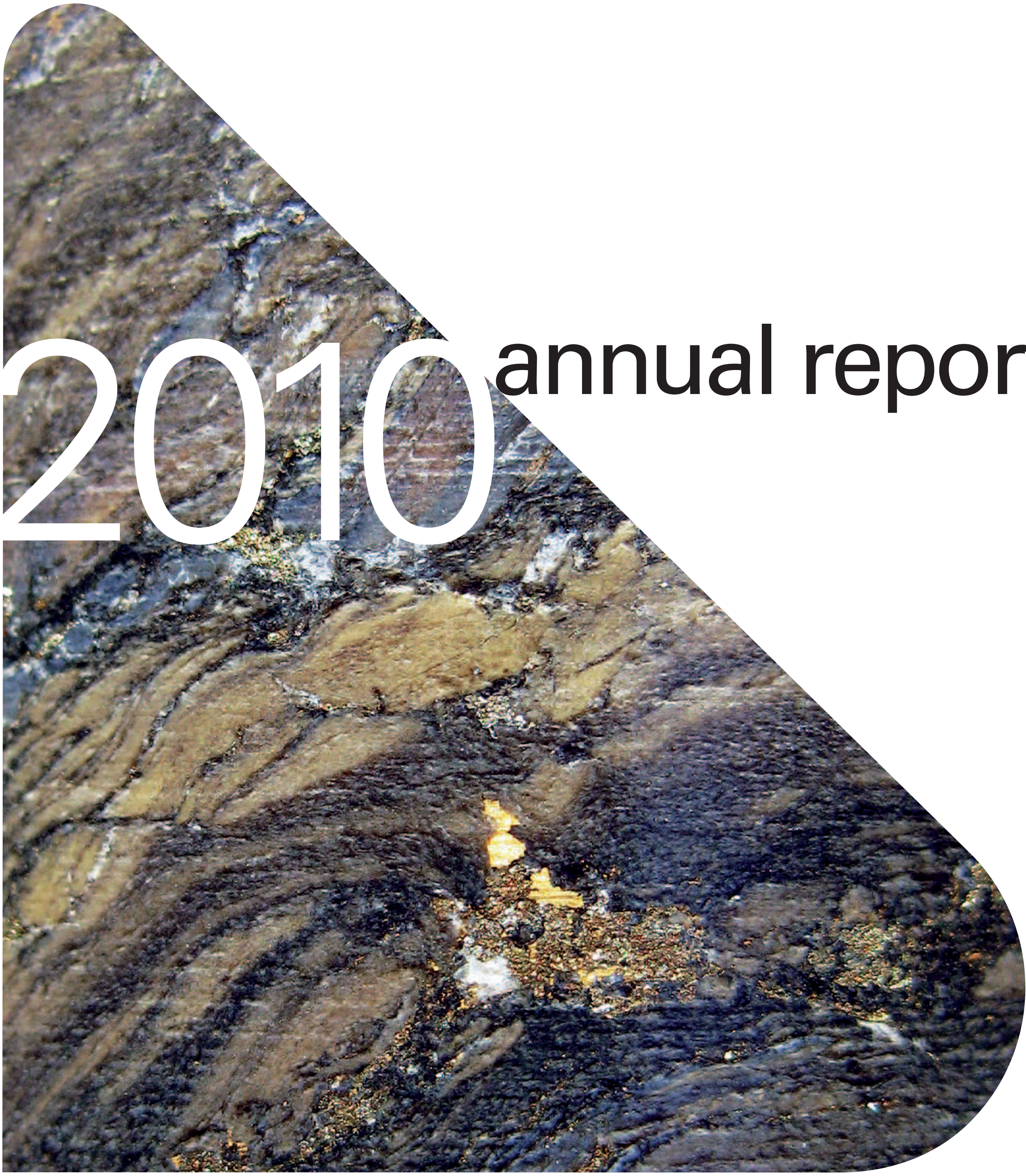
Level 21, Allendale Square, 77 St Georges Terrace PERTH WA 6000 AUSTRALIA | P.O. Box 5528 St. Georges Tce PERTH WA 6831 AUSTRALIA

papillon
RESOURCES

2010 annual report



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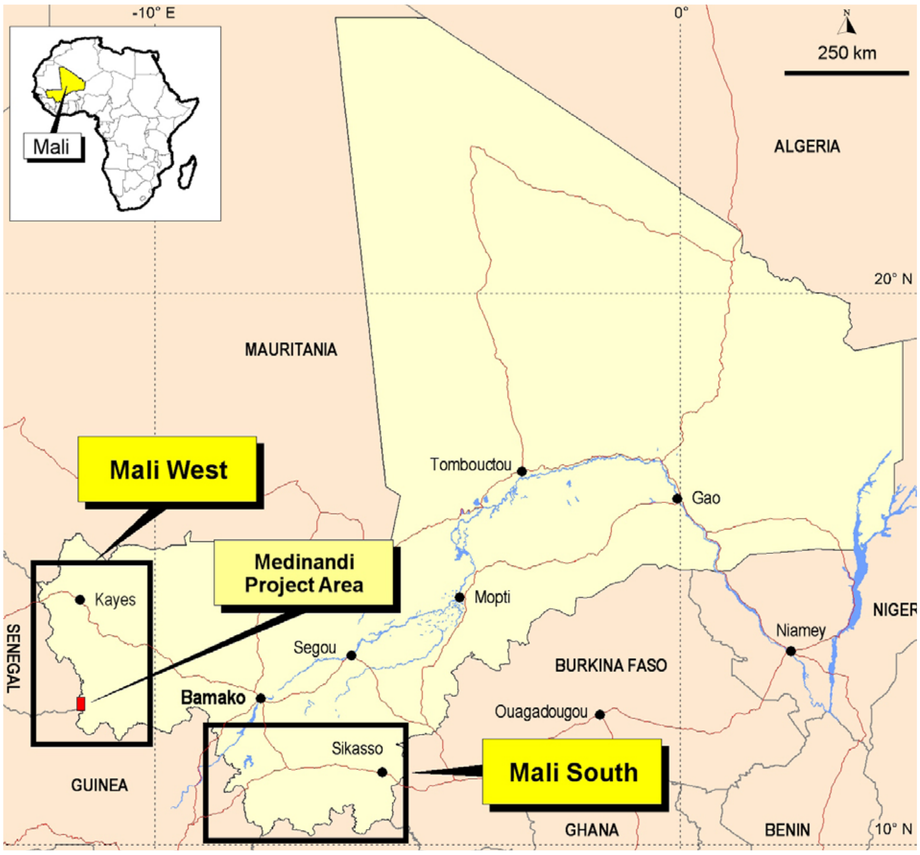

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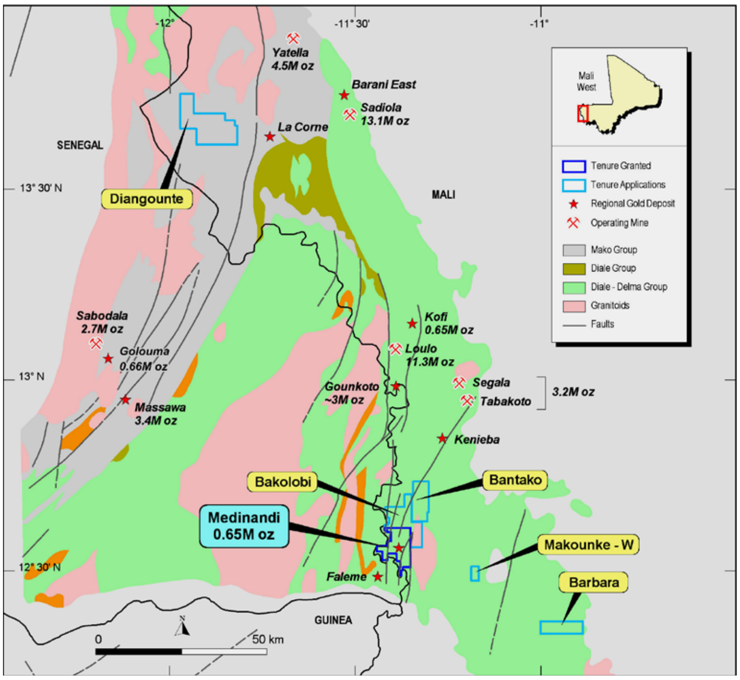

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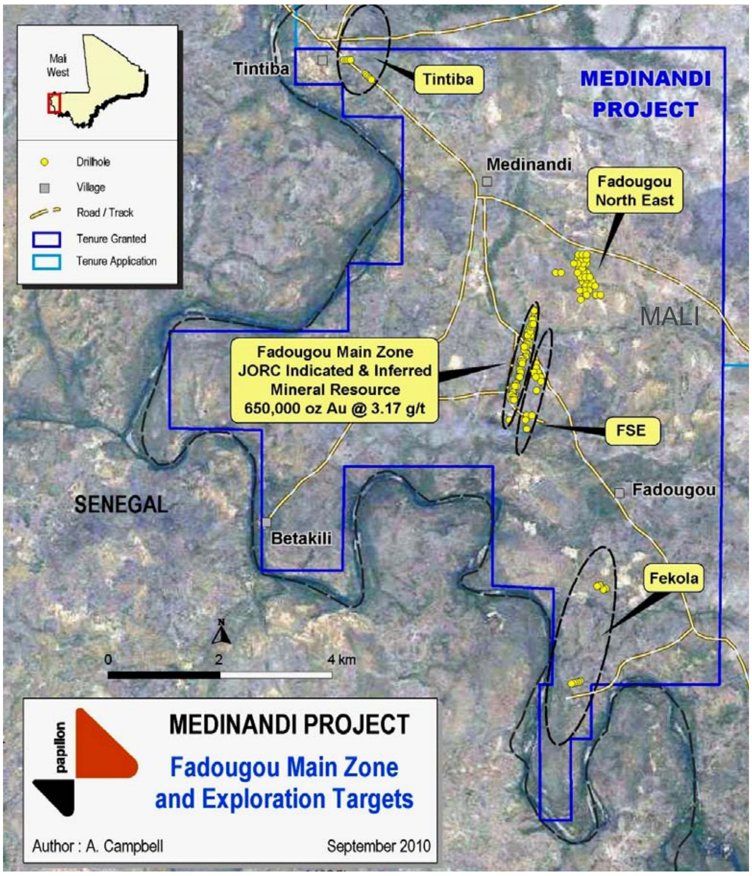

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Mineral resource statement for Fadougou Main Zone

May 2009	Tonnes	g/t Au	Total oz Au	PIR's attributable oz Au (80%)
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managing director's operations report (cont.)

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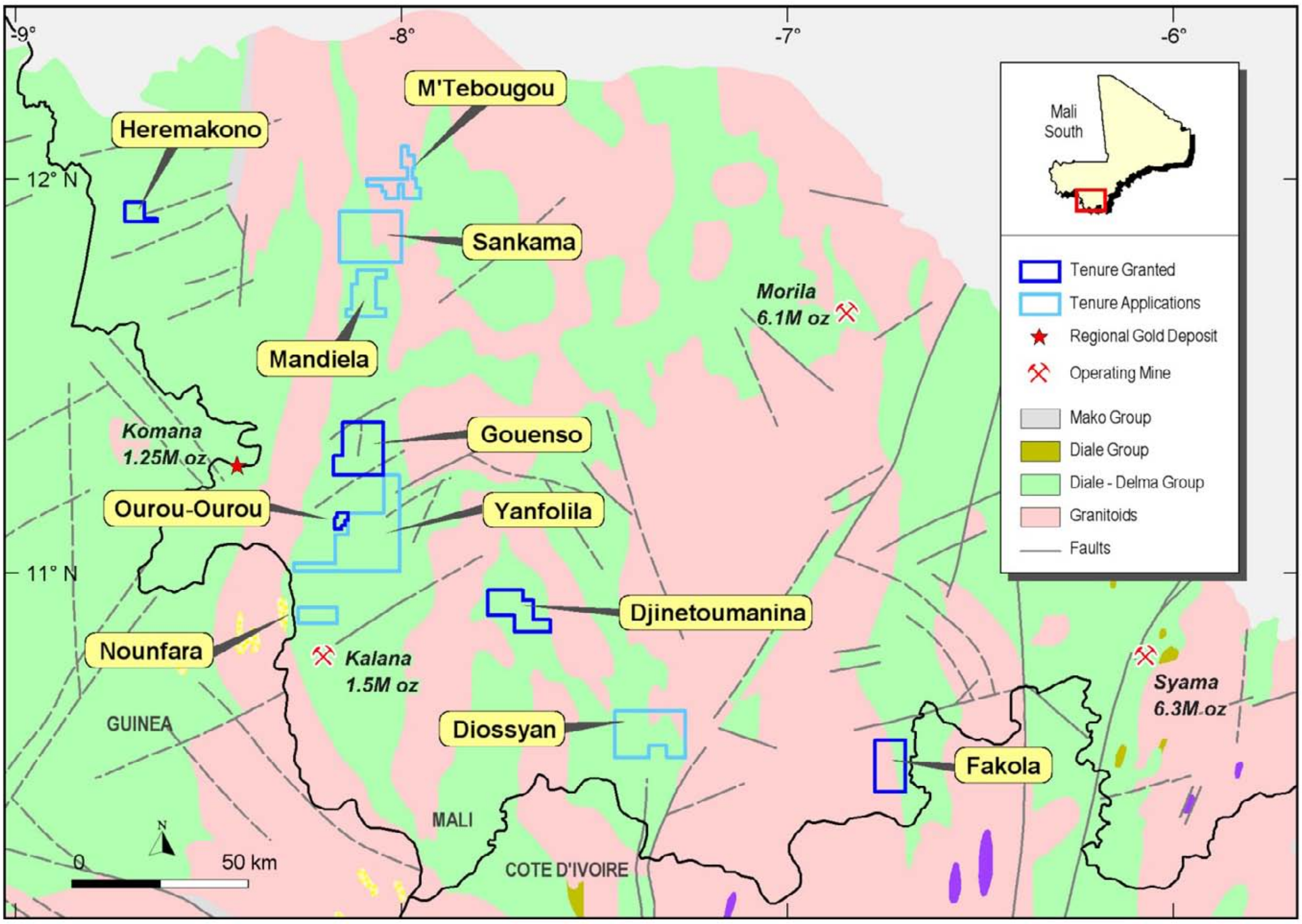

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"Please note with regard to exploration targets, the potential quantity and grade is conceptual in nature, that there has been insufficient exploration to define a Mineral Resource and that it is uncertain if further exploration will result in the determination of a Mineral Resource."

Directors' Report

Your Directors submit their report on the consolidated entity (referred to hereafter as the Group) consisting of Papillon Resources Limited and the entities it controlled at the end of, or during, the year ended 30 June 2010. The comparative information for the year ended 30 June 2009 is for the parent entity, Papillon Resources Limited, only.

DIRECTORS

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Where applicable, all current and former Directorships held in listed public companies over the last three years have been detailed below. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and social responsibilities

Jeremy David Shervington B.Juris. LLB.

Non-Executive Chairman

Appointed 11 May 2006

Mr Shervington operates a legal practice in Western Australia. He specialises in the laws regulating companies and the securities industry in Australia. Mr Shervington has 30 years' experience as a lawyer, gained since his admission as a Barrister and Solicitor of the Supreme Court of Western Australia. Mr Shervington has since 1985 served as a Director of various ASX listed companies as well as a number of unlisted public and private companies. Presently Mr Shervington also serves as a member of the Audit and Compliance Committee. During the past three years Mr Shervington has also served as a Director of the following other listed companies:

- Altera Resources Limited* - Appointed 8 August 2006
- Australian Zircon NL* - Appointed 16 February 1998
- Biron Apparel Limited - Appointed 17 February 2002; Retired 26 December 2006
- Prairie Downs Metals Limited* - Appointed 11 October 2002
- Emerald Oil & Gas NL* - Appointed 23 January 2006
- Horseshoe Metals Limited* - Appointed 14 December 2006
- Industrial Minerals Corporation Limited* - Appointed 17 February 2004
- Stirling Resources Limited* - Appointed 13 July 2009
- Groote Resources Limited (formerly Western Uranium Limited) - Appointed 11 May 2006; Retired 22 March 2010

** denotes current Directorship*

Alan Neville Campbell

Managing Director

Appointed 18 December 2009

Mr Campbell is a qualified geologist with a post graduate degree in business administration and a wealth of experience in the mining industry. Mr Campbell has held various leadership positions over a twenty year career with De Beers, one of the largest privately owned mining companies in the world. Initially working for De Beers Australia Exploration Limited Mr Campbell was transferred to De Beers Corporate Head Office in Johannesburg and was appointed Exploration Manager of De Beers India where he led teams that successfully discovered numerous kimberlites in highly prospective areas of India. During the past three years Mr Campbell has also served as a Director of the following other listed company:

- North Australian Diamonds Limited - Appointed 16 January 2006; Retired 9 February 2007

Directors' Report

Alec Christopher Pismiris B.Com. ICSA

Non-Executive Director (was an Executive Director from the beginning of the financial year until 3 June 2010)

Appointed 11 May 2006

Mr Pismiris is currently an Executive Director of Azure Capital Limited, a company which provides corporate advisory services. He is also the Company Secretary of several companies listed on ASX and Company Secretary of several public and private companies. Mr Pismiris completed a Bachelor of Commerce degree at the University of Western Australia and is an associate of Chartered Secretaries Australia. Mr Pismiris has over 22 years' experience in the securities, finance and mining industries. Presently Mr Pismiris also serves as a member of the Audit and Compliance Committee. During the past three years Mr Pismiris has also served as a Director of the following other listed companies:

- Prairie Downs Metals Limited* - Appointed 16 October 2002
- Horseshoe Metals Limited* - Appointed 31 May 2010
- Industrial Minerals Corporation Limited - Appointed 8 November 2006; Retired 22 April 2010
- Sundance Resources Limited - Appointed 5 July 2006; Retired 28 November 2008
- Groote Resources Limited (formerly Western Uranium Limited) - Appointed 11 May 2006; Retired 4 March 2010

** denotes current Directorship*

Stuart John Hall BSc Hons, FAusIMM, FGS

Non-Executive Director

Appointed 4 February 2009

Mr Hall is a qualified geologist with over 40 years experience in exploration and mining projects located in Australia and Africa. He has extensive experience in the areas of exploration strategy, mine geology, open pit and underground mining operations, resource/reserve estimations, reconciliation, feasibility, mine project development and mine management. Mr Hall has been involved in the feasibility, construction, commissioning and management of several open pit and underground mining operations. Mr Hall currently operates his own geological consultancy. During the past three years Mr Hall has also served as a Director of the following other listed companies:

- Prairie Downs Metals Limited* - Appointed 21 November 2008
- Gladiator Resources Limited* - Appointed 22 June 2010
- Groote Resources Limited (formerly Western Uranium Limited)* - Appointed 21 November 2008
- Horseshoe Metals Limited* - Appointed 18 January 2010

** denotes current Directorship*

COMPANY SECRETARY

Dennis Wilkins B.Bus, ACIS, AICD

Appointed 3 June 2010

Mr Wilkins is an accountant who has been a director, company secretary or acted in a corporate advisory capacity to listed resource companies for over 20 years. Mr Wilkins previously served as the Finance Director and Company Secretary for a mid tier gold producer and also spent five years working for a leading merchant bank in the United Kingdom. Resource postings to Indonesia, South Africa and New Zealand in managerial roles have broadened his international experience. Mr Wilkins has extensive experience in capital raising specifically for the resources industry and is the principal of DWCorporate Pty Ltd which provides advisory, funding and administrative management services to the resource sector.

Alec Pismiris was Company Secretary from the beginning of the financial year until 3 June 2010.

Directors' Report

Interests in the shares and options of the Company and related bodies corporate

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

	Ordinary Shares	Options over Ordinary Shares
Jeremy Shervington	8,179,216	5,840,907
Alan Campbell	1,200,000	4,525,000
Alec Pismiris	1,612,827	1,926,414
Stuart Hall	-	-

CORPORATE INFORMATION

Corporate Structure

Papillon Resources Limited is a company limited by shares that is incorporated and domiciled in Australia. Papillon has prepared a consolidated financial annual report incorporating entities it controlled during the financial year.

Principal Activities

The principal activities of the Group throughout the financial year have comprised of the following:

- The acquisition of an 80% equity interest in each of Mali Goldfields SARL and Songhoi Resources SARL ("Malian Assets"), companies registered in Mali;
- Exploration and evaluation for economic mineral reserves in the newly acquired Malian Assets;
- Investing cash assets in interest bearing bank accounts; and
- The general administration of the Group.

DIVIDENDS

No dividends were paid or declared during the financial year. No recommendation for payment of dividends has been made.

OPERATIONS AND HIGHLIGHTS

A Review of Operations is included on pages 2 to 6 in this report.

FINANCIAL REVIEW

The Group began the financial year with a cash reserve of $975,435. During March 2010 the Company completed an entitlements issue of 130,847,992 ordinary shares, with a free attaching listed option on a 1:2 basis, to raise $9,159,359 (before costs). The majority of the funds raised were applied to the purchase of an 80% equity interest in each of Mali Goldfields SARL and Songhoi Resources SARL.

The operating loss for the Group after income tax for the year ended 30 June 2010 was $1,919,061 (2009: $261,265). The increase in the loss was in line with expectations and reflected expenses associated with the acquisition of the Malian Assets and general administration of the Group.

At 30 June 2010 surplus funds available totalled $3,887,828.

Shareholder Returns

	2010	2009
Basic and diluted loss per share (cents)	**(3.3)**	(1.6)

Directors' Report

Risk Management

The Board takes a pro-active approach to risk management. The Board is responsible for ensuring that risks and also opportunities are identified on a timely basis and the Group's objectives and activities are aligned with the risks and opportunities identified by the Board.

The Company believes that it is crucial for all Board members to be a part of this process and as such has not established a separate risk management committee. Risk management is a recurring agenda item at meetings of the Board.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the Group during the financial year were as follows:

- During March 2010 the Company completed an entitlements issue of 130,847,992 ordinary shares, with a free attaching listed option on a 1:2 basis, to raise $9,159,359 (before costs).
- During March 2010 the Company completed the acquisition of an 80% equity interest in each of Mali Goldfields SARL and Songhoi Resources SARL ("Malian Assets"), companies registered in Mali.
- In satisfaction of a fee associated with the Malian Assets acquisition, the Company issued 5 million ordinary shares and 5 million unlisted options exercisable at 15 cents on or before 31 December 2011 during March 2010.
- During the year, a total of 3,170,746 ordinary shares were issued upon the exercise of options, raising $634,150.

The Directors are not aware of any other significant changes in the state of affairs that occurred during the financial year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Following a number of attempts to farm out tenement E37/324 El Dorado which was due to expire on 31 August 2010, Papillon made an application to the Department of Mines and Petroleum to surrender the tenement.

No other matter or circumstance, besides those disclosed at note 23, has arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Board of Directors intends to continue with development of the Malian Assets and evaluation of the other projects held by the Group. Directors will also seek to identify new investment opportunities in the resources sector that will compliment the Group's existing operations.

Further information on likely developments in the operations of the Group has not been included in this report because at this stage the Directors believe it would be likely to result in unreasonable prejudice to the Group.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

The Group aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with all environmental legislation. The Directors of the Group are not aware of any breach of environmental legislation for the year under review.

The Directors have considered the recently enacted National Greenhouse and Energy Reporting Act 2007 (the NGER Act) which introduces a single national reporting framework for the reporting and dissemination of information about greenhouse gas emissions, greenhouse gas projects, and energy use and production of corporations. At the current stage of development, the Directors have determined that the NGER Act will have no effect on the Group for the current, nor subsequent, financial year. The Directors will reassess this position as and when the need arises.

REMUNERATION REPORT

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

This Remuneration Report outlines the Director and Executive remuneration arrangements of Papillon Resources Limited and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purpose of this report Key Management Personnel ("KMP") of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major

Directors' Report

activities of the Company and the Group, directly or indirectly, including any Director (whether Executive or otherwise) of the Parent Company, and includes the five Executives in the Parent Company and the Group receiving the highest remuneration.

For the purposes of this report, the term 'Executive' encompasses the Chief Executive, senior Executives, general managers and secretaries of the Parent and the Group.

Details of Key Management Personnel

(i) Directors

Jeremy David Shervington	Chairman (Non-Executive)
Alan Neville Campbell	Managing Director (Executive)
Alec Christopher Pismiris	Director (Non-Executive)
Stuart John Hall	Director (Non-Executive)

(ii) Executives

Dennis William Wilkins	Company Secretary – appointed 3 June 2010
Richard Dahl	Exploration Manager, Mali – appointed 1 May 2010

There were no changes between financial year end and the date of signing this report to Key Management Personnel.

Remuneration Philosophy

The Board of Directors of Papillon Resources Limited is currently responsible for determining and reviewing compensation arrangements for the Directors and senior executives. The Board's remuneration policy has been implemented to ensure that the remuneration package properly reflects the person's duties and responsibilities, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. The policy seeks to provide remuneration and benefits that encourage high standards of performance and demonstrate the value the Company places on its officers by being equitable, consistent with individual performance and experience, and market competitive. Such officers are given the opportunity to receive their base emolument in a variety of forms. It is intended that the manner of payment chosen will be optimal for the recipient without creating any additional cost to the Company.

Principles used to determine the nature and amount of remuneration

The objective of the Company's remuneration policy for Directors and other Key Management Personnel is to ensure that:

- remuneration packages properly reflect the duties and responsibilities of the person concerned, and
- remuneration is competitive in attracting, retaining and motivating people of the highest quality.

The remuneration framework has regard to shareholders' interests by:

- focusing on sustained growth in share price, as well as focusing the executive on key non-financial drivers of value, and
- attracting and retaining high calibre executives.

The remuneration framework has regard to executives' interests by:

- rewarding capability and experience,
- providing a clear structure for earning rewards,
- providing recognition for contribution.

The remuneration policy is not currently linked to the Company's performance.

Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-Executive Director and senior Executive remuneration is separate and distinct.

Directors' Report

Non-Executive Director Remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a reasonable cost to shareholders.

Structure

The Constitution specifies that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed. The latest determination was in the constitution adopted on 11 May 2006 which approved an aggregate remuneration of $150,000 per year.

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

Each Director receives a fee for being a Director of the Company. Directors who are called upon to perform extra services beyond the Directors' ordinary duties may be paid additional fees for those services.

Non-executive Directors have long been encouraged by the board to hold shares in the Company. It is considered good governance for Directors to have a stake in the Company on whose board he or she sits. The Non-executive Directors of the Company can participate in the Employee Share Option Plan which provides incentives where specified criteria are met.

Executive Director and Senior Executive Remuneration

Objective

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- reward executives for company, business unit and individual performance to be determined by the Board;
- align the interests of executives with those of shareholders;
- ensure total remuneration is competitive by market standards.

Structure

In determining the level and make-up of executive remuneration, the Board obtains independent advice from external consultants on market levels of remuneration for comparable executive roles. It is the Board's policy that employment contracts are entered into with a prospective Managing Director and potential senior executives.

Fixed Remuneration

The level of fixed remuneration is set to provide a level of remuneration that is appropriate to the position and is competitive in the market. The fixed remuneration is reviewed annually by the Board with a review of individual performance, comparative remuneration in the market and external advice where appropriate.

Variable Remuneration – Short Term Incentives

Objective

The objectives of short term incentives are to link the achievement of the Company's future operational targets to be determined by the Board with the remuneration received by the executives charged with meeting those proposed targets. The short term incentives will be determined by the Board on an annual basis and are set at levels that provide sufficient incentive to executives to achieve proposed operational targets and such that the cost to the Company is reasonable in the circumstances.

Actual short term incentive payments to executives will be dependent on the extent to which future specific targets (refer to employment contracts details disclosed in this report) set at the beginning of future calendar years are met. It is envisaged that targets determined by the Board will consist of a number of key performance indicators covering financial and non-financial, corporate and individual measures of performance and include measures such as revenue, net profit, risk management and product management.

Directors' Report

The short term incentive payments for executives of the Company are subject to approval of the Board and are delivered as a cash bonus in the following calendar year.

There is no policy for limiting at risk remuneration.

Variable Remuneration – Long Term Incentives

Objective

The objectives of long term incentives are to:

- recognise the ability and efforts of the Directors, employees and consultants of the Company who have contributed to the success of the Company and to provide them with rewards where deemed appropriate;
- provide an incentive to the Directors, employees and consultants to achieve the long term objectives of the Company and improve the performance of the Company; and
- attract persons of experience and ability to employment with the Company and foster and promote loyalty between the Company and its Directors, employees and consultants.

Structure

Long term incentives granted to senior executives will be delivered in the form of options issued under an Employee Share Option Plan to be adopted during the financial period. At the commencement of each financial year, the Company and each senior executive agree upon a set of financial and non-financial objectives related to the senior executive's job responsibilities. The objectives vary but all are targeted to relate directly to the Company's business and financial performance and thus to shareholder value.

Company Performance

It is not possible at this time to evaluate the Company's financial performance using generally accepted measures such as profitability, total shareholder return or peer company comparison as the Company is at a very early stage in the implementation of the corporate strategy. This assessment will be developed over the next few years.

The table below shows the gross revenue, losses and earnings per share for the last four years for the Group.

	2010	2009	2008	2007
	$	$	$	$
Revenue and other income	**75,272**	59,876	99,147	52,902
Net loss	**(1,858,910)**	(261,265)	(1,358,546)	(506,740)
Loss per share (cents)	**(3.2)**	(1.6)	(8.5)	(8.7)
Share price at year end	**0.13**	0.05	0.10	0.25

No dividends have been declared during these periods.

Relationship of Reward and Performance

The value of options will represent a significant portion of an Executive's salary package. The ultimate value to the Executives of the options depends on the share price of Papillon Resources Limited. The share price is the key performance criteria for the long term incentive as the realised value arising from options issued is dependent upon an increase in the share price to above the exercise price of the options.

Short Term Incentive to Performance

The objective of the shorter term incentive plan is to reward Executives in a manner which aligns reward with the creation of shareholder wealth. As such this reward is only made to Executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance.

Long Term Incentive to Performance

The objective of the long term incentive plan is to reward Executives in a manner which aligns reward with the creation of shareholder wealth. As such this reward is only made to Executives who are able to influence the generation of shareholder wealth and thus have a direct impact

Directors' Report

on the Company's performance.

Long term incentives are delivered in the form of options. There are no performance conditions relating to the options, however the strike price of options are determined so as to ensure that the options only have value if there is an increase in shareholder wealth over time.

Remuneration of Key Management Personnel

	Short-Term		Post Employment	Share-based Payments	Total	Remuneration Consisting of Options
	Salary & Fees	Non Monetary	Superannuation	Options		
	$	$	$	$	$	%
Non-Executive Directors						
Jeremy Shervington						
2010	**60,000**	**-**	**-**	**-**	**60,000**	**-**
2009	60,000	-	-	-	60,000	-
Alec Pismiris						
2010	**69,400**	**-**	**-**	**-**	**69,400**	**-**
2009	72,000	-	-	-	72,000	-
Stuart Hall						
2010	**36,000**	**-**	**-**	**-**	**36,000**	**-**
2009	14,367	-	-	-	14,367	-
Alan Coulthard (appointed 8 October 2008, resigned 4 February 2009)						
2009	11,638	-	-	-	11,638	-
Mark Hansen (resigned 2 October 2008)						
2009	9,194	-	827	-	10,021	-
Executive Directors						
Alan Campbell (appointed 18 December 2009)						
2010	**145,000**	**-**	**7,231**	**44,915**	**197,146**	**22.8**
Other key management personnel						
Dennis Wilkins (Company Secretary, appointed 3 June 2010)						
2010	**1,222**	**-**	**-**	**-**	**1,222**	**-**
Richard Dahl (Exploration Manager, Mali, appointed 1 May 2010)						
2010	**42,819**	**-**	**-**	**-**	**42,819**	**-**
Total key management personnel compensation						
2010	**354,441**	**-**	**7,231**	**44,915**	**406,587**	
2009	167,199	-	827	-	168,026	

Directors' Report

Employment Contracts

Managing Director and CEO/COO (Mr Alan Campbell)

- Term of agreement – 2 years commencing 18 December 2009.
- Base salary, exclusive of superannuation, of $250,000 to be reviewed annually by the Board. A welcome bonus of $20,000 was also paid on signing of the employment agreement but is to be repaid if the agreement is terminated without cause within 12 months of commencement.
- Mr Campbell will be entitled to receive the following short term incentives:
  - a cash bonus of $100,000 to be paid out following a successful pre-feasibility study on a 100,000 oz per year gold operation based on a 1 million oz reserve in the proven and probable categories with a minimum 50% in the proven category; and
  - a $100,000 cash bonus for completion of a successful bankable feasibility study is appropriate.
- The agreement may be terminated by either party with 3 months written notice. If the agreement is terminated without cause by the Company an amount equal to 12 months total remuneration is payable.

Exploration Manager, Mali (Mr Richard Dahl)

- Term of agreement – 2 years commencing 1 May 2010.
- Base salary, exclusive of superannuation, of US$160,000 to be reviewed annually by the Board. A welcome bonus of US$10,000 was also paid on signing of the employment agreement but is to be repaid if the agreement is terminated without cause within 12 months of commencement.
- Mr Dahl will be entitled to receive an annual short term incentive payment dependent upon achievement of KPI's, which will be reviewed annually, of up to 25% of the annual salary. His primary objective for his first year of employment is to define sufficient resource/reserve for economic development to produce 100,000 ounces per year for 10 years, eg 10mt @ 3.2gpt, through drilling, mapping and other exploration activities, and management of explorations costs.
- The agreement may be terminated by either party with 3 months written notice. If the agreement is terminated without cause by the Company an amount equal to 12 months total remuneration is payable.

Share-based compensation

Options are issued to Directors and Executives as part of their remuneration. The following options were granted to key management personnel during the year however, there were no options forfeited during the year:

	Grant Date	Granted Number	Vested Number	Date vesting and exercisable	Expiry Date	Exercise Price (cents)	Value per option at grant date (cents)(1)	Exercised Number	% of Remuneration
Directors									
Alan Campbell	24/06/2010	1,000,000	(2)	05/07/2010	31/12/2012	15	7.5	N/A	20.6
Alan Campbell	24/06/2010	1,000,000	(2)	05/01/2011	31/12/2012	15	7.5	N/A	1.2
Alan Campbell	24/06/2010	1,000,000	(2)	05/07/2011	31/12/2012	15	7.5	N/A	0.6
Alan Campbell	24/06/2010	1,000,000	(2)	05/01/2012	31/12/2012	15	7.5	N/A	0.4

(1) The value at grant date in accordance with AASB 2: Share Based Payments of options granted during the year as part of remuneration.

(2) The terms and conditions of the above options are such that they will only vest if the share price of the Company is 25 cents on a 10 day volume weighted average basis. Additionally, the options are also subject to performance vesting conditions, being 4 equal tranches vesting on issue date, 6 months, 12 months and 18 months after issue. The issue date of the options was 5 July 2010. The total fair value of the options granted is $298,000.

Shares Issued on Exercise of Compensation Options

No shares were issued on the exercise of compensation options during the year.

This is the end of the audited Remuneration Report.

Directors' Report

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of Committees of Directors) held during the year and the number of meetings attended by each Director were as follows:

	Board of Directors	
	Attended	Eligible to Attend
Jeremy Shervington	5	6
Alan Campbell	5	5
Alec Pismiris	6	6
Stuart Hall	5	6

As at the date of this report the Company has no Committee's in place.

SHARES UNDER OPTION

At the date of this report there are 85,753,274 unissued ordinary shares in respect of which options are outstanding.

	Number of options
Balance at the beginning of the year	13,200,000
Movements of share options during the year	
Issued, exercisable at $0.20, on or before 31 December 2012	66,924,020
Issued, exercisable at $0.15, on or before 31 December 2011	5,000,000
Exercised at $0.20, on or before 31 December 2010	(3,170,746)
Cancelled, exercisable at $0.45, on or before 1 December 2011	(200,000)
Total number of options outstanding as at 30 June 2010	81,753,274
Movements subsequent to year end:	
Issued, exercisable at $0.15, on or before 31 December 2012	4,000,000
Total number of options outstanding as at the date of this report	85,753,274
The balance is comprised of the following:	

Expiry date	Exercise price	Number of options
31 December 2010	$0.20	9,829,254
31 December 2011	$0.15	5,000,000
31 December 2012	$0.15	4,000,000
31 December 2012	$0.20	66,924,020
Total number of options outstanding at the date of this report		85,753,274

No person entitled to exercise any option referred to above has or had, by virtue of the option, a right to participate in any share issue of any other body corporate.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Company has entered into Deeds of Indemnity with the Directors indemnifying them against certain liabilities and costs to the extent permitted by law.

The Group has paid premiums totalling $8,198 (2009: $9,625) in respect of Directors' and Officers' Liability Insurance and Company Reimbursement policies, which cover all Directors and officers of the Group against liabilities to the extent permitted by the *Corporations Act 2001.* The policy conditions preclude the Group from any detailed disclosures.

Directors' Report

NON AUDIT SERVICES

Non-audit services provided by our auditors, BDO Audit (WA) Pty Ltd, and their related entities, are set out below. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

BDO Audit (WA) Pty Ltd and their related entities received or are due to receive the following amounts for the provision of non-audit services:

	2010	2009
	$	$
BDO Audit (WA) Pty Ltd:		
Consulting and Annual General Meeting attendance fees	**5,254**	2,977
Related entity of BDO Audit (WA) Pty Ltd:		
Income tax return	**2,250**	-
	7,504	2,977

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 12.

Signed in accordance with a resolution of the Directors, and on behalf of the Board by:

Alan Campbell

Managing Director

Perth, 30 September 2010

Audit Independence Declaration

BDO

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Fax: +8 6382 4601
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38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

30th September 2010

Papillon Resources Limited
The Directors
Level 21, Allendale Square
77 St Georges Tce
PERTH WA 6000

Dear Sirs,

DECLARATION OF INDEPENDENCE BY BRAD MCVEIGH TO THE DIRECTORS OF PAPILLON RESOURCES LIMITED

As lead auditor of Papillon Resources Limited for the year ended 30/06/2010, 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
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Papillon Resources Limited and the entities it controlled during the period.

Brad McVeigh
Director

BDO

BDO Audit (WA) Pty Ltd
Perth, Western Australia

Corporate Governance Statement

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Papillon Resources Limited adhere to strict principles of corporate governance.

The Board of Directors of Papillon Resources Limited is responsible for the overall corporate governance of the Company, guiding and monitoring the business and affairs of Papillon Resources Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Corporate Governance Statement is structured with reference to the Australian Stock Exchange Corporate Governance Council's ("Council") "Principles of Good Corporate Governance and Best Practice Recommendations". In accordance with the recommendations of the Council, the Corporate Governance Statement must now contain certain specific information and must disclose the extent to which the Company has followed the guidelines during the period. Where a recommendation has not been followed, that fact must be disclosed, together with the reasons for the departure. Papillon's Corporate Governance Statement has been structured with reference to the Council's principles and recommendations. The following is a summary of Papillon's adherence to the Council's principles and recommendations:

Principle 1. **Lay solid foundations for management and oversight**

Papillon largely complies with this recommendation except the Board and senior management of Western actively participate in the operations of the Company due to the nature of the Company's current operations.

Principle 2. **Structure the Board to add value**

Papillon complies with this recommendation.

Principle 3. **Promote ethical and responsible decision making**

Papillon complies with this recommendation.

Principle 4. **Safeguard integrity in financial reporting**

Papillon does not comply with this recommendation of having at least three Non-Executive Directors on the Audit Committee. Papillon is a small Company with limited resources that does not have an operating business. Papillon's Audit and Compliance Committee is comprised of two Non-Executive Directors.

Principle 5. **Make timely and balanced disclosure**

Papillon complies with this recommendation.

Principle 6. **Respect the rights of shareholders**

Papillon complies with this recommendation.

Principle 7. **Recognise and manage risk**

Papillon complies with this recommendation.

Principle 8. **Remunerate fairly and responsibly**

Papillon complies with this recommendation except that it has not established a Remuneration Committee. The objective of granting options is to ensure maximum stakeholder benefit is achieved from the retention of a high quality Board and to provide incentive for Directors to identify new commercial opportunities for the Company.

The Papillon Resources Ltd corporate governance policies and procedures are largely consistent with the Council's best practice recommendations. The process to achieve consistency with the Council's recommendations are gradual and where the Company's corporate governance practices do not correlate with the practices recommended by the Council, the Company does not consider that the practices are appropriate for the Company due to the scale and nature of the Company's operations.

To illustrate where the Company has addressed each of the Council's recommendations, the following table cross-references each recommendation with sections of this report. The table does not provide the full text of each recommendation but rather the topic covered.

Corporate Governance Statement

Recommendation	Section
Recommendation 1.1 Functions of the Board and Management	1.1
Recommendation 1.2 Senior Executive Evaluation	1.3
Recommendation 1.3 Reporting on Principle 1	2.5
Recommendation 2.1 Independent Directors	1.2
Recommendation 2.2 Independent Chair	1.2
Recommendation 2.3 Role of the Chair and CEO	Not Applicable
Recommendation 2.4 Establishment of Nomination Committee	2.3
Recommendation 2.5 Board and Individual Director Evaluation	1.4.10
Recommendation 2.6 Reporting on Principle 2	The Directors' Report
Recommendation 3.1 Code of Conduct	2.4
Recommendation 3.2 Company Securities Trading Policy	1.4.9
Recommendation 3.3 Reporting on Principle 3	1.1
Recommendation 4.1 Establishment of Audit Committee	2.1
Recommendation 4.2 Structure of the Audit Committee	2.1
Recommendation 4.3 Audit Committee Charter	2.1
Recommendation 4.4 Reporting on Principle 4	2.1
Recommendation 5.1 Policy for Compliance with Continuous Disclosure	1.4.4
Recommendation 5.2 Reporting on Principle 5	2.5
Recommendation 6.1 Communications Strategy	1.4.8 and 2.5
Recommendation 6.2 Reporting on Principle 6	1.4.8 and 2.5
Recommendation 7.1 Policies on Risk Oversight and Management	2.1
Recommendation 7.2 Risk Management Report	1.4.10
Recommendation 7.3 CEO and CFO Assurance	1.4.10
Recommendation 7.4 Reporting on Principle 7	2.4
Recommendation 8.1 Establishment of Remuneration Committee	2.2
Recommendation 8.2 Executive and Non-Executive Director Remuneration	2.2
Recommendation 8.3 Reporting on Principle 8	2.2

1. Board of Directors

1.1 Role of the Board

The Board's current role is to collectively govern and manage the Company. The Directors must act in the best interests of the Company as a whole. It is the role of the Board to govern and manage the Company in accordance with the stated objectives of the Company.

In carrying out its governance role, the main task of the Board is to drive the performance of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the Company.

To assist the Board carry out its functions, it has developed a Code of Conduct to guide the Directors in the performance of their roles.

1.2 Composition of the Board

To add value to the Company, the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties. The names of the Directors and their qualifications and experience are stated on pages 3 and 4 in the Directors' Report. Directors are appointed based on their experience and on the independence of their decision-making and judgment.

Corporate Governance Statement

The Company's Constitution provides for the appointment of a minimum number of Directors as three and up to a maximum of seven. Currently the Company has four Directors comprising two Executive Directors. The Constitution does not require a shareholding qualification for Directors.

The Company recognises the importance of Non-executive Directors and the external perspective and advice that Non-executive Directors can offer. Mr Shervington is a Non-Executive Director and meets the following criteria for independence adopted by the Company.

An independent Director:

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

Up until 18 August 2008, Mr Hansen held the position of Technical Director and was responsible for management of the Company, negotiating joint venture and other arrangements with third parties, advising the Board on the strategic direction of the Company, assessing new opportunities and risks and monitoring the operating performance of the Company and therefore did not meet the Company's criteria for independence.

Up until 3 June 2010 Mr Pismiris was an Executive Director and also held the position of Company Secretary. Mr Pismiris was responsible for the overall administration and financial management of the Company and therefore did not meet the Company's criteria for independence.

1.3 Responsibilities of the Board

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following:

(i) Leadership of the organisation: overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board, management and employees.

(ii) Strategy formulation: working to set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company.

(iii) Overseeing planning activities: overseeing the development of the Company's strategic plan and approving that plan as well as the annual and long-term budgets.

(iv) Shareholder liaison: ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company.

(v) Monitoring, compliance and risk management: overseeing the Company's risk management, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Company.

(vi) Company finances: approving expenses in excess of those approved in the annual budget and approving and monitoring acquisitions, divestitures and financial and other reporting.

(vii) Human resources: appointing, and, where appropriate, removing the Managing Director/Chief Executive Officer and Chief Financial Officer as well as reviewing their performance and monitoring the performance of senior management in their implementation of the Company's strategy.

(viii) Ensuring the health, safety and well-being of employees: in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees.

Corporate Governance Statement

(ix) Delegation of authority: where appropriate delegating appropriate powers to the Company's Executives to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of any Committees of the Board.

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following.

1.4 Board Policies

1.4.1 Conflicts of Interest

Directors must disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the Company and if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or is unwilling to remove a conflict of interest then the Director must, as per the Corporations Act, absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.

1.4.2 Commitments

Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Company.

1.4.3 Confidentiality

In accordance with legal requirements and agreed ethical standards, Directors of the Company have agreed to keep confidential, information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

1.4.4 Continuous Disclosure

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the ASX Listing Rules, the Company immediately notifies the ASX of information:

- Concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- That would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

Upon confirmation of receipt from the ASX, the Company is able to publish the information in accordance with this policy.

1.4.5 Education and Induction

New Directors undergo an induction process in which they are given a full briefing on the Company. Information conveyed to new Directors includes:

- Details of the roles and responsibilities of a Director with an outline of the qualities required to be a successful Director;
- Formal policies on Director appointment as well as conduct and contribution expectations;
- Details of all relevant legal requirements;
- A copy of the Board Charter;
- Guidelines on how the Board processes function;
- Details of past, recent and likely future developments relating to the Board including anticipated regulatory changes;
- Background information on and contact information for key people in the organisation including an outline of their roles and capabilities;
- An analysis of the Company;
- A synopsis of the current strategic direction of the Company including a copy of the current strategic plan and annual budget; and
- A copy of the Constitution of the Company.

1.4.6 Independent Professional Advice

The Board collectively and each Director has the right to seek independent professional advice at the Company's expense, up to specified limits, to assist them to carry out their responsibilities.

Corporate Governance Statement

1.4.7 Related Party Transactions

Related party transactions include any financial transaction between a Director and the Company and will be reported in writing to each Board meeting. Unless there is an exemption under the Corporations Act from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

1.4.8 Shareholder Communication

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

(i) Communicating effectively with shareholders through releases to the market via ASX, information mailed to shareholders and the general meetings of the Company;
(ii) Giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
(iii) Making it easy for shareholders to participate in general meetings of the Company; and
(iv) Requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company also makes available a telephone number and for shareholders to make enquiries of the Company.

1.4.9 Trading in Company Shares

The Company has a Share Trading Policy under which Directors are required to discuss their intention to trade in the Company's securities with the Chairman prior to trading. Consideration will be given in these discussions to any special circumstances (eg financial hardship).

Directors must not trade in the shares of any other entity if inside information on such entity comes to the attention of the Director by virtue of holding office as a Director of the Company.

The following guidelines are to be observed by Directors and employees of Papillon:

- Securities may be purchased or sold during the two week period immediately following the release of Papillon's, half-yearly and final results ("results announcements") (subject to observing the additional approval requirements set out below).
- Securities should not be purchased or sold during the two week period preceding any results announcements.
- Securities should not be purchased or sold preceding any material ASX announcement by Papillon, if the employee is aware that it is likely that such an announcement will be made.
- Securities should not be purchased or sold for the purpose of short term speculation.
- Securities may be purchased or sold at other times (subject to additional disclosure requirements established by the Board).

In addition, consistent with the law, designated officers are prohibited from trading in the Company's securities while in the possession of unpublished price sensitive information concerning the Company. Unpublished price sensitive information is information regarding the Company of which the market is not aware and that a reasonable person would expect to have a material effect on the price or value of the Company's securities.

Notice of an intention to trade must be given prior to trading in the Company's securities as well as a confirmation that the person is not in possession of any unpublished price sensitive information. The completion of any such trade by a Director must also be notified to the Company Secretary who in turn advises the ASX.

1.4.10 Performance Review/Evaluation

The Board intends to conduct an evaluation of its performance annually. There was no evaluation conducted during the financial year.

1.4.11 Attestations by Company Secretary

In accordance with the Board's policy, the Company Secretary is required to make the attestations recommended by the ASX Corporate Governance Council as to the Company's financial condition prior to the Board signing this Annual Report.

2. Board Committees

2.1 Audit & Compliance Committee

On 24 September the Board resolved to adopt an Audit and Compliance Committee which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the Company to deal with the effectiveness

Corporate Governance Statement

and efficiency of business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information. The Board has delegated the responsibility for the establishment and maintenance of the internal control framework and ethical standards to the Audit and Compliance Committee. The Committee's responsibilities include the following:

- Oversee and appraise the independence, quality and extent of the total audit effort;
- Perform an independent overview of the financial information prepared by Company management for shareholders and prospective shareholders;
- Evaluate the adequacy and effectiveness of the Company's and the Group's risk management and financial control, and other internal control systems and evaluate the operation thereof; and
- Review and endorse the annual and half year attestation statements in accordance with regulatory requirements.
- The appointment of external auditors.
- Review and implement risk management and internal control structures appropriate to the needs of Papillon.
- Monitor compliance issues applicable laws and regulations, particularly compliance with the Stock Exchange Listing Rules;
- Review all public releases to the ASX of material consequence, prior to release to the market; and
- Review of Corporate Governance Practices.

The members of the Audit and Compliance Committee at its inception were Messrs A C Pismiris and S J Hall.

The qualifications of Audit and Compliance Committee members are as follows:

Alec Christopher Pismiris (B Com, ICSA) is Chairman of the Audit and Compliance Committee and has significant experience in the management and administration of Prairie Downs Metals Limited since his appointment as a Director and Company Secretary in May 2006. He is also a Director and Company Secretary of a number of public companies where as part of his role, he serves as Financial Controller. Mr Pismiris is an Associate of the Chartered Secretaries & Administrators. He is chairman of the Audit and Compliance Committee.

Stuart John Hall (BSc Hons, FAusIMM, FGS) is a qualified geologist with over 40 years experience in exploration and mining projects located in Australia and Africa. He has extensive experience in the areas of exploration strategy, mine geology, open pit and underground mining operations, resource/reserve estimations, reconciliation, feasibility, mine project development and mine management. Mr Hall has been involved in the feasibility, construction, commissioning and management of several open pit and underground mining operations.

2.2 Remuneration Committee

The Directors have elected not to appoint a Remuneration Committee due to the scale and nature of the Company's activities.

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board by remunerating Directors fairly and appropriately with reference to relevant market conditions. To assist in achieving this objective, the Board attempts to link the nature and amount of Directors' emoluments to the Company's performance. The outcome of the remuneration structure is:

- Reward Executives for Company and individual performance against appropriate benchmarks;
- Align the interests of the Executives with those of shareholders;
- Link reward with the strategic goals and performance of the Company; and
- Ensure remuneration is comparable to market standards.

For details of the amount of remuneration and all monetary and non-monetary components for each of the Directors during the financial year, refer to page 8 of the Directors' Report.

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

For further information in relation to the remuneration of Directors, refer to the Directors' Report.

2.3 Nomination Committee

The Directors have elected not to appoint a Nomination Committee due to the scale and nature of the Company's activities.

Subject to the provision of the Company's Constitution, the issues of Board composition and selection criteria for Directors are dealt with by the full Board. The Board continues to have the mix of skills and experience necessary for the conduct of the Company's activities.

The Constitution provides for events whereby Directors may be removed from the Board. Similarly shareholders have the ability to nominate, appoint and remove Directors. In addition, the Constitution provides for the regular rotation of Directors which ensures that Directors seek reelection by shareholders at least once every three years.

Given these existing regulatory requirements, Directors are not appointed for a specified term and Directors' continuity of service is in the hands of shareholders.

2.4 Company Code Of Conduct

As part of its commitment to recognising the legitimate interests of stakeholders, the Company has established a Code of Conduct to guide compliance with legal and other obligations to legitimate stakeholders. These stakeholders include employees, clients, customers, government authorities, creditors and the community as whole.

This Code includes the following:

Responsibilities to Shareholders and the Financial Community Generally

The Company complies with the spirit as well as the letter of all laws and regulations that govern shareholders' rights. The Company has processes in place designed to ensure the truthful and factual presentation of the Company's financial position and prepares and maintains its accounts fairly and accurately in accordance with the generally accepted accounting and financial reporting standards.

Responsibilities to Clients, Customers and Consumers

Each employee has an obligation to use their best efforts to deal in a fair and responsible manner with each of the Company's clients, customers and consumers. The Company for its part is committed to providing clients, customers and consumers with fair value.

Employment Practices

The Company endeavours to provide a safe workplace in which there is equal opportunity for all employees at all levels of the Company. The Company does not tolerate the offering or acceptance of bribes or the misuse of Company assets or resources.

Obligations Relative to Fair Trading and Dealing

The Company aims to conduct its business fairly and to compete ethically and in accordance with relevant competition laws. The Company strives to deal fairly with the Company's customers, suppliers, competitors and other employees and encourages it employees to strive to do the same.

Responsibilities to the Community

As part of the community the Company is committed to conducting its business in accordance with applicable environmental laws and regulations and encourages all employees to have regard for the environment when carrying out their jobs.

Responsibility to the Individual

The Company is committed to keeping private information collected during the course of its activities, confidential and protected from uses other than those for which it was provided.

Conflicts of Interest

Employees and Directors must avoid conflicts as well as the appearance of conflicts between personal interests and the interests of the Company.

How the Company Complies with Legislation Affecting its Operations

Within Australia, the Company strives to comply with the spirit and the letter of all legislation affecting its operations. Outside Australia, the Company will abide by local laws in all countries in which it operates. Where those laws are not as stringent as the Company's operating policies, particularly in relation to the environment, workplace practices, intellectual property and the giving of "gifts", Company policy will prevail.

How the Company Monitors and Ensures Compliance with its Code

The Board, management and all employees of the Company are committed to implementing this Code of Conduct and each individual is accountable for such compliance. Disciplinary measures may be imposed for violating the Code.

Corporate Governance Statement

2.5 Shareholder Communication

The Board aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated to shareholders as follows:

- The Annual Financial Report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document). The Board ensures that the annual report includes relevant information about the operations of the Company during the financial year, changes in the state of affairs of the Company and details of future developments, in addition to other disclosures required by the *Corporations Act 2001*;
- developments, in addition to other disclosures required by the Corporations Act 2001;
- Release of a Half-Yearly Report to the Australian Stock Exchange Limited;
- The Company's website at www.papillonresources.com.au; and
- Proposed major changes in the economic entity which may impact on share ownership rights are submitted to a vote of shareholders.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. Shareholders are responsible for voting on appointment of Directors, appointment of auditors, level of remuneration of Non-Executive Directors and any matters of special business.

Consolidated Statement of Comprehensive Income

Year Ended 30 June 2010

	Notes	Consolidated	
		2010	2009
		$	$
REVENUE	4	**75,272**	59,876
EXPENDITURE			
Administration and corporate expenses		**(632,303)**	(306,308)
Depreciation expense		**(13,063)**	-
Employment expenses		**(328,241)**	-
Impairment of deferred exploration expenditure		**(7,545)**	(11,794)
Impairment of goodwill	21	**(466,771)**	-
Other expenses		**(36,495)**	-
Share based payments	26	**(509,915)**	(3,039)
LOSS BEFORE INCOME TAX		**(1,919,061)**	(261,265)
INCOME TAX BENEFIT / (EXPENSE)	6	**-**	-
LOSS FOR THE YEAR		**(1,919,061)**	(261,265)
OTHER COMPREHENSIVE LOSS			
Exchange differences on translation of foreign operations		**(320,853)**	-
Other comprehensive loss for the year, net of tax		**(320,853)**	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(2,239,914)**	(261,265)
Loss is attributable to:			
Owners of Papillon Resources Limited		**(1,919,061)**	(261,265)
Non-controlling interest		**-**	-
		(1,919,061)	(261,265)
Total comprehensive loss is attributable to:			
Owners of Papillon Resources Limited		**(2,239,914)**	(261,265)
Non-controlling interest		**-**	-
		(2,239,914)	(261,265)
Basic and diluted loss per share for loss attributable to the ordinary equity holders of the Company (cents per share)	25	**(3.3)**	(1.6)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statement of Financial Position

At 30 June 2010

	Notes	Consolidated	
		2010	2009
		$	$
CURRENT ASSETS			
Cash and cash equivalents	7	**3,887,828**	975,435
Trade and other receivables	8	**464,828**	13,516
Prepayments		**20,034**	10,839
TOTAL CURRENT ASSETS		**4,372,690**	999,790
NON CURRENT ASSETS			
Plant and equipment	9	**116,489**	-
Exploration and evaluation	10	**5,929,147**	-
TOTAL NON CURRENT ASSETS		**6,045,636**	-
TOTAL ASSETS		**10,418,326**	999,790
CURRENT LIABILITIES			
Trade and other payables	11	**777,307**	89,308
TOTAL CURRENT LIABILITIES		**777,307**	89,308
TOTAL LIABILITIES		**777,307**	89,308
NET ASSETS		**9,641,019**	910,482
EQUITY			
Contributed equity	12	**12,513,425**	2,825,014
Reserves	13(a)	**51,082**	212,020
Accumulated losses	13(b)	**(4,045,613)**	(2,126,552)
Capital and reserves attributable to owners of Papillon Resources Limited		**8,518,894**	910,482
Non-controlling interest	14	**1,122,125**	-
TOTAL EQUITY		**9,641,019**	910,482

The above Consolidated Statement of Financial Position should be read in conjunction with the Notes to the Consolidated Financial Statements

Consolidated Statement of Changes in Equity

Year Ended 30 June 2010

		Attributable to Owners of Papillon Resources Limited							
	Notes	Contributed Equity	Option Issue Reserve	Share-Based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total	Non-Controlling Interest	Total
Consolidated		$	$	$	$	$	$	$	$
BALANCE AT 1 JULY 2008		2,825,014	4,000	204,981	-	(1,865,286)	1,168,709	-	1,168,709
Loss for the year	13(b)	-	-	-	-	(261,265)	(261,265)	-	(261,265)
TOTAL COMPREHENSIVE LOSS		-	-	-	-	(261,265)	(261,265)	-	(261,265)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS									
Share-based payments	26	-	-	3,039	-	-	3,039	-	3,039
BALANCE AT 30 JUNE 2009		2,825,014	4,000	208,020	-	(2,126,552)	910,482	-	910,482
Loss for the year	13(b)	-	-	-	-	(1,919,061)	(1,919,061)	-	(1,919,061)
OTHER COMPREHENSIVE LOSS									
Exchange differences on translation of foreign operations	13(a)	-	-	-	(320,853)	-	(320,853)	-	(320,853)
TOTAL COMPREHENSIVE LOSS		-	-	-	(320,853)	(1,919,061)	(2,239,914)	-	(2,239,914)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS									
Contributions of equity	12	9,808,509	-	-	-	-	9,808,509	-	9,808,509
Transaction costs	12	(470,098)	-	-	-	-	(470,098)	-	(470,098)
Share-based payments	26	350,000	-	159,915	-	-	509,915	-	509,915
Non-controlling interest on acquisition of subsidiaries	14	-	-	-	-	-	-	1,122,125	1,122,125
BALANCE AT 30 JUNE 2010		12,513,425	4,000	367,935	(320,853)	(4,045,613)	8,518,894	1,122,125	9,641,019

The above Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statement of Cash Flows

Year Ended 30 June 2010

	Notes	Consolidated	
		2010	2009
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		**(943,574)**	(331,077)
Interest received		**29,686**	70,506
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	24(a)	**(913,888)**	(260,571)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant and equipment		**(65,338)**	-
Payments for exploration and evaluation		**(1,043,974)**	-
Payments for subsidiaries, net of cash acquired	21(b)	**(4,402,818)**	-
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(5,512,130)**	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares and options		**9,808,509**	-
Payment of share issue costs		**(470,098)**	-
NET CASH INFLOW FROM FINANCING ACTIVITIES		**9,338,411**	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**2,912,393**	(260,571)
Cash and cash equivalents at the beginning of the financial year		**975,435**	1,236,006
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	7	**3,887,828**	975,435

The above Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the Consolidated Financial Statements.

Notes To The Financial Statements
30 June 2010

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 are for the consolidated entity consisting of Papillon Resources Limited and its subsidiaries. The financial statements are presented in the Australian currency. Papillon Resources Limited is a company limited by shares, domiciled and incorporated in Australia. The financial statements were authorised for issue by the Directors on 30 September 2010. The Directors have the power to amend and reissue the financial statements.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the Corporations Act 2001.

Compliance with IFRS

The consolidated financial statements of the Papillon Resources Limited Group comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Financial statement presentation

The Group has applied the revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

Going concern

The financial statements have been prepared on the going concern basis of accounting which assumes that the Group will be able to meet its commitments, realise its assets and discharge its liabilities in the ordinary course of business. In arriving at this position, the Directors recognise the Company is dependent on various funding alternatives to meet these commitments including share placements.

The Directors believe that at the date of signing the financial statements there are reasonable grounds to believe that having regard to matters set out above, the Group will be able to raise sufficient funds to meet its obligations as and when they fall due.

In the event that the Group does not achieve the matters set out above there is significant uncertainty whether the Group will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at amounts stated in the financial statements.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Papillon Resources Limited ("Company" or "parent entity") as at 30 June 2010 and the results of all subsidiaries for the year then ended. Papillon Resources Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all 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 note 1(h)).

Intercompany 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

Notes To The Financial Statements
30 June 2010

been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

(ii) Changes in ownership interests

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

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

If the ownership interest in a jointly controlled entity or associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Segment reporting

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

Change in accounting policy

The Group has adopted AASB 8 Operating Segments from 1 July 2009. AASB 8 replaces AASB 114 Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Board considers the business from both a functional and geographic perspective and has identified one operating segment, being the exploration for minerals in Mali, Africa. In prior periods all exploration activities were undertaken in Australia, however, operations during the 2009 financial year were not material so have not been disclosed as a separate segment.

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless that is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Notes To The Financial Statements
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On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

(e) Revenue recognition

Interest income

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

(f) Income tax

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases where a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 19). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Notes To The Financial Statements
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(h) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair 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 contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

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

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which 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.

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Cash and cash equivalents

For statement of cash flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, and bank overdrafts.

(k) Investments and other financial assets

Classification

The Group classifies all of its investments as loans and receivables. 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.

Loans and receivables

Receivables are recognised initially at fair value which is original invoice amount and subsequently at amortised cost less an allowance for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

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

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Subsequent measurement

Loans and receivables are carried at amortised cost using the effective interest method.

Impairment

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the statement of comprehensive income.

(l) Plant and equipment

All plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the statement of comprehensive income during the reporting period in which they are incurred.

Depreciation of plant and equipment is calculated on a straight-line basis to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term. The rates vary between 7% and 20% per annum.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

(m) Exploration and evaluation expenditure

Expenditure on exploration and evaluation is accounted for in accordance with the 'area of interest' method. Exploration and evaluation expenditure is capitalised provided the rights to tenure of the area of interest is current and either;

- the exploration and evaluation activities are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not at the reporting date reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or relating to, the area of interest are continuing.

When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated then any capitalised exploration and evaluation expenditure is reclassified as capitalised mine development. Prior to reclassification, capitalised exploration and evaluation expenditure is assessed for impairment.

Impairment

The carrying value of capitalised exploration and evaluation expenditure is assessed for impairment at the cash generating unit level whenever facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount.

An impairment exists when the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Any impairment losses are recognised in profit or loss.

(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 are unpaid. The amounts are unsecured, non-interest bearing and are paid on normal commercial terms. They are recognised initially at fair value and subsequently at amortised cost.

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(o) Provisions and employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual 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 and measured as the present value of expected 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 currencies that match, as closely as possible, the estimated future cash outflows.

(iii) Share-based payments

The Group provides benefits to employees (including Directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'), refer to note 26. 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 internal valuation using either a binomial or Black Scholes model.

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 options 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 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.

(p) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(q) Loss per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners 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 shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

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(r) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(s) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 2009-5 Amendments to Australian Accounting Standards – Equity Settled Liabilities [AASB 101] (effective from 1 January 2010)

Clarifies that terms of a liability that could, at the option of the counterparty, result in the liability being settled by the issue of equity instruments, do not affect its classification. This means that unless the terms of such liabilities require a transfer of cash or other assets within 12 months, they do not necessarily have to be classified as current liabilities. Initial adoption of this amendment will have no impact as the Group does not have any current liabilities where the counterparty has the option to have the liabilities settled by the issue of equity instruments.

AASB 2009-5 Amendments to Australian Accounting Standards – Clarification of Cash Flows Classification [AASB 107] (effective from 1 January 2010)

Clarifies that only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as cash flows from investing activities. Initial adoption of this amendment will have no impact as the Group only recognises cash flows from investing activities for expenditures that result in a recognised asset in the statement of financial position.

AASB 2009-5 Amendments to Australian Accounting Standards – Clarification of Goodwill Allocations [AASB 136] (effective from 1 January 2010)

Clarifies that CGUs to which goodwill is allocated cannot be larger than an operating segment as defined in AASB 8 *Operating Segments before aggregation*. There will be no impact as these requirements are only required to be applied prospectively to goodwill impairment calculations for periods commencing on or after 1 July 2010.

AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions [AASB 2] (effective from 1 January 2010)

The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a Group share-based payment arrangement must recognise or expense for those goods or services regardless of which entity in the Group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the Group share-based payment arrangement should be measured, that is, whether it is measured as an equity or a cash-settled transaction. The Group will apply these amendments retrospectively for the financial reporting period commencing on 1 July 2010. There will be no impact on the Group's financial statements.

AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132] (effective from 1 February 2010)

In October 2009 the AASB issued an amendment to AASB 132 *Financial Instruments: Presentation* which addresses the accounting for addresses for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The Group will apply the amended standard from 1 July 2010. As the Group has not made any such rights issues, the amendment will not have any effect on the Group's financial statements.

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

AASB 9 Financial Instruments addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until1 January 2013 but is available for early adoption. The group is yet to assess its full impact. The Group has not yet decided when to adopt AASB 9.

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

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party. The Group will apply the amended standard from 1 July 2011. The amendments are not expected to have a significant impact on the financial statements of the Group.

AASB Interpretation 19 Extinguishing financial liabilities with equity instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19 (effective from 1 July 2010)

AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the entity issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The Group will apply the interpretation from 1 July 2010, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

AASB 2010-3 Amendments to Australian Accounting Standards – Contingent Consideration in Business Combinations [AASB 3] (effective from 1 July 2010)

Confirms that any balances of contingent consideration that relate to acquisitions under the superseded AASB 3 must be accounted for under the superseded standard, i.e. not via profit or loss. There will be no impact on initial adoption as the Group did not have any contingent consideration on acquisitions prior to 1 July 2009.

AASB 2010-4 Amendments to Australian Accounting Standards – Financial Instrument Disclosures [AASB 7] (effective from 1 January 2011)

Deletes various disclosures relating to credit risk, renegotiated loans and receivables and the fair value of collateral held. There will be no impact on initial adoption to amounts recognised in the financial statement as the amendments result in fewer disclosures only.

AASB 2010-4 Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 101] (effective from 1 January 2011)

A detailed reconciliation of each item of other comprehensive income may be included in the statement of changes in equity or in the notes to the financial statements. There will be no impact on initial adoption of this amendment as a detailed reconciliation of each item of other comprehensive income has always been included in the statement of changes in equity.

None of the other amendments or Interpretations are expected to affect the accounting policies of the Group.

(t) Critical accounting judgements, estimates and assumptions

The preparation of these financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

Impairment of capitalised exploration and evaluation expenditure

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

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

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

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

Impairment of goodwill

Goodwill that was recognised upon acquisition of the Malian Assets was impaired in full at the time of acquisition. The recoverable amount of the entities acquired was deemed to be the net fair value of the Malian Assets at the time of the of acquisition, which did not support the carrying forward of the goodwill.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using a binomial or Black Scholes model, with the assumptions detailed in note 26. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amount of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Contingent consideration

Valuing the contingent acquisition consideration payable on the acquisition of the Malian Assets required a significant estimation by management. An amount of USD$1 million will be payable if a 500,000 ounce gold resource is identified within the Malian Assets' project area within 24 months of the acquisition date. At the date of acquisition, the Group's management estimated that there was a 50% probability that the threshold gold resource would be identified within 24 months, so an amount of USD$500,000 was recognised as contingent consideration.

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.

Risk management is carried out by the full Board of Directors as the Group believes that it is crucial for all Board members to be involved in this process. The Managing Director, with the assistance of senior management as required, has responsibility for identifying, assessing, treating and monitoring risks and reporting to the Board on risk management.

(a) Market risk

(i) Foreign exchange risk

With the acquisition of the Malian Assets (refer note 21) the Group now operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Communaute Financiere Africaine Franc (XOF) and the United States dollar.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The Group has not formalised a foreign currency risk management policy however, it monitors its foreign currency expenditure in light of exchange rate movements.

The functional currency of the subsidiary companies is the XOF. All parent entity balances are in Australian dollars and all Group balances are in either Australian dollars or XOF, so the Group does not have any exposure to foreign currency risk relating to XOF. At the reporting date, the Group has one payable, being the contingent consideration of USD500,000 (2009: Nil exposure) that is exposed to foreign currency risk.

Sensitivity analysis

Given the balance of the contingent consideration payable at 30 June 2010, had the Australian dollar weakened/strengthened by 10% against the United States dollar with all other variables held constant, there would have been $58,390/$53,082 increase/decrease to the Group's post-tax loss for the year (2009: Nil) and corresponding movements to the Group's equity. The Directors believe that in the current economic environment a 10% change in exchange rates is reasonable given recent currency market trends.

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(ii) Price risk

Given the current level of operations, the Group is not presently exposed to price risk.

(iii) Interest rate risk

The Group is exposed to movements in market interest rates on cash and cash equivalents. The Group policy is to monitor the interest rate yield curve out to 120 days to ensure a balance is maintained between the liquidity of cash assets and the interest rate return.

Sensitivity analysis

At 30 June 2010, if interest rates had changed by -/+ 100 basis points from the weighted average rate for the year with all other variables held constant, post-tax loss for the Group would have been $22,614 lower/higher (2009: $4,877/$9,754 lower/higher on a 0.5% decrease/1.0% increase) as a result of lower/higher interest income from cash and cash equivalents. The Directors believe that in the current economic environment a 1% change in interest rates is reasonable given comments made by the Reserve Bank of Australia.

(b) Credit risk

The maximum exposure to credit risk at balance date is the carrying amount (net of allowance for impairment) of those assets as disclosed in the statement of financial position and notes to the financial statements. The only significant concentration of credit risk for the Group is the cash and cash equivalents held with financial institutions. All material deposits are held with the major Australian banks, with credit ratings of AA or above, for which the Board evaluate credit risk to be minimal.

As the Group does not presently have any debtors, lending, significant stock levels or any other credit risk, a formal credit risk management policy is not maintained. Other receivables include interest receivable and advances/deposits with suppliers.

(c) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash is available to meet the current and future commitments of the Group. Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. The Board of Directors constantly monitor the state of equity markets in conjunction with the Group's current and future funding requirements, with a view to initiating appropriate capital raisings as required.

The financial liabilities of the Group are confined to trade and other payables as disclosed in the statement of financial position. All trade and other payables are non-interest bearing and due within 12 months of the reporting date, other than the accrued contingent acquisition consideration which may not be due until March 2012, refer to note 21.

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. All financial assets and financial liabilities of the Group at the reporting date are recorded at amounts approximating their carrying amount due to their short term nature. No financial instruments are subsequently carried at fair value.

3. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. For management purposes, the Group has identified only one reportable segment being mineral exploration. Following the acquisition of the Malian Assets (refer note 21), current activities are now focused in Mali, West Africa with corporate activity within Australia. Prior to the acquisition, all activities were based in Australia. As the Group is focussed on mineral exploration, the Board monitors the Group based on actuals versus budgeted exploration expenditure incurred by area of interest. This internal reporting framework is the most relevant to assist the Board with making decisions regarding the Group and its ongoing exploration activities, while also taking into consideration the results of exploration work that has been performed to date.

Segment performance is evaluated based on the operating profit and loss and cash flows and is measured in accordance with the Group's accounting policies.

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		Consolidated	
		2010	2009
		$	$
Exploration segment		**Mali**	**Australia**
Segment revenue		-	-
Reconciliation of segment revenue to total revenue before tax:			
Corporate interest revenue		**75,272**	59,876
Total revenue		**75,272**	59,876
Segment results		**(7,545)**	(11,794)
Reconciliation of segment result to net loss before tax:			
Other corporate and administration		**(1,911,516)**	(249,471)
Net loss before tax		**(1,919,061)**	(261,265)
Segment operating assets		**6,457,801**	-
Reconciliation of segment operating assets to total assets:			
Other corporate and administration assets		**3,960,525**	999,790
Total assets		**10,418,326**	999,790
Segment operating liabilities		**65,593**	244
Reconciliation of segment operating liabilities to total liabilities:			
Other corporate and administration liabilities		**711,714**	89,064
Total liabilities		**777,307**	89,308

The Group is not yet earning revenue, therefore has no major customers at this stage of its operations.

4. REVENUE

		Consolidated	
		2010	2009
		$	$
Finance revenue			
Interest from financial institutions		**75,272**	59,876

5. EXPENSES

		Consolidated	
		2010	2009
		$	$
Loss before income tax includes the following specific expenses:			
Defined contribution superannuation expense		**7,460**	827
Minimum lease payments relating to operating leases		**26,000**	-

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6. INCOME TAX

		Consolidated	
		2010	2009
		$	$
(a) Income tax expense/(benefit)			
Current income tax charge		-	-
Deferred income tax relating to utilisation/(recognition) of tax losses		-	-
Deferred income tax relating to origination and reversal of temporary differences		-	-
Income tax expense/(benefit) reported in profit or loss		-	-
(b) Amounts charged or credited directly to equity			
Share issue costs		**(151,618)**	-
Income tax benefit not recognised		**151,618**	-
Income tax expense/(benefit) reported in equity		-	-
(c) Numerical reconciliation of income tax expense to prima facie tax payable			
Loss from continuing operations before income tax expense		**(1,919,061)**	(261,265)
Prima facie tax benefit at the Australian tax rate of 30% (2009: 30%)		**(575,718)**	(78,380)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Impairment expense		**140,031**	-
Share based payments		**152,975**	912
Foreign exchange		**10,949**	-
Other non-deductible expenses		**81**	19
Tax effect of current year tax losses for which no deferred tax asset has been recognised		**271,683**	77,449
Income tax expense/(benefit)		-	-
(d) Unrecognised deferred income tax			
Deferred Tax Liabilities (at 30%)			
Receivables		**(14,643)**	(967)
Prepayments		**(6,010)**	(3,252)
		(20,653)	(4,219)
Deferred Tax Assets (at 30%)			
Accruals		**17,946**	4,500
Capital raising costs		**139,065**	35,469
Costs relating to acquisitions		**61,646**	-
Other		**288**	1,151
Revenue tax losses		**862,197**	613,959
		1,081,142	654,949
Net deferred tax asset		**1,060,489**	650,740
Net deferred tax asset not recognised		**(1,060,489)**	(650,740)
		-	-

The Group has tax losses that are available indefinitely for offset against future taxable profits of the Group. The recoupment of available tax

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losses as at the 30 June 2010 is contingent upon the following:

(i) the Group deriving future assessable income of a nature and of an amount sufficient to enable the benefit from the losses to be realised;
(ii) the conditions for deductibility imposed by tax legislation continuing to be complied with; and
(iii) there being no changes in tax legislation which would adversely affect the Group from realising the benefit from the losses.

7. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

		Consolidated	
		2010	2009
		$	$
Cash at bank and in hand		**187,828**	45,435
Short-term deposits		**3,700,000**	930,000
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows		**3,887,828**	975,435

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

Short term deposits are made for varying periods of between one day and six months depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates.

8. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

		Consolidated	
		2010	2009
		$	$
Other receivables		**405,867**	3,223
Government taxes receivable		**58,961**	10,293
		464,828	13,516

Trade receivables are non-interest bearing and are generally on 30-90 days terms. No receivables are past due and no receivables are impaired. Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

9. NON-CURRENT ASSETS – PLANT AND EQUIPMENT

		Consolidated	
		2010	2009
		$	$
Plant and equipment			
Cost		**441,747**	-
Accumulated depreciation		**(325,258)**	-
Net book amount		**116,489**	-
Plant and equipment			
Opening net book amount		**-**	-
Exchange differences		**(6,405)**	-
Acquisition of subsidiaries		**153,690**	-
Additions		**65,338**	-
Depreciation charge		**(96,134)**	-
Closing net book amount		**116,489**	-

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10. NON-CURRENT ASSETS – EXPLORATION AND EVALUATION

		Consolidated	
		2010	2009
		$	$
Opening net book amount		**-**	-
Exchange differences		**(314,638)**	-
Acquisition of subsidiaries		**5,457,919**	-
Expenditure incurred		**793,411**	11,794
Impairment of deferred exploration expenditure		**(7,545)**	(11,794)
Closing net book amount		**5,929,147**	-

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

11. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

		Consolidated	
		2010	2009
		$	$
Trade payables		**44,902**	11,079
Other payables		**148,505**	11,000
Related party payables		**-**	67,229
Contingent acquisition consideration payable		**583,900**	-
		777,307	89,308

The contingent acquisition consideration payable relates to the acquisition of the Malian Assets (refer note 21). An amount of USD$1 million will be payable if a 500,000 ounce gold resource is identified within the Malian Assets' project area within 24 months of the acquisition date. At the date of acquisition, the Group's management estimated that there was a 50% probability that the threshold gold resource would be identified within 24 months, so an amount of USD$500,000 has been accrued.

12. CONTRIBUTED EQUITY

		2010		2009	
	Notes	Number of securities	$	Number of securities	$
(a) Contributed equity					
Ordinary shares fully paid	12(b), 2(d)	**155,018,740**	**12,498,425**	16,000,002	2,825,014
Options	12(e)	**1,500,000**	**15,000**	-	-
Total contributed equity			**12,513,425**		2,825,014
(b) Movements in ordinary share capital					
Beginning of the financial year		**16,000,002**	**2,825,014**	16,000,002	2,825,014
Transactions during the year:					
- Issued on exercise of 20 cent options		**3,170,746**	**634,150**	-	-
- Entitlements issue at 7 cents per share		**130,847,992**	**9,159,359**	-	-
- Issued as part consideration for consulting fees		**5,000,000**	**350,000**	-	-

Notes To The Financial Statements
30 June 2010

		2010		2009	
	Notes	Number of securities	$	Number of securities	$
Less: Transaction costs		**-**	**(470,098)**	-	-
End of the financial year		**155,018,740**	**12,498,425**	16,000,002	2,825,014

(c) Movements in options on issue

		Number of options	
		2010	2009
Beginning of the financial year		**13,200,000**	13,200,000
Issued during the year:			
- Exercisable at 15 cents, on or before 31 December 2011		**5,000,000**	-
- Exercisable at 20 cents, on or before 31 December 2012		**66,924,020**	-
Exercised or cancelled during the year:			
- 20 cents, 31 December 2010		**(3,170,746)**	-
- 45 cents, 1 December 2011		**(200,000)**	-
End of the financial year		**81,753,274**	13,200,000

(d) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

(e) Paid options

On 16 April 2010 1,500,000 options exercisable at 20 cents on or before 31 December 2012 were issued for 1 cent each in accordance with an underwriting agreement with Argonaut Capital Ltd under the entitlements offer Prospectus dated 25 January 2010.

(f) Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they may continue to provide returns for shareholders and benefits for other stakeholders.

Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet exploration programmes and corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. The working capital position of the Group at 30 June 2010 and 30 June 2009 are as follows:

Notes To The Financial Statements
30 June 2010

		Consolidated	
		2010	2009
		$	$
Cash and cash equivalents		**3,887,828**	975,435
Trade and other receivables		**464,828**	13,516
Prepayments		**20,034**	10,839
Trade and other payables		**(777,307)**	(89,308)
Working capital position		**3,595,383**	910,482

13. RESERVES AND ACCUMULATED LOSSES

		Consolidated	
		2010	2009
		$	$
(a) Reserves			
Foreign currency translation reserve		**(320,853)**	-
Option issue reserve		**4,000**	4,000
Share-based payments reserve		**367,935**	208,020
		51,082	212,020
Movements:			
Foreign currency translation reserve			
Balance at beginning of year		**-**	-
Currency translation differences arising during the year		**(320,853)**	-
Balance at end of year		**(320,853)**	-
Option issue reserve			
Balance at beginning of year		**4,000**	4,000
No issues		**-**	-
Balance at end of year		**4,000**	4,000
Share-based payments reserve			
Balance at beginning of year		**208,020**	204,981
Share-based payments		**159,915**	3,039
Balance at end of year		**367,935**	208,020
(b) Accumulated losses			
Balance at beginning of year		**(2,126,552)**	(1,865,286)
Net loss for the year		**(1,919,061)**	(261,265)
Balance at end of year		**(4,045,613)**	(2,126,552)

(c) Nature and purpose of reserves

(i) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

Notes To The Financial Statements
30 June 2010

(ii) Option issue reserve

The option issue reserve is used to record the value of equity benefits in relation to options provided to capital investors and stakeholders.

(iii) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued to eligible executives, employees and contractors as part of their remuneration.

14. NON-CONTROLLING INTEREST

		Consolidated	
		2010	2009
		$	$
Interest in:			
Share capital		**1,122,125**	-
Accumulated losses		**-**	-
		1,122,125	-

15. DIVIDENDS

No dividends were paid during the financial year. No recommendation for payment of dividends has been made.

16. KEY MANAGEMENT PERSONNEL DISCLOSURES

		Consolidated	
		2010	2009
		$	$
(a) Key management personnel compensation			
Short-term benefits		**354,441**	167,199
Post employment benefits		**7,231**	827
Share-based payments		**44,915**	-
		406,587	168,026

Detailed remuneration disclosures are provided in the remuneration report on pages 6 to 9.

(b) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the remuneration report on page 9.

(ii) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each Director of Papillon Resources Limited and other key management personnel of the Group, including their personally related parties, are set out below:

Notes To The Financial Statements

30 June 2010

2010	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of Papillon Resources Limited							
Jeremy Shervington	**1,406,250**	**-**	**-**	**3,834,657**	**5,240,907**	**5,240,907**	**-**
Alan Campbell (appointed 18 December 2009)	**-**	**4,000,000***	**-**	**525,000**	**4,525,000**	**525,000**	**4,000,000**
Alec Pismiris	**1,160,000**	**-**	**-**	**766,414**	**1,926,414**	**1,926,414**	**-**
Stuart Hall	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other key management personnel of the Group							
Dennis Wilkins (appointed 3 June 2010)	**-**	**-**	**-**	**-**	**-**	**-**	**-**

* The options granted to Alan Campbell on 24 June 2010 were not issued until 7 July 2010.

All vested options were exercisable at the end of the year.

2009	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of Papillon Resources Limited							
Jeremy Shervington	1,406,250	-	-	-	1,406,250	1,406,250	-
Alec Pismiris	1,160,000	-	-	-	1,160,000	1,160,000	-
Stuart Hall (appointed 4 February 2009)	-	-	-	-	-	-	-
Alan Coulthard (appointed 2 October 2008, resigned 4 February 2009)	-	-	-	-	-	-	-
Mark Hansen (resigned 2 October 2008)	1,520,000	-	-	(1,520,000)	-	-	-

(iii) Share holdings

The numbers of shares in the Company held during the financial year by each Director of Papillon Resources Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation. There are no nominally held shares in the balances below.

2010	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
Directors of Papillon Resources Limited				
Ordinary shares				
Jeremy Shervington	**1,009,902**	**-**	**7,169,314**	**8,179,216**
Alan Campbell	**-**	**-**	**1,200,000**	**1,200,000**
Alec Pismiris	**80,000**	**-**	**1,532,827**	**1,612,827**
Stuart Hall	**-**	**-**	**-**	**-**
Other key management personnel of the Group				
Ordinary shares				
Dennis Wilkins	**-**	**-**	**-**	**-**

Notes To The Financial Statements

30 June 2010

2009	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
Directors of Papillon Resources Limited				
Ordinary shares				
Jeremy Shervington	200,002	-	809,900	1,009,902
Alec Pismiris	80,000	-	-	80,000
Stuart Hall (appointed 4 February 2009)	-	-	-	-
Alan Coulthard (appointed 2 October 2008, resigned 4 February 2009)	-	-	-	-
Mark Hansen (resigned 2 October 2008)	1,785,000	-	(1,785,000)	-

(c) Loans to key management personnel

There were no loans to key management personnel during the year.

(d) Other transactions with key management personnel

Purchases

Fees of $64,966 (2009:$33,880) were charged under normal terms and conditions by Prairie Downs Metals Limited, of which Messrs Shervington, Pismiris and Hall are Directors, for the provision of personnel, office accommodation and equipment services at normal commercial rates. At year end nil (2009: $15,529) remained outstanding. Additionally, during the 2010 financial year Prairie Downs Metals Limited received 5,000,000 ordinary shares (refer note 26(c)) and 5,000,000 options exercisable at 15 cents with an expiry date of 31 December 2011 (refer note 26(b)) as consideration for consulting services provided on the acquisition of the Malian Assets.

During the financial year fees of $69,400 (2009: $72,000) were paid under normal terms and conditions to Azure Capital Limited of which Mr Pismiris is a Director, for the provision of services in his capacity as a Director and Company Secretary at normal commercial rates. At year end, $3,740 (2009: $6,000) remained outstanding.

During the financial year fees of $60,000 (2009: $60,000) were paid under normal terms and conditions to Drumgaghan Pty Ltd of which Mr Shervington is a Director, for the provision of services in his capacity as a Director at normal commercial rates. Legal services to Drumgaghan Pty Ltd amounts to $52,564 (2009: $4,854). At year end, $5,500 (2009: $5,000) remained outstanding.

During the financial year fees of $1,222 (2009: N/A) were paid under normal terms and conditions to DWCorporate Pty Ltd of which Mr Wilkins is principal, for the provision of services in his capacity as Company Secretary at normal commercial rates. At year end nil (2009: N/A) remained outstanding.

During the prior financial year fees of $7,903 were paid under normal terms and conditions to Market Capital Group Pty Ltd, of which Mr Hansen was a Director (resigned 2 October 2008), for the provision of professional services at normal commercial rates. The fees were included as part of the remuneration to Mr Hansen. At year end, nil remained outstanding

17. REMUNERATION OF AUDITOR

		Consolidated	
		2010	2009
		$	$
During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:			
(a) Audit services			
BDO Audit (WA) Pty Ltd – audit and review of financial reports		**25,099**	25,930
Total remuneration for audit services		**25,099**	25,930

Notes To The Financial Statements
30 June 2010

		Consolidated	
		2010	2009
		$	$
(b) Non-audit services			
BDO Audit (WA) Pty Ltd – agreed upon procedures		**5,254**	2,977
BDO Corporate Tax (WA) Pty Ltd – income tax return		**2,250**	-
Total remuneration for other services		**7,504**	2,977

18. CONTINGENCIES

The Group has no contingent assets or liabilities other than contingent acquisition consideration payable disclosed in note 21.

19. COMMITMENTS

		Consolidated	
		2010	2009
		$	$

(a) Exploration commitments

The Company has certain commitments to meet minimum expenditure requirements on the mineral exploration assets it has an interest in. Outstanding exploration commitments are as follows:

within one year		**-**	20,923
later than one year but not later than five years		**-**	-
		-	20,923

(b) Lease commitments: Group as lessee

Operating leases (non cancellable):			
Minimum lease payments			
within one year		**26,000**	-
later than one year but not later than five years		**-**	-
Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities		**26,000**	-

During the 2010 financial year the Group entered into a commercial lease on its office premises. The lease has a term of 12 months and expires on 31 January 2011.

(c) Remuneration commitments

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of key management personnel referred to in the remuneration report on page 9 that are not recognised as liabilities and are not included in the key management personnel compensation.

within one year		**109,212**	-
later than one year but not later than five years		**-**	-
		109,212	-

20. RELATED PARTY TRANSACTIONS

(a) Parent entity

The ultimate parent entity within the Group is Papillon Resources Limited.

Notes To The Financial Statements
30 June 2010

(b) Subsidiaries

Interests in subsidiaries are set out in note 22.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 16.

21. BUSINESS COMBINATIONS

(a) Summary of acquisition

On 15 March 2010 the Company completed the acquisition of an 80% equity interest in each of Mali Goldfields SARL and Songhoi Resources SARL (together the "Malian Assets"), companies registered in Mali. At the date of acquisition, the acquired entities were involved in mineral exploration in Mali, West Africa.

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

	$
Purchase consideration (refer to (c) below):	
Cash paid	4,407,865
Contingent consideration	547,405
Total purchase consideration	4,955,270

The assets and liabilities recognised as a result of the acquisition are as follows:

	Carrying value	Fair value
	$	$
Cash and cash equivalents	**5,048**	**5,048**
Trade and other receivables	**40,272**	**37,931**
Plant and equipment	**153,690**	**153,690**
Tenement acquisition costs	**6,438,999**	**5,457,919**
Trade and other payables	**(43,964)**	**(43,964)**
Net identifiable assets acquired	**6,594,045**	**5,610,624**
Less: non-controlling interests		**(1,122,125)**
Add: goodwill		**466,771**
Net assets acquired		**4,955,270**

The goodwill has been fully impaired at the time of acquisition. It will not be deductible for tax purposes.

There were no acquisitions in the year ending 30 June 2009.

(i) Contingent consideration

An amount of USD$1 million will be payable if a 500,000 ounce gold resource is identified within the Malian Assets' project area within 24 months of the acquisition date. At the date of acquisition, the Group's management estimated that there was a 50% probability that the threshold gold resource would be identified within 24 months, so an amount of USD$500,000 has been recognised as the fair value of the contingent consideration.

(ii) Acquired receivables

The fair value of acquired trade and other receivables is $37,932. The gross contractual amount for trade and other receivables due is $40,272, of which $2,340 is expected to be uncollectible.

Notes To The Financial Statements
30 June 2010

(iii) Tenement acquisition costs

The fair value of the tenement acquisition costs has been determined with reference to a report prepared by an independent valuer.

(iv) Non-controlling interests

In accordance with the accounting policy set out in note 1(h), the Group elected to recognise the non-controlling interests in the Malian Assets at its proportionate share of the acquired net identifiable assets.

(v) Revenue and profit contribution

In accordance with the Group's accounting policy, all expenditure incurred by the acquired businesses has been capitalised as exploration and evaluation expenditure. Therefore, the acquired businesses have not contributed any revenues or losses to the Group for the period from 15 March 2010 to 30 June 2010. If the acquisition had occurred on 1 July 2009, consolidated revenue and loss for the year would have been unchanged.

(b) Purchase consideration – cash outflow

	Consolidated	
	2010	2009
	$	$
Outflow of cash to acquire subsidiaries, net of cash acquired		
Cash consideration	**4,407,865**	-
Less: Balances acquired		
Cash	**(5,049)**	-
Cash consideration and inflow/(outflow) of cash	**4,402,818**	-

Acquisition-related costs

Acquisition-related costs of $50,000 are included in administration and corporate expenses in profit or loss and in operating cash flows in the statement of cash flows. Additionally, an acquisition-related consulting fee was settled by the issue of 5 million ordinary shares and 5 million unlisted options (exercise price 15 cents expiring 31 December 2011) with a total fair value of $465,000, refer to note 26. This amount is included in share based payments in profit or loss.

22. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b)(i):

Name	Country of Incorporation	Class of Shares	Equity Holding[(1)]	
			2010	2009
			%	%
Mali Goldfields SARL	Mali	Ordinary	80	-
Songhoi Resources SARL	Mali	Ordinary	80	-
Bamagold SARL(2)	Mali	Ordinary	100	-
Waraba Resources SARL[(2)]	Mali	Ordinary	100	-

(1) The proportion of ownership interest is equal to the proportion of voting power held.
(2) These dormant entities are 100% owned subsidiaries of Mali Goldfields SARL.

23. EVENTS OCCURRING AFTER THE STATEMENT OF FINANCIAL POSITION DATE

No matter or circumstance has arisen since 30 June 2010 which has significantly affected, or may significantly affect the operations of the Group, the result of those operations, or the state of affairs of the Group in subsequent financial years.

Notes To The Financial Statements
30 June 2010

24. STATEMENT OF CASH FLOWS

	Consolidated	
	2010	2009
	$	$
(a) Reconciliation of net loss after income tax to net cash outflow from operating activities		
Net loss for the year	**(1,919,061)**	(261,265)
Non Cash Items		
Depreciation of plant and equipment	**13,063**	-
Share-based payments	**509,915**	3,039
Exploration expenditure written off	**7,545**	-
Impairment of goodwill	**466,771**	-
Net exchange differences	**36,495**	-
Change in operating assets and liabilities		
(Increase)/decrease in trade and other receivables	**(58,171)**	20,951
(Increase)/decrease in prepayments	**(9,195)**	39,797
Increase/(decrease) in trade and other payables	**38,750**	(63,092)
Net cash outflow from operating activities	**(913,888)**	(260,571)

(b) Non-cash investing and financing activities

Refer to note 21(b) for details of shares and options issued as consideration for a consulting fee. Additionally, refer to note 21(a)(i) for details of contingent consideration payable as part of the acquisition of the Malian Assets.

25. LOSS PER SHARE

	Consolidated	
	2010	2009
	$	$
(a) Reconciliation of earnings used in calculating loss per share		
Loss attributable to the owners of the Company used in calculating basic and diluted loss per share	**(1,919,061)**	(261,265)
	Number of shares	Number of shares
(b) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	**58,659,693**	16,000,002

(c) Information on the classification of options

As the Group has made a loss for the year ended 30 June 2010, all options on issue are considered antidilutive and have not been included in the calculation of diluted earnings per share. These options could potentially dilute basic earnings per share in the future.

Notes To The Financial Statements
30 June 2010

26. SHARE BASED PAYMENTS

(a) Employee Share and Option Plan

The Group provides benefits to employees (including Directors) of the Group in the form of share based payment transactions, whereby employees render services in exchange for options to acquire ordinary shares. The exercise price of the options granted range from 15 to 20 cents per option. All options granted have expiry dates ranging from 31 December 2010 to 31 December 2012.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company with full dividend and voting rights.

Set out below are summaries of the options granted:

	Consolidated			
	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		cents		cents
Outstanding at the beginning of the year	**2,760,000**	**21.8**	4,380,000	21.7
Granted	**4,000,000**	**15.0**	-	-
Forfeited	**(200,000)**	**45.0**	(1,620,000)	21.7
Exercised	**-**	**-**	-	-
Expired	**-**	**-**	-	-
Outstanding at year end	**6,560,000**	**17.0**	2,760,000	21.8
Exercisable at year end	**2,560,000**	**20.0**	2,760,000	21.8

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 1.7 years (2009: 1.5 years), and the exercise prices range from 15 to 20 cents.

The weighted average fair value of the options granted during the year was 7.5 cents (2009: N/A). There were no options granted during 2009. The price was calculated by using a Binomial barrier up and in option pricing model applying the following inputs:

	2010	2009
Weighted average exercise price (cents)	**15.0**	N/A
Weighted average life of the option (years)	**2.5**	N/A
Weighted average underlying share price (cents)	**14.0**	N/A
Expected share price volatility	**90%**	N/A
Weighted average risk free interest rate	**4.72%**	N/A

Historical volatility has been used as the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate.

(b) Supplier options

The Group issued options during the year as part consideration for consulting services received from Prairie Downs Metals Limited, a Director related entity, refer note 16(d). The options issued have an exercise price of 15 cents and an expiry date of 31 December 2011.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company with full dividend and voting rights.

Notes To The Financial Statements
30 June 2010

Set out below are summaries of the options granted:

	Consolidated			
	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		cents		cents
Outstanding at the beginning of the year	**-**	**-**	-	-
Granted	**5,000,000**	**15.0**	-	-
Forfeited	**-**	**-**	-	-
Exercised	**-**	**-**	-	-
Expired	**-**	**-**	-	-
Outstanding at year end	**5,000,000**	**15.0**	-	-
Exercisable at year end	**5,000,000**	**15.0**	-	-

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 1.5 years (2009: N/A years), and the exercise price is 15 cents.

The weighted average fair value of the options granted during the year was 2.2 cents (2009: N/A). There were no options granted during 2009. The price was calculated by using the Black Scholes European Option Pricing Model applying the following inputs:

	2010	2009
Weighted average exercise price (cents)	**15.0**	N/A
Weighted average life of the option (years)	**1.9**	N/A
Weighted average underlying share price (cents)	**9.0**	N/A
Expected share price volatility	**70%**	N/A
Weighted average risk free interest rate	**4.59%**	N/A

Historical volatility has been used as the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate.

(c) Shares issued to suppliers

During the 2010 financial year 5,000,000 ordinary shares were issued at a deemed cost of $350,000 (2009: Nil) as consideration for consulting services received from Prairie Downs Metals Limited, a Director related entity, refer note 16(d).

(d) Expenses arising from share based payment transactions

Total expenses arising from share based payment transactions recognised during the period were as follows:

	Consolidated	
	2010	2009
	$	$
Options issued to employees and contractors	**44,915**	3,039
Options issued to suppliers	**115,000**	-
Shares issued to suppliers	**350,000**	-
	509,915	3,039

Notes To The Financial Statements

30 June 2010

27. PARENT ENTITY INFORMATION

The following information relates to the parent entity, Papillon Resources Limited, at 30 June 2010. The information presented here has been prepared using accounting policies consistent with those presented in Note 1.

	Consolidated	
	2010	2009
	$	$
Current assets	**3,960,525**	999,790
Non-current assets	**6,057,708**	-
Total assets	**10,018,233**	999,790
Current liabilities	**711,714**	89,308
Total liabilities	**711,714**	89,308
Contributed equity	**12,513,425**	2,825,014
Reserves	**371,935**	212,020
Accumulated losses	**(3,578,841)**	(2,126,552)
Total equity	**9,306,519**	910,482
Loss for the year	**(1,452,289)**	(261,265)
Total comprehensive loss for the year	**(1,452,289)**	(261,265)

Directors' Declaration

In the Directors' opinion:

(a) the financial statements comprising the statements of comprehensive income, statements of financial position, statements of changes in equity, statements of cash flows and accompanying notes set out on pages 20 to 44 are in accordance with the *Corporations Act 2001*, including:

- (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (ii) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2010 and of their performance for the financial year ended on that date;

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

(c) the remuneration disclosures included in the Directors' Report (as part of the audited Remuneration Report), for the year ended 30 June 2010, comply with Section 300A of the *Corporations Act 2001*; and

(d) a statement that the attached financial statements are in compliance with International Financial Reporting Standards has been included in the notes to the financial statements.

(e) The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

Alan Campbell

Managing Director

Perth, 30 September 2010

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PAPILLON RESOURCES LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Papillon Resources Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

Independent Auditor's Report

BDO

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* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

Auditor's Opinion

In our opinion:

(a) the financial report of Papillon Resources 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 2010 and of its performance for the year ended on that date; and
  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

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

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1(a) in the financial report, where the company will have to seek additional funding in order to progress exploitation of its exploration assets. If the company is unable to obtain additional funding it may indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business at the values stated in this financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Papillon Resources Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

Brad McVeigh
Director

Perth, Western Australia
Dated this 30th day of September 2010

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ASX Additional Information

Additional information required by Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 20 September 2010.

(a) Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

	Ordinary shares		20 cent options expiring 31 December 2010		20 cent options expiring 31 December 2012	
	Number of holders	Number of shares	Number of holders	Number of options	Number of holders	Number of options
1-1,000	**14**	**1,143**	1	1	3	1,057
1,001-5,000	**70**	**229,577**	34	170,000	4	13,233
5,001-10,000	**101**	**885,939**	36	294,500	14	106,264
10,001-100,000	**587**	**27,993,108**	74	2,939,019	177	8,437,624
100,001 and over	**258**	**125,908,973**	14	6,425,734	123	58,365,842
	1,030	**155,018,740**	159	9,829,254	321	66,924,020
The number of equity security holders holding less than a marketable parcel of securities are:	**19**	**7,492**	59	345,001	6	9,390

(b) Twenty largest shareholders

The names of the twenty largest holders of quoted ordinary shares are:

		Listed ordinary shares	
		Number of shares	Percentage of ordinary shares
1	ANZ Nominees Limited <Cash Income A/C>	8,483,185	5.47
2	HSBC Custody Nominees (Australia) Limited	7,639,214	4.93
3	Panga Pty Ltd	6,379,200	4.12
4	Prairie Downs Metals Limited	5,000,000	3.23
5	Mrs Mary Anastasia Russello	3,180,000	2.05
6	Mr John Paul Welborn	3,100,000	2.00
7	Mr Gordon Roger Barratt & Mrs Marylee Barratt <Barratt Family A/C>	2,101,588	1.36
8	Antman Holdings Pty Ltd	2,000,000	1.29
9	Argonaut Equity Partners Pty Ltd	2,000,000	1.29
10	Gecko Resources Pty Ltd	1,936,822	1.25
11	Mr Denis John Reynolds	1,700,000	1.10
12	ACP Investments Pty Ltd <The ACP Investment A/C>	1,612,827	1.04
13	Mr Rhett Jones	1,600,000	1.03
14	Panga Pty Ltd	1,600,000	1.03
15	Mr Peter Bowman	1,500,000	0.97
16	New England Specialty Poultry Pty Ltd <Super Benefits Fund A/C>	1,330,000	0.86
17	Mr Philip Charles Langdon & Mrs Robyn Margaret Langdon <Ace Pack Con P/L Dir S/F A/C>	1,321,000	0.85
18	AFM Perseus Fund Limited	1,222,535	0.79
19	Mr Alan Campbell & Mrs Liane Patricia Campbell <Lochmara Super Fund A/C>	1,200,000	0.77
20	Frass Pty Ltd <Baudinette Family No 2 A/C>	1,200,000	0.77
		56,106,371	36.19

ASX Additional Information

(c) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

	Number of Shares
ANZ Nominees Limited <Cash Income A/C>	8,483,185

(d) Twenty largest holders of 20 cents options expiring 31 December 2010

The names of the twenty largest holders of quoted 20 cents options expiring 31 December 2010 are:

		Number of options	Percentage of total options
1	Panga Pty Ltd	1,400,000	14.24
2	ACP Investments Pty Ltd <The ACP Investment A/C>	1,185,000	12.06
3	M & K Korkidas Pty Ltd <M&K Korkidas P/L S/Fund A/C>	598,086	6.08
4	Cimbrook Nominees Pty Ltd	390,000	3.97
5	Mr Brett Alexander Hawley	365,000	3.71
6	Mr Gordon Roger Barratt & Mrs Marylee Barratt <Barratt Family A/C>	310,000	3.15
7	Mr Michael Davies	250,000	2.54
8	Finance Associates Pty Ltd <Super Fund A/C>	250,000	2.54
9	Epic Feast Pty Ltd	242,199	2.46
10	Mr Robert Archie Cameron	172,194	1.75
11	Comsec Nominees Pty Limited	159,344	1.62
12	New England Specialty Poultry Pty Ltd <Super Benefits Fund A/C>	156,999	1.60
13	Ground Control Pty Ltd <The Hall Super Fund A/C>	150,000	1.53
14	Mr Raymond Laurence Hepworth	150,000	1.53
15	Mr Anthony John Vetter & Mrs Jeannette Vetter	150,000	1.53
16	Mr Peter Anthony Whitting & Mrs Jane Mary Whitting <Petefish P/L Super Fund A/C>	150,000	1.53
17	Petefish Pty Ltd	136,414	1.39
18	Accbell Nominees Pty Ltd	135,656	1.38
19	Mr Anthony John Vetter	130,000	1.32
20	Mr Gavin John Argyle <Gavin Argyle Family A/C>	120,000	1.22
		6,600,892	67.16

(e) Twenty largest holders of 20 cents options expiring 31 December 2012

The names of the twenty largest holders of quoted 20 cents options expiring 31 December 2012 are:

		Number of options	Percentage of total options
1	Mr Craig Andrew Parry	4,064,687	6.07
2	Mrs Gail Beamond	2,999,029	4.48
3	Panga Pty Ltd	2,790,900	4.17
4	Gecko Resources Pty Ltd	1,912,161	2.86
5	Mr John Paul Welborn	1,560,391	2.33
6	Argonaut Investments Pty Limited	1,500,000	2.24
7	Finance Associates Pty Ltd <Super Fund A/C>	1,150,000	1.72

ASX Additional Information

		Number of options	Percentage of total options
8	Mr Cornelius Martin Kuiken & Mrs Delphine Clifton Kuiken <Delphine Kuiken S/F A/C>	1,150,000	1.72
9	Rosemead Pty Ltd <Ward Family A/C>	1,150,000	1.72
10	Mr Anthony James John Hawke	1,033,281	1.54
11	Mrs Gail Beamond & Mr David Adam Beamond	1,005,296	1.50
12	Epic Feast Pty Ltd	1,000,000	1.49
13	Mr William Gordon Martin & Mrs Beverley Michelle Martin <Chemco Super Fund A/C>	1,000,000	1.49
14	Mr Benjamin Edward Nicolson	1,000,000	1.49
15	Skink Resources Pty Ltd	1,000,000	1.49
16	Talex Investments Pty Ltd	1,000,000	1.49
17	Merrill Lynch (Australia) Nominees Pty Limited <Settle1 A/C>	879,216	1.31
18	Panga Pty Ltd	850,000	1.27
19	J & N Weston Investments Pty Ltd <Weston Super Fund A/C>	802,602	1.20
20	Nefco Nominees Pty Ltd	747,827	1.12
		28,595,390	42.73

(f) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

(g) Schedule of interests in mining tenements

Area	Project Name	Region	Size	Holding Company	Percentage Held
Mali West	Babara	Kenieba	15.00	Mali Gold Fields	80
	Makounke West	Kenieba	49.93	Mali Gold Fields	80
	Serinati	Kayes	138.60	Mali Gold Fields	80
	Bakolobi	Kenieba	75.00	Songhoi Resources	80
	Bantako	Kenieba	57.00	Songhoi Resources	80
	Diangounte	Kayes	72.00	Songhoi Resources	80
	Medinandi	Kenieba	75.00	Songhoi Resources	80
			482.53		
Mali South	Diossyan	Yanfolia	250.00	Mali Gold Fields	80
	Djinetoumanina	Bagoe	125.00	Mali Gold Fields	80
	Fakola	Bagoe	125.00	Mali Gold Fields	80
	Gouenso	Yanfolia	95.00	Mali Gold Fields	80
	Heremakono	Kangaba	18.50	Mali Gold Fields	80
	Mandiela	Yanfolia	100.00	Mali Gold Fields	80
	M'Tebougou	Bougouni	80.00	Mali Gold Fields	80
	Nounfara	Yanfolia	44.00	Mali Gold Fields	80
	Ourou-Ourou	Yanfolia	12.50	Mali Gold Fields	80
	Sankama	Yanfolia	125.00	Mali Gold Fields	80
	Yanfolia	Yanfolia	355.00	Mali Gold Fields	80
			1,330.00		
Total			**1,812.53**		

Corporate Information

ABN 96 119 655 891

Directors

Jeremy David Shervington (Non-Executive Chairman)

Alan Neville Campbell (Managing Director)

Alec Christopher Pismiris (Non-Executive Director)

Stuart John Hall (Non-Executive Director)

Company Secretary

Dennis Wilkins

Registered Office

52 Ord Street

WEST PERTH WA 6005

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Principal Place of Business

Level 21, Allendale Square

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PERTH WA 6000

Telephone: +61 8 9225 5485

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Solicitors

Jeremy Shervington

52 Ord Street

WEST PERTH WA 6005

Telephone: +61 8 9481 8760

Bankers

Westpac Banking Corporation Limited

109 St Georges Terrace

PERTH WA 6000

Share Register

Computershare Investor Services Pty Limited

Level 2, Reserve Bank Building

45 St Georges Terrace

PERTH WA 6000

Telephone: +61 8 9323 2000

Auditors

BDO Audit (WA) Pty Ltd

38 Station Street

SUBIACO WA 6008

Telephone: +61 8 6382 4600

Internet Address

www.papillonresources.com

Stock Exchange Listing

Papillon Resources Limited shares (Code: PIR), 20 cent options expiring 31 December 2010 (PIRO) and 20 cent options expiring 31 December 2012 (PIROA) are listed on the Australian Securities Exchange.

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