

## RHEOCHEM Plc

Registered number (UK) 5209284 A.R.B.N 127 927 495

### ASX Preliminary final report For the year ended 30 June 2010

Current reporting period 30 June 2010

Previous corresponding period 30 June 2009

#### Results for announcement to market

##### Revenue and Net Profit

				AUD \$'000's
Revenue from ordinary activities	<b>Up</b>	<b>102%</b>	<b>to</b>	<b>20,401</b>
Profit from ordinary activities after tax attributable to members	<b>Up</b>	<b>114%</b>	<b>to</b>	<b>4,824</b>
Net profit for the period attributable to members	<b>Up</b>	<b>114%</b>	<b>To</b>	<b>4,824</b>

##### Dividends

No Dividends have been paid or declared during the financial year. The Directors do not recommend the payment of a dividend in respect of the financial year.

##### Net tangible asset backing

			30 June 2010	30 June 2009
			AUD \$'000's	AUD \$'000's
Net assets			35,430	35,397
Less intangible assets			2,940	3,003
Net tangible assets of the Group			32,490	32,394
Fully paid ordinary shares on issue at balance			249,579,902	217,026,002
Net tangible asset backing per issued ordinary share as at balance date (cents)			15.4	15.0

##### Earnings per share

Basic earnings/(loss) per share cents			2.1	(15.4)
Diluted earnings/(loss) per share cents			2.1	(15.4)

**Rheochem Plc**

Directors' report and financial  
statements

Registered number 5209284

30 June 2010

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Rheochem Plc ("Rheochem" or "the Company") is listed on the Australian Securities Exchange and is admitted to the Alternative Investment Market (AIM) of the London Stock Exchange.

Rheochem Plc is an Oil and Gas services company specialising in the provision of drilling fluids and engineering services to the oil & gas exploration industry including coal bed methane projects. The Company also provides these products and services to the geothermal industry which utilises similar drilling techniques.

The Company also has a portfolio of investments in a number of oil & gas exploration and development projects which have near term development potential.

It has operations in Australia, India, New Zealand, United Kingdom, Indonesia and United States of America and is committed to further local and international expansion through generation of new supply contracts and investment in or acquisition of appropriate companies and projects.

Financial highlights

- Group revenue increased to A\$20.4m (2009: A\$10.1m)\*
- Group EBITDA improved to a loss of A\$0.1m (2009: loss A\$51.3)
- Drilling fluids services revenue reduced to A\$20.3m (2009: A\$34.2m)
- Drilling fluids services EBITDA reduced to A\$3.6m (2009: A\$6.1m)
- Profit for the year improved to A\$2.5m (2009: loss A\$42.9m)
- Attributable profit to share holders improved to A\$4.8m (2009: loss A\$33.4m)

\*The prior period's revenue was adversely impacted by the loss on revaluation of the venture capital investment.

**Drilling fluids  
EBITDA**

EBITDA referred to above is reconciled from the segmental note 3 as follows:

	<b>Drilling fluid services</b>	
	<b>2010</b>	<b>2009</b>
	<b>A\$</b>	<b>A\$</b>
Profit from continuing operations	2,711	4,563
Depreciation & amortisation	918	1,499
EBITDA	3,629	6,062

**Group EBITDA**

EBITDA referred to above is reconciled from the Income statement as follows:

	<b>Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>A\$</b>	<b>A\$</b>
Loss from continuing operations	(1,001)	(52,831)
Depreciation & amortisation	925	1,507
EBITDA	(76)	(51,324)

## **CHIEF EXECUTIVE'S OVERVIEW**

Group revenue increased to A\$20.4m (2009: A\$10.1m.) The 2009 group revenue was adversely impacted by the loss on revaluation of the venture capital investment. Revenue from the oilfield services division was A\$20.3m (2009: A\$34.2m). This reduction in revenue was primarily due to severe flooding in Queensland and South Australia which hampered drilling activity. Offshore revenues were also lower than expected due to a deferral of drilling projects.

Group EBITDA improved to a minor loss of A\$0.1m compared with a loss of A\$51.3m in the previous year which was due to the revaluation of the venture capital investment. Oilfield services EBITDA reduced to A\$3.6m (2009: A\$6.1m) however EBITDA margins remained consistent at 17.7% (2009:17.8%).

Group profit for the year improved to A\$2.5m (2009: loss A\$42.9m) and attributable profit to share holders improved to A\$4.8m (2009: loss A\$33.4m) due to a gain of A\$6.6m on settlement of loans associated with the acquisition of the remaining 50% interest in Zeus Petroleum Ltd.

## **OILFIELD SERVICES**

### **Australia**

#### **Onshore**

Rheochem Limited continues to be a major supplier of drilling fluid chemicals and services for both onshore and offshore oil and gas drilling campaigns. This year we experienced a marked reduction in onshore drilling activity in the second half due to extensive flooding in Queensland and South Australia, with some drilling rigs being out of action for up to five months. Rheochem Ltd has tendered to renew its largest onshore contract for a further three years with a possible further two year extension and we look forward to updating the market when an award is made.

#### **Coal Bed Methane**

Drilling activity in the coal bed methane sector is increasing and we see the potential for strong growth in this area. The Company has developed a range of products for the Coal Bed Methane drilling industry and these are gaining increased market acceptance. Further marketing is being undertaken to cement the Company's position in this sector.

#### **Geothermal**

Rheochem is awaiting a decision on a significant tender to supply fluids to some of the deepest and hottest wells to be drilled onshore in Australia. During the year we invested in high temperature / high pressure testing equipment. With this equipment in place our technical department has developed extreme temperature drilling and completion fluids capable of withstanding 300° Celsius.

#### **Offshore**

The level of activity in offshore operations with existing customers for the year was disappointing, however the Company added some large customers to its list. The value of work bid in new tenders has improved significantly.

### **New Zealand**

Rheochem Pacific Limited continues to provide drilling fluids and engineering services to two major entities operating in the geothermal industry in New Zealand. These contracts have been operating since 2004 and 2005 respectively and continue into 2010/11.

## **CHIEF EXECUTIVE'S OVERVIEW** *(continued)*

### **India**

Rheochem India (Private) Ltd (RIPL) is a 70% owned subsidiary and continues to perform strongly, achieving its highest ever monthly revenue of A\$0.52million in October 2009.

During the year this division was awarded a contract for drilling fluid services from Oil and Natural Gas Company India "ONGC" for its Tripura onshore asset in Agartala, India. The contract was completed successfully and has a provision to provide services for future locations depending on performance and operational requirements of ONGC. We expect this option will be exercised thereby extending the contract significantly and we will update the market as to the outcome of this extension.

This division was awarded a contract for drilling fluid, engineering and dewatering services from Hindustan Oil Exploration Company Limited "HOEC", a new customer for Rheochem, for the appraisal of its Dirok gas discovery onshore on Block AAP-ON-94/1 in the state of Assam, India. The contract was for one firm well with a provision for a further two optional wells and we will update the market as to the outcome of this extension.

The Company continues to tender and win work within the Indian market and has established a reputation for technical competence and performance.

The HOEC contract also includes the supply of dewatering equipment. The supply and operation of this equipment represents an extension of Rheochem's traditional fluid and engineering services.

The Company also continues to seek opportunities for export of oilfield products which can be manufactured cost effectively in India.

### **Indonesia**

PT Rheochem Indonesia has received all the licences required to operate in the Indonesian oil and gas industry.

As with India the directors believe Indonesia represents a potential growth market in the oil and gas as well as geothermal industries. Post year end, on the 29 July 2010, Rheochem has now moved to a 95% holding in this subsidiary.

**CHIEF EXECUTIVE'S OVERVIEW** *(continued)*

**OIL & GAS ASSETS**

**United Kingdom - Zeus**

**Zeus Licence interests as at 30 June 2010**

<b>Licence</b>	<b>Blocks</b>	<b>Zeus Interest %</b>
P 1289	14/11	100
P 1293	14/18b ( Athena)	10
P 1611	14/26b	90

**LICENCE P1293 (Block 14/18b) Athena, Zeus 10%**

**Athena (Block 14/18b) Reserves**

<b>Reserve Category</b>	<b>Athena Reserves (Gross 100%) MMstb</b>	<b>Athena Reserves (Net to Zeus) MMstb</b>
Proved + Probable (2P)	24.4	2.44
Proved + Probable + Possible (3P)	43.88	4.39

**LICENCE P1289 (Block 14/11) Zeus 100%**

**Zeus Prospective resources Block 14/11 UK North Sea**

<b>Block 14/11 UK North Sea</b>	<b>Prospective STOIP (mmbbls)</b>		
<b>Prospect</b>	<b>Low Estimate</b>	<b>Best Estimate</b>	<b>High Estimate</b>
<b>Metis</b>	90	356	1400
<b>Block 14/11 UK North Sea</b>	<b>Recoverable Prospective Resources (mmbbls)</b>		
<b>Prospect</b>	<b>Low Estimate</b>	<b>Best Estimate</b>	<b>High Estimate</b>
<b>Metis</b>	<b>20</b>	<b>93</b>	<b>392</b>



## **CHIEF EXECUTIVE'S OVERVIEW** *(continued)*

The Directors reported last year that the Company would conduct a strategic review of its E&P assets following the default by the other shareholder in the main asset of the division. As part of the review the Company gave consideration as to the best way of unlocking the value of the individual businesses with a view to separating them.

The Company still believes the business groups should be separated however in this challenging economic climate, selling or funding junior E&P companies is difficult and the IPO route for Zeus would be very dependent on the Athena project sanction which has not yet been completed although it is expected before December 2010. Therefore the Company has taken the decision to continue with the Athena development to full partner and Government sanction which is expected before December 2010.

The Company continues to review funding options for the Athena Project which include but are not limited to project development funding; other debt instruments; farm out or trade sale of E&P assets; trade sale of the services business; equity raising, and the demerger of the E&P subsidiary with independent funding. Rheochem expects to be in a position to report on progress in October 2010.

Where possible the funding of the Athena development should not dilute the underlying value of the Fluids businesses. Securing the funding should allow investors the opportunity to ascertain the inherent value in each business group and allows the Company to work towards separating the two groups under the most favourable conditions.

The Company believes, at project sanction, it will have access to sufficient funding and other available resources to continue with this development and this represents the most favourable economic outcome for the Company at the present time. Should the Company not be able to secure total funding for the project this may result in a sale or relinquishment of the Athena assets which may result in an impairment in the value of that asset.

The main outcomes of the review were:

- Gain 100 % control of Zeus to clarify ownership and eliminate third party non-bank loan relationships. Rheochem negotiated a final settlement of third party loans between Zeus, Pacific International Management inc. ("PIM") and Rheochem. Zeus is now a 100% owned subsidiary which gives greater flexibility on funding arrangements and reduces third party risk.
- Reduce exploration acreage to key assets.
- The assets retained in the subsidiary include 2.44m barrels of 2P oil reserves through Zeus's stake in the Athena oil discovery which would be more valuable once sanctioned for development. First oil is expected late 2011 and would provide significant revenues to Zeus in the 2011/2012 financial year.
- Zeus has a 100% stake in North Sea Block 14/11 with mid case recoverable prospective resources of 93 million barrels and is actively seeking farm in partners. This block was written down to zero value in the previous year but is still the subject of serious discussions to endeavour to get a well drilled. If no farm in partner is found, or the licence is not extended, this licence is expected to be revoked in December 2010.
- The 90% stake in Block 14/26b which contains the Thunderball discovery had previously flowed 34mmscf on production test. Zeus is currently seeking farm in partners and should have sufficient time left on the licence to do so.
- Rheochem is still working with UK Company Energy Venture Opportunities International ("ENVOI") to provide project marketing services to identify and assist with concluding a farm out of blocks 14/11 and 14/26b. ENVOI will also help to determine potential interest in the Athena discovery should the Board decide to sell it at a later date.

## **CHIEF EXECUTIVE'S OVERVIEW** *(continued)*

As previously announced, Zeus Petroleum has a legal dispute with Senergy Limited; a UK based drilling company, claiming US\$11.907m and £1.938m in respect of contracted works not carried out in accordance with the terms of an alleged contract with Zeus. Since initial contact was made by Senergy, informing Zeus of Senergy's position, a claim has now been lodged in the High Court and Zeus intends to rigorously defend this claim.

While the management of Zeus believe that Senergy's claim is unlikely to succeed, it does give rise to a contingent liability in the Zeus and consolidated group accounts as at 30 June 2010.

Whilst a contingent liability in a subsidiary is deemed to be a contingent liability for group accounting purposes, there is no legal liability attributable to Lochard Energy or Rheochem PLC.

### **America**

#### **Blackwell Project**

Rheochem's 100% owned subsidiary, Lochard Energy Inc. ("Lochard") holds a 65% working interest (48.75% revenue interest) in 22 wells on the Blackwell leases in Caldwell County, Texas, USA.

The Company does not intend to participate in any further wells in this field.

#### **Schuster Flats**

Lochard holds an 18.75% working interest over approximately 34,400 acres in the natural gas and oil leases in the Schuster Flats prospect which is located in the central portion of the Big Horn Basin in the state of Wyoming, USA.

No further drilling is budgeted for 2010/2011 financial year and the leases are being reviewed for potential sale or joint venture.

#### **Bearcat Prospect**

Lochard holds a 13.75% working interest (10.31% revenue interest) in the 960 acre Bearcat Prospect located in Park County at the north end of the Big Horn Basin in the state of Wyoming, USA.

The Company does not intend to participate in any further wells in this field until US gas prices improve and commercial flow rates can be proven from the Two Dot #12-42 well.

## **CHIEF EXECUTIVE'S OVERVIEW** *(continued)*

### **Outlook**

The coming year looks very promising for both the fluids business and the E&P business and we expect revenues to be significantly higher than the previous 12 months. Given its long standing relationship with some customers, the Company expects to renew major contracts this year which will underpin the main revenue stream. In addition the Company is waiting on the award of tenders with new and previous customers and looks forward to updating the market in due course.

Drilling activity in the coal bed methane sector should rise significantly in the second half once these projects begin to be sanctioned for development. Rheochem is well placed to take advantage of this increased activity as it already supplies several customers in this area.

Offshore drilling activity is also expected to increase. Rheochem owns one of the four fluids blending plants on the North West Shelf of Australia and competes directly against the three major international oilfield service companies.

On the E&P side, Zeus expects to get partner sanction and government production consent before December 2010 to allow the Athena development to proceed. This will be the first offshore oilfield development for the Company. First oil is expected late 2011 and although it will not make a revenue contribution to our financial year 2010/2011, it should have a major positive impact the following year with Zeus's initial share of oil production expected to be around 2000 bbls/day. Should the Company not be able to secure total funding for the project this may result in a sale or relinquishment of the Athena assets which may result in an impairment in the value of that asset.

Zeus will actively pursue farm in partners for its large exploration prospect Metis on North Sea block 14/11 and on its appraisal prospect Thunderball on North Sea block 14/26b. Both of these have the potential to have a major impact on the valuation of Zeus if successful.

Finally I would like to thank our management team and staff for their hard work and dedication during a difficult year. On behalf of shareholders I would like to thank them for their loyalty and commitment.

**Haydn Gardner**  
**Chief Executive**  
27 August 2010

## Board of 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. The Directors were in office for this entire period unless otherwise stated.

The Board is responsible for all strategic decisions regarding the Group's business, including approval of commercial strategy, annual budgets, interim and full financial statements and reports, and dividend and accounting policies. It is also responsible for approving all significant capital projects, investments and disposals.

### **Haydn L Gardner**, B App Sci (Chemistry)

Managing Director (49)

Mr Gardner is the founder of Rheochem. He graduated with a degree in Applied Science (Chemistry) from Deakin University in 1982. After working as a production chemist with British Drug Houses (Merck) and ICI he joined BHP Petroleum Research in 1988. Whilst there, he implemented a radioactive tracer program for drilling fluids to help characterise subsurface geochemistry of various offshore basins. Mr Gardner has also worked extensively in the mineral processing industry.

### **Craig R McGuckin**, Dip. Minsurv Class 1, Dip Surfmin

Executive Director (49)

Mr McGuckin has over 20 years experience in the mining industry where he has held senior management and board experience in both private and public companies. He has been Mine Manager for Griffin Coal Mining Co Ltd in Australia and Managing Director for exploration drilling contractors Grimwood Davies Holdings Ltd. He holds diplomas in Mine Surveying (Class 1) and Surface Mining, as well as an Unrestricted Quarry Managers certificate.

### **Lincoln C McCrabb**, B App Sci (Chemistry) MAusIMM, MRAusCI

Executive Director (49)

Mr McCrabb has over 20 years experience in chemistry/metallurgy and has held senior positions as Managing Director of Normet Pty Ltd and Oretest Pty Ltd. He graduated with a Degree in Applied Science (Chemistry) from Deakin University in 1982.

### **Michael Rose**, B Sci (Geology/Chemistry)

Non-executive Director (52)

Mr Rose is a geologist who has held a number of technical and managerial positions over 25 years in oilfield exploration, development and operations. He has particular experience of the UK North Sea and has also worked on projects in Holland, Italy, Australia and India. Companies worked for include Amoco, BP, Enterprise Oil, Hardy Oil & Gas, Pentex UK and Petrobras. Mr Rose has been appointed Chair of the Remuneration Committee and serves on the Audit Committee.

## **Board of directors** *(continued)*

### **Peter Youd**, B Bus (Accounting), AICA, AICD

Non-executive Director (55)

Mr Youd is a Chartered Accountant and has extensive experience within the mineral resources, oil and gas services, and mining services industries. For the last 35 years Mr Youd has held a number of senior management positions and directorships for publicly listed and private companies in Australia and overseas. Mr Youd graduated from the W.A. Institute of Technology (now Curtin University of Technology) with a Bachelor of Business. Mr Youd has been appointed Chair of the Audit Committee and serves on the Remuneration Committee.

### **Company Secretary**

Adrian Bowers was appointed to the position of company secretary of Rheochem Plc in August 2004. He has been a Certified Practising Accountant for over 15 years and is a qualified Chartered Company Secretary.

## Directors' report

The Directors present their report together with the financial report of Rheochem Plc ("the Company" or "Rheochem"), and of the Group, being the Company and its subsidiaries for the financial year ended 30 June 2010 and the auditor's report thereon.

### Results and Dividends

The Group result for the year was a profit of A\$2.504 million (*30 June 2009: loss of A\$42.292 million*).

No final dividend has been declared or recommended as at 30 June 2010 or as at the date of this report (*2009: A\$nil*).

No interim dividends have been paid (*2009: A\$nil*).

### Principal Activities

The principal activities during the year of the Group were:

- the provision of drilling fluids and drilling fluid engineering services to the oil & gas industry; and
- participation in oil & gas assets including trading and investments.

A more detailed review of the business can be found in the Chief executive's overview commencing on page 2.

### Outlook

This is discussed in the Chief executive's overview.

### Key Performance Indicators

The key performance indicators are highlighted on page 1, Financial highlights.

### Research and Development

Rheochem has continued to invest in research and development to improve the Group's ability to provide drilling fluid systems comparable to or superior to those offered by the major competitors. The extensive laboratory facility will continue to enable the Group to provide solutions to complex client problems.

### Financial Risk Management

The major financial risks faced by the Company and Group are interest rate risk, currency risk, liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

#### *Interest Rate Risk*

The Company and Group's policy is to manage its interest cost using a combination of variable and fixed rate debt.

#### *Foreign Currency Risk*

The Company and Group's profitability can be significantly affected by movements in the \$US/\$A and \$NZ/\$A exchange rates.

These exposures arise from sales or purchases of goods and services.

The Group seeks to manage this risk by holding foreign currency and contracting with certain customers in \$US.

#### *Liquidity Risk*

The Group maintains a balance between continuity of funding and flexibility through the use of cash, term deposits, hire purchase contracts and bank borrowings.

## **Directors' report** *(continued)*

### **Financial Risk Management** *(continued)*

#### *Credit Risk*

The Group holds significant trade receivables. The majority of the Company's and Group's customers are very large oil companies and therefore the recoverability risk tends to be less of the traditional credit nature and more to do with customer satisfaction.

#### *Principle Risks and Uncertainties*

The following is not intended to be an exhaustive list of the risk factors to which the Company is exposed.

#### *Fluctuations in Oil and Gas Prices*

While Rheochem is relatively insulated from short term fluctuations in oil and gas prices, these do lead to uncertainty in the oil and gas industry which can lead to a lack of investment in equipment. In addition, a longer term fall in oil and gas prices can reduce levels of cash flow in the industry which could lead to the reduction or deferral of expenditure on Rheochem's product range.

#### *Regulatory Approvals*

The operations of the Rheochem Group and the agreements which it has entered into require approvals, licences and permits from various regulatory authorities, governmental and otherwise (including project specific governmental decrees). The Directors believe the Rheochem Group holds or will obtain all necessary approvals, licences and permits under applicable laws and regulations in respect of its main projects and, to the extent they have already been granted, believes it is presently complying in all material respects with the terms of such approvals, licences and permits. However, such approvals, licences and permits are subject to change in various circumstances and further project-specific governmental decrees and/or legislative enactments may be required. There can be no guarantee the Rheochem Group will be able to obtain or maintain all necessary approvals, licences and permits may be required and/or all project specific governmental decrees and/or required legislative enactments will be forthcoming.

#### *Dependence on Key Clients*

Rheochem is dependent on a relatively small number of key clients. The loss of one or more of these key clients would have a material adverse effect on Rheochem's revenues.

## **Directors' report** *(continued)*

### **Title and Title Opinions**

The system for obtaining oil and gas leases in regions the Group may operate in is sometimes complex given numerous parties may hold the undivided mineral rights to a particular tract of land. Securing the leases to those rights often requires lengthy negotiation with the various parties. In order to independently verify the parties with whom the Group is dealing are the correct and sole holders of the mineral rights and to analyse a company the Group obtains detailed title opinions from appropriately qualified and experienced lawyers. This can be a lengthy and expensive process and the final opinions are often the subject of numerous qualifications. It is therefore customary such title opinions are not sought until it is proposed to conduct a drilling operation and/or expend significant amounts of money on a particular lease.

Further, some of the leases in which the Group will acquire an interest may have a fixed term and be subject to applications for renewal. The renewal of the term of each permit or licence is usually at the discretion of the relevant lessor. If a lease is not renewed or granted, the Group may suffer significant damage through loss of the opportunity to develop and discover any oil or gas resources on the lease.

### **Drilling and Operating Risks**

Oil and gas drilling activities are subject to numerous risks, many of which are beyond the Group's control. The Group's operations may be curtailed, delayed or cancelled as a result of weather conditions, mechanical difficulties, shortage or delays in the delivery of rigs and/or other equipment and compliance with government requirements. Drilling may provide unprofitable results, not only with respect to dry wells, but also with respect to wells, which, though yielding some petroleum, are not sufficiently productive to justify commercial development or cover operating costs. Completion of a well does not assure a profit in the investment or recovery of drilling, completion and operating costs. Hazards incidental to the exploration and development of oil and gas properties such as unusual or unexpected formations, pressures, oceanographic conditions or other factors are inherent in drilling and operating wells and maybe encountered by the Group.

Industry operating risks include the risk of fire, explosions, blow-outs, pipe failure, abnormally pressured formations and environmental hazards such as accidental spills or leakage of petroleum liquids, gas leaks, ruptures or discharges of toxic gasses, the occurrence of any of which could result in substantial losses to the Group due to injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, cleanup responsibilities, regulatory investigation and penalties and suspension of operations. Damages occurring as a result of such risks may give rise to claims against the Group. Although the Group believes it or the operator will carry adequate insurance with respect to its operations in accordance with industry practice, in certain circumstances the Group's or operator's insurance may not cover or be adequate to cover the consequence of such events. In addition, the Group may be subject to liability to pollution, blow-outs or other hazards against which the Group or operator does not insure or against which it may elect not to insure because of high premium costs or other reasons. The occurrence of an event is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of operations of the Group. Moreover, there can be no assurance the Group will be able to maintain adequate insurance in the future at rates it considers unreasonable.

### **Ability to Exploit Successful Discoveries**

Oil exploration involves significant risks which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance oil will be discovered or, even if it is, commercial quantities can be recovered from the Group's licence acreage. No assurances can be given if commercial reserves are discovered the Group will be able to realise such reserves as intended. There is also no assurance the Group may be able to acquire any other commercially significant oil deposits.

### **Currency Risk**

Rheochem Limited, the Rheochem Group's principal operating subsidiary, reports its financial results and maintains its accounts in Australian Dollars and the world market for oil and gas services is principally denominated in United States Dollars. The Rheochem Group's operations make it subject to further foreign currency fluctuations and such fluctuations may materially affect the Rheochem Group's financial position and results.



## **Directors' report** *(continued)*

### **Economic, Political, Judicial, Administrative, Taxation or Other Regulatory Factors**

Oil and gas exploration production activities may be affected in varying degrees by political stability and government regulations relating to the oil and gas industry. Any changes in regulations or shifts in political conditions are beyond the control of the Rheochem Group and may adversely affect its business. Operations may be affected in varying degrees by government regulations with respect to environmental legislation and safety. Lack of political stability, changes in political attitudes and changes to government regulations relating to foreign investment and the oil industry are beyond the control of the Rheochem Group and may adversely affect its business. Operations may be affected in varying degrees by government regulations with respect to restrictions on various areas, including production, price controls, export controls, income taxes, and expropriation of property, environmental legislation and safety. Operations may also be affected by on-going disturbances, trespass and resultant civil or criminal proceedings against members of the Rheochem Group and key employees.

### **Environmental and Other Requirements**

The Rheochem Group's operations are subject to the extensive environmental risks inherent in the oil and gas and mining industries.

The current or future operations of the Rheochem Group, including development activities and blending operations require permits from various governmental authorities and such operations are and will be governed by laws and regulations governing exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, safety and other matters. Companies engaged in the construction and operation of dangerous goods storage facilities generally experience increased costs, and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits.

Existing and possible future environmental legislation, regulations and actions could cause significant additional expense, capital expenditures, restrictions and delays in the activities of the Rheochem Group. There can be no assurance all permits which the Rheochem Group may require for construction of blending plants will be obtainable on reasonable terms or applicable laws and regulations would not have an adverse effect on any project which the Rheochem Group might undertake. Although the Rheochem Group believes it is in substantial compliance in all material respects with applicable material environmental laws and regulations, there are certain risks inherent in its activities such as accidental spills, leakages or other unforeseen circumstances which could subject the Rheochem Group to extensive liability.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions hereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Amendments to current laws, regulations and permits governing operations, or more stringent implementation thereof, could have a material adverse impact on the Rheochem Group and cause increases in capital expenditures or production costs or reduction in levels of production or require abandonment or delays in development of new projects.

### **Contract Terms**

Rheochem sells products and services to the oil and gas and mining industries. As such its responsibility for damage occurring at the rig site is limited to that which might be caused by product failure. It is usual in the industry for mutual hold harmless arrangements to exist between contractors, oil companies and product suppliers but nevertheless Rheochem carries extensive product liability insurance. In the unlikely event of a catastrophic failure which caused the destruction of an oil well or rig being directly attributed to the failure of Rheochem equipment, the insurance cover could prove to be inadequate which could therefore result in Rheochem Group earnings being significantly affected.

## **Directors' report** *(continued)*

### **Competition**

Products are available which compete directly or indirectly with the Rheochem Group's products. New technology, changing commercial circumstances and new entrants to the markets in which the Rheochem Group operates may adversely affect the Rheochem Group's business. Many of the companies operating in the same sector as the Rheochem Group are significantly larger and have significantly greater financial resources. The companies who are Rheochem's clients may develop their own products and services in house and therefore no longer need to purchase these from Rheochem. These factors could lead to an adverse effect upon Rheochem's revenues and earnings.

### **Dependence on Key Personnel**

The Rheochem Group's business is dependent on retaining the services of its Directors, senior management and other key personnel. Whilst the Board has sought to and will continue to ensure the Directors and any key employees are appropriately incentivised, their services cannot be guaranteed. The Group has a small management team and the loss of any Director may have an adverse effect on its operational performance, growth plans and ability to raise further funds. The continued involvement of key employees, consultants and Directors is not assured, and the loss of their services to the Group may have a material adverse effect on the performance of the Group.

### **Market Growth and Industry Data**

Information or other statements presented in this document regarding market growth, market size, development of the market and other industry data pertaining to the oil and gas services market and Rheochem's business consist of estimates based on data and reports compiled by industry professionals, organisations, analysts or on Rheochem's knowledge of its sales and markets. The Directors take responsibility for compiling and extracting but have not independently verified market data provided by third parties or industry or general publications, although they consider such data and publications to be reliable.

### **Technological Progress**

If oil and natural gas companies design and apply new products that allow them to drill fewer wells and to drill, complete and produce wells faster, recover more hydrocarbons and/or lower costs Rheochem's business may be materially adversely affected.

### **Project Development Risks**

There can be no assurance that the Group will be able to manage effectively the development of its operations or that the Group's current personnel, systems, procedures and controls will be adequate to support the Group's operation. Any failure of management to manage effectively the Group's growth and development could have a material adverse effect on the Group's business, financial condition and results of operations. There is no certainty that all or, indeed, any of the elements of the Group's current strategy will develop as anticipated.

### **Operational Risks**

The Group's operational targets are subject to the completion of planned operational goals on time and according to budget, and are dependent on the effective support of the Group's personnel, systems, procedures and controls. Any failure of these may result in delays in the achievement of operational targets with a consequent material adverse impact on the business, operations and financial performance of the Group.

The locations of the Group's exploration activities dictate that climatic conditions and infrastructure (or lack thereof) have an impact on operations and, in particular, severe weather and other matters affecting infrastructure, road and transport could disrupt the delivery of supplies, equipment and fuel. It is therefore possible that operation levels might fluctuate. Undisclosed interruptions in the Group's operations due to mechanical or other failures, or industrial relations related to issues, or problems or issues with the supply of goods or services could have a serious impact on the financial performance of those operations.

## **Directors' report** *(continued)*

### **Reserves and Resource Estimates**

Reserve and resource estimates are expressions of judgement based on knowledge, experience and industry practice. Historical calculations or estimates which were valid when originally calculated may alter significantly when new information or techniques become available. In addition, by their very nature, resource and reserve estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. As further information becomes available through additional evaluation, the estimates are likely to change. This may result in alterations to development and production plans which may, in turn, adversely affect the Group's operations. Economically recoverable reserves are dependent on oil price and ultimate oil recovery may be less than reserves.

### **Country Risk**

The Group operates in various geographical locations, which introduces both sovereign and domestic economic risks to investors investing in the CDIs for Shares. Investors should be aware that country risks may affect the Group and its operations and assets.

### **Additional Requirements for Capital**

The Group may require additional financial resources to continue funding its future expansion and the evaluation of its projects. No assurance can be given that any such additional financing will be available or that, if available, it will be available on terms acceptable to the Group or its Shareholders. The Group may in the future raise additional funds through public or private financing.

If additional funds are raised through the issue of equity securities, the percentage ownership of the current Shareholders of the Company and Group will be reduced and such securities may, subject to requisite Shareholder approval, have rights, preferences or privileges senior to those of the holders of the Shares then in issue.

If adequate funds are not available to satisfy either short or long-term capital requirements, the Group may be required to limit its operations significantly.

### **Non controlling minority interests and contractors**

Where a non controlling minority interest does not act in the best commercial interest of the venture, it could have a material adverse effect on the interests of the Company and Group.

The Directors are unable to predict the risk of:

- financial failure or default by a participant in any venture to which the Company may become a party;
- insolvency or other managerial failure by any of the contractors used by the Company in its activities; or
- insolvency or other managerial failure by any of the other service provider used by the Company for any activity.

### **Other Actions by Operators**

Rheochem is not aware of any legal restriction on joint venture participants or operators selling their interest in the Company's oil and gas assets in which it has an interest to a third party. Should a joint venture participant or operator sell its interest to a third party, there can be no guarantee that the third party does not take action that is detrimental to minority shareholders or may take a different approach to managing its interest.

Should the operator assign its interest as operator to a third party there can be no guarantee that the third party will operate in the same manner, which may result in reduced profitability.

## **Directors' report** *(continued)*

### **New Projects and Acquisitions**

The Group proposes to actively seek acquisitions that may add value to the Group. The acquisition of new business opportunities (whether completed or not) may require the payment of monies (as a deposit and/or exclusivity fee) after only limited due diligence and prior to the completion of any comprehensive due diligence. There can be no guarantee that any proposed acquisition will be completed or be successful. If the proposed acquisition is not completed, monies already advanced may not be recoverable, which may have a material adverse effect on the Group.

If an acquisition is completed, the Board will need to re-assess, at the time, the funding allocated to current projects and new projects, which may result in the Group reallocating funds from other projects and/or the raising of additional capital (if available). Furthermore, notwithstanding that an acquisition may proceed upon the completion of due diligence, the usual risks associated the oil and gas services business and/or oil and gas exploration activities will remain.

### **General Risks**

#### *Economic Risks*

General economic conditions, movements in interest and inflation rates and currency exchange rates may have an adverse effect on the Group's exploration, development and production activities, as well as on its ability to fund those activities.

Further, share market conditions may affect the value of the Company's quoted securities regardless of the Group's operating performance. Share market conditions are affected by many factors including:

- (a) general economic outlook;
- (b) interest rates and inflation rates;
- (c) currency fluctuations;
- (d) changes in investor sentiment toward particular market sectors;
- (e) the demand for, and supply of, capital; and
- (f) terrorism or other hostilities.

### **Dividends**

There can be no assurance as to the level of any future dividends. The payment and amount of any potential future dividends of the Company are subject to the discretion of the Directors and will depend upon, amongst other things, the Company's earnings, financial position, cash requirements and availability of profits. The Directors have no intention of declaring and paying a dividend in the foreseeable future.

### **Market Conditions**

The market price of the CDIs or Shares can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and resource exploration stocks in particular. Neither the Company nor the Directors warrant the future performance of the Company and Group or any return on an investment in the Company.

Market perception of junior service and/or exploration companies may change, potentially affecting the value of investors' holdings and the ability of the Company to raise further funds by the issue of further Shares or otherwise.

## Directors' report *(continued)*

### Securities Investments and Share Market Conditions

The market price of CDIs or Shares could be subject to significant fluctuations due to various factors and events, including any regulatory or economic changes affecting the Group's operations, variations in the Group's operating results, developments in the Group's business or its competitors, or to changes in market sentiment towards the CDIs or Shares. The Group's operating results and prospects from time to time may be below the expectations of market analysts and investors. In addition, stock markets from time to time suffer significant price and volume fluctuations that affect the market prices for securities and which may be unrelated to the Group's operating performance. Any of these events could result in a decline in the market price of CDIs or Shares.

### Share Placement

On 15 March 2010 the Group placed 32,553,900 new ordinary shares with existing and new investors to raise approximately A\$2.669million ( £1.630million) before expenses. The shares were issued at a price of 5p (A\$0.082) per share. The proceeds from the placing will be used for working capital and in particular to meet the Group's share of pre-development sanction costs in respect of the Athena discovery project in the North Sea.

### Directors and their interests

The Directors who served during the year and their beneficial interests in the Company's ordinary share capital were as follows:

	30 June 2010	30 June 2009
H.L. Gardner	16,428,422	16,428,422
C.R. McGuckin	3,286,050	3,286,050
L.C. McCrabb	-	-
M. Rose	3,781,570	3,781,570
P.R. Youd	233,000	233,000

In accordance with the Company's Memorandum and Articles of Association a third of the Directors must retire at the Annual General Meeting and offer themselves for reappointment as a Director of the Company.

There have been no changes to Directors' interests as at the date of this report.

Details of Directors' interest in transactions are set out in note 29.

### Payment of Creditors

It is the Group's practice to agree credit terms with all suppliers and to pay all approved invoices within these agreed terms. The average trade creditor days for the year was 49 days (2009: 48 days).

### Political and Charitable Donations

The Group made no political nor charitable donations during the year (2009: A\$nil)

### Health, Safety and Environmental

The Group continues to place great emphasis on occupational health safety and environmental issues.

The Group recorded no Lost Time Injuries and has had no reportable environmental incidents for the year.

The Group strives for the highest levels of environmental protection and conformance. The Group holds licenses for the storage of dangerous goods at various locations around Australia. There have been no known breaches of license conditions during the period to the date of this report.

The Group will continue to make resources available to operate in a safe and environmentally responsible manner.

## Directors' report *(continued)*

### Events since the balance sheet date

There are no known subsequent events of a material nature.

### Employees

The Group is committed to providing equal opportunities to all employees irrespective of their sex, sexual orientation, marital status, religion, race, age or disability. It is the Group's policy to give positive consideration to disabled persons with respect to application for employment, training, career development and promotion, having regard to each individual's particular aptitudes and abilities.

### Substantial Shareholdings

As at 24 August 2010 the Company was aware of the following interests in 3% or more of its issued share capital:

Shareholder	Number of shares	% Holding
Gartmore Investment Limited	<b>60,816,402</b>	24.4
R J Barby Esq	<b>18,493,171</b>	7.4
Gardner Marketing Pty Ltd	<b>16,428,422</b>	6.6
Amundi Asset Management	<b>12,800,000</b>	5.1
Credit Agricole Cheuvreux International Ltd	<b>12,500,000</b>	5.0
Merchant Securities	<b>11,519,000</b>	4.6
Waterford Investments Group Ltd	<b>9,011,829</b>	3.6

### Going concern

The Directors are responsible for considering whether it is appropriate to prepare financial statements on a going concern basis. After making appropriate enquiries the Directors concluded that the Group has adequate resources to continue in operation for the foreseeable future. For this reason the Group continues to adopt the going concern basis in preparing the financial statements. (see note to the financial statements)

### Disclosure of information to auditors

- So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware and;
- Each of the Directors has taken all of the steps that he ought to have taken, as a Director, to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of this information.

### Auditors

A resolution to re-appoint KPMG Audit Plc as auditors and authorise the Directors to agree their remuneration will be placed before the forthcoming Annual General Meeting of the Company.

By order of the Board

**Haydn Gardner**  
*Director*

27 August 2010

## Corporate governance statement

The Board of Directors recognise the value of good corporate governance. In this regard the Board acknowledges the guidelines set out and disclosures required by the ASX on corporate governance.

The Board is continually reviewing its corporate governance framework in the light of the development of the Group. As circumstances require or permit, the Board will make appropriate amendments. The corporate governance statement and committee charters are displayed on the Group's web site under the Corporate Governance section.

This statement describes the principles which are being applied and which are not.

### Principle 1 – Lay solid foundations for management and oversight

#### The Board

The Board, comprising three executive directors and two non-executive directors is responsible for the overall strategy and direction of the Group as well as for approving potential acquisitions, major capital expenditure items and financing matters.

Rheochem has adopted a Board Charter and a Board Code of Conduct which are available on the Group's website.

The Board meets formally on a regular basis and in addition, ad hoc meetings are called to address specific issues requiring Board approval. At formal meetings the Board reviews trading performance against budget and monitors strategies for the Group's development. The Board is supplied in a timely manner with information in a form and of suitable quality appropriate to enable it to discharge its duties.

The Executive Directors have written service contracts which are terminable upon 24 months notice. The Non-executive Directors have letters of appointment. In accordance with the Company's Articles of Association, one third of the Directors are required to retire by rotation at the annual general meeting.

#### Monitoring of the Board's performance and communication to shareholders

In order to ensure the Board continues to discharge its responsibilities in an appropriate manner, the performance of all Directors is reviewed annually by the Chief executive officer. Directors whose performance is unsatisfactory are asked to retire.

The Board of Directors aims to ensure that shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the Directors. Information is communicated to the shareholders through:

- The annual report which is distributed to all shareholders;
- The half-yearly report available to all shareholders ; and
- The annual general meeting and other meetings so called to obtain approval Board action as appropriate.

#### Board Meetings

The Directors held 8 meetings during the year and up to the date of this report. The following table shows their attendance at the Board meetings.

Name	No. of meetings attended
H.L. Gardner	8
C.R. McGuckin	8
L.C. McCrabb	7
M. Rose	7
P.R. Youd	7

In addition, 3 circular resolutions were signed by the Board.

## Corporate governance statement *(continued)*

### Principle 2 – Structure the board to add value

#### Composition of the Board

The Board is comprised of three executive directors and two non-executive directors.

Name	Role	Non-executive	Independent
H.L. Gardner	Chief executive officer since 2004	No	No
C.R. McGuckin	Executive director since 2004	No	No
L.C. McCrabb	Executive director since 2007 Non-executive director from 2004 to 2007	No	No
M. Rose	Non-executive director since 2007	Yes	Yes
P.R. Youd	Non-executive director since June 2009	Yes	Yes

The composition of the Board is subject to review in a number of ways:-

- The Company's articles provide at every annual general meeting, one third of the Directors shall retire from office but may stand for re-election.
- The Board composition is reviewed by the Board when a vacancy arises or if it is considered the Board would benefit from the services from a new director.

The Board does not have a majority of independent directors nor has it appointed an independent chair. The Board considers the current composition of the Board includes an appropriate mix of skills and expertise, relevant to the Group's business.

Independent Directors have the right to seek independent professional advice in the furtherance of their duties as directors at the Company's expenses. Written approval must be obtained from the chief executive officer prior to incurring any expense on behalf of the Company.

All Directors have direct access to all executives and the Company Secretary.

#### Nomination Committee

The Board of directors believe that the Group is not of a size to warrant a nomination committee and therefore allocate the appropriate time as required at their Directors' meeting.



## Corporate Governance Statement *(continued)*

### Principle 3 – Promote ethical and responsible decision-making

The Directors, management and staff are expected to perform their duties for the Group in a professional manner and act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group.

The Group does not have an employee code of conduct.

The Group considers itself to be fully aware of its social and environmental responsibilities and implements the highest standards of corporate operations in these regards.

The Group has a Code for Share Dealing which prohibits directors and applicable employees from dealing in the Company's shares at any time whilst in possession of price sensitive information, during any closed period as defined in the AIM Rules (which covers the 2 month period before the release of the Group's half year and full year financial results), for any major announcement and the release of the Group's half year or annual financial results to the ASX/AIM.

Directors and applicable employees must not deal in any of the Company's shares without advising the Board or executive directors in advance and must receive clearance to deal. All transactions will be reported immediately to the Board, the Company's Nomad, the ASX and the AIM market in accordance with the requirements of the ASX Listing Rules and the AIM Rules.

### Principle 4 – Safeguarding integrity in financial reporting

#### Audit Committee

The Audit Committee is formally constituted with written terms of reference. The Committee is comprised of two non-executive directors and is chaired by Mr Peter Youd. The Committee meets at least two times a year and receives reports from the Group's auditors. The Committee also acts as the audit committee for each Group company.

The Committee reviews the interim and final accounts prior to approval by the Board. Additionally the Committee ensures the independence and objectivity of the external auditors and reviews the provision of non-audit services by external auditors. The Committee also reviews significant accounting policies, estimations and changes proposed by management.

The Audit Committee held one meeting during the year and up to the date of this report. The following table shows their attendance at the Audit Committee meetings.

Name	No. of meetings attended
M. Rose	1
P.R Youd	1

The Audit Committee does not have three members as recommended by the ASX corporate governance principles. The Board will continue to monitor the composition of the Audit Committee as the Group's business develops and further corporate audit needs arise.

## **Corporate Governance Statement** *(continued)*

### **Principle 5 – Make timely and balanced disclosure**

The Company has a policy under which all the Company shareholders and investors have equal access to the Company's information. The Chief Executive Officer ensures all price sensitive information is disclosed to the AIM and ASX markets in accordance with the continuous disclosure requirements of the AIM Rules and the ASX Listing Rules.

Rheochem has adopted a Continuous Disclosure and Shareholder Communication Policy which is available on the Group's web site.

Information will be communicated to the Company's shareholders in the following methods:

- Annual report will be sent to shareholders.
- Annual and other general meetings convened for shareholder review and approval of Board proposals
- Continuous disclosure of material changes to AIM and ASX
- Group web site will host all announcements made to the AIM and ASX markets and host the Annual Report and Half Yearly reports as soon as possible after release to the markets.

### **Principle 6 – Respect the rights of shareholders**

Communications with shareholders are given high priority. Communications with shareholders are through the Annual General Meeting and through the Group's website. The Chief executive officer aims to ensure the chairman of the Audit Committee and the Chair of the Remuneration Committee is available at the Annual General Meeting to answer questions. Every shareholder is sent a full annual report at each year end. Care is taken to ensure any price sensitive information is released to all shareholders, institutional and private, at the same time in accordance with AIM and ASX requirements.

Rheochem has adopted a Continuous Disclosure and Shareholder Communication Policy which is available on the Group website.

### **Principle 7 – Recognise and manage risk**

The Board is responsible for ensuring the Group maintains a system of internal financial controls, including suitable monitoring procedures. The objective of the system is to safeguard Group assets, ensure proper accounting records are maintained and the financial information used within the business and for publication is reliable. These systems of control, especially financial control, can only provide reasonable, not absolute, assurance no material loss nor misstatement has occurred.

The internal financial control monitoring procedures undertaken by the Board include the approval of the annual budgets and forecasts, review of monthly financial reports and monitoring of performance against budget, prior approval of all significant expenditure and foreign exchange risk management.

The Board has considered the need for an internal audit function and concluded that given the size of the Group there is no current need for such a function within the Group. The Board will review the need for an internal audit function on an annual basis.

The Chief executive officer assures the Board the Group maintains a sound system of internal financial controls, including suitable monitoring procedures.

## Corporate Governance Statement *(continued)*

### Principle 8 – Remunerate fairly and responsibly

#### Remuneration Committee

The Remuneration Committee is formally constituted with written terms of reference. The Committee is comprised of two non-executive directors and is chaired by Mike Rose. This committee is responsible for making recommendations to the Board on the Group's framework of executive director remuneration. The Committee also makes recommendations to the Board on the award of share options to executives and key employees. The Remuneration Report forms part of the Annual Report on page 27.

The Remuneration Committee held 2 meetings during the year and up to the date of this report. The following table shows their attendance at the Audit Committee meetings.

Name	No. of meetings attended
M. Rose	2
P.R. Youd	2

### AUSTRALIAN SECURITIES EXCHANGE DEED OF UNDERTAKING DISCLOSURES

1. Rheochem Plc is a company incorporated in England and Wales.
2. Rheochem Plc is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act dealing with the acquisition of shares (including substantial holdings and takeovers).
3. Rheochem Plc is not subject to the provisions of the UK City Code on Takeovers and Mergers. Accordingly the Articles of Association contain limited provisions dealing with a take over of the Company. Rheochem Plc's Articles of Association are available on the Group's website.

## Directors' remuneration report

### Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board on the Group's framework of executive remuneration and its costs. The Remuneration Committee operates within defined terms of reference and is comprised of two non-executive directors. The Committee is chaired by Mike Rose.

### Remuneration Policy

The policy of the Group is to set levels of remuneration to attract, retain and motivate Executive Directors and key staff. The packages are designed to be competitive in value to those offered to the Directors of similar sized public companies taking into account the performance of the individual and the performance of the Group.

#### *Basic Salary and Benefits*

The components of the executive directors' remuneration packages are currently a basic salary, superannuation/pension contribution and a motor vehicle. The basic remuneration is reviewed annually. The Group does not pay bonuses.

#### *Share options*

The Group believes it is important to provide incentives for executive directors, key management and employees by the award of share options. The share options are allocated by the Remuneration Committee annually.

#### *Pensions*

The Group makes direct contributions to the individual Directors' personal pension schemes.

### Directors' Remuneration

	Salary and fees	Other monetary benefits	Non-monetary benefits	Super-annuation	Share options	Total	Number of options	Value of options as proportion of remuneration
30 June 2010	A\$ 000's	A\$ 000's	A\$ 000's	A\$ 000's	A\$ 000's	A\$ 000's	'000's	%
HL Gardner (i)	413	18	-	15	42	488	1,500	8.6
CR McGuckin (ii)	413	66	18	15	42	554	1,500	7.6
LC McCrabb	179	-	28	-	14	221	500	6.3
M Rose	41	-	-	-	7	48	250	14.6
PR Youd	40	-	-	-	-	40	-	-
	<u>1,086</u>	<u>84</u>	<u>46</u>	<u>30</u>	<u>105</u>	<u>1,351</u>	<u>3,750</u>	<u>7.8</u>
30 June 2009								
HL Gardner (iii)	414	23	15	30	42	524	1,500	8.0
CR McGuckin	406	-	18	36	42	502	1,500	8.4
LC McCrabb	219	-	38	-	14	271	500	5.2
PR Lundie	29	-	-	-	7	36	250	19.4
M Rose	39	-	-	-	7	46	250	15.2
PR Youd	3	-	-	-	-	3	-	-
	<u>1,110</u>	<u>23</u>	<u>71</u>	<u>66</u>	<u>112</u>	<u>1,382</u>	<u>4,000</u>	<u>8.1</u>

No amount of the Director's remuneration for the years ended 30 June 2010 and 30 June 2009 is performance related

## Directors' remuneration report *(continued)*

Other monetary benefits include:

- (i) A motor vehicle allowance.
- (ii) Payment of long service leave.
- (iii) A motor vehicle allowance and a living allowance whilst working outside Australia.

Non monetary benefits include share options, provision of a motor vehicle and medical insurance.

The Board, based on recommendations from the Chief executive officer, determines the remuneration of the non-executive Directors. The non-executive Directors are not involved in any discussion or decision about their own remuneration.

### Director Share Options

The Company has a Share Option Plan by which executive Directors and key employees are able to subscribe for ordinary shares in the Company.

During the financial year, no options were granted and no options have been granted since the end of the financial year.

There are no performance conditions relating to Directors' options

The mid market price of the Company's shares at close of business on 30 June 2010 was 5.0p (2009: 5.5p) and the high and low share prices during the year were 9.0p and 4.65p respectively.

The share options in force and held by current directors are as follows:

	Date of grant	Number of options brought forward	Exercised during the year	Number of options carried forward	Exercise price £
<b>30 June 2010</b>					
HL Gardner	2-10-2007	1,500,000	-	1,500,000	16.5p
CR McGuckin	2-10-2007	1,500,000	-	1,500,000	16.5p
LC McCrabb	2-10-2007	500,000	-	500,000	16.5p
M Rose	22-10-2007	250,000	-	250,000	16.5p
PR Youd	7-12-2007	1,000,000	-	1,000,000	A\$0.525
		<u>4,750,000</u>	<u>-</u>	<u>4,750,000</u>	
<b>30 June 2009</b>					
HL Gardner	2-10-2007	1,500,000	-	1,500,000	16.5p
CR McGuckin	2-10-2007	1,500,000	-	1,500,000	16.5p
LC McCrabb	2-10-2007	500,000	-	500,000	16.5p
M Rose	22-10-2007	250,000	-	250,000	16.5p
PR Lundie	22-10-2007	250,000	-	250,000	16.5p
		<u>4,000,000</u>	<u>-</u>	<u>4,000,000</u>	

All options have an exercise price of 16.5p and were granted during October 2007 and expire during October 2012  
 The share options require a cash settlement to subscribe for ordinary shares

## **Directors' remuneration report** *(continued)*

### **Service Contracts**

The executive Directors have entered into service contracts with the Group that are terminable by either party on not less than twenty four months prior notice.

Neither of the non-executive Directors have service contracts. Letters of Appointment provide for an initial period of three years, subject to review.

## **Statement of Directors' responsibilities in respect of the Directors' report and financial statements**

The Directors are responsible for preparing the annual financial report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have decided to prepare the parent company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit and loss for the period.

In preparing each of the group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU.

The Directors are responsible for keeping adequate accounting records which are sufficient to show and explain the Group's and parent company's transactions and disclose both reasonable accuracy at any time, the financial position of the Group and parent company and enable them to ensure the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



## KPMG Audit Plc

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### **Independent auditors' report to the members of Rheochem PLC**

We have audited the financial statements of Rheochem Plc for the year ended 30 June 2010 set out on pages 29 to 88. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

#### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 26 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/UKNP](http://www.frc.org.uk/apb/scope/UKNP)

#### **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2010 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.



## **Independent auditors' report to the members of Rheochem PLC** *(continued)*

### **Emphasis of matter: contingent liability and oil and gas asset valuation**

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures in the financial statements concerning both the possible outcome of legal proceedings which have been brought against Zeus Petroleum Limited, one of the Group's subsidiaries, and the valuation of the major oil and gas asset of that subsidiary. The ultimate outcome of the contingent liability cannot currently be determined with certainty. However, while no provision for any liability that may result has been made in the financial statements, in the event that this claim fully crystallises, as explained more fully in note 25, it would amount to A\$17,103,000 in the group accounts and up to A\$7,831,000 in the Company accounts against amounts receivable from subsidiaries. The uncertainty surrounding the funding for the development of the oil and gas asset is also a matter that cannot currently be determined. However as explained in note 1 were that sufficient funding not to have been secured, the Board would not commit to further capital expenditure and the Group would relinquish or sell its interest in the asset, enabling the rest of the group to continue to trade, and this would give rise to an impairment in the asset's carrying value of A\$24m in the group accounts and up to A\$19m in the Company accounts against amounts receivable from subsidiaries.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

**Adrian John Wilcox**

**Senior Statutory Auditor**  
**for and on behalf of KPMG Audit Plc, Statutory Auditor**  
*Chartered Accountants*  
8 Salisbury Square  
London  
EC4Y 8BB

**Consolidated income statement**  
*for the year ended 30 June 2010*

	<i>Note</i>	<b>2010</b> A\$ 000's	2009 A\$ 000's
<b>Continuing operations</b>			
Revenue on trading operations		<b>20,401</b>	34,178
Loss on revaluation of venture capital		-	(24,054)
		<hr/>	<hr/>
<b>Revenue</b>	<i>3</i>	<b>20,401</b>	10,124
Cost of sale on trading operations		<b>(12,411)</b>	(22,797)
Foreign exchange gain on venture capital investments		-	4,924
Impairment loss on oil & gas assets	<i>12</i>	<b>(119)</b>	(30,021)
		<hr/>	<hr/>
<b>Cost of sales</b>	<i>4(b)</i>	<b>(12,530)</b>	(47,894)
		<hr/>	<hr/>
<b>Gross profit/(loss)</b>		<b>7,871</b>	(37,770)
Other income	<i>4(a)</i>	-	16
<hr/>			
Administrative expense – Impairment of goodwill		-	(5,335)
Administrative expenses – other	<i>4(c) (d)</i>	<b>(8,872)</b>	(9,742)
Administrative expenses		<b>(8,872)</b>	(15,077)
		<hr/>	<hr/>
<b>Operating loss</b>		<b>(1,001)</b>	(52,831)
<hr/>			
Finance income - Gain on settlement of debt		<b>6,595</b>	-
Finance income – Other		<b>1,254</b>	8,501
Finance income	<i>4(e)</i>	<b>7,849</b>	8,501
Finance expense	<i>4(e)</i>	<b>(4,237)</b>	(2,132)
		<hr/>	<hr/>
<b>Profit/(loss) before tax</b>		<b>2,611</b>	(46,462)
Income tax (expense)/credit	<i>5</i>	<b>(107)</b>	4,170
		<hr/>	<hr/>
<b>Profit/(loss) for the financial year</b>		<b>2,504</b>	(42,292)
		<hr/> <hr/>	<hr/> <hr/>
Attributable to:			
Equity holders of the parent		<b>4,824</b>	(33,439)
Non-controlling interests		<b>(2,320)</b>	(8,853)
		<hr/>	<hr/>
<b>Profit/(loss) for the financial year</b>		<b>2,504</b>	(42,292)
		<hr/> <hr/>	<hr/> <hr/>
<b>Earnings per share</b>			
Basic profit/(loss) per share (cents per share)	<i>6</i>	<b>2.1</b>	(15.4)
Diluted profit/(loss) per share (cents per share)	<i>6</i>	<b>2.1</b>	(15.4)
		<hr/> <hr/>	<hr/> <hr/>

**Consolidated statement of comprehensive income**  
*for the year ended 30 June 2010*

	<b>2010</b>	2009
	A\$ 000's	A\$ 000's
Profit/(loss) for the year	<b>2,504</b>	(42,292)
<b>Other comprehensive income</b>		
Asset revaluation on stepped acquisition	-	(2,047)
Exchange differences arising on translation of foreign operations	<b>736</b>	(851)
Other comprehensive income for the year	<b>736</b>	(2,898)
<b>Total comprehensive income for the year</b>	<b>3,240</b>	(45,190)
Attributable to:		
Equity holders of the parent	<b>5,509</b>	(32,243)
Non-controlling interests	<b>(2,269)</b>	(8,853)
	<b>3,240</b>	(41,096)

There are no tax affects on exchange differences arising on translation of foreign operations.

## Consolidated statement of changes in equity

for the year ended 30 June 2010

<i>Group</i>	Issued capital	Share premium account	Other equity	Share based payment reserve	Translation reserve	Retained earnings/ accumulated losses	Total	Non-controlling interests	Total equity
	A\$ 000's	A\$ 000's	A\$ 000's	A\$ 000's	A\$ 000's	A\$ 000's	A\$ 000's	A\$ 000's	A\$ 000's
1 July 2008	26,439	32,035	-	411	(474)	10,901	69,312	179	69,491
Shares issued	-	-	-	-	-	-	-	108	108
Stepped acquisition	-	-	(2,047)	-	-	7,382	5,335	3,570	8,905
Options granted	-	-	-	60	-	-	60	-	60
Share based payments	-	-	-	186	-	-	186	-	186
Loss for the year	-	-	-	-	-	(33,439)	(33,439)	(8,853)	(42,292)
Translation adjustment for the year	-	-	-	-	(851)	-	(851)	-	(851)
<b>30 June 2009</b>	<b>26,439</b>	<b>32,035</b>	<b>(2,047)</b>	<b>657</b>	<b>(1,325)</b>	<b>(15,156)</b>	<b>40,603</b>	<b>(4,996)</b>	<b>35,607</b>
Shares issued	2,669	-	-	-	-	-	2,669	-	2,669
Share issue costs	-	-	-	-	-	(258)	(258)	-	(258)
Share based payments	-	-	-	176	-	-	176	-	176
Acquisition of non-controlling interest	-	-	-	-	-	(7,644)	(7,644)	7,644	-
Profit/(loss) for the year	-	-	-	-	-	4,824	4,824	(2,320)	2,504
Translation adjustment for the year	-	-	-	-	749	-	749	(14)	735
<b>30 June 2010</b>	<b>29,108</b>	<b>32,035</b>	<b>(2,047)</b>	<b>833</b>	<b>(576)</b>	<b>(18,234)</b>	<b>41,119</b>	<b>314</b>	<b>41,433</b>

**Statement of changes in equity**  
*for the year ended 30 June 2010*

<i>Company</i>	<b>Issued capital A\$ 000's</b>	<b>Share premium account A\$ 000's</b>	<b>Share based payment reserve A\$ 000's</b>	<b>Retained earnings/ Accumulated losses A\$ 000's</b>	<b>Total A\$ 000's</b>
1 July 2008	26,439	32,035	411	967	59,852
Options granted	-	-	60	-	60
Share based payments	-	-	186	-	186
Loss for the year	-	-	-	(24,701)	(24,701)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
30 June 2009	26,439	32,035	657	(23,734)	35,397
Shares issued	2,669	-	-	-	2,669
Share issue costs	-	-	-	(258)	(258)
Share based payments	-	-	176	-	176
Loss for the year	-	-	-	(2,554)	(2,554)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>30 June 2010</b>	<b>29,108</b>	<b>32,035</b>	<b>833</b>	<b>(26,546)</b>	<b>35,430</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## Consolidated statement of financial position at 30 June 2010

	Note	2010	2009
		A\$ 000's	A\$ 000's
<b>Current assets</b>			
Cash and cash equivalents	7	5,800	9,779
Trade and other receivables	8	3,283	7,878
Inventories	9	8,288	7,523
Other financial assets- rental bonds		11	11
Non interest bearing loans receivable	15	88	109
Interest bearing loans receivable	14	-	9,025
Current tax assets		-	108
Prepayments		205	264
		<hr/>	<hr/>
<b>Total current assets</b>		<b>17,675</b>	<b>34,697</b>
<b>Non-current assets</b>			
Property, plant and equipment	13	8,907	9,264
Oil and gas intangible assets	12	24,127	26,273
Other financial assets		1	-
Deferred tax assets	5	493	564
Prepayments		26	41
Other intangible assets and goodwill	16	2,940	3,003
		<hr/>	<hr/>
<b>Total non-current assets</b>		<b>36,494</b>	<b>39,145</b>
		<hr/>	<hr/>
<b>Total assets</b>		<b>54,169</b>	<b>73,842</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	17	2,861	5,890
Interest bearing loans and borrowings	18	8,055	9,787
Non interest bearing loans and borrowings	19	-	19,029
Income tax payable		149	459
Employee benefits	20	758	388
Provisions	21	150	148
		<hr/>	<hr/>
<b>Total current liabilities</b>		<b>11,973</b>	<b>35,701</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	18	505	1,653
Employee benefits	20	71	297
Provisions	21	167	155
Deferred tax liabilities	5	20	429
		<hr/>	<hr/>
<b>Total Non-current liabilities</b>		<b>763</b>	<b>2,534</b>
		<hr/>	<hr/>
<b>Total liabilities</b>		<b>12,736</b>	<b>38,235</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>Net assets</b>		<b>41,433</b>	<b>35,607</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>Equity</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	22	29,108	26,439
Share premium	24	32,035	32,035
Other equity	24	(2,047)	(2,047)
Other reserves	24	257	(668)
Accumulated losses	24	(18,234)	(15,156)
		<hr/>	<hr/>
Non-controlling interests	24	41,119 314	40,603 (4,996)
		<hr/>	<hr/>
<b>Total equity</b>		<b>41,433</b>	<b>35,607</b>
		<hr/> <hr/>	<hr/> <hr/>

These financial statements were approved by the Board of Directors on 27 August 2010 and were signed on its behalf by:

**Haydn Gardner** *Director*

**Company statement of financial position**  
*at 30 June 2010*

	<i>Note</i>	<b>2010</b>	<b>2009</b>
		A\$ 000's	A\$ 000's
<b>Current assets</b>			
Cash and cash equivalents	7	1,282	232
Trade and other receivables	8	308	1,437
Interest bearing loans receivable	14	27,709	25,405
Non-interest bearing loans receivable	15	88	109
Current tax asset		-	51
Prepayments		54	56
<b>Total current assets</b>		<b>29,441</b>	<b>27,290</b>
<b>Non-current assets</b>			
Investments	10	8,602	8,901
Prepayments		26	37
Deferred tax assets	5	210	290
<b>Total non-current assets</b>		<b>8,838</b>	<b>9,228</b>
<b>Total assets</b>		<b>38,279</b>	<b>36,518</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	17	2,268	240
Non-interest bearing loans and borrowings	19	141	-
Employee benefits		436	159
<b>Total current liabilities</b>		<b>2,845</b>	<b>399</b>
<b>Non-current liabilities</b>			
Employee benefits		-	291
Deferred tax liabilities	5	4	431
<b>Total Non-current liabilities</b>		<b>4</b>	<b>722</b>
<b>Total liabilities</b>		<b>2,849</b>	<b>1,121</b>
<b>Net assets</b>		<b>35,430</b>	<b>35,397</b>
<b>Equity</b>			
Issued capital	22	29,108	26,439
Share premium	24	32,035	32,035
Other reserves	24	833	657
Accumulated losses	24	(26,546)	(23,734)
<b>Total equity</b>		<b>35,430</b>	<b>35,397</b>

These financial statements were approved by the Board of Directors on 27 August 2010 and were signed on its behalf by:

**Haydn Gardner**  
*Director*

## Consolidated statement of cash flows

for the year ended 30 June 2010

	Note	2010	2009
		A\$ 000's	A\$ 000's
<b>Profit/(loss) for the financial year</b>		<b>2,504</b>	(42,292)
Adjustments for:			
Depreciation and amortisation of plant and equipment	13	862	915
Impairment of property plant and equipment		-	523
Amortisation of development and abandonment costs	16	63	69
Net unrealised foreign exchange losses/(gains)		3,598	(5,259)
Impairment of goodwill	16	-	5,335
Impairment of oil & gas assets	12	119	30,021
Foreign exchange gain on venture capital investment		-	(4,924)
Revaluation of investment	10	-	24,054
Employee share option costs	4, 23	176	246
Gain on settlement of debt	11	(6,595)	-
Net finance income		(616)	(1,110)
Income tax credit	5	107	(4,170)
		<hr/>	<hr/>
		218	3,408
Changes in assets and liabilities:			
Decrease/(increase) in receivables		3,089	(2,752)
(Increase)/decrease in inventory	9	(764)	2,964
Decrease in other financial assets- rental bonds		-	47
Decrease in prepayments		75	262
(Decrease)/increase in payables		(2,698)	985
Increase in provisions		2	159
		<hr/>	<hr/>
Interest paid		(296)	1,665
Income tax paid		(619)	(785)
		<hr/>	<hr/>
		(1,603)	335
<b>Net cash flows (used in)/from operating Activities</b>		<hr/> <b>(1,385)</b>	<hr/> 3,743
<b>Cash flows from investing activities</b>			
Interest received		122	596
Acquisition of subsidiary net of cash acquired		-	85
Development expenditure		(1,194)	(3,918)
Provision of loans to third parties		-	(7,450)
Loan to joint venture company		-	(5,216)
Purchase of property, plant and equipment		(240)	(189)
Payment of cash bonds		(1)	-
		<hr/>	<hr/>
<b>Net cash flows used in investment activities</b>		<hr/> <b>(1,313)</b>	<hr/> (16,092)
<b>Cash flow from financing activities</b>			
Proceeds from issue of share capital		2,411	-
Proceeds from borrowings		-	10,000
Repayment of borrowings		(3,083)	(3,300)
Payment of finance lease liabilities		(270)	(232)
		<hr/>	<hr/>
<b>Net cash flows (used in)/from financing activities</b>		<hr/> <b>(942)</b>	<hr/> 6,468
Net decrease in cash and cash equivalents		<b>(3,640)</b>	<b>(5,881)</b>
		<hr/>	<hr/>
Cash and cash equivalents at beginning of the year		9,779	15,009
Effect of exchange rate fluctuations on cash held		(339)	651
		<hr/>	<hr/>
<b>Cash and cash equivalents at end of year</b>		<hr/> <b>5,800</b>	<hr/> 9,779



**Company statement of cash flows**  
*for the year ended 30 June 2010*

	<i>Note</i>	<b>2010</b>	<b>2009</b>
		A\$ 000's	A\$ 000's
<b>Loss for the financial year</b>		<b>(2,554)</b>	<b>(24,701)</b>
Adjustments for:			
Net unrealised foreign exchange losses/(gains)		<b>1,350</b>	(440)
Share option costs		<b>176</b>	246
Impairment of loan to subsidiary company	<i>14</i>	<b>1,229</b>	26,101
Impairment of investment		<b>1,931</b>	-
Management fees		<b>-</b>	(615)
Net finance income		<b>(4,262)</b>	(3,682)
Income tax (credits)/expense		<b>(347)</b>	368
		<hr/>	<hr/>
		<b>(2,477)</b>	<b>(2,723)</b>
Changes in assets and liabilities:			
Decrease in receivables		<b>(308)</b>	31
Decrease in other financial assets		<b>-</b>	33
Decrease in prepayments		<b>14</b>	25
Increase in payables		<b>2,012</b>	78
Decrease in current tax liability		<b>-</b>	-
(Decrease)/Increase in provisions		<b>(14)</b>	111
		<hr/>	<hr/>
		<b>1,704</b>	278
Interest paid		<b>-</b>	(17)
Income tax received		<b>51</b>	-
		<hr/>	<hr/>
<b>Net cash flows used in operating Activities</b>		<b>(722)</b>	<b>(2,462)</b>
		<hr/>	<hr/>
<b>Cash flows used in investing activities</b>			
Interest received		<b>18</b>	218
Dividend received		<b>483</b>	-
Provision of loan to subsidiaries		<b>(2,685)</b>	(5,573)
Receipt of loan repayments		<b>1,532</b>	-
Provision of loans to third parties		<b>-</b>	(7,559)
Purchase of investment		<b>-</b>	(435)
		<hr/>	<hr/>
<b>Net cash flows used in investing activities</b>		<b>(651)</b>	<b>(13,349)</b>
		<hr/>	<hr/>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital		<b>2,411</b>	-
		<b>-</b>	-
		<hr/>	<hr/>
<b>Net cash flows from financing activities</b>		<b>2,411</b>	<b>-</b>
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash Equivalents		<b>1,038</b>	<b>(15,811)</b>
Cash and cash equivalents at beginning of the year		<b>232</b>	15,198
Effect of exchange rate fluctuations on cash held		<b>12</b>	845
		<hr/>	<hr/>
<b>Cash and cash equivalents at end of year</b>		<b>1,282</b>	<b>232</b>
		<hr/> <hr/>	<hr/> <hr/>

## Notes

(forming part of the financial statements)

### Authorisation of financial statements and statement of compliance with IFRS

The Group's and Company's financial statements for the year ended 30 June 2010 were authorised for issue by the Board of Directors on 27 August 2010 and the Statements of financial positions were signed on the Board's behalf by H Gardner. Rheochem Plc is a public limited company incorporated in England and Wales and domiciled in Australia, its principal place of business is 11 Alacrity Place Henderson, Western Australia. The Company's ordinary shares are traded on the Alternative Investment Market (AIM) of the London Stock Exchange and the Australian Securities Exchange (ASX).

The principal accounting policies adopted by the Group and Company are set out in note 1.

## 1 Accounting policies

### Basis of preparation

The group financial statements comprise the Company and its subsidiaries (together referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about its group.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'). The parent company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs') as applied in accordance with the provisions of the Companies Act 2006.

On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes which form a part of these approved financial statements.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements

### Going Concern

The financial statements have been prepared on a going concern basis, which the Directors believe to be appropriate for the following reasons.

The Directors acknowledge that, at present, it is the Oil Services division of the group that supports the oil and gas exploration division through provision of working capital funding, albeit it, as described below, external funding would be required to fund development of the Athena field, which is a significant decision about the future direction of the group that needs to be taken in the coming months. Management have prepared cash flow forecasts for the trading oil services business, for the period to 31 December 2011 based on management's assessment of the prospects of the group's operations, and, taking into account possible adverse variances from forecasts or trading conditions that might reasonably occur, have satisfied themselves that the Group will be able to meet its external liabilities as they fall due, including for example, scheduled repayments on the group's bank debt. Within these forecasts, management have assumed that the remaining bank loan will be rolled over at its annual review.

Further information regarding the company's business activities, together with the factors likely to affect its future development, performance and position is set out in the Chief Executive's Overview and Directors' Report on pages 1 to 17. In addition note 2 to the financial statements includes the company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

As disclosed in note 25 a contingent liability of \$A17.3m has been disclosed but no adjustment has been made in respect of this. The directors believe no outflow is probable. The directors acknowledge that the ultimate outcome of these legal proceedings, against Zeus Petroleum Limited ("Zeus"), cannot currently be determined with any certainty. Whilst no provision for any liability that may result has been made in the

## Notes (continued)

### 1 Accounting policies (continued)

financial statements, in the event that the claim fully crystallises, it would amount to A\$17.3m in the group accounts and up to A\$13.3m in the Company accounts against amounts receivable from subsidiaries. Zeus's liabilities are not guaranteed by any group member.

The Directors are expecting that approval for the development plan for the Athena field, the principal asset of Zeus, will be obtained prior to the end of December 2010 from the Boards of the respective field partners and from the UK Government. The Directors have arranged, subject to Government Production Consent, funding in principle for the Athena field for half of the required development funds subject to conditions (being a repayment by a percentage of operating revenue), and they continue to review funding options for the Athena Project which include but are not limited to project development funding; other debt instruments; farm out or trade sale of E&P assets; trade sale of the services business; equity raising, and the demerger of the E&P subsidiary with independent funding. The Directors expect to be in a position to report on progress in October 2010. There is, however, no guarantee that funding will be secured on acceptable terms especially in the context of the legal proceedings referred to above.

The Directors recognise that, should Zeus at any time fail to secure the required project funding for the Athena development, then the Directors would not commit to further capital expenditure on the project. In the event that this decision was taken the Directors recognise that the existing interest in Athena would be impaired. The current carrying value of oil and gas assets in these financial statements of A\$24.1m. In the event of such an impairment the Directors estimate that a significant portion of the A\$19.3m carrying amount of Rheochem Plc's loans due from Zeus and its immediate parent entity, Lochard Energy Limited, to whom it also has loans payable (note 14), may be impaired. Such an eventuality would not affect the ability of the rest of the group to continue trading.

Further, in the event that the group were to provide the required funding for the Athena development through the funding options for the Athena Project, which include but are not limited to, project development funding, other debt instruments, farm out or trade sale of E&P assets, trade sale of the services business, equity raising, and the demerger of the E&P subsidiary with independent funding, the funding (referred to above) would be required to be sufficient not only to meet the anticipated cash calls for the development but to meet the on-going working capital and other requirements of Rheochem Plc and its remaining subsidiaries and the litigation claim (referred to above) in the event that it fully crystallised.

Taking the above into account the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

## Notes (continued)

### 1 Accounting policies (continued)

#### Adoption of IFRSs in issue but not yet effective

Certain new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on 1 July 2010 or later periods but which the Group has not adopted early. Those that may be applicable to the Group are as follows:

#### *International Accounting Standards (IAS / IFRSs)*

- IFRS 9 Financial Instruments (not yet endorsed)
- Revised IAS 24 Related Party Disclosures (endorsed 19 July 2010)
- Amended IAS 32 Classification of Rights Issues-Amendment to IAS 32 Financial Instruments: Presentation (endorsed 23 December 2009)
- Various Improvements to International Financial Reporting Standards 2010

#### *International Financial Reporting Interpretations Committee (IFRIC)*

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (endorsed 23 July 2010)

The impact on the Group's financial statements of the future standards, amendments and interpretations is still under review, but the Group does not currently expect any of these changes to have a material impact on the results or the net assets of the Company or the Group.

#### Measurement convention

The financial statements are prepared on the historical cost basis except the following assets and liabilities which are stated at their fair value:

- derivative financial instruments,
- financial instruments classified as fair value through the profit or loss or as available-for-sale.

These consolidated financial statements are presented in Australian Dollars (A\$), which is the Company's functional currency. All financial information presented in A\$ has been rounded to the nearest thousand.

#### Changes in accounting policies

Starting as of 1 July 2009 the group has changed its accounting policies in the following areas:

Accounting for acquisitions of non-controlling interests IFRS 3

Presentation of financial statements IAS 1

Consolidated and separate financial statements IAS 27

Determination and presentation of operating segments IFRS 8

#### *Accounting for Acquisitions of non-controlling interests*

The Group has adopted early IFRS 3 business combinations (2008) and IAS 27 consolidated and separate financial statements 2008 for acquisitions of non controlling interests occurring in financial year starting 1<sup>st</sup> July 2009. The group has applied IAS 27 (2008) for the acquisitions of non controlling interests as explained in note 11.

Under the new accounting policy, acquisitions of non controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions. Previously, good will was recognised arising on the acquisition of a non controlling interest in a subsidiary; and that represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of exchange.

## Notes (continued)

### 1 Accounting policies (continued)

#### Changes in accounting policies (continued)

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

#### *Presentation of financial statements*

The group applies revised IAS1 presentation of financial statements 2007, which became effective as of 1<sup>st</sup> July 2009. As a result the group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been represented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

#### *Determination and presentation of operating segments*

As of 1<sup>st</sup> of July 2009 the group determines and presents operating segments based on the information that internally is provided to the CEO, who is the Group's chief operating decision maker ('CODM'). This change in accounting policy is due to the adoption of IFRS 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with IAS 14 *Segment Reporting*. The new accounting policy in respect of segment operating disclosures is present as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of the standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CODM to make decisions about resources to be allocated to the segment as assess its performance and for which discrete financial information is available.

Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

## Notes (continued)

### 1 Accounting policies (continued)

#### Basis of consolidation

##### *Subsidiaries*

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 June each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date control commences until the date that control ceases.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Where there is a change in the proportion of a minority shareholder's interest, without a change in control arising, the transaction affects equity only.

#### Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's reporting currency at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations, and of related qualifying hedges are taken directly to the translation reserve. They are released into the income statement upon disposal.

The Group has taken advantage of the relief available in IFRS 1 to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to Adopted IFRSs (1 July 2005).

#### Significant accounting judgments, estimates and assumptions

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events may have an impact on the Group. All judgments, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgments, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

Notes (*continued*)

**1 Accounting policies** (*continued*)

*Significant accounting estimates*

*Recovery of deferred tax assets*

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

*Contingent liabilities*

Note 25 discloses the contingent liabilities of the Group and Company.

*Carrying value of certain assets and liabilities*

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

*Oil and gas assets*

Exploration and evaluation costs are initially classified and held as intangible fixed assets rather than being expensed. The carrying value of intangible exploration and evaluation assets are then determined. Management considers these assets for impairment at least annually based on an estimation of the recoverability of the cost pool from future revenues of the related oil and gas reserves. The carrying value of the North Sea assets included within note 12 is A\$23.768million at 30 June 2010 (2009: A\$25.894million). If that asset were to be fully impaired the impact of this on the Group financial statements would be significant.

*Critical accounting estimates and assumptions*

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates may be necessary, if there are changes in the circumstances on which the estimate was based or as a result of new information. Such changes are recognised in the period in which the estimate is revised.

## Notes (continued)

### 1 Accounting policies (continued)

#### Significant accounting judgments, estimates and assumptions (continued)

##### *Critical judgements in applying the Group's accounting policies*

The application of the Group's accounting policies may require management to make judgements, apart from those involving estimates, which can have a significant effect on the amounts recognised in the financial statements. Management judgement is particularly required when assessing the substance of transactions which have a complicated structure or legal form.

##### *Impairment of goodwill and intangibles with indefinite useful lives*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated.

##### *Allowance for impairment loss on trade receivables and other receivables*

Where receivables are outstanding beyond normal trading terms, the likelihood of the recovery of these receivables is assessed by management.

##### *Estimate of useful lives of assets*

The estimation of the useful lives of assets has been based on historical experience. In addition, the condition of the assets is assessed at least once a year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary.

#### Revenue recognition

Revenue is recognised to the extent it is probable the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

##### (i) *Sale of goods*

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

##### (ii) *Rendering of engineering services*

Contract revenue is recognised by reference to the stage of completion of a contract. Stage of completion is measured by reference to the labour hours incurred to date as a percentage of total estimated labour hours for each contract. When contract revenue cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

##### (iii) *Oil and gas revenue*

Oil and gas sales revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for the Group's share of oil and gas supplied in the period.



## Notes (continued)

### 1 Accounting policies (continued)

#### Oil and Gas Exploration Assets

The Group follows the "successful efforts" method of accounting for exploration and evaluation costs. All licence/project acquisitions, exploration and appraisal costs incurred or acquired on the acquisition of subsidiary, are accumulated in respect of each identifiable project area. Rheochem defines a 'successful exploration well' as a well which discovers probable commercial reserves and where development may go ahead in the near term. These costs, which are classified as intangible fixed assets are only carried forward to the extent they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Pre-licence/project costs are written off immediately. Other costs are also written off unless commercial reserves have been established or the determination process has not been completed. Thus accumulated cost in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences the accumulated costs for the relevant area of interest are transferred from intangible fixed assets to tangible fixed assets as 'Developed oil and gas assets'.

#### *Impairment*

Exploration/appraisal assets are reviewed regularly for indicators of impairment following the guidance in IFRS 6 'Exploration for and Evaluation of Mineral Resources' and tested for impairment where such indicators exist. Any impairment arising is recognised in the Income Statement for the year.

Impairment reviews on development/producing assets are carried out on each cash-generating unit identified in accordance with IAS 36 'Impairment of Assets'. Rheochem's cash generating units are those assets which generate largely independent cash flows and are normally, but not always, single development areas.

At each reporting date where there are indicators of impairment, the net book value of the cash generating unit is compared with the measurable recoverable amount. If the net book value is higher, then the difference is written off to the Income Statement as impairment. Forecast production profiles are determined on an asset-by-asset basis using appropriate petroleum engineering techniques.

Where there has been a charge for impairment in an earlier period, that charge will be reversed in a later period where there has been a change in circumstances to the extent that the discounted future net cash flows are higher than the net book value at the time. In reversing impairment losses, the carrying amount of the asset will be increased to the lower of its original carrying value or the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior periods.

#### *Depletion of developed oil and gas assets*

Costs carried in each well are depreciated on a unit of production basis using the ratio of oil and gas production in the period to the estimated quantity of commercial reserves at the end of the period plus production in the period. Costs in the unit of production calculation include the net book value of capitalised costs plus estimated future development costs. Changes in estimates of commercial reserves or future development costs are dealt with prospectively.

#### *Decommissioning costs*

Where a material liability for the removal of production facilities and site restoration at the end of the field life exists, a provision for decommissioning is recognised. The amount recognised is the net present value of estimated future expenditure determined in accordance with local conditions and requirements. An asset of an amount equivalent to the provision is also added to oil and gas exploration assets and depreciated on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated asset.

## Notes (continued)

### 1 Accounting policies (continued)

#### Oil & gas trading and venture capital investment

In the prior year, venture capital investment (VCI) were recognised at fair value at the Statement of financial positions date and the unrealised gain was included in revenue until such time as the investment was sold, when the proceeds of sale in excess of previously unrealised gain was recognised as revenue and the carrying value of the assets sold was taken to cost of sales.

Venture capital investments were recognised and derecognised on a date where the purchase or sale of an investment was under a binding contract whose terms require the delivery or settlement of the investments. The Group managed its venture capital investments with a view to profiting from the receipt of dividends and changes in fair value of equity investments. Therefore, all quoted investments and unquoted equity investments held for venture capital activity were designated at fair value through profit or loss and subsequently carried in the Statement of financial positions at fair value.

There were no venture capital investments during the year ended 30 June 2010.

#### Borrowing costs

Borrowing costs are recognised as an expense when incurred.

#### Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the group; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. The finance cost on the financial liability component is correspondingly higher over the life of the instrument.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are treated as distributions and are recorded directly in equity.

## Notes (continued)

### 1 Accounting policies (continued)

#### Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

##### *Operating Leases*

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis over the term of the lease.

##### *Finance leases*

Leases which effectively transfer substantially the entire risks and benefits incidental to ownership of the leased item to the Group are capitalised at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term.

Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to the Income Statement.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

#### Cash and cash equivalents

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

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

#### Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised at fair value and subsequently measured at amortised cost less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

#### Inventories

Inventories are valued at the lower of cost and net realisable value.

Cost is determined on a weighted average basis and includes:

- (i) The direct purchase cost of inventory; and
- (ii) An allocation of warehouse overheads specifically attributable to bringing the inventory into:
  - a saleable condition
  - its present location and condition
  - a finished goods state.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

## Notes (continued)

### 1 Accounting policies (continued)

#### Intra-group financial instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

#### Income tax

Tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustments to the tax payable in respect of previous years.

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

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

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

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent it is probable taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

## Notes (continued)

### 1 Accounting policies (continued)

#### Property, plant and equipment

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

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

	Life	Method
Freehold buildings	50 years	Straight line
Plant and equipment	2 ½ – 10 years	Straight line
Motor vehicles	5 years	Straight line
Liquid drilling fluid plant	10-20 years	Straight line

Land is not depreciated.

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

Land and buildings are measured at cost less accumulated depreciation on buildings.

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

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

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

Impairment exists when the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. Plant and equipment impairment losses are recognised in the Consolidated Income Statement.

#### Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

#### Impairment excluding deferred tax

Assets which have an indefinite useful life are not subject to amortisation and are tested at each balance sheet date for impairment. Assets subject to amortisation or depreciation are reviewed for impairment whenever there is an indication of impairment to determine whether events or changes in circumstances indicate the carrying amount may not be recoverable. If any such conditions exist, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, estimates are made of the cash flows of the cash generating unit to which the asset belongs.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Impairment excluding deferred tax (continued)*

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a discount rate appropriate to the specific asset or cash generating unit.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Impairment losses are recognised immediately in the income statement.

Impairment losses in respect of goodwill are not reversed.

#### **Intangible Assets**

##### *Development expenditure*

Development costs are expensed as incurred, except where future benefits are expected, beyond any reasonable doubt, to exceed those costs. Where development costs are deferred such costs are amortised over future periods on a basis related to expected future benefits, being the life of the contract

The carrying value of an intangible asset arising from development expenditure is tested annually for impairment. If it is determined that the amount is no longer recoverable, this amount identified is written off.

#### **Trade and other Payables**

Trade payables and other payables are recognised at fair value and subsequently measured at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

#### **Loans and Borrowings**

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

Subsequent to initial recognition, borrowings are stated at amortised cost using the effective interest method less any impairment losses.

#### **Provisions**

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

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

Under UK Company Law interim dividends could not be considered obligations until paid

##### *Provision for restoration of leasehold land*

The agreement with the lessor in respect of the leasehold land requires the premises to be restored to the condition which existed prior to the installation of the Group's fixtures, fittings and mud plant.

The provision recognised is based upon the Group's assessment of the cost of the removal of these items. The provision has been discounted to its present value, and will be accreted to its estimated cost over the life of the lease.

## **Notes** *(continued)*

### **1 Accounting policies** *(continued)*

#### **Employee benefits**

##### *Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Statement of Comprehensive Income as incurred.

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee entitlements are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled.

#### **Share-based payment transactions**

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options which vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

The Group and Company took advantage of the option available in IFRS 1 to apply IFRS 2 only to equity instruments that were granted after 7 November 2002 and which had not vested by 1 July 2005.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity.

Where equity instruments are granted to persons other than directors or employees the consolidated income statement is charged with the fair value of any goods or services received.

#### **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.

## Notes (continued)

### 1 Accounting policies (continued)

#### Earnings per share

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

#### Investments and other financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

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

##### *(i) Financial assets at fair value through profit or loss*

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

##### *(ii) Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.



## Notes (continued)

### 1 Accounting policies (continued)

#### Investments and other financial assets (continued)

##### (iii) Loans and receivables

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

##### (iv) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arms length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

##### Recoverable amount

Non-current financial assets measured using the cost basis were not carried at an amount above their recoverable amount, and when a carrying value exceeded this recoverable amount, the financial asset was written down to its recoverable amount. In determining recoverable amount, the expected net cash flows were discounted to their present value using a market determined risk adjusted discount rate.

**Notes** (continued)

**2 Financial Risk Management**

The Group's activities expose it to a variety of financial risks: market risk (including price risk, currency risk, interest rate risk), credit risk and liquidity risk. The Group's risk management policies focus on the unpredictability of financial markets and seeks to minimise potential adverse effects of the financial performance of the Group.

Financial risk policies are set by the Board and are reviewed by the Board.

**(a) Market risk**

*(i) Foreign exchange risk*

**Group**

The Group's profitability can be significantly affected by movements in the \$US/\$A exchange rates, \$NZ/\$A exchange rate and the \$NZ/\$US exchange rates. These exposures arise from sales or purchases of goods and services and holding foreign currency.

Through reference to industry standard practices, and open market foreign currency trading patterns within the past 12 months, the group set the level of acceptable foreign exchange risk.

The Group seeks to manage this risk by holding foreign currency and pricing customer sales contracts in \$US.

*Sensitivity analysis*

The following table does not include intra group financial assets and liabilities it summaries the sensitivity of the Group's financial assets and liabilities to external parties at 30 June 2010 to foreign exchange risk, based on foreign exchange rates as at 30 June 2010 and sensitivity of +/-10%:

	30 June 2010 rate	-10% cents	+10% cents
A\$/US	85.67cents	77.10cents	94.24cents
NZ\$/A	123.09cents	110.78cents	135.40cents
NZ\$/US	143.69cents	129.32cents	158.06cents

	Carrying amount A\$ 000's	Foreign exchange risk	
		-10.0% Profit or loss A\$ 000's	+10.0% Profit or loss A\$ 000's
<b>2010</b>			
<b>Financial assets</b>			
Cash at bank	2,678	302	(240)
Receivables	357	31	(23)
<b>Financial liabilities</b>			
Payables	42	(5)	4
<b>Total increase/(decrease)</b>		328	(259)
		328	(259)

**Notes** *(continued)*

**2 Financial risk management** *(continued)*

**(a) Market risk** *(continued)*

*(i) Foreign exchange risk (continued)*

<b>2009</b>	<b>Carrying amount A\$ 000's</b>	<b>Foreign exchange risk</b>	
		<b>-10.0% Profit or loss A\$ 000's</b>	<b>+10.0% Profit or loss A\$ 000's</b>
<b>Financial assets</b>			
Cash at bank	4,765	529	(433)
Receivables	4,367	485	(397)
Interest bearing loans	9,025	1,003	(820)
<b>Financial liabilities</b>			
Payables	1,485	(165)	135
Non-interest bearing liability	19,029	(2,114)	1,730
		<hr/>	<hr/>
<b>Total (decrease)/increase</b>		(262)	215
		<hr/> <hr/>	<hr/> <hr/>

The Company does not have foreign exchange risk.

**Notes** *(continued)*

**2 Financial risk management** *(continued)*

**(a) Market risk** *(continued)*

*(ii) Interest rate risk*

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate. The Group strategy for setting appropriate levels of interest rate risk is to refer to the economic potential of projects for which it borrows funds for finance.

*Profile*

At reporting date the interest rate profile of the Group's financial instruments was:

	<b>2010</b>	2009
	<b>A\$ 000's</b>	A\$ 000's
Fixed rate instruments	<b>458</b>	538
Variable rate instruments	<b>8,102</b>	10,902
	<b>8,560</b>	11,440

*Sensitivity analysis*

A change of 100 basis points in interest rates at the reporting date would result in a change of profit or loss by the amounts shown below. This analysis assumes that all other factors remain constant.

	<b>+100BP</b>	<b>-100BP</b>
	<b>Profit</b>	<b>Profit</b>
	<b>or loss</b>	<b>or loss</b>
	<b>A\$ 000's</b>	<b>A\$ 000's</b>
<b>30 June 2010</b>		
Variable rate instrument	<b>(81)</b>	<b>81</b>
	+10.0%	-10.0%
	Profit	Profit
	or loss	or loss
<b>30 June 2009</b>	<b>A\$ 000's</b>	<b>A\$ 000's</b>
Variable rate instrument	<b>(109)</b>	<b>109</b>

The Company does not have interest rate risk.

**Notes** *(continued)*

**2 Financial risk management** *(continued)*

**(b) Capital Management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market conditions and to sustain future development of the business. As at 30 June 2010, Directors hold 9.5% of ordinary shares (2009: 10.9%).

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Directors recognise this is an area in which they may need to develop specific policies should the Group become exposed to wider financial risks as the business continues to develop.

**(c) Credit risk**

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised third parties, there is no requirement for collateral.

*Concentrations of credit risk*

At 30 June 2010, the Group had a significant credit risk exposure to the following:

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
	<b>A\$ 000's</b>	A\$ 000's	<b>A\$ 000's</b>	A\$ 000's
<b>Ageing of trade receivables at the reporting date was:</b>				
Not past due	<b>2,461</b>	7,663	<b>11</b>	1,437
Past due 0-30 days	<b>265</b>	95	-	-
Past due 31-120 days	<b>557</b>	120	<b>297</b>	-
	<hr/> <b>3,283</b> <hr/>	<hr/> 7,878 <hr/>	<hr/> <b>308</b> <hr/>	<hr/> 1,437 <hr/>

Terms and conditions relating to trade debtors are non-interest bearing and generally on 30-90 day terms.

- At 30 June 2010, the Group had a significant credit risk exposure to Santos Limited. An amount of A\$0.754 million (2009: A\$3.12 million) was receivable from this debtor at 30 June 2010.
- No impairment losses or provisions have been recognised for the current or preceding financial period.

**Notes** *(continued)*

**2 Financial risk management** *(continued)*

**(d) Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash, term deposits, bank borrowings and hire purchase contracts. (Please refer also to Note 1 Basis of preparation: Going Concern).

The Group is provided banking facilities as listed below:

	<b>2010</b>	<b>2009</b>
	<b>A\$ 000's</b>	<b>A\$ 000's</b>
<b>Financing facilities available</b>		
At reporting date, the following financing facilities were in place:		
- Asset finance facility	<b>500</b>	510
- Documentary credit facility	<b>1,500</b>	2,500
- Tailored business facility	<b>1,602</b>	3,227
- Fully drawn advance facility	<b>6,500</b>	8,000
	<hr/> <b>10,102</b> <hr/>	<hr/> 14,237 <hr/>
 Facilities used at reporting date:		
- Asset finance facility	<b>292</b>	297
- Documentary credit facility	<b>656</b>	823
- Tailored business facility	<b>1,602</b>	2,902
- Fully drawn advance facility	<b>6,500</b>	8,000
	<hr/> <b>9,050</b> <hr/>	<hr/> 12,022 <hr/>
 Facilities unused at reporting date:		
- Asset finance facility	<b>208</b>	213
- Documentary credit facility	<b>844</b>	1,677
- Tailored business facility	<b>-</b>	325
- Fully drawn advance facility	<b>-</b>	-
	<hr/> <b>1,052</b> <hr/>	<hr/> 2,215 <hr/>
 Total facilities used at reporting date		
	<hr/> <b>9,050</b> <hr/>	<hr/> 12,022 <hr/>
 Total facilities unused at reporting date		
	<hr/> <b>1,052</b> <hr/>	<hr/> 2,215 <hr/>

The Company is not provided with bank borrowing facilities.

The table below analyses the Group's financial liabilities into relevant maturity grouping based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Description of the repayment terms and interest payable rates on the interest bearing liabilities is disclosed in note 18.

	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
<b>30 June 2010</b>	<b>A\$ 000's</b>	<b>A\$ 000's</b>	<b>A\$ 000's</b>	<b>A\$ 000's</b>
Trade and other payables	<b>2,861</b>	-	-	-
Interest bearing liabilities	<b>8,055</b>	<b>505</b>	-	-
	<hr/> <b>10,916</b> <hr/>	<hr/> <b>505</b> <hr/>	<hr/> - <hr/>	<hr/> - <hr/>

**Notes** *(continued)*

**2 Financial risk management** *(continued)*

**(d) Liquidity risk** *(continued)*

30 June 2009	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
	A\$ 000's	A\$ 000's	A\$ 000's	A\$ 000's
Trade and other payables	5,890	-	-	-
Interest bearing liabilities	3,787	3,343	4,310	-
Non-interest bearing loans and borrowings	19,029	-	-	-
	<u>28,706</u>	<u>3,343</u>	<u>4,310</u>	<u>-</u>

**(e) Fair Values**

*Fair value versus carrying amount*

The fair value of financial assets and liabilities, together with the carrying amounts shown in the Statement of financial position, are as follows:

	Note	<b>30 June 2010</b>		30 June 2009	
		<b>Carrying amount</b>	<b>Fair value</b>	Carrying amount	Fair Value
		A\$ 000's	A\$ 000's	A\$ 000's	A\$ 000's
<b>Assets carried at amortised cost</b>					
Loans and receivables	8,14,15	<b>3,371</b>	<b>3,371</b>	17,012	17,012
Cash and cash equivalents	7	<b>5,800</b>	<b>5,800</b>	9,779	9,779
		<u><b>9,171</b></u>	<u><b>9,171</b></u>	<u>26,791</u>	<u>26,791</u>
<b>Liabilities carried at amortised cost</b>					
Secured bank loans	18	<b>(8,102)</b>	<b>(8,102)</b>	(10,902)	(10,902)
Trade and other payables	17	<b>(2,861)</b>	<b>(2,861)</b>	(5,890)	(5,890)
Other unsecured loans	19	-	-	(19,029)	(19,029)
Hire purchase liabilities	18	<b>(292)</b>	<b>(292)</b>	(297)	(297)
Unsecured bank loans	18	<b>(166)</b>	<b>(166)</b>	(241)	(241)
		<u><b>(11,421)</b></u>	<u><b>(11,421)</b></u>	<u>(36,359)</u>	<u>(36,359)</u>

## Notes (continued)

### 3 Operating segments

The Group has adopted IFRS 8 Operating Segments with effect from 1 July 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group which are regularly reviewed by the chief operating decision maker in order to allocate resources and to assess its performance. As a result, following adoption of IFRS 8, the identification of the Group's reportable segments has not changed.

The reporting of external segmental information continues to be the same as in prior years, segment information is analysed on three principle activities being Drilling fluid operations, Oil & gas assets and Corporate services.

The information reported to the chief operating decision maker is focused on the three principle activities. A separate statement of comprehensive income is prepared for the three principle activities, being Drilling fluid services, Oil and gas assets and Corporate services, the three activities are then summarised into a consolidated statement of comprehensive income.

The Group's reportable segments under IFRS 8 consist of the following Group entities:

Corporate services	Rheochem Plc
Drilling fluid operations	Rheochem Limited, Rheochem Pacific Limited, Rheochem India Pvt Ltd and PT Rheochem Indonesia.
Oil and gas assets	Lochard Energy Limited, Zeus Petroleum Limited and Lochard Energy Inc.

There are varying amounts of transactions between the group entities, all intersegment pricing is determined on an arms length basis.

Comparative segment information has been re-presented to provide conformity with the revised standard.



**Notes** (continued)

**3 Operating segments** (continued)

Business Segment	Drilling fluid services		Oil and gas assets		Corporate services		Total	
	2010 A\$000's	2009 A\$000's	2010 A\$000's	2009 A\$000's	2010 A\$000's	2009 A\$000's	2010 A\$000's	2009 A\$000's
<b>Revenue</b>								
Revenue from external customers	20,318	34,161	18	17	65	-	20,401	34,178
Inter -segment revenues	1,133	984	-	(103)	397	615	1,530	1,496
Unrealised VCI	-	-	-	(24,054)	-	-	-	(24,054)
<b>Total segment revenues</b>							<b>21,931</b>	<b>11,620</b>
Eliminate Inter-segment sales							(1,530)	(1,496)
<b>Consolidated revenue</b>							<b>20,401</b>	<b>10,124</b>
<b>Profit / (loss)</b>								
Operating profit/(loss) from continuing operations	3,629	6,062	3,300	(45,303)	(5,934)	(28,455)	995	(67,696)
Depreciation & amortization	(918)	(1,499)	(7)	(8)	-	-	(925)	(1,507)
Net interest (expense)/income	(637)	(1,035)	(320)	(8,512)	4,262	4,123	3,305	(5,424)
Foreign exchange (losses)/gains	(527)	335	(6,373)	4,924	(1,350)	-	(8,250)	5,259
Income tax expense/(credits)	(454)	(1,258)	-	2,959	347	(368)	(107)	1,333
Segment profit / (loss)	<b>1,093</b>	<b>2,605</b>	<b>(3,400)</b>	<b>(45,940)</b>	<b>(2,675)</b>	<b>(24,700)</b>	<b>(4,982)</b>	<b>(68,035)</b>
Eliminate adjustments on consolidation							7,486	25,743
<b>Consolidated losses</b>							<b>2,504</b>	<b>(42,292)</b>
<b>Finance income</b>								
Segment finance income	110	375	8,678	574	4,258	3,699	13,046	4,648
Foreign exchange gains	8	-	1,690	6,379	-	441	1,698	6,820
Finance income	118	375	10,368	6,953	4,258	4,140	14,744	11,468
Eliminate adjustments on consolidation							(6,895)	(2,967)
<b>Consolidated finance income</b>							<b>7,849</b>	<b>8,501</b>

**Notes** (continued)

**3 Operating segments** (continued)

Business Segment	Drilling fluid services		Oil and gas assets		Corporate services		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	A\$000's	A\$000's	A\$000's	A\$000's	A\$000's	A\$000's	A\$000's	A\$000's
Segment finance expense	(741)	(1,329)	(2,678)	(2,726)	-	(17)	(3,419)	(4,072)
Foreign exchange (losses)/gains	(535)	(81)	(8,064)	(12,739)	(1,345)	-	(9,944)	(12,820)
Finance expense	(1,276)	(1,410)	(10,742)	(15,465)	(1,345)	(17)	(13,363)	(16,892)
Eliminate adjustments on consolidation							9,126	14,760
<b>Consolidated finance expense</b>							<b>(4,237)</b>	<b>(2,132)</b>
Consolidated income tax (credit)/expense	(454)	(1,258)	-	2,959	347	(368)	(107)	1,333
Acquisition of plant and equipment	-	189	-	-	-	-	-	189
Depreciation and amortization	918	976	7	8	-	-	925	984
Impairment of plant and equipment	-	523	-	-	-	-	-	523
Impairment of oil and gas assets	-	-	119	30,021	-	-	119	30,021
<b>Segment assets</b>	28,166	34,491	37,212	33,092	34,187	36,467	99,565	104,050
<b>Eliminate adjustments on consolidation</b>							(45,396)	(30,208)
<b>Total consolidated assets</b>							<b>54,169</b>	<b>73,842</b>
<b>Segment liabilities</b>	15,492	22,053	81,297	77,106	2,706	1,070	99,495	100,229
<b>Eliminate adjustments on consolidation</b>							(86,759)	(61,994)
<b>Total consolidated liabilities</b>							<b>12,736</b>	<b>38,235</b>

**Notes** (continued)

**3 Operating areas** (continued)

**Geographical areas**

In presenting the information on the basis of geographical areas, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Geographical segments	2010		2009	
	Revenue	Total assets	Revenue	Total assets
Australia	15,645	58,520	27,308	65,665
New Zealand	3,395	1,855	5,229	2,699
India	2,873	1,959	3,223	2,122
Indonesia	-	19	-	472
United Kingdom	-	36,684	(24,157)	32,524
United States of America	18	528	17	568
	<u>21,931</u>	<u>99,565</u>	<u>11,620</u>	<u>104,050</u>
Eliminate adjustments on consolidation	<u>(1,530)</u>	<u>(45,396)</u>	<u>(1,496)</u>	<u>(30,208)</u>
Total	<u><u>20,401</u></u>	<u><u>54,169</u></u>	<u><u>10,124</u></u>	<u><u>73,842</u></u>

**Major customer**

Revenues from one customer of the Drilling fluids segment represents approximately \$8.274million (2009: \$22.423million) of the Group's total revenues.

**Notes** (continued)

**4 Operating profit and finance income and expense**

**Revenue and expenses from continuing operations**

	Notes	Group 2010 A\$ 000's	2009 A\$ 000's
<b>(a) Other income</b>			
Profit on disposal of property, plant and equipment		-	-
Other income		-	16
		<hr/>	<hr/>
Total other income		-	16
		<hr/>	<hr/>
<b>(b) Cost of sales</b>			
Cost of goods sold		<b>(12,530)</b>	(47,894)
		<hr/>	<hr/>
<b>(c) Depreciation and amortisation</b>			
Depreciation and amortisation of plant and machinery		<b>(862)</b>	(915)
Impairment of property, plant and equipment		-	(523)
Amortisation of development and abandonment costs		<b>(63)</b>	(69)
		<hr/>	<hr/>
Total depreciation and amortisation		<b>(925)</b>	(1,507)
		<hr/>	<hr/>
<b>(d) Other administrative expenses</b>			
Operating lease rental		<b>(20)</b>	(57)
Employee benefits expense		<b>(3,694)</b>	(4,346)
Occupancy expense		<b>(422)</b>	(397)
Administrative expense		<b>(3,811)</b>	(3,435)
		<hr/>	<hr/>
		<b>(7,947)</b>	(8,235)
		<hr/>	<hr/>
<b>(e) Finance income and expense</b>			
Interest income on bank deposits		<b>122</b>	596
Gain on settlement of debt	11	<b>6,595</b>	-
Foreign exchange gains		<b>8</b>	6,169
Other interest income non-bank		<b>1,124</b>	1,736
		<hr/>	<hr/>
Finance income		<b>7,849</b>	8,501
		<hr/>	<hr/>
Interest expense on financial liabilities measured at amortised cost		<b>(619)</b>	(785)
Foreign exchange losses		<b>(3,606)</b>	(1,347)
Other interest expense non-bank		<b>(12)</b>	(11)
		<hr/>	<hr/>
Finance expense		<b>(4,237)</b>	(2,132)
Net finance income and expense in income statement		<b>3,612</b>	6,369
		<hr/> <hr/>	<hr/> <hr/>

**Notes** *(continued)*

**4 Operating profit and finance income and expense** *(continued)*

<b>Wages and salaries</b>	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
	<b>No.</b>	No.	<b>No.</b>	No.
Field engineers	<b>18</b>	20	-	-
Mud plant	<b>5</b>	5	-	-
Laboratory chemists	<b>6</b>	4	-	-
Administration	<b>27</b>	26	<b>3</b>	4
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>56</b>	55	<b>3</b>	4
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
 <b>Personnel expenses</b>			<b>2009</b>	2009
			<b>A\$ 000's</b>	A\$ 000's
Wages and salaries			<b>3,029</b>	3,680
Defined contribution pensions			<b>218</b>	254
Increase in liability for long service leave			<b>152</b>	123
Increase in liability for annual leave			<b>119</b>	43
Equity-Settled share based payment transactions			<b>176</b>	246
			<hr/>	<hr/>
			<b>3,694</b>	4,346
			<hr/> <hr/>	<hr/> <hr/>

**Directors Remuneration**

Directors' remuneration, by director is separately disclosed in the Directors' remuneration report on pages 23 to 25.

**Notes** *(continued)*

**5 Income tax**

The major components of income tax expense are:

	<b>2010</b>	2009
	A\$ 000's	A\$ 000's
<b>Income statement</b>		
UK Corporation tax	-	-
Foreign tax	478	1,295
Other tax provision	-	1
Adjustments in respect of current income tax of previous years	14	-
	492	1,296
<b>Deferred income tax</b>		
Deferred tax liabilities no longer recognised	-	(2,764)
Relating to origination and reversal of temporary differences	(385)	(2,702)
	(385)	(5,466)
Income tax expense/(credit) reported in the income statement	107	(4,170)
Profit/(loss) on ordinary activities before tax	2,611	(46,462)

**Notes** (continued)

**5 Income tax** (continued)

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

	<b>2010</b>	2009
	<b>A\$ 000's</b>	A\$ 000's
Prima facie tax on Profit/(loss) from ordinary activities at 30% (2009: 30%)	<b>783</b>	(13,939)
Non assessable income	-	(119)
Non deductible expenses	<b>61</b>	5,374
Deferred tax on losses not recognised	<b>(408)</b>	4,037
Utilisation of previously unrecognised tax losses	<b>(333)</b>	(307)
Other provision for income tax prior year	<b>3</b>	32
Other tax provisions	-	25
(Lower)/higher taxes on earnings rate of tax in foreign jurisdictions	<b>1</b>	727
	<hr/>	<hr/>
Income tax (credit)/expense attributable to ordinary activities	<b>107</b>	(4,170)
	<hr/> <hr/>	<hr/> <hr/>

**Deferred income tax**

Deferred income tax at 30 June 2010 relates to the following:

*Consolidated*

*Deferred tax liabilities*

Future income tax liability attributable to temporary differences

Receivables	-	(285)
Exchange rate fluctuations on financial assets	(3)	(107)
Property, plant & equipment	(17)	(18)
Intangible assets	-	(19)
	<hr/>	<hr/>
	<b>(20)</b>	<b>(429)</b>
	<hr/> <hr/>	<hr/> <hr/>

*Deferred Tax Assets*

Future income tax benefit attributable to temporary differences

Payables (i)	324	282
Unrealised foreign exchange loss on financial assets	76	232
Provisions	70	64
Property, plant & equipment	23	5
Tax losses carried forward	-	(19)
	<hr/>	<hr/>
	<b>493</b>	<b>564</b>
	<hr/> <hr/>	<hr/> <hr/>
Net deferred tax asset	<b>473</b>	<b>135</b>

(i) Payables relates to annual leave, long service leave and other accruals.

**Notes (continued)**

**5 Income tax (continued)**

**Deferred income tax (continued)**

Deferred income tax at 30 June 2010 relates to the following:

<i>Company</i>	<b>2010</b>	2009
	<b>A\$ 000's</b>	A\$ 000's
<i>Deferred tax liabilities</i>		
Future income tax liability attributable to temporary differences		
Unrealised foreign exchange gain on financial assets	(4)	-
Receivable	-	(431)
	<u>(4)</u>	<u>(431)</u>
<i>Deferred Tax Assets</i>		
Future income tax benefit attributable to temporary differences		
Payables (i)	190	195
Unrealised foreign exchange loss on financial assets	20	114
Tax loss carried forward	-	(19)
	<u>210</u>	<u>290</u>
Net deferred tax asset/(liability)	<u>206</u>	<u>(141)</u>

(i) Payables relates to annual leave, long service leave and other accruals.

As at 30 June 2010 the Group had available tax losses of A\$41.014million (2009:A\$23.3million) that have not been recognised on the basis that future profits can not be adequately forecast in the required territories.

**Movement in temporary difference during the year**

*Consolidated*

	<b>Balance 30 June 2009</b>	<b>Recognised in profit or loss</b>	<b>Balance 30 June 2010</b>
	<b>A\$ 000</b>	<b>A\$ 000</b>	<b>A\$ 000</b>
<b>Deferred tax assets</b>			
Payables	282	42	324
Unrealised foreign exchange loss on financial assets	232	(156)	76
Provisions	64	6	70
Property, plant & equipment	5	18	23
Tax loss carried forward	(19)	19	-
	<u>564</u>	<u>(71)</u>	<u>493</u>
<b>Deferred tax liabilities</b>			
Receivables	(285)	285	-
Exchange rate fluctuations on financial assets	(107)	104	(3)
Property, plant & equipment	(18)	1	(17)
Intangible assets	(19)	19	-
	<u>(429)</u>	<u>409</u>	<u>(20)</u>



**Notes** (continued)

**5 Income tax** (continued)

**Movement in temporary difference during the year**

*Company*

	<b>Balance</b>	<b>Recognised in</b>	<b>Balance</b>
	<b>30 June 2009</b>	<b>profit or loss</b>	<b>30 June 2010</b>
	<b>A\$ 000</b>	<b>A\$ 000</b>	<b>A\$ 000</b>
<b>Deferred tax assets</b>			
Payables	195	(5)	190
Unrealised foreign exchange loss on financial assets	114	(94)	20
Tax loss carried forward	(19)	19	-
	290	(80)	210
<b>Deferred tax liabilities</b>			
Receivables	(431)	431	-
Unrealised foreign exchange loss on financial assets	-	(4)	(4)
	(431)	427	(4)

**6 Earnings per share**

	<b>2010</b>	2009
	<b>A\$ 000's</b>	A\$ 000's
Net profit/(loss): Earnings used in calculating basic earnings per share	<b>4,824</b>	(33,439)
Net profit/(loss): Earnings used in calculating diluted earnings per share	<b>4,824</b>	(33,439)
	<b>Number</b>	Number
	<b>of shares</b>	of shares
In thousands of shares		
Weighted average ordinary shares used in calculating basic earnings per share	<b>226,658</b>	217,026
Weighted average ordinary shares used in calculating diluted earnings per share	<b>226,658</b>	217,026
Basis earnings per share (cents per share)	<b>2.1</b>	(15.4)
Diluted earnings per share (cents per share)	<b>2.1</b>	(15.4)

**Notes** *(continued)*

**7 Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise the following at 30 June 2010:

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>A\$ 000's</b>	<b>A\$ 000's</b>	<b>A\$ 000's</b>	<b>A\$ 000's</b>
Cash at bank and in hand	5,800	9,779	1,282	232
	<u>5,800</u>	<u>9,779</u>	<u>1,282</u>	<u>232</u>

**Non-cash financing and investing activities**

*Hire Purchase Agreements*

During the financial year the Group acquired lab equipment with an aggregate fair value of A\$264 thousand through a hire purchase agreement (2009: Motor Vehicle A\$33 thousand).

*Secured Bank Loan*

During the financial year the Group did not finance any capital expenditure via a secured bank loan (2009: A\$nil).

Disclosure of financing activities refer to notes 18 & 19.

**Notes** *(continued)*

**8 Trade and other receivables**

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
	<b>A\$ 000's</b>	A\$ 000's	<b>A\$ 000's</b>	A\$ 000's
Trade debtors	<b>3,055</b>	6,432	-	-
Sundry debtors	<b>228</b>	1,446	<b>308</b>	1,437
	<hr/>	<hr/>	<hr/>	<hr/>
Total receivables (current)	<b>3,283</b>	7,878	<b>308</b>	1,437
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**9 Inventories**

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
	<b>A\$ 000's</b>	A\$ 000's	<b>A\$ 000's</b>	A\$ 000's
Stores and materials – at cost	<b>8,288</b>	7,523	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total inventories at lower of cost and net realisable value	<b>8,288</b>	7,523	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

During the year, inventories of A\$9.443million (2009: A\$13.210million) were expensed through cost of sales.

**Notes** (continued)

**10 Investments**

	<b>Group</b>		<b>Company</b>	
	<b>2010</b> A\$ 000's	2009 A\$ 000's	<b>2010</b> A\$ 000's	2009 A\$ 000's
<b>Current</b>				
Brought forward balance	-	27,624	-	-
Revaluation of investment	-	(24,054)	-	-
Elimination of VCI on stepped acquisition	-	(3,570)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total investments (current)	-	-	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Non-current investments in subsidiaries</b>				
Brought forward balance	-	-	<b>8,901</b>	8,466
Purchase of shares in PT Rheochem Indonesia	-	-	-	435
Reclassification as non interest bearing loan	-	-	<b>(299)</b>	-
	<hr/>	<hr/>	<hr/>	<hr/>
Investments at cost	-	-	<b>8,602</b>	8,901
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The principal Group companies at 30 June 2010 are set out below:

<b>Subsidiaries</b>	<b>Principal activity in the year</b>	<b>Proportion of voting rights and shares held</b>		<b>Class of share held</b>	<b>Place of incorporation</b>
		2010	2009		
Rheochem Limited	Drilling fluid services	100%	100%	Ordinary	Australia
Rheochem Pacific Limited	Drilling fluid services	100%	100%	Ordinary	New Zealand
VRMT Well Services Limited	Dormant	51%	51%	Ordinary	Nigeria
Rheochem India Private Limited	Drilling fluid services	70%	70%	Ordinary	India
Lochard Energy Limited	Holding company	100%	100%	Ordinary	United Kingdom
Lochard Energy Incorporated	Oil field developments	100%	100%	Ordinary	United States of America
PT Rheochem Indonesia	Drilling fluid services	80%	80%	Ordinary	Indonesia
Zeus Petroleum Limited	Oil field developments	100%	50%	Ordinary	United Kingdom

## Notes (continued)

### 11 Acquisition of non-controlling interest

#### Acquisition of remaining 50% of Zeus Petroleum Limited

On 5 March 2010 Lochard Energy Limited ("Lochard UK") entered into a Share Purchase Agreement with Pacific International Management Inc. ("PIM") to acquire the remaining 50% of shares of Zeus Petroleum Limited ("Zeus") for the nominal sum increasing its ownership from 50% to 100%. The transaction was completed on the 31 March 2010.

As part of the transaction to acquire the remaining 50%, Lochard UK acquired from a third party loan notes ("Zeus loan notes") payable by Zeus with a book value of A\$10.581million (US\$9.731million). Rheochem Plc released its loan receivable with PIM of A\$10.306million (US\$9.476million) in exchange for PIM procuring the transfer of the Zeus loan notes to Lochard UK and for settling a loan of A\$6.320million (US\$5.709million) due from Zeus to PIM. In consideration for settling the loan, PIM purchased one new share in Zeus which was in turn transferred to Lochard UK on the same day.

The Group recognised a credit reducing the Non-controlling interests by A\$7.644 million, a reduction of Interest bearing loans receivable of A\$10.306million (US\$9.476million), and a reduction in Non-interest bearing loans and borrowings payable to third parties of A\$16.901 million (US\$15.4 million) and in equity a credit to Acquisition of non-controlling interest of A\$7.644 million. The Group recognised a gain through the consolidated income statement of A\$6.595million (US\$5.9million) in respect of this debt settlement transaction on the basis that the fair value of the equity in Zeus acquired both before and after the transaction is A\$nil. In accordance with IFRS 27 (2008) the change in non controlling interests affects equity only.

#### Prior Year stepped acquisition of Zeus Petroleum Limited

On 13 March 2009, the Company gained control of Zeus Petroleum Limited by virtue of obtaining an option to acquire the remaining 50% of the share capital of Zeus Petroleum Limited, as a result of a default in the repayment of the interest bearing loans (see note 14) by Pacific International Management. Following the deemed acquisition of control the investment in Zeus Petroleum Limited was accounted for as a subsidiary having been previously held as a VCI at fair value.

The Group initially acquired 33% of Zeus Petroleum in September 2006 for consideration of A\$5.9 million and a further 17% was acquired in January 2008 for A\$9.4 million. The deemed acquisition of the 50% shareholding in Zeus resulted in the Group recognising a goodwill value of A\$5.335 million, which was impaired at 30 June 2009 to A\$nil value.

The deemed acquisition of control necessitated the consolidation of the accounts of Zeus Petroleum within the Group accounts. The consolidation had the following effects on the Group's assets and liabilities at that date.

Notes (continued)

**11 Acquisition of non-controlling interest** *(continued)*

**Prior Year stepped acquisition of Zeus Petroleum Limited** *(continued)*

As at 13 March 2009	Pre- consolidation carrying amounts	Fair value adjustments	Recognised values on consolidation
	A\$ 000's	A\$ 000's	A\$ 000's
Cash	85	-	85
Prepayments	1	-	1
Current tax assets	40	-	40
Oil & gas assets	31,356	22,226	53,582
Loans and borrowings	(41,036)	-	(41,036)
Trade creditors	(2,829)	-	(2,829)
Deferred taxation	-	(2,703)	(2,703)
	<hr/>	<hr/>	<hr/>
<b>Net assets acquired</b>			<b>7,140</b>
Goodwill arising on acquisition			5,335
Minority interest acquired			(3,570)
<b>Fair value of net assets acquired and goodwill</b>			<b>8,905</b>
			<hr/> <hr/>
<b>Components of cost acquisition</b>			
Consideration for initial 33.33% shareholding			5,942
Consideration for 16.67% shareholding			9,377
			<hr/>
<b>Total cost of acquisition</b>			<b>15,319</b>
Share of post acquisition pre consolidated losses			(4,367)
Revaluation deficit on step acquisition (see below)			(2,047)
<b>Fair value of net assets acquired and goodwill attributable to equity shareholders</b>			<b>8,905</b>
			<hr/> <hr/>

The deficit on the revaluation reserve was created as a result of the fall in the fair value of the assets acquired in September 2006 and January 2008, as valued at the date of control passing to the Group on 13 March 2009.

In the period from date of deemed acquisition on 13 March 2009 to 30 June 2009, Zeus Petroleum recorded a loss of A\$20.524 million with additional revenue of A\$nil.

The position as at both 13 March 2009 and 30 June 2009 was that no value was ascribed to the contingent liability discussed in Note 25 to the accounts. At this time Management have been unable to reliably determine the fair value pending further evidence being made available in relation to the claim. The contingent liability was therefore not included in the calculation of net assets acquired.

The goodwill was attributable mainly to the potential economic benefit attributable to the reserves acquired. During the period the goodwill was impaired to A\$2.9m.

**Notes** (continued)

**12 Oil and gas intangible assets**

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
	<b>A\$ 000's</b>	A\$ 000's	<b>A\$ 000's</b>	A\$ 000's
<b>Non-current oil and gas assets</b>				
Brought forward balance	<b>26,273</b>	1,665	-	-
Additions through business combinations	-	53,582	-	-
Additions	<b>1,194</b>	1,743	-	-
Impairment loss oil & gas assets USA	-	(3,016)	-	-
Impairment loss oil & gas assets UK	<b>(119)</b>	(27,005)	-	-
Foreign currency translation adjustment	<b>(3,221)</b>	(696)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Carrying amount	<b>24,127</b>	26,273	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Cost	58,184	56,990	-	-
Accumulated impairment	(34,057)	(30,717)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>24,127</b>	26,273	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The oil and gas intangible assets are exploration and evaluation assets recognised in accordance with IFRS 6.

For the purposes of impairment testing the intangible oil and gas assets are allocated to the Group's cash generating units, which represent the lowest level within the Group at which the intangible oil and gas assets are measured for internal management purposes, which is not higher than the Group's operating segments as reported in note 3. Although viewed for internal reporting purposes as a single operating segment, for the purposes of the North Sea and North American onshore assets, as separately identifiable cash generating units, have been separately assessed for impairment.

On 30 June 2010 the management of Zeus Petroleum Limited tested the oil and gas assets carrying value for impairment against fair value less cost to sell.

The impairment test was based on Net Present Value (NPV), in the previous year the impairment test was based on fair value less cost to sell. The change in the impairment test is due to a development plan and NPV calculation being provided by the field operator. The mid case NPV for the North Sea assets is between US\$240million and US\$490million. Based on Zeus's 10% interest in the Athena project its share of NPV supports the carried value in the accounts.

North American onshore assets were impaired to a value of approximately A\$30 per acre, based on the fair value less cost to sell.

The key assumptions are sensitive to market fluctuations and the success of future exploration drilling programmes. The most likely factor that will result in a material change to the recoverable amount of the cash generating unit is the successful development of the Athena oil field and results of future exploration drilling, which would determine the licence's future economic potential.

## Notes (continued)

### 12 Intangible oil and gas assets (continued)

For the purposes of impairment testing the intangible oil and gas assets are allocated to the Groups cash generating units, which represent the lowest level within the Group at which the intangible oil and gas assets are measured for internal management purposes, which is not higher than the Group's operating segments as reported in note 3. The North Sea and North American on shore assets have been separately assessed for impairment.

On 31 December 2008 the management of Lochard Energy Inc, a subsidiary group company, reviewed the carrying values of the Schuster Flats and Blackwell assets against fair value less cost to sell. The Company wrote down the value of Blackwell Lease by A\$2,312,725 to A\$nil value and the Schuster Flats acreage by A\$ 703,180 to A\$234,393 at the half year. At this time Rheochem does not intend any further exploration expenditure on the Schuster Flats acreage.

On 30 June 2009 the management of Zeus Petroleum Limited tested the oil and gas assets for impairment against fair value less cost to sell. As a result of management's strategic decision to relinquish certain blocks and the significant decline in the price of oil, an impairment loss of A\$27.005 million was booked. See below for further analysis of the impairment loss incurred in the year.

On 30 June 2009 the management of Zeus Petroleum Limited took the strategic decision to relinquish blocks 13/16b, 12/15, 13/11, 13/12, 13/13, subject to regulatory approval. (see note 26)

As at 30 June 2009 management do not have the budgeted financial resources required to meet the existing drilling requirements to maintain the licence over block 14/11. The management of Zeus Petroleum Limited have engaged the services of Energy Venture Opportunities International ('ENVOI') to provide project marketing services to identify and assist with concluding a farm out of blocks 14/11. This licence will expire at the end of December 2009 unless a well is drilled or an extension has been granted. Given the short time frame available to find a farm in partner on suitable terms Rheochem has written down the carrying value of the block to nil.



**Notes** (continued)

**12 Intangible oil and gas assets** (continued)

The impairment test was based on fair value less cost to sell. In the past year competing businesses in the same sector and of generally similar size were bought and sold by companies in the industry as part of the ongoing industry consolidation. The sales prices for the North Sea assets were used to derive a price based on reserves of 2.97m bbls and sales price of US\$7per bbl for similarly sized assets. A similar calculation was conducted for North American onshore assets which were impaired to a value of approximately A\$30 per acre,

The key assumptions are sensitive to market fluctuations and the success of future exploration drilling programmes. The most likely factor that will result in a material change to the recoverable amount of the cash generating unit is the results of future exploration drilling, which would determine the licence's future economic potential.

**13 Property, plant and equipment**

	Oil and gas assets A\$ 000's	Plant and equipment A\$ 000's	Motor vehicles A\$ 000's	Liquid drilling fluid plant A\$ 000's	Freehold land and buildings A\$ 000's	Total A\$ 000's
<b>Year ended 30 June 2010</b>						
At 1 July 2009, net of accumulated depreciation and impairment	148	1,142	264	4,703	3,007	9,264
Additions	-	400	80	14	7	501
Reclassification	-	22	2	-	(24)	-
Translation adjustment	(8)	15	(3)	-	-	4
Depreciation and amortisation Expense	-	(249)	(80)	(459)	(74)	(862)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2010, net of accumulated depreciation and impairment	140	1,330	263	4,258	2,916	8,907
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 30 June 2010</b>						
Cost or fair value	148	2,743	541	7,361	3,124	13,917
Accumulated depreciation and impairment	-	(1,450)	(277)	(3,103)	(184)	(5,014)
Reclassification	-	22	2	-	(24)	-
Translation adjustment	(8)	15	(3)	-	-	4
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net carrying amount	140	1,330	263	4,258	2,916	8,907
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**Notes** (continued)

**13 Plant, property and equipment** (continued)

	Oil and gas assets A\$ 000's	Plant and Equipment A\$ 000's	Motor vehicles A\$ 000's	Liquid drilling fluid plant A\$ 000's	Freehold land and buildings A\$ 000's	Total A\$ 000's
<b>Year ended 30 June 2009</b>						
At 1 July 2008, net of accumulated depreciation and impairment	-	1,339	308	5,665	3,054	10,366
Additions	148	100	33	56	-	337
Disposals	-	-	-	(3)	-	(3)
Disposals:						
Accumulated depreciation	-	-	-	2	-	2
Impairment/assets written off	-	(41)	-	(482)	-	(523)
Depreciation and amortisation expense	-	(256)	(77)	(535)	(47)	(915)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2009, net of accumulated depreciation and impairment	148	1,142	264	4,703	3,007	9,264
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 30 June 2009</b>						
Cost or fair value	148	2,381	461	7,347	3,117	13,454
Accumulated depreciation and impairment	-	(1,239)	(197)	(2,644)	(110)	(4,190)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net carrying amount	148	1,142	264	4,703	3,007	9,264
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

*Assets pledged as security*

A first registered charge over all the assets of Rheochem Limited has been granted as security for bank loans (refer to note 18). The net carrying value of assets under hire purchase are pledged as security for the associated hire purchase liabilities A\$0.269million (2009: A\$0.401million) and depreciation charge A\$0.036million (2009: A\$0.096million). The value of assets pledged as security is \$8.272 million (2009: \$9.024million).

**14 Interest bearing loans receivable**

	Group 2010 A\$ 000's	2009 A\$ 000's	Company 2010 A\$ 000's	2009 A\$ 000's
<b>Current</b>				
Interest bearing loans	-	9,025	-	9,025
Loans to controlled entities (i)	-	-	27,709	16,380
	<hr/>	<hr/>	<hr/>	<hr/>
Closing balance	-	9,025	27,709	25,405
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The Company provides loans to subsidiaries which have no specific terms or conditions. These loans are repayable upon demand.

- (i) The Company's net recoverable assets have been impaired by monies due from Lochar Energy Limited as a result of the fall in value of the subsidiary company's assets as at 30 June 2010. The carrying value of the loan has been reduced resulting in an impairment charge of A\$1.229million (2009: A\$26.101million). As disclosed in Note 25 to the financial statements there is a possible impact on the recoverability of the Company's loans to subsidiaries if the contingency there disclosed were to crystallise. The impairment charge is eliminated on consolidation of the Group result.

**Notes** (continued)

**15 Non interest bearing loans receivable**

	<b>Group</b>		<b>Company</b>	
	<b>2010</b> A\$ 000's	2009 A\$ 000's	<b>2010</b> A\$ 000's	2009 A\$ 000's
<b>Current</b>				
Non-interest bearing loans (i)	<b>88</b>	109	<b>88</b>	109
Closing balance	<b>88</b>	109	<b>88</b>	109

- (i) The Group has provided loans to PT Bunga Mas Nusantara Indo. Coy, the minority shareholder in Rheochem Indonesia, at nil coupon rate. The loan is unsecured and at call.

**16 Other intangible assets and goodwill**

	<b>Goodwill</b>	<b>Development Expenditure</b>	<b>Total</b>
	A\$ 000's	A\$ 000's	A\$ 000's
<b>Year ended 30 June 2010</b>			
At 1 July 2009, net of accumulated amortisation	<b>2,940</b>	<b>63</b>	<b>3,003</b>
Additions	-	-	-
Amortisation	-	(63)	(63)
Impairment loss	-	-	-
At 30 June 2010, net of accumulated amortisation	<b>2,940</b>	-	<b>2,940</b>
<b>At 30 June 2010</b>			
Cost	<b>2,940</b>	<b>377</b>	<b>3,317</b>
Accumulated amortisation	-	(377)	(377)
Net carrying amount	<b>2,940</b>	-	<b>2,940</b>
<b>Year ended 30 June 2009</b>			
At 1 July 2008, net of accumulated amortisation	2,940	132	3,072
Additions	5,335	-	5,335
Amortisation	-	(69)	(69)
Impairment Loss	(5,335)	-	(5,335)
At 30 June 2009, net of accumulated amortisation	<b>2,940</b>	<b>63</b>	<b>3,003</b>
<b>At 30 June 2009</b>			
Cost	2,940	377	3,317
Accumulated amortisation	-	(314)	(314)
Net carrying amount	<b>2,940</b>	<b>63</b>	<b>3,003</b>

**Notes** (continued)

**16 Intangible assets and goodwill** (continued)

For the purposes of impairment testing goodwill is allocated to the Group's operating divisions, which represent the lowest level within the Group at which goodwill is monitored for internal management purposes, which is not higher than the Group's operating segments as reported in note 3.

A summary of the goodwill allocation is presented below:

	<b>2010</b>	<b>2009</b>
	<b>A\$ 000's</b>	<b>A\$ 000's</b>
Zeus oil and gas assets	-	5,335
less impairment (see note 12)	-	(5,335)
Drilling services operations	<b>2,940</b>	2,940
	<hr/>	<hr/>
	<b>2,940</b>	2,940
	<hr/> <hr/>	<hr/> <hr/>

*Zeus oil and gas assets*

On 13 March 2009 the group recognised goodwill of A\$5.3m in respect of the step acquisition of Zeus Petroleum Limited. The goodwill was calculated on acquisitions on September 2006 and January 2008 and recognised on the 13 March 2009. As a result of impairment tests carried out on 30 June 2009 the associated goodwill was subsequently impaired (see note 12).

*Drilling Services Operations*

Goodwill on the drilling services operations arose on the acquisition of Rheochem Limited on 15 September 2004. The corporate transfer of ownership was to assist with the parent entity obtaining an admission to the AIM of the London Stock Exchange.

The drilling services cash generating unit was tested for impairment on the basis of discounting future cash flows generated from continuing operations. An impairment loss was not considered to be necessary at this point in time. The impairment test will continue to be conducted on an annual basis.

The calculation of value in use was based on the following key assumptions.

- The cash flows were projected based on past experience, actual operating results and the next year business plan for 2011 and the subsequent 6 years.
- Growth rates of 10% (2009: 10%) have been applied from the anticipated increase in services to coal bed methane projects, which management believe represents the prudent long term growth prospects of the business
- Sales prices being held constant or at existing contracted prices.
- A pre tax discount rate of 14% (2009: 5.5%) has been applied. This discount rate was estimated based on the Company's past experience for its cost of capital.
- Sensitivity analysis have been performed based on 0% (2009: 0%) growth post 2011. This analysis determined that goodwill is recoverable.

**17 Trade and other payables**

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
	<b>A\$ 000's</b>	<b>A\$ 000's</b>	<b>A\$ 000's</b>	<b>A\$ 000's</b>
Trade and other payables	<b>2,861</b>	5,890	<b>2,268</b>	240
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>2,861</b>	5,890	<b>2,268</b>	240
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Trade payables are non-interest bearing, unsecured and are normally settled on 30 day terms from end of month in which the invoice is received.

**Notes** (continued)

**18 Interest bearing loans and interest**

	<b>Group</b>		<b>Company</b>	
	<b>2010</b> A\$ 000's	2009 A\$ 000's	<b>2010</b> A\$ 000's	2009 A\$ 000's
<b>Current</b>				
Unsecured loans (a)	<b>166</b>	241	-	-
Hire purchase liabilities (refer note 25 (b) & (d) )	<b>89</b>	246	-	-
Bank loan (b) & (c)	<b>7,800</b>	9,300	-	-
	<b>8,055</b>	9,787	-	-
<b>Non-current</b>				
Bank loan (b)	<b>302</b>	1,602	-	-
Hire purchase liabilities (refer note 25 (b) & (d) )	<b>203</b>	51	-	-
	<b>505</b>	1,653	-	-
	<b>8,560</b>	11,440	-	-

- (a) The unsecured loan relates to insurance premium funding and has a term of less than 12 months. A flat fixed interest rate of 4.40% is charged on the loan.
- (b) The bank loan is repayable based on quarterly principal instalments of \$325,000. The loan is secured by a fixed and floating charge over Rheochem Limited assets. A variable interest rate of 7.55% per annum is charged on the outstanding balance of the commercial bill loan. The amount of this facility A\$1.602million has a term expiring on the 2 January 2012, accordingly A\$1.300million has been classified as current and A\$0.302million as non-current.
- (c) The bank loan is repayable based on quarterly principal instalments of \$75,000. The loan is secured by a fixed and floating charge over Rheochem Limited assets. A variable interest rate of 6.90% per annum is charged on the outstanding balance of the commercial bill loan. The amount of this facility A\$6.500million is disclosed as current because the facility is subject to annual review in November 2010.

All interest bearing bank loans are denominated in Australian dollars.

The hire purchase agreements are a means of funding the purchase of motor vehicles, computer and laboratory equipment for business operations. Hire purchase agreements have an average term of 19 months and have an average interest rate of 8.03% per annum.

**Notes** (continued)

**19 Non-interest bearing loans and borrowings**

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
	A\$ 000's	A\$ 000's	A\$ 000's	A\$ 000's
<b>Current</b>				
Unsecured Loan (i)	-	19,029	-	-
Non-interest bearing loans from controlled entities (ii)	-	-	<b>141</b>	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	-	19,029	<b>141</b>	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

(i) The unsecured loans have been settled as part of the transaction to acquire the remaining 50% of Zeus Petroleum Limited (refer to note 11).

(ii) Non-interest bearing loans are at call and unsecured

**20 Employee benefits**

<b>Group</b>	<b>Long Service</b>	<b>Annual</b>	<b>Total</b>
	<b>Leave</b>	<b>Leave</b>	
	A\$ 000's	A\$ 000's	A\$ 000's
<b>At 1 July 2009</b>	<b>297</b>	<b>388</b>	<b>685</b>
<b>Arising during the year</b>	<b>152</b>	<b>119</b>	<b>271</b>
<b>Utilised</b>	<b>(66)</b>	<b>(61)</b>	<b>(127)</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>At 30 June 2010</b>	<b>383</b>	<b>446</b>	<b>829</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Current 2010</b>	<b>312</b>	<b>446</b>	<b>758</b>
<b>Non-current 2010</b>	<b>71</b>	<b>-</b>	<b>71</b>
	<u>          </u>	<u>          </u>	<u>          </u>
	<b>383</b>	<b>446</b>	<b>829</b>
	<u>          </u>	<u>          </u>	<u>          </u>
At 1 July 2008	174	338	512
Arising during the year	123	50	173
	<u>          </u>	<u>          </u>	<u>          </u>
At 30 June 2009	297	388	685
	<u>          </u>	<u>          </u>	<u>          </u>
Current 2009	-	388	388
Non-current 2009	297	-	297
	<u>          </u>	<u>          </u>	<u>          </u>
	297	388	685
	<u>          </u>	<u>          </u>	<u>          </u>

(a) Long Service Leave - Is provided for employees in accordance with stated accounting policies, based on industry experience by management.

(b) Annual Leave - Is provided for employees in accordance with stated accounting policies based on industry experience by management.

**Notes** (continued)

**21 Provisions**

<b>Group</b>	<b>Decommissioning Provision A\$ 000's</b>	<b>Land Restoration A\$ 000's</b>	<b>Total A\$ 000's</b>
<b>At 1 July 2009</b>	<b>148</b>	<b>155</b>	<b>303</b>
<b>Arising during the year</b>	<b>-</b>	<b>12</b>	<b>12</b>
<b>Translation adjustment</b>	<b>2</b>	<b>-</b>	<b>2</b>
	<hr/>	<hr/>	<hr/>
<b>At 30 June 2010</b>	<b>150</b>	<b>167</b>	<b>317</b>
	<hr/>	<hr/>	<hr/>
<b>Current 2010</b>	<b>150</b>	<b>-</b>	<b>150</b>
<b>Non-current 2010</b>	<b>-</b>	<b>167</b>	<b>167</b>
	<hr/>	<hr/>	<hr/>
	<b>150</b>	<b>167</b>	<b>317</b>
	<hr/>	<hr/>	<hr/>
At 1 July 2008	-	144	144
Arising during the year	148	11	159
	<hr/>	<hr/>	<hr/>
At 30 June 2009	148	155	303
	<hr/>	<hr/>	<hr/>
Current 2009	148	-	148
Non-current 2009	-	155	155
	<hr/>	<hr/>	<hr/>
	148	155	303
	<hr/>	<hr/>	<hr/>

- (a) Restoration of Land – Rheochem currently manages and maintains a plant at Dampier, Western Australia. When Rheochem completes its operations it is required to restore the land and the surrounds to its previous state. As such a provision is made to fund this future restoration of land.
- (b) Decommissioning provision – Lochard Energy Inc. currently operates producing oil and gas assets at Caldwell County, Texas, USA. When Lochard Energy Inc. completes its operations it is required to restore the land and the surrounds to its previous state. As such a provision is made to fund this future restoration.

**Notes** (continued)

**22 Share capital**

<b>Company</b>	No. of shares	<b>A\$000</b>
<i>Allotted, called up and fully paid</i>		
At 1 July 2009 and 30 June 2009	217,026,002	<b>26,439</b>
Issued on 15 March 2010 for cash	32,553,900	<b>2,669</b>
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
At 30 June 2010	249,579,902	<b>29,108</b>
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>

*Issue of shares*

On the 15 March 2010 the Company issued 32,553,900 new ordinary shares at £0.05 (A\$0.08) per share pursuant to a placement to raise additional working capital.

**23 Share based payments**

The Company has provided the Directors, certain employees and advisors with share options. The options are exercisable at set prices and the vesting and exercisable terms varied to suit each grant of options.

**Options issued in lieu of payment for services received**

On 7 December 2007 the Company issued a total of 1,000,000 options to subscribe for one new ordinary share per option. The options are exercisable at A\$0.84 at any time up to the 7 December 2010. The options were issued at \$nil consideration, being issued pursuant to the raising of A\$35million and upon admission of the Company to the Australian Stock Exchange.

On 5 May 2009 the Company granted warrants, to the Broker of the Company upon their appointment, to subscribe for 2 million ordinary shares at the price of 5p per ordinary share in two tranches which are exercisable in the two years from 5 May 2009.

These options have been valued against the fair value of the service provided less any consideration received.



**Notes** (continued)

**23 Share based payments** (continued)

**Non-executive Options**

On the 22 October 2007 the Company issued 500,000 options over un-issued shares to the Non-executive Directors. The options have an exercise price of 16.5p. The options vest in three tranches, a third after 12 months, a further third after 24 months and the final third after 36 months from date of grant.

**Employee Options**

Details of employee share options are as follows:

At start of report year	Granted at the date of this report	Lapsed	Exercised	At end of report year	Exercise price	Exercise date from	Exercise date to
705,000	-	-	-	705,000	16.5p	14-9-2008	14-9-2015
120,000	-	-	-	120,000	16.5p	9-2-2009	9-2-2016
120,000	-	-	-	120,000	16.5p	21-2-2008	21-2-2012
1,490,000	-	-	-	1,490,000	16.5p	2-10-2008 2-10-2009 2-10-2010	2-10-2012
4,000,000	-	-	-	4,000,000	16.5p	22-10-2008 22-10-2009 22-10-2010	2-10-2012
50,000	-	-	-	50,000	16.5p	7-01-2009 7-01-2010 7-01-2011	7-01-2013

**Share-based Payments and options issued in lieu of services**

The fair value of equity-settled share options granted is estimated as at the date of grant using a binomial option model, taking into account the terms and conditions upon which the options were granted.

The Group recognised total expenses of A\$0.176 million (2009: A\$0.246 million) related to employee and non-executive share based payment transactions in the year.

**24 Reserves and retained earnings/accumulated losses**

Non-controlling interest relates to the 20% interest held in PT Rheochem Indonesia, post year end the interest has increased to 95%, and the 30% interest held in Rheochem India Pvt Ltd outside of the Group.

The share based payment reserve holds the directly attributable cost of services provided pursuant to the share issue in December 2007 satisfied by way of share based payments and the appointment of a new broker for the Company in May 2009.

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

The other equity reserve comprises a debit resulting from the acquisition of Zeus Petroleum Limited which is a wholly owned subsidiary of Rheochem Group

**Notes** (continued)

**25 Commitments and contingencies**

	<b>2010</b>	2009
	A\$ 000's	A\$ 000's
<b>(a) Lease expenditure commitments</b>		
<i>Operating leases (non-cancellable):</i>		
Minimum lease payments		
- not later than one year	336	341
- later than one year and not later than five years	850	1,070
- later than five years	229	343
	1,415	1,754
Total operating leases (non-cancellable)	1,415	1,754

The operating leases are entered into for the purposes of leasing company premises and operating equipment for business operations.

	<b>2010</b>	2009
	A\$ 000's	A\$ 000's
<b>(b) Lease expenditure commitments</b>		
<i>Hire purchase agreement:</i>		
Minimum lease payments		
- not later than one year	111	259
- later than one year and not later than five years	236	54
	347	313
Total minimum hire purchase payments	347	313
- future finance charges	(55)	(16)
	292	297
Hire purchase liability	292	297

The hire purchase agreements are a means of funding the purchase of motor vehicles, computer and laboratory equipment for business operations.

	<b>2010</b>	2009
	A\$ 000's	A\$ 000's
Current liability	89	246
Non current liability	203	51
	292	297
Balance at 30 June	292	297

- (i) Operating leases have an average lease term of 50 months (2009: 55 months).
- (ii) Hire purchase agreements have a term between 4 and 54 months (2009: 36 and 48 months) and have an average interest rate of 8.03% (2009: 8.07%).

## Notes (continued)

### 25 Commitments and contingencies (continued)

#### (c) Contingent liabilities

The Group and the Company have provided a bank guarantee on behalf of Rheochem India and Rheochem Pacific in relation to performance bonds. The liability has not been accrued as non-performance of the contracts is unlikely.

The value of the performance bonds is A\$0.656million (2009: A\$0.800million).

#### *Zeus Petroleum Limited*

Zeus Petroleum Limited ("Zeus"), a subsidiary company, has been notified that Senergy Limited, a UK based drilling Company, has, on 1 April 2010, commenced proceedings in the High Court in London claiming US\$11.907million and £1.938million (approximately A\$17.307million) in respect of alleged contracted works not carried out in accordance with the terms of a Letter of Commitment dated May 2008 ("L.O.C"). The claim also includes a rectification agreement claiming an alleged error in the L.O.C. The management of Zeus intend to vigorously defend the claim. The management of Zeus believe that they will successfully defend the claim and that it does give rise to a contingent liability in the Zeus financial statements. No provision has been made for any settlement.

Were the contingent liability in Zeus Petroleum Limited to crystallise the Directors estimate that a significant portion of the A\$24.626million loans due from Zeus Petroleum Limited would be irrecoverable.

There is no legal liability attributable to Lochard Energy Limited or Rheochem Plc.

#### *Rheochem Limited*

A first registered charge over all the assets of Rheochem Limited has been granted as security for bank loans (refer to note 18). The value of assets pledged as security is \$8.689million (2009: \$9.000million).

#### *Rheochem Plc*

Were the contingent liability in Zeus Petroleum Limited to fully crystallise the Directors estimate that further provisions in the range of A\$13.337million might be required by the Company against amounts due from its subsidiaries.

### 26 Subsequent events

There are no known subsequent events of a material nature.

### 27 Pensions

The Group contributes to defined contribution pension schemes for its Directors and employees. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension cost included in the profit and loss account for the year amounted to A\$0.218 million (2009: A\$0.500 million).

### 28 Loss of the parent company

As permitted by Section 408 of Companies Act 2006, the Income Statement of the Parent Company is not presented as part of these financial statements. The Parent Company's loss for the year amounted to A\$2.6 million (2009: loss of A\$24.7million).

**Notes** (continued)

**29 Related party transactions**

***Key management personnel***

Key management personnel are as follows:  
HL Gardner-CEO, Executive Director  
CR McGuckin-Group General Manager, Executive Director  
LC McCrabb-Executive Director

See Directors remuneration report (page 23)

***Transactions with Directors and key management personnel***

***Purchases***

Zeus Petroleum Limited conducted business transactions for geological consulting services to a value of A\$104thousand (2009: A\$68thousand) with Aimwell Energy Ltd, an entity associated with director M. Rose. These transactions were conducted on normal commercial terms and conditions. A\$30thousand was outstanding at 30 June 2010 (2009: A\$nil).

Rheochem Plc conducted business transactions for corporate advice to a value of A\$72thousand (2009: nil) with Kingston Vale Pty Ltd, an entity associated with director P.R. Youd. These transactions were conducted on normal commercial terms and conditions. A\$nil was outstanding at 30 June 2010.

***Transactions with other related parties***

**Company**

Rheochem Plc has provided loans as listed below:

	2010		2009	
	A\$ 000's	Interest p.a	A\$ 000's	Interest p.a
<b><i>Interest bearing loans</i></b>				
Lochard Energy Limited (i) (iii)	46,906	6.25%	36,125	3.75%
Rheochem Limited (i)	3,205	4.50%	3,814	9.35%
Zeus Petroleum Limited (i) (ii)	4,928	10.00%	2,520	10.00%
	55,039		42,459	

- (i) The loans are provided at commercial interest rates and are subject to repayment on demand  
(ii) The loan is secured and repayable on demand

(iii) Lochard Energy Limited the carrying value of the loan has been impaired by A\$27.330million (2009: A\$26.101million).

***Interest expense***

Lochard Energy Limited	2,152	1,299
Rheochem Limited	111	551
Zeus Petroleum Limited	384	-
	2,647	1,850

***Management fees***

Rheochem Limited (i)	120	80
Zeus Petroleum Limited (i)	277	535
	397	615

- (i) Management fees are charged on an arms length basis

**Notes** (continued)

**30 Auditors' remuneration**

*Services provided by the Group's auditor (in tenure as auditor) and associated firms*

During the year, the Group (including its overseas subsidiaries) obtained the following services from KPMG Audit Plc, the Group's auditor for the period, at costs as detailed below:

<b>Auditors' remuneration</b>	<b>Year ended 30 June 2010</b>	Year ended 30 June 2009
	A\$ 000's	A\$ 000's
Audit of 2010 financial statements	<b>101</b>	-
Review of 2010 half-yearly report	<b>90</b>	-
Audit of 2010 subsidiaries pursuant to legislation	<b>91</b>	-
Audit of 2009 financial statements	<b>198</b>	98
Review of 2009 half-yearly reports	-	35
Audit of 2009 subsidiaries pursuant to legislation	<b>44</b>	192
Audit of 2008 financial statements	-	69
	<hr/>	<hr/>
	<b>524</b>	394
	<hr/> <hr/>	<hr/> <hr/>
Fees payable to the Group's auditor for other services:		
Tax services	<b>97</b>	60
	<hr/> <hr/>	<hr/> <hr/>

There were no other services provided by KPMG Audit Plc during their period as auditor.

The Group audit fees are borne by each company

**Other auditor**

Fees payable to Rheochem India Pvt Ltd's auditor for audit of the subsidiary company

	<b>Year ended 30 June 2010</b>	Year ended 30 June 2009
	A\$ 000's	A\$ 000's
Audit of 2010 financial statements	<b>5</b>	-
Audit of 2009 financial statements	-	3
	<hr/>	<hr/>
	<b>5</b>	-
	<hr/> <hr/>	<hr/> <hr/>
Fees payable to the subsidiary company's auditor for other services: Tax services	<b>2</b>	1
	<hr/> <hr/>	<hr/> <hr/>

