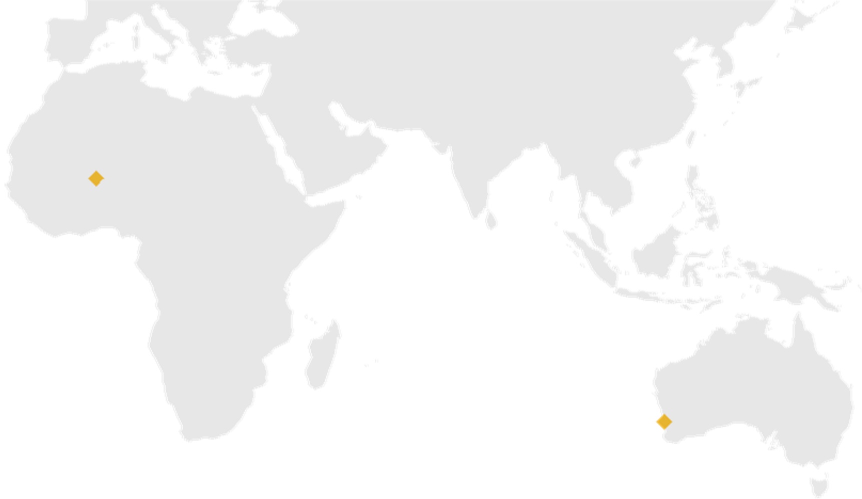

# CARBINE RESOURCES LIMITED

ABN 81 122 976 818

# 2011 Financial Report

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## CORPORATE DIRECTORY

| | | |
|---|---|---|
| **Directors** | Dr Paul Kitto | (Non-Executive Director) |
| | Mr Evan Cranston | (Non-Executive Director) |
| | Mr Grant Mooney | (Non-Executive Director) |
| | Mr Peter Sheehan | (Managing Director) |

**Company Secretary**
Mr Grant Mooney

**Principal & Registered Office**
Suite 23, 513 Hay Street
Subiaco, WA 6005
Telephone: (08) 6142 0986
Facsimile: (08) 9388 8824
Email: carbine@carbineresources.com.au

**Share Registry**
Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153
Telephone: (08) 9315 2333
Facsimile: (08) 9315 2233

**Auditor**
BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco WA 6008

**Legal Advisers**
Hardy Bowen
Level 1, 28 Ord Street
West Perth WA 6005
Telephone: (08) 9211 3600
Facsimile: (08) 9211 3690

**ASX Code**
CRB

## DIRECTORS' REPORT

The Directors present their report on the consolidated entity consisting of Carbine Resources Limited and the entity it controlled ("the Group") for the year ended 31 December 2011 and the Auditor's report thereon.

### DIRECTORS

The name of Directors who held office during or since the end of the year and until the date of this report period is set out below. Directors were in office for the entire period unless otherwise stated.

| | | |
|---|---|---|
| Mr Evan Cranston | Non-Executive Director | |
| Dr Paul Kitto | Non-Executive Director | |
| Mr Grant Mooney | Non-Executive Director and Company Secretary | (Appointed 18 January 2012) |
| Mr Peter Sheehan | Managing Director | (Appointed 22 February 2012) |
| Mr Ronald Sayers | Non-Executive Director | (Resigned 31 May 2011) |
| Ms Aoife McGrath | Executive Director - Exploration | (Resigned 18 January 2012) |

### PRINCIPAL ACTIVITIES

The principal activity of the Group during the year was exploration for gold in the northwest of Burkina Faso (West Africa).

### RESULTS

The loss for the financial year after income tax was $7,011,738 (31 December 2010: $5,415,586).

### DIVIDENDS PAID OR RECOMMENDED

No dividends have been paid or declared.

### FINANCIAL POSITION

The net assets of the Group as at 31 December 2011 are $6,887,641 compared to $8,591,149 as at 31 December 2010.

### SIGNIFICANT CHANGES IN STATE OF AFFAIRS

#### Madougou Project, Burkina Faso

During the 2011 financial period the Group increased its landholding in Burkina Faso by approximately 574km$^2$ to 1932km$^2$ by entering into agreements to acquire 3 new permits, Madougou 2, Nongodoum and Magel.

During the year, the Group progressed its Earn-In and Shareholder Agreement with Ampella Mining Ltd (Ampella) in relation to the Madougou Gold Project in Burkina Faso, West Africa.

Under the Agreement, the Group will be issued shares in an entity into which the Madougou Project will be transferred. The Group may earn its 80% interest in accordance with the following:

- An initial 51% interest by sole contributing $3 million on exploration and appraisal of the Project within a period of 3 years from commencement of the first earning period, with a binding commitment to spend $250,000 within a period of 12 months from commencement of the first earning period;
- A further 19% interest by sole contributing a further $2 million within a period of 2 years from commencement of the second earning period; and
- A further 10% interest by completing and sole funding a pre-feasibility study within a period of 2 years from commencement of the third earning period.

**Red Dam Project, Western Australia**

In October 2011 Carbine announced that it had entered into an agreement with Phoenix Gold Limited in which Phoenix has agreed to purchase tenement M16/344 known as Red Dam for the following consideration:

- $50,000 non-refundable cash deposit on signing formal agreement;
- $50,000 cash payable at settlement;
- 8 million fully paid ordinary PXG shares representing 7.2% of the issued capital of Phoenix at a deemed price of $0.23 per Phoenix share; and,
- $10 per ounce gross production royalty.

The divestment of Red Dam will allow Carbine to focus 100% of its efforts on the Madougou Project in Burkina Faso, West Africa where it is aiming to establish its maiden JORC compliant resource within the next 12 months. The divestment will increase Carbine's current cash and liquid assets to approximately $11 million to fund ongoing exploration.

**Corporate**

On 31 May 2011 Ron Sayers retired as a Non-Executive Director.

The Group held its annual general meeting on 31 May 2011. All resolutions were passed, including the adoption of the remuneration report; re-election of Evan Cranston; and adoption of the new Constitution.

During the financial period 36,174,958 listed options were exercised raising a total of $5,426,159 (before costs).

### Capital Raisings during the Year

During the year, the Company entered into an Underwriting Agreement with Patersons Securities Limited for the underwriting of options expiring on 31 July 2011.

As a result of the Underwriting Agreement, a total of 18,909,175 shares were issued as a result of the shortfall of options unexercised at an issue price of $0.15 each.

### Shares issued on the exercise of options

The following ordinary shares of Carbine Resources Limited were issued during the year ended 31 December 2011 on the exercise of listed options granted:

| Date options granted | Issue price of shares | Number of shares issued |
|---|---|---|
| 26 February 2010 | $0.15 | 17,265,783 |
| | | 17,265,783 |

No further shares have been issued since the exercise date of the options. No amounts are unpaid on any of the shares. Funds raised from the underwriting of options will be applied toward the Group's exploration initiatives at the Madougou Gold Project in Burkina Faso, West Africa and general working capital.

### Issue of options

The following Options were issued to Employees during the year pursuant to the Group's employee option plan:

| | | | |
|---|---|---|---|
| 4 April 2011 | 350,000 | Employee option | 175,000 options vesting 12 months from issue and 175,000 options vesting 24 months from issue, expiring 1 April 2014 at $0.38 each |
| 4 April 2011 | 500,000 | Employee option | 250,000 options vesting 12 months from issue and 250,000 options vesting 24 months from issue, expiring 1 April 2014 at $0.38 each |
| 4 April 2011 | 75,000 | Employee option | 37,500 options vesting 12 months from issue and 37,500 options vesting 24 months from issue, expiring 1 April 2014 at $0.38 each |
| 4 April 2011 | 100,000 | Employee option | Exercisable at $0.38 on or before 1 April 2014 |
| 24 June 2011 | 50,000 | Employee option | 25,000 options vesting 12 months from issue and 25,000 options vesting 24 months from issue, expiring 23 June 2014 at $0.16 each |

## OPTIONS

The Company has no listed options and 9,375,000 unlisted options for ordinary shares were on issue at the date of this report.

New issues of options, options exercised and options forfeited in the period are as follows:

| | No. of Options | |
|---|---|---|
| **Date of Grant** | **2011** | **2010** |
| Opening Balance | 44,474,958 | - |
| Options issued in the period<br>• Listed<br>• Unlisted | <br>-<br>1,075,000 | <br>37,505,798<br>8,300,000 |
| Options exercised in the period | (17,265,783) | (1,330,840) |
| Options underwritten in the period | (18,909,175) | - |
| **Balance at 31 December** | **9,375,000** | **44,474,958** |

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

On 18 January 2012 the Group announced the resignation of Aoife McGrath as Executive Director – Exploration and the appointment of Grant Mooney as Non-Executive Director.

On 22 February 2012 the Group appointed Peter Sheehan to the Board as Managing Director.

## FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The Company has proceeded to fulfil its obligations under the Joint Venture with Ampella Mining Ltd and progress exploration on the Madougou Project in Burkina Faso.

## INFORMATION ON DIRECTORS

**Mr Peter Sheehan** **Managing Director**

Mr Sheehan is a geologist with over 17 years' experience on three continents (Australia, Africa and America) in different facets of resources industry including; exploration management, evaluations/acquisitions, resource development, and open pit and underground mining.

Mr Sheehan holds a Bachelor of Science (Honors) from Monash University majoring in Geology as well as a Graduate Diploma in Applied Finance and Investment from Securities Institute of Australia.

Mr Sheehan has not held directorship in any listed companies during the past three financial years.

**Mr Evan Cranston** **Non-Executive Director**

Mr Cranston is a lawyer specialising in corporate and mining law. He has extensive experience in the areas of public listed entities including capital raisings, initial public offerings and liaison with market analysts and potential investors, together with Corporate Governance, the Australian Securities Exchange's Listing Rules and the Corporations Act.

His experience in mining law extends to tenement acquisition agreements, mineral right agreements, joint ventures and mergers and acquisitions.

He holds both a Bachelor of Commerce and Bachelor of Laws and is a member of AMPLA - The Resources and Energy Law Association.

Mr Cranston is currently Executive Director – Corporate of Ampella Mining Limited and Non Executive Director of Cradle Resources.

Mr Cranston has not held directorship in any other listed companies during the past three financial years.

**Dr Paul Kitto** **Non-Executive Director**

Dr Kitto's successful international exploration career extends over of 22 years experience within a range of major mining companies spaning a wide range of gold and base metal ore deposit types. He was previously Africa Exploration Manager for Gold Fields Limited. He has successfully negotiated, managed and co-ordinated exploration programs, joint ventures and project generation initiatives worldwide from grassroots through to advanced resource definition projects. He has either led or been a team member of successful exploration companies which have resulted in multi-million ounce gold resources in Africa, Australia and Papua New Guinea.

He holds a Doctorate in Geochemistry and Structural Geology from the Centre for Ore Deposit Research at the University of Tasmania where he was also employed as a Research Fellow.Dr Kitto is currently the Managing Director and CEO of Ampella Mining Limited.

Dr Kitto has not held directorship in any other listed companies during the past three financial years.

**Mr Grant Mooney** **Non-Executive Director and Company Secretary**

Mr Mooney is a member of the Institute of Chartered Accountants and is the principal of Perth-based corporate advisory firm Mooney & Partners Pty Ltd.

Mr Mooney has gained extensive experience in the areas of corporate and project management since commencing Mooney & Partners in 1999. His experience extends to advice on capital raisings, mergers and acquisitions and corporate governance.

Currently, Mr Mooney serves as a director and company secretary to ASX listed mineral exploration companies Attila Resources Limited, Barra Resources Limited, Phosphate Australia Limited and Wild Acre Metals Limited, and renewable energy company Carnegie Wave Energy Limited.

## DIRECTORS' MEETINGS

The number of Directors' meetings and number of meetings attended by each of the Directors of the Company during the financial year under review are:

| | Meetings held | Meetings attended while in office |
|---|---|---|
| Aoife McGrath (Resigned 18 January 2012) | 4 | 4 |
| Evan Cranston | 4 | 4 |
| Dr Paul Kitto | 4 | 3 |
| Ronald George Sayers (Resigned 31 May 2011) | 3 | - |

There have been other matters of Board business which have been resolved by circular resolutions of Directors, which are a record of decisions made at a number of informal meetings held to control, implement and monitor the Group's activities throughout the year.

## DIRECTORS' INTERESTS

The relevant interest of each Director in the share capital of the Company shown in the Register of Directors' Shareholdings as at the date of this report is:

| DIRECTOR | ORDINARY SHARES FULLY PAID | | OPTIONS | |
|---|---|---|---|---|
| | Direct | Indirect | Direct | Indirect |
| Mr Evan Cranston | - | - | 2,000,000 | - |
| Dr Paul Kitto | - | *3,200,000 | 2,000,000 | - |
| Mr Grant Mooney | | **135,000 | - | ***750,000 |
| Mr Peter Sheehan | - | - | - | - |

*shares and options held by Dr Paul Kitto are held in the name of Mr Paul Anthony Kitto & Mrs Ruth Elizabeth Shepherd <Kitto and Shepherd Super Fund A/C>
**shares held by Mr Grant Mooney are held by Mooney & Partners Pty Ltd
***options held by Mr Grant Mooney are held by Ocean Flyers Pty Ltd (The S&G Mooney Super Fund A/C)

## REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for Directors and other key management personnel of Carbine Resources Limited. These remuneration disclosures have been audited. The Group has no key management personnel other than the Directors and Company Secretary of the Company.

Details of Key Management Personnel:

- Mr Evan Cranston – Non-Executive Director
- Dr Paul Kitto – Non-Executive Director
- Mr Grant Mooney – Non Executive Director and Company Secretary (appointed 18 January 2012)
- Ms Aoife McGrath – Executive Director – Exploration (resigned 18 January 2012)
- Mr Ron Sayers – Non-Executive Director (resigned 31 May 2011)

**Compensation of Key Management Personnel**

The Remuneration Committee comprised of Directors, Dr Paul Kitto and Mr Evan Cranston with Mr Grant Mooney acting as Secretary. The Committee assesses the appropriateness of the nature and amount of emoluments of such officers on an annual basis by reference to relevant employment market conditions with the overall objective of ensuring maximum shareholder benefit from the retention of appropriately qualified Directors and Executives. The Committee reports to the Board of Directors on these findings and in turn makes recommendations in relation to remuneration standards. Presently there are no formalised arrangements which give rise to the payment of additional remuneration to Directors contingent on Group performance.

The Constitution and the ASX listing rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. The Group has not yet amended its total aggregate remuneration from that disclosed in its prospectus in February 2007 of $200,000. Given the size of the Group and its operations there is no relationship between remuneration and Group performance and shareholder wealth other than options issued as remuneration.

Non-Executive Directors' remuneration will be determined according to market practice for junior listed companies based on information obtained from industry analysts. Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-Executive Directors' fees and payments are reviewed annually by the Remuneration Committee.

*The short term incentives ('STI')*

The STI are designed to align the targets of the business units with the targets of those Executives in charge of meeting those targets. The STI paid to Directors and Executives are based on market rates for comparable companies for time, commitment and responsibilities.

*Long term incentives ('LTI')*

The LTI are granted to reward the Directors and employees for their performance and to align their remuneration with the creation of shareholder wealth. The LTI includes share based payments (i.e options). Options over shares are granted to the Directors and certain employees at the discretion of the Board and no individual has a contractual right to participate or to receive any guaranteed benefits. The issue of options is not linked to performance conditions because by setting the option price at a level above current share price at the time the options are granted; provides incentive for management to improve the Company's performance.

| 2011 | Short-Term Benefits | Post Employment Benefits | Share-Based Payment | | |
|---|---|---|---|---|---|
| **Name** | **Cash Salary and Fees $** | **Super-annuation $** | **Shares / Options $** | **Total $** | **% Performance Based** |
| ***Non-Executive Directors*** | | | | | |
| Mr Evan Cranston | 96,868 | - | - | 96,868 | 0% |
| Dr Paul Kitto | 88,870 | 7,998 | - | 96,868 | 0% |
| Mr Ron Sayers (resigned 31 May 2011) | - | - | - | - | 0% |
| *Sub-total Non-Executive Directors* | 185,738 | 7,998 | - | 193,736 | 0% |
| ***Executive Directors*** | | | | | |
| Ms Aoife McGrath (resigned 18 January 2012) | 202,086 | - | - | 202,086 | 0% |
| ***Specified Executive*** | | | | | |
| Mr Grant Mooney | 60,000 | - | - | 60,000 | 0% |
| **Total** | **447,824** | **7,998** | **-** | **455,823** | **0%** |

| 2010 | Short-Term Benefits | Post Employment Benefits | Share-Based Payment | | |
|---|---|---|---|---|---|
| **Name** | **Cash Salary and Fees $** | **Super-annuation $** | **Shares / Options $** | **Total $** | **% Performance Based** |
| ***Non-Executive Directors*** | | | | | |
| Mr Evan Cranston | - | - | 458,927 | 458,927 | 0% |
| Dr Paul Kitto | - | - | 458,927 | 458,927 | 0% |
| Mr Peter Torre (Resigned 22 March 2010) | 27,540 | - | - | 27,540 | 0% |
| Mr Ron Sayers | - | - | - | - | - |
| Mr Greg Steemson (Resigned 22 March 2010) | - | - | - | - | - |
| *Sub-total Non-Executive Directors* | 27,540 | - | 917,854 | 945,394 | 0% |
| ***Executive Directors*** | | | | | |
| Ms Aoife McGrath | 133,000 | - | 459,368 | 592,368 | 0% |
| ***Specified Executive*** | | | | | |
| Mr Grant Mooney | 17,851 | - | 168,023 | 185,874 | 0% |
| **Total** | **178,391** | **-** | **1,545,245** | **1,723,636** | **0%** |

**Compensation Options**

The Key Management Personnel did not receive any compensation options during the financial year ended 31 December 2011.

**Service Agreements**

The Group terminated a Service Agreement with Ms Aoife McGrath, Executive Director Exploration on her resignation on 18 January 2012. The agreement provided for an annual salary of $180,000, reviewed annually and increased to $230,000 effective 1 July 2011, and was for an indefinite period and was severable by either party provided that three months written notice was given.

On appointment to the Board, all Non-Executive Directors enter into a letter agreement with the Group which summarises the Board policies and terms which mirror those set out within the Corporations Act 2001, including compensation, relevant to the office of Director.

No other remuneration arrangements were in place during the financial year ended 31 December 2011.

**Share Based Payment Compensations**

There was no Share Based Payment compensations given to the Key Management Personnel during the financial year ended 31 December 2011.

Details of options over ordinary shares in the Company provided as remuneration to each Director of Carbine Resources Limited and each of the key management personnel of the Group are set out in Notes 16 and 17 to the financial statements. When exercisable, each option is convertible into one ordinary share of Carbine Resources Limited.

| Name | Date of exercise of options | Number of ordinary shares issued on exercise of options during the year | Value at exercise date* $ |
|---|---|---|---|
| *Non-Executive Directors* | | | |
| Mr Evan Cranston | - | - | - |
| Dr Paul Kitto | 10 August 2011 | 1,000,000 | - |
| Mr Ron Sayers (resigned 31 May 2011) | - | - | - |
| *Executive Directors* | | | |
| Ms Aoife McGrath (resigned 18 January 2012) | - | - | - |
| *Other company and group executives* | | | |
| Mr Grant Mooney | - | - | - |

**"End of the Remuneration Report (Audited)"**

## ENVIRONMENTAL REGULATIONS

In the course of its normal mining and exploration activities the Group adheres to environmental regulations imposed upon it by the various regulatory authorities, particularly those regulations relating to ground disturbance and the protection of rare and endangered flora and fauna. The Group has complied with all material environmental requirements up to the date of this report.

## INSURANCE OF DIRECTORS AND OFFICERS

During the year, the Group has paid an insurance premium in respect of a contract indemnifying the Group's Directors and officers. The total premium paid was $13,375 (2010: $10,500).

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

## PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

The Group was not a party to any such proceedings during the year.

## OTHER INFORMATION

The registered office and principal place of business is Suite 23, 513 Hay Street Subiaco WA 6008.

## NON ASSURANCE SERVICES

There were no non-assurance services provided by the Group’s auditors during the year.

## Auditor’s Independence Declaration

A copy of the Auditor’s Independence Declaration as required under section 307C of the Corporations Act 2001 is attached to this full year financial statement.

Dated at Perth this 30th day of March, 2012

Signed in accordance with a resolution of the Directors

**Mr Evan Cranston**
Director

### Competent Person's Statement

The information in this report that relates to exploration results is based on information compiled by Peter Sheehan who is a member of the Australian Institute of Mining & Metallurgy. Peter Sheehan is employed by Carbine Resources Ltd. Peter Sheehan has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australian Code of Reporting of Exploration Results, Mineral Resources and Ore Reserves". He consents to the inclusion of the matters based on information in the form and context in which it appears

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

### FOR THE YEAR ENDED 31 DECEMBER 2011

| | | CONSOLIDATED | |
|---|---|---|---|
| | **Notes** | **2011** | **2010** |
| | | **$** | **$** |
| **Revenue from continuing operations** | 2 | 470,256 | 212,685 |
| Exploration & evaluation costs | 8 | (6,595,485) | (2,146,324) |
| Impairment of exploration assets | 8 | - | (1,089,440) |
| Depreciation | 2 | (117,747) | (26,172) |
| Share based payment expenses | 17 | (151,370) | (1,902,434) |
| Employee, director and consultant expenses | | (363,043) | (139,174) |
| General and administration expenses | 2 | (265,377) | (299,143) |
| Foreign exchange gain | | 11,028 | (25,584) |
| Loss before income tax expense | | (7,011,738) | (5,415,586) |
| Income Tax Expense | 3 | - | - |
| Loss after income tax from continuing operations attributable to owners of Carbine Resources Limited | | (7,011,738) | (5,415,586) |
| **Loss attributable to owners of Carbine Resources Limited** | | (7,011,738) | (5,415,586) |
| **Other comprehensive income/(loss)** | | | |
| Exchange difference on translation of foreign operations | | (30,678) | 197,495 |
| Total other comprehensive income/(loss) | | (7,042,416) | (5,218,091) |
| **Total comprehensive loss attributable to owners of Carbine Resources Limited** | | (7,042,416) | (5,218,091) |
| **Loss per share for loss from continuing operations attributable to the ordinary equity holders of the company** | | **Cents** | **Cents** |
| Basic loss per share | 12 | (5.88) | (6.75) |
| Diluted loss per share | 12 | N/A | N/A |

This Consolidated Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### AS AT 31 DECEMBER 2011

| | Notes | CONSOLIDATED 2011 $ | 2010 $ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 4 | 7,493,248 | 8,499,520 |
| Trade and other receivables | 5 | 118,067 | 132,179 |
| Other current assets | 6 | 38,223 | 20,211 |
| **TOTAL CURRENT ASSETS** | | 7,649,538 | 8,651,910 |
| **NON-CURRENT ASSETS** | | | |
| Plant and equipment | 7 | 306,330 | 316,790 |
| Exploration and evaluation expenditure | 8 | - | - |
| Financial assets | 9 | - | - |
| **TOTAL NON-CURRENT ASSETS** | | 306,330 | 316,790 |
| **TOTAL ASSETS** | | 7,955,868 | 8,968,700 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 10 | 1,064,925 | 376,577 |
| Provisions | | 3,302 | 974 |
| **TOTAL CURRENT LIABILITIES** | | 1,068,227 | 377,551 |
| **TOTAL NON-CURRENT LIABILITIES** | | - | - |
| **TOTAL LIABILITIES** | | 1,068,227 | 377,551 |
| **NET ASSETS** | | 6,887,641 | 8,591,149 |
| **EQUITY** | | | |
| Issued Capital | 11 | 22,636,442 | 17,448,904 |
| Reserves | 20 | 2,444,497 | 2,323,805 |
| Accumulated losses | | (18,193,298) | (11,181,560) |
| **TOTAL EQUITY** | | 6,887,641 | 8,591,149 |

This Consolidated Statement of Financial Position is to be read in conjunction with the notes to the financial statements

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### FOR THE YEAR ENDED 31 DECEMBER 2011

| | | | CONSOLIDATED | | |
|---|---|---|---|---|---|
| | **Contributed Equity** | **Accumulated Losses** | **Share Based Payment Reserve** | **Foreign Currency Translation Reserve** | **Total Equity** |
| | **$** | **$** | **$** | | **$** |
| **Balance at 1 January 2011** | **17,448,904** | **(11,181,560)** | **2,126,310** | **197,495** | **8,591,149** |
| Total comprehensive loss for the year | - | (7,011,738) | - | - | (7,011,738) |
| Exchange difference on translation of foreign operations | - | - | - | (30,678) | (30,678) |
| **Total comprehensive loss for the year** | - | (7,011,738) | - | (30,678) | (7,042,416) |
| Share based payments | - | - | 151,370 | - | 151,370 |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Share buy-back | - | - | - | - | - |
| Issue of shares | 5,426,159 | - | | - | 5,426,159 |
| Transaction costs on issue of fully paid ordinary shares and options (net of tax) | (238,621) | - | - | - | (238,621) |
| | 5,187,538 | - | - | - | 5,187,538 |
| **Balance at 31 December 2011** | **22,636,442** | **(18,193,298)** | **2,277,680** | **166,817** | **6,887,641** |

| | | | CONSOLIDATED | | |
|---|---|---|---|---|---|
| | **Contributed Equity** | **Accumulated Losses** | **Share Based Payment Reserve** | **Foreign Currency Translation Reserve** | **Total Equity** |
| | **$** | **$** | **$** | | **$** |
| **Balance at 1 January 2010** | **7,425,683** | **(5,765,974)** | **223,876** | **-** | **1,883,585** |
| Total comprehensive loss for the year | - | (5,415,586) | - | - | (5,415,586) |
| Exchange difference on translation of foreign operations | - | - | - | 197,495 | 197,495 |
| **Total comprehensive loss for the year** | - | (5,415,586) | - | 197,495 | (5,218,091) |
| Share based payments | - | - | 1,902,434 | - | 1,902,434 |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Share buy-back | - | - | - | - | - |
| Issue of shares | 10,650,854 | - | | - | 10,650,854 |
| Transaction costs on issue of fully paid ordinary shares and options (net of tax) | (627,633) | - | - | - | (627,633) |
| | 10,023,221 | - | - | - | 10,023,221 |
| **Balance at 31 December 2010** | **17,448,904** | **(11,181,560)** | **2,126,310** | **197,495** | **8,591,149** |

This Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements

## CONSOLIDATED STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED 31 DECEMBER 2011

| | Note | CONSOLIDATED 2011 $ | 2010 $ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Payments to suppliers and employees | | (756,044) | (84,317) |
| Exploration expenditure, prospects, management fees | | (5,800,934) | (2,273,823) |
| Interest received | | 470,256 | 132,886 |
| Other revenue | | - | 1,334 |
| **Net cash (outflow) from operating activities** | 18 | (6,086,182) | (2,223,920) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payment for plant and equipment | | (107,287) | (340,433) |
| Proceeds from sale of investments | | - | 305,009 |
| **Net cash (outflow) from investing activities** | | (107,287) | (35,424) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of shares, net of capital raising costs | | 5,187,538 | 10,023,221 |
| **Net cash inflow from financing activities** | | 5,187,538 | 10,023,221 |
| **Net (decrease)/increase in cash and cash equivalents held** | | (1,005,931) | 7,763,877 |
| Cash and cash equivalents at the beginning of the period | | 8,499,520 | 564,217 |
| Differences in foreign exchange | | (341) | 171,426 |
| **Cash and cash equivalents at the end of the period** | 4 | 7,493,248 | 8,499,520 |

This Consolidated Statement of Cash Flows is to be read in conjunction with the notes to the financial statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2011

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**Basis of Preparation**

These financial statements are general-purpose financial statements which have been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards, Australian Accounting Interpretations and other mandatory professional reporting requirements.

Carbine Resources Limited is a listed public company, incorporated and domiciled in Australia.

The financial statements, comprising the financial statements and notes thereto also comply with International Financial Reporting Standards 'IFRS'. The presentation currency of the Group is Australian Dollars. Functional Currency is determined and discussed in the following accounting policy.

The accounting policies adopted are consistent with those of the previous financial year and corresponding half-year reporting period unless otherwise stated.

**Historical cost convention**

The financial report has been prepared on an accruals basis and is based on historical costs, with the exception of financial assets at fair value.

**(a) Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the Statement of Financial Position.

**(b) Income Tax**

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the Statement of Financial Position date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the Statement of Comprehensive Income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions or deductibility imposed by the law.

**(c) Mineral Exploration and Evaluation and Development Expenditure**

The Group, when acquiring exploration and evaluation assets will carry those projects at acquisition value in the Statement of Financial Position, less any subsequent impairment.

All exploration and evaluation expenditure within an area of interest will be expensed until the Directors conclude that the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and that future economic benefits are probable, further expenditure is capitalised as part of property, plant and equipment.

No amortisation is charged during the exploration and evaluation phase. Amortisation is charged on commencement of commercial production. Exploration and evaluation assets are tested for impairment annually or when there is an indication of impairment, until commercially viable material resources are established. Upon establishment of commercially viable mineral resources exploration and evaluation assets are tested for impairment when there is an indicator of impairment. Subsequently the assets are stated at cost less impairment provision.

**(d) Plant and Equipment**

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

**Depreciation**

The depreciation amount of all fixed assets is depreciated on a straight line basis over their useful lives to the Group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

| Class of Fixed Asset | Depreciation Rate |
|---|---|
| Office Equipment | 33% |
| Motor vehicle | 33% |
| Plant and Equipment | 20 - 33% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Statement of Financial Position date.

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the Statement of Comprehensive Income.

**(e) Impairment of Assets**

At each reporting date, the Group reviews the carrying values of tangible assets and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the Statement of Comprehensive Income.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

**(f) Employee Benefits**

A provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled plus related on costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

### (g) Financial Instruments

At present, the Group does not undertake any hedging or deal in derivative instruments.

**Recognition**

The Group recognises receivables on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets are classified based on the objective of the Group's business model for managing the financial assets and the characteristics of the contractual cash flows.

The Group derecognises a financial asset when the contractual cash flows from the asset expires, or it transfers the rights to receive the contractual cash flows such that substantially all the risks and rewards of ownership of the financial asset are transferred.

The Group has the following financial assets:

*Financial assets at fair value*

Financial assets at fair value are non-derivative financial assets that are not classified into the previous category.

Financial assets at fair value are measured initially at fair value which includes transaction costs directly attributable to the acquisition of the financial asset. They are measured subsequently at fair value with movements in fair value being recognised in profit or loss, unless:

- The Group has made an irrevocable election to present gains and losses on the financial asset in other comprehensive income. This election has been made on an individual equity basis.

Dividends from equity investments are included in profit or loss regardless of whether the election has been made to recognise movements in fair value in other comprehensive income.

Profit or loss arising on the sale of equity investments is recognised in profit or loss unless the election has been made to recognise fair value movements in other comprehensive income, in which case the profit or loss on sale is also recognised in other comprehensive income.

*Impairment*

Impairment losses on financial assets at fair value are recognised in profit or loss, unless the election has been made to recognise movements in fair value in other comprehensive income, in which case impairment losses are recognised in other comprehensive income.

**Financial Liabilities**

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principle payments and amortisation.

**Fair value**

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value of all unlisted securities, including recent arm's length transactions, reference to similar instructions and option pricing models.

**(h) Trade Receivables**

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest methods, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance amount (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

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

**(i) Revenue Recognition**

Revenue from the sale of goods and disposal of other assets is recognised when the Group has passed control of the goods or other assets to the buyer. Interest income is recognised using the effective interest rate method.

**(j) Principles of Consolidation**

*Subsidiaries*

Subsidiaries are entities controlled by the Company. The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the Consolidated Entity, being Carbine Resources Limited ("Company" or "Parent Entity") and its subsidiary as defined in AASB 127: Consolidated and Separate Financial Statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of the subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity. Acquisitions of entities are accounted for using the acquisition method of accounting.

In preparing the consolidated financial statements, all inter-Company balances and transactions, income and expenses and profit and losses resulting from intra-Group transactions are eliminated in full.

Investments in subsidiaries are accounted for at cost in the financial report of Carbine Resources Limited.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated Statement of Comprehensive Income and Statement of Financial Position respectively. Total comprehensive income is attributable to the owners of Carbine Resources Limited and non-controlling interests even if this results in the non-controlling interests having a debit balance.

*Changes in ownership interest*

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

**(k) Foreign currency translation**

*Functional and presentation currency*

The financial statements are presented in Australian dollars, which is Carbine Resources Limited's functional and presentation currency.

*Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

*Group companies*

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

- assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the date of that Statement of Financial Position;

- income and expenses for each Statement of Comprehensive Income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to Shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the Statement of Comprehensive Income, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

**(l) Earnings Per Share**

*Basic earnings per share*

Basic earnings per share ("EPS") is calculated as net profit or loss attributable to ordinary shareholders of the Group divided by the weighted average number of shares outstanding during the period.

*Diluted earnings per share*

Diluted EPS earnings is calculated by adjusting the basic EPS earnings for the after tax effect of financing costs and the effect of conversion to ordinary shares associated with dilutive potential ordinary shares, rather than including the notional earnings on the funds that would have been received by the entity had the potential ordinary shares been converted.

The diluted EPS weighted average number of shares includes the number of ordinary shares assumed to be issued for no consideration in relation to dilutive potential ordinary shares, rather than the total number of dilutive potential ordinary shares. The number of ordinary shares assumed to be issued for no consideration represents the difference between the number that would have been issued at the exercise price and the number that would have been issued at the average price.

The identification of dilutive potential ordinary shares is based on net profit or loss from continuing operations, and is applied on a cumulative basis, taking into account the incremental earnings and incremental number of shares for each series of potential ordinary share.

**(m) Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. Lease incentives are recognised in the Statement of Comprehensive Income as an integral part of the total lease expense.

**(n) Share-Based Payment Transactions**

The Group provides benefits to employees (including Directors) of the Company in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (‘equity-settled transactions’).

Details of plans currently in place to provide these benefits are as follows:

- the Employee Option Incentive Scheme (EOIS), which provides benefits to employees in the form of options to subscribe for shares subject to vesting periods.

The cost of these equity-settled transactions with Directors and employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a Black-Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (‘vesting date’). The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Group, will ultimately vest.

This opinion is formed based on the best available information at balance date. No expense is recognised for awards that do not ultimately vest. Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

### (o) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will results and that outflow can be reliably measured.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the Statement of Financial Position date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

### (p) Critical Accounting Estimates and Judgments

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

*Share based payment*

The cost of share-based payments to employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted.

### (q) Contributed Equity

Ordinary shares are classified as equity. Issued and paid up capital is recognised at the fair value of the consideration received by the Group.

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.

### (r) Other taxes

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

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

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

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

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

### (s) New accounting standards and interpretations

The AASB has issued new, revised and amended standards and interpretations that are not mandatory for 31 December 2011 reporting periods. The group has decided against early adoption of these standards. A discussion of these future requirements and their impact on the Group is set out below.

| Affected Standard | Title of Affected Standard | Nature of Change | Application Date * | Impact on Initial Application |
|---|---|---|---|---|
| AASB 9 (issued December 2009) | Financial Instruments | Amends the requirements for classification and measurement of financial assets. | 1 January 2013 | The adoption is only mandatory for the 31December 2013 year end and thus, the entity has not yet made an assessment of the impact of these amendments. |
| AASB 10 | Consolidated Financial Statements | Replaces the existing definition of control in the existing standard AASB 127 Consolidated and Separate Financial Statements. | 1 January 2013 | Due to the recent release of these amendments and that adoption is only mandatory for the 31December 2013 year end, the entity has not yet made and assessment of the impact of these amendments. |
| AASB 11 | Joint Arrangements | Sets out a new framework for the accounting for joint ventures, including removal of the option to use proportionate consolidation. | 1 January 2013 | Due to the recent release of these amendments and that adoption is only mandatory for the 31December 2013 year end, the entity has not yet made and assessment of the impact of these amendments. |

| Affected Standard | Title of Affected Standard | Nature of Change | Application Date * | Impact on Initial Application |
|---|---|---|---|---|
| AASB 12 | Disclosure of Interests in Other Entities | Updates and combines the disclosure requirements for subsidiaries, joint arrangements, associates and other similar entities. | 1 January 2013 | Due to the recent release of these amendments and that adoption is only mandatory for the 31December 2013 year end, the entity has not yet made and assessment of the impact of these amendments. |

### (t) Segment reporting

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

A business segment is a Group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

## 2. REVENUE AND EXPENSES

| | CONSOLIDATED | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| **(a) Revenue from continuing operations** | | |
| Interest revenue | 470,256 | 132,886 |
| Other revenue | - | 79,799 |
| | 470,256 | 212,685 |
| **(b) Depreciation** | | |
| Plant and equipment | (117,747) | (26,172) |
| **(c) General and administration expenses** | | |
| Operating lease - rental | 36,000 | 34,743 |
| Superannuation expenses | 23,197 | 2,117 |
| Other expenses | 206,180 | 262,283 |
| Total general and administrative expenses | 265,377 | 299,143 |

## 3. INCOME TAX EXPENSES

The components of income tax expense comprise:

| | 2011 $ | 2010 $ |
|---|---|---|
| Current tax | - | - |
| Deferred tax | - | - |
| Income tax benefit reported in the Statement of Comprehensive Income | - | - |

The prima facie tax on profit/(loss) before income tax is reconciled to the income tax as follows:
- Prima facie tax payable on profit/(loss) before income tax at 30% (2010: 30%)

| | CONSOLIDATED | |
|---|---|---|
| | 2011 $ | 2010 $ |
| Loss before income tax | (7,132,988) | (5,415,586) |
| At the Group's statutory income tax rate of 30% | (2,139,896) | (1,624,676) |
| Timing differences | - | - |
| Unrecognised DTA losses | 2,139,896 | 1,624,676 |
| Utilisation of carried forward tax losses | - | - |
| Income tax attributable to entity | - | - |
| The applicable weighted average effective rate are as follows: | 0% | 0% |
| Tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1 occur | 5,461,825 | 3,321,929 |
| Deferred tax assets | | |
| - temporary differences | - | - |
| - tax losses (operating losses) | 5,461,825 | 3,321,929 |
| - tax losses (capital losses) | - | - |
| | 5,461,825 | 3,321,929 |

Deferred tax assets have not been recognised as it is not considered probable at this stage that they will be recovered.

## 4. CASH AND CASH EQUIVALENTS

| | CONSOLIDATED | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| Cash at bank | 7,493,248 | 8,499,520 |

The effective interest rate on short term bank deposit was 5.91% (2010: 5.67%)

### Reconciliation of Cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the Statement of Financial Position as follows:

| | CONSOLIDATED | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| Cash at bank | 7,493,248 | 8,499,520 |

The Group exposure to interest rate risk is discussed at Note 19. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of cash and cash equivalent mentioned above.

## 5. TRADE AND OTHER RECEIVABLES

| | CONSOLIDATED | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| Net GST refundable | 16,129 | 44,692 |
| Other receivable | 101,938 | 87,487 |
| | 118,067 | 132,179 |

No receivables are past due nor impaired. Due to the short term nature of the receivable, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk at the end of the reporting period is the total mentioned above. Further details on the Group's management policy can be found at note 19.

## 6. OTHER CURRENT ASSETS

| | CONSOLIDATED | |
|---|---|---|
| | **2011** | **2010** |
| | **$** | **$** |
| Prepayments | 30,362 | 13,831 |
| Other current asset | 7,861 | 6,380 |
| | 38,223 | 20,211 |

## 7. PLANT AND EQUIPMENT

| | CONSOLIDATED | | | | |
|---|---|---|---|---|---|
| | **Furniture & Equipment** | **Establishment expenses & deferred charges** | **Patent, licensing, software** | **Motor Vehicle** | **Total** |
| | **$** | **$** | **$** | **$** | **$** |
| **Year ended 31 December 2010** | 2,529 | - | - | - | 2,529 |
| Opening net book value | 99,230 | 295 | 6,389 | 234,519 | 340,433 |
| Depreciation charge for the year | (7,254) | - | (177) | (18,741) | (26,172) |
| Closing net book value | 94,505 | 295 | 6,212 | 215,778 | 316,790 |
| **At 31 December 2010** | | | | | |
| Cost or fair value | 111,115 | 295 | 6,389 | 234,519 | 352,318 |
| Accumulated depreciation and impairment | (16,610) | - | (177) | (18,741) | (35,528) |
| Net book value | 94,505 | 295 | 6,212 | 215,778 | 316,790 |
| **Year ended 31 December 2011** | | | | | |
| Opening net book value | 94,505 | 295 | 6,212 | 215,778 | 316,790 |
| Additions | 45,614 | - | 28,903 | 25,716 | 100,233 |
| Foreign exchange | 1,495 | 1 | 255 | 5,303 | 7,054 |
| Depreciation charge for the year | (25,912) | (152) | (4,527) | (87,156) | (117,747) |
| Closing net book value | 115,702 | 144 | 30,843 | 159,641 | 306,330 |
| **At 31 December 2011** | | | | | |
| Cost or fair value | 156,729 | 295 | 35,292 | 260,235 | 452,551 |
| Accumulated depreciation and impairment | (41,027) | (151) | (4,449) | (100,594) | (146,221) |
| Net book value | 115,702 | 144 | 30,843 | 159,641 | 306,330 |

## 8. EXPLORATION AND EVALUATION EXPENDITURE

Exploration expenditure – costs carried forward in respect of areas of interest in:

| | CONSOLIDATED | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| Carrying amount at beginning of year | - | 1,089,440 |
| Impairment loss | - | (1,089,440) |
| Carrying amount at the end of year | - | - |

| | CONSOLIDATED | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| Exploration and evaluation phases | 6,595,485 | 2,146,324 |
| Exploration costs expensed | (6,595,485) | (2,146,324) |
| | - | - |

## 9. FINANCIAL ASSETS

| | CONSOLIDATED | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| Financial assets at fair value | - | 226,545 |
| Consideration received on sale of financial assets at fair value | - | (305,010) |
| Gain on sale of financial assets | - | 78,465 |
| Total financial assets at fair value | - | - |

All financial assets have been valued based on quoted (unadjusted) market values.

The Group's exposure to credit and interest rate risks related to financial assets is disclosed in Note 19.

## 10. TRADE AND OTHER PAYABLE - CURRENT

| | CONSOLIDATED | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| Trade payables – unsecured | 1,011,437 | 336,713 |
| Other payables and accruals – unsecured | 53,488 | 39,864 |
| Total trade and other payables | 1,064,925 | 376,577 |

Information about the Group exposure to foreign exchange risk is provided in Note 19.

## 11. ISSUED CAPITAL

| | CONSOLIDATED | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| | No. of Shares | $ | No. of Shares | $ |
| *(a) Ordinary shares fully paid* | | | | |
| Balance at beginning of period | 103,842,436 | 17,448,904 | 47,511,596 | 7,425,683 |
| Issue of shares to directors in lieu of directors fees | - | - | - | - |
| Issue of shares from exercise of option | 17,265,783 | 2,589,782 | 56,330,840 | 10,650,854 |
| Issue of shares from underwriting of option | 18,909,175 | 2,836,376 | | |
| Costs of capital raising | - | (238,621) | - | (627,633) |
| Balance at end of period | 140,017,394 | 22,636,442 | 103,842,436 | 17,448,904 |

Fully paid ordinary shares entitle the holder to participate in dividends and to one vote per share.

*(b) Options*

Options granted, exercised or forfeited during the period, and on issue at balance date are as follows.

| | CONSOLIDATED | |
|---|---|---|
| **Date and details of grant/exercise/forfeited** | **No. of Options** | **Exercise Price** |
| Issued options opening balance | 44,474,958 | Various |
| Options granted in the period | 1,075,000 | Various |
| Options exercised | (17,265,783) | $0.15 |
| Options underwritten | (18,909,175) | $0.15 |
| Balance at 31 December 2011 | 9,375,000 | |

## 12. EARNINGS PER SHARE

### (a) Basic earnings per share

| | CONSOLIDATED 2011 $ | CONSOLIDATED 2010 $ |
|---|---|---|
| Basic loss per share (cents per share) | (5.98) | (6.75) |
| Weighted average number of ordinary shares outstanding during the year used in calculation of basic earnings per share | 119,347,776 | 80,205,182 |
| Net loss used in the calculation of basic earnings per share | (7,132,988) | (5,415,586) |

### (b) Diluted earnings per share

| | CONSOLIDATED 2011 $ | CONSOLIDATED 2010 $ |
|---|---|---|
| Diluted earnings/(loss) per share (cents per share) | N/A | N/A |
| Weighted average number of ordinary shares outstanding during the year used in calculation of diluted earnings per share | N/A | N/A |
| Net profit/(loss) used in the calculation of diluted earnings per share | N/A | N/A |

Due to the Group being in loss position, it is considered counter dilutive and therefore earnings per share are not diluted.

## 13. AUDITORS' REMUNERATION

| | CONSOLIDATED 2011 $ | CONSOLIDATED 2010 $ |
|---|---|---|
| Remuneration of Auditor of the Company: | | |
| Auditing or reviewing the financial report BDO Audit (WA) Pty Ltd | 41,650 | 17,170 |
| Auditing or reviewing the financial report ACECA International SARL | 2,057 | - |
| | 43,707 | 17,170 |

## 14. SEGMENT REPORTING

### (a) Description of Segments

The Board of Directors which is the chief operating decision maker has determined the operating segments based on geographical location. The Group has two reportable segments; namely, Western Australia and Burkina Faso (West Africa), which are the Group's strategic business units.

The Australian segment incorporates the Group's mining exploration and evaluation process.

**Other segment information**

*(i) Segment revenue*

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the Statement of Comprehensive Income.

Segment revenue reconciles to total revenue from continuing operations as follows:

| | Exploration operations | | |
|---|---|---|---|
| **2011** | **Australia** | **West Africa** | **Total** |
| Total segment revenue | - | - | - |
| Inter-segment revenue | - | - | - |
| **External Revenues** | - | - | - |
| **Adjusted EBITDA** | (635,308) | (6,577,569) | (7,212,877) |
| Depreciation | (1,074) | (116,673) | (117,747) |
| Exploration and evaluation expenses | (10,627) | (6,584,858) | (6,595,485) |
| Impairment of exploration cost | - | - | - |
| **Total segment assets** | **12,504** | **4,542** | **17,046** |
| **Total segment liabilities** | **124,380** | **-** | **124,380** |

| | Exploration operations | | |
|---|---|---|---|
| **2010** | **Australia** | **West Africa** | **Total** |
| Total segment revenue | - | - | - |
| Inter-segment revenue | - | - | - |
| **External Revenues** | - | - | - |
| **Adjusted EBITDA** | (20,128) | (1,311,041) | (1,331,169) |
| Depreciation | (2,529) | (23,643) | (26,172) |
| Exploration and evaluation expenses | (8,683) | (2,137,641) | (2,146,324) |
| Impairment of exploration cost | (1,089,440) | - | (1,089,440) |
| **Total segment assets** | **46,216** | **13,368** | **59,584** |
| **Total segment liabilities** | **54,891** | **-** | **54,891** |

*(ii) Adjusted EBITDA*

The Board of Directors assess the performance of the operating segments based on a measure of adjusted EBITDA. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and goodwill impairments when the impairment is the result of an isolated, non-recurring event. Furthermore, the measure excludes the effects of equity-settled share-based payments and unrealised gains/(losses) on financial instruments. Interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

A reconciliation of adjusted EBITDA to operating loss before income tax is provided as follows:

| | Consolidated | |
|---|---|---|
| | **2011** | **2010** |
| | **$** | **$** |
| **Adjusted EBITDA** | (7,212,877) | (1,331,169) |
| Intersegment eliminations | (201,139) | - |
| Interest revenue | 470,256 | 132,886 |
| Depreciation | (117,747) | (26,172) |
| Share-based payments | (151,370) | (1,902,434) |
| Other | - | (2,288,697) |
| Loss from continuing operations before tax | (7,011,738) | (5,415,586) |

*(iii) Segment assets*

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

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

| | Consolidated | |
|---|---|---|
| | **2011** | **2010** |
| | **$** | **$** |
| Segment assets | 17,046 | 59,584 |
| Intersegment eliminations | - | - |
| Unallocated: | | |
| Cash and cash equivalents | 7,493,248 | 8,499,520 |
| Other assets | 445,574 | 469,180 |
| Total assets as per the Statement of Financial Position | 7,955,868 | 8,968,700 |

*(iv) Segment liabilities*

The amounts provided to the Board of Directors with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment.

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

| | Consolidated | |
|---|---|---|
| | **2011** | **2010** |
| | **$** | **$** |
| Segment liabilities | 124,380 | 54,891 |
| Intersegment eliminations | - | - |
| Unallocated: | | |
| Other liabilities | 943,847 | 322,660 |
| Total liabilities as per the Statement of Financial Position | 1,068,227 | 377,551 |

## 15. RELATED PARTY TRANSACTIONS

The Group has entered into a lease with respect to its office premises located at Suite 23, 513 Hay Street in Subiaco. The owner of these premises is the J W Cranston Family Trust, who is a related entity of Mr Evan Cranston, a Non-Executive Director of the Group. Rent and office services paid during the year-end period were $36,000.

## 16. KEY MANAGEMENT PERSONNEL DISCLOSURE

The following people have been designated as Key Management personnel for the year:
- Ms Aoife McGrath (Executive Director-Exploration)
- Mr Evan Cranston (Non-Executive Director)
- Dr Paul Kitto (Non-Executive Director)
- Mr Ronald George Sayers (Non-Executive Director) (Resigned 31 May 2011)

**Remuneration by Category**

**Key Management Personnel**

| | 2011 | 2010 |
|---|---|---|
| | **$** | **$** |
| Short-term | 387,824 | 160,540 |
| Post-employment | 7,998 | - |
| Share-based payment | - | 1,377,222 |
| | 395,823 | 1,537,762 |

## Option holdings of Key Management Personnel

**2011**

| Key Management Personnel | Balance at 1-Jan-11 | Granted as Remuneration | Options Exercised | Other Changes | Balance at 31-Dec-11 | Total Vested 31-Dec-11 | Total Exercis-able 31-Dec-11 |
|---|---|---|---|---|---|---|---|
| Ms Aoife McGrath | 2,000,000 | - | - | - | 2,000,000 | 2,000,000 | - |
| Mr Evan Cranston | 2,000,000 | - | - | - | 2,000,000 | 2,000,000 | - |
| Dr Paul Kitto | 2,000,000 | - | - | - | 2,000,000 | 2,000,000 | - |
| Mr Ron Sayers* | - | - | - | - | - | - | - |
| | 6,000,000 | - | - | - | 6,000,000 | 6,000,000 | - |

**2010**

| Key Management Personnel | Balance at 1-Jan-10 | Granted as Remuneration | Options Exercised | Other Changes | Balance at 31-Dec-10 | Total Vested 31-Dec-10 | Total Exercis-able 31-Dec-10 |
|---|---|---|---|---|---|---|---|
| Ms Aoife McGrath | - | 2,000,000 | - | - | 2,000,000 | 2,000,000 | - |
| Mr Evan Cranston | - | 2,000,000 | - | - | 2,000,000 | 2,000,000 | - |
| Dr Paul Kitto | - | 2,000,000 | - | - | 2,000,000 | 2,000,000 | - |
| Mr Ron Sayers | - | - | - | - | - | - | - |
| Mr Peter Torre** | - | - | - | - | - | - | - |
| Mr Greg Steemson** | - | - | - | - | - | - | - |
| | - | 6,000,000 | - | - | 6,000,000 | 6,000,000 | - |

## Shareholdings of Key Management Personnel

**2011**

| Key Management Personnel | Balance at 1-Jan-11 | Received as Remuneration | Options Exercised | Net Changes (other) | Balance at 31-Dec-11 |
|---|---|---|---|---|---|
| Mr Ron Sayers* | 3,000,000 | - | - | (3,000,000) | - |
| Mr Aoife McGrath | 1,500,000 | - | - | - | 1,500,000 |
| Mr Evan Cranston | - | - | - | - | - |
| Dr Paul Kitto | 2,200,000 | - | 1,000,000 | - | 3,200,000 |
| | 6,700,000 | - | 1,000,000 | (3,000,000) | 4,700,000 |

**2010**

| Key Management Personnel | Balance at 1-Jan-10 | Received as Remuneration | Options Exercised | Net Changes (Other) | Balance at 31-Dec-10 |
|---|---|---|---|---|---|
| Mr Peter Torre** | 2,250,000 | - | - | (2,250,000) | - |
| Mr Greg Steemson** | 1,500,000 | - | - | (1,500,000) | - |
| Mr Ron Sayers | 3,000,000 | - | - | - | 3,000,000 |
| Mr Aoife McGrath | - | - | - | 1,500,000 | 1,500,000 |
| Mr Evan Cranston | - | - | - | - | - |
| Dr Paul Kitto | - | - | - | 2,200,000 | 2,200,000 |
| | 6,750,000 | - | - | (50,000) | 6,700,000 |

*Resigned 31 May 2011
**Resigned 22 March 2010

**Loans to Key Management Personnel**

There were no loans to Key Management Personnel during the period and no balance outstanding at year end.

**Other transactions and balances with Key Management Personnel**

There were no transactions or balances with Key Management Personnel (other than those disclosed in Note 15).

## 17. SHARED BASED PAYMENTS

### (a) Employee Option Plan

The Employee Share Option Plan is used to reward the Directors and employees for their performance and to align their remuneration with the creation of shareholder wealth. There are no performance requirements to be met before exercise can take place. The Plan is designed to provide long-term incentives to deliver long-term shareholder returns. Participation in the Plan is at the discretion of the Board and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. The issue of options is not linked to performance conditions because by setting the option price at a level above the current share price at the time the options are granted, provides incentive for management to improve the Company's performance.

The terms and conditions of each grant of Plan options affecting remuneration in the previous, this or future reporting periods are as follows:

| Grant date | Date vested and exercisable | Expiry date | Exercise price | Value per option at grant date |
|---|---|---|---|---|
| 25-Aug-10 | Vesting on issue | 24-Aug-13 | $0.30 | 0.236 |
| 25-Aug-10 | Vesting on issue | 24-Aug-13 | $0.40 | 0.222 |
| 28-Aug-10 | Vesting on issue | 27-Aug-13 | $0.30 | 0.237 |
| 28-Aug-10 | Vesting on issue | 27-Aug-13 | $0.40 | 0.223 |
| 3-Sep-10 | Vesting on issue | 2-Sep-13 | $0.30 | 0.237 |
| 14-Sep-10 | Vesting on issue | 13-Sep-13 | $0.40 | 0.224 |
| 7-Oct-10 | Vesting 12 months and 24 months from issue | 6-Oct-13 | $0.45 | 0.220 |
| 4-Apr-11 | Vesting 12 months and 24 months from issue | 1-Apr-11 | $0.38 | 0.242 |
| 4-Apr-11 | Vesting on issue | 1-Apr-11 | $0.38 | 0.242 |
| 24-Jun-11 | Vesting 12 months and 24 months from issue | 23-Jun-14 | $0.16 | 0.099 |

| Grant Date | Expiry Date | Exercise Price | Balance at start of the year Number | Granted during the year Number | Value at grant date $ | Exercised during the year Number | Forfeited during the year Number | Balance at end of the year Number | Vested and exercisable at end of the year Number |
|---|---|---|---|---|---|---|---|---|---|
| Consolidated and parent entity 2011 | | | | | | | | | |
| 25-Aug-10 | 24-Aug-13 | $0.30 | 2,000,000 | - | 472,914 | - | - | 2,000,000 | 2,000,000 |
| 25-Aug-10 | 24-Aug-13 | $0.40 | 2,000,000 | - | 444,940 | - | - | 2,000,000 | 2,000,000 |
| 28-Aug-10 | 27-Aug-13 | $0.30 | 1,000,000 | - | 236,662 | - | - | 1,000,000 | 1,000,000 |
| 28-Aug-10 | 27-Aug-13 | $0.40 | 1,000,000 | - | 222,706 | - | - | 1,000,000 | 1,000,000 |
| 3-Sep-10 | 2-Sep-13 | $0.30 | 950,000 | - | 225,216 | - | - | 950,000 | 950,000 |
| 14-Sep-10 | 13-Sep-13 | $0.40 | 750,000 | - | 168,023 | - | - | 750,000 | 750,000 |
| 7-Oct-10 | 6-Oct-13 | $0.45 | 600,000 | - | 131,973 | - | - | 600,000 | - |
| 4-Apr-11 | 1-Apr-14 | $0.38 | - | 350,000 | 84,904 | - | - | 350,000 | - |
| 4-Apr-11 | 1-Apr-14 | $0.38 | - | 500,000 | 121,291 | - | - | 500,000 | - |
| 4-Apr-11 | 1-Apr-14 | $0.38 | - | 75,000 | 18,194 | - | - | 75,000 | - |
| 4-Apr-11 | 1-Apr-14 | $0.38 | - | 100,000 | 24,258 | - | - | 100,000 | 100,000 |
| 24-Jun-11 | 23-Jun-14 | $0.16 | - | 50,000 | 4,941 | - | - | 50,000 | - |
| | | | 8,300,000 | 1,075,000 | 2,156,022 | - | - | 9,375,000 | 7,800,000 |
| Weighted average exercise price | | | - | 0.37 | | - | - | 0.36 | - |

No options expired during the periods covered by the above tables.

The weighted average remaining contractual life of share options outstanding at the end of the period was 3 years (2010: 3.67 years).

The assessed fair value at grant date of options granted on 4 April 2011 was 24.2 cents per option. The fair value at grant date is independently determined using a Black-Scholes option pricing model. This volatility rate was 95% and the risk free interest rate was 4.65%. The share price at grant date was 38.0 cents per share. The options had a total value of $148,619.

The assessed fair value at grant date of options granted on 24 June 2011 was 9.9 cents per option. The fair value at grant date is independently determined using a Black-Scholes option pricing model. This volatility rate was 95% and the risk free interest rate was 4.65%. The share price at grant date was 16.0 cents per share. The options had a total value of $2,751.

Total value of options granted during the year ended 31 December 2011 was $151,370. This amount had been expensed in the Statement of Comprehensive Income during the year (2010: $1,902,434).

### (b) Employee Shares Plan

There were no shares issued to the Directors during the 2011 financial year as part of an employee share scheme (2010: nil).

## 18. RECONCILIATION OF CASH FLOWS FROM OPERATIONS WITH LOSS AFTER INCOME TAX

| | CONSOLIDATED | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| (Profit)/loss after income tax | 7,011,738 | 5,415,586 |
| Add: | | |
| - Depreciation | (117,747) | (26,172) |
| - Impairment loss | - | (1,089,440) |
| - Share based payments | (151,370) | (1,902,434) |
| - Profits on sale of assets | - | 78,465 |
| Changes in assets and liabilities during the year: | | |
| Increase/(decrease) in prepayments | 18,012 | 15,462 |
| Increase/(decrease) in receivables | (14,112) | 127,012 |
| (Increase)/decrease in payables and provisions | (690,676) | (368,975) |
| Foreign exchange differences | 30,337 | (25,584) |
| Net cash used in operations | 6,086,182 | 2,223,920 |

## 19. FINANCIAL INSTRUMENTS

### Financial Risk Management

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

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

### Financial Risk

The main risks the Group is exposed to through its financial instruments are interest rate risk, liquidity risk, foreign exchange risk and credit risk.

| | CONSOLIDATED | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| Cash at bank | 7,493,248 | 8,499,520 |

**Financial Asset**

The main risks the Group is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk.

| | CONSOLIDATED | |
|---|---|---|
| | **2011** | **2010** |
| | **$** | **$** |
| **Financial Assets** | | |
| Cash and cash equivalents | 7,493,248 | 8,499,520 |
| **Financial Assets** | | |
| Trade and other receivables | 118,067 | 132,179 |
| Financial assets at fair value | - | - |
| | 118,067 | 132,179 |
| **Financial Liabilities** | | |
| Trade and other payables | 1,064,925 | 376,577 |
| | 1,064,925 | 376,577 |

**Liquidity Risk and Liquidity Risk Management**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of credit facilities or other fund raising initiatives.

The Group does not have major funding in place. However, the Group continuously monitors forecast and actual cash flows and the maturity profiles of financial assets and financial liabilities to manage its liquidity risk.

The Group has access to bank overdraft facility totalling $50,000. The bank overdraft facility may be drawn at any time and may be terminated by the bank without notice.

**Credit Risk**

Credit risk refers to the risk that counterparties will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted the policy of only dealing with credit worthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group measures credit risk on a fair value basis.

Banks and Financial Institutions are chosen only if they are independently rated parties with a minimum rating of ‘A’.

The Group does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the economic entity's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

**Interest Rate Risk**

Interest rate risk is managed with a mixture of fixed and floating rate debt. The Group's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out in the following table:

| **2011** | **Weighted Average Interest Rate** | **Floating Interest Rate** | **Fixed Interest Maturing in 1 Year or Less** | **Non-Interest Bearing** | **Total** |
|---|---|---|---|---|---|
| | **%** | $ | $ | **$** | **$** |
| **Financial Asset** | | | | | |
| Cash and cash equivalents | 5.91 | 7,493,248 | - | - | 7,493,248 |
| Receivables | - | - | - | 118,067 | 118,067 |
| **Financial Liabilities** | | | | | |
| Payables | - | - | - | (1,064,925) | (1,064,925) |
| **Net Financial Assets** | 5.91 | 7,493,248 | - | (946,858) | 6,546,390 |

| **2010** | **Weighted Average Interest Rate** | **Floating Interest Rate** | **Fixed Interest Maturing in 1 Year or Less** | **Non-Interest Bearing** | **Total** |
|---|---|---|---|---|---|
| | **%** | $ | $ | **$** | **$** |
| **Financial Asset** | | | | | |
| Cash and cash equivalents | 5.67 | 8,499,520 | - | - | 8,499,520 |
| Receivables | - | - | - | 132,179 | 132,179 |
| **Financial Liabilities** | | | | | |
| Payables | - | - | - | (376,577) | (376,577) |
| **Net Financial Assets** | 5.67 | 8,499,520 | - | (244,398) | 8,255,122 |

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk:

| **2011** | | **-1%** | | **1%** | |
|---|---|---|---|---|---|
| | **Carrying Amount** | **Profit** | **Equity** | **Profit** | **Equity** |
| | **$** | **$** | **$** | **$** | **$** |
| Cash and cash equivalents | 7,493,248 | (74,932) | (74,932) | 74,932 | 74,932 |
| Trade receivables | 118,067 | - | - | - | - |
| Trade payables | (1,064,925) | - | - | - | - |
| Total increase/(decrease) | 6,546,390 | (74,932) | (74,932) | 74,932 | 74,932 |

| **2010** | | **-1%** | | **1%** | |
|---|---|---|---|---|---|
| | **Carrying Amount** | **Profit** | **Equity** | **Profit** | **Equity** |
| | **$** | **$** | **$** | **$** | **$** |
| Cash and cash equivalents | 8,499,520 | (84,995) | (84,995) | 84,995 | 84,995 |
| Trade receivables | 132,179 | - | - | - | - |
| Trade payables | (376,577) | - | - | - | - |
| Total increase/(decrease) | 8,255,122 | (84,995) | (84,995) | 84,995 | 84,995 |

**Fair Value Estimation**

The carrying value less impairment provision of trade receivables and payables is a reasonable approximation of their fair values due to the short-term nature of trade receivables. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

**Unrecognised Financial Instruments**

The Group does not have any unrecognized financial instruments.

**Foreign exchange risk**

Although the Group operates internationally all material financial assets are denominated in the respective entity's functional currency. Therefore its exposure to foreign exchange risk arising from currency exposures is limited to the transfer of funding from the Australian head office to some of its overseas operations and exposure to the currency fluctuations of funds held in a United States Dollar (USD) account and a West African CFA Franc (CFA) account.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian Dollar, was as follows:

| | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | USD<br>$ | CFA<br>$ | USD<br>$ | CFA<br>$ |
| Trade receivables | - | 101,938 | - | 87,487 |
| Trade payables | - | (887,057) | (42,505) | (281,822) |
| Total increase/(decrease) | - | (785,119) | (42,505) | (194,335) |

Had the Australian dollar weakened/strengthened by 10% against the CFA with all other variables held constant, the Group's post-tax profit and equity would have been $78,512 lower or higher.

**Capital Management Risk**

Capital is defined as the wealth owned or employed in the Group. The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits of other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may issue new shares and sell its financial assets held at fair value.

## 20. RESERVES

### (a) Share-Based Payment Reserve

This reserve is used to record the value of options and shares provided as payment to services received.

| | CONSOLIDATED | |
|---|---|---|
| | 2011 | 2010 |
| **Movements** | $ | $ |
| Opening balance | 2,126,310 | 223,876 |
| Shares issued to Directors and Employees | 151,370 | 1,902,434 |
| Closing balance | 2,277,680 | 2,126,310 |

### (b) Foreign Currency Translation

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income in note 1 and accumulated in a separate reserve within equity; the cumulative amount is reclassified to profit or loss when net investment is disposed of.

| | CONSOLIDATED | |
|---|---|---|
| | **2011** | **2010** |
| **Movements** | **$** | **$** |
| Opening balance | 197,495 | - |
| Foreign currency translation | (30,678) | 197,495 |
| Closing balance | 166,817 | 197,495 |

## 21. COMMITMENTS AND CONTINGENCIES

### Operating Lease Commitments

Non-Cancellable operating leases contracted for but not capitalised in the financial statements:

| | **2011** | **2010** |
|---|---|---|
| | **$** | **$** |
| **Operating Lease Commitments** | | |
| Office premises due within 1 year | 13,543 | 36,000 |
| Office premises due greater than 1 year and less than 5 | 1,440 | - |
| Total | 14,983 | 36,000 |

The Group leases various offices under operating leases expiring within one or two years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

### Exploration Commitments

Exploration commitments contracted for under Joint Venture Agreement with Ampella Mining Limited but not capitalised in the financial statements:

| | **2011** | **2010** |
|---|---|---|
| | **$** | **$** |
| **Exploration Commitments** | | |
| Due within 1 year | 1,070,591 | - |
| Due greater than 1 year and less than 5 | 4,750,000 | 4,750,000 |
| Total | 5,820,591 | 4,750,000 |

## 22. SUBSEQUENT EVENTS

There were no events subsequent to the end of the financial period ended 31 December 2011 that would have material effect on these financial statements.

## 23. PARENT ENTITY INFORMATION

The following detailed information is related to the parent entity, Carbine Resources Limited at 31 December 2011. The information presented here has been prepared using consistent accounting policies as discussed in Note 1.

| | CONSOLIDATED | |
|---|---|---|
| | **2011** | **2010** |
| | **$** | **$** |
| Current assets | 7,536,230 | 8,544,675 |
| Non-current assets | 11,981 | 2,217 |
| **Total assets** | **7,548,211** | **8,546,892** |
| | | |
| Current liabilities | 181,170 | 95,729 |
| Non-current liabilities | - | - |
| **Total liabilities** | **181,170** | **95,729** |
| | | |
| Contributed equity | 22,636,442 | 17,448,904 |
| Accumulated losses | (17,547,081) | (11,124,051) |
| Reserves | 2,277,680 | 2,126,310 |
| **Total equity** | **7,367,041** | **8,451,163** |
| | | |
| Loss for the year | (6,423,030) | (5,358,077) |
| Other comprehensive income for the year | - | - |
| **Total comprehensive loss for the year** | **(6,423,030)** | **(5,358,077)** |

## DIRECTOR'S DECLARATION

The Directors of Carbine Resources Ltd declare that:

1. The financial statements comprising the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and the accompanying notes, are in accordance with the Corporations Act 2001, including:

   (a) complying with Accounting Standards and the Corporations Regulations 2001; and other mandatory professional reporting requirements; and

   (b) giving a true and fair view of the financial position as at 31 December 2011 and of the performance for the year ended on that date of the Group.

2. There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

3. Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A.

Signed in accordance with a resolution of the Directors:

**Mr Evan Cranston**

Director

Dated at Perth this 30th day of March, 2011

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Fax: +8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

30 March 2012

The Directors
Carbine Resources Limited
Suite 23, 513 Hay Street
SUBIACO WA 6008

Dear Sirs,

**DECLARATION OF INDEPENDENCE BY BRAD MCVEIGH TO THE DIRECTORS OF CARBINE RESOURCES LIMITED**

As lead auditor of Carbine Resources Limited for the year ended 31 December 2011, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

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

**BRAD MCVEIGH**
Director

**BDO Audit (WA) Pty Ltd**
Perth, Western Australia

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Fax: +8 6382 4601
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# INDEPENDENT AUDITOR'S REPORT
# TO THE MEMBERS OF CARBINE RESOURCES LIMITED

## Report on the Financial Report

We have audited the accompanying financial report of Carbine Resources Limited, which comprises the consolidated statement of financial position as at 31 December 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

The directors of the disclosing entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

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

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

### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Carbine Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

**Opinion**

In our opinion:
(a) the financial report of Carbine Resources Limited is in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
(b) the financial report also complies *with International Financial Reporting Standards* as disclosed in Note 1.

## Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 12 of the directors' report for the year ended 31 December 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**Opinion**

In our opinion, the Remuneration Report of Carbine Resources Limited for the year ended 31 December 2011 complies with section 300A of the *Corporations Act 2001*.

**BDO Audit (WA) Pty Ltd**

BDO

**Brad McVeigh**
Director

Perth, Western Australia
Dated this 30th day of March 2012