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# Annual Report 2011

## Managing Director's Message

### Dear Fellow Shareholders,

The past year has seen Papillon Resources Ltd make significant strides in pursuing its strategy of discovering economic gold mineralisation in Mali West and Mali South.

It has been a period of intensive field activity, with your company completing 96,000 metres of drilling in the past year. The results have been noteworthy, with a major gold discovery at Fekola and promising indications of gold anomalism in all of the main target areas.

An aggressive, multi-pronged exploration program was carried out in Mali West and Mali South, with a focus on the Fekola Discovery. Drilling included:

- Infill, extension and reconnaissance Reverse Circulation (RC) drilling with 37,900metres completed and Rotary Air Blast (RAB) drilling with 26,400metres completed at the Fekola Discovery in Western Mali,
- Continuation of a multi rig auger drilling programme in southern Mali South, with 36,500metres of auger completed on a number of projects.

The significance of the Fekola discovery continued to grow as outstanding results were received from the drilling programme, which returned multiple strongly mineralised gold intercepts in the expected structural position and from within wide zones of alteration and anomalous geochemistry. The strike of mineralisation extends beyond 1.6km and mineralisation remains open at depth and along strike. Results during the year included:

- 59m @ 4.86g/t Au from 152m to End of Hole (EOH),
- 64m @ 4.24g/t Au from 37m,
- 39m @ 6.42g/t Au from 103m to EOH (including 23m @ 8.97g/t Au),
- 33m @ 6.72g/t Au from 217m to EOH,
- 17m @ 12.42g/t Au from 4m,
- 22m @ 6.55g/t Au from 17m and
- 24m @ 8.44g/t Au from 14m.

The results further increase our confidence that we have located a robust mineralisation system, the limits of which are still to be defined. Further drilling is required to build a better understanding of the geological controls, but results to date point to substantial exploration upside at Fekola and elsewhere along the structural corridor.

An aggressive exploration program, with four rigs on site, will commence in October 2011, at the end of the wet season. Future exploration will continue to focus on infill and step out drilling at the Fekola Prospect and the Fekola Corridor to determine the near surface resource along the zone.

In May, the Company appointed Mr Ian Middlemas as Chairman and Mr Peter Woodman as a Non-Executive Director of the Company, bringing extensive experience and a proven record of success operating in Africa to the Board.

The year ahead promises to be an exciting one for Papillon as we continue to advance our exploration activities.

I would like to thank all our staff, our contractors and joint venture partners for their dedication to getting the job done well, my fellow directors for their support and guidance and the shareholders for their strong support and contribution to our success.



**Alan Campbell**

Managing Director

# Directors' Report

Your directors submit their report on the consolidated entity (referred to hereafter as the Group) consisting of Papillon Resources Limited and the entities it controlled at the end of, or during, the year ended 30 June 2011. The comparative information for the year ended 30 June 2010 is for the parent entity, Papillon Resources Limited, only.

## DIRECTORS

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

### Names, qualifications, experience and special responsibilities

**Ian Middlemas B.Com, CA**

*Non-Executive Chairman, Chairman of Remuneration Committee, member of Audit Committee*

*Appointed 27 May 2011*

Mr Middlemas is a Chartered Accountant, a member of the Financial Services Institute of Australasia and holds a Bachelor of Commerce degree. He worked for a large international Chartered Accounting firm before joining the Normandy Mining Group where he was a senior group executive for approximately 10 years. He has had extensive corporate and management experience, and is currently a director with a number of publicly listed companies in the resources sector. During the past three years Mr Middlemas has also served as a Director of the following other listed companies:

- Global Petroleum Limited\* - Appointed April 2007
- Mantra Resources Limited\* - Appointed September 2005
- Odyssey Energy Limited\* - Appointed September 2005
- Pacific Energy Limited\* - Appointed June 2006
- Sierra Mining Limited\* - Appointed January 2006
- Sovereign Metals Limited\* - Appointed July 2006
- Coalspur Mines Limited\* - Appointed March 2007
- WCP Resources Limited\* - Appointed September 2009
- Wildhorse Energy Limited\* - Appointed January 2010
- Pacific Ore Limited\* - Appointed April 2010
- Neon Energy Limited formerly Salinas Energy Limited – Appointed November 1995; Retired June 2010
- Fusion Resources Limited – Appointed May 2002; Retired March 2009
- Indo Mines Limited – Appointed December 2006; Retired June 2010
- QED Occtech Limited – Appointed July 2001; Retired February 2010
- Equatorial Resources Ltd\* – appointed November 2009
- Aguia Resources (formerly Newport Mining Ltd) – Appointed September 2008, Retired August 2010

\* denotes current Directorship

**Alan Campbell B.Sc. (Geology), MBA**

*Managing Director, member of Audit and Remuneration Committees*

*Appointed 18 December 2009*

Mr Campbell is a geologist with a post graduate degree in business administration and a wealth of experience in the mining industry. Mr Campbell has held various leadership positions over a twenty year career with De Beers, one of the largest privately owned mining companies in the world. Initially working for De Beers Australia Exploration Limited Mr Campbell was transferred to De Beers Corporate Head Office in Johannesburg and was appointed Exploration Manager of De Beers India where he led teams that successfully discovered numerous kimberlites in highly prospective areas of India. During the past three years Mr Campbell has not served as a Director of any other listed company.

# Annual Report 2011

## Directors' Report

**Alec Pismiris B.Com, ICSA, MAICD**

**Non-Executive Director, Chairman of Audit Committee, member of Remuneration Committee**

**Appointed 11 May 2006**

Mr Pismiris is currently an Executive Director of Azure Capital Limited, a company which provides corporate advisory services. He is also the Company Secretary of several companies listed on ASX and Company Secretary of several public and private companies.

Mr Pismiris completed a Bachelor of Commerce degree at the University of Western Australia and is an associate of Chartered Secretaries Australia. Mr Pismiris has over 22 years' experience in the securities, finance and mining industries. Presently Mr Pismiris also serves as a member of the Audit and Compliance Committee. During the past three years Mr Pismiris has also served as a Director of the following other listed companies:

- Prairie Downs Metals Limited\* - Appointed October 2002
- Horseshoe Metals Limited\* - Appointed May 2010
- Ridge Resources Ltd\* - Appointed November 2010
- Industrial Minerals Corporation Limited - Appointed November 2006; Retired April 2010
- Sundance Resources Limited - Appointed July 2006; Retired November 2008
- Groote Resources Limited (formerly Western Uranium Limited) - Appointed May 2006; Retired March 2010

\* denotes current Directorship

**Peter Woodman B.Sc. (Geology), MAusIMM**

**Non-Executive Director, member of Audit and Remuneration Committees**

**Appointed 27 May 2011**

Mr Woodman is a geologist with over 20 years experience in exploration, development and operations in the resources sector. He is a graduate of the Australian National University and is a corporate member of the Australian Institute of Mining and Metallurgy.

Mr Woodman has worked for a number of mining companies during his extensive career in the resources sector and most recently held the position of Chief Executive Officer of Wedgetail Mining Limited where he oversaw the successful completion of the bankable feasibility study for the Nullagine Gold Project and then managed a \$20 million equity raising and the awarding of the bankable mandate for \$40 million senior debt facility with a major Australian institutional bank.

Prior to his role with Wedgetail Mining Ltd, he held positions with Samantha Gold NL, Ranger Minerals NL, Hellman & Schofield Pty Ltd, Centamin Egypt Ltd and Kingsgate Consolidated Ltd. His background is in management, exploration planning and execution, resource development and mining operations both in Australia and overseas. During the past three years Mr Woodman has also served as a Director of the following other listed companies:

- Sovereign Metals Limited\* - Appointed May 2007
- Coalspur Mines Limited\* - Appointed November 2008; Retired August 2009
- WCP Resources Limited\* - Appointed August 2010
- Equatorial Resources Limited\* - Appointed April 2010

\* denotes current Directorship

**Jeremy Shervington** was non-executive chairman from the beginning of the financial year until 27 May 2011.

**Stuart Hall** was non-executive chairman from the beginning of the financial year until 27 May 2011.

# Directors' Report

## COMPANY SECRETARY

*Dennis Wilkins B.Bus, ACIS, AICD*

*Appointed 3 June 2010*

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

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

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

	Ordinary Shares	Options over Ordinary Shares
Ian Middlemas	5,000,000	5,000,000
Alan Campbell	3,200,000	2,525,000
Alec Pismiris	3,000,000	1,000,000
Peter Woodman	151,150	100,000

## CORPORATE INFORMATION

### Corporate Structure

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

### Principal Activities

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

- Exploration and evaluation for economic mineral reserves in the Malian Assets;
- Investing cash assets in interest bearing bank accounts; and
- The general administration of the Group.

### DIVIDENDS

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

### OPERATIONS AND HIGHLIGHTS

A review of operations is included in the separate 2011 Company Highlights document.

# Annual Report 2011

## Directors' Report

### FINANCIAL REVIEW

The Group began the financial year with a cash reserve of \$3,887,828. During December 2010 the Company completed a placement of 22,500,000 ordinary shares to raise \$12,375,000 (before costs), and in May 2011 a further placement of 10,500,000 ordinary shares to raise \$4,725,000 (before costs). A total of 15,203,232 options were exercised during the year raising an additional \$3,040,646. Funds raised were used to advance exploration on the Group's Malian assets.

The operating loss for the Group after income tax for the year ended 30 June 2011 was \$1,587,629 (2010: \$1,919,061).

At 30 June 2011 surplus funds available totalled \$15,589,433.

### Shareholder Returns

	2011	2010
Basic and diluted loss per share (cents)	(0.9)	(3.3)

### Risk Management

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

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

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

- During December 2010 the Company completed a placement of 22,500,000 ordinary shares to raise \$12,375,000 (before costs).
- During May 2011 the Company completed a placement of 10,500,000 ordinary shares to raise \$4,725,000 (before costs).
- During the year, a total of 15,203,232 ordinary shares were issued upon the exercise of options, raising \$3,040,646.

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

### SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matter or circumstance, besides those disclosed at note 25, has arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

### LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

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

### ENVIRONMENTAL REGULATION AND PERFORMANCE

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

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



# Directors' Report

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

## REMUNERATION REPORT

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

This Remuneration Report outlines the Director and Executive remuneration arrangements of Papillon Resources Limited and the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purpose of this report Key Management Personnel ("KMP") of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether Executive or otherwise) of the Parent Company, and includes the five Executives in the Parent Company and the Group receiving the highest remuneration.

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

### Details of Key Management Personnel

#### (i) Directors

Ian Middlemas	Chairman (Non-Executive) – appointed 27 May 2011
Alan Campbell	Managing Director (Executive)
Alec Pismiris	Director (Non-Executive)
Peter Woodman	Director (Non-Executive – appointed 27 May 2011)
Jeremy Shervington	Chairman (Non-Executive) – retired 27 May 2011
Stuart Hall	Director (Non-Executive) – retired 27 May 2011

#### (ii) Executives

Dennis Wilkins	Company Secretary
Richard Dahl	Exploration Manager, Mali
Eric Chantelat	Operations Manager, Mali

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

### Remuneration Philosophy

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

# Annual Report 2011

## Directors' Report

### Principles used to determine the nature and amount of remuneration

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

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

The remuneration framework has regard to shareholders' interests by:

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

The remuneration framework has regard to executives' interests by:

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

The remuneration policy is not currently linked to the Company's performance, except for the impact of short term and long term incentives noted in the following paragraphs.

### Remuneration Structure

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

### Non Executive Director Remuneration

#### *Objective*

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

#### *Structure*

The Constitution specifies that the aggregate remuneration of Non Executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed. The latest determination was at the Annual General Meeting held on 29 November 2010 which approved an aggregate remuneration of \$300,000 per year.

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

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

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

### Executive Director and Senior Executive Remuneration

#### *Objective*

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

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

# Directors' Report

## **Structure**

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

## **Fixed Remuneration**

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

## **Variable Remuneration – Short Term Incentives**

### **Objective**

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

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

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

There is no policy for limiting at risk remuneration.

## **Variable Remuneration – Long Term Incentives**

### **Objective**

The objectives of long term incentives are to:

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

### **Structure**

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

# Annual Report 2011

## Directors' Report

### Company Performance

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

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

	2011	2010	2009	2008	2007
	\$	\$	\$	\$	\$
Revenue and other income	486,470	75,272	59,876	99,147	52,902
Net loss	(1,587,629)	(1,919,061)	(261,265)	(1,358,546)	(506,740)
Loss per share (cents)	(0.9)	(3.2)	(1.6)	(8.5)	(8.7)
Share price at year end	0.55	0.13	0.05	0.10	0.25

No dividends have been declared during these periods.

### Relationship of Reward and Performance

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

#### *Short Term Incentive to Performance*

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

#### *Long Term Incentive to Performance*

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

Long term incentives are delivered in the form of options and performance shares. There are no performance conditions relating to the options however the strike price of options are determined so as to ensure that the options only have value if there is an increase in shareholder wealth over time. The performance shares are conditional upon the Company achieving a Mineral Resource of 2,000,000 ounces of gold at 1.0g/t cut-off before 30 June 2013.



# Directors' Report

## Remuneration of Key Management Personnel

	Short-Term		Post Employment	Share-based Payments	Total	Remuneration Deemed "at risk"
	Salary & Fees	Non Monetary	Superannuation	Options		
	\$	\$	\$	\$	\$	%

### Non Executive Directors

Ian Middlemas (appointed 27 May 2011)

2011	5,806	-	-	-	5,806	-
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Alec Pismiris

2011	36,000	-	-	-	36,000	-
2010	69,400	-	-	-	69,400	-

Peter Woodman (appointed 27 May 2011)

2011	3,484	-	-	-	3,484	-
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Jeremy Shervington (retired 27 May 2011)

2011	55,000	-	-	-	55,000	-
2010	60,000	-	-	-	60,000	-

Stuart Hall (retired 27 May 2011)

2011	32,710	-	-	-	32,710	-
2010	36,000	-	-	-	36,000	-

### Executive Directors

Alan Campbell

2011	275,902	-	15,199	226,950	518,051	43.8
2010	145,000	-	7,231	44,915	197,146	22.8

### Other key management personnel

Dennis Wilkins (Company Secretary)

2011	113,203	-	-	-	113,203	-
2010	1,222	-	-	-	1,222	-

Richard Dahl (Exploration Manager)

2011	179,662	-	-	35,380	215,042	16.4
2010	42,819	-	-	-	42,819	-

Eric Chantelat (Operations Manager)

2011	33,832	-	695*	-	34,527	-
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Total key management personnel compensation

2011	735,599	-	15,894	262,330	1,013,823	
2010	354,441	-	7,231	44,915	406,587	

\*Operations Manager was subject to superannuation for a short period before relocation to Bamako, Mali

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## Directors' Report

### Employment Contracts

#### *Managing Director and CEO/COO (Mr Alan Campbell)*

- Term of agreement – 2 years commencing 18 December 2009.
- Base salary, exclusive of superannuation, of \$275,000 to be reviewed annually by the Board. A welcome bonus of \$20,000 was also paid on signing of the employment agreement.
- Mr Campbell will be entitled to receive the following short term incentives:
  - a cash bonus of \$100,000 to be paid out following a successful pre-feasibility study on a 100,000 oz per year gold operation based on a 1 million oz reserve in the proven and probable categories with a minimum 50% in the proven category; and
  - a \$100,000 cash bonus for completion of a successful bankable feasibility study.
- The agreement may be terminated by either party with 3 months written notice. If the agreement is terminated without cause by the Company an amount equal to 12 months total remuneration is payable.

#### *Exploration Manager, Mali (Dr Richard Dahl)*

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

#### *Operations manager, Mali (Mr Eric Chantelat)*

- Term of agreement – 2 years commencing 16 March 2011.
- Base salary, exclusive of superannuation, of A\$100,200 to be reviewed after six months of service and annually by the Board.
- Mr Chantelat primary objective for his first year of employment is to increase productivity by providing effective methods of business operation, including the tenement management function.
- The agreement may be terminated by either party with 1 month written notice.

#### *Non – Executive Chairman (Mr Ian Middlemas)*

- Appointed 27th May 2011
- Term of agreement as per the Company's Constitution (one third of all directors and any director who would have held office for 3 years must retire at each AGM)
- Director's fee inclusive of superannuation of \$60,000 to be reviewed annually at the AGM.
- Retirement/resignation is as prescribed in the *Corporations Act* and the Company's Constitution.
- The agreement may be terminated by either party by written notice at any time.

#### *Non – Executive Director (Mr Alec Pismiris)*

- Appointed 11th May 2006
- Term of agreement as per the Company's Constitution (one third of all directors and any director who would have held office for 3 years must retire at each AGM)
- Director's fee inclusive of superannuation of \$36,000 to be reviewed annually at the AGM.
- Retirement/resignation is as prescribed in the *Corporations Act* and the Company's Constitution.
- The agreement may be terminated by either party by written notice at any time.

# Directors' Report

## **Non – Executive Director (Mr Peter Woodman)**

- Appointed 27th May 2011
- Term of agreement as per the Company's Constitution (one third of all directors and any director who would have held office for 3 years must retire at each AGM)
- Director's fee inclusive of superannuation of \$36,000 to be reviewed annually at the AGM.
- Retirement/resignation is as prescribed in the *Corporations Act* and the Company's Constitution.
- The agreement may be terminated by either party by written notice at any time.

## **Share-based compensation**

Options are issued to directors and executives as part of their remuneration. The following options were granted to or vesting with key management personnel during the 2010 financial year. No new options were issued to key management personnel during the year. There were no options forfeited during the year.

	Grant Date	Granted Number	Vested Number	Date vesting and exercisable	Expiry Date	Exercise Price (cents)	Value per option at grant date (cents) <sup>(1)</sup>	Exercised Number	Vested %
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### **Directors**

Alan Campbell	24/06/2010	1,000,000	(2)	05/07/2010	31/12/2012	15	7.5	N/A	100%
Alan Campbell	24/06/2010	1,000,000	(2)	05/01/2011	31/12/2012	15	7.5	N/A	100%
Alan Campbell	24/06/2010	1,000,000	(2)	05/07/2011	31/12/2012	15	7.5	N/A	-
Alan Campbell	24/06/2010	1,000,000	(2)	05/01/2012	31/12/2012	15	7.5	N/A	-

### **Other key management personnel**

Richard Dahl	01/05/2010	125,000	(3)	01/02/2011	31/01/2014	20	8.6	N/A	100%
Richard Dahl	01/05/2010	125,000	(3)	01/05/2011	31/01/2014	20	8.6	N/A	100%
Richard Dahl	01/05/2010	125,000	(3)	01/11/2011	31/01/2014	20	8.6	N/A	-
Richard Dahl	01/05/2010	125,000	(3)	01/05/2012	31/01/2014	20	8.6	N/A	-

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

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

(3) The terms and conditions of the above options are such that they are subject to performance vesting conditions, being 4 equal tranches vesting on issue date, 6 months, 12 months and 18 months after 1 November 2010. The issue date of the options was 1 February 2011. The total fair value of the options granted is \$43,000. As at year end 250,000 options are yet to vest.

## **Shares Issued on Exercise of Compensation Options**

No shares were issued on the exercise of compensation options up until 30 June 2011. However, the Managing Director (Mr Alan Campbell) exercised 2,000,000 options at 15 cents with an intrinsic value of \$640,000 on the 19th August 2011.

This is the end of the audited Remuneration Report.

# Annual Report 2011

## Directors' Report

### DIRECTORS' MEETINGS

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

	Board of Directors		Audit Committee		Remuneration Committee	
	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend
	A	B	A	B	A	B
Ian Middlemas (appointed 27 May 2011)	1	1	*	*	*	*
Alan Campbell	11	11	*	*	*	*
Alec Pismiris	11	11	2	2	1	1
Peter Woodman (appointed 27 May 2011)	0	1	*	*	*	*
Jeremy Shervington (retired 27 May 2011)	9	10	1	1	*	*
Stuart Hall (retired 27 May 2011)	8	10	1	1	1	1

A – Number of meetings attended.

B – Number of meetings held during the time the director held office during the year.

\* – Not a member of the relevant committee.

### SHARES UNDER OPTION

At the date of this report there are 73,572,494 unissued ordinary shares in respect of which options are outstanding.

	Number of options
Balance at the beginning of the year	81,753,274
<b>Movements of share options during the year</b>	
Issued, exercisable at \$0.15, on or before 31 December 2012	4,000,000
Issued, exercisable at \$0.95, on or before 18 January 2014	200,000
Issued, exercisable at \$0.20, on or before 1 February 2014	500,000
Issued, exercisable at \$0.70, on or before 30 June 2014	7,500,000
Exercised at \$0.20, on or before 31 December 2010	(9,689,253)
Exercised at \$0.20, on or before 31 December 2012	(5,513,979)
Expired on 31 December 2010, exercisable at \$0.20	(140,001)
<b>Total number of options outstanding as at 30 June 2011</b>	<b>78,610,041</b>
Movements subsequent to year end:	
Exercised at \$0.15, on or before 31 December 2012	(2,000,000)
Exercised at \$0.20, on or before 31 December 2012	(3,037,547)
<b>Total number of options outstanding as at the date of this report</b>	<b>73,572,494</b>

The balance is comprised of the following:

Expiry date	Exercise price	Number of options
31 December 2011	\$0.15	5,000,000
31 December 2012	\$0.15	2,000,000
31 December 2012	\$0.20	58,372,494
18 January 2014	\$0.95	200,000



# Directors' Report

Expiry date	Exercise price	Number of options
1 February 2014	\$0.20	500,000
30 June 2014	\$0.70	7,500,000
<b>Total number of options outstanding at the date of this report</b>		<b>73,572,494</b>

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

## INDEMNIFICATION OF DIRECTORS AND OFFICERS

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

The Group has paid premiums totalling \$18,205 (2010: \$8,198) in respect of Directors' and Officers' Liability Insurance and Company Reimbursement policies, which cover all Directors and officers of the Group against liabilities to the extent permitted by the *Corporations Act 2001*. The policy conditions preclude the Group from any detailed disclosures.

## NON AUDIT SERVICES

Non-audit services provided by our auditors, BDO Audit (WA) Pty Ltd, and their related entities, are set out below. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* and *APES 110: Code of Ethics for Professional Accountant*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

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

	2011	2010
	\$	\$
BDO Audit (WA) Pty Ltd:		
Consulting and Annual General Meeting attendance fees	-	5,254
Related entity of BDO Audit (WA) Pty Ltd:		
Income tax return & Other Tax related matters	9,515	2,250
Employee Share Scheme	2,424	-
	<b>11,939</b>	<b>7,504</b>

## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 16.

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



**Alan Campbell**

Managing Director

Perth, 30 September 2011

## Auditor's Independence Declaration



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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 September 2011

The Directors  
Papillon Resources Ltd  
Level 13, BGC Building,  
28 The Esplanade,  
PERTH, WA 6000

Dear Sirs,

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

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

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

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

**Brad McVeigh**  
Director

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

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO (Australia) Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.

# Corporate Governance Statement

## ***The Board of Directors***

The Company's constitution provides that the number of directors shall not be less than three and not more than nine. There is no requirement for any shareholding qualification.

As and if the Company's activities increase in size, nature and scope the size of the board will be reviewed periodically, and as circumstances demand. The optimum number of directors required to supervise adequately the Company's constitution will be determined within the limitations imposed by the constitution.

The membership of the board, its activities and composition, is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the board shall include quality of the individual, background of experience and achievement, compatibility with other board members, credibility within the Company's scope of activities, intellectual ability to contribute to the board's duties and physical ability to undertake the board's duties and responsibilities.

Directors are initially appointed by the full board subject to election by shareholders at the next general meeting. Under the Company's constitution the tenure of a director (other than managing director, and only one managing director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following his or her last appointment. Subject to the requirements of the *Corporations Act 2001*, the board does not subscribe to the principle of retirement age and there is no maximum period of service as a director. A managing director may be appointed for any period and on any terms the directors think fit and, subject to the terms of any agreement entered into, may revoke any appointment.

The board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of separate or special committees (other than an Audit Committee and Remuneration Committee) at this time. The board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards.

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

The board's primary role is the protection and enhancement of long term shareholder value.

To fulfil this role, the board is responsible for oversight of management and the overall corporate governance of the Company including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

## ***Appointments to Other Boards***

Directors are required to take into consideration any potential conflicts of interest when accepting appointments to other boards.

## ***Independent Professional Advice***

The board has determined that individual directors have the right in connection with their duties and responsibilities as directors, to seek independent professional advice at the Company's expense. With the exception of expenses for legal advice in relation to director's rights and duties, the engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably.

## ***Continuous Review of Corporate Governance***

Directors consider, on an ongoing basis, how management information is presented to them and whether such information is sufficient to enable them to discharge their duties as directors of the Company. Such information must be sufficient to enable the directors to determine appropriate operating and financial strategies from time to time in light of changing circumstances and economic conditions. The directors recognise that mineral exploration is an inherently risky business and that operational strategies adopted should, notwithstanding, be directed towards improving or maintaining the net worth of the Company.

## ***ASX Principles of Good Corporate Governance***

The board has reviewed its current practices in light of the Second Edition ASX Corporate Governance Principles and Recommendations with 2010 amendments with a view to making amendments where applicable after considering the Company's size and the resources it has available.

As the Company's activities develop in size, nature and scope, the size of the board and the implementation of any additional formal corporate governance committees will be given further consideration.

The board has adopted the revised Recommendations and the following table sets out the Company's present position in relation to each of the revised Principles.

## Corporate Governance Statement

ASX Principle		Status	Reference/comment
<b>Principle 1: Lay solid foundations for management and oversight</b>			
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions	A	Matters reserved for the Board are included on the Company's website.
1.2	Companies should disclose the process for evaluating the performance of senior executives	A	<p>The remuneration of executive and non-executive directors is reviewed by the board with the exclusion of the Director concerned. The remuneration of management and employees is reviewed by the Board and approved by the Chairman.</p> <p>Acting in its ordinary capacity, the Board from time to time carries out the process of considering and determining performance issues including the identification of matters that may have a material effect on the price of company securities. Whenever relevant, any such matters are reported to ASX.</p>
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1	A	
<b>Principle 2: Structure the board to add value</b>			
2.1	A majority of the board should be independent directors	A	
2.2	The chair should be an independent director	A	
2.3	The roles of chair and chief executive officer should not be exercised by the same individual	A	
2.4	The board should establish a nomination committee	A	<p>The nomination committee is comprised of the full Board. Acting in its ordinary capacity from time to time as required the Board carries out the process of determining the need for screening and appointing new directors. In view of the size and resources available to the Company, it is not considered that a separate nomination committee would add any substance to the process.</p>
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors	A	The remuneration of executive and non-executive directors is reviewed by the Board with the exception of the director concerned.
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2	A	The skills and experience of Directors are set out in the Company's Annual Report and on its website.



# Corporate Governance Statement

ASX Principle		Status	Reference/comment
<b>Principle 3: Promote ethical and responsible decision making</b>			
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> <li>the practices necessary to maintain confidence in the Company's integrity</li> <li>the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders</li> <li>the responsibility and accountability of individuals for reporting and investigating reports of unethical practices</li> </ul>	A	The Company has formulated a Code of Conduct which can be viewed on the Company's website.
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.	N/A	The Company has adopted a diversity policy which can be viewed on its website. The Company recognises that a diverse and talented workforce is a competitive advantage and encourages a culture that embraces diversity. The Company does not think that it is appropriate to state measurable objectives for achieving gender diversity due to its size and stage of development.
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	N/A	The Company has adopted a diversity policy which can be viewed on its website. The Company recognises that a diverse and talented workforce is a competitive advantage and encourages a culture that embraces diversity. However, the policy does not include requirements for the board to establish measurable objectives for achieving gender diversity. Given the Company's size and stage of development as an exploration company, the board does not think it is yet appropriate to include measurable objectives in relation to gender. As the Company grows and requires more employees, the Company will review this policy and amend as appropriate.
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	A	The proportion of women employees in the whole organisation is 14%.  There are currently no women in senior executive positions.  There are currently no women on the board.
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3	A	

## Corporate Governance Statement

ASX Principle		Status	Reference/comment
<b>Principle 4: Safeguard integrity in financial reporting</b>			
4.1	The board should establish an audit committee	A	The Company has established an audit committee which comprises the full board. The charter for this committee is disclosed on the Company's website.
4.2	The audit committee should be structured so that it: consists only of non executive directors	N/A	The audit committee comprises the full board, which the Company considers to be appropriate at this size and stage of its development. The Company will review the composition of the committee on an ongoing basis.
	• consists of a majority of independent directors	A	
	• is chaired by an independent chair, who is not chair of the board	A	
	• has at least three members	A	
4.3	The audit committee should have a formal charter	A	
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4	A	
<b>Principle 5: Make timely and balanced disclosure</b>			
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies	A	The Company has instigated internal procedures designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with relevant laws and regulations. The Board is acutely aware of the continuous disclosure regime and there are strong informal systems in place to ensure compliance, underpinned by experience.
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5	A	The Board receives monthly updates on the status of the Company's activities and any new or proposed activities. Disclosure is reviewed as a routine agenda item at each Board meeting.
<b>Principle 6: Respect the rights of shareholders</b>			
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy	A	In line with adherence to continuous disclosure requirements of ASX, all shareholders are kept informed of major developments affecting the Company. This disclosure is through regular shareholder communications including the Annual Report, Quarterly Reports, the Company website and the distribution of specific releases covering major transactions or events.
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6	A	The Company has formulated a Shareholder Communication Policy which can be viewed on the Company website.

# Corporate Governance Statement

ASX Principle		Status	Reference/comment
<b>Principle 7: Recognise and manage risk</b>			
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies	A	<p>The board has adopted a risk management policy and recognises its responsibility for identifying areas of significant business risk and for ensuring that arrangements are in place for adequately managing these risks. This issue is regularly reviewed at Board meetings and risk management culture is encouraged amongst employees and contractors.</p> <p>Determined areas of risk which are regularly considered include:</p> <ul style="list-style-type: none"> <li>• performance and funding of exploration activities</li> <li>• budget control and asset protection</li> <li>• status of mineral tenements</li> <li>• land access and traditional title considerations</li> <li>• compliance with government laws and regulations</li> <li>• safety and the environment</li> <li>• continuous disclosure obligations</li> <li>• share market conditions</li> <li>• economic risk</li> <li>• sovereign risk</li> </ul>
7.2	The board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks	N/A	The board has adopted a risk management policy and it recognises its responsibility for identifying areas of significant business risk and for ensuring that arrangements are in place for adequately managing these risks. This issue is regularly reviewed at board meetings and risk management culture is encouraged amongst employees and contractors.
7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks	A	The board has received the required assurance and declaration.
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7	A	

## Annual Report 2011

# Corporate Governance Statement

ASX Principle		Status	Reference/comment
<b>Principle 8: Remunerate fairly and responsibly</b>			
8.1	The board should establish a remuneration committee	A	
8.2	The remuneration committee should be structured so that it: <ul style="list-style-type: none"><li>• consists of a majority of independent directors</li><li>• is chaired by an independent chair</li><li>• has at least three members.</li></ul>	A	
8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives	A	
8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8	A	Refer to the Remuneration Report in the Company's Annual Report.

*A = Adopted*

*N/A = Not adopted*



# Consolidated Statement of Comprehensive Income

## YEAR ENDED 30 JUNE 2011

	Notes	Consolidated	
		2011	2010
		\$	\$
<b>REVENUE</b>	4	<b>486,870</b>	<b>75,272</b>
<b>EXPENDITURE</b>			
Administration and corporate expenses		(757,396)	(632,303)
Depreciation expense		(1,291)	(13,063)
Employment expenses		(539,199)	(328,241)
Impairment of deferred exploration expenditure		-	(7,545)
Impairment of goodwill	23	-	(466,771)
Other expenses		(480,403)	(36,495)
Share based payments	28	(296,210)	(509,915)
<b>LOSS BEFORE INCOMETAX</b>		<b>(1,587,629)</b>	<b>(1,919,061)</b>
<b>INCOMETAX BENEFIT / (EXPENSE)</b>	6	-	-
<b>LOSS FOR THE YEAR</b>		<b>(1,587,629)</b>	<b>(1,919,061)</b>
<b>OTHER COMPREHENSIVE LOSS</b>			
Exchange differences on translation of foreign operations		(1,109,351)	(320,853)
Other comprehensive loss for the year, net of tax		(1,109,351)	(320,853)
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(2,696,980)</b>	<b>(2,239,914)</b>
Loss is attributable to:			
Owners of Papillon Resources Limited		(1,587,629)	(1,919,061)
Non-controlling interest		-	-
		<b>(1,587,629)</b>	<b>(1,919,061)</b>
Total comprehensive loss is attributable to:			
Owners of Papillon Resources Limited		(2,696,980)	(2,239,914)
Non-controlling interest		-	-
		<b>(2,696,980)</b>	<b>(2,239,914)</b>
Basic and diluted loss per share for loss attributable to the ordinary equity holders of the Company (cents per share)	27	<b>(0.9)</b>	<b>(3.3)</b>

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

## Annual Report 2011

# Consolidated Statement of Financial Position

AT 30 JUNE 2011

	Notes	Consolidated	
		2011	2010
		\$	\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	7	15,859,433	3,887,828
Trade and other receivables	8	717,565	464,828
Other current assets	9	52,069	20,034
<b>TOTAL CURRENT ASSETS</b>		<b>16,629,067</b>	<b>4,372,690</b>
<b>NON-CURRENT ASSETS</b>			
Receivable	10	249,875	-
Plant and equipment	11	273,677	116,489
Exploration and evaluation	12	11,952,621	5,929,147
<b>TOTAL NON-CURRENT ASSETS</b>		<b>12,476,173</b>	<b>6,045,636</b>
<b>TOTAL ASSETS</b>		<b>29,105,240</b>	<b>10,418,326</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	2,644,485	777,307
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,644,485</b>	<b>777,307</b>
<b>TOTAL LIABILITIES</b>		<b>2,644,485</b>	<b>777,307</b>
<b>NET ASSETS</b>		<b>26,460,755</b>	<b>9,641,019</b>
<b>EQUITY</b>			
Contributed equity	14	31,733,931	12,513,425
Reserves	15(a)	(762,059)	51,082
Accumulated losses	15(b)	(5,633,242)	(4,045,613)
Capital and reserves attributable to owners of Papillon Resources Limited		<b>25,338,630</b>	<b>8,518,894</b>
Non-controlling interest	16	1,122,125	1,122,125
<b>TOTAL EQUITY</b>		<b>26,460,755</b>	<b>9,641,019</b>

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

# Consolidated Statement of Changes in Equity

YEAR ENDED 30 JUNE 2011

		Attributable to Owners of Papillon Resources Limited							
	Notes	Contributed Equity	Option Issue Reserve	Share-Based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total	Non-Controlling Interest	Total
Consolidated		\$	\$	\$	\$	\$	\$	\$	\$
<b>BALANCE AT 1 JULY 2009</b>		2,825,014	4,000	208,020	-	(2,126,552)	910,482	-	910,482
Loss for the year	15(b)	-	-	-	-	(1,919,061)	(1,919,061)	-	(1,919,061)
<b>OTHER COMPREHENSIVE LOSS</b>									
Exchange differences on translation of foreign operations		-	-	-	(320,853)	-	(320,853)	-	(320,853)
<b>TOTAL COMPREHENSIVE LOSS</b>		-	-	-	(320,853)	(1,919,061)	(2,239,914)	-	(2,239,914)
<b>TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS</b>									
Contributions of equity		9,808,509	-	-	-	-	9,808,509	-	9,808,509
Transaction costs		(470,098)	-	-	-	-	(470,098)	-	(470,098)
Share-based payments	28(e)	350,000	-	159,915	-	-	509,915	-	509,915
Non-controlling interest on acquisition of subsidiaries	16	-	-	-	-	-	-	1,122,125	1,122,125
<b>BALANCE AT 30 JUNE 2010</b>		12,513,425	4,000	367,935	(320,853)	(4,045,613)	8,518,894	1,122,125	9,641,019
Loss for the year	15(b)	-	-	-	-	(1,587,629)	(1,587,629)	-	(1,587,629)
<b>OTHER COMPREHENSIVE LOSS</b>									
Exchange differences on translation of foreign operations	15(a)	-	-	-	(1,109,351)	-	(1,109,351)	-	(1,109,351)
<b>TOTAL COMPREHENSIVE LOSS</b>		-	-	-	(1,109,351)	(1,587,629)	(2,696,980)	-	(2,696,980)
<b>TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS</b>									
Contributions of equity		20,184,446	-	-	-	-	20,184,446	-	20,184,446
Transaction costs		(963,940)	-	-	-	-	(963,940)	-	(963,940)
Share-based payments	28(e)	-	-	296,210	-	-	296,210	-	296,210
<b>BALANCE AT 30 JUNE 2011</b>		31,733,931	4,000	664,145	(1,430,204)	(5,633,242)	25,338,630	1,122,125	26,460,755

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

## Annual Report 2011

# Consolidated Statement of Cash Flows

YEAR ENDED 30 JUNE 2011

	Notes	Consolidated	
		2011	2010
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Payments to suppliers and employees		(1,983,953)	(943,574)
Interest received		349,568	29,686
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	26(a)	(1,634,385)	(913,888)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for plant and equipment		(286,824)	(65,338)
Payments for exploration and evaluation		(5,076,596)	(1,043,974)
Payments for subsidiaries, net of cash acquired		-	(4,402,818)
Deposit – Mali Goldfields		(249,875)	-
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(5,613,295)	(5,512,130)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issues of ordinary shares and options		20,184,446	9,808,509
Payment of share issue costs		(963,940)	(470,098)
NET CASH INFLOW FROM FINANCING ACTIVITIES		19,220,506	9,338,411
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		11,972,826	2,912,393
Cash and cash equivalents at the beginning of the financial year		3,887,828	975,435
Effects of exchange rate changes on cash and cash equivalents		(1,221)	-
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR</b>	7	<b>15,859,433</b>	<b>3,887,828</b>

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

# Notes To The Financial Statements

30 June 2011

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Papillon Resources Limited and its subsidiaries. The financial statements are presented in the Australian currency. Papillon Resources Limited is a company limited by shares, domiciled and incorporated in Australia. The financial statements were authorised for issue by the directors on 29 September 2011. The directors have the power to amend and reissue the financial statements.

### (a) Basis of preparation

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

#### *Compliance with IFRS*

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

#### *Historical cost convention*

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

### (b) Principles of consolidation

#### *(i) Subsidiaries*

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

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

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

The acquisition method of accounting is used to account for business combinations by the Group (refer note 1(h)).

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

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

#### *(ii) Changes in ownership interests*

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

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

## Notes to the Consolidated Financial Statements

30 June 2011

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (c) Segment reporting

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

#### (d) Foreign currency translation

##### (i) Functional and presentation currency

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

##### (ii) Transactions and balances

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

##### (iii) Group companies

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

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

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

#### (e) Revenue recognition

##### Interest income

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

#### (f) Income tax

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

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

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



# Notes to the Consolidated Financial Statements

## 30 June 2011

substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

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

### **(g) Leases**

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

Leases where a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 21). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

### **(h) Business combinations**

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

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

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

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

## Notes to the Consolidated Financial Statements

30 June 2011

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (i) Impairment of assets

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

#### (j) Cash and cash equivalents

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

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

##### *Classification*

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

##### *Loans and receivables*

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

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

##### *Subsequent measurement*

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

##### *Impairment*

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

#### (l) Plant and equipment

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

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

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

# Notes to the Consolidated Financial Statements

## 30 June 2011

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

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

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

### **(m) Exploration and evaluation expenditure**

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

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

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

#### ***Impairment***

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

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

### **(n) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured, non-interest bearing and are paid on normal commercial terms. They are recognised initially at fair value and subsequently at amortised cost.

### **(o) Provisions and employee benefits**

#### ***(i) Wages and salaries and annual leave***

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

#### ***(ii) Long service leave***

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

#### ***(iii) Share-based payments***

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'), refer to note 28. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an internal valuation using either a binomial or Black Scholes model.

## Notes to the Consolidated Financial Statements

30 June 2011

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of options that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award.

#### (p) Contributed equity

Ordinary shares are classified as equity.

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

#### (q) Loss per share

##### (i) Basic earnings per share

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

##### (ii) Diluted earnings per share

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

#### (r) Goods and Services Tax (GST)

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

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

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

#### (s) New accounting standards and interpretations

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

##### **AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013)**

This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The Group has not yet determined any potential impact on the financial statements.

# Notes to the Consolidated Financial Statements

## 30 June 2011

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

### ***AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011)***

This Standard removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies the definition of a "related party" to remove inconsistencies and simplify the structure of the Standard. No changes are expected to materially affect the Group.

### ***AASB 1053: Application of Tiers of Australian Accounting Standards and AASB 2010-2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052] (applicable for annual reporting periods commencing on or after 1 July 2013)***

AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

- Tier 1: Australian Accounting Standards; and
- Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 of the framework comprises the recognition, measurement and presentation requirements of Tier 1, but contains significantly fewer disclosure requirements.

The following entities are required to apply Tier 1 reporting requirements (ie full IFRS):

- for-profit private sector entities that have public accountability; and
- the Australian Government and state, territory and local governments.

Since the Group is a for-profit private sector entity that has public accountability, it does not qualify for the reduced disclosure requirements for Tier 2 entities.

AASB 2010-2 makes amendments to Australian Accounting Standards and Interpretations to give effect to the reduced disclosure requirements for Tier 2 entities. It achieves this by specifying the disclosure paragraphs that a Tier 2 entity need not comply with as well as adding specific "RDR" disclosures.

This Standard is not expected to impact the Group.

### ***AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011)***

This Standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The Standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The amendments are not expected to impact the Group.

## Notes to the Consolidated Financial Statements

30 June 2011

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**AASB 2009-14: Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement [AASB Interpretation 14]**  
(applicable for annual reporting periods commencing on or after 1 January 2011)

This Standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

This Standard is not expected to impact the Group.

**AASB 2010-4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13]** (applicable for annual reporting periods commencing on or after 1 January 2011)

This Standard details numerous non-urgent but necessary changes to Accounting Standards arising from the IASB's annual improvements project. Key changes include:

- clarifying the application of AASB 108 prior to an entity's first Australian-Accounting-Standards financial statements;
- adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments;
- amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;
- adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and
- making sundry editorial amendments to various Standards and Interpretations.

This Standard is not expected to impact the Group.

**AASB 2010-5: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]** (applicable for annual reporting periods beginning on or after 1 January 2011)

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements.

**AASB 2010-6: Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]**  
(applicable for annual reporting periods beginning on or after 1 July 2011)

This Standard adds and amends disclosure requirements about transfers of financial assets, especially those in respect of the nature of the financial assets involved and the risks associated with them. Accordingly, this Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards, and AASB 7: Financial Instruments: Disclosures, establishing additional disclosure requirements in relation to transfers of financial assets.

This Standard is not expected to impact the Group.

**AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]** (applies to periods beginning on or after 1 January 2013)

This Standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.

As noted above, the Group has not yet determined any potential impact on the financial statements from adopting AASB 9.

**AASB 2010-8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]** (applies to periods beginning on or after 1 January 2012)

This Standard makes amendments to AASB 112: Income Taxes.

The amendments brought in by this Standard introduce a more practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model under AASB 140: Investment Property.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to



# Notes to the Consolidated Financial Statements

## 30 June 2011

recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments brought in by this Standard also incorporate Interpretation 121 into AASB 112.

The amendments are not expected to impact the Group.

### ***AASB 2010–10: Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters [AASB 2009–11 & AASB 2010–7] (applies to periods beginning on or after 1 January 2013)***

This Standard makes amendments to AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9, and AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010).

The amendments brought in by this Standard ultimately affect AASB 1: First-time Adoption of Australian Accounting Standards and provide relief for first-time adopters from having to reconstruct transactions that occurred before their transition date.

[The amendments to AASB 2009–11 will only affect early adopters of AASB 2009–11 (and AASB 9: Financial Instruments that was issued in December 2009) as it has been superseded by AASB 2010–7.]

This Standard is not expected to impact the Group.

## **(t) Critical accounting judgements, estimates and assumptions**

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

### ***Impairment of capitalised exploration and evaluation expenditure***

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

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

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

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

### ***Impairment of goodwill***

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

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

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using a binomial or Black Scholes model, with the assumptions detailed in note 28. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amount of assets and liabilities within the next annual reporting period but may impact expenses and equity.

### ***Contingent consideration***

Valuing the contingent acquisition consideration payable on the acquisition of the Malian Assets required a significant estimation by management. An amount of USD\$1 million will be payable if a 500,000 ounce gold resource is identified within the Malian Assets'

## Notes to the Consolidated Financial Statements

30 June 2011

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

project area within 24 months of the acquisition date. At the date of acquisition, the Group's management estimated that there was a 50% probability that the threshold gold resource would be identified within 24 months, so an amount of USD\$500,000 was recognised as contingent consideration. As at 30 June 2011, management estimate that an amount of USD\$500,000 is still reasonable

#### *Restoration Provision.*

Due to the nature of the Company's exploration activities there is no current requirement for a restoration provision.

### 2. FINANCIAL RISK MANAGEMENT

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

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

#### **(a) Market risk**

##### *(i) Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Communauté Financière Africaine Franc (XOF) and the United States dollar.

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

The functional currency of the subsidiary companies is the XOF. All parent entity balances are in Australian dollars and all Group balances are in either Australian dollars or XOF, so the Group does not have any exposure to foreign currency risk relating to XOF. At the reporting date, the Group has one payable, being the contingent consideration of USD500,000 (2010: USD500,000) that is exposed to foreign currency risk.

#### *Sensitivity analysis*

Given the balance of the contingent consideration payable at 30 June 2011, had the Australian dollar weakened/strengthened by 10% against the United States dollar with all other variables held constant, there would have been \$47,190/42,900 increase/decrease to the Group's post-tax loss for the year (2010: \$58,390/\$53,082 increase/decrease) and corresponding movements to the Group's equity. The directors believe that in the current economic environment a 10% change in exchange rates is reasonable given recent currency market trends.

##### *(ii) Price risk*

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

# Notes to the Consolidated Financial Statements

## 30 June 2011

### (iii) Interest rate risk

	2011		2010	
	Weighted Average Interest rate %	Balance	Weighted Average Interest rate %	Balance
Bank Balances	5.11%	15,859,433	3.33%	3,887,828
Net exposure to cash flow interest rate risk		15,859,433		3,887,828

### Sensitivity analysis

At 30 June 2011, if interest rates had changed by +/- 100 basis points from the weighted average rate for the year with all other variables held constant, post-tax loss for the Group would have been \$95,230 lower/higher (2010: \$22,614 lower/higher) as a result of lower/higher interest income from cash and cash equivalents. The directors believe that in the current economic environment a 1% change in interest rates is reasonable given comments made by the Reserve Bank of Australia.

### (b) Credit risk

The only significant concentration of credit risk for the Group is the cash and cash equivalents held with financial institutions. All material deposits are held with the major Australian banks, with credit ratings of AA or above, for which the Board evaluate credit risk to be minimal.

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

### (c) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash is available to meet the current and future commitments of the Group. At the end of the reporting period the Group held short term deposits of \$14,520,568 (2010: \$3,700,000). Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. The Board of Directors constantly monitor the state of equity markets in conjunction with the Group's current and future funding requirements, with a view to initiating appropriate capital raisings as required.

The financial liabilities of the Group are confined to trade and other payables as disclosed in the statement of financial position. All trade and other payables are non-interest bearing and due within 12 months of the reporting date, other than the accrued contingent acquisition consideration which may not be due until March 2012, refer to note 23. Therefore the contractual cash flow of the group's financial liabilities is equivalent to their carrying value.

### (d) Fair value estimation

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

# Annual Report 2011

## Notes to the Consolidated Financial Statements

30 June 2011

### 3. SEGMENT INFORMATION

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

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

	Consolidated	
	2011	2010
	\$	\$
<b>Exploration segment</b>	<b>Mali</b>	<b>Mali</b>
Segment revenue	-	-
Reconciliation of segment revenue to total revenue before tax:		
Corporate interest revenue	486,870	75,272
<b>Total revenue</b>	<b>486,870</b>	<b>75,272</b>
Segment results	(480,403)	(7,545)
Reconciliation of segment result to net loss before tax:		
Other corporate and administration	(1,107,226)	(1,911,516)
<b>Net loss before tax</b>	<b>(1,587,629)</b>	<b>(1,919,061)</b>
Segment operating assets	12,950,112	6,457,801
Reconciliation of segment operating assets to total assets:		
Other corporate and administration assets	16,155,128	3,960,525
<b>Total assets</b>	<b>29,105,240</b>	<b>10,418,326</b>
Segment operating liabilities	1,889,997	65,593
Reconciliation of segment operating liabilities to total liabilities:		
Other corporate and administration liabilities	754,488	711,714
<b>Total liabilities</b>	<b>2,644,485</b>	<b>777,307</b>

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

### 4. REVENUE

	Consolidated	
	2011	2010
	\$	\$
<b>Finance revenue</b>		
Interest from financial institutions	486,871	75,272

# Notes to the Consolidated Financial Statements

## 30 June 2011

### 5. EXPENSES

	Consolidated	
	2011	2010
	\$	\$

**Loss before income tax includes the following specific expenses:**

Defined contribution superannuation expense	26,851	7,460
Minimum lease payments relating to operating leases	72,000	26,000

### 6. INCOMETAX

	Consolidated	
	2011	2010
	\$	\$

**(a) Income tax expense/(benefit)**

Current income tax charge	-	-
Deferred income tax relating to utilisation/(recognition) of tax losses	-	-
Deferred income tax relating to origination and reversal of temporary differences	-	-
Income tax expense/(benefit) reported in profit or loss	-	-

**(b) Amounts charged or credited directly to equity**

Share issue costs	(289,182)	(151,618)
Income tax benefit not recognised	289,182	151,618
Income tax expense/(benefit) reported in equity	-	-

**(c) Numerical reconciliation of income tax expense to prima facie tax payable**

Loss from continuing operations before income tax expense	(1,587,629)	(1,919,061)
Prima facie tax benefit at the Australian tax rate of 30% (2010: 30%)	(476,289)	(575,718)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Impairment expense	-	140,031
Share based payments	88,863	152,975
Foreign exchange	(31,163)	10,949
Other non-deductible expenses	145,881	81
Tax effect of current year tax losses for which no deferred tax asset has been recognised	272,708	271,683
Income tax expense/(benefit)	-	-

# Annual Report 2011

## Notes to the Consolidated Financial Statements

30 June 2011

### 6. INCOME TAX (cont'd)

	Consolidated	
	2011	2010
	\$	\$
<b>(d) Unrecognised deferred income tax</b>		
<b>Deferred Tax Liabilities (at 30%)</b>		
Receivables	-	(14,643)
Prepayments	(15,621)	(6,010)
	<b>(15,621)</b>	<b>(20,653)</b>
<b>Deferred Tax Assets (at 30%)</b>		
Accruals	5,250	17,946
Capital raising costs	323,588	139,065
Costs relating to acquisitions	-	61,646
Other	8,030	288
Revenue tax losses	1,206,520	862,197
	<b>1,543,388</b>	<b>1,081,142</b>
Net deferred tax asset	<b>1,527,767</b>	1,060,489
Net deferred tax asset not recognised	<b>(1,527,767)</b>	(1,060,489)
	<b>-</b>	<b>-</b>

The Group's losses include losses incurred by subsidiary companies in their respective jurisdiction.

The Group has tax losses that are available indefinitely for offset against future taxable profits of the Group. The recoupment of available tax losses as at the 30 June 2011 is contingent upon the following:

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

### 7. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	Consolidated	
	2011	2010
	\$	\$
Cash at bank and in hand	1,338,865	187,828
Short-term deposits	14,520,568	3,700,000
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	<b>15,859,433</b>	<b>3,887,828</b>

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

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



# Notes to the Consolidated Financial Statements

## 30 June 2011

### 8. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	Consolidated	
	2011	2010
	\$	\$
Other receivables	226,670	405,867
Government taxes receivable	490,895	58,961
	<b>717,565</b>	<b>464,828</b>

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

### 9. CURRENT ASSETS – OTHER CURRENT ASSETS

	Consolidated	
	2011	2010
	\$	\$
Insurance prepaid	48,496	20,034
Other prepayments	3,573	-
	<b>52,069</b>	<b>20,034</b>

### 10. NON-CURRENT ASSETS – Receivables

	Consolidated	
	2011	2010
	\$	\$
Deposit on 10% acquisition in Mali Goldfields	249,875	-
	<b>249,875</b>	<b>-</b>

The 10% acquisition of Mali Goldfields will be finalised in the next few months, increasing the Company's ownership to 90%.

## Notes to the Consolidated Financial Statements

30 June 2011

### 11. NON-CURRENT ASSETS – PLANT AND EQUIPMENT

	Consolidated	
	2011	2010
	\$	\$

#### Plant and equipment

Cost	631,278	441,747
Accumulated depreciation	(357,601)	(325,258)
Net book amount	273,677	116,489

#### Plant and equipment

Opening net book amount	116,489	-
Exchange differences	(6,122)	(6,405)
Acquisition of subsidiaries	-	153,690
Additions	286,824	65,338
Depreciation charge	(1,291)	(96,134)
Depreciation charge Capitalised as part of exploration expenditure	(122,223)	-
Closing net book amount	273,677	116,489

There are no securities held over these asset

### 12. NON-CURRENT ASSETS – EXPLORATION AND EVALUATION

	Consolidated	
	2011	2010
	\$	\$
Opening net book amount	5,929,147	-
Exchange differences	(443,404)	(314,638)
Acquisition of subsidiaries	-	5,457,919
Expenditure incurred	6,466,878	793,411
Impairment of deferred exploration expenditure	-	(7,545)
Closing net book amount	11,952,621	5,929,147

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

# Notes to the Consolidated Financial Statements

## 30 June 2011

### 13. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	Consolidated	
	2011	2010
	\$	\$
Trade payables	1,576,029	44,902
Other payables	596,556	148,505
Related party payables	-	-
Contingent acquisition consideration payable	471,900	583,900
	<b>2,644,485</b>	<b>777,307</b>

The contingent acquisition consideration payable relates to the acquisition of the Malian Assets (refer note 23). An amount of USD\$1 million will be payable if a 500,000 ounce gold resource is identified within the Malian Assets' project area within 24 months of the acquisition date. At the date of acquisition, the Group's management estimated that there was a 50% probability that the threshold gold resource would be identified within 24 months, so an amount of USD\$500,000 has been accrued.

### 14. CONTRIBUTED EQUITY

	Notes	2011		2010	
		Number of securities	\$	Number of securities	\$
(a) Contributed equity					
Ordinary shares fully paid	14(b), 14(d)	203,221,972	31,718,931	155,018,740	12,498,425
Options	14(e)	1,500,000	15,000	1,500,000	15,000
Total contributed equity			<b>31,733,931</b>		<b>12,513,425</b>

#### (b) Movements in ordinary share capital

Beginning of the financial year	155,018,740	12,498,425	16,000,002	2,825,014
Transactions during the year:				
– Placement at 55 cents per share	22,500,000	12,375,000	-	-
– Placement at 45 cents per share	10,500,000	4,725,000	-	-
– Issued on exercise of 20 cent options	15,203,232*	3,040,646	3,170,746	634,150
– Issued on 05 July 2011 (exercise of 20 cent options)		43,800#		
– Entitlements issue at 7 cents per share	-	-	130,847,992	9,159,359
– Issued as part consideration for consulting fees	-	-	5,000,000	350,000
Less: Transaction costs	-	(963,940)	-	(470,098)
End of the financial year	<b>203,221,972</b>	<b>31,718,931</b>	<b>155,018,740</b>	<b>12,498,425</b>

\* during the financial year 140,001 PIRO December 2010 expired resulting in the difference between the figures shown in table (b) above (movement in the ordinary share capital) and table (c) below (movement in options on issue).

# Although funds were received before year end, the options were issued after balance date i.e. 5th July 2011

## Notes to the Consolidated Financial Statements

30 June 2011

### 14. CONTRIBUTED EQUITY (cont'd)

	Number of options	
	2011	2010
<b>(c) Movements in options on issue</b>		
Beginning of the financial year	81,753,274	13,200,000
Issued during the year:		
– Exercisable at 15 cents, on or before 31 December 2011	-	5,000,000
– Exercisable at 15 cents, on or before 31 December 2012	4,000,000	-
– Exercisable at 20 cents, on or before 31 December 2012	-	66,924,020
– Exercisable at 20 cents, on or before 1 February 2014	500,000	-
– Exercisable at 70 cents, on or before 30 June 2014	7,500,000	-
– Exercisable at 95 cents, on or before 18 January 2014	200,000	-
Exercised or cancelled during the year:		
– 20 cents, 31 December 2010	(9,829,254)	(3,170,746)
– 20 cents, 31 December 2012	(5,513,979)	-
– 45 cents, 1 December 2011	-	(200,000)
End of the financial year	78,610,041	81,753,274

### (d) Ordinary Shares

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

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

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

### (e) Paid options

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

### (f) Capital risk management

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

Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet exploration programmes and corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. The working capital position of the Group at 30 June 2011 and 30 June 2010 are as follows:

Cash and cash equivalents	15,859,433	3,887,828
Trade and other receivables	717,566	464,828
Prepayments	52,069	20,034
Trade and other payables	(2,644,485)	(777,307)
Working capital position	13,984,583	3,595,383

# Notes to the Consolidated Financial Statements

## 30 June 2011

### 15. RESERVES AND ACCUMULATED LOSSES

	Consolidated	
	2011	2010
	\$	\$

#### (a) Reserves

Foreign currency translation reserve	(1,430,204)	(320,853)
Option issue reserve	4,000	4,000
Share-based payments reserve	664,145	367,935
	<b>(762,059)</b>	<b>51,082</b>

#### Movements:

##### *Foreign currency translation reserve*

Balance at beginning of year	(320,853)	-
Currency translation differences arising during the year	(1,109,351)	(320,853)
Balance at end of year	<b>(1,430,204)</b>	<b>(320,853)</b>

##### *Option issue reserve*

Balance at beginning of year	4,000	4,000
No issues	-	-
Balance at end of year	<b>4,000</b>	<b>4,000</b>

##### *Share-based payments reserve*

Balance at beginning of year	367,935	208,020
Share-based payments	296,210	159,915
Balance at end of year	<b>664,145</b>	<b>367,935</b>

#### (b) Accumulated losses

Balance at beginning of year	(4,045,613)	(2,126,552)
Net loss for the year	(1,587,629)	(1,919,061)
Balance at end of year	<b>(5,633,242)</b>	<b>(4,045,613)</b>

#### (c) Nature and purpose of reserves

##### (i) *Foreign currency translation reserve*

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

##### (ii) *Option issue reserve*

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

##### (iii) *Share-based payments reserve*

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

## Notes to the Consolidated Financial Statements

30 June 2011

### 16. NON-CONTROLLING INTEREST

	Consolidated	
	2011	2010
	\$	\$
Interest in:		
Share capital	1,122,125	1,122,125
Accumulated losses	-	-
	<b>1,122,125</b>	<b>1,122,125</b>

### 17. DIVIDENDS

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

### 18. KEY MANAGEMENT PERSONNEL DISCLOSURES

	Consolidated	
	2011	2010
	\$	\$
<b>(a) Key management personnel compensation</b>		
Short-term benefits	622,396*	354,441
Post employment benefits	15,894	7,231
Share-based payments	262,330	44,915
	<b>900,621</b>	<b>406,587</b>

\* Remuneration of Mr Dennis Wilkins (Company Secretary) is excluded as he is only a specified executive.

Detailed remuneration disclosures are provided in the remuneration report on pages 7 to 13.

### (b) Equity instrument disclosures relating to key management personnel

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

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the remuneration report on page 13.

#### (ii) Option holdings

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



# Notes to the Consolidated Financial Statements

## 30 June 2011

2011	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
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### Directors of Papillon Resources Limited

Ian Middlemas (appointed 27 May 2011)	-	-	-	5,000,000	5,000,000	5,000,000	-
Alan Campbell	4,525,000	-	-	-	4,525,000	2,525,000	2,000,000
Alec Pismiris	1,926,414	-	(1,185,000)	258,586	1,000,000	1,000,000	-
Peter Woodman (appointed 27 May 2011)	-	-	-	100,000	100,000	100,000	-
Jeremy Shervington (retired 27 May 2011)	5,240,907	-	(1,412,500)	(3,828,407)	-	-	-
Stuart Hall (retired 27 May 2011)	-	-	-	-	-	-	-

### Other key management personnel of the Group

Dennis Wilkins	-	-	-	-	-	-	-
Richard Dahl	500,000	-	-	-	500,000	250,000	250,000
Eric Chantelat	-	-	-	-	-	-	-

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

2010	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
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### Directors of Papillon Resources Limited

Jeremy Shervington	1,406,250	-	-	3,834,657	5,240,907	5,240,907	-
Alan Campbell	-	4,000,000*	-	525,000	4,525,000	525,000	4,000,000
Alec Pismiris	1,160,000	-	-	766,414	1,926,414	1,926,414	-
Stuart Hall	-	-	-	-	-	-	-

### Other key management personnel of the Group

Dennis Wilkins	-	-	-	-	-	-	-
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\* The options granted to Alan Campbell on 24 June 2011 were not issued until 7 July 2011.

### (iii) Share holdings

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

# Annual Report 2011

## Notes to the Consolidated Financial Statements

30 June 2011

### 18. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

2011	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
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#### Directors of Papillon Resources Limited

##### Ordinary shares

Ian Middlemas (appointed 27 May 2011)	-	-	5,000,000	5,000,000
Alan Campbell	1,200,000	-	-	1,200,000
Alec Pismiris	1,612,827	1,387,173	-	3,000,000
Peter Woodman (appointed 27 May 2011)	-	-	151,150	151,150
Jeremy Shervington (retired 27 May 2011)	8,179,216	1,412,500	(9,591,716)	-
Stuart Hall (retired 27 May 2011)	-	-	-	-

#### Other key management personnel of the Group

##### Ordinary shares

Dennis Wilkins	-	-	-	-
Richard Dahl	-	-	-	-
Eric Chantelat	-	-	-	-

2010	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
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#### Directors of Papillon Resources Limited

##### Ordinary shares

Jeremy Shervington	1,009,902	-	7,169,314	8,179,216
Alan Campbell	-	-	1,200,000	1,200,000
Alec Pismiris	80,000	-	1,532,827	1,612,827
Stuart Hall	-	-	-	-

#### Other key management personnel of the Group

##### Ordinary shares

Dennis Wilkins	-	-	-	-
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### (c) Loans to key management personnel

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

### (d) Other transactions with key management personnel

#### Purchases

Fees of \$72,000 (2010:\$64,966) were charged under normal terms and conditions by Prairie Downs Metals Limited, of which Messrs Shervington, Pismiris and Hall are Directors, for the provision of personnel, office accommodation and equipment services at normal commercial rates. At year end there were no outstanding fees (2010: nil). Additionally, during the 2010 financial year Prairie Downs Metals Limited received 5,000,000 ordinary shares (refer note 28(c)) and 5,000,000 options exercisable at 15 cents with an expiry date of 31 December 2011 (refer note 28(b)) as consideration for consulting services provided on the acquisition of the Malian Assets.

During the financial year total fees of \$326,588 (2010: \$69,400) were paid under normal terms and conditions to Azure Capital Limited of which Mr Pismiris is a Director; \$36,000 was paid for the provision of services in his capacity as a Director and \$290,588 for the management of the May 2011 placement at normal commercial rates. At year end there were no outstanding fees (2010: \$3,740).

# Notes to the Consolidated Financial Statements

## 30 June 2011

During the financial year fees of \$55,000 (2010: \$60,000) were paid under normal terms and conditions to Drumgaghan Pty Ltd of which Mr Shervington is a Director, for the provision of services in his capacity as a Director at normal commercial rates. At year end, there were no outstanding fees (2010: \$5,500).

During the financial year fees of \$113,203 (2010: \$1,222) were paid under normal terms and conditions to DWCorporate Pty Ltd of which Mr Wilkins is principal, for the provision of services in his capacity as Company Secretary at normal commercial rates. At year end there were no outstanding fees (2010: nil).

### 19. REMUNERATION OF AUDITOR

	Consolidated	
	2011	2010
	\$	\$

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

#### (a) Audit services

BDO Audit (WA) Pty Ltd – audit and review of financial reports

Total remuneration for audit services

39,588	25,099
<b>39,588</b>	<b>25,099</b>

#### (b) Audit services - Malian Subsidiaries

EGCC International – audit and review of financial reports

Total remuneration for audit services

7,062	5,556
<b>7,062</b>	<b>5,556</b>

#### (c) Non-audit services

BDO Audit (WA) Pty Ltd – agreed upon procedures

BDO Corporate Tax (WA) Pty Ltd – income tax return

Total remuneration for other services

-	5,254
<b>11,939</b>	<b>2,250</b>
<b>11,939</b>	<b>7,504</b>

### 20. CONTINGENCIES

The Group has no contingent assets or liabilities other than contingent acquisition consideration payable disclosed in note 23.

### 21. COMMITMENTS

#### (a) Exploration commitments

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

	Consolidated	
	2011	2010
	\$	\$
within one year	-	-
later than one year but not later than five years	-	-
	-	-

## Annual Report 2011

# Notes to the Consolidated Financial Statements

30 June 2011

### 21. COMMITMENTS (cont'd)

#### (b) Lease commitments: Group as lessee

	Consolidated	
	2011	2010
	\$	\$

##### *Operating leases (non cancellable):*

Minimum lease payments

within one year

5,000

26,000

later than one year but not later than five years

-

-

Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities

5,000

26,000

During the 2011 financial year the Group entered into a commercial lease on its office premises. The lease had a term of 12 months and expired on 31 January 2011. The Group then continued to rent the premises on a month by month basis.

#### (c) Remuneration commitments

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of key management personnel referred to in the remuneration report on page 11 that are not recognised as liabilities and are not included in the key management personnel compensation.

	Consolidated	
	2011	2010
	\$	\$
within one year	112,000	109,212
later than one year but not later than five years	-	-
	112,000	109,212

### 22. RELATED PARTY TRANSACTIONS

#### (a) Parent entity

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

#### (b) Subsidiaries

Interests in subsidiaries are set out in note 24.

#### (c) Key management personnel

Disclosures relating to key management personnel are set out in note 18.

### 23. BUSINESS COMBINATIONS

#### Prior Year

#### (a) Summary of acquisition

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

# Notes to the Consolidated Financial Statements

## 30 June 2011

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

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

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

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

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

There were no acquisitions in the year ending 30 June 2011.

### (i) Contingent consideration

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

### (ii) Acquired receivables

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

### (iii) Tenement acquisition costs

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

### (iv) Non-controlling interests

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

### (v) Revenue and profit contribution

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

## Annual Report 2011

# Notes to the Consolidated Financial Statements

30 June 2011

### 23. BUSINESS COMBINATIONS (cont'd)

#### (b) Purchase consideration – cash outflow

	Consolidated	
	2011	2010
	\$	\$
Outflow of cash to acquire subsidiaries, net of cash acquired		
Cash consideration	-	4,407,865
Less: Balances acquired		
Cash	-	(5,049)
Cash consideration and inflow/(outflow) of cash	-	4,402,818

#### Acquisition-related costs

Acquisition-related costs of \$50,000 are included in administration and corporate expenses in profit or loss and in operating cash flows in the statement of cash flows. Additionally, an acquisition-related consulting fee was settled by the issue of 5 million ordinary shares and 5 million unlisted options (exercise price 15 cents expiring 31 December 2011) with a total fair value of \$465,000, refer to note 28. This amount is included in share based payments in profit or loss.

### 24. SUBSIDIARIES

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

Name	Country of Incorporation	Class of Shares	Equity Holding <sup>(1)</sup>	
			2011	2010
			%	%
Mali Goldfields SARL	Mali	Ordinary	80	80
Songhoi Resources SARL	Mali	Ordinary	80	80
Bamagold SARL <sup>(2)</sup>	Mali	Ordinary	100	100
Waraba Resources SARL <sup>(2)</sup>	Mali	Ordinary	100	100

<sup>(1)</sup> The proportion of ownership interest is equal to the proportion of voting power held.

<sup>(2)</sup> These dormant entities are 100% owned subsidiaries of Mali Goldfields SARL.

### 25. EVENTS OCCURRING AFTER THE REPORTING DATE

No matter or circumstance has arisen since 30 June 2011 which has significantly affected, or may significantly affect the operations of the Group, the result of those operations, or the state of affairs of the Group in subsequent financial years.

# Notes to the Consolidated Financial Statements

## 30 June 2011

### 26. STATEMENT OF CASH FLOWS

	Consolidated	
	2011	2010
	\$	\$

#### (a) Reconciliation of net loss after income tax to net cash outflow from operating activities

Net loss for the year	(1,587,629)	(1,919,061)
-----------------------	-------------	-------------

#### Non Cash Items

Depreciation of plant and equipment	1,291	13,063
Share-based payments	296,210	509,915
Exploration expenditure written off	-	7,545
Impairment of goodwill	-	466,771
Net exchange differences	(103,875)	36,495

#### Change in operating assets and liabilities

(Increase)/decrease in trade and other receivables	(137,302)	(58,171)
(Increase)/decrease in prepayments	(36,843)	(9,195)
Increase/(decrease) in trade and other payables	(66,237)	38,750
Net cash outflow from operating activities	(1,634,385)	(913,888)

#### (b) Non-cash investing and financing activities

Refer to note 23(b) for details of shares and options issued as consideration for a consulting fee during 2010. Additionally, refer to note 23(a) (i) for details of contingent consideration payable as part of the acquisition of the Malian Assets.

### 27. LOSS PER SHARE

	Consolidated	
	2011	2010
	\$	\$

#### (a) Reconciliation of earnings used in calculating loss per share

Loss attributable to the owners of the Company used in calculating basic and diluted loss per share	(1,587,629)	(1,919,061)
---	-------------	-------------

	Number of shares	Number of shares
--	------------------	------------------

#### (b) Weighted average number of shares used as the denominator

Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	173,876,122	58,659,693
--	-------------	------------

#### (c) Information on the classification of options

As the Group has made a loss for the year ended 30 June 2011, all options on issue are considered anti-dilutive and have not been included in the calculation of diluted earnings per share. These options could potentially dilute basic earnings per share in the future.



## Annual Report 2011

# Notes to the Consolidated Financial Statements

### 30 June 2011

## 28. SHARE BASED PAYMENTS

### (a) Employee Share and Option Plan

The Group provides benefits to employees (including directors) of the Group in the form of share based payment transactions, whereby employees render services in exchange for options to acquire ordinary shares. The exercise price of the options granted range from 15 to 95 cents per option. All options granted have expiry dates ranging from 31 December 2011 to 31 December 2012.

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

Set out below are summaries of the options granted:

	Consolidated			
	2011		2010	
	Number of options	Weighted average exercise price cents	Number of options	Weighted average exercise price cents
Outstanding at the beginning of the year	6,560,000	17.0	2,760,000	21.8
Granted	700,000	41.4	4,000,000	15.0
Forfeited			(200,000)	45.0
Exercised	(2,560,000)	20.0	-	-
Expired	-	-	-	-
Outstanding at year end	4,700,000	18.9	6,560,000	17.0
Exercisable at year end	4,000,000	15.0	2,560,000	20.0

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 1.67 years (2010: 1.7 years), and the exercise prices range from 15 to 95 cents.

The weighted average fair value of the options granted during the year was 11.0 cents (2010: 7.5 cents). There were no options granted during 2010. The price was calculated by using a Binomial barrier up and in option pricing model applying the following inputs:

	2011	2010
Weighted average exercise price (cents)	41.4	15.0
Weighted average life of the option (years)	3.6	2.5
Weighted average underlying share price (cents)	21.6	14.0
Expected share price volatility	90%	90%
Weighted average risk free interest rate	5.23%	4.72%

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

### (b) Performance Rights Plan

The Shareholders of the Company approved the Papillon Resources Limited Performance Rights Plan (Plan) on 26 May 2011. The grant of a performance right gives the holder the right to acquire a Share subject to the terms and conditions in the Plan (Performance Right). Under the Listing Rules, if Shareholders approve the Plan then any Shares issued under the Plan over the next three years do not reduce the Company's 15% Share placement capacity under Listing Rule 7.1.

The purpose of the Plan is to provide recognition to employees of the Company and its subsidiaries for their continued and ongoing support of the Company.

The Plan is intended to:

- (a) increase the range of potential incentives available to Directors and employees and to recognise their contribution to the Company's success; and

# Notes to the Consolidated Financial Statements

## 30 June 2011

(b) strengthen the links between the Company and its Directors and employees.

A summary of the principle terms of the Plan are as follows:

- (a) Eligible employees include full or part-time employees (including a Director employed in an executive capacity) of the Company or its subsidiaries who is declared by the Board to be eligible to receive grants of Performance Rights.
- (b) The Board may from time to time, in its absolute discretion, issue invitations in writing to eligible employees inviting applications for the grant of Performance Rights on the terms set out in the Plan and on such additional performance conditions as the Board determines.
- (c) Unless the Board otherwise determines, no amount is payable by an eligible employee in relation to the grant of a Performance Right or on vesting of a Performance Right.
- (d) Once a Performance Right has been granted to an eligible employee, it is not transferable except with the prior written consent of the Board.
- (e) Each Performance Right issued to an eligible employee will vest on the date specified in the invitation issued by the Company.
- (f) Performance Rights will lapse if the employee granted the Performance Right ceases to be an employee of the Company or its subsidiaries (except in the case of total and permanent disability, death and such other cases as the Board may determine).
- (g) The terms and conditions of the Plan must at all times comply with the Corporations Act, the Listing Rules, the Constitution of the Company and any other legislation that applies to the Plan.

No Performance Rights have been issued under the Plan to date.

Shares issued on the vesting of Performance Rights will not be issued to Directors or other related parties without the prior approval of Shareholders in accordance with the Listing Rules.

### (c) Supplier options

The Group issued options during the 2010 year as part consideration for consulting services received from Prairie Downs Metals Limited, a director related entity, refer note 18(d). The options issued have an exercise price of 15 cents and an expiry date of 31 December 2011.

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

Set out below are summaries of the options granted:

	Consolidated			
	2011		2010	
	Number of options	Weighted average exercise price cents	Number of options	Weighted average exercise price cents
Outstanding at the beginning of the year	5,000,000	15.0	-	-
Granted	-	-	5,000,000	15.0
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year end	5,000,000	15.0	5,000,000	15.0
Exercisable at year end	5,000,000	15.0	5,000,000	15.0

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 0.5 years (2010: 1.5 years), and the exercise price is 15 cents.

## Notes to the Consolidated Financial Statements

30 June 2011

### 28. SHARE BASED PAYMENTS (cont'd)

The weighted average fair value of the options granted during the 2010 year was 2.2 cents. There were no options granted during 2011. The price was calculated by using the Black Scholes European Option Pricing Model applying the following inputs:

	2011	2010
Weighted average exercise price (cents)	N/A	15.0
Weighted average life of the option (years)	N/A	1.9
Weighted average underlying share price (cents)	N/A	9.0
Expected share price volatility	N/A	70%
Weighted average risk free interest rate	N/A	4.59%

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

#### (d) Shares issued to suppliers

During the 2010 financial year 5,000,000 ordinary shares were issued at a deemed cost of \$350,000 as consideration for consulting services received from Prairie Downs Metals Limited, a director related entity, refer note 18(d). There were no shares issued to suppliers during 2011.

#### (e) Expenses arising from share based payment transactions

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

	Consolidated	
	2011	2010
	\$	\$
Options issued to employees and contractors	296,210	44,915
Options issued to suppliers	-	115,000
Shares issued to suppliers	-	350,000
	<b>296,210</b>	<b>509,915</b>

# Notes to the Consolidated Financial Statements

## 30 June 2011

### 29. PARENT ENTITY INFORMATION

**(a)** The following information relates to the parent entity, Papillon Resources Limited, at 30 June 2011. The information presented here has been prepared using accounting policies consistent with those presented in Note 1.

	Consolidated	
	2011	2010
	\$	\$
Current assets	15,901,178	3,960,525
Non-current assets	12,088,917	6,057,708
<b>Total assets</b>	<b>27,990,095</b>	<b>10,018,233</b>
Current liabilities	754,488	711,714
<b>Total liabilities</b>	<b>754,488</b>	<b>711,714</b>
Contributed equity	31,733,931	12,513,425
Reserves	668,145	371,935
Accumulated losses	(5,166,470)	(3,578,841)
<b>Total equity</b>	<b>27,235,606</b>	<b>9,306,519</b>
Loss for the year	(1,587,629)	(1,452,289)
<b>Total comprehensive loss for the year</b>	<b>(1,587,629)</b>	<b>(1,452,289)</b>

#### **(b) Contingent Liabilities**

The Parent Entity has no other contingent assets or liabilities other than the acquisition considerable of the Group disclosed in note 23.

#### **(c) Lease Commitments**

The Parent Entity has no other lease commitments other than the \$5,000 (2010: \$26,000) disclosed in note 21.

#### **(d) Remuneration commitments**

The Parent Entity has no other remuneration commitments other than the \$112,000 (2010: \$109,212) disclosed in note 21.

# Annual Report 2011

## Directors' Declaration

In the directors' opinion:

- (a) the financial statements comprising the consolidated statements of comprehensive income, consolidated statements of financial position, consolidated statements of changes in equity, consolidated statements of cash flows and accompanying notes set out on pages 23 to 57 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date;
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (c) the remuneration disclosures included in the Directors' Report (as part of the audited Remuneration Report), for the year ended 30 June 2011, comply with Section 300A of the *Corporations Act 2001*; and
- (d) a statement that the attached financial statements are in compliance with International Financial Reporting Standards has been included in the notes to the financial statements.
- (e) The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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



**Alan Campbell**

Managing Director

Perth, 30 September 2011

# Independent Audit Report



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

### Report on the Financial Report

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

### Directors' Responsibility for the Financial Report

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

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO (Australia) Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.

# Independent Audit Report



## Opinion

In our opinion:

- (a) the financial report of Papillon Resources Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 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(a).

## Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

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

BDO Audit (WA) Pty Ltd

A handwritten signature in black ink, appearing to read 'BDO' above 'BMV' with a large flourish.

Brad McVeigh  
Director

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



# ASX Additional Information

Additional information required by Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 29 September 2011.

## (a) Distribution of equity securities

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

	Ordinary shares		20 cent options expiring 31 December 2012	
	Number of holders	Number of shares	Number of holders	Number of options
1 - 1,000	<b>68</b>	<b>34,656</b>	<b>6</b>	1,933
1,001 - 5,000	<b>239</b>	<b>719,750</b>	<b>16</b>	59,036
5,001 - 10,000	<b>216</b>	<b>1,786,900</b>	<b>34</b>	297,105
10,001 - 100,000	<b>754</b>	<b>29,018,357</b>	<b>248</b>	11,035,818
100,001 - and over	<b>187</b>	<b>175,364,995</b>	<b>108</b>	48,313,463
	<b>1,464</b>	<b>206,924,658</b>	<b>412</b>	59,707,355

The number of equity security holders holding less than a marketable parcel of securities are:

<b>68</b>	<b>34,656</b>	<b>8</b>	4,683
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## (b) Twenty largest shareholders

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

	Listed ordinary shares	
	Number of shares	Percentage of ordinary shares
1. HSBC Custody Nominees (Australia) Limited	29,330,507	14.08
2. Merrill Lynch (Australia) Nominees Pty Limited	17,790,910	8.54
3. National Nominees Limited	15,203,559	7.30
4. JP Morgan Nominees Australia Limited <Cash Income A/C>	13,197,205	6.34
5. Panga Pty Ltd	6,379,200	3.06
6. Arredo Pty Ltd	5,000,000	2.40
7. Prairie Downs Metals Limited	5,000,000	2.40
8. J P Morgan Nominees Australia Limited	4,761,100	2.29
9. Citicorp Nominees Pty Limited	3,002,729	1.44
10. ACP Investments Pty Ltd <The ACP Investment A/C>	3,000,000	1.44
11. Panga Pty Ltd	3,000,000	1.44
12. Credit Suisse Securities (Europe) Ltd <Collateral A/C>	2,830,000	1.36
13. Nefco Nominees Pty Ltd	2,700,000	1.30
14. Blue Indian Pty Ltd <Campbell Family A/C>	2,000,000	0.96
15. Zero Nominees Pty Ltd	1,905,838	0.92
16. MrYi Weng + Ms Ning Li	1,886,099	0.91
17. Gecko Resources Pty Ltd	1,800,000	0.86
18. Antman Holdings Pty Ltd	1,780,000	0.85
19. MrYi Weng + Ms Ning Li	1,528,000	0.73
20. Greencourt Investments Pty Ltd <Superannuation Fund A/C>	1,338,000	0.64
	<b>123,433,147</b>	<b>59.26</b>

# Annual Report 2011

## ASX Additional Information

### (c) Substantial shareholders

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

	Number of Shares
Goodman & Company, Investment Counsel Limited	14,113,000

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

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

	Number of options	Percentage of total options
1. Mr John Paul Welborn	4,115,000	7.05
2. Mrs Gail Beamond	2,999,029	5.14
3. Panga Pty Ltd	2,790,900	4.78
4. Gecko Resources Pty Ltd	1,800,000	3.08
5. Argonaut Investments Pty Ltd <Argonaut Investment A/C>	1,500,000	2.57
6. Ubs Nominees Pty Ltd	1,227,024	2.10
7. Mr Anthony James John Hawke	1,159,999	1.99
8. Citicorp Nominees Pty Limited	1,072,976	1.84
9. Mr David Adam Beamond + Mrs Gail Beamond <Bb Family Super Fund A/C>	1,057,372	1.81
10. Mrs Gail Beamond + Mr David Adam Beamond	1,005,296	1.72
11. Acp Investments Pty Ltd <The Acp Investment A/C>	1,000,000	1.71
12. Epic Feast Pty Ltd	1,000,000	1.71
13. Panga Pty Ltd	1,000,000	1.71
14. Stockwork (Kal) Pty Ltd <Stockwork Investment A/C>	950,000	1.63
15. J & N Weston Investments Pty Ltd <Weston Super Fund A/C>	842,602	1.44
16. Mr William Gordon Martin + Mrs Beverley Michelle Martin <Chemco Super Fund A/C>	800,000	1.37
17. Mr Yi Weng + Ms Ning Li	780,000	1.34
18. Nefco Nominees Pty Ltd	747,827	1.28
19. Greenslade Holdings Pty Ltd	700,000	1.20
20. Panga Pty Ltd	700,000	1.20
	27,248,025	46.67

### (e) Voting rights

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

# ASX Additional Information

## (f) Schedule of interests in mining tenements

Location	Tenement	Percentage held / earning
Kenieba, West Mali	Babara	80
Kenieba, West Mali	Mankouke West	80
Kayes, West Mali	Serinati	80
Kenieba, West Mali	Bantako	80
Kenieba, West Mali	Bakolobi	80
Kayes, West Mali	Diangounte	80
Kenieba, West Mali	Medinandi	80
Bagoe, West Mali	Djinetoumanina	80
Bagoe, West Mali	Fakola 01	80
Bougouni, West Mali	M'Tebougou	80
Kangaba, West Mali	Heremakono	80
Yanfolila, West Mali	Diossyan	80
Yanfolila, West Mali	Gouenso	80
Yanfolila, West Mali	Mandiela	80
Yanfolila, West Mali	Nounfara	80
Yanfolila, West Mali	Orou-Orou	80
Yanfolila, West Mali	Sankama	80

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# Corporate Information

**ABN 96 119 655 891**

## **Directors**

Ian Middlemas (Non-Executive Chairman)

Alan Campbell (Managing Director)

Alec Pismiris (Non-Executive Director)

Peter Woodman (Non-Executive Director)

## **Company Secretary**

Dennis Wilkins

## **Registered Office**

Ground Floor, 20 Kings Park Road

WEST PERTH WA 6005

## **Principal Place of Business**

BGC Building Level 13

28 The Esplanade

PERTH WA 6000

Telephone: +61 8 9225 5485

Facsimile: +61 8 9322 6558

## **Solicitors**

Jeremy Shervington

52 Ord Street

WEST PERTH WA 6005

Telephone: +61 8 9481 8760

## **Bankers**

Westpac Banking Corporation Limited

109 St George's Terrace

PERTH WA 6000

## **Share Register**

Computershare Investor Services Pty Limited

Level 2, Reserve Bank Building

45 St George's Terrace

PERTH WA 6000

Telephone: +61 8 9323 2000

## **Auditors**

BDO Audit (WA) Pty Ltd

38 Station Street

SUBIACO WA 6008

Telephone: +61 8 6382 4600

## **Internet Address**

[www.papillonresources.com](http://www.papillonresources.com)

## **Stock Exchange Listing**

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



**Papillon Resources Limited** | ASX : **PIR**

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