CVI Energy Corporation Limited

Annual Report

For the financial year ended 31 December 2010

ABN 59 009 235 634

Annual report
for the financial year ended 31 December 2010

Corporate directory

Directors

Mr Mark Smyth	Chief Executive Officer
Mr Bernard Brady	Non Executive Director
Mr Philip Rand	Non Executive Director

Company Secretary

Mr Mark Smyth

Registered Office

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56 Kings Park Road
WEST PERTH WA 6005

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WEST PERTH WA 6872

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Australian Share Registry

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Level 2, Reserve Bank Building
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PERTH WA 6000

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USA Share Registry

Computershare Trust Company, Inc
350 Indiana Street
GOLDEN COLORADO CO 80401

Telephone:	+303 262 0600
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Auditor

Somes and Cooke
1304 Hay Street
WEST PERTH WA 6872

Exchange Listings

Australian Securities Exchange (ASX)
CVI

NASD OTC Bulletin Board
CTVWF

Frankfurt Stock Exchange (DAX)
C4Z

Corporate governance statement

The ASX Corporate Governance Council requires that the Company must disclose the extent to which it has followed best practice recommendations, identify which recommendations have not been followed and the reason for not adopting the recommendations.

The ASX Corporate Governance Council recognises that not all recommendations are appropriate for all companies and those companies should only adopt those recommendations that are suitable.

The following is a summary of policies adopted by the Company and where appropriate, explanations of where best practice recommendations have not been applied during the 2010 financial year ("Reporting Period").

Principle 1 – Lay solid foundations for management and oversight

Recommendation 1.1:

Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.

Disclosure:

The Company has established the functions reserved to the board. The board is collectively responsible for promoting the success of the Company through its key functions of providing overall corporate governance of the Company, monitoring the financial performance of the Company, engaging appropriate management commensurate with the Company's structure and objectives, involvement in the development of corporate strategy and performance objectives and reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance. The Chief Executive Officer is the Company's sole senior executive and the Company has established the functions of the Chief Executive Officer.

Recommendation 1.2:

Content of a director's letter upon appointment.

Disclosure:

The employment agreements of directors' formalises the responsibilities of each director of the Company. Key terms of the employment agreements are disclosed in the remuneration report within the directors' report.

Recommendation 1.3:

Companies should disclose the process for evaluating the performance of senior executives.

Notification of departure and explanation:

The Company is not of a size or operational complexity to warrant the implementation of the recommendation.

Principle 2 – Structure the board to add value

Recommendation 2.1:

A majority of the board should be independent directors.

Disclosure:

The board has a majority of directors who are independent.

The independent directors of the board are Philip Rand and Bernard Brady. The non-independent director of the board is Mark Smyth.

Recommendation 2.2:

The chair should be an independent director.

Notification of departure and explanation:

Following the resignation of Manuel Africano, the Company currently does not have an independent chair of the board.

Recommendation 2.3:

The roles of the chair and chief executive officer should not be exercised by the same individual.

Disclosure:

The Chief Executive Officer is Mark Smyth who is not chair of the board.

Recommendation 2.4:

The board should establish a nomination committee.

Notification of departure and explanation:

A separate nomination committee has not been formed. The full board considers those matters and issues arising that would usually fall to a nomination committee. The board considers that no efficiencies or other benefits would be gained by establishing a separate nomination committee. Candidates are nominated by existing board members and, if necessary, independent search consultants may be utilised. Where a director nominates a candidate for the board, the director must disclose any pre-existing relationship with the nominee. New directors are provided with a letter of appointment setting out their responsibilities and rights and are provided with a copy of the Company's constitution.

Recommendation 2.5:

Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.

Disclosure:

The chair is responsible for evaluation of the board and, when deemed appropriate, board committees and individual directors. The evaluation process of directors is facilitated by the chair.

Recommendation 2.6:

Companies should provide the information indicated in the *Guide to reporting on Principle 2*.

Disclosure:

Skills, experience, expertise and term of office of each Director

A profile of each director containing their skills, experience, expertise and term of office is set out in the directors' report.

Identification of independent Directors

The independent directors of the Company are Philip Rand and Bernard Brady. These directors are independent as they are non executive directors who are not members of management and who are free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgment.

Independence is measured having regard to the Company's materiality thresholds. The materiality thresholds are set out below.

Company's materiality thresholds

The board has agreed on the following guidelines for assessing the materiality of matters:

Items are material if:

(a) they impact on the reputation of the Company;

(b) they involve a breach of legislation;

(c) they are outside the ordinary course of business;

(d) they could affect the Company’s rights to its assets.

Statement concerning availability of independent professional advice

To assist directors with independent judgment, it is the board’s policy that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director, then provided the director first obtains approval for incurring such expense from the chair, the Company will pay the reasonable expenses associated with obtaining such advice.

Selection and (re)appointment of directors

The board recognises that board renewal is critical to performance and the impact of board tenure on succession planning. The Company’s constitution specifies that no director (except for the Chief Executive Officer) may retain office without re-appointment for more than three years or past the third annual general meeting following the director’s appointment, whichever is the longer.

Principle 3 – Companies should actively promote ethical and responsible decision making

Recommendation 3.1:

Companies should establish a code of conduct and disclose the code or a summary of the code as to the practices necessary to maintain confidence in the Company's integrity, the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Disclosure:

The Company has established a code of conduct as to the practices necessary to maintain confidence in the Company.

Recommendation 3.2:

Companies should establish a policy concerning trading in Company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.

Disclosure:

The Company has established a policy concerning trading in the Company's securities by directors and employees.

Principle 4 – Safeguard integrity in financial reporting

Recommendation 4.1 and recommendation 4.2:

The board should establish an audit committee and the audit committee should be structured so that it:

(i) consists only of non executive directors;

(ii) consists of a majority of independent directors;

(iii) is chaired by an independent chair, who is not chair of the board;

(iv) has at least three members.

Notification of departure and explanation

The board does not meet the compositional requirements set out in Recommendation 4.2.

The Company has established a separate audit committee comprising two non executive directors Bernard Brady and Philip Rand.

Recommendation 4.3:

The audit committee should have a formal charter.

Disclosure:

The Company has adopted an audit committee charter.

Recommendation 4.4:

Companies should provide details of the names and qualifications of those appointed to the audit committee and their attendance at meetings of the committee.

Disclosure:

Details of each of the director's qualifications and meeting attendances are set out in the director's report. All members of the board are financially literate and have industry knowledge.

Principle 5 – Make timely and balanced disclosure

Recommendation 5.1:

Companies should establish written policies and procedures 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.

Notification of departure and explanation

The Company is not of a size or operational complexity to warrant the implementation of the recommendation.

Principle 6 – Respect the rights of shareholders

Recommendation 6.1:

Companies should design and disclose a communications policy to promote effective communication with shareholders and encourage effective participation at general meetings.

Disclosure:

The Company has designed a communications policy for promoting effective communication with shareholders and encouraging shareholder participation at general meetings.

Principle 7 – Recognise and manage risk

Recommendation 7.1:

Companies should establish policies for risk oversight and management of material business risks and disclose a summary of those policies.

Disclosure:

The board has adopted a risk management policy, which sets out the Company's risk profile. Under the policy, the board is responsible for approving the Company's policies on risk oversight and management and satisfying itself that management has developed and implemented a sound system of risk management and internal control.

Under the policy, the board delegates day-to-day management of risk to the Chief Executive Officer, who is responsible for identifying, assessing, monitoring and managing risks. The Chief Executive Officer is also responsible for updating the Company's material business risks to reflect any material changes, with the approval of the board.

Recommendation 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.

Disclosure:

The board has required management to design, implement and maintain risk management and internal control systems to manage the Company's material business risks. The board also requires management to report to it confirming that those risks are being managed effectively.

Recommendation 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.

Disclosure:

The Chief Executive Officer has provided a declaration to the board in accordance with section 295A of the Corporations Act and has assured the board that such declaration 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 risk.

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.1:

The board should establish a remuneration committee.

Notification of Departure and Explanation:

A separate remuneration committee has not been formed. The full board considers those matters and issues arising that would usually fall to a remuneration committee. The board considers that no efficiencies or other benefits would be gained by establishing a separate remuneration committee.

Recommendation 8.2:

Companies should clearly distinguish the structure of non executive directors' remuneration from that of executive directors and senior executives.

Disclosure:

Non executive directors are remunerated at a fixed fee for time, commitment and responsibilities. Remuneration for non executive directors is not linked to the performance of the Company. The Company may seek shareholder approval to issue options to non executive directors in circumstances where it is required to attract appropriately qualified directors or where the fees paid to non executive directors are below industry average.

Executive directors are offered a competitive level of base pay at market rates. Long term performance incentives may include options granted at the discretion of the board and subject to obtaining the relevant approvals.

Directors' report

The directors of CVI Energy Corporation Limited ("CVI" or the "Company") and of the consolidated entity, being the Company and its subsidiaries, submit herewith the annual report of the Company for the financial year ended 31 December 2010. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Information about the directors and senior management

The names and particulars of the directors of the Company during or since the end of the financial year are:

Name	Particulars
Manuel Africano	**Chairman - (Appointed 22 October 2008, Resigned 12 July 2010)** Mr Africano was formerly the Minister for Geology and Mines in Angola and during his term as a senior Minister in the Cabinet he successfully assisted in the rebuilding of Angola's fractured post-war economy. Mr Africano has been the General Co-ordinator of the African Diamond Producers Association and during Angola's war of independence he was the Director of Mobilisation supervising activities in Europe. Mr Africano has a Masters Degree in International Relations from the Sorbonne University Paris where he also studied for a doctorate in economics. Mr Africano is fluent in Portuguese, French, English and a number of African languages and has an outstanding network throughout Africa and the Middle East.
Mark Smyth	**Chief Executive Officer - (Appointed 6 March 2006)** Mr Smyth has over 40 years of experience in the natural resources sector, which commenced with Selection Trust where he was part of the project development teams for Mt. Newman iron ore and Agnew nickel projects in Australia. Since 1975 he has co-founded a number of successful companies involved in the exploration and production of gold, oil, gas and diamonds around the world.
Philip Rand	**Non Executive Director - (Appointed 27 October 2008)** Mr Rand, who is based in London, has many years experience in the upstream energy sector working in complex geographical and political environments. Mr Rand is a non executive director of Victoria Oil & Gas Plc and also the Cyprus based Falcon group which has connections with the Abu Dhabi National Oil Co. Mr Rand is the Chairman of the audit committee.
Bernard Brady	**Non Executive Director - (Appointed 29 June 2009)** Mr Brady joined the Commonwealth Bank in 1958 holding various positions in general banking, lending and administration. He was seconded to the Solomon Islands Planning Group in 1980 to assist the Solomons in setting up their own national bank after independence and was subsequently posted to the Solomons for two years as Manager. Returned to Australia (Sydney in 1983) and was promoted to executive status in 1988. He resigned from the Commonwealth Bank in 1994 to set up a business which he sold in 2002. Mr Brady is an audit committee member.

The above named directors held office during the whole of the financial year and since the end of the financial year except for:

- Manuel Africano – resigned 12 July 2010

Directorships of other listed companies

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of directorship
Mark Smyth	Simba Mines Inc	2004 – 2009
	Thor Mining Plc	2005 - 2008
Philip Rand	Victoria Oil & Gas Plc	2007 – Present
	Simba Mines Inc	2009 – Present
	Worldwide Natural Resources plc	2009 – Present

Directors' shareholdings

The following table sets out each director's relevant interest in shares, debentures, and rights or options in shares or debentures of the Company or a related body corporate as at the date of this report.

Director	Fully paid ordinary shares Number
Mark Smyth	10,504

Remuneration of directors and senior management

Information about the remuneration of directors and senior management is set out in the remuneration report of this directors' report.

Company secretary

Mr Mark Smyth held the position of company secretary of the Company at the end of the financial year. Mr Smyth was appointed company secretary on 9 April 2009.

Principal activities

The consolidated entity's principal activities in the course of the financial year were to invest in companies in the African mining and energy sectors.

Review of operations

The consolidated entity made a loss for the year of $1,004,577 (2009: $6,810,717).

On 29 January 2010, the Company announced that following an extensive due diligence process, the board had resolved to proceed with the acquisition of 74% of Velvogen Pty Ltd. Negotiations on the proposed acquisition terms ensued and it was finally agreed that the full consideration would be satisfied by:

a. an assignment of a Fortitude Minerals Limited loan note of US$10,172,807 approximately (A$11,874,900) which had been fully impaired.
b. the transfer of the consolidated entity's non-core assets which have been fully written down in the financial statements, comprising 75,088,849 shares of Fortitude Minerals Limited, 2 A class shares and 1,659,368 B class shares of European Oil Limited.

The transfer of these shareholdings was completed on 29 June 2010 and no further consideration was payable for the acquisition of Velvogen Pty Ltd.

On 22 September 2010, shareholders approved the following key transactions at a general meeting held by the Company:

- the issued capital of the Company to be consolidated on the basis that every 100 ordinary shares be consolidated into 1 ordinary share;
- a capital raising in the form of a prospectus for the issue of up to 200,000,000 ordinary shares at an issue price of $0.01 per share to raise $2,000,000 before costs of the issue;
- A placement of 50,000,000 unlisted options exercisable at $0.0001 on or before 31 December 2014 to raise $5,000; and
- Ordinary shares to be issued to Celtic Capital Pty Ltd as trustee for the Celtic Capital Trust (and/or its nominees) at an issue price of $0.005 per share to repay a loan of up to $600,000. The funds from the loan are only to be used to repay outstanding creditors. The loan is secured by a fixed and floating charge over all of the assets and undertakings of the Company. The shares are to be issued no later than 22 March 2011.

On 16 November 2010, the Company announced that Master Sanderson of the Supreme Court of Western Australia ordered the issue and quotation of 1,600,000 ordinary shares on a post consolidation basis to resolve the irregularity in the issue of 160,000,000 ordinary shares on the 18 December 2009.

The Company changed its name from CityView Corporation Limited to CVI Energy Corporation Limited on 3 December 2010 to align the Company name with the Company's primary activities.

Changes in the state of affairs

During the financial year, the consolidated entity disposed of its non-core assets Fortitude Minerals Limited and European Oil Limited for the acquisition of 74% of Velvogen Pty Ltd which resulted in the change of Company name.

The Company has been suspended from official quotation on the ASX since 1 April 2010 and is seeking to be reinstated on the official list on the ASX by the 22 March 2011, following the issue of 200,000,000 ordinary shares pursuant to a prospectus to raise $2,000,000 before costs of the issue and the issue of up to 120,000,000 ordinary shares to Celtic Capital Pty Ltd as trustee for the Celtic Capital Trust (and/or its nominees) to repay the loan of up to $600,000, as approved by shareholders at the general meeting held on 22 September 2010.

Other than the above, there was no significant change in the state of affairs of the Company during the financial year.

Subsequent events

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years other than:

1. The waiver received from the ASX under listing rule 14.7 which granted the Company an extension to the 22 March 2010 for the issue of 200,000,000 ordinary shares at an issue price of $0.01 each to raise $2,000,000 before costs pursuant to a prospectus and the issue of up to 120,000,000 ordinary shares at an issue price of $0.005 each to Celtic Capital Pty Ltd as trustee for the Celtic Capital Trust (and/or its nominees) to repay the loan of up to $600,000, as approved by shareholders at the general meeting held on 22 September 2010.

2. The directors of the Company have agreed to forgive an amount of approximately $440,000 recognised on the statement of financial position within trade and other payables, being amounts payable to directors for directors fees, consulting fees and reimbursement of expenses.

3. Loans and borrowings of approximately $280,000 recognised on the statement of financial position within loans and borrowings have also been agreed to be forgiven as a result of the loans being personally guaranteed by Mr Mark Smyth, the Company's chief executive officer.

Future developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Environmental regulation

The board believes that the Company has adequate systems in place for the management of its environmental requirements and is not aware of any material breach of those environmental requirements.

Dividends

No dividends have been paid by the consolidated entity during the year ended 31 December 2010, nor have the directors recommended any dividend to be paid.

Share options

Shares under option or issued on exercise of options

No unissued shares or interests are under option as at the date of this report. No shares or interests were issued during or since the end of the financial year as a result of exercise of an option.

No options or interests expired or lapsed (2009: 96,529,950) during or since the end of the financial year.

Indemnification of officers and auditors

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company, the company secretary, and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The policy was valid to 31 July 2010.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 14 board meetings and 2 audit committee meetings were held.

	Board of directors		Audit committee	
Directors	Eligible to attend	Attended	Eligible to attend	Attended
Manuel Africano	11	-	-	-
Mark Smyth	14	14	-	-
Philip Rand	14	14	2	2
Bernard Brady	14	14	2	2

Proceedings on behalf of the Company

Former solicitors of the Company, Nabarro have served the Company with a claim of £106,180 in relation to unpaid fees. The Company is defending the proceedings. The proceedings were served on the Company on 16 December 2010, however as the directors' do not believe it is probable that this action will result in a liability, none has been recognised at balance date.

Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 15 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 15 to the financial statements do not compromise the external auditor's independence, for the following reasons:

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

Auditor's independence declaration

The auditor's independence declaration is included on page 17 of the annual report, and forms part of this report.

Remuneration report - audited

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of the Company's directors and its senior management for the financial year ended 31 December 2010. The prescribed details for each person covered by this report are detailed below under the following headings:

- director and senior management details;
- remuneration policy and relationship between the remuneration policy and company performance;
- remuneration of directors and senior management; and
- key terms of employment contracts.

Director and senior management details

The following persons acted as directors of the Company during or since the end of the financial year:

Mr Manuel Africano (Chairman) (resigned 12 July 2010)
Mr Mark Smyth (Chief Executive Officer)
Mr Philip Rand
Mr Bernard Brady

Remuneration policy and relationship between the remuneration policy and company performance

Directors and senior management (excluding non executive directors)

The board of directors is responsible for determining the remuneration policies for the consolidated entity, including those affecting executive directors and other senior management. The board may seek appropriate external advice to assist in its decision making. Remuneration policies and practices are directed primarily at attracting, motivating and retaining executive directors and other senior management, and take into account the advancement of the Company projects.

The remuneration policy for executive directors and other senior management has two main components being fixed remuneration and long-term incentives.

Fixed remuneration

Executive directors and other senior management receive fixed remuneration in the form of a base salary. It is the Company's policy that service contracts for executive directors and senior management, other than the CEO who has a 5 year fixed term contract, are unlimited in term but capable of termination on 1 year's notice. Further details of the service contracts in place at 31 December 2010 are set out on page 15.

The service contracts outline the components of remuneration paid to the executive directors and senior management but do not prescribe how remuneration levels are modified year to year. Remuneration levels are reviewed each year to take into account cost-of-living changes, any change in the scope of the role performed by the senior executive and any changes required to meet the principles of the remuneration policy.

Long-term incentives

The consolidated entity's remuneration policy has been tailored to increase goal congruence between shareholders and directors and other senior management. Currently, this is facilitated through the issue of options to executive directors and other senior management through the Company's Employee Share Option Plan ('ESOP') to encourage the alignment of personnel and shareholder interests. The Company believes this policy will be effective in increasing shareholder wealth. At this stage of the consolidated entity's development, there are no further links between the remuneration of executive directors and other senior management and the performance of the consolidated entity.

Non executive directors

The Company's non executive directors receive only fees for their services and the reimbursement of reasonable expenses. The fees paid to the Company's non executive directors reflect the demands on, and responsibilities of the directors. They do not receive any retirement benefits. The Board decides annually the level of fees to be paid to non executive directors with reference to market standards.

Non executive directors may also receive share options where this is considered appropriate by the board as a whole and with regard to the stage of the Company's development. Such options are primarily designed to provide an incentive to non executive directors to remain with the Company.

A non executive director's fee pool limit of $240,000 per annum was approved by the shareholders at the 2008 Annual General Meeting. The fee currently paid to the non executive chairman was $30,000 per annum and $60,000 per annum (cumulative) for the non executive directors.

Remuneration of key management personnel - Audited

		Short-term	Post-employment	Share-based payments		Proportion of remuneration performance related	Value of options as proportion of remuneration
	Year	Salary & fees	Superannuation benefits	Options	Total		
		$	$	$	$	%	%
Directors							
M Africano (i)	2010	15,000	-	-	15,000	-	-
	2009	30,000	-	-	30,000	-	-
M Smyth	2010	228,000	-	-	228,000	-	-
	2009	217,500	-	-	217,500	-	-
P Rand	2010	30,000	-	-	30,000	-	-
	2009	30,000	-	-	30,000	-	-
B Brady (ii)	2010	30,000	-	-	30,000	-	-
	2009	15,000	-	-	15,000	-	-
R Brothers (iii)	2010	-	-	-	-	-	-
	2009	7,500	-		7,500		
W Reid (iv)	2010	-	-	-	-	-	-
	2009	15,000	-	-	15,000	-	-
M Bowen (v)	2010	-	-	-	-	-	-
	2009	-	-	-	-	-	-
Executives							
P Williams (iii)	2010	-	-	-	-	-	-
	2009	16,520	1,480	-	18,000	-	-

(i) Resigned 12 July 2010
(ii) Appointed 29 June 2009
(iii) Resigned 8 April 2009
(iv) Resigned 29 June 2009
(v) Appointed 29 January 2009, resigned 2 February 2009

Share based payments granted as compensation for the current financial year

No share based payments were granted as compensation during the current financial year (2009: Nil).

Key terms of employment contracts

Romarcam Investments Pty Ltd has contracted to provide the services of Mark Smyth to CVI Energy Corporation Limited effective March 6, 2006. The contract is for a period of five years and can be terminated by either party on one year's notice. The fees payable under the contract are $16,500 (inclusive of GST) per month. Mr Smyth also receives a director's fee of $2,500 per month which was approved by shareholders at the Company's annual general meeting held on May 4, 2007.

No other key management personnel have service agreements with the Company.

This directors' report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

Mark Smyth
Chief Executive Officer
Perth, 9 March 2011

Auditor's Independence Declaration

To the Board of Directors of CVI Energy Corporation Limited

As auditor for the audit of CVI Energy Corporation Limited for the year ended 31 December 2010, I declare that, to the best of my knowledge and belief, there have been:

- no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

Somes and Cooke

Somes and Cooke

K Somes

Kevin Somes
Partner
9 March 2011

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SomesandCooke

9 March 2011

Independent Auditor's Report

To the members of CVI Energy Corporation Limited

Report on the Financial Report

We have audited the accompanying financial report of CVI Energy Corporation Limited and its subsidiaries ("the Group"), which comprises the statement of financial position as at 31 December 2010, the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Report

The directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. and for such internal control as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

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 and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 qualified audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Basis for Qualified Opinion

Investment in Velvogen Pty Ltd

We have been unable to obtain any information or explanations we require in respect of the recently acquired subsidiary. The investment has been impaired and we draw your attention to note 8 in the financial report.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis of Qualified Opinion paragraph, the financial report gives a true and fair view of the financial position of CVI Energy Corporation Limited as at 31 December 2010 and for the year ending that date and complies with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

Inherent uncertainty, regarding continuation as a going concern.

Without further qualification to our opinion, the financial report has been prepared on the basis of the Group being a going concern as disclosed in Note 3. The Group's ability to continue as a going concern is contingent upon raising capital from the planned prospectus to meet its existing obligations, fund planned activities and for use as working capital. If this capital raising is not successful, the going concern basis may not be appropriate, with the result that the Group may have to realise its assets and extinguish its liabilities other than in the normal course of business, and at amounts different from those stated in the financial report. No allowance for such circumstances has been made in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 15 of the directors' report for the year ended 31 December 2010. The directors of the Group are responsible for the preparation and presentation of the Remuneration Report in accordance with s 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.

Somes and Cooke

Somes and Cooke

K Somes

Kevin Somes
Perth
9 March 2011

Directors' declaration

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

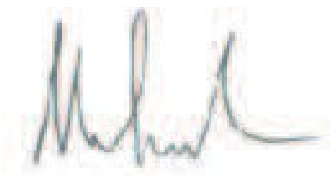
(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company and the consolidated entity;

(c) in the directors' opinion, the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the Australian Accounting Standards Board; and

(d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



Mark Smyth
Chief Executive Officer
Perth, 9 March 2011

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Contents

Consolidated income statement
for the financial year ended 31 December 2010

	Note	2010 $	2009 $
Other income	4	23,953	1,549
Marketing expenses		-	(150,791)
Occupancy expenses		(79,194)	(75,426)
Employee benefits expenses		(204,024)	(235,501)
Consulting/legal expenses		(275,823)	(640,749)
Administration expenses		(363,653)	(1,015,373)
Finance costs		(97,790)	(103,732)
Depreciation expenses	9	(8,046)	(14,919)
Impairment of investments in associates	8	-	(4,575,775)
Loss before tax	5	(1,004,577)	(6,810,717)
Income tax expense	6	-	-
Loss for the year		**(1,004,577)**	**(6,810,717)**
Attributable to:			
Owners of the Company		(1,004,577)	(6,810,717)
Non-controlling interest		-	-
		(1,004,577)	(6,810,717)
Loss per share			
Basic and diluted (cents per share)	14	0.11	0.66

Notes to the consolidated financial statements are included on pages 27 to 49.

Consolidated statement of comprehensive income for the financial year ended 31 December 2010

	2010 $	2009 $
Loss for the year	(1,004,577)	(6,810,717)
Other comprehensive income		
Exchange differences arising on translation of foreign operations during the year	(10,889)	10,889
Total other comprehensive income	(10,889)	10,889
Total comprehensive loss for the year	(1,015,466)	(6,799,828)
Total comprehensive loss attributable to:		
Owners of the Company	(1,015,466)	(6,799,828)
Non-controlling interest	-	-
	(1,015,466)	(6,799,828)

Notes to the consolidated financial statements are included on pages 27 to 49.

Consolidated statement of financial position as at 31 December 2010

	Note	2010 $	2009 $
Current assets			
Cash and cash equivalents	22	1,062	4,814
Trade and other receivables	7	10,397	68,999
Total current assets		11,459	73,813
Non-current assets			
Other financial assets	8	-	-
Property, plant and equipment	9	-	10,963
Total non-current assets		-	10,963
Total assets		11,459	84,776
Current liabilities			
Bank overdraft	22	23,046	-
Trade and other payables	10	1,007,538	513,917
Loans and borrowings	11	280,595	-
Total current liabilities		1,311,179	513,917
Total liabilities		1,311,179	513,917
Net assets/(deficiency)		**(1,299,720)**	**(429,141)**
Equity			
Issued capital	12	115,935,588	115,790,701
Reserves	13	-	10,889
Accumulated losses		(117,235,308)	(116,230,731)
Equity/(deficiency) attributable to owners of the Company		(1,299,720)	(429,141)
Non-controlling interest		-	-
Total equity		**(1,299,720)**	**(429,141)**

Notes to the consolidated financial statement are included on pages 27 to 49.

Consolidated statement of changes in equity for the financial year ended 31 December 2010

	Issued capital	Option premium reserve	Equity-settled employee benefits reserve	Foreign currency translation reserve	Accumulated losses	Attributable to owners of the Company	Non-controlling interest	Total
	$	$	$	$	$	$	$	$
Balance at 1 January 2009	107,315,153	2,273,446	2,911,600	-	(112,331,614)	168,585	-	168,585
Total comprehensive loss for the year								
Loss for the year	-	-	-	-	(6,810,717)	(6,810,717)	-	(6,810,717)
Other comprehensive income								
Foreign currency translation differences	-	-	-	10,889	-	10,889	-	10,889
Total other comprehensive income for the year	-	-	-	10,889	-	10,889	-	10,889
Total comprehensive income/(loss) for the year	-	-	-	10,889	(6,810,717)	(6,799,828)	-	(6,799,828)
Transactions with owners, recorded directly in equity								
Issue of ordinary shares	6,679,460	-	-	-	-	6,679,460	-	6,679,460
Share issue costs	(477,358)	-	-	-	-	(477,358)	-	(477,358)
Transfer between option premium reserve and issued capital following the lapse of options	2,273,446	(2,273,446)	-	-	-	-	-	-
Transfer between equity-settled employee benefits reserve and accumulated losses following the lapse of options	-	-	(2,911,600)	-	(2,911,600)	-	-	-
Balance at 31 December 2009	115,790,701	-	-	10,889	(116,230,731)	(429,141)	-	(429,141)
Balance at 1 January 2010	115,790,701	-	-	10,889	(116,230,731)	(429,141)	-	(429,141)
Total comprehensive loss for the year								
Loss for the year	-	-	-	-	(1,004,577)	(1,004,577)	-	(1,004,577)
Other comprehensive income								
Foreign currency translation differences	-	-	-	(10,889)	-	(10,889)	-	(10,889)
Total other comprehensive income for the year	-	-	-	(10,889)	-	(10,889)	-	(10,889)
Total comprehensive income/(loss) for the year	-	-	-	(10,889)	(1,004,577)	(1,015,466)	-	(1,015,466)
Transactions with owners, recorded directly in equity								
Issue of ordinary shares	-	-	-	-	-	-	-	-
Shares to be issued upon conversion of debt	157,665					157,665		157,665
Share issue/consolidation costs	(12,778)	-	-	-	-	(12,778)	-	(12,778)
Balance at 31 December 2010	115,935,588	-	-	-	(117,235,308)	(1,299,720)	-	(1,299,720)

Notes to the consolidated financial statement are included on pages 27 to 49.

Consolidated statement of cash flows
for the financial year ended 31 December 2010

	Note	2010 $	2009 $
Cash flows from operating activities			
Payments to suppliers and employees		(370,470)	(1,651,352)
Interest and other costs of finance paid		(14,417)	(103,732)
Net cash used in operating activities	22	(384,887)	(1,755,084)
Cash flows from investing activities			
Interest received		-	1,549
Payments for property, plant & equipment		-	(1,127)
Proceeds from sale of property, plant & equipment		5,000	-
Amounts advanced to related parties		-	(47,965)
Cash acquired from consolidation of European Oil Limited		-	18,193
Net cash used in investing activities		5,000	(29,350)
Cash flows from financing activities			
Proceeds from issues of equity shares		-	2,151,650
Proceeds from shares to be issued		157,665	-
Payment for share issue/consolidation costs		(12,778)	(477,358)
Proceeds from borrowings		197,222	-
Net cash provided by financing activities		342,109	1,674,292
Net decrease in cash and cash equivalents		(37,778)	(110,142)
Cash and cash equivalents at the beginning of the financial year		4,814	128,912
Effects of exchange rate changes on the balance of cash held in foreign currencies		10,980	(13,956)
Cash and cash equivalents at the end of the financial year	22	**(21,984)**	**4,814**

Notes to the consolidated financial statement are included on pages 27 to 49.

Notes to the financial statements for the financial year ended 31 December 2010

1. General information

CVI Energy Corporation Limited ("CVI" or the "Company") is a public company listed on the Australian Securities Exchange (trading under the symbol 'CVI'), on the NASD OTC Bulletin Board (trading under the symbol 'CTVWF') and on the Frankfurt Stock Exchange (trading under the symbol 'C4Z'). The Company is incorporated in Australia and operating in Australia and Africa. The address of its registered office is disclosed in the introduction to the annual report and the principal activities are described in the directors' report.

2. Adoption of new and revised Accounting Standards

2.1 *Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)*

There were no new or revised Standards and Interpretations affecting amounts reported in the current period and/or prior periods.

2.2 *Standards and Interpretations adopted with no effect on financial statements*

Title	Summary	Application date of standard
Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following: The amendment to AASB 117 removes the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible vs. property, plant and equipment) needs to be determined. The amendment to AASB 101 stipulates that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification. The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities. The amendment to AASB 118 provides additional guidance to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity: ► has primary responsibility for providing the goods or service; ► has inventory risk; ► has discretion in establishing prices; ► bears the credit risk.	1 January 2010

Title	Summary	Application date of standard
Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	The amendment to AASB 136 clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in IFRS 8 before aggregation for reporting purposes. The main change to AASB 139 clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. The other changes clarify the scope exemption for business combination contracts and provide clarification in relation to accounting for cash flow hedges.	
Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]	This Standard makes amendments to Australian Accounting Standard AASB 2 *Share-based Payment* and supersedes Interpretation 8 *Scope of AASB 2* and Interpretation 11 *AASB 2 – Group and Treasury Share Transactions*. The amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.	1 January 2010
Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards.	The amendments address the retrospective application of IFRSs to particular situations and are aimed at ensuring that entities applying IFRSs will not face undue cost or effort in the transition process. Specifically, the amendments: ► exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets ► exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4 *Determining whether an Arrangement contains a Lease* when the application of their national accounting requirements produced the same result.	1 January 2010

3. Significant accounting policies

Statement of Compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law. The financial statements comprise the consolidated financial statements of the consolidated entity.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ('IFRS').
The financial statements were authorised for issue by the directors on 9 March 2011.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless in otherwise noted.

Going concern

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

The consolidated entity has incurred a net loss after tax for the year ended 31 December 2010 of $1,004,577 (2009:$6,810,717), and a net cash outflow from operations of $384,887 (2009: $1,755,084). At 31 December 2010, the consolidated entity has net current liabilities of $1,299,720 (2009: $440,104).

The consolidated entity's ability to continue as a going concern and pay their debts as and when they fall due, given the consolidated entity's intended operational plans, assumes the following:

a) The completion of a loan agreement for $600,000 secured by a fixed and floating charge over all the assets and undertakings of the consolidated entity with Celtic Capital Pty Ltd. At 31 December 2010 $157,665 have been drawn down leaving $442,335 available to the Company to be utilised to repay outstanding creditors.

b) The completion of an underwritten prospectus to allot and issue 200,000,000 ordinary shares in the Company at an issue price of $0.01 per share to raise $2,000,000 before costs of the issue. This will include receiving ASIC approval and the reinstatement of quotation on the ASX.

c) Further capital raising in the next twelve months;

d) The generation of cash flows from the coal palletisation plant, the asset held within Velvogen Pty Ltd of which the consolidated entity holds a 74% interest; and

e) Active management of the current level of discretionary expenditure in line with the funds available to the consolidated entity.

The directors have reviewed the business outlook and cash flow forecasts and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the consolidated entity and the Company will achieve the matters set out above. As such, the directors believe that they will continue to be successful in securing additional funds through debt or equity issues as and when the need to raise working capital arises.

Notwithstanding this, as the Company has a dependency on continued support from current financiers and on securing additional funding, there is a significant uncertainty whether the consolidated entity will be able to continue as a going concern. Should the consolidated entity be unable to continue as a going concern, they may be required to realise their assets and extinguish their liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that may be necessary should the consolidated entity be unable to continue as a going concern.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the consolidated entity.

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

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the consolidated entity's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling share of changes in equity since the date of the combination. Losses applicable to the non-controlling in excess of the non-controlling interest in the subsidiary's equity are allocated against the interests of the consolidated entity except to the extent that the non-controlling has a binding obligation and is able to make an additional investment to cover the losses.
Changes in the Company's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Company loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

(b) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised. Interest revenue is recognised when receivable.

(c) Foreign currencies

The financial statements of the consolidated entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the financial statements, the results and financial position of the consolidated entity are expressed in Australian dollars, which is the functional currency of CVI, and the presentation currency for the financial statements.

Foreign currencies are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

The assets and liabilities of foreign operations, including fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the statement of financial position date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly in equity.

(d) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

(e) Share-based payments

Equity-settled share-based payments with directors and employees are measured at the fair value of the equity instrument at the grant date. Fair value is measured by using a Black & Scholes model.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entity’s estimate of equity instruments that will eventually vest. At each reporting date, the consolidated entity revised its estimates of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the equity-settled employee benefits reserve.

(f) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax is the tax currently payable based on taxable profit for the year. The consolidated entity’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the consolidated entity intends to settle its current tax assets and liabilities on a net basis.

(g) Property, plant and equipment

Items of plant and equipment are measured at cost less accumulated depreciation (see below) and impairment losses (see accounting policy (m)).

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment. The estimated useful lives in the current and comparative periods are as follows:

Property, plant and equipment 3 years

Depreciation methods, useful lives and residual value, if not insignificant, are reviewed annually

(h) Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(i) Financial assets

Classification

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

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

Financial assets are classified as financial assets at fair value through profit or loss where the financial asset:

- has been acquired principally for the purpose of selling in the near future;
- is a part of an identified portfolio of financial instruments that the consolidated entity manages together and has a recent actual pattern of short-term profit-taking; or
- is a derivative that is not designated and effective as a hedging instrument.

(ii) Loans and receivables

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

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the consolidated entity's management has the positive intention and ability to hold to maturity. If the consolidated entity were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

(iv) Available-for-sale financial assets

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the consolidated entity commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value and transaction costs are expensed to the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

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

Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of revenue from continuing operations when the consolidated entity's right to receive payments is established. Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Fair value

The fair values of quoted investments are based on last trade prices. If the market for a financial asset is not active (and for unlisted securities), the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment

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

(j) Financial instruments issued by the Company

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of equity after deducting all of its liabilities. Equity instruments issued by the consolidated entity are recorded at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(k) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
(ii) for receivables and payables which are recognised inclusive of GST.

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

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

(l) Exploration and evaluation

Exploration and evaluation expenditure incurred may either be expensed immediately to the income statement or be accumulated in respect of each identifiable area of interest. These costs are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

(i) such costs are expected to be recouped through successful development and exploitation or from sale of the area; or
(ii) exploration and evaluation activities in the area have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Accumulated costs in respect of areas of interest which are abandoned are written off in full against profit in the year in which the decision to abandon the area is made. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to the area of interest.

Notwithstanding the fact that a decision not to abandon an area of interest has been made, based on the above, the exploration and evaluation expenditure in relation to an area may still be written off if considered appropriate to do so.

(m) Impairment

The carrying amounts of the consolidated entity's assets, other than deferred tax assets (see accounting policy (f)) and exploration expenditure (see policy (l)) are reviewed at each reporting date to determine whether there is any indication of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. All impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of the consolidated entity's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) Earnings per share

Basic earnings per share

Basic earnings per share is determined by dividing net profit/(loss) after income tax attributable to members of the consolidated entity, excluding any costs of service 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.

Diluted earnings per share

Diluted earnings per share adjusts the figures 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.

4. Other income

	2010 $	2009 $
Interest income on bank deposits	-	1,549
Gain on disposal of property, plant and equipment	2,083	-
Foreign exchange gains	21,870	-
	23,953	**1,549**

5. Loss before tax

Loss before tax has been derived after accounting for the following:

	2010 $	2009 $
Employee benefits expenses:		
Wages and salaries	(86,667)	(85,506)
Directors fees	(105,000)	(135,000)
Superannuation expenses	(7,200)	(8,080)
Increase in liability for annual leave	(5,000)	(6,915)
Other employee benefits	(157)	-
	(204,024)	(235,501)
Finance costs:		
Interest expense	(97,790)	(103,732)
Depreciation	(8,046)	(14,919)
Impairment of investments in associates	-	(4,575,775)

6. Income taxes

	2010 $	2009 $
Tax expense comprises:		
Current tax expense	-	-
Deferred tax expense relating to the origination and reversal of temporary differences	-	-
Total tax expense	**-**	**-**

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

	2010 $	2009 $
Loss before tax	1,004,577	6,810,717
Income tax expense calculated at 30%	301,373	2,043,215
Effect of expenses that are not deductible in determining taxable loss	70,193	(1,387,913)
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	(371,566)	(655,302)
	-	-

The tax rate used in the above reconciliation and the calculation of unrecognised temporary differences is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

6. Income taxes (Cont'd)

Unrecognised temporary differences

	2010 $	2009 $
Capital raising costs recognised directly in equity	726,604	713,826
Temporary differences	95,843	19,090
Un-recognised deferred tax assets relating to the above temporary differences	**822,447**	**732,916**

Tax losses

Unused tax losses for which no deferred tax asset has been recognised have not been disclosed as the future recovery of those losses is subject to the consolidated entity satisfying the requirements imposed by the regulatory taxation authorities. The benefits of deferred tax assets not brought to account will only be brought to account if:

- future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- the conditions for deductibility imposed by tax legislation continue to be complied with; and
- no changes in tax legislation adversely affect the Company in realising the benefit.

7. Trade and other receivables

	2010 $	2009 $
Deposits	6,352	6,352
GST receivable	4,045	50,368
Other receivables	-	12,279
	10,397	**68,999**

8. Other financial assets

	2010 $	2009 $
Investments carried at cost:		
Non-current		
Investment – Fortitude Minerals Limited (a)	-	39,021,964
Investment – Quest Energy Middle East Limited (b)	-	1,688,870
Investment – Velvogen Pty Ltd (c) (note 21)	40,710,834	
Provision for impairment (i)	(40,710,834)	(40,710,834)
	-	-

(i) For the year ended 31 December 2010 no further impairment (2009: $4,571,547) was recognised as the Directors resolved to fully impair the asset as at 31 December 2009. At each reporting date, the Directors review the carrying values of the movements in conjunction with the consolidated entity's accounting policies and the principal activities.

Movements – other financial assets at cost	2010 $	2009 $
(a) Fortitude Minerals Limited		
Balance at the beginning of the year	-	14,882,243
Reclassification of Fortitude Minerals Limited expenses (prior year)	-	637,493
Reassignment of loan in Fortitude Minerals Limited	-	7,929,524
Funds advanced during the year ended 31 December 2009	-	4,439,850
Payments for technical reports	-	43,724
Realisation of Angola Diamond Holdings Limited	-	11,089,130
Provision for impairment	-	(39,021,964)
Closing balance at the end of the year	-	-
(b) Quest Energy Middle East Limited ***100% owned subsidiary of European Oil Limited***		
Balance at the beginning of the year	-	1,600,910
Shares issued in consideration for acquisition of shares in European Oil Limited	-	87,960
Provision for impairment		(1,688,870)
Closing balance at the end of the year	-	-
(c) Velvogen Pty Ltd		
Balance at the beginning of the year	-	-
Transferred consideration from Fortitude Minerals Limited (note 20)	39,021,964	-
Transferred consideration from Quest Energy Middle East Limited (note 20)	1,688,870	-
Provision for impairment	(40,710,834)	-
Closing balance at the end of the year	-	-

9. Property, plant and equipment

	Plant and equipment $
Gross carrying amount	
Balance at 1 January 2009	52,253
Balance at 31 December 2009	52,253
Disposals	(52,253)
Balance at 31 December 2010	-
Accumulated depreciation/ amortisation and impairment	
Balance at 1 January 2009	26,371
Depreciation expense	14,919
Balance at 31 December 2009	41,290
Depreciation expense	8,046
Eliminated on disposals of assets	(49,336)
Balance at 31 December 2010	-
Net book value	
As at 31 December 2009	10,963
As at 31 December 2010	-

10. Trade and other payables

	2010 $	2009 $
Trade payables	602,597	434,988
Other trade payables and accrued expenses	404,941	78,929
	1,007,538	**513,917**

11. Loans and borrowings

During the current financial year, the Company negotiated a $1.2 million loan facility with Zurich Handelsfinanz Asia Limited of which $35,622 has been drawn down to 31 December 2010 to fund working capital requirements.

On 31 March 2010, the Company also secured a loan facility of £100,000 (A$161,600) with Advanced Industrial Technology Corporation Pty Ltd. Interest is payable at a rate of 6% per month on balances drawn down. The loan was fully drawn down as at 31 December 2010 to fund working capital requirements and is secured on the personal guarantee of Mr Mark Smyth, the Company’s Chief Executive Officer.

Interest of $83,373 has been accrued and no loan repayments were made to 31 December 2010.

The above loan facilities have been terminated subsequent to year-end, refer subsequent events note 26.

12. Issued capital

	2010 $	2009 $
12,424,074 fully paid ordinary shares (2009: 1,242,369,441)	**115,935,588**	**115,790,701**

Fully paid ordinary shares	2010		2009	
	No.	**$**	**No.**	**$**
Balance at beginning of year	1,242,369,441	115,790,701	561,873,441	107,315,153
Issue of fully paid ordinary shares @$0.008	-	-	77,500,000	620,000
Issue of fully paid ordinary shares @$0.0034	-	-	160,000,000	544,000
Issue of fully paid ordinary shares @$0.0125	-	-	434,200,000	5,427,500
Issue of fully paid ordinary shares @$0.01	-	-	8,796,000	87,960
Premium paid for options which lapsed during the year	-	-	-	2,273,446
Consolidation of capital one share for every 100 shares	(1,229,945,367)	-	-	-
Shares to be issued on conversion of loan to equity (i)	-	157,665	-	-
Share issue costs	-	(12,778)	-	(477,358)
Balance at end of year after restructure of every 100 shares into 1 share	**12,424,074**	**115,935,588**	**1,242,369,441**	**115,790,701**

Fully paid ordinary shares carry one vote per share and carry the rights to dividends.

(i) During the financial year, the Company entered a loan agreement with Celtic Capital Pty Ltd for up to $600,000. The funds from the loan are only to be used to repay outstanding creditors. The loan is secured by a fixed and floating charge over all of the assets and undertaking of the Company.

The loan of up to $600,000 will be repaid via the issue to ordinary shares to Celtic Capital Trust and/or its nominees at an issue price of $0.005 per share.

Share options on issue

Share options issued by the Company carry no rights to dividends and no voting rights.

As at 31 December 2010, the Company had no share options on issue (2009: Nil).

13. Reserves

	2010 $	2009 $
Foreign currency translation reserve	-	10,889
	-	**10,889**

Exchange differences relating to the translation from the functional currencies of the consolidated entity's foreign controlled entities into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve.

14. Loss per share

	2010	2009
Basic and diluted loss per share (cents per share)	**0.11**	**0.66**

Basic and diluted loss per share

The loss and weighted average number of ordinary shares used in the calculation of basic and diluted loss per share are as follows:

	2010 $	2009 $
Net loss attributable to owners of the Company	1,004,577	6,810,717

	2010 No.	2009 No.
Weighted average number of ordinary shares for the purposes of basic and dilutive loss per share	901,994,252	1,035,009,836

15. Remuneration of auditors

	2010 $	2009 $
Audit and review of the financial reports (Aust) (Somes and Cooke)	37,501	121,579
Prospectus and other services (Aust) (Somes and Cooke)	-	10,000
Audit and review of the financial reports (USA) (Albanese)	-	125,036
Audit and review of the financial reports (UK) (Lever Bros & Co.)	-	5,818
	37,501	**262,433**

16. Segment information

The consolidated entity has adopted AASB 8 *Operating Segments* and AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 8* with effect from 1 January 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the consolidated entity that are regularly reviewed by the board of directors in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (AASB 114 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. As a result, following the adoption of AASB 8, the identification of the consolidated entity's reportable segments has changed.

16. Segment information (Cont'd)

In prior years, segment information reported externally was analysed on the basis of the entity operating in two primary segments being investments and exploration and in three secondary segments being Indonesia, Africa/Middle East and Australia. However, information reported to the consolidated entity's Chief Executive Officer for the purposes of resource allocation and assessment of performance is more specifically focused on coal activities and corporate expenditure for the head office in Australia. The consolidated entity's reportable segments under AASB 8 are therefore as follows:

- *Coal activities* – includes expenditure in relation to the coal briquette plant acquired through the consolidated entity's 74% subsidiary Velvogen Pty Ltd.
- *Corporate* – includes head office expenses in Australia.

The following is an analysis of the consolidated entity's results by reportable operating segment:

	Segment loss	
	2010 **$**	**2009** **$**
Oil & gas	-	(10,417)
African mining activities	-	(4,575,775)
Corporate	(1,014,994)	(2,224,525)
Reportable segment loss before income tax	**(1,014,994)**	**(6,810,717)**

The following is an analysis of the consolidated entity's assets by reportable operating segments:

	2010 **$**	**2009** **$**
Oil & gas	-	13,217
African mining activities	-	-
Corporate	11,459	71,559
Reportable segment assets	**11,459**	**84,776**

17. Commitments for expenditure

Exploration expenditure

Future required exploration expenditure will be paid directly by the consolidated entity's associated companies for their relevant exploration expenditure.

Operating leases

The operating lease rental represents lease of the office premises and two car bays in Perth for a period of three years expiring 31 December 2012. The operating lease was terminated during the current reporting period.
Lease payments in Perth are increased annually by approximately 4%. During the financial year ended 31 December 2010 $79,194 was recognised in the income statement in respect of operating leases (2009: $75,426).

Non-cancellable operating lease commitments

	2010 **$**	**2009** **$**
Not longer than 1 year	-	98,400
Longer than 1 year and not longer than 5 years	-	295,200
	-	**393,600**

18. Contingent assets and liabilities

Former solicitors of the Company, Nabarro have served the Company with a claim of £106,180 in relation to unpaid fees. The Company is defending the proceedings. The proceedings were served on the Company on 16 December 2010 however as the directors' do not believe it is probable that this action will result in a liability, none has been recognised at balance date.

Other than stated above, there were no contingent assets or liabilities at 31 December 2010.

19. Corporate structure

	Country of Incorporation	Type of Shares Held	Ownership Interest	
			2010 %	2009 %
Parent entity				
CVI Energy Corporation Limited	Australia	Ordinary	100%	100%
Subsidiaries				
CityView Asia Pty Ltd	Australia	Ordinary	100%	100%
European Oil Limited (i)	United Kingdom	Ordinary	-	96.42%
Velvogen (Pty) Ltd (i)	South Africa	Ordinary	74%	-
Associates				
Fortitude Minerals Limited (i)	Belize	Ordinary	-	22.93%

(i) During the reporting period, the consolidated entity acquired a 74% interest in Velvogen Pty Ltd. The consideration for the acquisition was the assignment of a Fortitude Minerals Limited loan note of US$10,172,807 approximately (A$11,874,900) plus the transfer of the consolidated entity's non-core assets, comprising 75,088,849 shares of Fortitude Minerals Limited, 2 A class and 1,659,368 B class shares of European Oil Limited.

20. Disposal of subsidiary & associate

On 29 June 2010, the consolidated entity completed revised terms for the acquisition of 74% of Velvogen Pty Ltd. The revised consideration for the acquisition was the assignment to Metro Crown Group Limited of the Fortitude Minerals Limited loan note of approximately A$11,874,900 (US$10,172,807), as previously agreed, together with the disposal of non-core assets, comprising 75,088,849 ordinary shares in the associate entity, Fortitude Minerals Limited and 2 A class and 1,659,368 B class shares of European Oil Limited. The consolidated entity now owns no economic interest in Fortitude Minerals Limited (31 December 2009: 22.93%) or European Oil Limited (31 December 2009: 96.42%).

The disposal of Fortitude Minerals Limited and European Oil Limited completes the consolidated entity's withdrawal from African mining and oil and gas activities. No cash proceeds were received on disposal.

The net assets of European Oil Limited at the date of disposal were as follows:

	$
Net assets/(liabilities) on disposal 29 June 2010	(8,496)
Foreign exchange	(10,889)
Gain on disposal	19,385
Total consideration	-

A gain of $19,385 was recognised on the disposal of European Oil Limited. No tax charge or credit arose on the transaction.

21. Acquisition of subsidiary

On 29 January 2010, the Company announced that following an extensive due diligence process, the Board had resolved to proceed with the acquisition of 74% of Velvogen Pty Ltd. Negotiations on the proposed acquisition terms ensued and it was finally agreed that the full purchase consideration would be satisfied by:

a. an assignment of Fortitude Minerals Limited loan note of US$10,172,807 approximately (A$11,874,900) which had been fully impaired.
b. the transfer of the consolidated entity's non-core assets which have been fully written down in the financial statements, comprising 75,088,849 shares of Fortitude Minerals Limited, 2 A class and 1,659,368 B class shares of European Oil Limited.

The transfer of these shareholdings was completed on the 29 June 2010 and no further consideration is payable for the acquisition of Velvogen Pty Ltd.

22. Notes to the statement of cash flows

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2010 $	2009 $
Cash and cash equivalents	1,062	4,814
Bank overdraft	(23,046)	-
	(21,984)	**4,814**

(b) Non-cash financing and investing activities

The following non-cash transactions occurred to the financial year ended 31 December 2010:

The consideration for the acquisition of 74% of Velvogen Pty Ltd is the assignment to Metro Crown Group Limited of the Fortitude Minerals Limited loan note of approximately US$10,172,807 (A$11,874,900), together with the transfer of non-core assets of the consolidated entity, comprising 75,088,849 shares of Fortitude Minerals Limited, 2 A class shares and 1,659,368 B class shares of European Oil Limited. No further consideration is payable for the acquisition of Velvogen Pty Ltd (note 21).

The following non-cash transactions occurred to the financial year ended 31 December 2009:

The Company issued 8,796,000 fully paid ordinary shares at 1 cent per share to six of the remaining seven shareholders of European Oil Limited in exchange for their holding in European Oil Limited.

From the proceeds of shares issued during the 2009 financial year $4,439,850 was advanced to Fortitude Minerals Limited.

Reconciliation of loss for the year to net cash flows from operating activities

	2010 $	2009 $
Loss for the year	(1,004,577)	(6,810,717)
Gain on disposal of property, plant and equipment	(2,083)	(1,549)
Finance costs recognised in income statement	83,371	-
Depreciation	8,046	14,919
Impairment of investments to associates	-	4,575,775
Operating loss before changes in working capital and provisions	(915,243)	(2,221,572)
(Increase)/decrease in assets:		
Receivables	58,602	(41,071)
Increase/(decrease) in liabilities		
Payables	493,624	500,907
Foreign exchange (gains)/losses	(21,870)	6,652
Net cash from operating activities	**(384,887)**	**(1,755,084)**

23. Financial Instruments

(a) Overview

The Company and the consolidated entity have exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Currency risk
- Interest rate risk

Credit risk

Credit risk is the risk of financial loss to the Company or the consolidated entity if a counterparty to a financial instrument fails to meet its contractual obligations. For the Company it arises principally from receivables due from subsidiaries.

The consolidated entity has an adopted policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. Cash balances are held with major banks and the consolidated entity manages its exposure to sovereign risk by maintaining the majority of its cash in accounts with an Australian bank that has a credit rating of not less than AA as rated by Standards & Poors.

Exposure to credit risk

The carrying amount of the consolidated entity's financial assets represents the maximum credit exposure.

The consolidated entity's maximum exposure to credit risk at the reporting date was:

	Note	Carrying amount 2010 $	Carrying amount 2009 $
Trade and other receivables	7	10,397	68,999
Cash and cash equivalents	22	1,062	4,814
		11,459	**73,813**

Liquidity risk

Liquidity risk is the risk that the Company or the consolidated entity will not be able to meet its financial obligations as they fall due.

The following are the contractual maturities of financial liabilities:

2010	Carrying amount $	Contractual cash flows $	6 months or less $
Bank overdraft	23,046	(23,046)	(23,046)
Trade and other payables	1,007,538	(1,007,538)	(1,007,538)
2009			
Trade and other payables	513,917	(513,917)	(513,917)

23. Financial Instruments (Cont'd)

Currency risk

Currency risk arises on financial instruments that are denominated in a foreign currency that is in a currency other than the functional currency in which they are measured.

The consolidated entity is primarily exposed to the risk of adverse movements in the Australian dollar compared to the British Pound ("GBP") and the United States Dollar ("USD"). Most foreign currency denominated transactions are not so substantial as to give rise to a material risk to the consolidated entity. The most significant risk to the consolidated entity arises from the maintaining cash balances in these currencies.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximates their fair value.

Categories of financial instruments

	2010	2009
Financial assets	**$**	**$**
Cash and cash equivalents	1,062	4,814
Trade and other receivables	10,397	68,999
Financial liabilities		
Bank overdraft	23,046	-
Trade and other payables	1,007,538	513,917
Loans and borrowings	280,595	-

24. Share-based payments

Employee share options

No share based payments were granted as compensation during the current financial year (2009: Nil).

25. Related party transactions

(a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 19 to the financial statements.

Equity interests in associates

Details of interests in associates are disclosed in note 19 to the financial statements.

(b) Transactions with key management personnel

i. Key management personnel compensation

Details of key management personnel compensation are disclosed in Remuneration Report which forms part of the Directors' Report and has been audited.

	2010 $	2009 $
Short term employee benefits	303,000	331,520
Post employment benefits	-	1,480
	303,000	**333,000**

ii. Loans to key management personnel

	2010 $	2009 $
Loans to key management personnel	63,277	-

iii. Key management personnel equity holdings

Fully paid ordinary shares of CVI Energy Corporation Limited

Name	Balance at 1 Jan 2010 No.	Granted as compensation No.	Net other change No.	Balance at 31 Dec 2010 No.
2010				
Manuel Africano	-	-	-	-
Mark Smyth	1,050,426	-	(1,039,922)	10,504
Philip Rand	-	-	-	-
Bernard Brady	-	-	-	-

Name	Balance at 1 Jan 2009 No.	Purchased No.	Received on exercise of options No.	Balance at 31 Dec 2009 No.
2009				
Manuel Africano	-	-	-	-
Mark Smyth	1,050,426	-	-	1,050,426
Philip Rand	-	-	-	-
Bernard Brady	-	-	-	-
Robert Brothers	-	-	-	-
Wayne Reid	-	-	-	-
Michael Bowen	-	-	-	-
Paul Williams	-	-	-	-

The net other change resulted from the consolidation of capital on the basis of 1 ordinary share for every 100 ordinary shares held.

25. Related party transactions (Cont'd)

Share options of CVI Energy Corporation Limited

Name	Balance at 1 Jan 2010 No.	Granted as remuneration No.	Exercised No.	Net other change No.	Balance at 31 Dec 2010 No.
2010					
M. Africano	-	-	-	-	-
M. Smyth	-	-	-	-	-
P. Rand	-	-	-	-	-
B. Brady	-	-	-	-	-
R. Brothers	-	-	-	-	-
W. Reid	-	-	-	-	-
M. Bowen	-	-	-	-	-
P. Williams	-	-	-	-	-

Name	Balance at 1 Jan 2009 No.	Granted as compen-sation No.	Exercised No.	Net other change No.	Balance at 31 Dec 2009 No.
2009					
M. Africano	-	-	-	-	-
M. Smyth	5,210,086	-	-	(5,210,086)	-
P. Rand	-	-	-	-	-
B. Brady	-	-	-	-	-
R. Brothers	-	3,000,000	-	(3,000,000)	-
W. Reid	-	-	-	-	-
M. Bowen	-	-	-	-	-
P. Williams	-	-	-	-	-

Net other changes represent options that expired during the year.

Further details of share options granted during the 2010 and 2009 financial years are contained in note 24 to the financial statements.

(c) Transactions with other related parties

Other related parties include:
- associates
- subsidiaries
- employees

Transactions between CVI Energy Corporation Limited and other related parties

The following balances arising from transactions between the consolidated entity and its other related parties are outstanding at reporting date:

- The fully provided for loan balance between the Company and CityView Asia Pty Ltd at 31 December 2010 was $43,292,409 (2009: $43,292,409).

All amounts advanced to or payable to related parties are unsecured, interest free and have no fixed repayment date.

26. Subsequent events

1. The waiver received from the ASX under listing rule 14.7 which granted the Company an extension to the 22 March 2010 for the issue of 200,000,000 ordinary shares at an issue price of $0.01 each to raise $2,000,000 before costs pursuant to a prospectus and the issue of up to 120,000,000 ordinary shares at an issue price of $0.005 each to Celtic Capital Pty Ltd as trustee for the Celtic Capital Trust (and/or its nominees) to repay the loan of up to $600,000, as approved by shareholders at the general meeting held on 22 September 2010.

2. The directors of the Company have agreed to forgive an amount of approximately $440,000 recognised on the statement of financial position within trade and other payables, being amounts payable to directors for directors fees, consulting fees and reimbursement of expenses.

3. Loans and borrowings of approximately $280,000 recognised on the statement of financial position within loans and borrowings have also been agreed to be forgiven as a result of the loans being personally guaranteed by Mr Mark Smyth, the Company's chief executive officer.

27. Parent entity information

Financial information for the Company reflects that of the consolidated entity and therefore has not been restated in this note.