Verus Investments Limited

A.B.N. 59 009 575 035

ANNUAL REPORT

FOR

THE FINANCIAL YEAR ENDED

30 JUNE 2012

Directors
Sam Russotti
Gregory Lee
Mark Freeman

Company Secretary
Sylvia Moss

ABN
59 009 575 035

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Stock Exchange Listing
Verus Investments Limited shares are listed on the Australian Securities Exchange.
ASX Code: VIL

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Dear Verus Shareholder,

The past financial year has been a very difficult period for your Company. The Sidi Dhaher test results were disappointing and as a result the Company after carefully consideration of the ongoing costs and the time to have a drillable prospect have decided to divest the asset. The Lyons Point well drilled in November 2011 failed to intersect commercial hydrocarbons and was plugged and abandoned.

On a positive note much progress has been made in the preparation to drill the Fausse Point side-track. The time taken to drill this well has been frustrating to all; however because Fausse Point is an attractive high impact prospect with complex geology and challenging engineering conditions it has been necessary to ensure that all practicable steps be taken to minimise foreseeable problems. The required extensive seismic and geologic reviews have now been done and final plans for drilling are well progressed.

The operator has recently indicated that they may not consent to the sidetrack and Verus are looking for a suitable operator and farminee partner.

Your Board and Management continue to work towards placing the Company in a strong position to take advantage of future investment opportunities and to this end continually reviews opportunities and manages the sale of assets that are perceived to have limited upside for the Company.

As a result the interest in Bongo was sold in February 2012, Bullseye’s interest was sold in July 2012 and a formal letter of intent has been signed with Gulfsands Petroleum PLC for the divestment of the Chorbane block. Total consideration payable under these sale contracts is $875,000. Additionally new potential prospects are being continually appraised.

I thank our shareholders for their patience and support over the past year and look forward to their continued support in the future. I also thank the staff, contractors and consultants at Verus for their hard work and dedication over the past year. I look forward to a successful year ahead for The Company.

Yours sincerely,

Sam Russotti
Chairman

Introduction

The ASX Listing Rule 4.10.3 requires listed companies to disclose in their Annual Report the extent to which they have complied with the ASX Best Practice Recommendations of the ASX Corporate Governance Council in the reporting period. It is structured along the same lines as the August 2007 ASX *Principles of Good Corporate Governance and Best Practice Recommendations*, with sections dealing in turn with each of the Council's 8 corporate governance principles All these practices, unless otherwise stated, were in place for the entire year.

Verus Investments Limited (the "Company") and the board are committed to achieving and demonstrating the highest standards of corporate governance. The board continues to review the framework and practices to ensure they meet the interests of shareholders, and with reference to Amendments to the Corporate Governance Principles.

The various codes, policies and charters referred to in this statement can be found on the Company website www.verus.com.au.

1. Lay solid foundations for management and oversight

The ASX Corporate Governance Council states that a company should "Recognise and publish the respective roles and responsibilities of board and management." Throughout the period, Verus had in place a formal Board Charter that sets out the functions reserved to the Board.

Specifically the Board is responsible for:

- Oversight of the Company, including its control and accountability systems;
- Appointing, monitoring, managing the performance of, and if necessary terminating (the employment of) the Chief Executive Officer, Chief Financial Officer and/or the Company Secretary;
- Input, assessment, appraisal and final approval of management's development of corporate strategy and performance objectives;
- Reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct, and legal compliance;
- Monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available to undertake those strategies;
- Approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- Approving and monitoring financial and other reporting (including audit matters);
- Recruitment, remuneration, performance review and succession plans for the Company board;
- Approving significant changes to the organisational structure;
- Approving the issue of any shares, options, equity instruments or other securities in the Company, including a Company Share Purchase Plan (if any);
- Ensuring a high standard of corporate governance practice, regulatory compliance and promoting ethical and responsible decision making, including maintaining a Corporate Code of Conduct;
- Recommending to shareholders the appointment or re-appointment of the external auditor as required; and
- Meeting with the external auditor, at their request, without management.

The Board delegated responsibilities and authorities to management to enable management to conduct the Company's day to day activities. Matters which exceed certain defined authority limits require board approval. The functions reserved to the board and those delegated to senior executives is disclosed in the Board Charter which can be found on the Company website.

Due to the size of the Board and the nature of its business, it has not been deemed necessary to institute a formal documented performance review program of individuals. The Chairman conducts an informal review annually whereby he has discussed with individual directors and executives their attitude, performance and approach toward meeting the short and long term objectives of the Company. The Board considers that at this stage of the company's development an informal process is appropriate.

2. Structure the Board to add Value

The ASX Corporate Governance Council states that a company should "Have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties." Verus' Board is so structured, and its Directors have adequately discharged their responsibilities and duties to the benefit of shareholders.

A fundamental requirement for the Verus Board is a deep understanding of investment, managing businesses and financial markets. All Board members throughout the year met this requirement, and brought a diverse range of skills, and backgrounds to the Board. The experience and qualifications of each Board member and their terms of office are set out in the Directors' Report.

Verus Directors may seek external professional advice at the expense of the Company on matters relating to their role as Directors of Verus. However, they must first request approval from the Chairman, which must not reasonably be withheld. If withheld then it becomes a matter for the whole board.

Directors must keep the Board advised, on an ongoing basis, of any interests which could potentially conflict with any of those of the Company. Where the Board believes that a significant conflict exists for a director on a Board matter, the Director concerned is not present at the meeting while the matter is being considered.

Independence and the Chairperson (Recommendations 2.1, 2.2 and 2.3)

The Board considers an independent director to be a Non-Executive Director who meets the criteria for independence included in the ASX Best Practice Recommendations. Materiality for these purposes is determined on both quantitative and qualitative bases. An amount of over 5% of annual turnover of the Company or 5% of the individual directors' net worth is considered material for these purposes. In addition, a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the Director's performance.

The Board considers that directors, Sam Russotti (Chairman), Greg Lee and Mark Freeman are independent Directors. All these Directors have completed a checklist to document this independence.

In respect to its compliance with Recommendation 2.3 in January 2011, Gregory Lee was appointed as an Executive Director and performed these duties.

Nomination Committee & Board Performance Review (Recommendation 2.4, 2.5)

During the year, a decision was made to disband the Nomination Committee. As the Board consisted of only four members, the Board considered that a Nomination Committee would not be a more efficient mechanism than the full Board for focusing the Company on specific issues.

When a new Director is to be appointed the Board reviews the range of skills, experience and expertise on the Board, identifies its needs and prepares a short-list of candidates with appropriate skills and experience. Where necessary, advice is sought from independent consultants. The Board then appoints the most suitable candidate who must stand for election at the next annual general meeting of the Company.

Retirement and rotation of Directors are governed by the Corporations Act 2001 and the Constitution of the Company. Each year one third of the Directors must retire and offer themselves for re-election. This selection, nomination and appointment process is detailed on the company website in the Board Nomination Charter.

The board as a whole conducts an informal performance evaluation of the individual Directors (excluding that Director) on an annual basis. To assist in this process an independent advisor may be used. This process for evaluating the Board and its individual Directors is contained in the Disclosure – Performance Evaluation section on the Company website.

3. Promote ethical and responsible decision making

The ASX Corporate Governance Council states that a company should, "Actively promote ethical and responsible decision making". Verus has a formally adopted Code of Conduct. The Code of Conduct was based on respect for the law and acting accordingly, dealing with conflicts of interest appropriately, and ethical matters such as acting with integrity, exercising due care and diligence in fulfilling duties, acting in the best interests of the Company and respecting the confidentiality of all confidential information.

The Board currently comprised of 3 Directors, 2 of whom hold their positions in a non-executive capacity the board is in the process of establishing a diversity policy which will be implemented in the coming financial year.

Verus also has a documented Share Trading Policy for Directors and executives. The policy prohibits short term trading in the Company's securities and Directors and employees are prohibited from dealing in the Company's securities whilst in possession of price sensitive information. In addition, key management personnel are at all times prohibited from dealing in VIL securities for:

- each period of 1 week before and one business day after each date upon which VIL gives to the ASX its quarterly, half yearly or annual report.
- two weeks before lodgement and during the period that a disclosure document including a prospectus is open for applications except to the extent that a director or employee is applying for securities pursuant to that disclosure document.

The Code of Conduct and Share Trading Policy are available on the Company website.

4. Safeguard integrity in financial reporting

The ASX Corporate Governance Council states that a company should, "Have a structure to independently verify and safeguard the integrity of the company's financial reporting." Verus believes that it has appropriate measures in place which includes the Executive Director (or Chairman in lieu of the position being vacated), Company Secretary and Finance Manager providing letters of assurance to the Board for the accounts, engagement of an external auditor, rotation of the engagement audit partner, and a risk management plan in place.

Audit and Risk Committee (Recommendations 4.1, 4.2 and 4.3)

The company is not one of the S&P All Ordinaries Top 300 Companies and as such is exempt under ASX Listing Rule 12.7 from maintaining an Audit Committee and thus compliance with Recommendation 4.1.

Due to the size and scale of operations of the company the Board undertakes the role of the Audit and Risk Committee. The Audit and Risk Committee Charter is available on the Company website.

External Auditors

The Company requires external auditors to demonstrate quality and independence. The performance of the external auditor is reviewed and applications for tender of external audit services requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs.

Deloitte Touche Tohmatsu are the appointed external auditors. It is Deloitte Touche Tohmatsu's policy to rotate audit engagement partners on listed companies at least every 5 years, and in accordance with that policy a new audit engagement partner was introduced for the year ended 30 June 2011.

5. Make timely and balanced disclosure

The ASX Corporate Governance Council states that a company should, "Promote timely and balanced disclosure of all material matters concerning the company." Verus is committed to the promotion of investor confidence by ensuring that trading in the Company's securities takes place in an informed market. In accordance with continuous disclosure requirements under the ASX Listing Rules, the Company has documented procedures in place to ensure that all price sensitive information is identified, reviewed by management and disclosed to the ASX in a timely manner, including changes in Directors' interests in the Company.

The Continuous Disclosure Policy is available on the Company website.

6. Respect the rights of shareholders

The ASX Corporate Governance Council states that a company should, "Respect the rights of shareholders and facilitate the effective exercise of those rights". In addition to a documented procedure for continuous disclosure, Verus maintained a website throughout the year which provided access to all recent ASX announcements, recent disclosure documents (e.g. prospectuses, notice of meeting explanatory memorandums, annual reports) and key contact details. A Shareholders Communications Strategy to promote effective communication with shareholders and encourage shareholder participation at AGM's has also been adopted and is available on the Company website.

Shareholders meetings represent a good opportunity for shareholders to meet with the board of Verus and the external auditor. The external auditor is requested to attend each Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

7. Recognise and manage risk

The ASX Corporate Governance Council states that a company should, "Establish a sound system of risk oversight and management and internal control". Management is responsible for designing, implementing and reporting on the adequacy of the Company's risk management and internal control system. Verus maintains documented policies for identifying, assessing and monitoring risk. The Company utilises measures including formal authority limits for management to operate within. The risks for the Company continue to be regularly monitored and management has regularly appraised the Board as to the effectiveness of the Company's management of its material business risks. All proposals reviewed by the Board include a consideration of the issues and risks of the proposal. The potential exposures associated with running the Company have been managed by the Directors and Company Secretary who combined have significant broad-ranging industry experience.

The Executive Director, Company Secretary and Finance Manager provide a written declaration to the Board in relation to each six-month reporting period that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board. The Board as a whole closely monitor and review all aspects of the finance function to gain assurance as to the integrity of the financial reporting process and ensure the maintaining of sound internal control systems.

In the course of its formal and informal discussions, the Board as a whole will review and comment upon the company's existing investments as well as new investment opportunities that may be presented to the Company.

The Audit and Risk Committee Charter and a Risk Management Policy are available on the Company website.

The Company's main areas of risk include:

- new project acquisitions;
- exploration, security of tenure and environment for mining acquisitions;
- government policy changes and political risk (Australian and International);
- occupational health and safety;
- financial reporting; and
- continuous disclosure obligations.

8. Remunerate fairly and responsibly

The ASX Corporate Governance Council states that a company should, "Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined". A discussion about the Verus policy, along with all remuneration for directors and executives can be found in the Directors' Report.

Remuneration Committee (Recommendation 8.1)

The Company is not currently considered to be of a size, nor are its affairs of such complexity to justify the establishment of separate Remuneration Committee. Accordingly, all matters related to remuneration are dealt with by the full board.

Remuneration Policy (Recommendation 8.2)

Non-Executive Directors
Non-Executive Directors receive fees which are determined by the Board within the aggregate limit set by the shareholders at a General Meeting. All Non-Executive Directors will receive remuneration by way of fees and receive no retirement benefits.

Non-Executive Directors may receive options. The issue of options to Non-Executive Directors is considered an appropriate method of providing sufficient incentive and reward whilst maintaining cash reserves.

Executive Directors and Senior Executives
Executive Directors' and senior executives' remuneration is considered to properly reflect the person's duties and responsibilities, and takes account of remuneration levels across the sector.

Mr Lee has in place (since January 2011) a consulting agreement for the provision of services in the role of Executive Director.

Mr. Russotti and Mr Freeman have in place consultancy agreements for the provision of services outside the scope of duties as a Director. Remuneration by way of consulting fees is calculated on the basis of a daily rate. The term of the consultancy agreement is not fixed, and has an allowance for either party to terminate the agreed arrangements by the giving of 30 days notice.

Review of Investments

Sidi Dhaher Prospect (WI 10%)

In November 2010, the Company announced it had acquired a 10% working interest in the Chorbane Permit, an onshore Tunisian Oil and Gas permit which contained numerous ready to drill prospects.

It was originally planned to drill the first prospect (Sidi Dhaher) in Q1 2011, however this was delayed and the well was finally spudded on the 27th of August 2011. The well was drilled to a total depth of 2011 m (measured depth) and encountered hydrocarbons whilst drilling.
Electric wireline logs, formation pressures and reservoir fluid samples were acquired over the open hole interval from 999 to 2011m. Log analysis and fluid samples taken indicated the presence of hydrocarbons.

On the 3rd of October the operator (ADX Energy Ltd) announced the well had encountered an interpreted oil column of approximately 30m. The well was then cased and suspended in preparation to test.
In mid April 2012 the operator was finally in a position to mobilise and rig up the drilling rig and all the associated testing equipment in preparation to test the well. Operations commenced to enable the testing of the well on the 31st of May 2012.

On the 25th of June 2012, the operator announced the well testing results were negative with no hydrocarbons observed at all and that the well would be plugged and abandoned.

On the 21st of September the company entered into a formal letter of intent for Gulfsands Petroleum Plc to acquire the companies 10% working interest.
The completion of the proposed divestment is subject to a number of conditions, including finalisation of formal Sale and Purchase Agreement and regulatory and joint venture approvals.
The timing of the finalisation of the divestment is at present difficult to predict however all parties are working together to expedite the process.
The company believes this divestment to be the best strategy for the asset as the proposed activity in the Chorbane permit will not result in a drillable prospect until mid to late 2013.

Lyons Point (WI 15%)

In May 2011, the Company acquired a 15% working interest in the Lyons Point Prospect located in Acadia Parish, Louisiana, operated by Clayton Williams Energy Inc (NASDAQ: CWEI).

The Lyons Point prospect was spudded on the 13th of September and reached its final total depth of 16,500 ft on the 21st of November 2011.
Electric line logging was then performed on the well across the prospective interval however analysis of the logs indicated the prospect to be non commercial.
On the 24th of November the company announced the well to be non commercial and that the well has been plugged and abandoned.

Bongo Prospect (WI 9.375%)

On the 8th of July 2011, Verus announced that the OB Ranch #2 discovery well (Bongo #2) on the Bongo prospect in Wharton County, Texas, had been completed as a development well.
In late July 2011 the well was successfully fracture stimulated and placed on an extended production test to clean up the wellbore, determine reservoir parameters and establish overall commerciality.

During the extended production test water breakthrough into the wellbore of Bongo 2 was observed which restricted the hydrocarbon productivity of the well and the potential commerciality.

Although both wells were considered commercial, detailed review and appraisal potential of the field by Verus determined that the upside was minimal and that the potential ongoing operational costs, technical issues and operational interventions would make the field sub commercial.
Verus sold their interest in the Bongo Prospect in February 2012, back to CAZA oil and gas Inc for $150,818.

Fausse Point Prospect (72%)

An external engineering review of the drilling program of the TGR #1 well determined that a sidetrack of the existing well bore will deliver more flexibility, reduce drilling risks and ensure logging operations and evaluation can be completed effectively. The initial plans to deepen the well were deemed technically risky and not allow full evaluation of the formations to be drilled through.

Verus is reviewing the option of a third party drilling engineering company to act as operator.
The deepening planning for the side-track of the Fausse Point discovery well TGR#1 is now fully underway and a revised AFE is in the final stages of preparation and once complete will be forwarded to all JV partners for their approval and consent to participate.

It is anticipated that the total drilling, completion and tie-in costs will be approximately US$1.5 million - of which approximately US$1 million will be VIL's share.

Verus' Board is also reviewing the potential benefits to farm down a portion of the Company's interest in Fausse Point to offset the costs of participation and in order to prudently manage its funds in difficult capital and commodity markets.

Bullseye Project (10%)

Due to the declining oil production and increasing water production from the two existing wells, the field has been declared sub commercial. As such all the partners in the project agreed to sell their working interest. The entire project (100%) was sold for a total payment of US$1.5 million. Verus's net proceeds are expected to be approximately US$150,000.

Corporate

In November 2011 the board was restructured with the appointment of Sam Russotti and the retirement of Andrew McIlwain and David Calcei.

The Company also completed two private placements one in October 2011 and the second in February 2012, raising $1,844,000 (before costs).

Your Directors present their report together with the financial report on the consolidated entity (referred to hereafter as the Group or Consolidated entity) consisting of Verus Investments Limited and the entities it controlled at the end of, or during, the year ended 30 June 2012.

Directors

The following persons were Directors of Verus Investments Limited during the financial year and up to the date of this report:

Mr Sam Russotti BSc, *Chairman and Non-Executive Director*
Appointed 24 November 2011

Mr Russotti is a qualified geologist with more than 39 years extensive experience in the oil and gas sector, including 15 years with Baker Hughes as senior operations manager, 3 years as Operations Manager with Peko Oil Ltd, 10 years as General Manager of Cultus Petroleum and most recently 10 years as Executive Chairman of Golden Gate Petroleum.

Mr Russotti has been responsible for assessing and managing projects in the Gulf Coast of Mexico, USA, Taranaki Basin NZ, Java Sea Indonesia, WA's Carnarvon basin, Northern Browse Basin, Beagle Sub-basin, Exmouth Plateau, Barrow and Exmouth sub-basins, and the Bonaparte Gulf of WA and the NT. His experience includes project review and management, reserves estimation, risk analysis, evaluation of farm-ins, liaison with partners, fundraising and corporate governance.

Mr Greg Lee CPEng, *Executive Director*
Appointed 25 May 2007

Mr Lee is a qualified chartered professional engineer with more than 28 years experience in the petroleum industry focussing on oil and gas field development, management and operations, petroleum/production engineering and drilling operations.

A member of the Institute of Engineers (Australia) (MIE Aust) and the Society of Petroleum Engineers (SPE), Mr Lee assisted in the development of Grove Energy Ltd and as General Manager, actively assisted in the listing of the company on the Alternative Investment Market in London. Mr Lee has significant international experience.

During the last three years, Mr Lee has also served as a director of the following listed companies:
Quest Petroleum NL (formerly Nuenco NL) (Appointed 1 November 2005)

Interests in shares and options
2,681,818 ordinary shares in Verus Investments Limited
20,000,000 unlisted options (exercise price of $0.025 and expiry 31 December 2013)

Mr. Mark Freeman CA, *Non-Executive Director*
Appointed 22 October 2010

Mr Freeman has more than 16 years' experience in corporate finance and the resources industry. He has extensive experience in strategic planning, business development, acquisitions and mergers, particularly in oil and gas, as well as general project management. Mr Freeman is a graduate of the University of Western Australia with a Bachelor of Commerce with a double major in Banking & Finance and Accounting. He also holds a Graduate Diploma in Applied Finance with a major in Corporate Finance from the Financial Services Institute of Australasia.

During the last three years, Mr Freeman has also served as a director of the following listed companies:
Grand Gulf Energy Limited (Appointed 27 October 2010)
Quest Petroleum NL (Resigned November 11)

Golden Gate Petroleum Ltd (Resigned 5 March 2009)

Interests in shares and options
2,439,051 ordinary shares in Verus Investments Limited
15,000,000 unlisted options (exercise price of $0.025 and expiry 31 December 2013)

Mr Craig Nelmes, CPA, *Company Secretary*
Appointed 2 February 2012, Resigned 5 July 2012

Mr. Nelmes is an Accountant with over 15 years experience in the mining sector in Australia and overseas, including seven years with Deloitte and holds a Bachelor of Business degree (Accounting and Finance) from Edith Cowan University. Since September 2007, Mr. Nelmes has been employed by Corporate Consultants Pty Ltd, a Company providing accounting, secretarial and administrative services to several ASX and TSX listed entities and since 2008 until February 2012 has acted as the Verus Financial Controller.

Mr. David Calcei CA, *Non-Executive Director*
Resigned 24 November 2011

Mr Calcei is a Chartered Accountant with over 10 years experience. He is a director of Icon Financial Management, an accounting and tax practice providing taxation, corporate and consultancy services to small to medium sized entities and public companies, principally in the resources sector.

Interests in shares and options
510,544 ordinary shares in Verus Investments Limited
10,000,000 unlisted options (exercise price of $0.025 and expiry 31 December 2013)

Mr Paul Jurman CPA, *Company Secretary*
Resigned 2 February 2012

Mr Jurman is a CPA with over 10 years experience and has been involved with a diverse range of Australian public listed companies in company secretarial and financial roles. He is currently company secretary of ASX listed entities - Carnavale Resources Limited, Erongo Energy Limited and Nemex Resources Limited.

Mr. Andrew McIlwain BE (Mining), *Chairman and Non-Executive Director*
Resigned 24 November 2011

Mr McIlwain has over 20 years experience in the mining industry. He is a qualified mining engineer and has held technical, senior management and executive roles within Mount Isa Mines Limited, Central Norseman Gold Corporation Limited, WMC Resources Limited and Lafayette Mining Limited.

He is a current member of the Australian Institute of Mining and Metallurgy (AusIMM).

During the last three years, Mr McIlwain has also served as a director of the following listed companies:

Emerson Resources Ltd	(Appointed 1 February 2007)
Tusker Gold Limited	(Appointed 11 November 2009, Resigned 3 May 2010 after takeover)

Interests in shares and options
15,000,000 unlisted options (exercise price of $0.025 and expiry 31 December 2013)

Principal activities and Review of Investments

The Verus Group principal activities, undertaken in accordance with its current Investment Policy, are as follows;

(i) to identify, evaluate and participate in investments determined to be able to add significant value, to the degree or magnitude deemed appropriate, and whether or not they relate to securities listed on a Securities Exchange, directly owning assets of any type or a working interest, and/or
(ii) to review, manage and establish a preferred strategic direction for existing investments, and/or
(iii) to consider suitable financing options for (i) and (ii).

Further information on the operations, business strategies and prospects is set out in the Review of Investments section of this report.

Review of Operations and Dividends

The consolidated loss after tax for the year was $6,243,932 (2011: $6,458,190). No dividends have been paid or declared up to the date of this report (2011: Nil). The Directors have not recommended the payment of a dividend in the current financial year.

The net assets of the consolidated group decreased from $8,003,138 as at 30 June 2011 to $3,694,066 as at 30 June 2012.

Significant changes in the state of affairs

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

- Verus sold the interest in the Bongo Prospect back to CAZA oil and gas Inc for $150,818.

- The Company also completed two private placements one in October 2011, raising $861,000 and one in February raising $983,000 (before transaction costs)

Matters subsequent to the end of the financial year

The following significant events have occurred subsequent to the end of the financial year:

Sale of Bullseye Project and Jumonville Wells – All working interest partners have agreed to sell 100% of the project for US$1.5 million. Verus's net proceeds are estimated to be approximately US$150,000 plus some escrowed P & A funds.

Formal letter of Intent entered in to by Verus to divest the Tunisian Chorbane permit for $525,000 to Gulfsands Petroleum Plc.

There were no other matters or circumstances that have arisen since 30 June 2012 that has significantly affected, or may significantly affect the Group's operations in future financial years, the results of those operations in future financial years or the Group's state of affairs in those future financial years.

Likely developments and expected results of operations

The Company's focus for the next financial year is to manage its existing onshore Oil & Gas investments to maximise value and continue to assess and potentially participate in any new investment opportunities that present from time to time.

Environmental issues

The Group is a party to various onshore oil and gas exploration and development licences or permits. In most cases, these contracts and licences specify environmental regulations applicable to those operations in their respective jurisdictions. The Group, in conjunction with the respective project's partners and at the direction of the project operators, aim to ensure compliance with the identified regulatory requirements in each jurisdiction in which it operates. There have been no significant known breaches of any environmental obligations at any of the Group's investment projects.

Remuneration Report

This remuneration report, which forms part of the Directors' report, sets out information about the remuneration of Verus Investments Limited's directors and its senior management for the financial year ended 30 June 2012, under the following main headings:

Director and senior management details
Remuneration policy
Relationship between the remuneration policy and Company performance
Key terms of employment contracts
Remuneration of Directors and senior management
Share based payments granted

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

(a) Key Management Personnel

The key management personnel of the Group consist of the Directors and Company Secretary. This is the case due to the size and scale of the Group's current operations. All the named persons held their current position for the whole of the financial year and since the end of the financial year.

- S Russotti - *Chairman*
- G Lee – *Executive Director*
- M Freeman – *Non-Executive Director*
- D Calcei – *Non-Executive Director – Resigned 25 November 2011*
- A McIlwain – *Chairman and Non-Executive Director – Resigned 25 November 2011*
- C Nelmes – *Company Secretary*

(b) Remuneration policy

The board as a whole determine and review compensation arrangements for the Executive Directors and where applicable the executive team. The board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum shareholder benefit from the retention of a high quality team.

(c) Relationship between the remuneration policy and Company performance

The board as a whole reviews the remuneration packages to the Executive Directors and Non-Executive Directors on at least an annual basis.

There is currently no component, aside from options issued to directors and senior management, within the remuneration packages that is dependent upon Company performance. This, in part, is attributed to the Group's current size and scale of operations.

The board will align the interests of the executive team with those of the shareholders when setting future short and long-term benefits. This will from time to time require management to seek shareholder approval to provide compensation to executive management and the Non-Executive Directors in the form of share options, exercisable to shares, given the achievement of pre-specified objectives.

The table below sets out summary information about the Consolidated entity's/Company's earnings and movements in shareholder wealth for the five years to June 2012:

	June 2012 $	June 2011 $	June 2010 $	June 2009 $	June 2008 $
Revenue and other income	243,608	384,808	32,066	56,241	166,285
Net (Loss)/profit after tax	(6,243,932)	(6,458,190)	(1,609,540)	(1,318,155)	(6,278,952)
Share Price at start of year	$0.01	$0.019	$0.006	$0.02	$0.09
Share price at end of year	$0.01	$0.01	$0.019	$0.006	$0.02
Final dividend		-	-	-	-
Basic earnings per share	(0.36)cps	(0.56) cps	(0.30) cps	(0.55) cps	(2.62)cps
Diluted earnings per share	(0.36)cps	(0.56) cps	(0.30) cps	(0.55) cps	(2.63)cps

(d) Key terms of employment contracts

Executives

The Company aims to reward the Executive Directors with a level of remuneration commensurate with their position, time commitment and responsibilities within the Company, and so as to align the interests of the Executive Directors with those of shareholders, link reward with the strategic goals and performance of the Company; and ensure total remuneration is competitive by market standards.

Mr Lee entered into an agreement with the Company to be employed as an Executive Director of the Company. With effect from 1 January 2011, his remuneration is $16,667 per month with a twelve month term, subject to an annual review and a three months notice of termination.

Non-Executives

The remuneration arrangements for the Non-Executive Directors include compensation in the form of annual Directors' fees and from time to time share based payments.

From time to time it is necessary for the Non-Executive Directors to provide additional services to the Company. Mr Russotti and Mr Freeman have in place consultancy agreements for the provision of services outside the scope of duties as a Non-Executive Director. Remuneration by way of consulting fees is calculated on the basis of a daily rate. The term of the consultancy agreement is not fixed, and has an allowance for either party to terminate the agreed arrangements by the giving of 30 days notice.

The remuneration of non-executives includes amounts payable to Director controlled entities for services provided by directors and for the year ending 30 June 2012 is detailed in the following table of this report.

The Group carries out consulting activities with the directors on an arm's length basis in the normal course of business.

(e) Remuneration of Directors and senior management

The compensation for each Director and member of senior management for the year is contained in the following table.

Name	short-term employee benefits		Share-based payment (f)		Percentage of Remuneration as Options
	Director Fees	**Consulting Fees**		**Total**	
	$	$	$	$	%
2012					
Sam Russotti	20,142	15,825	-	35,967	-
Gregory Lee	0	200,000	-	200,000	-
Mark Freeman	36,000	35,500	-	71,500	-
David Calcei	16,666	-	-	16,666	-
Andrew McIlwain	22,708	-	-	22,708	-
Craig Nelmes	-	81,430	-	81,430	-
Total	**95,516**	**332,755**	**-**	**428,271**	
2011					
Andrew McIlwain	54,500	18,000	97,985	170,485	57.5
Gregory Lee	19,960	130,640	130,647	281,247	46.5
Mark Freeman	24,000	25,500	97,985	147,485	66.4
David Calcei	40,000	-	65,324	105,324	62.0
Michael Montgomery – resigned 22 October 2010	20,000	-	-	20,000	0.0
Paul Jurman	-	-	22,069	22,069	100.0
	158,460	174,140	414,010	746,610	

(f) Share options granted to directors and senior management

During or since the end of the financial year, no share options were granted.

(g) Share-based payments granted during the current financial year

No grants of share-based payment compensation to directors and senior management relate to the current financial year.

Directors' Meetings

During the year there were six Directors meetings held. The following table sets out both the number held and the number of meetings attended by each Director

Directors	Number Attended	Number eligible to attend
Andrew McIlwain	4	4
Gregory Lee	6	6
Mark Freeman	6	6
David Calcei	4	4
Sam Russotti	2	2

During the current financial year, the board decided that given the size and scale of operations, that the full board undertakes the roles undertaken by Audit and Risk Committee, Remuneration Committee and Nomination Committee.

Shares under option

As at the date of this report, there are 68,0000,000 options to subscribe for unissued ordinary shares in the Company, comprising:

Date options granted	Vesting Date	Option class	Exercise price of options	Expiry date of options	Number of shares under option
9 Dec 2009	9 Dec 10	unlisted	$0.015	09 Dec2012	500,000
28 Jan 2011	28 Jan 11	unlisted	$0.025	31 Dec 2013	67,500,000

The holders of these options do not have the right, by virtue of the option, to participate in any share issue or interest issue of the Company or any other body corporate or registered scheme.

Shares issued on exercise of options

During or since the end of the financial year, the Company did not issue any ordinary shares as a result of the exercise of options.

There were no remuneration options cancelled or forfeited during the year and since the date of this report.

Indemnification of officers and auditors

During the financial year, the company paid a premium in respect of a contract insuring the directors, secretary and officers of The Company and of any related body corporate against a liability incurred as such a director, secretary or 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 liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

The Company has executed a Deed of Protection for each of the Directors. The Company has not otherwise, during or since the financial year, 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.

Non-audit services

No amounts were paid or payable to the auditor for non-audit services provided during the year.

Auditor's Independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 19.

Auditor

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the *Corporations Act 2001.*

The 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

Greg Lee
Director

Perth, 28 September 2012

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Verus Investments Limited
Level 21 Allandale Square
77 St Georges Terrace
Perth WA 6000

28 September 2012

Dear Board Members,

Verus Investments Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Verus Investments Limited.

As lead audit partner for the audit of the financial statements of Verus Investments Limited for the financial year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

D J Hall
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
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Independent Auditor's Report to the members of Verus Investments Limited

Report on the Financial Report

We have audited the accompanying financial report of Verus Investments Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 22 to 54.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 company's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Deloitte.

Auditor's Independence Declaration

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

Opinion

In our opinion:

(a) the financial report of Verus Investments Limited is in accordance with the *Corporations Act 2001*, including:

 (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

 (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Material Uncertainty Regarding Continuation as a Going Concern

Without modifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the consolidated entity incurred a net loss of $6,243,932 and experienced net operating and investing cash outflows of $2,956,138 during the year ended 30 June 2012. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the ability of the consolidated entity and the company to continue as going concerns and therefore, the consolidated entity and the company may be unable to realise their assets and discharge their liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 16 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Verus Investments Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Darren Hall
Partner
Chartered Accountants
Perth, 28 September 2012

In the opinion of the Directors of Verus Investments Limited (the 'Company'):

(a) the financial statements, notes and the additional disclosures of the consolidated entity are in accordance with the Corporations Act 2001 including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year then ended; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

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

(c) the financial statements and notes thereto are in accordance with International Financial Reporting Standards, as stated in Note 1 to the financial statements.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2012.

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

Greg Lee
Director

Perth, 28 September 2012

	Notes	2012 $	2011 $
Revenue from oil and gas sales	3	227,823	356,097
Cost of sales	3	-227,620	(358,778)
Gross Profit/(Loss)		203	(2,681)
Other income	3	15,785	28,711
		15,988	26,030
Share based payments - employee benefits		-	(446,673)
Administration expenses		(697,966)	(941,604)
Restoration Provision		(115,146)	-
Impairment loss – exploration & evaluation assets	11	(5,475,261)	(5,032,383)
Foreign exchange loss	3	28,726	(63,532)
Depreciation	3	(273)	(28)
Loss before income tax		(6,243,932)	(6,458,190)
Income tax expense	4	-	-
Loss after income tax from continuing operations		(6,243,932)	(6,458,190)
Loss attributable to;			
Members of the Parent Entity		(6,243,932)	(6,458,190)
Other comprehensive income			
Exchange differences arising on translation of foreign operations		191,962	(793,516)
Total comprehensive loss for the year		(6,051,970)	(7,251,706)
		Cents	**Cents**
Earnings Per Share:			
Basic (cents per share)	8	(0.36)	(0.56)
Diluted (cents per share)	8	(0.36)	(0.56)

The accompanying notes form part of these financial statements

	Notes	2012 $	2011 $
ASSETS			
Current Assets			
Cash and cash equivalents	19	525,505	1,740,019
Other receivables	9	64,220	99,997
Total current assets		589,725	1,840,016
Non-current assets			
Prepayments	10	127,571	755,416
Exploration & Evaluation Assets	11	3,331,131	5,497,530
Oil & Gas Properties	12	15,909	107,203
Plant & Equipment	13	515	788
Total non-current assets		3,475,126	6,360,937
Total assets		4,064,851	8,200,953
LIABILITIES			
Current liabilities			
Trade and other payables	14	253,881	197,815
Total current liabilities		253,881	197,815
Non-current liabilities			
Restoration Provision		116,904	-
Total non-current liabilities		116,904	-
Total liabilities		370,785	197,815
NET ASSETS		3,694,066	8,003,138
EQUITY			
Contributed equity	15	25,090,385	23,347,487
Reserves	16	1,502,015	1,310,053
Accumulated losses	17	(22,898,334)	(16,654,402)
Total equity		3,694,066	8,003,138

The accompanying notes form part of these financial statements

	Contributed equity $	Reserves $	Accumulated Losses $	Total $
Balance at 1 July 2010	13,148,308	1,429,426	(10,196,212)	4,381,522
Loss for the period	-	-	(6,458,190)	(6,458,190)
Divesture of foreign operations	-	-	-	-
Exchange differences arising on translation of foreign operations	-	(793,516)	-	(793,516)
Total Comprehensive Income / (Loss)	-	(793,516)	(6,458,190)	(7,251,706)
Securities issues	10,499,094	250,000	-	10,749,094
Securities issue costs	(299,915)	(22,530)	-	(322,445)
Share based payments – employee benefits expense	-	446,673	-	446,673
Share based payments – other equity settled	-	-	-	-
Balance at 30 June 2011	23,347,487	1,310,053	(16,654,402)	8,003,138
Loss for the period	-	-	(6,243,932)	(6,243,932)
Exchange differences arising on translation of foreign operations	-	191,962	-	191,962
Total Comprehensive Income / (Loss)	-	191,962	(6,243,932)	(6,051,970)
Securities issues	1,844,000		-	1,844,000
Securities issue costs	(101,102)		-	(101,102)
Share based payments – employee benefits expense	-		-	-
Balance at 30 June 2012	25,090,385	1,502,015	(22,898,334)	3,694,066

The accompanying notes form part of these financial statements

	Notes	2012 $	2011 $
Cash flows from operating activities			
Receipts from customers		294,047	374,237
Interest Received		12,576	28,711
Payments to suppliers and employees		(896,758)	(1,073,982)
Net cash outflow from operating activities	19	(590,135)	(671,034)
Cash flows from investing activities			
Payments for exploration and evaluation – oil & gas projects		(2,512,192)	(3,202,044)
Purchase of property, plant and equipment		-	(816)
Cash received on subsidiary acquisition		-	110,809
Proceeds on Sale of Bongo prospect		146,189	-
Net cash outflow from investing activities		(2,366,003)	(3,092,051)
Cash flows from financing activities			
Proceeds from issues of equity securities		1,814,000	5,583,094
Share issue costs		(101,102)	(322,445)
Net cash inflow from financing activities		1,712,898	5,260,649
Net increase/(decrease) in cash and cash equivalents		(1,243,240)	1,497,564
Net foreign exchange difference		28,726	(63,531)
Cash and cash equivalents at the beginning of the financial year		1,740,019	305,986
Cash and cash equivalents at the end of year	19	525,505	1,740,019

The accompanying notes form part of these financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Verus Investments Limited and its subsidiaries

(a) General information

Verus Investments Limited (the Company) is a limited liability company incorporated in Australia. The address of its registered office and principal place of business is disclosed in the introduction to the annual report.

(b) Basis of preparation

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

Compliance with IFRS

The consolidated financial statements of Verus Investments Limited group also comply with International Financial Reporting Standards (IFRS') as issued by the International Accounting Standards Board (IASB).

For the purpose of preparing these consolidated financial statements, the company is a for-profit entity.

The financial statements were authorised for issue by the directors on 30 September 2012.

Historical cost convention

These financial statements have been prepared under the historical cost convention. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Application of new and revised Accounting Standards
There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reporting results or financial position.

1.1 *Standards and Interpretations adopted in the current year*

The Company has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to their operations and are effective for the current financial reporting period beginning 1 July 2011.
The following new and revised Standards and Interpretations have been adopted in the current period:

- AASB 124 'Related Party Disclosures' (revised December 2009) and AASB 2009-12 'Amendments to Australian Accounting Standards'
- AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'
- AASB 2010-5 'Amendments to Australian Accounting Standards'
- AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets'

- AASB 1054 'Australian Additional Disclosure'

The impact of the adoption of these Standards and Interpretation did not have a material impact on the Company.

1.2 ***Standards and Interpretations in issue not yet adopted***

At the date of authorisation of the financial statements, following Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Company for the year ended 30 June 2012:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments' (December 2009), AASB 2009- 11 'Amendments to Australian Accounting Standards arising from AASB 9' AASB 9 'Financial Instruments' (December 2010) and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)'	1 January 2013	30 June 2014
AASB 10 'Consolidated Financial Statements'	1 January 2013	30 June 2014
AASB 11 'Joint Arrangements'	1 January 2013	30 June 2014
AASB 12 'Disclosure of Interests in Other Entities'	1 January 2013	30 June 2014
AASB 127 'Separate Financial Statements' (2011)	1 January 2013	30 June 2014
AASB 128 'Investments in Associates and Joint Ventures' (2011)	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	30 June 2014
AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets'	1 January 2012	30 June 2013
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	30 June 2014
AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'	1 January 2013	30 June 2014
AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items	1 July 2012	30 June 2013

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
of Other Comprehensive Income'		
AASB 2012-6 '*Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosure'*	1 January 2013	30 June 2014

At the date of authorisation of the financial statements the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and interpretations have not yet been issued and have not been adopted by the Company for the year ended 30 June 2012.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	1 January 2014	30 June 2015
Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	1 January 2013	30 June 2014
Annual Improvements 2009-2011 cycle	1 January 2013	30 June 2014

The impact of these recently issued or amended standards and interpretations have not been determined as yet by the Company.

Critical accounting estimates
The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements is in relation to Non-current assets - intangibles (Exploration and Evaluation Assets) (note k) and share-based payments (note q)

Going concern

The financial report had 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 loss for the year after tax of $6,243,932 (2011:$6,458,190) and had net cash outflows from operating and investing activities of $2,956,138 (2011:$3,763,085). The net current working capital of the Group at 30 June 2012 was 335,844 (2011: 1,642,201) and the net decrease in cash held during the year was $1,214,514 (2011: an increase of $1,434,033).

As at 30 June 2012 the Consolidated Entity has current assets of $589,725, which includes $525,505 in cash and cash equivalents and $64,220 in trade and other receivables.

The Directors believe that it is appropriate to prepare the financial statements on the going concern basis for the following reasons:

(i) Subsequent to 30 June 2012 the Company has sold the Bullseye project for $US150,000 and recovered an additional US$60,000 in restoration bonds
(ii) A formal letter of Intent has been entered into by Verus to divest the Tunisian Chorbane permit for $525,000 ($288,000 net of costs) to Gulfsands Petroleum PLC
(iii) The Company is not committed to future drilling and well completion costs, as such the Company will only expend future amounts if they have sufficient cash to meet the cost. The Company believes that should it source additional worthy investments that funding for these investments will be raised or secured to allow full project commitment.

The Directors have reviewed the Consolidated Entity's and Company's overall position and outlook in respect of the matters identified above and are of the opinion that the use of the going concern basis is appropriate in the circumstances.

However, if the Consolidated Entity and Company are unable to achieve the successful divestment of the Tunisian Chorbane permit as discussed above, there is material uncertainty whether the Consolidated Entity and Company will be able to continue as going concerns.

Should the Consolidated Entity and Company be unable to continue as going concerns, they may be required to realise their assets and discharge their liabilities other than in the normal course of business.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Consolidated Entity and Company not to continue as going concerns.

(c) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Verus Investments Limited as at 30 June 2012 and the results of all subsidiaries for the year then ended. Verus Investments Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

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

Investments in subsidiaries are accounted for at cost in the separate financial statements of Verus Investments Limited.

(d) Foreign currency translation

Functional and presentation currency
Items included in the financial statement of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The consolidated financial statements are presented in Australian dollars, which is the functional and presentation currency for Verus Investments Limited

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on financial assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit and loss as part of their fair value gain or loss.

Group companies
The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised as a separate component of equity.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns or discount.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

- Interest revenue is recognised on a time proportion basis that takes into account the effective yield on the financial asset.
- Oil & Gas production revenue is recognised when the significant risks and rewards of ownership have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer. Delivery of product is by pipeline or other means and under well specific contracts that define the transfer point of ownership. The nominated transfer point has appropriate meter equipment installed. Product pricing is dependent upon quality, delivery volumes rates, and base price marked to an appropriate commodity market benchmark.

(f) Income tax

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

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

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

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

(g) Segment reporting

AASB 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

Operating segments are reported in a manner that is consistent with the internal reporting provided to the Board. The Board as a whole will make strategic decisions on the direction and activities of the Group.

(h) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash flows of other assets or groups of assets. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. Non-financial assets (other than goodwill) that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Cash and cash equivalents

Cash and cash equivalents consists of cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

(j) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment. Depreciation is calculated on a diminishing value method so as to write off the net cost or other re-valued amount of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The gain or loss arising on disposal or retirement of an item of Property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss.

The following estimated useful lives are used in the calculation of depreciation:

- Plant and equipment - 4 to 5 years

(k) Intangible assets

Exploration Expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that the rights to tenure of the area of interest are current, and that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves and active and significant operations in the area are continuous.

Accumulated costs in relation to an abandoned area are written off in full against income statement 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 that area of interest

Development Expenditure Assets

When production commences, the accumulated costs for the relevant area of interest are tested for impairment and the balance is then reclassified to development expenditure assets. These are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest

(l) Financial instruments

A financial instrument is recognised if the Group becomes a party to the contracted provisions of the instrument.

Non derivative financial instruments

Non derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents and trade and other payables.

Investments are classified as either, financial assets at fair value through profit or loss, loans and receivables, held-to maturity investments, or available-for-sale investments, as appropriate. When non-derivative financial instruments are recognised initially, they are measured at fair value, net of transaction costs except for those financial assets classified as at fair value through the profit or loss which are initially measured at fair value.

Trade and Other receivables,(normally with terms of 30-90 day terms, are recognised initially at fair value. There is an ongoing review as to the collectability of trade receivables, with debts known to be uncollectible written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the group will not be able to collect the debt.

Financial assets

Financial assets are recognised and derecognised on the date that the Group commits to purchaser the asset ("trade date") and where the purchase or sale of an asset is under a contract whose terms require transfer or delivery of the asset within the timeframe established by the market concerned.

Financial assets at fair value through profit or loss

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

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method.

Available-for-sale investments

The Group's investment in equity securities are classified as available-for-sale financial assets. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity other than impairment losses. When an investment is derecognised the cumulative gain or loss previously reported in equity is transferred to profit or loss.

Impairment of financial assets

Financial assets, other than those at fair value through the profit and loss, are assessed for indicators of impairment at each balance sheet date. An impairment review will be carried out on all financial assets consistent with the methodology outlined in note 1(h). 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.

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual agreement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after detecting all of its liabilities. Equity instruments, issued by the Group, are recorded at the proceeds received, net of direct issue costs.

(m) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(n) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group 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 reporting date, taking into account the risks and uncertainties surrounding the obligation.

(o) Goods and services tax

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

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

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

(p) Earnings per share

Basic earnings per share

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

Diluted earnings per share
Diluted earnings per share adjusts the figures used in 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 additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(q) Share based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 18.

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 Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Group revises its estimate 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 such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

The policy described above is applied to all equity-settled share-based payments that were granted after 7 November 2002 and vested after 1 January 2005. No amounts have been recognised in the financial statements in respect of other equity-settled share-based payments.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

(r) Parent entity financial information

The financial information for the parent entity, Verus Investments Limited, disclosed in note 23 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Verus Investments Limited.

(ii) Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

2. FINANCIAL RISK MANAGEMENT

The Group's investment activities expose it to a variety of financial risks: foreign exchange risk, liquidity risk, and interest rate risk. The Group's and the Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risks to which it is exposed. The method used is sensitivity analysis for each of foreign exchange risk, liquidity risk and interest rate risk.

The Group and Company manage their capital to ensure the Group will be able to continue as a going concern while maximising the return to stakeholders. The Group's overall strategy remains unchanged from 2010.

The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising issued capital, reserves and accumulated losses. The Group is debt free, except for trade payables (note 14).

Operating cash flows have been used by the Group in the year to invest in exploration & evaluation activities and to fund corporate costs of the Company.

The Group holds the following financial instruments:

	2012 $	2011 $
Financial Assets		
Cash and cash equivalents	525,505	1,740,019
Receivables	64,220	99,997
	589,725	1,840,016
Financial liabilities		
Trade and other payables	253,881	197,815

(a) Foreign exchange risk

The Group and the parent entity operate internationally and during the year were exposed to foreign exchange risk arising from currency exposures, primarily with respect to the US dollar.

Foreign exchange risks arise from future commercial transactions and recognized assets and liabilities that are denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

Management regularly monitors exposure to foreign exchange risk, but do not have a current hedging policy in place. It is intended that this policy will be continuously assessed in line with funding requirements for each of the investment opportunities.

As at 30 June 2012, the Group had minimal exposure to foreign currency risk within its recognised assets and liabilities. The Cash and cash equivalents included $368,154 held in USD bank account, being USD$373,507 (2011: USD$268,350).

(b) Group sensitivity – foreign exchange risk

Based upon the financial instruments held as at 30 June 2012 (and 30 June 2011), had the Australian dollar weakened/strengthened 10% against the US dollar with all other variables held constant, the group's results for the period would increase/decrease by $3,735.

(c) Interest rate risk management

The Group is exposed to interest rate risk as entities in the Group deposit funds at both short-term fixed and floating rates of interest. The Group did not have any interest bearing liabilities as at balance date.

The Group exposure to interest rates on financial assets and liabilities is detailed in the liquidity risk management section of this note.

(d) Interest rate sensitivity

A change in interest rates would not have a material impact on the profit and equity for the current and previous years of the Group or the Parent entity.

(e) Fair value estimation

The Directors consider that the carrying amount of financial assets and financial liabilities, as recorded in the financial statements, represent or approximate their respective fair values.

(f) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who oversee a liquidity risk management framework for the management of the Group's funding and liquidity management requirements. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring there are appropriate plans in place to finance these future cash flows.

	Weighted average effective interest rate	***Less than 1 month*** **Interest bearing - variable**	***1 to 3 months*** **Interest bearing - variable**	***Less than 1 month*** **Non-interest bearing**	***1 to 3 months*** **Non-interest bearing**
	%	**$**	**$**	**$**	**$**
2012					
Cash & Cash equivalents	1.12	525,505	-	-	-
Other receivables	-	-	-	-	64,220
Other payables	-	-	-	-	(253,881)
2011					
Cash & Cash equivalents	2.98	1,740,019	-	-	-
Other receivables	-	-	-	-	99,997
Other payables	-	-	-	-	(197,815)

The Liquidity and interest risk table above has been drawn up based on the undiscounted cash flow (including both interest and principal cash flows expected) using contractual maturities of financial assets and the earliest date on which the Group can be required to pay financial liabilities. Amounts for financial assets include interest earned on those assets except where it is anticipated cash will occur in a different period.

3. REVENUE AND EXPENSES

	2012 $	2011 $
An analysis of the revenue for the year is as follows:		
Revenue from operating activities		
Revenue from oil and gas sales	227,823	356,097
Cost of sales – operating expenses	(227,620)	(114,650)
Cost of sales – oil properties depletion (Note 12)	-	(244,128)
Gross loss	203	(2,681)
Other income		
Other Income	3,209	-
Interest received – bank deposits	12,576	28,711
Loss for the year before tax		
Loss for the year has been arrived at after charging the following losses and expenses:		
Share based payments – employee benefits expense (Note 18)	-	446,673
Foreign exchange loss	(28,726)	63,532
Depreciation	273	28
Impairment – exploration & evaluation asset (Note 11)	5,475,261	5,032,383

4. INCOME TAXES

	2012 $	**2011 $**
The prima facie income tax expense on pre-tax accounting loss from operations reconciles to the income tax benefit in the financial statements as follows:		
Loss from operations	(6,243,932)	(6,458,190)
	(1,873,180)	(1,937,457)
Add tax effect of:		
Non-deductible expenses	911	141,375
Capital Loss on investments write-off	1,642,578	1,509,715
Income tax benefit not brought to account	1,315,967	1,150,955
	1,086,276	864,588
Less tax effect of:		
Section 40-880 deduction	(95,639)	(84,029)
Capitalised Exploration expenditure	(990,637)	(780,559)
	-	-
Deferred tax assets (unrecognised)		
Unused revenue tax losses carried forward	4,261,501	2,945,535
Unused capital tax losses carried forward	283,478	358,477
Unused Section 40-880 deductions	227,114	264,586
	4,772,093	3,568,598

The benefits will only be obtained if:

- The companies derive future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the losses to be realised;
- The companies continue to comply with the conditions for deductibility and availability of tax losses imposed by the law; and
- No changes in tax legislation adversely affect the companies in realising the benefits from the deductions for the losses.

5. REMUNERATION OF AUDITORS

	2012 $	2011 $
Remuneration of the auditor of the Company for:		
Deloitte Touche Tohmatsu		
Audit and review of financial reports	38,000	42,798

6. KEY MANAGEMENT PERSONNEL COMPENSATION

(a) Key management personnel compensation

The aggregate compensation made to key management personnel of the Company and the Group is set out below:

	2012 $	2011 $
Short term employee benefits	428,271	332,600
Share based payments	-	414,010
	428,271	746,610

(b) Key management personnel details

The following persons were Directors of Verus Investment Limited during the financial year were:
S Russotti – *Chairman, appointed 24 November 2011*
G Lee - *Executive Director*
M Freeman – *Non-executive Director*
D Calcei - *Non-executive Director, Resigned 24 November 2011*
A Mcllwain – *Chairman, Resigned 24 November 2011*

The other key management personnel employed by the Company during the financial year:

C Nelmes, the *Company Secretary, appointed 02 February 2012*
P Jurman, the *Company Secretary, Resigned 02 February 2012*

(c) Share holdings (Fully paid VIL ordinary shares)

The number of shares in the Company held as at the end of the financial year by Directors, including shares held by entities they control are set out below:

	Opening Balance 1 July No.	Holding on Appointment No.	Exercise non-renounceable rights issue No.	Other changes (i) No.	Closing Balance 30 June No.
2012					
Andrew McIlwain(v)	3,308,591	-	-	(3,308,591)	N/A
Gregory Lee	2,681,818	-	-	-	2,681,818
Mark Freeman(ii)	2,439,051	-	-	-	2,439,051
David Calcei(iii)	1,681,818	-	-	(1,681,818)	N/A
2011					
Andrew McIlwain(v)	1,050,709	-	-	2,257,882	3,308,591
Gregory Lee	2,000,000	-	-	681,818	2,681,818
Mark Freeman(ii)	-	2,439,051	-	-	2,439,051
David Calcei(iii)	1,000,000	-	-	681,818	1,681,818
Michael Montgomery (iv)	200,000	-	-	-	N/A

(i) Net other changes comprises of purchases/(sales) of shares conducted during the year.
(ii) Initial shares on appointment to the board.
(iii) Mr David Calcei resigned on 24 November 2011
(iv) Mr Montgomery resigned on 22 October 2010
(v) Mr Andrew McIlwain resigned 24 November 2011

(d) Option holdings

The number of unlisted options in the Company held as at end of the financial year by directors, including options held by entities they control, are set out below. The options are exercisable at prices of 2.5 cents and with an expiry dates of 31 December 2013. As at 30 June 2012 and 30 June 2011, all options were vested and exercisable. There were no options exercised during the year (2011: Nil).

	Opening Balance 1 July No.	Granted as compensation No.	Lapse of options No.	Net other changes No.	Closing Balance 30 June No.
2012					
Andrew McIlwain	18,000,000	-	(3,000,000)	-	15,000,000
Gregory Lee	23,000,000	-	(3,000,000)	-	20,000,000
Mark Freeman	15,000,000	-	-	-	15,000,000
David Calcei	13,000,000	-	(3,000,000)	-	10,000,000
2011					
Andrew McIlwain	3,000,000	15,000,000	-	-	18,000,000
Gregory Lee	3,000,000	20,000,000	-	-	23,000,000
Mark Freeman	-	15,000,000	-	-	15,000,000
David Calcei (i)	3,000,000	10,000,000	-	-	13,000,000
Michael Montgomery (ii)	3,000,000	-	-	-	N/A

(i) Mr David Calcei resigned on 24 November 2011.
(ii) Mr Montgomery resigned on 22 October 2010

(e) Other transactions with key management personnel and their related parties

Refer to Note 20(c)

7. FRANKING ACCOUNT BALANCE

	2012 $	2011 $
Adjusted franking account balance (tax paid basis)	6,187	6,187

8. EARNINGS PER SHARE

	2012 Cents	2011 Cents
Basic and diluted loss per share	(0.36)	(0.56)
The loss used in the calculation of basic and diluted loss per share are as follows:	(6,243,932)	(6,458,190)

	Number of Shares 2012	Number of Shares 2011
Weighted average number of ordinary shares on issue during the year used in the calculation of basic and diluted EPS:	1,686,420,858	1,159,219,448
Potential ordinary shares not considered to be dilutive	198,737,705	396,500,000

As the Group made a loss for the period, diluted earnings per share is the same as basic earnings per share. The impact of the dilution would be to reduce the loss per share.

9. CURRENT ASSETS – OTHER RECEIVABLES

	2012 $	2011 $
Accounts receivable – oil & gas sales (i)	4,476	82,648
Other receivables (i)	59,744	17,349
	64,220	99,997

(i) Due to the short term nature of these receivables, their carrying amount is assumed to approximate their fair value and the company does not face any significant credit risk exposure as at balance date.

10. NON-CURRENT ASSETS – PREPAYMENT

	2012 $	2011 $
Prepayment – Cash Calls (i)	127,571	755,416
	127,571	755,416

(i) This includes $30,514 cash calls paid to the operators of the oil & gas projects for exploration and development activities which had not been spent on exploration activities as at 30 June 2012. The expenditure will be recognised as capitalised "exploration and evaluation assets" when it is incurred.

11. NON-CURRENT INTANGIBLE ASSETS

	2012 $	2011 $
Exploration & evaluation – at cost (i)	3,331,131	5,497,530
Movement for the year		
Opening balance	5,497,530	3,761,066
Additions	3,276,312	2,601,862
Acquired on asset acquisition – Pass Petroleum	-	4,919,841
Impairment and divesture expense – Silverwood prospect	-	(517,347)
Impairment allowance (ii)	(5,475,261)	(4,515,036)
Sale of Bongo Prospect (iii)	(146,186)	-
Translation movement differences	178,736	(752,856)
Closing balance	3,331,131	5,497,530

(i) The ability of the Company to recoup the carrying value of the capitalised exploration and evaluation of hydrocarbon areas of interest is dependent on the successful development and commercial exploitation and/or sale of the respective interests.

(ii) The Company undertook impairment expense of :

- Lyons point prospect (A$3.521 million)
- Chorbane (A$254,946)
- Bullseye ($52,852)
- Sidi Dhaher (A$1.610 million)
- Bongo (A$35,534)

(iii) In February 2012 the company divested its interest in Bongo prospect

12. OIL & GAS PROPERTIES

	2012 $	2011 $
Oil & Gas Properties – at cost	15,909	107,203
Movement for the year		
Opening balance	107,743	-
Acquired on asset acquisition – Pass Petroleum	-	365,942
Depletion expense	-	(244,128)
Transfer to Prepayments	(31,018)	-
Amortisation	(63,407)	-
Translation movement differences	2,591	(14,611)
Closing balance	15,909	107,203

13. NON - CURRENT ASSETS - PROPERTY PLANT & EQUIPMENT

	2012	2011
Office equipment - at cost	816	816
Accumulated depreciation	(301)	(28)
	515	788

14. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	2012	2011
Trade payables (a)	253,881	197,815

(a) There are no amounts included with these balances that are not expected to be settled within the next 12 months. The average credit terms for services received by the consolidated Group are 30 days from invoice date.

15. CONTRIBUTED EQUITY

(a) Issued Capital

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

	2012 Shares	2011 Shares	2012 $	2011 $
Ordinary shares Fully paid (b)	1,885,158,563	1,495,908,563	25,090,385	23,347,487

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

(b) Reconciliation of Issued Capital

	Number of shares	$
Balance at 30 June 2010	685,551,589	13,148,308
Issued during the year		
Share placements	441,356,974	5,333,094
Shares issued – Pass Petroleum acquisition (Note 23)	369,000,000	5,166,000
Options exercised	-	-
Capital raising costs	-	(299,915)
Balance at 30 June 2011	1,495,908,563	23,347,487
Issued during the year		
Share placements	389,250,000	1,844,000
Capital raising costs	-	(101,102)
Balance at 30 June 2012	1,885,158,563	25,090,385

(c) Listed and Unlisted Options

	Exercise price Cents (c)	Expiry date	Balance at beginning of year Number	Granted during the Year Number	Exercised during year (e) Number	Expired during year(e) Number	Balance at end of year Number	Exercisable at end of year Number
Year ended 30 June 2012								
Unlisted EOP	1.5c	1Mar'12	500,000	-	-	(500,000)	-	-
Unlisted directors (d)	1.5c	1 Mar'12	12,000,000	-	-	(12,000,000)	-	-
Unlisted EOP	4.0c	9 Dec'12	500,000	-	-	-	500,000	500,000
Unlisted EOP (d)	2.5c	31Dec'13	7,500,000	-	-	-	7,500,000	7,500,000
Unlisted directors (d)	2.5c	31 Dec'13	60,000,000	-	-	-	60,000,000	60,000,000
Listed options	2.0c	31 Mar'12	316,000,000	-	-	(316,000,000)	-	-
			396,500,000	-	-	(328,500,000)	68,000,000	68,000,000
Year ended 30 June 2011								
Unlisted EOP	1.5c	1Mar'12	500,000	-	-	-	500,000	500,000
Unlisted directors (d)	1.5c	1 Mar'12	12,000,000	-	-	-	12,000,000	12,000,000
Unlisted EOP	4.0c	9 Dec'12	500,000	-	-	-	500,000	500,000
Unlisted Brokers	3.0c	31 Dec'10	15,000,000	-	-	(15,000,000)	-	-
Unlisted EOP (d)	2.5c	31Dec'13	-	7,500,000	-	-	7,500,000	7,500,000
Unlisted directors (d)	2.5c	31 Dec'13	-	60,000,000	-	-	60,000,000	60,000,000
Listed options	2.0c	31 Mar'12	-	316,000,000	-	-	316,000,000	316,000,000
			28,000,000	383,500,000	-	(15,000,000)	396,500,000	396,500,000

(d) Options issued To Directors

Information relating to option issued to Directors is set out in Note 6 (d).

(e) Employee Option Plan ("EOP")

Information relating to the EOP is set out in Note 18.

(f) Options exercised

During the year there were no options exercised.

16. RESERVES

	2012 $	2011 $
Share based payments reserve		
Balance at the beginning of the financial year	1,479,184	1,032,511
Share based payments for the year	-	446,673
Balance at the end of the financial year	1,479,184	1,479,184
Option premium reserve		
Balance at the beginning of the financial year	497,648	270,178
Share options issued during period	-	250,000
Option issue costs	-	(22,530)
Balance at the end of the financial year	497,648	497,648
Foreign currency translation reserve		
Balance at the beginning of the financial year	(666,779)	126,737
Foreign currency translation during the year	191,962	(793,516)
Balance at the end of the financial year	(474,817)	(666,779)
TOTAL RESERVES	1,502,015	1,310,053

(a) Share based payments reserve

This reserve represents all share based payments granted to Directors, consultants and/or employees. Further information about share-based payments to employees is set out in note 18.

(b) Option reserve

This reserve represents the consideration paid for all series of options issued to shareholders.

(c) Foreign currency translation reserve

This reserve represents Exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve (in respect of translating both the net assets of foreign operations and hedges of foreign operations) are reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

17. ACCUMULATED LOSSES

	2012 $	2011 $
Balance at the beginning of the financial year	(16,654,402)	(10,196,212)
Net loss attributable to members of the Company	(6,243,932)	(6,458,190)
Balance at the end of the financial year	(22,898,334)	(16,654,402)

18. SHARE BASED PAYMENTS

Expenses arising from share-based payments transactions

Total expenses arising from share-based payment transactions recognised during the year.

	2012 $	2011 $
Directors	-	391,941
Options issued under EOP	-	54,732
	-	446,673

Non Plan based payments

The Company will from time to time make share based payments to Directors. The Board will seek to align the interests of the executive team with those of the shareholders when setting future short and long-term benefits. This will from time to time require management to seek shareholder approval to provide compensation to executive and Non-Executive Directors in the form of share options.

The Company will from time to time make share based payments to consultants and service providers. The options are issued for nil consideration.

Employee Option Plan ("EOP")

Shareholders approved the Verus Investments Limited Employee Option Plan ("EOP") at the Annual General Meeting held on 24 November 2009. The plan is designed to provide incentives, assist in the recruitment, reward, retention of employees and key consultants, so as to provide opportunities for employees (both present and future) to participate directly in the equity of the Company.

The contractual life of each option granted is three years. The vesting period of the options is granted in accordance with the Board's discretion. Each option issued under the share-based payments converts into one ordinary share in the Company on exercise. The options carry neither rights to dividends nor voting rights. There are no cash settlement alternatives.

The following share-based payment arrangements were in existence during the current and prior reporting periods:

	Option series	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
1	EOP - Feb 2009	500,000	2-Feb-09	1-Mar-12	$0.015	$0.0096
2	Directors – Nov 2009	12,000,000	27-Nov-09	1-Mar-12	$0.015	$0.0259
3	EOP – Dec 2009	500,000	10-Dec-09	9-Dec-12	$0.04	$0.0261
4	Consultants – Jun 2010[1]	15,000,000	4-Jun-10	31-Dec-10	$0.03	$0.00009
5	Directors and EOP – Jan 2011	67,500,000	28-Jan-11	31-Dec-13	$0.025	$0.00653

[1]The value of options was determined by the invoiced value of the services provided (Series 4)

Fair value of unlisted options granted (Series 1, 2, 3 and 5)

The fair value of the equity-settled share options granted (to Directors and under the EOP) are estimated as at the date of grant using a Black-Scholes model taking into account the terms and conditions upon which the options were granted. The fair value of listed securities is calculated by reference to the market value of the securities trading on the Australian Securities Exchange (ASX) on or around the date of grant.

Inputs into the Model	Series 1	Series 2	Series 3	Series 5
Volatility (%)	250%	180%	180%	100%
Risk-free interest rate (%) – range	3.25%	3.25%	3.75%	4.75%
Expected life of option (years)	3 years	27 months	3 years	35 months
Exercise price (cents)	$0.015	$0.015	$0.04	$0.025
Share price at grant date (cents)	$0.005	$0.029	$0.029	$0.013

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

Movement in share options during the period

The following table reconciles those share options (issued under share based payment arrangements) that were outstanding at the beginning and end of the year:

	2012 Number of Options	2012 Weighted average exercise price	2011 Number of options	2011 Weighted average exercise price
Outstanding at beginning of the year	80,500,000	$0.024	28,000,000	$0.024
Granted during the year (unlisted)	-	-	67,500,000	$0.025
Granted during the year (listed)	-	-	-	-
Exercised during the year	-	-	-	-
Lapsed during the year (listed)	(12,500,000)	$0.03	(15,000,000)	$0.03
Outstanding at the end of the year	68,000,000	$0.0251	80,500,000	$0.024
Exercisable at the end of the year	68,000,000		80,500,000	
Weighted average remaining contractual life at end of year	1.49 years		2.21 years	

19. NOTES TO THE CASH FLOW STATEMENT

	2012 $	2011 $
(a) Reconciliation of cash and the equivalents: For the purpose of the cash flow statement, cash and cash equivalents includes cash on hand in banks.		
Cash and cash equivalents	525,505	1,740,019
(b) Reconciliation of loss for the period to net cash flows from operating activities:		
Loss for the period	(6,243,932)	(6,458,190)
Depreciation & depletion of non-current assets	273	244,156
Share based payments	-	446,673
Restoration Provision	115,146	-
Impairment – exploration & evaluation assets	5,475,261	5,032,383
Foreign exchange differences	(28,726)	63,531
Changes in net assets and liabilities:		
Decrease (increase) in receivables	35,777	(7,190)
Increase (decrease) in payables	56,066	7,603
Net cash outflows from operating activities	(590,135)	(671,034)

20. RELATED PARTY TRANSACTIONS

(a) Subsidiaries

Interests in subsidiaries are set out in note 22.

(b) Key management personnel

Disclosures relating to key management personnel are set out in note 6.

(c) Transactions with related parties

- Greg Lee provided executive services under a Consultancy agreement (as disclosed in the Remuneration Report). Total fees received of $200,000 (2011:$150,600).
- Mark Freeman provided executive services under a Consultancy agreement (as disclosed in the Remuneration Report). Total fees received of $35,500 (2011:$25,500).
- Fees for taxation and corporate filing services of $6,910 (2011: $1,350) were paid or payable to Icon Financial Management Pty Ltd, a company in which Mr David Calcei is a Director.
- Sam Russotti provided executive services under a Consultancy agreement (as disclosed in the Remuneration Report). Total fees received of $15,825 (2011:$Nil).
- Craig Nelmes provided executive services under a Consultancy agreement (as disclosed in the Remuneration Report). Total fees received of $81,430 (2011:$Nil).

21. SEGMENT INFORMATION

Business Segments

The segment information provided in the following table present the revenue and loss information for the reportable segments as reported to the board as a whole for the years ended 30 June 2012 and 30 June 2011.

The amounts provided to the board as a whole with respect to total assets are measured in a manner consistent with that of the financial statements, being allocated on basis of physical location of the asset.

	Revenue Year ended		**Segment Loss / (Profit)** Year ended	
	30-Jun 2012 $	**30-Jun 2011 $**	**30-Jun 2012 $**	**30-Jun 2011 $**
Oil and Gas Exploration – USA (a)	(227,823)	(356,097)	5,590,204	5,035,064
			5,590,204	5,035,064
Interest income			(12,576)	(28,711)
Other Income			(3,209)	-
Share based payments			-	446,673
Corporate and administration			669,513	1,005,164
Loss before tax			6,243,932	6,458,190
			Group Assets by Reportable Operating Segment	
Oil and Gas Exploration – USA (b)			3,544,557	5,188,893
Oil and Gas Exploration – Africa (b)			-	1,381,360
Total segment assets			3,544,557	6,570,253
Unallocated assets			520,294	1,630,700
Total Assets			4,064,851	8,200,953

Operating Segment

The operating Company presently operates in one operating segment being investments in onshore oil & gas exploration & evaluation with activities located in the USA and Africa.

(a) *Depreciation or Amortisation*

The segment loss for the year includes an oil properties depletion expense of $Nil (2011: 244,128) (Note 3).

(b) *Additions to non-current assets*

Additions for the year of $3,276,312 (2011: $7,521,703) relate to the oil & gas exploration in both USA and African segments.

22. SUBSIDIARIES

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

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding 2012 %	Equity Holding 2011 %
Verus Energy Inc	USA	Ordinary	100	100
Pass Petroleum Pty Ltd (a)	Australia	Ordinary	100	100
Pass Petroleum LLC (a)	USA	Ordinary	100	100

23. PARENT ENTITY DISCLOSURES

(a) The individual financial statements for the parent entity show the following aggregate information:

	2012 $	2011 $
Assets		
Current assets	541,295	1,629,912
Non-current assets	-	6,466,488
Total assets	541,295	8,096,400
Liabilities		
Current liabilities	112,506	96,477
Non-current liabilities	-	-
Total liabilities	112,506	96,477
Equity		
Contributed equity	25,090,385	23,347,487
Accumulated losses	(26,638,427)	(17,324,396)
Reserves		
Equity settled benefits reserve	1,198,997	1,479,184
Option reserve	777,834	497,648
Total equity	428,789	7,999,923
Loss for the year	(9,314,031)	(7,269,148)
Total comprehensive loss for the year	(9,314,031)	(7,269,148)

(b) *Contingent liabilities of the parent entity*
The parent entity did not have any contingent liabilities as at 30 June 2012 or 30 June 2011.

(c) *Commitments for expenditure*
The parent entity had no commitments for expenditure as at 30 June 2012.

24. SUBSEQUENT EVENTS

Sale of Bullseye Project and Jumonville Wells – All working interest partners have agreed to sell 100% of the project for US$1.5 million. Verus's net proceeds are estimated to be approximately US$150,000 plus some escrowed P & A funds.

Formal letter of Intent entered in to by Verus to divest the Tunisian Chorbane permit for $525,000 to Gulfsands Petroleum Plc.

There were no matters or circumstances that have arisen since 30 June 2012 that has significantly affected, or may significantly affect the Group's operations in future financial years, the results of those operations in future financial years or the Group's state of affairs in those future financial years.

Verus Group Investment Policy

The Investment Policy which has been sanctioned by the Company's shareholders is:-

"That the goal of the Company be and it's financial and investment policies be for the purpose of, the growth and maximisation of the value of the equity funds of the Company.

In pursuit of this goal, the directors have absolute discretion in applying the equity and any debt funds of the Company to investments, without limitation or restriction on:-

(i) The means by which this goal will be pursued;

(ii) The percentage of the Company's activities represented by the investment relative to the Company's own equity or asset bases;

(iii) The underlying activities into which these funds may be invested;

(iv) The percentage ownership of or participation in any underlying activity;

(v) The number of underlying activities in which funds may be invested at any one time;

(vi) The locations from where these underlying activities may be conducted; and

(vii) The time frame for which directors may intend to hold an investment prior to sale.

Without limiting the director's discretion in any way, investments may be made:

(i) Indirectly through trusts, partnership, joint ventures or securities, whether listed on a securities exchange or unlisted;

(ii) Directly through assets of any type, whether they be generally known as "real", "financial", "operating" or "non-operating";

(iii) In partnership with others; and

(iv) Into any underlying industry, business or resource sector.

Subject to all required regulatory approvals being in place, the Company may also act as the manager of funds provided by parties other than the Company."

AUSTRALIAN SECURITIES EXCHANGE INFORMATION

The shareholder information set out below was applicable as at 31 July 2012.

(a) Distribution of equity securities

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

	Ordinary shares (VIL)	Listed options (VILO)
1 – 1,000	41	-
1,001 – 5,000	75	-
5,001 – 10,000	57	-
10,001 – 100,000	857	-
100,001 and over	1,364	-
	2,394	-

There were 793 holders of less than a marketable parcel of ordinary shares.

(b) Equity security holders – ordinary shares

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

Name	Shares Held	% Total Issued
AVIEMORE CAPITAL PTY LTD	53,124,242	2.82
MARIO TRAVIATI	45,304,982	2.40
MR SPECIALISTS PTY LTD	36,000,000	1.91
GENTEEL NOMINEES PTY LTD	23,250,000	1.23
MC FLEET SERVICES PTY LTD	22,514,318	1.19
MR GRAHAM FRANCIS BRYANT + MRS JOSEPHINE BRYANT <BRYANT SUPERANNUATION A/C>	22,000,000	1.17
JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	21,147,029	1.12
MR ROGER BRENT SUYAMA	18,725,759	0.99
PATA NOMINEES PTY LTD <THE LMST MASEL A/C>	18,163,266	0.96
MR ZI YUN WU	17,339,294	0.92
INTRO PTY LTD <SUPER FUND A/C>	17,048,968	0.90
MR MARK KOWALEWSKI	15,940,000	0.85
SEASPIN PTY LTD <THE APHRODITE A/C>	15,333,333	0.81
MICALLEF PLUMBING INDUSTRIES PTY LTD	14,712,979	0.78
MR BRETT MITCHELL + MRS MICHELLE MITCHELL <LEFTHANDERS SUPER FUND A/C>	14,331,633	0.76
MR BRYAN CLEMINSON	14,000,000	0.74
MRS DENISE JOYCE MURTON <INTERNATIONAL VENTURES A/C>	14,000,000	0.74
R & L DAHL ENTERPRISES PTY LIMITED <DAHL SUPER FUND A/C>	13,745,383	0.73
MR VITO STEVEN SILVESTRI	13,220,448	0.70
GORDON FAMILY SUPERANNUATION PTY LTD <GORDON FAMILY S/FUND A/C>	12,000,000	0.64
TOTAL	**421,901,634**	**22.36**

(c) Voting Rights

The voting rights attaching to each class of equity securities are set out below:

- *Ordinary shares*

  On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

- *Options (both listed and unlisted)*

  No voting rights.

(d) Substantial holders

There are no substantial shareholders

(e) Unquoted options

Unquoted options on issue at 30 September 2012 were as follows:

Refer Note	Number of Options	Exercise Price	Exercise Periods/ Expiry Dates	Number of Holders
1	67,500,000	2.5 cents	On or before 31 December 2013	6

The names of the holders of 20% or more options in these unquoted securities are:

Note	Name	Number of Options Held
1	Mr Greg Lee	20,000,000
1	MACFAC Pty Ltd ATF <McIlwain Family Trust>	15,000,000
1	Mr Mark Freeman <Freeman Family A/C>	15,000,000