

# **MARENICA ENERGY LIMITED**

ABN 71 001 666 600

## **ANNUAL FINANCIAL STATEMENTS**

**30 JUNE 2011**

## COMPANY INFORMATION

### DIRECTORS

R Pearce (Non-executive Chairman)  
D Sanders (Non-executive director)  
G Becker (Non-executive director)  
D Buerger (Non-executive director)

### CHIEF EXECUTIVE OFFICER

J Young

### COMPANY SECRETARY

S Robertson

### REGISTERED OFFICE

Ground Floor, 47 Colin Street  
West Perth WA 6005  
Tel: 61 8 9321 7355  
Fax: 61 8 9321 7399

### WEB SITE

[www.marenicaenergy.com.au](http://www.marenicaenergy.com.au)

### AUDITOR

Rothsay Chartered Accountants  
Level 18, Central Park Building  
152-158 St Georges Tce  
Perth WA 6000  
Tel: 61 8 9227 0552

### STOCK EXCHANGES

Australian Securities Exchange Limited – MEY  
Namibia Stock Exchange – WAM  
Various German Exchanges

### HOME EXCHANGE

Perth

### SHARE REGISTRY

Advanced Share Registry Services  
150 Stirling Highway  
Nedlands WA 6009  
Tel: 61 8 9389 8033 Fax: 61 8 9389 7871

### ASX CODE

MEY

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## DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Marenica Energy Limited and the entities it controlled at the end of, or during, the year ended 30 June 2011.

### DIRECTORS

The following persons were directors of Marenica Energy Limited during or since the end of the financial year and up to the date of this report:

R Pearce, Non-executive chairman  
D Sanders, Non-executive director  
G Becker, Non-executive director (*appointed 19 August 2010*)  
D Buerger, Non-executive director (*appointed 23 September 2010*)  
C Zhu, Non-executive Director (*appointed 13 December 2010 resigned 13 September 2011*)  
N Biddle, Non-executive director (*retired 19 November 2010*)

### INFORMATION ON DIRECTORS

#### **Robert Pearce** – *Non-executive chairman*

Mr Pearce has been an Australian Chartered Accountant for over 40 years and has more than 25 years experience in the resource sector. Over that time, he has been a director (in some cases chairman) and held senior executive positions in several resource and industrial companies listed on the Australian, UK and US stock exchanges.

Directorships in the past 3 years: Gladstone Pacific Nickel Limited

#### **David Sanders** – *Non-executive director*

Mr Sanders is a lawyer with over 15 years experience in corporate and resources law. He advises numerous ASX listed companies, including companies in the resources sector, on capital raising, mergers and acquisitions, Corporations Act and ASX Listing Rules compliance and corporate governance. He holds Bachelor of Law and Bachelor of Commerce degrees from the University of Western Australia and a Graduate Diploma of Applied Finance and Investments from the Securities Institute of Australia.

Directorships in the past 3 years: Acuvax Limited, Golden West Resources Limited.

#### **Gavin Becker** – *Non-executive director (appointed 19 August 2010)*

Mr Becker is a metallurgist with over 35 years industry experience. During that time he has worked in senior operational, R&D, feasibility study and consulting roles on lead/zinc, gold, uranium, copper and nickel mines and/or projects. He holds a Bachelor of Science (Engineering) degree from the University of London and completed his MBA at Bond University. Mr Becker is a fellow of the Australasian Institute of Mining and Metallurgy and is an associate of the Royal School of Mines (UK).

Directorships in the past 3 years: None

#### **Douglas Buerger** – *Non-executive director (appointed 23 September 2010)*

Mr Buerger specialises in exploration, geochemistry and geology. He has extensive industry experience in project management, general management and executive management roles. Most recently he held the position of Managing Director and CEO of Bendigo Mining Limited until his retirement in 2007.

Directorships in the past 3 years: None

#### **Calvin Zhu** – *Non-executive director (appointed 13 December 2010 resigned 13 September 2011)*

Mr Zhu Calvin has over 8 years of commercial experience spanning across Investment Banking, Management Consulting and Financial Analysis. He joins Hanlong from Credit Suisse Australia where he specialised in Mergers & Acquisitions and Debt Capital Markets. Calvin has been involved in over \$5bn of public market transactions, advising blue chip clients such as Commonwealth Bank of Australia, Woolworths, Australian Government and private equity firms. Prior to Investment Banking, Calvin was a consultant with PA Consulting Group and spent over 3 years with Proctor & Gamble. Calvin holds a Bachelor of Applied Finance from Macquarie University and was awarded the John Allison Actuarial Scholarship.

Directorships in the past 3 years: None

## INFORMATION ON CHIEF EXECUTIVE OFFICER AND COMPANY SECRETARY

### John Young - Chief executive officer

Mr Young is a geologist with experience in resource project management. He is a Member of the Australian Institute of Mining and Metallurgy and the Australian Institute of Company Directors and has worked on a wide variety of mineral and resource projects throughout Australia in operational and management roles.

He has held senior management and operational positions at Arrow Resources Management Pty Limited, Haddington Resources Limited, and as CEO and director of AIM and ASX listed Thor Mining PLC, a company focused in specialty metals. He was appointed CEO in January 2009.

### Simon Robertson – Company Secretary

Mr Robertson gained a Bachelor of Business from Curtin University in Western Australia and Master of Applied Finance from Macquarie University in New South Wales. He is a member of the Institute of Chartered Accountants and the Chartered Secretaries Australia. He currently holds the position of Company Secretary for a number of publically listed companies and has experience in corporate finance, accounting and administration, capital raisings and ASX compliance and regulatory requirements.

## DIRECTORS' INTERESTS

The interests of directors in securities of the company at the date of this report are:

Director	Fully Paid Ordinary Shares	Options
R Pearce	212,500	2,000,000
D Sanders	100,000	1,500,000
G Becker	450,000	1,500,000
D Buerger	110,000	1,500,000

## PRINCIPAL ACTIVITIES

The principal activity of the consolidated entity during the course of the financial year was the exploration of mineral tenements in Namibia for uranium. There were no significant changes in the nature of the consolidated entity's principal activities during the year.

## RESULTS

The total loss of the consolidated entity attributable to the owners of Marenica Energy Limited for the financial year was \$5,300,603 (2010: \$9,651,377).

## REVIEW OF OPERATIONS

During the year, the company continued to focus on the exploration and development of its 75%-owned Marenica Uranium Project, which is located in one of the world's emerging uranium "hot spots", the uranium-rich Damara Province in Namibia, southern Africa.

During the year the Company made significant progress towards its objective of becoming a leading uranium producer, with the completion of a Scoping Study by SRK Consulting which found that the Marenica Project has the potential to deliver production of 3.5 million pounds pa.

Metallurgy test work continued.

Resource development drilling was completed in the East Pit zone, with a total of 205 holes drilled for 11,201 metres. The drilling has confirmed the continuity of the +50ppm ore envelope in the eastern part of the resource area. Within this area, a number of northeast-trending high-grade zones were also identified, some of which remain open to the north and south.

## FINANCIAL POSITION AND SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The net assets of the consolidated entity decreased by \$1,090,244 as a result of continuing exploration activities.

Cash on hand at 30 June 2011 totalled \$3.2 million.

During the year a total of \$3.1 million was raised from the issue of shares via a placement, rights issue and issue of convertible notes.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The company intends to continue exploration and to develop the resources on the Marenica Uranium project in Namibia, considers the acquisition of further tenements for exploration of minerals and to seek other areas of investment.

## DIVIDENDS

No dividends have been provided for or paid by the consolidated entity in respect of the year ended 30 June 2011 (30 June 2010: Nil).

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

As announced on the 21st September 2011, Marenica has subscribed for 3.4 million shares in Texas & Oklahoma Coal Company Limited ("TOCC"), which has issued initial seed capital of 28.75 million shares at \$US0.06 per share. This will equate to a 6.4 per cent interest in the Company's pre-IPO issued capital. The investment will provide Marenica with an early-stage opportunity to participate in the development of coal export opportunities from the United States of America (USA).

Other than the above, there have been no other matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect:

- (i) the consolidated entity's operations in future years; or
- (ii) the results of those operations in future years; or
- (iii) the consolidated entity's state of affairs in future years.

## ENVIRONMENTAL REGULATIONS

The company's environmental obligations are regulated by the Laws of Namibia. The company has complied with its environmental performance obligations. No environmental breaches have been notified by any Government agency to the date of the Directors' Report.

## SHARE OPTIONS

At the date of this report, the unissued ordinary shares of the company under option are as follows:

Expiry Date	Exercise Price	Number under Option
15 December 2013	\$0.21	12,500,000
31 October 2011	\$0.20	7,450,000
31 October 2013	\$0.13	6,500,000

The Options do not entitle the holder to participate in any share issue of the company or any other body corporate.

During or since the end of the financial year the company has not issued any Shares as a result of the exercise of Options.

## INDEMNIFICATION AND INSURANCE OF OFFICERS

The company resolved that it would indemnify its current directors and officers. Coverage in respect of this indemnity has been provided via a Directors and Officers insurance policy negotiated at commercial terms. The premium paid during the year was \$10,807 (2010: \$11,318).

Excluding the matter noted above the company has not, during or since the financial year-end, in respect of any person who is, or has been an officer or auditor of the company or a related body corporate:

- Indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings; or
- Paid or agreed to pay a premium in respect of a contract insuring against a liability incurred as an officer for the costs or expenses to defend legal proceedings.

## NON-AUDIT SERVICES

During the year the auditor charged \$nil (2010: \$nil) for the provision of taxation advice.

## DIRECTORS' MEETINGS

The number of meetings attended by each director during the year is as follows:

Director	Number of meetings held while in office	Number of meetings attended
R Pearce	6	6
G Becker	4	4
D Sanders	6	6
D Buerger	3	3
C Zhu	2	2
N Biddle	4	3

## REMUNERATION REPORT - AUDITED

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

The objective of the company's reward framework is to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors and executives to the highest calibre whilst maintaining a cost which is acceptable to shareholders

#### *Non-executive directors*

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed by the board. The chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to determination of his own remuneration.

#### *Directors' fees*

Directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$300,000 in aggregate. This amount is separate from any specific tasks the directors may take on for the company in the normal course of business and at normal commercial rates.

Fees for directors are not linked to the performance of the consolidated entity however, to align all directors' interests with shareholders' interests, directors are encouraged to hold shares in the company and may receive options. This effectively links directors' performance to the share price performance and therefore to the interests of shareholders. There have been no performance conditions imposed prior to the grant of options which act as an incentive to increase the value for all shareholders.

#### *Executive remuneration*

The company aims to reward executives (both directors and company executives) with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to:

- Reward executives for company performance
- Align the interest of executives with those of shareholders
- Ensure total remuneration is competitive by market standards

Fixed remuneration is reviewed annually or upon renewal of fixed term contracts by the board and the process consists of a review of company and individual performance, relevant comparative remuneration in the market and internal policies and practices. Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

The objective of variable remuneration provided is to reward executives in a manner which aligns this element of remuneration with the creation of shareholder wealth. Variable remuneration may be delivered in the form of share options granted with or without vesting conditions.

**B. Details of remuneration**

**REMUNERATION FOR THE YEARS ENDED 30 JUNE 2011 AND 30 JUNE 2010**

<i>Name</i>	<i>Short-Term Benefits</i> <i>Base Remuneration</i>	<i>Short-Term Benefits</i> <i>Fees and Disbursements</i>	<i>Post-Employment Benefits</i> <i>Super-annuation</i>	<i>Share Based Payments</i> <i>Value of Options and ESS</i>	<i>Total</i>	<i>Value of Share Based Payments as a Proportion of Remuneration</i> <i>%</i>
<b>Directors</b>						
R Pearce - 2011	54,137	5,450	-	91,105	150,692	60
- 2010	11,067	-	-	-	11,067	-
D Sanders - 2011	48,000	-	4,320	68,329	120,649	57
- 2010	48,000	-	4,320	21,899	74,219	29
G Becker - 2011	41,578	-	3,742	68,329	113,649	60
- 2010	-	-	-	-	-	-
D Buerger - 2011	40,002	-	-	68,329	108,331	63
- 2010	-	-	-	-	-	-
C Zhu - 2011	26,322	-	2,369	-	28,691	-
- 2010	-	-	-	-	-	-
N Biddle <sup>(a)</sup> - 2011	18,533	23,167	-	-	41,700	-
- 2010	48,000	82,200	-	400,560	530,760	75
G Woolford - 2011	-	-	-	-	-	-
- 2010	47,330	213,200	-	200,280	460,810	43
<b>Key Management Personnel</b>						
J Young (CEO) - 2011	266,000	-	23,940	-	289,940	-
- 2010	237,754	-	21,398	367,297	626,449	59
E van Noort - 2011	160,000	-	14,400	-	174,400	-
- 2010	163,406	-	14,706	232,642	410,754	56
S Robertson <sup>(b)</sup> - 2011	-	81,700	-	-	81,700	-
- 2010	-	47,530	-	166,675	214,205	77
<b>Total</b>						
- 2011	654,572	110,317	48,771	296,092	1,109,752	27
- 2010	555,557	342,930	40,424	1,389,353	2,328,264	60

Proportion of above remuneration performance based %: None

- Geological, corporate and promotional fees of \$23,167 (2010: \$82,200) were paid to Hatched Creek Pty Limited, a company in which Mr Biddle is a director.
- Fees for administrative, company secretarial and accounting services of \$81,700 (2010: \$47,530) were paid to SLR Consulting Pty Ltd a company in which Mr Robertson is a director.

### C. Service agreements

#### J Young – Chief executive officer

A formal written service agreement is in place. Details of Mr Young's employment agreement are:

- Base salary, inclusive of superannuation, effective 30 June 2011 is \$289,940 per annum, reviewable on an annual basis.
- Payment of a termination benefit on early termination by the company, other than for grave misconduct or long term incapacity, equal to six (6) months salary.

### D. Analysis of Options and Rights over Equity Instruments granted as remuneration

Details of vesting profile of options vested or expired during the year and those options unexercised at balance date granted as remuneration to current key management personnel of the company are detailed below:

#### Year ended 30 June 2011

Directors	Options Granted		Fair value per option at grant date \$	Exercise price per option \$	First exercise date	Expiry and last exercise date	Number vested
	Number	Date					
R Pearce	2,000,000	19/11/10	0.0455	0.13	19/11/10	31/10/13	2,000,000
G Becker	1,500,000	19/11/10	0.0455	0.13	19/11/10	31/10/13	1,500,000
D Buerger	1,500,000	19/11/10	0.0455	0.13	19/11/10	31/10/13	1,500,000
D Sanders	1,500,000	19/11/10	0.0455	0.13	19/11/10	31/10/13	1,500,000
	<u>6,500,000</u>						<u>6,500,000</u>

#### Other KMP

No options were issued to other KMP during the year ended 30 June 2011.

#### Year ended 30 June 2010

Directors	Options Granted		Fair value per option at grant date \$	Exercise price per option \$	First exercise date	Expiry and last exercise date	Number vested
	Number	Date					
N Biddle	6,000,000	09/07/09	0.067	0.15	09/07/09	30/06/10	6,000,000
G Woolford	3,000,000	09/07/09	0.067	0.15	09/07/09	30/06/10	3,000,000
D Sanders	1,000,000	16/12/09	0.022	0.15	16/12/09	30/06/10	1,000,000
<b>Other KMP</b>							
J Young	2,000,000	09/11/09	0.049	0.20	09/11/09	31/10/11	2,000,000
J Young	4,000,000	23/04/10	0.067	0.21	23/04/10	15/12/13	4,000,000
E Van Noort	500,000	09/07/09	0.049	0.15	09/07/09	30/06/10	500,000
E Van Noort	1,500,000	09/11/09	0.049	0.20	09/11/09	31/10/11	1,500,000
E Van Noort	2,000,000	23/04/10	0.067	0.21	23/04/10	15/12/13	2,000,000
S Robertson	250,000	09/07/09	0.067	0.15	09/07/09	30/06/10	250,000
S Robertson	1,000,000	09/11/09	0.049	0.20	09/11/09	31/10/11	1,000,000
S Robertson	1,500,000	23/04/10	0.067	0.21	23/04/10	15/12/13	1,500,000
	<u>22,750,000</u>						<u>22,750,000</u>

## E. Options granted as part of remuneration

### Year ended 30 June 2011

Directors	Value of options granted during the year	Value of options exercised during the year	Value of options lapsed during the year	Percentage of total remuneration for the year that consists of options
R Pearce	91,105	-	-	60%
D Sanders	68,329	-	-	57%
G Becker	68,329	-	-	60%
D Buerger	68,329	-	-	63%

### Year ended 30 June 2010

Directors	Value of options granted during the year	Value of options exercised during the year	Value of options lapsed during the year	Percentage of total remuneration for the year that consists of options
N Biddle	400,560	27,500	-	75%
G Woolford	200,280	-	-	43%
D Sanders	21,899	-	-	29%
<b>Other KMP</b>				
J Young	367,297	-	-	59%
E Van Noort	232,642	-	-	56%
S Robertson	166,675	-	-	77%

End of audited remuneration report

## LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set out on the next page and forms part of the Directors' Report for the year ended 30 June 2011.

Signed in accordance with a resolution of the directors:

**Robert Pearce**  
Perth  
26 September 2011

Information in this report that relates to exploration results is based on information compiled by Dr Erik van Noort, who is a Member of the Australian Institute of Geoscientists. Dr van Noort is a full-time employee of Marenica Energy Limited and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Dr van Noort consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this announcement that relates to Mineral Resources is based on information compiled by a team of full time employees of SRK Consulting (UK) Ltd which was directed by Dr Mike Armitage.

Dr Armitage who is a Member of the Institute of Materials, Minerals and Mining and a Fellow of the Geological Society of London, both of which are 'Recognised Overseas Professional Organisations' ('ROPOs'), is the Chairman of SRK Consulting (UK) Ltd and has taken responsibility for the Mineral Resource aspects of SRK's work. Dr Rob Bowell, a Principal Geochemist with SRK and who is also a Fellow of the Geological Society of London as well as a Fellow of the Institute of Mining, Materials and Minerals and a Member of the Royal Society of Chemistry takes responsibility for any comments related metallurgical testwork.

Other team members, Dr John Arthur and Ms Tracey Laight are both Fellows of the Geological Society of London, Dr Arthur is also a Member of the Institute of Materials, Minerals and Mining.

Both Dr Armitage and Dr Bowell have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they have undertaken to qualify as a Competent Persons as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Both Dr Armitage and Dr Bowell consent to the inclusion in this report of the matters based on their information in the form and context in which these appear."

# *R*OTHSA Y

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P.O. Box 8716, Perth Business Centre WA 6849  
Phone (08) 6364 5076 www.rothsay.com.au

The Directors  
Marenica Energy Ltd  
47 Colin St  
West Perth WA 6005

Dear Sirs

In accordance with Section 307C of the Corporations Act 2001 (the "Act") I hereby declare that to the best of my knowledge and belief there have been:

- i) no contraventions of the auditor independence requirements of the Act in relation to the audit of the 30 June 2011 financial statements; and
- ii) no contraventions of any applicable code of professional conduct in relation to the audit.



Graham R Swan (Lead auditor)

Rothsay Chartered Accountants

Dated 26 September 2011



Chartered Accountants

Liability limited by the Accountants Scheme, approved  
under the Professional Standards Act 1994 (NSW).

**STATEMENT OF COMPREHENSIVE INCOME  
for the year ended 30 June 2011**

	Note	2011 \$	2010 \$
<b>Continuing operations</b>			
Other revenues	4	3,593,425	50
Financial income	4	197,368	209,604
		<u>3,790,793</u>	<u>209,654</u>
<b>Expenses</b>			
Exploration and evaluation expenditure		(1,511,762)	(3,396,382)
Employee benefit expense		(1,126,636)	(1,058,697)
Project introduction fees	26	(323,178)	(968,500)
Foreign exchange loss/(gain)		(807,489)	(217,505)
Administration expenses		(1,411,486)	(2,227,916)
Fair value of options granted as employee remuneration		(296,091)	(1,957,989)
Impairment of loan	6	(3,425,275)	-
Depreciation expense		(32,973)	(70,228)
Finance expense		(158,512)	(42,076)
<b>Total expenses</b>		<u>(9,093,402)</u>	<u>(9,939,293)</u>
<b>Loss before income tax expense</b>		(5,302,609)	(9,729,639)
Income tax expense	5	-	-
<b>Net loss for the year</b>		<u>(5,302,609)</u>	<u>(9,729,639)</u>
Net loss for the year is attributable to:			
Owners of Marenica Energy Limited		(5,300,603)	(9,651,377)
Non-controlling interests		(2,006)	(78,262)
<b>Net loss for the year</b>		(5,302,609)	(9,729,639)
<b>Other comprehensive income</b>			
Exchange differences on translation of foreign operations		792,042	130,447
<b>Total comprehensive income for the year</b>		<u>(4,510,567)</u>	<u>(9,599,192)</u>
Total comprehensive income for the year is attributable to:			
Owners of Marenica Energy Limited		(4,508,561)	(9,520,930)
Non-controlling interests		(2,006)	(78,262)
		<u>(4,510,567)</u>	<u>(9,599,192)</u>
<b>Earnings per share</b>			
Basic loss per share (cents per share)	21	(1.14)	(2.14)

Diluted losses per share are not disclosed as they are not materially different to basic losses per share.

The statement of comprehensive income should be read in conjunction with the accompanying notes.

**STATEMENT OF FINANCIAL POSITION  
as at 30 June 2011**

	Note	2011 \$	2010 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	19	3,248,641	2,592,101
Trade and other receivables	6	162,944	47,467
Other	8	7,612	5,741
<b>Total Current Assets</b>		<u>3,419,197</u>	<u>2,645,309</u>
<b>Non-Current Assets</b>			
Plant & equipment	7	221,166	274,067
Other	8	29,752	26,828
<b>Total Non-Current Assets</b>		<u>250,918</u>	<u>300,895</u>
<b>TOTAL ASSETS</b>		<u>3,670,115</u>	<u>2,946,204</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	9	501,548	473,408
Borrowings	10	16,371	-
Employee benefits	11	42,659	36,697
<b>Total Current Liabilities</b>		<u>560,578</u>	<u>510,105</u>
<b>Non-Current Liabilities</b>			
Borrowings	10	1,763,682	-
<b>Total Non-Current Liabilities</b>		<u>1,763,682</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>		<u>2,324,260</u>	<u>510,105</u>
<b>NET ASSETS</b>		<u>1,345,855</u>	<u>2,436,099</u>
<b>EQUITY</b>			
Issued capital	12	38,147,944	35,311,163
Reserves	13	2,470,544	1,307,739
Accumulated losses	14	(39,105,848)	(34,018,024)
<b>TOTAL CAPITAL AND RESERVES ATTRIBUTABLE TO THE OWNERS OF MARENICA ENERGY LIMITED</b>		<u>1,512,640</u>	<u>2,600,878</u>
Non-controlling interests		(166,785)	(164,779)
<b>TOTAL EQUITY</b>		<u>1,345,855</u>	<u>2,436,099</u>

The statement of financial position should be read in conjunction with the accompanying notes.

## STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2011

	Notes	Issued Capital	Accum- ulated Losses	Reserves	Total	Non- controlling Interests	Total Equity
<b>Balance at beginning of year</b>		<b>35,311,163</b>	<b>(34,018,024)</b>	<b>1,307,739</b>	<b>2,600,878</b>	<b>(164,779)</b>	<b>2,436,099</b>
Total comprehensive income for the year		-	(5,300,603)		(5,300,603)	(2,006)	(5,302,609)
Issue of shares, net of transaction costs	12	2,836,781	-		2,836,781	-	2,836,781
Value of options granted	13	-	-	296,091	296,091	-	296,091
Transfer on exercise or expiry of options	13	-	212,779	(212,779)	-	-	-
Currency translation movements	13	-	-	792,042	792,042	-	792,042
Transfer on recognition or conversion of notes	13	-	-	287,451	287,451	-	287,451
<b>Balance at end of year</b>		<b>38,147,944</b>	<b>(39,105,848)</b>	<b>2,470,544</b>	<b>1,512,640</b>	<b>(166,785)</b>	<b>1,345,855</b>

for the year ended 30 June 2010

	Notes	Issued Capital	Accum- ulated Losses	Reserves	Total	Non- controlling Interests	Total Equity
<b>Balance at beginning of year</b>		<b>34,693,164</b>	<b>(25,611,713)</b>	<b>464,368</b>	<b>9,545,819</b>	<b>(86,517)</b>	<b>9,459,302</b>
Total comprehensive income for the year		-	(9,520,930)	-	(9,520,930)	(78,262)	(9,599,192)
Issue of shares, net of transaction costs	12	617,999	-	-	617,999	-	617,999
Value of options granted	13	-	-	1,957,990	1,957,990	-	1,957,990
Transfer on exercise or expiry of options	13	-	1,123,921	(1,123,921)	-	-	-
Currency translation movements	13	-	(130,447)	130,447	130,447	-	-
Transfer on recognition or conversion of notes	13	-	121,145	(121,145)	-	-	-
<b>Balance at end of year</b>		<b>35,311,163</b>	<b>(34,018,024)</b>	<b>1,307,739</b>	<b>2,600,878</b>	<b>(164,779)</b>	<b>2,436,099</b>

The above statements of changes in equity should be read in conjunction with the accompanying notes.

**STATEMENT OF CASH FLOWS**  
**for the year ended 30 June 2011**

	Note	2011 \$	2010 \$
<b>Cash flows from operating activities</b>			
Interest received		195,497	203,863
Interest paid		(9,097)	(42,076)
Research & Development grant		162,361	-
Sundry receipts		4,672	-
Payments to suppliers and employees		(2,733,226)	(3,627,382)
Payments for project introduction fees		(323,178)	(968,500)
Exploration expenditure		(1,511,762)	(3,636,251)
<b>Net cash outflow from operating activities</b>	20	<u>(4,214,733)</u>	<u>(8,070,346)</u>
<b>Cash flows from investing activities</b>			
Payments for property, plant & equipment		(63,315)	(214,907)
Proceeds from the sale of property, plant & equipment		84,360	50
Security bonds returned		-	34,773
Payment of security bonds		(2,924)	(21,726)
<b>Net cash outflow from investing activities</b>		<u>18,121</u>	<u>(201,810)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		3,053,216	620,000
Share issue costs		(216,435)	(2,001)
Proceeds (repayments) of borrowings		2,016,371	(237,885)
<b>Net cash inflow from financing activities</b>		<u>4,853,152</u>	<u>380,114</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		656,540	(7,892,042)
Cash and cash equivalents at the beginning of the financial year		<u>2,592,101</u>	<u>10,484,143</u>
<b>Cash at the end of the financial year</b>	19	<u>3,248,641</u>	<u>2,592,101</u>

The statement of cash flows should be read in conjunction with the accompanying notes.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2011

### 1. CORPORATE INFORMATION

The financial statements of Marenica Energy Limited for the year ended 30 June 2011 were authorised for issue in accordance with a resolution of the directors on 26 September 2011.

Marenica Energy Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange, the Namibia Stock Exchange and various German exchanges.

Separate financial statements for Marenica Energy Limited as an individual entity are no longer presented as the consequence of a change to the Corporations Act 2001, however, required financial information for the company as an individual entity is included in Note 25.

The nature of operations and principal activities of the consolidated entity, comprising Marenica Energy Limited and its subsidiaries, are described in the Directors' Report.

### 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

#### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues consolidated entity Interpretations and the Corporations Act 2001.

Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

#### New Accounting Standards for Application in Future Periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the group follows:

- AASB 9: Financial Instruments and AASB 2009-11; Amendments to Australian Accounting Standards arising from AASB 9 (AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 138, 139, 1023 & 1038 and Interpretations 10 & 121 (applicable for annual reporting periods commencing on or after 1 January 2013).

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The group has not yet determined the potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2011

### 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on;
  - a. the objective of the entity's business model for managing the financial assets; and
  - b. the characteristics of the contractual cash flows.
- AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. These amendments are not expected to impact the group.

- AASB 2009-5; Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.

- AASB 2009-8; Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Group.

- AASB 2009-9: Amendments to Australian Accounting Standards - Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Group.

- AASB 2009-10: Amendments to Australian Accounting Standards - Classification of Rights Issues [AASB 132] applicable for annual reporting periods commencing on or after 1 February 2010).

These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the Group.

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

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2011

### 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- AASB 2009-13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Group.

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

This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan. This standard will not impact the Group.

- AASB Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).

This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group.

The group does not anticipate the early adoption of any of the above Australian Accounting Standards.

#### Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

#### Critical Accounting Estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

#### Functional and Presentation Currency

These consolidated financial statements are presented in Australian dollars, which is the company's functional currency and the functional currency of the majority of the consolidated entity's current financial transactions.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2011

### 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Going Concern

The consolidated entity incurred losses of \$5,300,603 (2010: \$9,651,377) and net operating cash outflows of \$4,214,733 (2010: \$8,070,346). These were offset by net cash inflows from financing activities of \$4,853,152 (2010: \$380,114) for the year ended 30 June 2011 and, as at that date, had a working capital surplus of \$2,858,619 (2010: \$2,135,204).

The consolidated entity's ability to continue as a going concern and pay its debts as and when they fall due is dependent on the following:

- Active management of the current level of discretionary expenditure in line with the funds available to the consolidated entity; and
- The ability to raise additional funding through either debt facilities or capital raising, if required.

Based on the existing cash resources, the ability to reduce operational, administration and exploration expenditure and the ability to raise additional funding either by way of debt or capital raisings if required, the directors are satisfied that the going concern basis of preparation is appropriate.

#### (b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Marenica Energy Limited ("company" or "parent entity") as at 30 June 2011 and the results of all subsidiaries for the year then ended. Marenica Energy Limited and its subsidiaries together are referred to in these financial statements as the group or the consolidated entity.

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

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

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. The effects of all intercompany transactions, balances and unrealised gains on transactions between entities in the group are eliminated in full.

#### (c) Change of accounting policy

There have been no changes in accounting policies in the year ended 30 June 2011.

#### (d) Exploration expenses

Exploration and evaluation costs represent intangible assets. Exploration and evaluation costs (including costs incurred as a result of the introduction agreement referred to in note 26 but excluding other acquisition costs) are expensed as incurred. Acquisition costs related to an area of interest are capitalised and carried forward to the extent 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 which permits reasonable assessment of the existence of economically recoverable reserves and active and significant operations in, or in relation to, the areas of interest are continuing.

Accumulated acquisition costs in relation to an abandoned area are written off in full against profit and loss account in the year in which the decision to abandon the area is made.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2011

### 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed.

#### (e) Cash and cash equivalents

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

#### (f) Plant and equipment

Plant and equipment is stated at historical cost less depreciation. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset during their expected useful life of 3 to 5 years.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not shown in the accounts at a value in excess of the recoverable amount from assets.

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

##### *Classification*

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

##### *Financial assets at fair value through profit and loss*

Financial assets at fair value through profit and loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after 30 June 2011 which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position.

##### *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

## **NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2011**

### **2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### *Available-for-sale financial assets*

Available-for-sale financial assets, principally comprising marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of 30 June 2011

#### *Recognition and derecognition*

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

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

#### *Subsequent measurement*

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

Available-for-sale financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are presented in the income statement within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognised in the income statement as part of income from continuing operations when the company’s right to receive payment is established.

#### *Fair value*

The fair values of quoted investments are based on last trade prices. If the market for financial assets is not active (and for unlisted securities), the company establishes fair value by using valuation techniques.

#### *Impairment*

The company assesses at each balance date whether there is objective evidence that a financial asset is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement.

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

#### *Provisions and employee benefits*

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

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2011

### 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at 30 June 2011 using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. The increase in the provision resulting from the passage of time is recognised in finance costs.

#### *Employee leave benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

#### (i) Share based payments

The company provides benefits to directors, employees, consultants and other advisors of the company in the form of share-based payments, whereby the directors, employees, consultants and other advisors render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the market price of the shares of the company if applicable.

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

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

- (i) the extent to which the vesting period has expired and
- (ii) the company's best estimate of the number of equity instruments that will ultimately vest.

No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the recipient, as measured at the date of modification.

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

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2011

### 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (j) Earnings per share

Basic earnings per share is determined by dividing the profit (loss) after income tax attributable to equity holders of the company by the weighted average number of ordinary shares outstanding during the year.

#### (k) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as shares in listed companies) is based on quoted market prices at 30 June 2011.

The nominal value, less any estimated credit adjustments, of trade receivables and payables are assumed to approximate their fair value.

#### (l) Impairment of assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

#### (m) Payables

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

#### (n) Revenue recognition

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

#### (o) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at 30 June 2011 are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

#### (p) Segment reporting

The group uses an '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 consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2011

### 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (a) Income tax

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the notional income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

A deferred tax asset for unused tax losses is recognised only if it is probable that future taxable amounts will be available to utilise losses.

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

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the results of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

#### ***Significant accounting judgements***

##### *Determination of mineral resources*

The determination of mineral resources impacts the accounting for asset carrying values. The group estimates its mineral resources in accordance with the *Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004* (the 'JORC' Code). The information on mineral resources was prepared by or under the supervision of Competent Persons as defined in the JORC Code. The amounts presented are based on the mineral resources determined under the JORC Code.

There are numerous uncertainties inherent in estimating mineral resources and assumptions that are valid at the time of estimation may change significantly when new information becomes available.

Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011**

**3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

***Significant accounting estimates and assumptions***

*Share based payment transactions*

The group measures the cost of equity-settled share based payment transactions with employees by reference to the fair value of the equity instruments at the grant date. The fair value is determined by using a recognised option valuation model, with the assumptions detailed in note 24. The accounting estimates and assumptions relating to equity-settled share based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

	2011 \$	2010 \$
<b>4. REVENUE FROM CONTINUING OPERATIONS</b>		
Other revenues		
Net gain on disposal of plant and equipment	1,117	50
Research and development grant	162,361	-
Gain on sale of 5% interest in subsidiary (refer Note 6)	3,425,275	-
Sundry income	4,672	-
	<u>3,593,425</u>	<u>50</u>
Financial income		
Interest received	<u>197,368</u>	<u>209,604</u>
<b>5. INCOME TAX</b>		
Income tax expense	-	-
Loss for year	(5,302,609)	(9,729,639)
Non-deductible items	6,124,799	2,040,658
Unused tax losses for which no deferred tax asset has been recognised	822,190	(7,688,981)
Tax losses utilised	(822,190)	-
Potential tax benefit at 30%	-	2,306,694
The directors estimate that the potential future income tax benefit, at the prevailing rate of 30% (2010: 30%), in respect of tax losses not brought to account is	<u>6,732,008</u>	<u>7,134,431</u>

No income tax expense has been provided in the accounts because the company has an operating loss for the year. No future tax benefit attributable to tax losses has been brought to account as recovery is not certain or assured.

The benefit will only be obtained if the company derives future assessable income of a nature and of an amount sufficient to enable the benefit to be realised, continues to comply with the conditions for deductibility imposed by taxation legislation and there are no changes in tax legislation adversely affecting the consolidated entity in realising the benefit.

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011**

	<b>2011</b>	2010
	\$	\$
<b>6. TRADE AND OTHER RECEIVABLES</b>		
<b>Current Assets</b>		
GST and VAT refundable	161,912	45,000
Other receivables	1,032	2,467
	<u>162,944</u>	<u>47,467</u>
None of the receivables are past due and are therefore not impaired.		
<b>Non-Current Assets</b>		
Amount receivable from sale of Marenica Minerals (Proprietary) Limited (incorporated in Namibia)	3,425,275	-
Provision for impairment	<u>(3,425,275)</u>	<u>-</u>
	-	-
The recoverability of the amount receivable from the sale to the Company's BEE partner Millennium Minerals Pty Ltd of a 5% interest in the entity's shareholding in Marenica Minerals (Proprietary) Limited (incorporated in Namibia) is subject to the successful exploitation and development of the company's Marenica Uranium Project. As the project has not yet reached a stage at which this can be assured, the amount receivable from the purchaser is considered to be impaired.		
<b>7. PLANT AND EQUIPMENT</b>		
Cost	409,701	427,553
Less: Accumulated Depreciation	<u>(188,535)</u>	<u>(153,486)</u>
Net book value	<u>221,166</u>	<u>274,067</u>
Movement in carrying value		
Opening net book amount	274,067	129,388
Additions	63,315	214,907
Disposals	(83,243)	-
Depreciation charge	<u>(32,973)</u>	<u>(70,228)</u>
Closing net book amount	<u>221,166</u>	<u>274,067</u>
<b>8. OTHER ASSETS</b>		
<b>Current Assets</b>		
Accrued income	<u>7,612</u>	<u>5,741</u>
<b>Non-Current Assets</b>		
Rental and security bonds	<u>29,752</u>	<u>26,828</u>
<b>9. PAYABLES</b>		
Trade payables	403,266	473,408
Accrued interest	<u>98,282</u>	<u>-</u>
	<u>501,548</u>	<u>473,408</u>

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011**

	2011 \$	2010 \$
<b>10. BORROWINGS</b>		
<b>Current Liabilities</b>		
Insurance funding loan	16,371	-
<b>Non-Current Liabilities</b>		
Convertible notes	1,763,682	-
<p>The Convertible Notes were issued on 15 November 2010 to Hanlong Energy Limited for a value of \$2,000,000. Under the terms of the Convertible Notes interest is payable at 8% per annum, annually in arrears. The Convertible notes may be converted into shares at \$0.07 per share at any time within 3 years.</p>		
<b>11. PROVISIONS</b>		
Provision for annual leave	42,659	36,697
<b>12. ISSUED CAPITAL</b>		
<b>Ordinary Shares</b>		
<b>Issued and Fully Paid</b>	38,147,944	35,311,163
Movement in ordinary shares on issue		
Fully paid shares ordinary at 30 June 2010: 455,012,324 (30 June 2009: 448,740,896)	35,311,163	34,693,164
Fully paid ordinary shares issued during the year: 43,617,364 (2010: nil) <sup>(a(iii))</sup>	3,053,215	-
Exercise of Options: nil (2010: 2,700,000)	-	370,000
Conversion of convertible notes: nil (2010: 3,571,428)	-	250,000
Transaction costs of issuing shares	(216,434)	(2,001)
Issue of shares, net of transaction costs, as per Statement of Changes in Equity	2,836,781	617,999
<b>Total Issued Capital at end of year</b>		
498,629,688 fully paid ordinary shares at 30 June 2011 (30 June 2010: 455,012,324) <sup>(a)</sup>	38,147,944	35,311,163

**(a) Ordinary Shares**

- (i) Ordinary shares participate in dividends and the proceeds on winding up of Marenica Energy Limited in proportion to the number of shares held.
- (ii) At shareholder meetings, when a poll is called, each ordinary share is entitled to one vote otherwise each shareholder has one vote on a show of hands.

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011**

	2011 \$	2010 \$
<b>13. RESERVES</b>		
Share based payments	1,521,188	1,437,878
Convertible notes	287,451	-
Foreign currency translation reserve	661,905	(130,139)
	<u>2,470,544</u>	<u>1,307,739</u>
<b>(a) Share Based Payment Reserve</b>		
Balance at beginning of year:	1,437,878	603,809
Options exercised during Year	-	(168,351)
Options expired during Year	(212,779)	(955,569)
Options issued during year	296,089	1,957,989
Balance at end of year:	<u>1,521,188</u>	<u>1,437,878</u>
<b>(b) Convertible Note Reserve</b>		
Balance at beginning of year:	-	121,145
Issue of convertible notes	287,451	-
Transfer to retained earnings on conversion	-	(121,145)
Balance at end of year:	<u>287,451</u>	<u>-</u>
<b>(c) Foreign Exchange Translation Reserve</b>		
Balance at beginning of year:	(130,139)	(260,586)
Movement for year	792,044	130,447
Balance at end of year:	<u>661,905</u>	<u>(130,139)</u>
<b>14. ACCUMULATED LOSSES</b>		
Accumulated losses at beginning of year	(34,018,024)	(25,611,713)
Net losses attributable to members of the parent entity	(5,300,603)	(9,651,377)
Transfer from convertible note reserve	-	121,145
Transfer from share based payment reserve	212,779	1,123,921
Accumulated losses at the end of the year	<u>(39,105,848)</u>	<u>(34,018,024)</u>

**15. SEGMENT INFORMATION**

The group operated predominantly in one industry, in two geographic locations. The operations of the group consisted of mineral exploration within Namibia.

Geographic Region	Revenue		Results		Assets	
	2011 \$	2010 \$	2011 \$	2010 \$	2011 \$	2010 \$
Australia	3,789,008	209,654	(2,136,435)	(4,844,824)	3,237,125	2,727,838
Namibia	1,785	-	(3,166,174)	(4,884,815)	432,990	218,366
	<u>3,790,793</u>	<u>209,654</u>	<u>(5,302,609)</u>	<u>(9,729,639)</u>	<u>3,670,115</u>	<u>2,946,204</u>

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011**

**16. RELATED PARTIES**

**(a) Controlled Entities**

The consolidated financial statements include the financial statements of Marenica Energy Limited and the following subsidiaries:

	<b>Equity Interest</b>	
	<b>2011</b>	<b>2010</b>
	%	%
Bronzewing Gold Limited (incorporated in Australia)	100	100
Marenica Energy Namibia (Proprietary) Limited (incorporated in Namibia)	100	100
Marenica Minerals (Proprietary) Limited (incorporated in Namibia)	75	80

**(b) Loans to subsidiaries**

The Company paid costs of \$2,486,994 (2010: \$3,537,657) on behalf of subsidiaries during the year. Included in the Company's non-current assets referred to in Note 25, are loans to subsidiaries. The loans are non-interest bearing, unsecured and repayable on demand. An allowance for impairment is recognised when the net assets of the controlled entities (excluding the loan payable to the Company) falls below the carrying value of the loan.

**(c) Key management personnel**

Details relating to key management personnel, including remuneration paid, are included in note 23 and the audited remuneration report section of the directors' report.

**(d) Transaction with other related parties**

A director, Mr D Sanders, was an employee of the legal firm Lavan Legal. Lavan Legal has provided legal services to the company on normal commercial terms and conditions. Total fees paid in the financial year ended 30 June 2011 was \$43,977 (2010: \$nil)

Aggregate numbers of shares and share options of Marenica Energy Limited acquired by directors or their director-related entities from the company were as follows:-

	2011	2010
	<b>Number</b>	<b>Number</b>
Ordinary shares	24,375	700,000
Options granted	6,500,000	7,000,000

Aggregate numbers of shares and share options of Marenica Energy Limited held directly, indirectly or beneficially by directors or their director-related entities at balance date:-

Ordinary shares	872,500	200,000
Options	6,500,000	-

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011**

**17. INTEREST IN JOINT VENTURES**

The company has various interests in joint ventures over mineral projects. As at 30 June 2011, the joint ventures in existence were as follows:

**Badgebup**

The company has a 1.125% gross production income interest in a joint venture with Great Southern Resources Pty Limited.

**Marenica, Namibia JV**

The company has a 75% interest in the Marenica Uranium Project in Namibia via its shareholding in Marenica Minerals (Proprietary) Limited (incorporated in Namibia).

**18. COMMITMENTS FOR EXPENDITURE**

**Mineral Tenement Leases**

In respect of the Namibia tenements, there is no minimum annual outlay required to maintain current rights of tenure which expire in November 2012. Future expenditure is dependent on the success of pre-feasibility work that is currently being undertaken. It is anticipated that, subject to achieving certain milestones, the company will spend a minimum of N\$29.3 million (A\$4.2 million) in the period to June 2012. Upon a decision being taken to complete a full feasibility study it is anticipated the company would spend a further amount of up to N\$35 million (A\$5 million) in the period to December 2012.

**Building Lease**

The company leases offices under a non-cancellable operating lease expiring within 12 months.

Commitments for minimum lease payments are:

Within one year

2011	2010
\$	\$

66,747	72,351
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**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011**

	<b>2011</b>	2010
	\$	\$
<b>19. CASH AND CASH EQUIVALENTS</b>		
Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:		
Cash at bank and on deposit	3,248,641	2,592,101
Balance per statement of cash flows	<u>3,248,641</u>	<u>2,592,101</u>
<b>20. RECONCILIATION OF LOSS AFTER INCOME TAX TO CASH FLOWS USED IN OPERATING ACTIVITIES</b>		
Operating Profit (Loss)	(5,302,609)	(9,729,639)
<u>Add (less) non-cash items</u>		
Net gain on disposal of plant & equipment	(1,117)	(50)
Depreciation	32,973	70,228
Amortisation of convertible note	51,133	
Fair value of options granted as employee remuneration	296,089	1,957,989
Foreign exchange (gain)	792,044	130,448
<u>Decrease/increase in operating assets and liabilities:</u>		
Receivables	(1,871)	145,245
Prepayments		-
Payables	(87,337)	(633,191)
Provision annual leave	5,962	(11,376)
Net cash (outflow) from operating activities	<u>(4,214,733)</u>	<u>(8,070,346)</u>
<b>21. EARNINGS PER SHARE</b>		
<b>(a) Basic earnings per share – cents per share</b>		
Loss attributable to the ordinary equity holders of the company	(1.14)	(2.14)
<b>(b) Diluted earnings per share</b>		
Diluted earnings per share are not disclosed as they are not materially different to basic earnings per share.		
<b>(c) Weighted average number of shares used as the denominator</b>		
Weighted average number of ordinary shares outstanding during the year used in calculation of basic earnings per share	463,181,163	451,795,142

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011**

	2011 \$	2010 \$
<b>22. AUDITORS' REMUNERATION</b>		
During the year the following fees were paid or payable for services provided by the auditors:		
(a) <b>Audit services</b>		
Audit and review of financial reports under the Corporations Act 2001	41,500	29,500
(b) <b>Other services</b>		
Income tax return preparation	-	-
Total remuneration of auditors	<u>41,500</u>	<u>29,500</u>

The company has received notification from the company's auditor that he satisfies the independence criterion and that there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct in relation to the audit. The company is satisfied that the non-audit services provided is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

**23. KEY MANAGEMENT PERSONNEL**

(a) Details of Key Management Personnel

The key management personnel (KMP) of Marenica Energy Limited during the year were:

R Pearce	Non-executive Chairman
D Sanders	Non-executive director
N Biddle	Non-executive director ( <i>retired 19 November 2010</i> )
G Becker	Non-executive director ( <i>appointed 17 August 2010</i> )
D Buerger	Non-executive director ( <i>appointed 23 September 2010</i> )
C Zhu	Non-executive director ( <i>appointed 13 December 2010 resigned 13 September 2011</i> )
J Young	Chief executive officer
E van Noort	Chief geologist
S Robertson	Company secretary

	2011 \$	2010 \$
(b) Compensation for Key Management Personnel		
Short term employee benefits	764,889	898,487
Post-employment benefits	48,771	40,424
Share based payments	296,092	1,389,353
Total compensation	<u>1,109,752</u>	<u>2,328,264</u>

Marenica Energy Limited has applied the option to transfer Key Management Personnel disclosures required by AASB 124 *Related Party Disclosures* paragraphs Aus 25.4 to Aus 25.7.2 to the Remuneration Report section of the Directors' Report. These transferred disclosures have been audited.

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011**

**23. KEY MANAGEMENT PERSONNEL (continued)**

(c) Option holdings of Key Management Personnel (“KMP”)

30 June 2011						Vested at 30 June 2011:		
Directors	Balance at beginning of period	Granted as remuneration	Options exercised	Net change other	Balance at end of period	Total	Exercisable	Not exercisable
R Pearce	-	2,000,000	-	-	2,000,000	2,000,000	2,000,000	-
D Sanders	-	1,500,000	-	-	1,500,000	1,500,000	1,500,000	-
G Becker	-	1,500,000	-	-	1,500,000	1,500,000	1,500,000	-
D Buerger	-	1,500,000	-	-	1,500,000	1,500,000	1,500,000	-
C Zhu	-	-	-	-	-	-	-	-
N Biddle	-	-	-	-	-	-	-	-
<b>Other KMP</b>								
J Young	6,000,000	-	-	-	6,000,000	6,000,000	6,000,000	-
E Van Noort	3,500,000	-	-	-	3,500,000	3,500,000	3,500,000	-
S Robertson	2,500,000	-	-	-	2,500,000	2,500,000	2,500,000	-
	12,000,000	6,500,000	-	-	18,500,000	18,500,000	18,500,000	-

30 June 2010						Vested at 30 June 2010:		
Directors	Balance at beginning of period	Granted as remuneration	Options exercised	Net change other	Balance at end of period	Total	Exercisable	Not exercisable
G Woolford	-	3,000,000	-	(3,000,000) <sup>(2)</sup>	-	-	-	-
N Biddle	-	6,000,000	(700,000)	(5,300,000) <sup>(2)</sup>	-	-	-	-
D Sanders	-	1,000,000	-	(1,000,000) <sup>(2)</sup>	-	-	-	-
R Pearce	-	-	-	-	-	-	-	-
P Ingram	1,125,000	-	-	(1,125,000) <sup>(1)</sup>	-	-	-	-
<b>Other KMP</b>								
J Young	3,000,000	6,000,000	-	(3,000,000) <sup>(2)</sup>	6,000,000	6,000,000	6,000,000	-
E Van Noort	-	4,000,000	-	(500,000) <sup>(2)</sup>	3,500,000	3,500,000	3,500,000	-
S Robertson	1,400,000	2,750,000	-	(1,650,000) <sup>(2)</sup>	2,500,000	2,500,000	2,500,000	-
	5,525,000	22,750,000	(700,000)	(15,575,000)	12,000,000	12,000,000	12,000,000	-

<sup>(1)</sup> Represents number of options held at date of resignation as a director

<sup>(2)</sup> Represents number of options expired, cancelled or transferred

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011**

**24. SHARE BASED PAYMENTS**

**(a) Recognised share based payment expenses**

The expense recognised for employee services received during the year is show in the table below:

Expense arising from equity-settled share based payment transactions with Key Management Personnel

2011	2010
\$	\$
296,091	1,389,353

**(b) Summary of options granted**

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options issued during the year:

	2011 No.	2011 WAEP	2010 No.	2010 WAEP
Outstanding at the beginning of the year	12,000,000	\$0.206	5,525,000	\$0.170
Granted during the year	6,500,000	\$0.130	22,750,000	\$0.181
Exercised during the year	-	-	(700,000)	\$0.150
Held at date of Resignation of KMP	-	-	(1,125,000)	\$0.250
Expired during the year	-	-	(10,950,000)	\$0.150
Other issues	-	-	(3,500,000)	\$0.157
Outstanding at the end of the year	18,500,000	\$0.179	12,000,000	\$0.206
Exercisable at the end of the year	18,500,000	\$0.179	12,000,000	\$0.206

**(c) Weighted average remaining contractual life**

The weighted average remaining contractual life of the share options held by Key Management Personnel outstanding as at 30 June 2011 is 1.85 years (2010: 1.0 years)

**(d) Range of exercise prices**

The exercise price for options held by Key Management Personnel outstanding at the end of the year was \$0.13 - \$0.21.

**(e) Weighted average fair value**

The weighted average fair value of options granted to Key Management Personnel during the year was \$0.046 (2010: \$0.05)

**(f) Option pricing model**

The fair value of the equity-settled share options granted to Key Management Personnel during the year is estimated as at the date of grant using a Black and Scholes Model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model used for the year ended 30 June 2011.

	2011	2010
Dividend yield (%)	0%	0%
Expected volatility (%)	85%	85% - 141%
Risk free interest rate (%)	4.93%	2.74% - 4.91%
Expected life of the option (years)	2.95	0.98 - 3.65
Option exercise price (\$)	\$0.13	\$0.15 - \$0.21
Share price at grant date (\$)	\$0.093	\$0.12 - \$0.155

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011**

**25. PARENT ENTITY FINANCIAL INFORMATION**

	<b>2011</b>	2010
	<b>\$</b>	<b>\$</b>
Current Assets	3,173,376	2,644,809
Total Assets	3,455,500	3,449,527
Current Liabilities	2,303,218	484,867
Total Liabilities	2,303,218	484,867
<b>NET ASSETS</b>	<b>1,152,282</b>	<b>2,964,660</b>
<b>EQUITY</b>		
Issued capital	38,147,944	35,311,163
Reserves	1,808,639	1,437,877
Accumulated losses	(38,804,301)	(33,784,380)
<b>TOTAL EQUITY</b>	<b>1,152,282</b>	<b>2,964,660</b>
Loss for the year	(5,232,700)	(9,071,300)
Total comprehensive income	(5,232,700)	(9,071,300)

**26. CONTINGENT LIABILITIES**

On 7 April 2006, the company entered into an introduction agreement with Mallee Minerals Pty Limited in respect of a mineral licence in Namibia. Upon the company receiving a bankable feasibility study in respect of the project or the company delineating, classifying or reclassifying uranium resources in respect of the project, the company will pay to Mallee Minerals Pty Limited:

- (i) \$0.01 per tonne of uranium ore classified as inferred resources in respect of the project; and a further
- (ii) \$0.02 per tonne of uranium ore classified as indicated resources in respect of the project; and a further
- (iii) \$0.03 per tonne of uranium ore classified as measured resources in respect of the project.

Pursuant to this agreement \$323,178 excluding GST was paid during the year ended June 2011 (2010: \$968,500). In total \$2,026,000 has been paid under this agreement.

**27. EVENTS AFTER THE REPORTING PERIOD**

As announced on the 21st September 2011, Marenica has subscribed for 3.4 million shares in Texas & Oklahoma Coal Company Limited ("TOCC"), which has issued initial seed capital of 28.75 million shares at \$US0.06 per share. This will equate to a 6.4 per cent interest in the Company's pre-IPO issued capital. The investment will provide Marenica with an early-stage opportunity to participate in the development of coal export opportunities from the United States of America (USA).

Other than the above, there have been no other matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect:

- (i) the consolidated entity's operations in future years; or
- (ii) the results of those operations in future years; or
- (iii) the consolidated entity's state of affairs in future years.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2011

### 28. FINANCIAL INSTRUMENTS

#### Overview – Risk Management

This note presents information about the consolidated entity's exposure to credit, liquidity and market risks, its objectives, policies and processes for measuring and managing risk and the management of capital.

The consolidated entity does not use any form of derivatives as it is not at a level of exposure that requires the use of derivatives to hedge its exposure. Exposure limits are reviewed by management on a continuous basis. The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The board of directors of the company has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the company and the consolidated entity through regular reviews of the risks.

#### Credit risk

Credit risk is the risk of financial loss to the consolidated entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the consolidated entity's receivables from customers and investment securities. At 30 June 2011 there were no significant concentrations of credit risk.

#### Cash and cash equivalents

The consolidated entity limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have an acceptable credit rating.

#### Trade and other receivables

As the consolidated entity operates primarily in exploration activities, it does not have trade receivables and therefore is not exposed to credit risk in relation to trade receivables.

The consolidated entity where necessary establishes an allowance for impairment that represents its estimate of incurred losses in respect of other receivables and investments. Management does not expect any counterparty to fail to meet its obligations.

#### Exposure to credit risk

The carrying amount of the group's financial assets represents the maximum credit exposure. The consolidated entity's maximum exposure to credit risk at the reporting date was:

	Note	2011 \$	2010 \$
Receivables	6	162,944	47,467
Other current assets	8	7,612	5,741
Cash and cash equivalents	19	3,248,641	2,592,101

#### Impairment Losses

None of the consolidated entity's other receivables are past due (2010: \$nil).

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011**

**28. FINANCIAL INSTRUMENTS (continued)**

**Liquidity Risk**

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. The consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the consolidated entity's reputation.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual flows. The consolidated entity does not have any external borrowings.

The consolidated entity will need to raise additional capital in the next 12 months to meet forecast operational and exploration activities. The decision on when and how the consolidated entity will raise future capital will depend on market conditions existing at that time.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

**Consolidated Entity  
30 June 2011**

	<b>Note</b>	<b>Carrying amount</b>	<b>Contractual cash flow</b>	<b>6 months or less</b>	<b>24-36 months</b>
Trade and other payables	9	403,266	403,266	403,266	-
Convertible notes	10	1,763,682	1,763,682	-	1,763,682

**30 June 2010**

	<b>Note</b>	<b>Carrying amount</b>	<b>Contractual cash flow</b>	<b>6 months or less</b>	<b>6-12 months</b>
Trade and other payables	9	473,408	473,408	473,408	-
Convertible notes	10	-	-	-	-

**Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the consolidated entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return.

**Currency Risk**

The consolidated entity's exposure to currency risk at 30 June 2011 on financial assets denominated in Namibian dollars was \$113,181 (2010: \$14,043) which amounts are not hedged. The effect of future movements in the exchange rate for Namibian dollars on the consolidated entity's financial position and results of fully expensed exploration and evaluation activities is likely to be negligible.

The parent entity's exposure to currency risk at 30 June 2011 on financial assets denominated in Namibian dollars (being loans made to controlled entities to fund exploration activities in Namibia) was \$8,981,860 (2010: \$6,506,202) which amounts are not hedged. The effect of future movements in the exchange rate for Namibian dollars on the parent entity's financial position and results of fully expensed exploration and evaluation activities is likely to be negligible.

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011**

**28. FINANCIAL INSTRUMENTS (continued)**

**Interest Rate Risk**

The consolidated entity is exposed to interest rate risk (primarily on its cash and cash equivalents), which is the risk that a financial instrument's value will fluctuate as a result of changes in the market interest rates on interest-bearing financial instruments. The consolidated entity does not use derivatives to mitigate these exposures.

The company adopts a policy of ensuring that as far as possible it maintains excess cash and cash equivalents on short term deposit at interest rates maturing over 90 day rolling periods.

*Profile*

At the reporting date the interest rate profile of the consolidated entity's interest-bearing financial instruments was:

	<b>Carrying Amount</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>Fixed rate instruments</b>		
Financial assets – cash and cash equivalents	-	-
<b>Variable rate instruments</b>		
Financial assets – cash and cash equivalents	3,248,641	2,592,101

*Fair value sensitivity analysis for fixed rate instruments*

The company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss or through equity, therefore a change in interest rates at the reporting date would not affect profit or loss or equity.

*Cash flow sensitivity analysis for variable rate instruments*

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2010.

**Consolidated Entity**

	<b>Profit or loss</b>		<b>Equity</b>	
	<b>100bp increase</b>	<b>100bp decrease</b>	<b>100bp increase</b>	<b>100bp decrease</b>
<b>30 June 2011</b>				
Variable rate instruments	32,486	(32,486)	32,486	(32,486)
<b>30 June 2010</b>				
Variable rate instruments	25,921	(25,921)	25,921	(25,921)

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2011**

**28. FINANCIAL INSTRUMENTS (continued)**

**Fair Values**

*Fair Values versus carrying amounts*

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

	30 June 2011		30 June 2010	
	Carrying Amount	Fair value	Carrying amount	Fair value
Receivables	162,944	162,944	47,467	47,467
Other current assets	7,612	7,612	5,741	5,741
Cash and cash equivalents	3,248,641	3,248,641	2,592,101	2,592,101
Trade and other payables	(403,266)	(403,266)	(473,408)	(473,408)
Borrowings	(1,780,053)	(1,780,053)	-	-
	1,235,878	1,235,878	2,171,901	2,171,901

**Commodity Price Risk**

The consolidated entity operates primarily in the exploration and evaluation phase and accordingly the consolidated entity's financial assets and liabilities are subject to minimal commodity price risk.

**Capital Management**

The consolidated entity's objectives when managing capital are to safeguard the consolidated entity's ability to continue as a going concern, so as to maintain a strong capital base sufficient to maintain future exploration and development of its projects. The consolidated entity's focus has been to raise sufficient funds through equity or debt to fund its exploration and evaluation activities.

There were no changes in the consolidated entity's approach to capital management during the year. Risk management policies and procedures are established with regular monitoring and reporting.

The consolidated entity is not subject to externally imposed capital requirements.

## DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements, notes and additional disclosures included in the directors' report designated as audited, of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
  - (a) complying with Accounting Standards and the Corporations Regulations 2001; and
  - (b) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date.
2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
3. the financial report also complies with International Financial Reporting Standards.
4. 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 2011.

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

On behalf of the board.



**Robert Pearce**  
Perth  
26 September 2011



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## **INDEPENDENT AUDIT REPORT TO THE MEMBERS OF MARENICA ENERGY LTD**

### **Report on the financial report**

We have audited the accompanying financial report of Marenica Energy Ltd (the Company) which comprises the balance sheet as at 30 June 2011 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 year.

### **Directors Responsibility for the Financial Report**

The Directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The Directors are also responsible for the remuneration disclosures contained in the directors' report.

### **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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial report is free of 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 our 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, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used in and the reasonableness of accounting estimates made by the directors as well as evaluating the overall presentation of the financial report.

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

### **Independence**

We are independent of the Company, and have met the independence requirements of Australian professional ethical requirements and the *Corporations Act 2001*.



**Chartered Accountants**

Liability limited by the Accountants Scheme, approved  
under the Professional Standards Act 1994 (NSW).



**Audit opinion**

In our opinion the financial report of Marenica Energy Ltd is in accordance with the *Corporations Act 2001*, including:

- a) (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and  
(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- b) the consolidated financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board

**Report on the remuneration report**

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

**Audit opinion**

In our opinion the remuneration report of Marenica Energy Ltd for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

Rothsay

Graham R Swan  
Partner

Dated 26 September 2011

## CORPORATE GOVERNANCE STATEMENT

### INTRODUCTION

Marenica Energy Limited (the company) has adopted systems of control and accountability as the basis for the administration of corporate governance

The company, during the financial year ended 30 June 2011 (the **Reporting Period**), has continued to follow the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations (**ASX Principles and Recommendations**) as set out below:

#### **Principle 1: Lay solid foundations for management and oversight**

The company has adopted a Board Charter which describes the purpose and role of the board, its responsibilities and powers and the way in which the board functions.

The board has sole responsibility for the following:

- Protection and enhancement of shareholder value.
- Formulation, review and approval of the objectives and strategic direction of the company.
- Monitoring the financial performance of the company by reviewing and approving budgets and monitoring results.
- Approving all significant business transactions including acquisitions, divestments and capital expenditure.
- Ensuring that adequate internal control systems and procedures exist and that compliance with these systems and procedures is maintained.
- The identification of significant business risks and ensuring that such risks are adequately managed.
- The review of performance and remuneration of executive directors and key staff.
- The establishment and maintenance of appropriate ethical standards.
- Evaluating and, where appropriate, adopting with or without modification the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

The CEO has responsibility for the management of the company.

Arrangements are in place by the board to monitor the performance of the company's executives including a review by the board of the company's financial performance and annual performance appraisal meetings incorporating analysis of key performance indicators with each individual.

The performance of senior executives is also evaluated on an on-going basis using a peer reviewing procedure. The board considers adjustments to remuneration of senior executives and employees annually after considering performance evaluations.

#### **Principle 2: Structure the board to add value**

During the year ended 30 June 2011 the company had a majority of directors who were considered to be independent the Chairman was an independent non-executive director and did not perform the role of either managing director or chief executive officer. Refer to the Directors' Report for board changes throughout the reporting period. The independence of directors is reviewed on an ongoing basis. Directors are entitled to obtain independent external advice on matters relating to accounting law or other relevant professional matters.

The Board Charter provides that the board will constantly review and monitor its performance. As part of this process, the board may seek to appoint persons who, in the opinion of the board, will provide specialist expertise required for the board to adequately perform its role. Additionally, the board will also review its composition and advise board members where it is felt that a director's skills are different from those required by the company.

The board considers that the company is not currently of a size, nor are its affairs of such complexity to justify the formation of separate or special committees at this time including audit, remuneration or nomination committees preferring at this stage to manage the company through the full board of directors.

The board as a whole is able to address the governance aspects of the full scope of the company's activities and to ensure that it adheres to appropriate ethical standards.

The full board currently holds meetings at such times as may be necessary to address any general or specific matters as required.

If the group's activities increase in size, scope and nature, the appointment of separate or special committees will be reviewed by the board and implemented if appropriate.

The board has adopted an informal, self-evaluation process to measure its own performance during each financial year. Also, an annual review is undertaken in relation to the composition and skills mix of the directors of the company.

### **Principle 3: Promote ethical and responsible decision-making**

The board has adopted a series of policies comprising a Code of Conduct for the board, management and employees.

The Code of Conduct addresses expectations for conduct in the following areas;

- Responsibilities to clients, employees, suppliers, creditors, customers and consumers
- Employment practices
- Responsibility to the community
- Responsibility to the individual
- Obligations relative to fair trading and dealing
- Business courtesies, bribes, facilitation payments, inducements and commissions
- Conflicts of interest

All directors, executives and employees are required to comply with that Code.

Failure to comply will result in disciplinary action and may include reprimand, formal warning, demotion or, in extreme cases, termination of employment.

In accordance with the Corporations Act 2001 and the company's constitution, directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the company. Where the board believes that a significant conflict exists, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

The company has established a policy for trading in the company's securities that is provided to all directors and employees on commencement.

The constitution permits directors to acquire shares or options in the company. The company's policy prohibits directors from dealing in shares or options whilst in possession of price sensitive information. Directors must notify the company secretary once they have bought or sold shares or options in the company or exercised options over ordinary shares. In accordance with the provisions of the Corporations Act 2001 and the Listing Rules of the Australian Securities Exchange, the company on behalf of the directors must advise the Australian Securities Exchange of any transactions conducted by them in shares and / or options in the company.

### **Principle 4: Safeguard integrity in financial reporting**

The board considers that the company is not currently of a size, nor its affairs of such complexity, to justify the formation of a separate audit committee, preferring at this stage to manage the company through the full board of directors to verify and safeguard the integrity of the company's financial reporting and to ensure the independence and competence of the company's external auditor.

The board requires the chief executive officer and chief financial officer (or equivalent) to state in writing on an annual basis that the company's financial reports contain a true and fair view, in all material respects, of the financial condition and operating performance of the company.

The company's auditor is required to attend the company's AGM and be available to answer shareholder questions

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

The company has established a Disclosure Policy which requires that the chairman, chief executive officer (or equivalent) or company secretary be advised as soon as possible (and prior to disclosure to anyone else) of matters which they believe may be required to be disclosed.

The company's communication strategy requires communication with shareholders and other stakeholders in an

open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the company. The strategy provides for the use of systems that ensure a regular and timely release of information about the company is provided to shareholders. Mechanisms employed include:

- Announcements lodged with ASX;
- ASX Quarterly Cash Flow Reports;
- Half Yearly Report;
- Presentations at the Annual General Meeting/General Meetings; and
- Annual Report.

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

The company lists all of the company's announcements to the market on its website. Shareholders and market participants registering their email addresses with the company are provided with a link to each announcement.

The company's auditor is required to attend the company's AGM and be available to answer shareholder questions.

The board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and understanding of the company's strategy and goals.

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

The company is not currently considered to be of a size, nor is its affairs of such complexity to justify the establishment of a separate Risk Management Committee. Instead, the board, as part of its usual role and through direct involvement in the management of the company's operations ensures risks are identified, assessed and appropriately managed. Where necessary, the board draws on the expertise of appropriate external consultants to assist in dealing with or mitigating risk.

The board requires the chief executive officer and chief financial officer (or equivalent) to state in writing on an annual basis that the company's financial reports contain a true and fair view, in all material respects, of the financial condition and operating performance of the company and comply with relevant accounting standards and, furthermore, that the company has a sound system of risk management, that internal compliance and control systems are in place to ensure the implementation of board policies and that those systems are operating efficiently and effectively in all material respects.

The board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities.

#### **Principle 8: Remunerate fairly and responsibly**

The company has not established a Nominations and Remuneration Committee however the full board:

1. Reviews the remuneration guidelines for senior management, including base salary, bonuses, share options, salary packaging and final contractual agreements.
2. Reviews non-executive fees and costs by seeking external benchmarks.
3. Reviewing the chief executive officer's remuneration, allowances and incentives and final package.

Equity components of remuneration, including the issue of options, for directors are required to be approved by shareholders prior to award.

Further details in relation to company's remuneration policy is set out in the Remuneration Report Section of the Director's Report, and is also included in the 2011 Financial Statements

During the company's 2010/2011 financial year ("Reporting Period") the company complied with the ASX Principles and Recommendations other than in relation to the matters specified below.

Principle No	Best Practice Recommendation	Reasons for Non-compliance
2.4	A separate Nomination Committee has not been formed.	The board considers that the company is not currently of a size to justify the formation of a nomination committee. The board as a whole undertakes the process of reviewing the skill base and experience of existing directors to enable identification or attributes required in new directors. Where appropriate independent consultants will be engaged to identify possible new candidates for the board.
4.1,4.2, 4.3	A separate Audit Committee has not been formed.	The board considers that the company is not currently of a size, nor are its affairs of such complexity to justify the formation of an audit committee. The board as a whole undertakes the selection and proper application of accounting policies, the identification and management of risk and the review of the operation of the internal control systems.
8.1	There is no separate Remuneration Committee.	The board considers that the company is not currently of a size, nor are its affairs of such complexity to justify the formation of a remuneration committee. The board as a whole is responsible for the remuneration arrangements for directors and executives of the company.