

» NOTES TO THE FINANCIAL STATEMENTS

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1. BASIS OF PREPARATION OF ANNUAL REPORT

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

The financial report is presented in Australian dollars.

The financial report covers Cape Lambert Resources Limited and its controlled entities (“the Consolidated Entity”). Cape Lambert Resources Limited is a public listed company, incorporated and domiciled in Australia.

COMPLIANCE WITH IFRS

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

2. SUMMARY OF ACCOUNTING POLICIES

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

(a) New Accounting Standards and Interpretations

CHANGES IN ACCOUNTING POLICY AND OTHER DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except as follows: The following standards and interpretations have been applied by the Consolidated Entity during the current year:

| Reference | Title | Application date of standard | Application date for the Consolidated Entity |
|-------------|---|------------------------------|--|
| AASB 2009-5 | <i>Further amendments arising from the second annual improvements project</i> | 1 January 2010 | 1 July 2010 |
| AASB 2010-3 | <i>Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i> | 1 July 2010 | 1 July 2010 |

The standards and amendments that are mandatory for the first time for the financial year beginning 1 July 2010 did not have any impact on the current period or any prior period and are not likely to affect future periods.

ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Consolidated Entity for the annual reporting period ended 30 June 2011 are set out below. Unless otherwise stated, it is expected that there will be no impact on the Consolidated Entity on applying the new standards and interpretations once they are effective.

AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective for annual reporting periods beginning on or after 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will affect in particular the Consolidated Entity's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. In the current reporting period, the Consolidated Entity recognised nil of such losses in other comprehensive income.

There will be no impact on the Consolidated Entity's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated as at fair value through profit or loss and the Consolidated Entity does not have any such liabilities. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed. The Consolidated Entity has not yet decided when to adopt AASB 9.

AASB 2010-6 *Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets* (effective for annual reporting periods beginning on or after 1 July 2011)

In November 2010, the AASB made amendments to AASB 7 *Financial Instruments: Disclosures* which introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties.

AASB 1054 *Australian Additional Disclosures*, AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project* and AASB 2011-2 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project - Reduced Disclosure Requirements* (effective 1 July 2011)

The AASB and NZ FRSB have issued accounting standards that eliminate most of the existing differences between their local standards and IFRS. Where additional disclosures were considered necessary, they were moved to the new standard AASB 1054. Adoption of the new rules will not affect any of the amounts recognised in the financial statements, but may simplify some of the Consolidated Entity's current disclosures.

AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The *Corporations Act* requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.



(a) New Accounting Standards and Interpretations (continued)

ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

AASB 10 Consolidated Financial Statements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013)

In August 2011, the AASB issued a suite of new and amended standards which address the accounting for consolidated financial statements and associated disclosures.

AASB 10 introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. There is also new guidance on participating and protective rights and on agent/principal relationships. While the Consolidated Entity does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 12 sets out the required disclosures for entities reporting under the new AASB 10 standard and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the Consolidated Entity will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments.

AASB 127 is renamed *Separate Financial Statements* and is now a standard dealing solely with separate financial statements.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept.

The Consolidated Entity does not expect to adopt the new standards before their operative date.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Consolidated Entity has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. Application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Consolidated Entity does not intend to adopt the new standard before its operative date.

There are no other standards that are not yet effective and that are expected to have a material impact on the Consolidated Entity in the current or future reporting periods and on foreseeable future transactions.

(b) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Cape Lambert Resources Limited (“Cape Lambert”) and its subsidiaries (as outlined in note 24) as at and for the period ended 30 June each year. Interests in associates are equity accounted and are not part of the Consolidated Entity.

Subsidiaries are all those entities over which Cape Lambert has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Cape Lambert controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profits and losses resulting from intra-group transactions have been eliminated in full.

Investments in subsidiaries held by Cape Lambert are accounted for at cost in the separate financial statements of the parent less any impairment charges.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non controlling interest in the acquiree. The identifiable assets acquired and liabilities assumed are measured at their fair values at the date of acquisition. Any difference between the fair value of the consideration and the fair values of the identifiable net assets acquired is recognised as goodwill or a gain on bargain purchase.

A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented with equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

If Cape Lambert loses control over a subsidiary, it:

- » Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- » Derecognises the carrying value of any non-controlling interest;
- » Derecognises the cumulative translation differences recorded in equity;
- » Recognises the fair value of the consideration received;
- » Recognises the fair value of any investment retained;
- » Recognises and surplus or deficit in the statement of comprehensive income;
- » Reclassifies the parent’s share of components previously recognised in other comprehensive income to profit or loss.

If ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.



(c) Associates

Associates are entities over which the Consolidated Entity has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The Consolidated Entity's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Consolidated Entity's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in statement of comprehensive income and reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates reduce the carrying amount of the investment.

When the Consolidated Entity's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Consolidated Entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Consolidated Entity and its associates are eliminated to the extent of the Consolidated Entity's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(d) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position. Restricted cash relates to term deposits held with various financial institutions as security for bank guarantees.

(e) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

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

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

(f) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(g) Property, Plant and Equipment

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

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

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

| | |
|------------------------|------------------------------|
| Plant and equipment | 2.5 - 5.5 years |
| Leasehold improvements | over the period of the lease |

(h) Financial Assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Consolidated Entity has the following financial assets:

A. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Certain shares and options held for trading have been classified as financial assets at fair value through profit or loss. Financial assets held for trading purposes are stated at fair value, with any resultant gain or loss recognised in profit or loss. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. Assets in this category are classified as current assets if they are expected to be realised within 12 months otherwise they are classified as non-current assets.



(h) Financial Assets (continued)

B. LOANS AND RECEIVABLES

Trade receivables, loans, and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recorded at amortised cost less impairment. Impairment is determined by review of the nature and recoverability of the loan or receivable with reference to its terms of repayments and capacity of the debtor entity to repay the debt. If the recoverable amount of a receivable is estimated to be less than its carrying amount, the carrying amount of receivable is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately. They are included in current assets, other than those with maturities greater than 12 months from reporting date which are classified as non-current assets.

C. AVAILABLE FOR SALE FINANCIAL ASSETS

Available for sale financial assets are those non derivative financial assets, principally equity securities, that are designated as available for sale or are not classified as 'at fair value through profit or loss', 'held-to-maturity' investments or 'loans and receivables'. Available for sale financial assets are measured at cost until the investment is disposed of or determined to be impaired, at which time the gain or loss on disposal or the impairment is recognised in the profit or loss. They are included in non-current assets unless management intends to dispose of the investment within 12 months.

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 reclassified from equity and recognised in profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

(i) Financial Instruments Issued by the Consolidated Entity

DEBT AND EQUITY INSTRUMENTS

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

TRANSACTION COSTS ON THE ISSUE OF EQUITY INSTRUMENTS

Transaction costs arising on the issue of equity instruments are recognised directly in equity.

INTEREST AND DIVIDENDS

Interest and dividends are classified as expenses or as distributions of profit consistent with the statement of financial position classification of the related debt or equity instruments or component parts of compound instruments.

(j) Foreign Currency

FOREIGN CURRENCY TRANSACTIONS AND BALANCES

All foreign currency transactions occurring during the financial year are recognised at the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in the profit or loss in the period in which they arise except those exchange differences which relate to assets under construction for future productive use which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings.

FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of each of the companies within the Consolidated Entity are measured using the currency of the primary economic environment in which they operate (“the functional currency”). The consolidated financial statements are presented in Australian dollars, which is Cape Lambert’s functional and presentation currency.

GROUP COMPANIES

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

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

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

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

(k) Trade and other payables

These amounts represent liabilities for goods and services provided to the Consolidated Entity prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.



(l) Employee Benefits

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

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Consolidated Entity in respect of services provided by employees up to the reporting date.

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

Refer also to Note 2(q) for accounting policy regarding share based payments.

(m) Provisions

Provisions are recognised when the Consolidated Entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

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

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

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.

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.

(n) Impairment of assets

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

(o) Income Tax

CURRENT TAX

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

DEFERRED TAX

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the Consolidated Entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company/Consolidated Entity intends to settle its current tax assets and liabilities on a net basis.



(o) Income Tax (continued)

The Consolidated Entity has implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

CURRENT AND DEFERRED TAX FOR THE PERIOD

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

(p) Revenue recognition

SALE OF GOODS

Revenue from the sale of goods is recognised when the Consolidated Entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

INTEREST REVENUE

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

(q) Share-based Payments

Equity-settled share-based payments are measured at fair value at the date of grant. Fair value is measured by use of the Black-Scholes option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability and exercise restrictions.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Consolidated Entity's estimate of shares that will eventually vest.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

(r) Exploration and Evaluation Expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest where right of tenure is current. Costs associated with these identifiable areas of interests are only 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 that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full in the statement of comprehensive income in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

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

(s) Segment Reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision makers to make decisions about resources to be allocated to the segments and assess their performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues.

Operating segments have been identified based on the information presented to the chief operating decision makers – being the executive management team.

Information about other business activities and operating segments that do not meet the quantitative criteria set out in AASB 8 "Operating Segments" are combined and disclosed in a separate category called "other".

(t) Earnings per Share

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

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interests and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(u) Business Combinations

The acquisition method of accounting is used to account for all business combinations. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to the former owners of the acquiree and the equity issued by the acquirer, and the amount of any non controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Costs directly attributable to the acquisition are expensed.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non controlling shareholders' interest. The excess of the cost of acquisition over the fair value of the Consolidated Entity's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Consolidated Entity's share of the fair value of the identifiable net assets acquired, the difference is recognised directly in the statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.

Any contingent consideration to be transferred by the acquiree is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.



(v) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Consolidated Entity as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight line basis over the period of the lease.

(w) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(x) Parent entity financial information

The financial information for the parent entity, Cape Lambert Resources Limited, disclosed in note 31 has been prepared on the same basis as the consolidated financial statements, except as set out below:

INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURE ENTITIES

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Cape Lambert Resources Limited. Dividends received from associates are recognised in the parent entity's statement of comprehensive income, rather than being deducted from the carrying amount of these investments.

TAX CONSOLIDATION LEGISLATION

Cape Lambert Resources Limited and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Cape Lambert Resources Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have entered into a tax funding agreement under which the wholly-owned entities fully compensate Cape Lambert Resources Limited for any current tax payables assumed and are compensated by Cape Lambert Resources Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Cape Lambert Resources Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligation to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(y) Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

(z) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed as balance date.

Critical Judgements in Applying the Consolidated Entity's Accounting Policies

The Consolidated Entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

EXPLORATION AND EVALUATION

The Consolidated Entity's accounting policy for exploration and evaluation is set out at Note 1(r). The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves may be determined. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure, it is determined that recovery of the expenditure by future exploitation or sale is unlikely, then the relevant capitalised amount is written off in the statement of comprehensive income.

As at 30 June 2011, management have recognised impairment losses in respect of capitalised exploration and evaluation to the extent of \$36,591,446.

INCOME TAXES

The Consolidated Entity is subject to income taxes in Australia and jurisdictions where it has foreign operations.

Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Consolidated Entity estimates its tax liabilities based on the Consolidated Entity's understanding of the tax laws in the relevant jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The Consolidated Entity has recognised deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority against which the unused tax losses can be utilised. However, utilisation of the tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped.



Critical Judgements in Applying the Consolidated Entity's Accounting Policies (continued)

BUSINESS COMBINATION

Significant judgement is required in determining whether the acquisition of a project constitutes a business combination. The Consolidated Entity assess whether the project acquired meets the definition of a business as set out in AASB 3 "Business Combination". If the project acquired falls within the prescribed definition of a business, it is accounted for as a business combination. Where the project acquired does not fall within the prescribed definition of a business, it is treated as an asset acquisition.

During the current financial year, the Company through its wholly owned subsidiary, Cape Lambert Leichhardt Pty Ltd, completed the acquisition of the Leichhardt Copper project from Matrix Metals Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) (In Liquidation). Management have determined that the acquisition is a business combination and have made a number of assumptions in determining the fair values of the assets acquired and the liabilities assumed pursuant to this business combination.

The Company's acquisition of Pinnacle in the current year has been determined by management to be an asset acquisition.

CONTINGENT ASSETS AND LIABILITIES

As at 30 June 2011, the final payment of \$80,000,000 in relation to the Company's disposal of the Cape Lambert Iron Ore Project had not been received. In September 2010, the Company commenced legal action to recover the final payment owing.

Given the uncertainty surrounding the receipt of this final payment, the Company has not recognized the final payment as a receivable and has not recognized as a payable the commission of \$7,600,000 that will fall due in the event that the final payment is received.

During the year ended 30 June 2010, the Company disposed of 100% of its interest in Cape Lambert Lady Annie Exploration Pty Ltd, the holder of the Lady Annie Project, to China Sci-Tech Holdings Limited; a Hong Kong listed Company, for \$135 million. The purchase consideration includes two contingent payments of \$2.5 million each, which are payable once certain production and reserve related milestones are achieved. The Company has recognised the first contingent payment of \$2.5 million as a receivable as at 30 June 2011. However, given that it is not certain that the remaining production and reserve related milestones will be achieved, the Company has not recognised the final contingent payment as a receivable.

IMPAIRMENT

The Consolidated Entity assesses impairment at each reporting date by evaluating conditions specific to the Consolidated Entity that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amounts of the assets are determined.

As at 30 June 2011, management have recognised impairment losses in respect of those assets which had a carrying value which exceeded their recoverable amounts.

3. PROFIT/(LOSS) FROM OPERATIONS

| | Consolidated | |
|---|----------------------|-------------|
| | 2011 | 2010 |
| | \$ | \$ |
| (a) Revenue | | |
| Sale of goods | - | 6,512,922 |
| Interest income | 4,333,158 | 5,091,090 |
| Rental revenue | 198,659 | 28,671 |
| Other revenue | 31,903 | 313,409 |
| | 4,563,720 | 11,946,092 |
| (b) Other income | | |
| Gain on disposal of financial assets through profit and loss | 5,210,596 | 6,434,307 |
| Gain on disposal of associate | 8,621,099 | 2,042,814 |
| Gain on acquisition of controlled entity which was previously an equity accounted associate | - | 11,283,009 |
| Gain on disposal of controlled entity | 23 26,857,705 | 85,222,069 |
| Gain on conversion of convertible notes | - | 2,245,573 |
| Gain on recognition of deferred consideration receivable | 2,500,000 | - |
| Gain on recognition of equity instruments received | 396,395 | 2,474,330 |
| Other income | 320,351 | 626,196 |
| | 43,906,146 | 110,328,298 |
| (c) Depreciation and amortisation expense | | |
| Depreciation of plant and equipment | 11 (302,082) | (339,631) |
| Amortisation of leasehold improvements | 11 (36,541) | (46,687) |
| Depreciation and amortisation expense | (338,623) | (386,318) |
| (d) Finance costs | | |
| Interest and finance charges paid or payable | (115,560) | (1,148,482) |
| (e) Occupancy expenses | | |
| Rental expense relating to operation leases - minimum lease payments | (899,399) | (808,225) |
| Other occupancy expenses | (320,965) | (233,724) |
| | (1,220,364) | (1,041,949) |
| (f) Other expenses | | |
| Loss on disposal of financial assets through profit and loss | (179,071) | - |
| Loss on fair value of financial assets through profit and loss | (962,916) | (1,796,144) |
| Foreign currency exchange losses | (864,907) | (68,982) |
| Other expenses | (3,245,338) | (4,879,602) |
| | (5,252,232) | (6,744,728) |



4. INCOME TAXES

| | Consolidated | |
|--|--------------|------|
| | 2011 | 2010 |
| | \$ | \$ |

Major components of income tax expense for the year are:

Income statement

Current income

| | | |
|---------------------------------------|-----------|---------|
| Current income tax charge / (benefit) | 2,332,909 | 698,831 |
|---------------------------------------|-----------|---------|

Deferred income tax

| | | |
|---|--------------|---------|
| Relating to origination and reversal of temporary differences | (14,038,135) | 244,995 |
|---|--------------|---------|

| | | |
|--|---------|---|
| Benefit from unrecognised tax loss used to reduce deferred tax expense | 748,966 | - |
|--|---------|---|

| | | |
|---|---------------------|----------------|
| Income tax expense / (benefit) reported in income statement | <u>(10,956,260)</u> | <u>943,826</u> |
|---|---------------------|----------------|

Statement of changes in equity

Deferred income tax

| | | |
|-----------------------|---|--------|
| Capital raising costs | - | 50,107 |
|-----------------------|---|--------|

| | | |
|---------------------------------------|----------|---------------|
| Income tax expense reported in equity | <u>-</u> | <u>50,107</u> |
|---------------------------------------|----------|---------------|

Reconciliation

A reconciliation of income tax expense / (benefit) applicable to accounting profit / (loss) before income tax at the statutory income tax rate to income tax expense / (benefit) at the Company's effective income tax rate for the year is as follows:

| | Consolidated 2011 | Consolidated 2010 |
|--|----------------------|----------------------|
| | \$ | \$ |
| Accounting profit / (loss) before income tax | (22,802,531) | 73,191,902 |
| Income tax expense / (benefit) at the statutory income tax rate of 30% (2010: 30%) | (6,840,759) | 21,957,571 |
| Adjusted for :- | | |
| Non-deductible expenses | 17,982 | 78,921 |
| Share based payments | 239,183 | 1,049,518 |
| Deferred tax assets and tax losses not recognised | 770,064 | 390,747 |
| Adjustment of prior year estimates | - | (1,120,094) |
| Net capital gain / (loss) on disposal of controlled entity | 3,374,505 | 16,445,927 |
| Net capital gain / (loss) on disposal of financial assets | (12,522,524) | (33,948,381) |
| Profit on disposal of associate | - | 396,092 |
| Share of losses of associates | 2,197,815 | 1,020,063 |
| Impairment of associates | 1,325,717 | - |
| Gain on recognising fair value of associate before it became a controlled entity | - | (3,384,903) |
| Recognition of tax payable in foreign jurisdictions | 481,757 | 317,355 |
| Step up of asset cost bases on entry into tax consolidated group | - | (2,258,990) |
| At effective income tax rate of nil (2010: 1.29%) | <u>(10,956,260)</u> | <u>943,826</u> |
| Income tax expense / (benefit) reported in income statement | <u>(10,956,260)</u> | <u>943,826</u> |

Tax Consolidation

The Company and its 100% owned controlled entities have formed a tax consolidated group. Members of the Cape Lambert Group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned controlled entities on a pro-rata basis. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote. The head entity of the tax consolidated group is Cape Lambert Resources Limited.

Tax Effect Accounting by Members of the Tax Consolidated Group

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group. Deferred taxes are allocated to members of the tax consolidated group in accordance with a group allocation approach which is consistent with the principles of AASB 112 Income Taxes. The allocation of tax under the tax funding agreement is recognised as an increase/decrease in the controlled entities' intercompany accounts with the tax consolidated group head Company, Cape Lambert Resources Limited.

In this regard the Company has assumed the benefit of tax losses from controlled entities of Nil (2010: Nil) as of the balance date. The Company has received a payment from the controlled entities of \$5,215,749 (2010: \$38,026,858) as of the balance date in respect of the current year tax liability for the tax consolidated group. The nature of the tax funding agreement is such that no tax consolidation contributions by or distributions to equity participants are required.

Recognised deferred tax assets and liabilities

The deferred tax liability balance comprises temporary differences attributable to:

| | Consolidated | |
|--|--------------------|---------------------|
| | 2011 | 2010 |
| | \$ | \$ |
| Accrued income | (58,862) | (432,946) |
| Capitalised expenditure | (3,914,619) | (20,444,281) |
| Financial assets | (4,217,115) | (1,978,964) |
| Deferred tax liabilities recognised in foreign jurisdictions | (1,117,893) | (615,353) |
| Unrealised foreign exchange gains / losses | - | (45,498) |
| Deferred tax liability | (9,308,489) | (23,517,042) |

The deferred tax asset balance comprises temporary differences attributable to:

| | | |
|---|--------------------|---------------------|
| Losses available for offset against future taxable income | 1,483,645 | 1,483,645 |
| Accrued expenses and provisions | 100,460 | 53,739 |
| Business related costs | 2,112,314 | 2,393,568 |
| Unrealised foreign exchange gains / losses | 64,115 | - |
| Deferred tax asset | 3,760,534 | 3,930,952 |
| Net deferred tax asset /(liability) | (5,547,955) | (19,586,090) |



4. INCOME TAXES (CONTINUED)

Movement in temporary differences during the year

| | Balance 1 July 2010 | Recognised in Income | Balance 30 June 2011 |
|--|------------------------|-------------------------|-------------------------|
| | \$ | \$ | \$ |
| Consolidated | | | |
| Accrued income | (432,946) | 374,084 | (58,862) |
| Financial assets | (1,978,964) | (2,238,151) | (4,217,115) |
| Accrued expenses and provisions | 53,739 | 46,721 | 100,460 |
| Business related costs | 2,393,568 | (281,254) | 2,112,314 |
| Tax losses | 1,483,645 | - | 1,483,645 |
| Capitalised exploration expenditure | (20,444,281) | 16,529,662 | (3,914,619) |
| Unrealised foreign exchange gains / losses | (45,498) | 109,613 | 64,115 |
| Deferred tax liabilities recognised in foreign jurisdictions | (615,353) | (502,540) | (1,117,893) |
| Net deferred tax liability | (19,586,090) | 14,038,135 | (5,547,955) |

| | Consolidated | |
|---|------------------|-----------|
| | 2011 | 2010 |
| | \$ | \$ |
| Unrecognised deferred tax assets | | |
| Deferred tax assets have not been recognised in respect of the following items: | | |
| Tax losses | 2,566,880 | 1,302,490 |
| @ 30% | 770,064 | 390,747 |

The tax losses do not expire under current legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilise the benefits.

5. KEY MANAGEMENT PERSONNEL REMUNERATION

The following table discloses the remuneration of the directors and key management personnel of the Company:

| | Consolidated | |
|------------------------------|------------------|------------------|
| | 2011 | 2010 |
| | \$ | \$ |
| Short-term employee benefits | 1,856,646 | 3,057,473 |
| Post-employment benefits | 4,320 | 99,748 |
| Share based payments | 653,443 | 2,173,392 |
| | 2,514,409 | 5,330,613 |

Detailed remuneration disclosures are provided in the remuneration report on pages 26 to 32.

SHARE HOLDINGS OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

Details of fully paid ordinary shares of Cape Lambert Resources Limited held by directors and key management personnel are set out below:

| 2011 | Balance 01-Jul-10 | Share based payment received | Received on exercise of options | On market purchases | On market sales | Balance 30-Jun-11 | Balance held nominally |
|---------------------------------------|-------------------|------------------------------|---------------------------------|---------------------|-----------------|-------------------|------------------------|
| | Number | Number | Number | Number | Number | Number | Number |
| Directors | | | | | | | |
| A Sage | 32,090,430 | - | - | 3,650,000 | - | 35,740,430 | 35,740,430 |
| T Turner | 1,400,000 | - | - | - | - | 1,400,000 | 1,400,000 |
| R Levin | - | - | - | - | - | - | - |
| B Maher | 1,365,000 | - | - | - | - | 1,365,000 | 1,365,000 |
| Other Key Management Personnel | | | | | | | |
| J Hamilton | 699,000 | - | - | - | (49,000) | 650,000 | 650,000 |
| K Bischoff | 275,000 | - | 150,000 | - | - | 425,000 | 425,000 |
| GV Ariti | 1,550,000 | - | - | - | - | 1,550,000 | - |
| Claire Tolcon | - | - | - | - | - | - | - |
| F Taylor | 250,000 | - | - | - | - | 250,000 | - |
| E von Puttkammer | 220,000 | - | - | - | - | 220,000 | - |
| | 37,849,430 | - | 150,000 | 3,650,000 | (49,000) | 41,600,430 | 39,580,430 |



5. KEY MANAGEMENT PERSONNEL REMUNERATION (CONTINUED)

Share holdings of directors and key management personnel (continued)

| 2010 | Balance | Share | Received | On market | On | Balance | Balance |
|---------------------------------------|-------------------|------------------|-------------|------------------|----------|-------------------|-------------------|
| | 01-Jul-09 | based | on exercise | purchases | market | 30-Jun-10 | held |
| | Number | payment | of options | Number | sales | Number | nominally |
| | Number | received | Number | Number | Number | Number | Number |
| Directors | | | | | | | |
| A Sage | 26,939,761 | 1,826,784 | - | 3,323,885 | - | 32,090,430 | 32,090,430 |
| T Turner | 1,000,000 | 400,000 | - | - | - | 1,400,000 | 1,400,000 |
| R Levin | - | - | - | - | - | - | - |
| B Maher | 738,000 | 350,000 | - | 277,000 | - | 1,365,000 | 1,365,000 |
| Other Key Management Personnel | | | | | | | |
| J Hamilton | - | 295,000 | - | 404,000 | - | 699,000 | 699,000 |
| K Bischoff | - | 275,000 | - | - | - | 275,000 | 275,000 |
| GV Ariti | 800,000 | 750,000 | - | - | - | 1,550,000 | - |
| F Taylor | - | 250,000 | - | - | - | 250,000 | - |
| E von Puttkammer | 20,000 | 200,000 | - | - | - | 220,000 | - |
| | <u>29,497,761</u> | <u>4,346,784</u> | <u>-</u> | <u>4,004,885</u> | <u>-</u> | <u>37,849,430</u> | <u>35,829,430</u> |

During the prior year, 4,346,784 fully paid ordinary shares were issued to directors and key management personnel. The shares were issued for no consideration as part of their remuneration packages. The shares issued to directors were approved by the Company's shareholders at the Annual General Meeting of the Company's shareholders held on 16 November 2009.

The shares have been valued at the Company's share price of \$0.50 on the date they were admitted to quotation on ASX. The shares are subject to escrow restrictions which came to an end on 30 June 2010. In valuing the shares, a discount for escrow restrictions was not taken into account.

The value assigned to the shares issued to directors and key management personnel amounted to \$2,173,392.

OPTION HOLDINGS OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

Details of options over ordinary shares of Cape Lambert Resources Limited held by directors and key management personnel are set out below. Further details of the Cape Lambert Resources Limited Employee Option Scheme are contained in note 6 to the financial statements.

| 2011 | Balance | Granted as | Lapsed | Exercised | Balance | Vested and |
|---------------------------------------|-----------|--------------|--------|------------|-----------|-------------|
| | 01-Jul-10 | remuneration | during | during the | 30-Jun-11 | exercisable |
| | No. | No. | No. | No. | No. | No. |
| Directors | | | | | | |
| A Sage | - | 2,800,000 | - | - | 2,800,000 | 2,800,000 |
| T Turner | - | 900,000 | - | - | 900,000 | 900,000 |
| R Levin | - | 600,000 | - | - | 600,000 | 600,000 |
| B Maher | - | 600,000 | - | - | 600,000 | 600,000 |
| Other Key Management Personnel | | | | | | |
| J Hamilton | - | 150,000 | - | - | 150,000 | 150,000 |
| K Bischoff | - | 150,000 | - | (150,000) | - | - |
| GV Ariti | - | 600,000 | - | - | 600,000 | 600,000 |
| Claire Tolcon | - | 500,000 | - | - | 500,000 | 500,000 |
| F Taylor | - | 300,000 | - | - | 300,000 | 300,000 |
| E von Puttkammer | - | 300,000 | - | - | 300,000 | 300,000 |
| | - | 6,900,000 | - | (150,000) | 6,750,000 | 6,750,000 |

During the current year, 6,900,000 share options were issued to directors and key management personnel. The share options were issued for no consideration as part of their remuneration package. The share options issued were approved by the Company's shareholders at the Annual General Meeting of the Company's shareholders on 30 November 2010.

The share options have been valued using the Black-Scholes option pricing model at a grant date.

| 2010 | Balance | Granted as | Lapsed | Balance | Vested and |
|---------------------------------------|-----------|--------------|-------------|-----------|-------------|
| | 01-Jul-09 | remuneration | during the | 30-Jun-10 | exercisable |
| | No. | No. | No. | No. | No. |
| Directors | | | | | |
| A Sage | - | - | - | - | - |
| T Turner | - | - | - | - | - |
| R Levin | - | - | - | - | - |
| B Maher | - | - | - | - | - |
| Other Key Management Personnel | | | | | |
| J Hamilton | 1,500,000 | - | (1,500,000) | - | - |
| K Bischoff | 1,500,000 | - | (1,500,000) | - | - |
| GV Ariti | 3,000,000 | - | (3,000,000) | - | - |
| F Taylor | - | - | - | - | - |
| E von Puttkammer | 350,000 | - | (350,000) | - | - |
| | 6,350,000 | - | (6,350,000) | - | - |



6. SHARE-BASED PAYMENT ARRANGEMENTS

Share-based payments granted during the current year:

During the current year, 8,000,000 share options were issued to directors and key management personnel, employees and consultants to the Company. The share options were issued for no consideration as part of their remuneration package. The share options issued were approved by the Company's shareholders at the Annual General Meeting of the Company's shareholders on 30 November 2010. The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The assessed fair value at grant date of options granted to Directors during the year ended 30 June 2011 was \$0.10 per option. The model inputs for options granted to Directors during the year ended 30 June 2011 included:

- (a) options were issued for no consideration with no vesting conditions attached.
- (b) exercise price: \$0.45
- (c) grant date: 30 November 2010
- (d) expiry date: 30 September 2011
- (e) share price at grant date: \$0.49
- (f) expected price volatility of the company's shares: 38%
- (g) expected dividend yield: 0.0%
- (h) risk-free interest rate: 5%

The expected price volatility is based on the historic volatility based on the period 6 months pre grant date.

The assessed fair value at grant date of options granted to key management personnel, employees and consultants during the year ended 30 June 2011 was \$0.10 per option. The model inputs for options granted to key management personnel, employees and consultants during the year ended 30 June 2011 included:

- (a) options were issued for no consideration with no vesting conditions attached.
- (b) exercise price: \$0.45
- (c) grant date: 17 December 2010
- (d) expiry date: 30 September 2011
- (e) share price at grant date: \$0.50
- (f) expected price volatility of the company's shares: 37%
- (g) expected dividend yield: 0.0%
- (h) risk-free interest rate: 5%

The expected price volatility is based on the historic volatility based on the period 6 months pre grant date.

Share-based payments granted during the prior year:

6,996,784 fully paid ordinary shares were issued to directors, key management personnel, employees and consultants to the Company during the year. The shares were issued for no consideration as part of their remuneration packages. The shares issued to directors were approved by the Company's shareholders at the Annual General Meeting of the Company's shareholders held on 16 November 2009.

The shares were valued at the Company's share price of \$0.50 on the date they were admitted to quotation on ASX. The shares were subject to escrow restrictions which came to an end on 30 June 2010. In valuing the shares, a discount for escrow restrictions was not taken into account. The value assigned to the shares issued amounted to \$3,498,392.

Options outstanding at balance date:

There were 7,850,000 options outstanding at 30 June 2011 (2010: nil).

Reconciliation of options on issue

The following reconciles the outstanding share options granted, exercised and lapsed during the financial year:

| | 2011 | | 2010 | |
|--|-------------------|------------------------------------|-------------------|------------------------------------|
| | Number of Options | Weighted Average Exercise Price \$ | Number of Options | Weighted Average Exercise Price \$ |
| Balance at beginning of the financial year | - | - | 36,350,000 | 0.337 |
| Granted during the financial year (i) | 8,000,000 | 0.450 | - | - |
| Exercised during the financial year (ii) | (150,000) | (0.450) | (28,000,000) | (0.309) |
| Lapsed during the financial year (iii) | - | - | (8,350,000) | (0.432) |
| Balance at end of the financial year | 7,850,000 | 0.450 | - | - |
| Exercisable at end of the financial year | 7,850,000 | 0.450 | - | - |

- (i) During the current year, 8,000,000 shares options were issued at a weighted exercise price of \$0.45.
- (ii) During the current year, 150,000 (30 June 2010: 28,000,000) share options were exercised for a weighted average exercise price of \$0.45 (30 June 2010:\$0.309).
- (iii) During the current year, no share options lapsed (30 June 2010: 8,350,000).

Rights attaching to options

The Employee Incentive Scheme, approved by the shareholders in December 2000, entitles each option holder to one share exercisable any time up to or on the expiry date at the stated exercise price; does not confer the right to a change in exercise price; subject to the Corporations Act 2001, the ASX Listing Rules and the Company's Constitution are freely transferable; the shares, upon exercise of the options, will rank pari passu with the Company's then issued shares; will be applied for quotation; the Option Holder can participate in a pro rata issue to the holders of the underlying securities in the Company if the Options are exercised before the record date of an entitlement; in the event of any reconstruction of the issued capital of the Company, all rights of the option holder will be changed to the extent necessary to comply with the Listing Rules applying to the reconstruction of capital, at the time of the reconstruction.



7. REMUNERATION OF AUDITORS

| | Consolidated | |
|---|----------------|----------------|
| | 30 June 2011 | 30 June 2010 |
| | \$ | \$ |
| <i>Paid or payable to PricewaterhouseCoopers</i> | | |
| Audit or review of the consolidated financial reports | 185,000 | 263,222 |
| <i>Paid or payable to Ernst & Young</i> | | |
| Audit of the financial reports of controlled entities | 29,696 | 237,358 |
| <i>Paid or payable to Grant Thornton</i> | | |
| Audit of the financial reports of controlled entities | - | 9,140 |
| | <u>214,696</u> | <u>509,720</u> |

8. TRADE AND OTHER RECEIVABLES

| | Consolidated | |
|--|------------------|-------------------|
| | 30 June 2011 | 30 June 2010 |
| | \$ | \$ |
| Trade and other receivables – current | | |
| Trade debtors | 307,087 | 487,774 |
| GST recoverable and other debtors | 699,720 | 978,377 |
| Prepayments | 166,770 | 158,976 |
| Interest receivable | 754,311 | 930,031 |
| Deposit paid on asset purchase | - | 1,000,000 |
| Deferred consideration receivable | 2,500,000 | - |
| Loans to unlisted entities (a) | 2,400,000 | 5,902,787 |
| Loans to ASX-listed entities (b) | 3,226,017 | 3,500,000 |
| Provision for impairment of loans (including interest receivable) (c) | (2,931,025) | - |
| Funds in trust | 1,112,656 | 1,133,674 |
| | 8,235,536 | 14,091,619 |
| Trade and other receivable – non current | | |
| Loans to unlisted entities (a) | - | 2,400,000 |
| Loans to ASX-listed entities (b) | 1,175,761 | 2,886,537 |
| Other | - | 8,268 |
| | 1,175,761 | 5,294,805 |

(a) Current and non current loans to unlisted entities:

- » The balance owing at 30 June 2011 includes an amount of \$2,400,000 (30 June 2010: 2,400,000) in the form of a convertible loan note which bears interest at the rate of 12% per annum. The conversion option embedded in the loan note allows the Company to convert the outstanding principal and any accrued interest balance at a conversion rate which results in the Company holding a 10% interest in the borrower's share capital post conversion. Given that the borrower is an unlisted entity, the fair value of the conversion option cannot be reliably measured. Accordingly, a nil value has been assigned to the conversion option.
- » An amount of \$3,662,787 owing from CopperCo Limited (In Liquidation) (Receivers and Managers Appointed) was repaid in full during the year ended 30 June 2011.
- » A convertible loan of \$2,240,000 was repaid in full during the year ended 30 June 2011.



8. TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Current and non current loans to ASX-listed entities

The amounts owing at balance date are made up as follows:

| | Interest rate | Carrying value of loans | |
|--|---------------|-------------------------|--------------|
| | | 30 June 2011 | 30 June 2010 |
| | | \$ | \$ |
| Current | | | |
| Convertible loan note of \$2,000,000 | 12% | 1,693,841 | - |
| Convertible loan note of \$2,000,000 | 10% | 1,098,667 | - |
| Loan of \$3,500,000 | 12% | - | 3,500,000 |
| Fair value of loans at inception | | 2,792,508 | 3,500,000 |
| Interest receivable recognised using the effective interest rate | | 922,057 | - |
| Interest received at the coupon rate | | (488,548) | - |
| Current carrying value at amortised cost at balance date | | 3,226,017 | 3,500,000 |
| Non current | | | |
| Convertible loan note of \$1,500,000 | 10% | 1,020,822 | 1,020,822 |
| Convertible loan note of \$2,000,000 | 12% | - | 1,693,841 |
| Fair value of loans at inception | | 1,020,822 | 2,714,663 |
| Interest receivable recognised using the effective interest rate | | 446,309 | 505,901 |
| Interest received at the coupon rate | | (291,370) | (334,027) |
| Non current Carrying value at amortised cost at balance date | | 1,175,761 | 2,886,537 |

At inception, the conversion options embedded within the above convertible loan agreements were fair valued using a Black-Scholes Option Pricing Model. The fair values of the options were recognised as financial assets at fair value through profit and loss and reduced the carrying value assigned to the loans receivable balances. Subsequent to their initial recognition, the loans receivable have been measured at amortised cost using the effective interest rate method.

c) Provision for impairment of loans (including interest receivable)

The recoverability of loans provided to ASX-listed and unlisted entities (including interest receivable) have been assessed for impairment as at 30 June 2011. A provision for impairment of \$2,931,025 has been recognised in respect of a loan and accumulated interest that was due for repayment in August 2011 but remains outstanding as at the date of this report.

Risk Exposure

The Consolidated Entity's exposure to risk is discussed in more detail at Note 30.

9. OTHER FINANCIAL ASSETS

Financial Assets at Fair value through Profit or Loss

| | Consolidated | |
|---------------------------|-------------------|-------------------|
| | 30 June 2011 | 30 June 2010 |
| | \$ | \$ |
| Shares in listed entities | 17,725,237 | 16,688,006 |
| Conversion options (a) | 57,809 | 220,780 |
| Call options (b) | 342,390 | 865,857 |
| | <u>18,125,436</u> | <u>17,774,643</u> |

Financial Assets Available-for-sale

| | | |
|---------------------------------|--------------------------|-------------------|
| Shares in unlisted entities (d) | 12,200,000 | 8,860,000 |
| Total Financial Assets | <u>30,325,436</u> | <u>26,634,643</u> |

(a) Conversion options

During the current year, the Company advanced \$2,000,000 (2010: \$3,500,000) to ASX listed entities in the form of convertible loans. At inception, the conversion options and call options within these loan agreements were fair valued using a Black-Scholes Option Pricing Model. The fair values of the options were recognised as financial assets at fair value through profit and loss. Subsequent to their initial recognition, the conversion options have been measured at fair value, with any gains or losses being recognised in the statement of comprehensive income. Details are summarised below:



9. OTHER FINANCIAL ASSETS (CONTINUED)

a) Conversion options (continued)

| 2011 | Interest rate | Option conversion price | No. of call options issued | Call option exercise price | Fair value of loan at inception ⁴ | Fair value of conversion option at inception | Fair value of call option at inception |
|---|---------------|-------------------------|----------------------------|----------------------------|--|--|--|
| | | | | | \$ | \$ | \$ |
| Loan note of \$1,500,000 | 10% | \$0.50 ¹ | - | - | 1,020,821 | 479,179 | - |
| Loan note of \$2,000,000 | 12% | \$0.30 ⁵ | - | - | 1,693,841 | 306,159 | - |
| Loan note of \$2,000,000 | 10% | \$0.20 ² | - | - | 1,098,667 | 901,333 | - |
| | | | | | <u>3,813,329</u> | 1,698,671 | - |
| Loss on fair value of options through profit and loss | | | | | | (1,628,862) | - |
| Carrying value at 30 June 2011 | | | | | | <u>57,809</u> | - |

¹ option conversion price is the lower of \$0.50 or the VWAP over the 20 days prior to conversion. The minimum conversion price is set at \$0.425.

² option conversion price is the volume weighted average closing price of the Company's Ordinary Shares as quoted on ASX over the last five (5) trading days immediately preceding delivering of a conversion notice less a discount of 20%.

³ option conversion price is the higher of \$0.30 or the VWAP over the 5 days prior to conversion.

⁴ refer to note 8 for further details of the loan component of the convertible loan note.

| 2010 | Interest rate | Option conversion price | No. of call options issued | Call option exercise price | Fair value of loan at inception ³ | Fair value of conversion option at inception | Fair value of call option at inception |
|---|---------------|-------------------------|----------------------------|----------------------------|--|--|--|
| | | | | | \$ | \$ | \$ |
| Loan note of \$1,500,000 | 10% | \$0.50 ¹ | - | - | 1,020,821 | 479,179 | - |
| Loan note of \$2,000,000 | 12% | \$0.30 ² | - | - | 1,693,841 | 306,159 | - |
| | | | | | <u>2,714,662</u> | 785,338 | - |
| Loss on fair value of options through profit and loss | | | | | | (564,558) | - |
| Carrying value at 30 June 2010 | | | | | | <u>220,780</u> | - |

¹ option conversion price is the lower of \$0.50 or the VWAP over the 20 days prior to conversion. The minimum conversion price is set at \$0.425.

² option conversion price is the higher of \$0.30 or the VWAP over the 5 days prior to conversion.

³ refer to note 8 for further details of the loan component of the convertible loan note.

(b) Call options

During the current year, the Company received call options in ASX listed entities. The call options have been fair valued using a Black-Scholes Option Pricing Model and have been recognised as financial assets at fair value through profit and loss. The gain on receipt of the options has been recognised in the Statement of Comprehensive Income. Subsequent to their initial recognition, the call options have been measured at fair value, with any gains or losses being recognised in the Statement of Comprehensive Income. Details are summarised below:

2011

| No. of call options received | Call option exercise price | Call option expiry date | Fair value of call options at inception | Gain / (loss) on fair value of options through profit and loss | Fair value of call options at 30 June 2011 |
|------------------------------|----------------------------|-------------------------|---|--|--|
| | | | \$ | \$ | \$ |
| 10,000,000 | \$0.20 | 24/02/2012 | 691,655 | (650,477) | 41,178 |
| 1,583,334 | \$0.45 | 31/10/2012 | 74,670 | (68,093) | 6,577 |
| 4,400,000 | \$0.30 | 31/03/2013 | 52,896 | 229,905 | 282,801 |
| 2,000,000 | \$0.15 | 08/08/2012 | 19,335 | (7,501) | 11,834 |
| | | | 838,556 | 496,166 | 342,390 |

2010

| No. of call options received | Call option exercise price | Call option expiry date | Fair value of call options at inception | Gain / (loss) on fair value of options through profit and loss | Fair value of call options at 30 June 2010 |
|------------------------------|----------------------------|-------------------------|---|--|--|
| | | | \$ | \$ | \$ |
| 10,000,000 | \$0.20 | 24/02/2012 | 691,655 | (494,869) | 196,786 |
| 35,000,000 | \$0.05 | 06/08/2013 | 1,792,675 | (1,123,604) | 669,071 |
| | | | 2,484,330 | (1,618,473) | 865,857 |



9. OTHER FINANCIAL ASSETS (CONTINUED)

(c) Conversion and call options exercised during the year

During the current year, a \$3,500,000 loan note provided to an ASX listed company was repaid. In addition, the Company exercised the 35 million options it received pursuant to the loan note agreement and subsequently sold the shares. The loss on disposal has been recognised in the Statement of Comprehensive Income. Details are as follows:

| 2011 | Total |
|--|------------------|
| | \$ |
| Value of options at inception | 1,792,675 |
| Gain / (loss) on fair value of options through profit and loss | (1,123,604) |
| Carrying value of options at 30 June 2010 | <u>669,071</u> |
| Consideration received from sale of shares | 2,240,000 |
| Amount paid on exercise of call options | (1,750,000) |
| Carrying value of options at conversion | <u>(669,071)</u> |
| Loss on disposal | <u>(179,071)</u> |

During the year ended 30 June 2010, the Company converted its loan to DMC Mining Ltd ("DMC Mining") and exercised its call options in DMC Mining. The Company also converted its loan to Cauldron Energy Limited during the year ended 30 June 2010. The gain on conversion was recognised in the Statement of Comprehensive Income. Details are as follows:

| 2010 | Loans | Call options | Conversion options | Total |
|--|------------------|----------------|--------------------|--------------------|
| | \$ | \$ | \$ | \$ |
| Carrying value at 30 June 2009 | 2,370,070 | 508,319 | 4,706,715 | 7,585,104 |
| Interest receivable recognised using the effective interest rate | 63,245 | - | - | 63,245 |
| Interest received at the coupon rate | (11,901) | - | - | (11,901) |
| Gain / (loss) on fair value of options through profit and loss | | 166,223 | 523,291 | 689,514 |
| Carrying value on conversion | <u>2,421,414</u> | <u>674,542</u> | <u>5,230,006</u> | <u>8,325,962</u> |
| Fair value of ordinary shares received on conversion | | | | 11,321,535 |
| Amount paid on exercise of call options | | | | (750,000) |
| Carrying value of loans, call options and conversion options on conversion | | | | <u>(8,325,962)</u> |
| Gain on conversion | | | | <u>2,245,573</u> |

(d) Shares in unlisted entities

Investments in unlisted entities are classified as available for sale financial assets. These are traded in inactive markets and are carried at cost because their fair values cannot be reliably measured. Management have assessed impairment and no indicators of impairment exist as at 30 June 2011.

(e) Impairment and Risk exposure

Refer to Note 30 for further details.

10. RESTRICTED CASH

| | Consolidated | |
|------------------------------------|------------------|--------------|
| | 30 June 2011 | 30 June 2010 |
| | \$ | \$ |
| Current restricted cash | | |
| Term deposits | <u>544,240</u> | 25,257 |
| Non current restricted cash | | |
| Term deposits | <u>3,082,372</u> | 1,466,716 |

Restricted cash relates to term deposits held with financial institutions as security for bank guarantees issued to:

- (a) Various environmental regulatory departments in respect of the potential rehabilitation of exploration areas; and
- (b) Landlords of leased properties.

The term deposits are not readily accessible to the Cape Lambert Group.

Risk Exposure

The Cape Lambert Group's exposure to risk is discussed in Note 30.

11. PROPERTY, PLANT AND EQUIPMENT

| | Consolidated | |
|-------------------------------------|------------------|--------------|
| | 30 June 2011 | 30 June 2010 |
| | \$ | \$ |
| Plant and Equipment | | |
| At cost | 3,541,200 | 1,989,970 |
| Accumulated depreciation | <u>(670,573)</u> | (817,163) |
| | <u>2,870,627</u> | 1,172,807 |
| Leasehold Improvements | | |
| At cost | 105,637 | 105,338 |
| Accumulated depreciation | <u>(105,637)</u> | (69,095) |
| | - | 36,243 |
| Total Property, Plant and Equipment | <u>2,870,627</u> | 1,209,050 |



11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below.

| 2011 | Plant & Equipment | Consolidated Leasehold Improvements | Total |
|---|-------------------|-------------------------------------|------------------|
| | \$ | \$ | \$ |
| Balance at beginning of the year | 1,172,807 | 36,243 | 1,209,050 |
| Additions | 553,281 | 298 | 553,579 |
| Acquired through business combination | 1,704,645 | - | 1,704,645 |
| Disposed of through sale of controlled entity | (258,024) | - | (258,024) |
| Depreciation expense | (302,082) | (36,541) | (338,623) |
| Carrying amount at 30 June 2011 | <u>2,870,627</u> | <u>-</u> | <u>2,870,627</u> |

| 2010 | Plant & Equipment | Consolidated Leasehold Improvements | Total |
|---|-------------------|-------------------------------------|------------------|
| | \$ | \$ | \$ |
| Balance at beginning of the year | 8,893,109 | 26,278 | 8,919,387 |
| Additions | 1,128,210 | 56,652 | 1,184,862 |
| Acquired through the acquisition of controlled entities | 639,991 | - | 639,991 |
| Disposals | (16,010) | - | (16,010) |
| Disposed of through sale of controlled entity | (9,132,862) | - | (9,132,862) |
| Depreciation expense | (339,631) | (46,687) | (386,318) |
| Carrying amount at 30 June 2010 | <u>1,172,807</u> | <u>36,243</u> | <u>1,209,050</u> |

12. EXPLORATION AND EVALUATION EXPENDITURE

| | Consolidated | |
|--|--------------------|--------------|
| | 30 June 2011 | 30 June 2010 |
| | \$ | \$ |
| Exploration and evaluation phases – at cost | 242,987,407 | 200,148,822 |
| Movement in carrying amounts | | |
| Brought forward | 200,148,822 | 154,679,278 |
| Exploration and evaluation expenditure capitalised during the year | 20,653,956 | 11,790,230 |
| Exploration assets acquired through a business combination | 8,305,185 | 47,160,678 |
| Exploration assets acquired (a) | 128,568,958 | 62,751,753 |
| Exploration expenditure impaired during the year (b) | (36,591,446) | - |
| Exploration assets sold during the year | (78,098,068) | (76,233,117) |
| Total exploration and evaluation phases | 242,987,407 | 200,148,822 |

The value of the exploration expenditure is dependent upon:

- » the continuance of the rights to tenure of the areas of interest;
- » the results of future exploration; and
- » the recoupment of costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

Certain of Cape Lambert's exploration properties may be subjected to claim(s) under native title, or contain sacred sites, or sites of significance to Indigenous people. As a result, exploration properties or areas within the tenements may be subject to exploration restrictions, mining restrictions and/or claims for compensation. At this time, it is not possible to quantify whether such claims exist, or the quantum of such claims.

(a) Exploration assets acquired

During the year ended 30 June 2011, Cape Lambert increased its interest in Pinnacle Group Assets Limited ("Pinnacle") from 37.2% to 90.2%. The acquisition has been accounted for as an asset acquisition and the purchase consideration (paid and payable) has been attributed to Pinnacle's exploration projects.

In the prior year, Cape Lambert increased its interest in Marampa Iron Ore Ltd from 35% to 100%. The acquisition was accounted for as an asset acquisition and the purchase consideration was attributed to the various assets held by Marampa at the acquisition date.

(b) Impairment

During the year ended 30 June 2011, Cape Lambert recognised impairment losses in respect of capitalised exploration and evaluation to the extent of \$36,591,446. The impairment loss relates to Cape Lambert's 25% interest in the Lady Loretta project which was sold in March 2011 for \$30,000,000.



13. INVESTMENTS IN ASSOCIATED ENTITIES

| | Consolidated | |
|---|-------------------|--------------|
| | 30 June 2011 | 30 June 2010 |
| | \$ | \$ |
| Investments in associates accounted for using the equity method | 38,109,367 | 66,785,069 |

(a) Investment details

| | Percentage held at balance date | | Consolidated | |
|--|---------------------------------|--------------|-------------------|--------------|
| | 30 June 2011 | 30 June 2010 | 30 June 2011 | 30 June 2010 |
| Listed | | | | |
| International Goldfields Limited (formerly Corvette Resources Limited) | 28.7% | 32.3% | 8,900,326 | 14,880,060 |
| Speewah Metals Limited (formerly NiPlats Australia Limited) | - | 39.3% | - | 5,578,900 |
| Fe Limited | 19.9% | 17.0% | 2,068,991 | 1,033,212 |
| Cauldron Energy Limited | 19.9% | 18.6% | 1,336,437 | - |
| African Iron Limited | 25.0% | - | 25,803,613 | - |
| Unlisted | | | | |
| Pinnacle Group Assets Limited | 90.2% | 37.2% | - | 45,292,897 |
| | | | 38,109,367 | 66,785,069 |

(b) Movements in the carrying amount of the investment in associates

| | Consolidated | |
|--|---------------------|--------------|
| | 30 June 2011 | 30 June 2010 |
| | \$ | \$ |
| Balance at beginning of period | 66,785,069 | 38,384,711 |
| Interest in associate acquired on conversion of convertible loan | - | 34,822,200 |
| Acquisition of shares in associates | 21,682,681 | 40,355,469 |
| Fair value of interest in associate acquired as consideration on disposal of controlled entity | 27,047,432 | - |
| Share of losses of associates recognised during the year | (7,847,148) | (3,400,210) |
| Share of reserves of associates recognised during the year | 831,975 | (244,996) |
| Interest in listed shares transferred to interest in associate | 4,951,654 | - |
| Interest in associate disposed of during the period | (5,578,900) | (10,421,053) |
| Interest in associate transferred to controlled entities during the period | (65,344,338) | (32,711,052) |
| Impairment loss (e) | (4,419,058) | - |
| | 38,109,367 | 66,785,069 |

(c) Fair value of investments in listed associates

The fair value of listed associates has been determined by reference to published price quotations in an active market.

| | 30 June 2011 | 30 June 2010 |
|--|--------------|--------------|
| | \$ | \$ |
| International Goldfields Limited (formerly Corvette Resources Limited) | 7,700,315 | 11,799,464 |
| Fe Limited (formerly Buka Gold Limited) ¹ | 2,068,991 | 1,391,480 |
| Cauldron Energy Limited ¹ | 1,859,508 | - |
| African Iron Limited | 28,800,000 | - |
| Speewah Metals Limited (formerly NiPlats Australia Limited) | - | 6,337,500 |

¹ Although the Company holds less than a 20% interest in Fe Limited and Cauldron Energy Limited, these investments are equity accounted given the significant influence the Company has through Mr Sage's role on the Board's of these companies and the interchange of management personnel.

(d) Summarised financial information

The following table illustrates summarised financial information relating to listed associates:

| | 30 June 2011 | 30 June 2010 |
|--|--------------|--------------|
| | \$ | \$ |
| Extract from statement of financial position at 100%: | | |
| Assets | 199,125,045 | 74,873,235 |
| Liabilities | 19,121,709 | 3,002,136 |
| Extract from statement of comprehensive income at 100%: | | |
| Revenue | 9,340,116 | 3,666,538 |
| Net Profit / Loss | (27,638,798) | (6,891,686) |

The above financial information has been reported for investments in listed associates only. The financial information for unlisted associates is not publicly available and consequently has not been reported.

(e) Impairment assessment

The carrying amounts of the investments in associates were assessed for impairment at 30 June 2011. The market prices of some investments were below their carrying value for a prolonged period of time. As a result, the recoverable amount has been measured at fair value less cost to sell. Impairment losses of \$4,419,058 have been recognised (2010: nil).



14. TRADE AND OTHER PAYABLES

| Current | Consolidated | |
|---------------------------------------|-------------------|-------------------|
| | 30 June 2011 | 30 June 2010 |
| | \$ | \$ |
| Unsecured | | |
| Trade payables | 3,565,437 | 3,270,092 |
| Deferred consideration payable (a) | 16,335,000 | - |
| Accrued takeover acceptances payments | - | 22,233,433 |
| Other creditors and accruals | 2,964,091 | 7,338,689 |
| | 22,864,528 | 32,842,214 |

(a) Deferred consideration payable in cash on acquisition of Pinnacle Group Assets Limited is due on or before 31 December 2011.

Risk Exposure

The Cape Lambert Group's exposure to risk is discussed in Note 30.

Terms and Conditions

Terms and conditions relating to the above financial instruments:

- (i) Trade creditors are non-interest bearing and are normally settled on 45 day terms.
- (ii) Sundry creditors and accruals are non-interest bearing and have an average term of 45 days.

15. PROVISIONS

| | Consolidated | |
|---|------------------|-------------------|
| | 30 June 2011 | 30 June 2010 |
| | \$ | \$ |
| Current provisions | | |
| Employee entitlements | 887,457 | 52,085 |
| Provision for dividend | - | 43,803,183 |
| | 887,457 | 43,855,268 |
| Non-current provisions | | |
| Provision for site restoration and rehabilitation | 2,349,210 | - |
| Balance at beginning of year | - | 11,922,606 |
| Recognised pursuant to business combination | 2,349,210 | - |
| Derecognised on disposal of controlled entity | - | (11,922,606) |
| Balance at end of year | 2,349,210 | - |

16. ISSUED CAPITAL

| | Consolidated | |
|--|--------------------|--------------|
| | 30 June 2011 | 30 June 2010 |
| | \$ | \$ |
| 626,299,603 fully paid ordinary shares (2010: 625,759,256) | 167,528,846 | 177,603,225 |

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held and in proportion to the amount paid up on the shares held. At shareholders meetings, each ordinary share is entitled to one vote in proportion to the paid up amount of the share when a poll is called, otherwise each shareholder has one vote on a show of hands.

Movement in ordinary shares on issue

| 2011 | Ordinary fully paid shares | |
|---|----------------------------|--------------------|
| | Number | \$ |
| Shares on issue at 1 July 2010 | 625,759,256 | 177,603,225 |
| Shares issued on exercise of unlisted options (a) | 150,000 | 67,500 |
| On-market share buyback (b) | (54,059,653) | (31,921,879) |
| Shares issued as part consideration for the purchase of controlled entity (c) | 54,450,000 | 21,780,000 |
| Shares on issue at 30 June 2011 | 626,299,603 | 167,528,846 |

- (a) On 10 February 2011, 150,000 shares were issued on the exercise of 150,000 unlisted options.
- (b) On 22 February 2011, the Company completed the on-market share buy-back. A total amount of \$31,921,879 was paid to buy-back 54,059,653 ordinary shares. Shares that have been bought back by the Company have been cancelled.
- (c) On 16 June 2011, the Company completed the acquisition of shares in Pinnacle Group Assets Limited (Pinnacle) increasing its interest in Pinnacle to 90.2%.



16. ISSUED CAPITAL (CONTINUED)

Movement in ordinary shares on issue (continued)

| 2010 | Ordinary fully paid shares | |
|---|----------------------------|--------------------|
| | Number | \$ |
| Shares on issue at 1 July 2009 | 523,797,213 | 126,016,077 |
| Shares issued as purchase consideration for associate under takeover bid (a) | 5,825,807 | 2,912,905 |
| Share based payment to directors, employees and consultants | 6,996,784 | 3,498,392 |
| Shares issued as purchase consideration for controlled entity (b) | 3,976,729 | 2,147,380 |
| Shares issued as purchase consideration for increased shareholding in associate resulting in it becoming a controlled entity (c), (d) | 57,162,723 | 30,039,960 |
| Shares issued on exercise of unlisted options | 28,000,000 | 8,652,000 |
| Tax effect of capital raising costs | - | (50,015) |
| Transfer from share based payments reserve (value at inception of options exercised) | - | 2,212,000 |
| Transfer from share based payments reserve (value at inception of options lapsed) | - | 2,174,526 |
| Shares on issue at 30 June 2010 | 625,759,256 | 177,603,225 |

- (a) On 11 September 2009, the Company issued 5,825,807 fully paid ordinary shares to shareholders of Corvette Resources Limited pursuant to a takeover bid.
- (b) On 25 November 2009, the Company issued 3,976,729 fully paid ordinary shares to Mojo Mining Ltd as purchase consideration for the acquisition of Mojo Minerals Pty Ltd.
- (c) On 4 December 2009, the Company issued 24,569,934 fully paid ordinary shares to African Minerals Limited as the first tranche of shares issued as purchase consideration for the acquisition of Marampa Iron Ore Limited.
- (d) On 29 January 2010, the Company issued 32,592,789 fully paid ordinary shares to African Minerals Limited as the final consideration for the acquisition of 100% of Marampa Iron Ore Limited.

Capital Risk Management

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

Consistently with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "borrowings" and "trade and other payables" as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the statement of financial position plus net debt.

| | Consolidated | |
|---------------------------------|--------------|---------------|
| | 30 June 2011 | 30 June 2010 |
| | \$ | \$ |
| Total Trade and other payables | 22,864,528 | 32,894,299 |
| less: Cash and cash equivalents | (43,096,285) | (135,709,067) |
| Net (cash)/debt | (20,231,757) | (102,814,768) |
| Total equity | 336,042,800 | 353,372,866 |
| Total capital | 315,811,043 | 250,558,098 |
| Gearing ratio | 0% | 0% |

17. RESERVES

| | Consolidated | |
|---|--------------------|--------------------|
| | 30 June 2011 | 30 June 2010 |
| | \$ | \$ |
| Foreign currency translation reserve | (1,099,712) | (1,458,768) |
| Share based payments reserve | 1,828,484 | 167,308 |
| | 728,772 | (1,291,460) |
| Foreign currency translation reserve | | |
| Balance at beginning of financial year | (1,458,768) | - |
| Foreign currency exchange differences arising on translation of foreign operation | 390,980 | (1,046,464) |
| Share of movement of associate's foreign currency translation reserve | (31,924) | (412,304) |
| Balance at end of financial year | (1,099,712) | (1,458,768) |
| Share based payments reserve | | |
| Balance at beginning of financial year | 167,308 | 4,386,526 |
| Share of movement of associate's share based payments reserve | 863,899 | 167,308 |
| Options issued | 797,277 | - |
| Options exercised | - | (2,212,000) |
| Options lapsed | - | (2,174,526) |
| Balance at end of financial year | 1,828,484 | 167,308 |

Nature and Purpose of Reserves

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of financial statements of foreign subsidiaries.

Share based payments reserve

The share based payments reserve records items recognised as expenses on valuation of employee share options, and options issued to directors and consultants.

18. RETAINED EARNINGS

| | Consolidated | |
|--|--------------------|--------------------|
| | 30 June 2011 | 30 June 2010 |
| | \$ | \$ |
| Balance at beginning of financial year | 166,932,887 | 138,487,994 |
| Profit / (loss) for the year | (11,846,271) | 72,248,076 |
| Dividend declared | - | (43,803,183) |
| Balance at end of financial year | 155,086,616 | 166,932,887 |



19. EARNINGS PER SHARE

| | 2011 | 2010 |
|---|-----------------|-----------------|
| | Cents per Share | Cents per Share |
| Basic earnings / (loss) per share (a) | (1.96) | 12.66 |
| Diluted earnings / (loss) per share (b) | (1.96) | 12.20 |

(a) Basic Earnings per Share

The profit / (loss) and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

| | 30 June 2011 | 30 June 2010 |
|------------------------------|--------------|--------------|
| | \$ | \$ |
| Profit / (loss) for the year | (11,846,271) | 72,248,076 |

| | 2011 | 2010 |
|---|-------------|-------------|
| | Number | Number |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 604,895,179 | 570,630,987 |

(b) Diluted Earnings per Share

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

| | 30 June 2011 | 30 June 2010 |
|------------------------------|--------------|--------------|
| | \$ | \$ |
| Profit / (loss) for the year | (11,846,271) | 72,248,076 |

| | 2011 | 2010 |
|---|-------------|-------------|
| | Number | Number |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share (c) | 604,895,179 | 592,263,864 |

(c) Weighted average number of shares

| | 2011 | 2010 |
|---|-------------|-------------|
| | Number | Number |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 604,895,179 | 570,630,987 |
| Effect of dilution: | | |
| Share options | - | 21,632,877 |
| | 604,895,179 | 592,263,864 |

There are no instruments excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are anti-dilutive for either of the periods presented.

Since 30 June 2011 and the date of completion of these financial statements, 5,200,000 share options have been exercised for total consideration of \$2,340,000.

20. COMMITMENTS

| | Consolidated | |
|--|----------------|--------------|
| | 30 June 2011 | 30 June 2010 |
| | \$ | \$ |
| OPERATING LEASE COMMITMENTS | | |
| Minimum lease payments not provided for in the financial report and payable: | | |
| not later than one year | 708,610 | 754,992 |
| later than one year but not later than five years | 3,387 | 640,688 |
| later than five years | - | - |
| Aggregate expenditure contracted for at balance date but not provided for | 711,997 | 1,395,680 |

- (i) The Company entered into a lease commencing on 1 July 2007 for office premises at 18 Oxford Close, Leederville, for a period of 3 years, terminating on 30 June 2010. During the prior year, the lease was extended to 30 June 2011 and during the current year this lease was extended by a further 12 months to 30 June 2012.
- (ii) The Company entered into a lease commencing on 1 May 2007 for office premises at 2 Ord Street West Perth, for a period of 5 years, terminating on 30 April 2012.
- (iii) Cape Lambert Minsec Pty Ltd (a wholly owned subsidiary of the Company) has a lease obligation for office premises located in Golden Square, London. The lease of these premises terminates on 3 July 2012.

In June 2011, the Company entered into a \$2 million loan standby facility agreement ("Facility") with Fe Limited. Cape Lambert is a substantial shareholder in Fe Limited and currently holds a 19.9% interest. Pursuant to the terms of the Facility, Fe Limited will have access to \$2 million, and any amounts drawn down will be payable in full 18 months from the date of execution of the Facility agreement. Interest is payable on the amounts drawn down under the facility at the cash rate plus 3%. Any funds received by Fe Limited from sales of assets or capital raisings must first be used to reduce funds drawn down under the facility. No amounts had been drawn down as at 30 June 2011.

Cape Lambert advanced \$6.5 million to Chameleon Mining NL ("Chameleon") which served as a loan facility. In March 2011, the \$6.5 million advance was repaid to Cape Lambert as a consequence of a favourable outcome of Chameleon's appeal against International Litigation Partners Pte Ltd. The facility is still available for draw down by Chameleon for the appeal lodged by International Litigations Partners Pte Ltd.



20. COMMITMENTS (CONTINUED)

MINERAL TENEMENT DISCRETIONARY COMMITMENTS

In order to maintain current rights of tenure to mining tenements, the Cape Lambert Group has the following discretionary exploration expenditure and rental requirements up until expiry of leases. These obligations, which are subject to renegotiation upon expiry of the leases, are not provided for in the financial statements and are payable:

| | Consolidated | |
|--|-------------------|------------------|
| | 30 June 2011 | 30 June 2010 |
| | \$ | \$ |
| Not longer than one year | 11,875,868 | 5,693,955 |
| Longer than one year, but not longer than five years | 18,188,867 | 4,105,221 |
| Longer than five years | 35,795 | - |
| | <u>30,100,530</u> | <u>9,799,176</u> |

If the Cape Lambert Group decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the statement of financial position may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

21. CONTINGENT ASSETS AND LIABILITIES

At 30 June 2011, the Cape Lambert Group has the following contingent liabilities and contingent assets:

| | Consolidated | |
|---|--------------|--------------|
| | 30 June 2011 | 30 June 2010 |
| | \$ | \$ |
| Contingent Assets | | |
| Consideration receivable in relation to the sale of the Cape Lambert Project ¹ | 80,000,000 | 80,000,000 |
| Consideration receivable in relation to the sale of the Lady Annie Project ² | 2,500,000 | 5,000,000 |
| Contingent Liabilities | | |
| Commission payable in relation to the sale of the Cape Lambert Project ¹ | (7,600,000) | (7,600,000) |

1 During the year ended 30 June 2008, the Company entered into an agreement with Chinese conglomerate China Metallurgical Group Corporation (“MCC”) for the sale of the tenements related to the Cape Lambert Iron Ore Project (“Project”). The sale was for total cash consideration of \$400,000,000, with \$80,000,000 of this amount being contingent upon MCC obtaining the grant of a mining lease and related construction approvals (“Approvals”) in respect of the Project within two years of the settlement date, 6 August 2008, or such other period as agreed upon by the Company and MCC, provided that the Company has reasonably assisted MCC with the obtaining of the Approvals.

In September 2010, the Company commenced legal action to recover the final payment owing. As at 30 June 2011, the final payment of \$80,000,000 had not been received. Given the uncertainty surrounding the receipt of this final payment, the Company has not recognised the final payment owing as a receivable.

In the event that the final payment is received, the Company will be liable to pay an additional commission fee of \$7,600,000 to an unrelated party.

2 During the year ended 30 June 2010, the Company disposed of 100% of its interest in Cape Lambert Lady Annie Exploration Pty Ltd, the holder of the Lady Annie Project, to China Sci-Tech Holdings Limited, a Hong Kong listed Company, for \$135 million. The purchase consideration includes two contingent payments of \$2.5 million each, which are payable once certain production and reserve related milestones are achieved. The Company has recognised the first contingent payment of \$2.5 million as a receivable as at 30 June 2011 however given that it is not certain that the remaining production and reserve related milestones will be achieved, the Company has not recognised the final contingent payment as a receivable.

There are no other material contingent liabilities to be disclosed.



22. BUSINESS COMBINATION

a) Current year - Leichhardt Copper Project

On 18 August 2010, the Company, through its wholly owned subsidiary, Cape Lambert Leichhardt Pty Ltd, completed the acquisition of 100% of the Leichhardt Copper Project from Matrix Metals Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) (In Liquidation). Payment on completion amounted to \$6,645,566 in addition to the deposit of \$1,000,000 paid in November 2009.

The provisional goodwill or gain on bargain purchase arising from a business combination results when comparing the assessment of the acquired identifiable assets, liabilities and contingent liabilities to the cost of the acquisition. Any gain on bargain purchase is recognised in the statement of comprehensive income.

No goodwill or gain on bargain purchase amounts have arisen in relation to the Leichhardt Copper Project as set out below:

| | \$ |
|--|------------------|
| Deposit cash paid | 1,000,000 |
| Settlement cash paid | 6,645,566 |
| Total purchase consideration | <u>7,645,566</u> |
| Share of fair value of net identifiable assets acquired (refer to (i) below) | <u>7,645,566</u> |
| Goodwill / (gain on bargain purchase) | <u><u>-</u></u> |

(i) SUMMARY OF ASSETS AND LIABILITIES ACQUIRED

The fair values of the assets and liabilities arising from the business combination are as follows:

| | Fair value ¹ |
|---|--------------------------------|
| | \$ |
| Inventory – consumables and spares | 95,000 |
| Property, plant & equipment | 1,704,645 |
| Exploration assets | 8,299,565 |
| Total assets | <u>10,099,210</u> |
| Provision for employee benefits | (104,434) |
| Provision for rehabilitation | <u>(2,349,210)</u> |
| Total liabilities | <u>(2,453,644)</u> |
| Provisional fair value of identifiable net assets | <u>7,645,566</u> |
| Net assets acquired | <u><u>7,645,566</u></u> |

¹The fair values of assets and liabilities acquired are based on discounted cash flows and other pertinent valuation techniques. No acquisition provisions were created.

(ii) SUMMARY OF CASH OUTFLOW

The impact on the Consolidated Entity's cash flow in the current year is set out below:

| | \$ |
|---|------------------|
| Settlement cash paid | 6,645,566 |
| Outflow of cash - investing activity during the year ended 30 June 2011 | <u>6,645,566</u> |

Acquisition related costs of \$76,460 were incurred during the current year are included within consulting expenses in the Statement of Comprehensive Income.

(iii) CONTRIBUTION TO REVENUES AND PROFITS

The acquired business did not contribute any revenues and contributed a loss of \$1,885,085 to the Consolidated Entity for the period from 18 August 2010 to 30 June 2011. The contributed loss to the Consolidated Entity for the period 1 July 2010 to 30 June 2011 is unknown as there is no access to the accounting records prior to completion of the acquisition.

b) Prior year - DMC Mining

In July 2009, the Company converted a \$2 million note in DMC Mining and exercised 5 million DMC Mining options to acquire a 36% interest in DMC Mining.

In March 2010, the Company launched a takeover bid for DMC Mining. At 30 June 2010, Cape Lambert had obtained a controlling interest of 79% in DMC Mining.

Up until the point that Cape Lambert obtained control of DMC Mining, it equity accounted for its investment. As required by AASB 3 "Business Combinations", Cape Lambert fair valued its equity interest in DMC Mining at the point at which control was obtained and recognised the following gain in the statement of comprehensive income for the year ended 30 June 2010:

| | \$ |
|--|--------------------|
| Equity interest in DMC Mining at beginning of reporting period | - |
| Shares acquired during the year | 6,440,000 |
| Share of losses after tax | <u>(1,420,209)</u> |
| Equity accounted carrying value at date control over DMC Mining obtained | 5,019,791 |
| Gain recognised in the statement of comprehensive income | <u>11,283,009</u> |
| Fair value of investment in DMC Mining on date control obtained | <u>16,302,800</u> |

No goodwill or gain on bargain purchase amounts were recognised in relation to the DMC Mining acquisition in the year ended 30 June 2010 as set out below:

| | \$ |
|--|-------------------|
| Cash purchase price pursuant to take over bid | 22,253,125 |
| Fair value of investment in DMC Mining on date control obtained | <u>16,302,800</u> |
| Total purchase consideration | 38,555,925 |
| Share of fair value of net identifiable assets acquired (refer to (i) below) | <u>38,555,925</u> |
| Goodwill / (gain on bargain purchase) | <u>-</u> |
| Purchase price for takeover bid acceptances received to 30 June 2010 | 22,253,125 |
| Less: amounts unpaid as at 30 June 2010 | <u>22,233,433</u> |
| Outflow of cash - investing activity during the year ended 30 June 2010 | <u>19,692</u> |



22. BUSINESS COMBINATION (CONTINUED)

b) Prior year – DMC Mining (continued)

(i) SUMMARY OF ASSETS AND LIABILITIES ACQUIRED

The fair values of the assets and liabilities arising from business combination at 30 June 2010 are set out below:

| | Fair value ¹ |
|---|--------------------------|
| | \$ |
| Cash and cash equivalents | 2,264,514 |
| Trade and other receivables | 229,181 |
| Property, plant & equipment | 240,858 |
| Exploration assets | 47,160,678 |
| Total assets | <u>49,895,231</u> |
| Trade and other payables | (1,178,502) |
| Provision for employee benefits | (32,590) |
| Total liabilities | <u>(1,211,092)</u> |
| Provisional fair value of identifiable net assets | 48,684,139 |
| Attributable to minority interests ² | (10,128,214) |
| Net assets acquired | <u>38,555,925</u> |

1. The fair values of assets and liabilities acquired are based on discounted cash flows and other pertinent valuation techniques. No acquisition provisions were created.

2. In accordance with the accounting policy set out in note 2(u), the Consolidated Entity elected to recognise the non-controlling interests in DMC Mining at its proportionate share of the acquired net identifiable assets.

(ii) SUMMARY OF CASH OUTFLOW

The impact on the Consolidated Entity's cash flow in the year ended 30 June 2010 is set out below:

| | \$ |
|--|---------------------|
| Purchase consideration for takeover bid acceptances received to 30 June 2010 | 22,253,125 |
| Less: amounts unpaid as at 30 June 2010 | <u>(22,233,433)</u> |
| Outflow of cash - investing activity during the year ended 30 June 2010 | <u>19,692</u> |

Acquisition related costs of \$47,430 were incurred during the prior year and were included within consulting expenses in the Statement of Comprehensive Income for the year ended 30 June 2010.

(iii) CONTRIBUTION TO REVENUES AND PROFITS

No amounts were contributed by DMC Mining to the Consolidated Entity's revenues and profits for the year ended 30 June 2010. Had Cape Lambert obtained control over DMC Mining at the beginning of the 2010 financial year, it would have recognised a loss of \$3,145,515 in its statement of comprehensive income, being its share of the loss reported by DMC Mining for the year of \$3,981,665.

c) DMC Mining – completion of acquisition

On 20 August 2010, the Company completed the 100% acquisition of DMC Mining pursuant to a takeover bid which commenced in March 2010. As at 30 June 2010, Cape Lambert had obtained control over DMC Mining with a 79% interest and had recognised an accrual of \$22,233,433 for takeover acceptances received and a non controlling interest of \$10,134,440.

The impact on the Consolidated Entity's cash flow to finalise the acquisition of DMC Mining is set out below:

| | \$ |
|---|-------------------|
| Takeover bid acceptances received and paid in the year ended 30 June 2010 refer to note (b) above | 19,692 |
| Current year payment pursuant to prior year business combination | 22,233,433 |
| Current year transactions with non-controlling interests to complete the 100% acquisition of DMC Mining | 10,134,440 |
| | <u>32,387,565</u> |

Acquisition related costs of \$36,362 were incurred during the current year are included within consulting expenses in the Statement of Comprehensive Income.



23. DISPOSAL OF CONTROLLED ENTITY

a) Current year

On 10 January 2011, the Company completed the sale of wholly owned subsidiary DMC Mining Ltd (“DMC Mining”) to African Iron Limited (“African Iron”). The Company received \$47 million in cash and 120 million African Iron shares which equates to a 25% interest in African Iron. In addition, Cape Lambert will receive a production royalty of \$1 per tonne of iron ore shipped.

The profit on sale of DMC Mining recognised in the consolidated statement of comprehensive income is comprised as follows:

| | \$ |
|---|-------------------|
| Cash proceeds received | 47,000,000 |
| Fair value of shares received in African Iron | 36,000,000 |
| | <u>83,000,000</u> |
| Less: Carrying value of investment in DMC Mining | (47,189,727) |
| Less: Profit deferred as a consequence of retaining 25% interest in African Iron. | (8,952,568) |
| | <u>26,857,705</u> |

b) Prior year

In August 2009 the Company announced its intention to sell down its interest in Lady Annie via an initial public offering (“IPO”) with the appointment of Patersons Securities Limited as Lead Manager. Q Copper Australia Limited was incorporated for the purposes of the IPO and a prospectus was lodged with ASIC on 16 November 2009.

In December 2009, the IPO closing date was extended to 3 February 2010. Due to adverse market conditions in late January/early February 2010, the IPO was withdrawn and deferred until market conditions improved. The Company confirmed via an ASX announcement dated 3 February 2010 that near mine and regional exploration drilling would proceed as planned, and that the Company would consider superior trade sale propositions.

On 12 March 2010, the Company released an ASX announcement advising that it had executed a formal agreement to sell 100% of the shares in Cape Lambert Lady Annie Exploration Pty Ltd, the holder of the Lady Annie Project, for \$135 million to China Sci-Tech Holdings Limited, a Hong Kong listed Company. The purchase consideration includes two contingent payments of \$2.5 million each, which are payable once certain production and reserve related milestones are achieved.

The sale of Cape Lambert Lady Annie Exploration Pty Ltd was successfully completed on 31 May 2010.

The profit on sale of Cape Lambert Lady Annie Exploration Pty Ltd recognised in the consolidated statement of comprehensive income is comprised as follows:

| | \$ |
|---|-------------------|
| Proceeds received | 130,000,000 |
| Less: net assets of Cape Lambert Lady Annie Exploration Pty Ltd at date of disposal | (44,777,931) |
| | <u>85,222,069</u> |

24. SUBSIDIARIES

| Name of Entity | Country of Incorporation | Ownership Interest | |
|--|--------------------------|--------------------|--------|
| | | 2011 % | 2010 % |
| Parent entity | | | |
| Cape Lambert Resources Limited | Australia | - | - |
| Subsidiaries | | | |
| International Goldfields (Romania) Pty Ltd | Australia | 100% | 100% |
| Dempsey Resources Pty Ltd | Australia | 100% | 100% |
| Evanston Resources NL | Australia | 100% | 100% |
| Mt Anketell Pty Ltd | Australia | 100% | 100% |
| Cape Lambert Minsec Pty Ltd | Australia | 100% | 100% |
| Cape Lambert Projects Pty Ltd | Australia | 100% | 100% |
| Cape Lambert Leichhardt Pty Ltd | Australia | 100% | 100% |
| Mineral Securities Limited | British Virgin Islands | 100% | 100% |
| Minsec Investments (BVI) Limited | British Virgin Islands | 100% | 100% |
| Mineral Securities (UK) Ltd | UK | 100% | 100% |
| Andalucia Mineral Services Limited | UK | 100% | 100% |
| MS Corporate Director Limited | UK | 100% | 100% |
| MS Corporate Secretary Limited | UK | 100% | 100% |
| Scarborough Minerals (Australia) Pty Ltd | Australia | 100% | 100% |
| Scarborough Minerals (Finance) Ltd | UK | 100% | 100% |
| Scarborough Minerals Overseas Holdings Ltd | UK | 100% | 100% |
| Scarborough Minerals International BV | Netherlands | 100% | 100% |
| Greenwich Resources (CR) | Czech Republic | 100% | 100% |
| Kyprou Gold Limited | UK | 100% | 100% |
| Thrace Minerals Exploration & Mining SA | Greece | 100% | 100% |
| Thrace Investments BV | Netherlands | 100% | 100% |
| Scarborough NL | Australia | 100% | 100% |
| Sierra Minerals Limited | UK | 100% | 100% |
| Sierra Exploration SA | Chile | 100% | 100% |
| Danae Resources Pty Ltd | Australia | 100% | 100% |
| Manor Resources NL | Australia | 100% | 100% |
| Multiplex Development Zarmitan Limited | UK | 100% | 100% |
| Buka Minerals Pty Ltd | Australia | 100% | 100% |
| Buka Technologies Pty Ltd | Australia | 100% | 100% |
| Kadina Pty Ltd | Australia | 100% | 100% |
| Buka Minerals (Projects) Pty Ltd | Australia | 100% | 100% |
| Minsec Investment Holdings (BVI) Limited | British Virgin Islands | 100% | 100% |
| Mineral Securities Investments (Australia) Pty Ltd | Australia | 100% | 100% |
| Mineral Securities Operations Limited | Australia | 100% | 100% |
| Copperwell Pty Ltd | Australia | 100% | 100% |
| CopperCo Minerals Pty Ltd | Australia | 100% | 100% |
| Millennium Minerals Operations Pty Ltd | Australia | 100% | 100% |
| Allied Mining Pty Ltd | Australia | 100% | 100% |
| Australian Ferroalloys Pty Ltd | Australia | 100% | 100% |
| Goodwest Investments Pty Ltd | Australia | 100% | 100% |
| Cuesta Resources (BVI) Limited | British Virgin Islands | 100% | 100% |
| Algarrobo Holdings (BVI) Limited | British Virgin Islands | 100% | 100% |
| Q Copper Australia Limited | Australia | 90% | 90% |



24. SUBSIDIARIES (CONTINUED)

| Name of Entity | Country of Incorporation | Ownership Interest | |
|---|--------------------------|--------------------|--------|
| | | 2011 % | 2010 % |
| Q Copper (BVI) Limited | British Virgin Islands | 100% | 100% |
| Lady Annie Limited ¹ | British Virgin Islands | - | 100% |
| Australis Exploration Limited | Australia | 100% | 100% |
| Mojo Mining Pty Ltd | Australia | 100% | 100% |
| Mineral Securities (China) Pty Ltd | Australia | 100% | 100% |
| Mineral Securities (NK) Pty Ltd | Australia | 100% | 100% |
| Mineral Securities Hong Kong (NK) Limited | Hong Kong | 88% | 88% |
| Platmin Holdings Pty Ltd | Australia | 100% | 100% |
| Mineral Securities (SA) P/L | South Africa | 83.3% | 83.3% |
| Mineral Securities Holdings Pty Ltd | Australia | 100% | 100% |
| Marampa Iron Ore (Bermuda) Limited | Bermuda | 100% | 100% |
| Marampa Iron Ore (SL) Limited | Sierre Leone | 100% | 100% |
| Mineral Assets Limited | Australia | 100% | - |
| Mineral Assets (Bermuda) Limited | Bermuda | 100% | - |
| African Minerals Exploration Limited | Australia | 100% | - |
| Mineral Exploration (Bermuda) Limited | Bermuda | 100% | - |
| Metals Exploration (Australia) Limited | Australia | 100% | - |
| Metals Exploration (Bermuda) Limited | Australia | 100% | - |
| Metals Exploration (Guinea) Limited SA | Guinea | 100% | - |
| Metals Exploration (Mauritius) Limited | Mauritius | 100% | - |
| Pinnacle Group Assets Limited | British Virgin Islands | 90.2% | - |
| Pinnacle Group Assets (SL) Limited | Sierra Leone | 90.2% | - |
| DMC Mining Ltd | Australia | - | 79.20% |

¹ De-registered during the current year.

25. SEGMENT INFORMATION

The Consolidated Entity has identified its operating segments based on the internal reports that are reviewed and used by the executive management team in assessing performance and in determining the allocation of resources. The Consolidated Entity has one main operating segment being mineral exploration which comprises the costs associated with acquiring mineral assets, the costs incurred in carrying out exploration work at key projects and the costs incurred and any revenues generated from investments in junior exploration companies in the form of either equity investments or convertible loan notes.

| | Mineral Exploration | | Other | | Total | |
|--|---------------------|--------------|------------------|--------------|---------------------|--------------|
| | 30 June 2011 | 30 June 2010 | 30 June 2011 | 30 June 2010 | 30 June 2011 | 30 June 2010 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Sales | - | 6,512,922 | - | - | - | 6,512,922 |
| Interest received | 1,717,110 | 2,690,505 | 2,616,048 | 2,400,585 | 4,333,158 | 5,091,090 |
| Rental income | - | - | 198,659 | 28,671 | 198,659 | 28,671 |
| Other revenue | - | - | 31,903 | 313,409 | 31,903 | 313,409 |
| Total segment revenue | 1,717,110 | 9,203,427 | 2,846,610 | 2,742,665 | 4,563,720 | 11,946,902 |
| Segment net operating profit / (loss) after tax | (16,137,011) | 66,226,738 | 4,290,740 | 6,021,338 | (11,846,271) | 72,248,076 |

Segment net operating profit after tax includes the following significant items:

| | | | | | | |
|--|---------------------|-------------|------------------|-----------|---------------------|-------------|
| Interest and other finance charges | (115,560) | (1,148,482) | - | - | (115,560) | (1,148,482) |
| Share of losses of associate | (7,847,148) | (3,400,210) | - | - | (7,847,148) | (3,400,210) |
| Profit on disposal of controlled entity | 26,857,705 | 85,222,069 | - | - | 26,857,705 | 85,222,069 |
| Gain on recognising fair value of associate before it became a controlled entity | - | 11,283,009 | - | - | - | 11,283,009 |
| Gain/(loss) on fair value of financial assets through profit & loss | (2,407,046) | (5,074,817) | 1,444,130 | 3,278,673 | (962,916) | (1,796,144) |
| Profit on disposal of financial assets | 5,210,596 | 6,434,307 | - | - | 5,210,596 | 6,434,307 |
| Gain on equity instruments received | 396,395 | - | - | - | 396,395 | - |
| Profit on disposal of associates | 8,621,099 | 2,042,814 | - | - | 8,621,099 | 2,042,814 |
| Gain on conversion of loan note | - | 2,245,573 | - | - | - | 2,245,573 |
| Depreciation | (338,623) | (386,318) | - | - | (338,623) | (386,318) |
| Provision for impairment of loans | (2,931,025) | - | - | - | (2,931,025) | - |
| Impairment of capitalised exploration | (36,591,446) | - | - | - | (36,591,446) | - |
| Impairment of investment in associate | (4,419,058) | - | - | - | (4,419,058) | - |



25. SEGMENT INFORMATION (CONTINUED)

| | Mineral Exploration | | Other | | Total | |
|---|---------------------|--------------|---------------------|--------------|---------------------|--------------|
| | 30 June 2011 | 30 June 2010 | 30 June 2011 | 30 June 2010 | 30 June 2011 | 30 June 2010 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Segment assets | 351,855,944 | 436,290,768 | 18,721,200 | 15,074,280 | 370,577,144 | 451,365,048 |
| Segment assets include: | | | | | | |
| Capitalised exploration expenditure | 242,987,407 | 200,148,822 | - | - | 242,987,407 | 200,148,822 |
| Investments in associates | 38,109,367 | 66,785,069 | - | - | 38,109,367 | 66,785,069 |
| Financial assets | 11,604,236 | 11,560,363 | 18,721,200 | 15,074,280 | 30,325,436 | 26,634,643 |
| Other assets | 59,154,934 | 157,796,514 | - | - | 59,154,934 | 157,796,514 |
| | 351,855,944 | 436,290,768 | 18,721,200 | 15,074,280 | 370,577,144 | 451,365,048 |
| Segment liabilities | (31,230,563) | (95,612,714) | (3,303,781) | (2,379,468) | (34,534,344) | (97,992,182) |
| Cash flow information | | | | | | |
| Net cash in/(out) from operating activities | (16,678,071) | (24,959,592) | 2,035,309 | (21,471,123) | (14,642,762) | (46,430,715) |
| Net cash in/(out) from investing activities | 10,298,213 | 114,362,200 | (2,312,834) | - | 7,985,379 | 114,362,200 |
| Net cash in/(out) from financing activities | (10,134,440) | (14,933,121) | (75,657,562) | 8,652,000 | (85,792,002) | (6,281,121) |

Segment information by geographical region

The analysis of the location of non-current assets other than financial instruments and deferred tax assets is as follows:

| | Consolidated Entity | |
|-----------------------|---------------------|--------------|
| | 30 June 2011 | 30 June 2010 |
| | \$ | \$ |
| Australia | 56,246,472 | 93,826,261 |
| United Kingdom | 1,255 | 110,537 |
| Africa | 213,032,588 | 159,518,958 |
| Greece | 14,687,084 | 14,687,084 |
| | 283,967,399 | 268,142,841 |

All sales revenue reported by the Consolidated Entity has been generated in Australia.

26. RELATED PARTY DISCLOSURES

(a) Subsidiaries

The consolidated financial statements include the financial statements of Cape Lambert Resources Limited and the subsidiaries listed in note 24.

(b) Ultimate parent

The ultimate Australian parent entity is Cape Lambert Resources Limited

(c) Transactions with related parties

During the year, the following transactions with related parties occurred:

- » Hewitt, Turner & Gelevitis, a company of which Timothy Turner is a director, provided accounting consultancy services for \$1,046 (including GST) (2010: \$120).
- » Cape Lambert Resources Limited provided accounting and corporate advisory services and recouped expenditure incurred on behalf of African Petroleum Corporation Limited, a company of which Tony Sage and Timothy Turner are directors, for \$92,670 (2010:\$128,179) (including GST).
- » Cape Lambert Resources Limited provided accounting and corporate advisory services and recouped expenditure incurred on behalf of International Petroleum Limited, a company of which Tony Sage and Timothy Turner are directors, for \$76,546 (2010: \$161,375) (including GST).
- » Cape Lambert Resources Limited recouped expenditure amounting to \$56,829 incurred by Cape Lambert Resources Limited on behalf of Fe Limited, a company of which Tony Sage is a director (2010: \$17,902).
- » Cape Lambert Resources Limited recouped expenditure amounting to \$57,463 incurred by Cape Lambert Resources Limited on behalf of Cauldron Energy Limited, a company of which Tony Sage is a director (2010: \$28,376).
- » Cape Lambert Resources Limited recouped expenditure amounting to \$57,938 incurred by Cape Lambert Resources Limited on behalf of International Goldfields Limited , a company of which Tony Sage is a director (2010: \$48,811).
- » Cape Lambert Resources Limited recouped expenditure amounting to \$289,238 incurred by Cape Lambert Resources Limited on behalf of Chameleon Mining NL, a company of which Tony Sage is a director (2010: nil).
- » Cape Lambert advanced \$6.5 million to Chameleon which served as a loan facility, and Cape Lambert participated to the extent of \$2 million in a placement conducted by Chameleon. In March 2011, the \$6.5 million advance was repaid.
- » Cape Lambert paid \$5,223 (2010: \$2,727) to PG Partnerships Pty Ltd, an entity related to Tony Sage for the sponsorship of the Perth Glory Football Club.
- » Cape Lambert Resources Limited recouped expenditure amounting to \$4,919,459 incurred by Cape Lambert Resources Limited on behalf of African Iron Limited, a company of which Tony Sage is a director (2010: nil).



26. RELATED PARTY DISCLOSURES (CONTINUED)

c) Transactions with related parties (continued)

- » Cape Lambert Resources Limited purchased 4,314,856 shares in African Petroleum Corporation Limited, a company of which Tony Sage and Timothy Turner are directors, for \$3,455,617.
- » Cape Lambert Resources Limited sold 7,089,014 shares in African Petroleum Corporation Limited, a company of which Tony Sage and Timothy Turner are directors, for \$5,816,909.
- » Cape Lambert Resources Limited purchased 4,371,910 shares in International Petroleum Limited, a company of which Tony Sage and Timothy Turner are directors, for \$1,164,461.
- » Cape Lambert Resources Limited sold 3,368,500 shares in International Petroleum Limited, a company of which Tony Sage and Timothy Turner are directors, for \$990,333.
- » Cape Lambert Resources Limited purchased 2,200,000 shares in International Goldfields Limited, a company of which Tony Sage is a director, for \$155,806.
- » Cape Lambert Resources Limited purchased 6,118,435 shares in Fe Limited, a company of which Tony Sage is a director, for \$1,081,074.
- » Cape Lambert Resources Limited purchased 1,204,087 shares in Cauldron Energy Limited, a company of which Tony Sage is a director, for \$394,361.
- » Cape Lambert subscribed to a \$2 million convertible note in Cauldron Energy Limited, a company of which Tony Sage is a director.

Transactions between related parties are on commercial terms and conditions, no more favourable than those available to other parties unless otherwise stated.

(d) Key management personnel

Disclosures relating to key management personnel are set out in note 5.

27. EVENTS SUBSEQUENT TO REPORTING DATE

The following significant events and transactions have taken place subsequent to 30 June 2011:

- » On 18 August 2011, the Company announced the signing of a binding heads of agreement with Glory Resources Limited (ASX: GLY) (“Glory Resources”) for the sale of the Sappes Gold Project for a total consideration of \$46.5 million. Pursuant to the terms of the Heads of Agreement, Glory Resources will satisfy the consideration with \$32.5 million in cash on completion of the acquisition, 16,000,000 shares in Glory Resources on completion of the acquisition, \$5 million in cash or Glory Resources Shares (at the election of Glory Resources), on the granting of an operating permit (or equivalent) in respect of the Sappes Project, and \$5 million in cash or Glory Resources Shares (at the election of Glory Resources), upon the sale of the first 1,000oz of gold (or gold equivalent in the case of copper concentrate and/or silver metal) from the Sappes Project. The acquisition of the Sappes Project by Glory Resources is subject to a number of conditions including government approvals, Glory resources obtaining its shareholders’ approval for the acquisition, Glory Resources re-complying with Chapters 1 and 2 of the ASX Listing Rules and completing a capital raising of \$42.5 million. All conditions must be satisfied or waived by 31 December 2011 with completion of the acquisition to take place 5 business days thereafter.
- » On 9 September 2011, the Company announced the increase in its interest in Pinnacle Group Assets Limited (“Pinnacle”) to 100%. Consideration for the remaining 9.8% of Pinnacle will comprise of \$5 million in cash and the issue of 20,672,189 Cape Lambert shares.

Other than the above, no event has arisen since 30 June 2011 that would be likely to materially affect the operations of the Cape Lambert Group, or its state of affairs which have not otherwise been disclosed in this financial report.



28. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

| | Consolidated | |
|---------------------------|-------------------|--------------------|
| | 30 June 2011 | 30 June 2010 |
| | \$ | \$ |
| Cash and cash equivalents | | |
| Cash in banks and on hand | 22,859,331 | 12,938,935 |
| Deposits at call | 20,236,954 | 122,770,132 |
| | 43,096,285 | 135,709,067 |

(b) Reconciliation of Net Profit/(Loss) to Net Cash Flows from Operating Activities

| | | |
|---|---------------------|---------------------|
| (Loss) / Profit from ordinary activities | (11,846,271) | 72,248,076 |
| Adjusted for non cash items: | | |
| Gain on disposal of financial assets through profit & loss | (5,210,596) | (6,434,307) |
| Loss on disposal of financial asset | 179,071 | - |
| Gain on disposal of associates | (8,621,099) | (2,042,814) |
| Gain on recognising fair value of associate before it became a controlled entity | - | (11,283,009) |
| Gain on disposal of restricted securities by Receiver of CopperCo Limited (In Liquidation) (Receiver and Manager appointed) | - | (219,264) |
| Gain on conversion of convertible note | - | (2,245,573) |
| Gain on equity instruments received | (396,395) | (2,484,330) |
| Gain on recognition of deferred consideration | (2,500,000) | - |
| Loss on fair value of financial assets through profit & loss | 962,916 | 1,796,144 |
| Amortisation of work in progress | - | 3,080,374 |
| Interest income on loan facilities deferred | 445,891 | (537,787) |
| Non cash element of interest income recognised using the effective interest rate method | (862,465) | (223,218) |
| Shares received as payment for interest on loan | (190,696) | - |
| Depreciation and amortisation of non-current assets | 338,623 | 386,318 |
| Share of losses of associates | 7,847,148 | 3,400,210 |
| Impairment of investment in associate | 4,419,058 | - |
| Equity settled share-based payment | 797,277 | 3,498,392 |
| Impairment of capitalised exploration | 36,591,446 | - |
| Provision for impairment of loans | 2,931,025 | - |
| Profit on disposal of controlled entity | (26,857,705) | (85,222,069) |
| Exclusivity payment included in investing activities | (250,000) | - |
| Other | 25,257 | - |
| Changes in net assets and liabilities, net of effects from business combination acquisitions: | | |
| (Increase)/decrease in trade and other receivables | 595,525 | 986,468 |
| (Increase)/decrease in inventories | (55,113) | 306,515 |
| Increase / (decrease) in deferred tax balances | (13,826,804) | 943,826 |
| Increase / (decrease) in trade and other payables | (417,465) | 1,774,618 |
| Increase / (decrease) in income tax payable | 1,258,610 | (24,159,186) |
| Net cash used in operating activities | (14,642,762) | (46,430,715) |

(c) Non-Cash Activities

CURRENT YEAR

On 10 January 2011, 120,000,000 shares in African Iron Limited (ASX: AKI) were received as part consideration for the sale of DMC Mining Ltd valued at \$36,000,000.

On 16 June 2011, 54,450,000 fully paid ordinary shares were issued as part consideration for the acquisition of a further 42.8% interest in Pinnacle Group Assets Limited. The share price on the date the shares were issued was \$0.40. Consequently a share based payment of \$21,780,000 was recognised.

PRIOR YEAR

6,996,784 fully paid ordinary shares were issued to directors, key management personnel and consultants to the Company during the year. The shares were issued for no consideration as part of their remuneration packages. The shares were valued at \$3,678,419.

In September 2009, 5,825,807 fully paid ordinary shares were issued to shareholders of Corvette Resources Limited pursuant to a takeover bid. The shares were valued at \$2,912,905.

In November 2009, 3,976,729 fully paid ordinary shares were issued as consideration for the purchase of Mojo Minerals Limited which holds tenements in the southern block of Mt Isa, Queensland. The shares were valued at \$2,147,380.

In December 2009, 24,569,934 fully paid ordinary shares were issued to African Minerals Limited as part consideration for the acquisition of an additional 65% of Marampa Iron Ore Limited, taking the Company's interest in Marampa Iron Ore Limited to 100%. The shares were valued at \$13,417,640.

In January 2010, 32,592,789 fully paid ordinary shares were issued to African Minerals Limited as the final consideration for the acquisition of 100% of Marampa Iron Ore Limited. The shares were valued at \$16,622,320.

In February 2010, the merger of Tianshan Goldfields Limited ("Tianshan") and Corvette Resources Limited was completed and the Company received 2 Tianshan shares for every 1 Corvette share it held. A gain of \$3,748,816 was recognised on the disposal of the Consolidated Entity's Corvette shares. The merged entity subsequently changed its name from Tianshan Goldfields Limited to Corvette Resources Limited.

29. DIVIDENDS PAID AND PROPOSED

| | 30 June 2011 | 30 June 2010 |
|---|-------------------|--------------|
| | \$ | \$ |
| Declared and paid during the year: | | |
| Dividends on ordinary shares: | | |
| Paid: franked dividend for 2010: 7.0c per share | 43,803,183 | - |
| Declared: franked dividend for 2010: 7.0c per share | - | 43,803,183 |
| | 43,803,183 | 43,803,183 |



30. FINANCIAL RISK MANAGEMENT

The Cape Lambert Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Cape Lambert Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Cape Lambert Group. The Cape Lambert Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and aging analysis for credit risk. Risk management is carried out by the Board.

The Cape Lambert Group holds the following financial instruments:

| | 30 June 2011 | 30 June 2010 |
|-------------------------------|-------------------|--------------|
| | \$ | \$ |
| Financial assets: | | |
| Cash and cash equivalents | 43,096,285 | 135,709,067 |
| Restricted cash | 3,626,612 | 1,491,973 |
| Trade and other receivables | 9,411,297 | 19,386,424 |
| Other financial assets | 30,325,436 | 26,634,643 |
| | 86,459,630 | 183,222,107 |
| Financial liabilities: | | |
| Trade and other payables | 22,864,528 | 32,894,299 |
| | 22,864,528 | 32,894,299 |

(a) Market Risk

(i) FOREIGN CURRENCY RISK

As a result of operations based overseas, the Consolidated Entity is exposed to foreign exchange risk from commercial transactions and recognised assets and liabilities denominated in a currency that is not Cape Lambert's functional currency.

The Consolidated Entity also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

As at 30 June 2011, the Consolidated Entity had the following exposure to foreign currency:

| | 30 June 2011 | 30 June 2010 |
|---------------------------------|--------------|--------------|
| | \$ | \$ |
| Financial assets: | | |
| Cash and cash equivalents - USD | \$9,436,816 | \$793,256 |
| Cash and cash equivalents - GBP | £21,072 | £57,710 |
| Cash and cash equivalents - EUR | €870,765 | €441,745 |

The Consolidated Entity recognised a foreign currency exchange loss for the year ended 30 June 2011 of \$864,907 (2010: \$68,982) as a result of translating funds held in foreign currency to Australian dollars.

Movement of 10% in the foreign currency exchange rates as at 30 June 2011, would have increased/ (decreased) the consolidated profit by \$86,490 (2010: \$6,898).

Managements have set up a policy to monitor and measure this risk using sensitivity analysis and cash flow forecasting.

(ii) CASH FLOW INTEREST RATE RISK

The Consolidated Entity's exposure to market interest rates relates primarily to the Consolidated Entity's cash and cash equivalents. The Consolidated Entity is exposed to movements in market interest rates on short term deposits. The policy is to monitor the interest rate yield curve out to 120 days to ensure a balance is maintained between the liquidity of cash assets and the interest rate return.

At the reporting date, the Cape Lambert Group had the following variable rate cash and cash equivalents and restricted cash:

| | 30 June 2011 | 30 June 2010 |
|--------------------------------|-------------------|--------------|
| | \$ | \$ |
| Financial assets: | | |
| Cash and cash equivalents | 43,096,285 | 135,709,067 |
| Restricted cash | 3,626,612 | 3,091,973 |
| | 46,722,897 | 138,801,040 |
| Weighted average interest rate | 4.34% | 3.51% |

Movement of 50 basis points on the interest rate would have increased/ (decreased) the consolidated profit by \$279,891 (2010:\$ 359,081).

(iii) PRICE RISK

The Cape Lambert Group is exposed to equity securities price risk. This arises from investments held and classified on the statement of financial position as at fair value through profit or loss. The Cape Lambert Group is not exposed to commodity price risk.

To manage its price risk arising from investments in equity securities, the Cape Lambert Group diversifies its portfolio which is done in accordance with the limits set by the Board of Directors.

The majority of the Cape Lambert Group's equity investments are publicly traded and are included on the ASX 200 Index.

The table below summarises the impact of increases/decreases of financial assets at fair value through profit and loss on the Cape Lambert Group's post tax profit for the year and on equity. The analysis is based on the assumption that the value of financial assets at fair value through profit and loss had increased/decreased by 10% (2010 - 10%) with all other variables held constant.

| Consolidated | Impact on Post-Tax Profit/(Loss) | | Impact on Equity | |
|---------------------------|-------------------------------------|------------|---------------------|------------|
| | 2011 \$ | 2010 \$ | 2011 \$ | 2010 \$ |
| Shares in listed entities | 1,772,524 | 1,668,801 | - | - |
| Conversion options | 5,781 | 22,078 | - | - |
| Call options | 34,239 | 86,585 | - | - |
| | 1,812,544 | 1,777,464 | - | - |



30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit Risk

Credit risk is managed on a consolidated basis. Credit risk arises from cash and cash equivalents and loans to other entities. The Cape Lambert Group has adopted the policy of only dealing with credit worthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The credit risk on financial assets, excluding investments, of the Cape Lambert Group, which have been recognised on the statement of financial position, is the carrying amount, net of any provision for doubtful debts.

The Cape Lambert Group is exposed to credit risk as a result of subscribing to loan notes and convertible loan notes issued by listed and unlisted entities. This credit risk is managed by obtaining adequate security over the loans, generally in the form of a fixed and floating charge over the assets of the borrower. Details of the loan notes and convertible loan notes to which the Cape Lambert Group had subscribed during the year are listed in notes 8.

The credit quality of cash and cash equivalents can be assessed by reference to external credit ratings:

| | 30 June 2011 | 30 June 2010 |
|---|-------------------|--------------|
| | \$ | \$ |
| Financial assets: | | |
| Cash and cash equivalents and restricted cash - AAA | 46,722,897 | 137,201,040 |
| Loans and receivables | 9,411,297 | 19,386,424 |
| Other financial assets | 30,325,436 | 26,634,643 |

(c) Liquidity Risk

The Cape Lambert Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

At the reporting date, the Cape Lambert Group had no financing arrangements in place.

All financial liabilities are current and expected to settle within six months.

(d) Fair Value Estimation

The fair value of financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes. The Directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values as the carrying value less impairment provision of trade receivables / other receivables and payables are assumed to approximate their fair values due to their short-term nature.

The following table presents the Consolidated Entity's assets measured at fair value at 30 June 2011.

| | Level 1 | Level 2 | Total |
|---|------------|---------|------------|
| | \$ | \$ | \$ |
| Financial assets: | | | |
| Financial assets at Fair value through Profit and Loss | | | |
| Shares in listed entities | 17,725,238 | - | 17,725,238 |
| Conversion options | - | 57,809 | 57,809 |
| Call options | - | 342,390 | 342,390 |

The following table presents the Consolidated Entity's assets measured at fair value at 30 June 2010.

| | Level 1 | Level 2 | Total |
|---|------------|---------|------------|
| | \$ | \$ | \$ |
| Financial assets: | | | |
| Financial assets at Fair value through Profit and Loss | | | |
| Shares in listed entities | 16,688,006 | - | 16,688,066 |
| Conversion options | - | 220,780 | 220,780 |
| Call options | - | 865,857 | 865,857 |

Investments in unlisted entities are classified as available for sale financial assets. These are traded in inactive markets and are carried at cost because their fair values cannot be reliably measured. Management have assessed impairment and no indicators of impairment exist as at 30 June 2011.



31. PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

The individual financial statements of the parent entity show the following aggregate amounts:

| | 30 June 2011 | 30 June 2010 |
|--|----------------------|---------------|
| | \$ | \$ |
| Statement of financial position | | |
| Current assets | 235,921,353 | 264,138,897 |
| Total assets | 357,407,912 | 371,764,903 |
| Current liabilities | (132,648,660) | (161,308,950) |
| Total liabilities | (132,648,660) | (161,308,950) |
| Shareholders' equity | | |
| Issued capital | 167,528,846 | 177,603,225 |
| Reserves | 797,277 | - |
| Retained earnings | 56,433,129 | 32,852,728 |
| Total equity | 224,759,252 | 210,455,953 |
| Net profit for the year | 23,580,401 | 23,270,014 |
| Total comprehensive income | 23,580,401 | 23,270,014 |

(b) Guarantees entered into by the parent entity

Carrying amount included in current liabilities - -

The parent entity has provided financial guarantees in respect of environmental performance bonds for subsidiaries during the current year amounting to \$2,349,210 (2010: nil).