

# **AUSQUEST LIMITED**

**ABN 35 091 542 451**

**Annual report for the financial year ended  
30 June 2010**

# Annual financial report for the financial year ended 30 June 2010

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## Corporate directory

### Board of Directors

|                      |                                                                   |
|----------------------|-------------------------------------------------------------------|
| Mr Greg Hancock      | Non-Executive Chairman (appointed as Chairman on 5 November 2009) |
| Mr Graeme Drew       | Managing Director                                                 |
| Mr John Ashley       | Executive Director                                                |
| Mr Chris Ellis       | Non-Executive Director                                            |
| Mr Richard Mehan     | Non-Executive Director                                            |
| Mr Peter Ravenscroft | Alternate Director for Mr Mehan                                   |
| Mr John Innes        | Non Executive Chairman (resigned 5 November 2009)                 |

### Company Secretary

Mr Darren Crawte

### Registered Office

C/-Ord Nexia Pty Ltd,  
Level 1, 47-49 Stirling Highway,  
NEDLANDS, WA, 6009

### Principal Office

8 Kearns Crescent  
Ardross WA 6153

Telephone: (61 8) 9364 3866  
Facsimile: (61 8) 9364 4892  
Website : [www.ausquest.com.au](http://www.ausquest.com.au)

### Auditors

HLB Mann Judd  
Level 4, 130 Stirling Street  
Perth WA 6000

### Share Registry

Advanced Share Registry Services Pty Ltd  
150 Stirling Highway  
Nedlands WA 6009

### Securities Exchange

Australian Securities Exchange  
(Home Exchange: Perth, Western Australia)  
Code: AQD

## Chairman's letter

Dear Shareholders,

I am pleased to present the Chairman's report for AusQuest Limited following a year which has seen your Company add further significant depth and opportunity to its project portfolio.

Thanks to our strong financial position – with cash resources at financial year-end of approximately A\$19 million – we have been able to plan longer term than most exploration companies of comparable size, which has opened the doors to a number of opportunities, particularly offshore, that present exciting new growth opportunities for the Company.

In this regard, the most significant development during the year was without doubt the formation of a joint venture with a Canadian-listed company, Etruscan Resources, as a result of which AusQuest has secured a significant and highly prospective land position in the West African country of Burkina Faso.

Burkina Faso is a rapidly emerging new gold region which has become the centre of attention for a number of multinational companies including several Australian companies which have enjoyed significant exploration success in a relatively short period of time.

Located to the north of its better known neighbour, Ghana, Burkina Faso has similar geology and the potential to host a number of multi-million ounce gold deposits. This potential has rapidly elevated this region as one of the world's "hot spots" for gold exploration.

Preliminary exploration commenced on our ground in April of this year. The initial indications are very encouraging, with gold grades in excess of 1g/t Au reported over thicknesses ranging from 2 to 26 metres from preliminary reconnaissance drilling designed to help rank a selection of targets.

This work has confirmed the prospectivity of our tenements and given us a much better understanding of the controls on, and distribution of, mineralisation. This initial work combined with sophisticated airborne geophysics has enabled us to refine our targeting, paving the way for follow-up drilling that will commence towards the end of 2010.

While it is clear that we still have a lot of work to do, we expect to be able to report significantly improved results when drilling re-commences and we are looking forward with excitement to the next phase of activity in West Africa.

In Australia, we remain confident about the potential of our manganese exploration portfolio and we are continuing to search for new discoveries in sedimentary basins where we believe the potential for giant deposits is greatest.

Our work this year at the Stanley Project suggests that there is a good chance of significant quantities of manganese being found in the Earaheedy Basin, where the company controls in excess of 4,000km<sup>2</sup> of title. This is a very large area to explore and will take some time to evaluate, but we expect to be in a position to demonstrate our belief in this area within the next 12 to 18 months.

The Company has also progressed several of its gold and base metal projects in Australia to the point where drilling is now required to test several promising targets. For example, gold anomalies at Dundas and massive sulphide base metal targets at the Plenty River and Savory Projects could provide some exciting results for shareholders.

We also continue to look for other new opportunities that would further strengthen our portfolio of projects. As well as West Africa, we are now evaluating opportunities in South America, in particular Peru, and we are well on the way to securing exploration projects in that area.

I am very pleased with the Company's progress during the past year and the hard work put in by the Board and all staff and consultants. I am confident in our direction and strategy and look forward to reporting results to you throughout the coming year.

I would also like to take this opportunity to thank you, our valued Shareholders, for your continued support.



Greg Hancock  
Chairman

# Managing Director's Exploration Report

## Highlights

### Gold – West Africa

- ❑ Substantial new gold exploration opportunity secured within the prospective Banfora Greenstone Belt in Burkina Faso, West Africa through a landmark joint venture with Canadian-based company Etruscan Resources.
- ❑ The Banfora Greenstone Belt is beginning to emerge as a significant new gold region with a similar geological setting to gold bearing areas in the adjoining countries of Ghana and Cote D'Ivoire in West Africa.
- ❑ AusQuest acquired an initial 51% interest in prospective tenements covering an area of 670km<sup>2</sup>, with the right to increase to 80% by funding exploration activities.
- ❑ Numerous drill-ready gold targets were identified by Etruscan Resources prior to the formation of the Joint Venture, with at least eight gold prospects outlined for immediate drilling based on extensive geochemical sampling results.
- ❑ An initial program comprising 5,800m of Reverse Circulation (RC) drilling was completed between May and July 2010, confirming gold prospectivity at six prospects with better gold intersections including:
 

|                          |                                                                             |
|--------------------------|-----------------------------------------------------------------------------|
| <i>Phaco Hill:</i>       | <b>26m @ 1.26g/t, 4m @ 1.87g/t, 1m @ 3.93g/t</b>                            |
| <i>Siniko West:</i>      | <b>4m @ 1.36g/t, 2m @ 1.69g/t</b>                                           |
| <i>Baboro:</i>           | <b>4m @ 1.45g/t, 2m @ 1.96g/t, 2m @ 1.69g/t, 2m @ 1.94g/t, 2m @ 2.16g/t</b> |
| <i>Diarabokoko East:</i> | <b>8m @ 1.88g/t, 4m @ 1.87g/t, 4m @ 1.13g/t</b>                             |
| <i>Diarabokoko West:</i> | <b>2m @ 1.84g/t, 2m @ 1.08g/t, 2m @ 1.07g/t</b>                             |
| <i>Degue-Degue:</i>      | <b>4m @ 1.68g/t</b>                                                         |
- ❑ A narrow high-grade massive sulphide intersection (**1m @ 6.36% zinc, 9.0% lead, 3.93g/t gold, and 750g/t silver**) was reported at the Phaco Hill prospect, highlighting the potential for base and precious metals in this area.
- ❑ Detailed aeromagnetic data acquired over the prospects has significantly improved the definition of structural trends associated with the gold targets.

### Manganese – Western Australia

- ❑ High-grade manganese assays **ranging from 20 to 48% Mn** were returned from initial wide-spaced reconnaissance sampling at the Stanley Project, located 170km east of Wiluna, where AusQuest controls more than 5,000 km<sup>2</sup> of tenements.
- ❑ At Stanley, extensive manganese target horizons have been outlined within the Earahedy Basin by a combination of surface sampling and reconnaissance mapping. Initial broad spaced RC drilling commenced in late July 2010.
- ❑ A prospective strike length of at least 70km for manganese and base metals has been outlined for sampling at the Table Hill Project, located 200km east of Newman in Western Australia. This program is expected to start in September 2010.

### Base Metals and Gold

- ❑ Seven gold (+/- copper) targets have been outlined by broad-spaced (500m) surface sampling at the Dundas Project, located 100km east of Norseman (WA). Bedrock drilling is planned for the last Quarter of 2010.
- ❑ A discrete massive sulphide target was outlined at the Plenty River Project, located east of Alice Springs (NT). The late-time EM response, which is spatially associated with the gravity anomaly at the Caroline prospect, will be drill tested when a suitable rig is available.
- ❑ Funding assistance from the WA Government's 'Exploration Incentive Scheme' was obtained for the Savory Nickel Project to offset the cost of drill testing a deep nickel sulphide target.

## **Overview**

AusQuest remains in a strong financial position with \$19 million of cash (as at the end of June 2010) to underpin ongoing exploration activities, both in Australia and offshore.

The Company plans to continue its active exploration programmes, including target drilling, during the 2011 financial year as well as continuing to search for new opportunities to upgrade its current portfolio of projects.

During the 2010 financial year, the Company signed a landmark agreement with Canadian-based Etruscan Resources to explore and evaluate its gold properties in the Banfora region of Burkina Faso in West Africa, which is rapidly emerging as a new frontier for gold exploration globally.

While the agreement was finalised late in the West African field season (April 2010), AusQuest was able to complete an initial round of drilling of selected gold targets before the onset of the wet season, confirming the prospectivity of the tenements and highlighting the need for significantly more drilling.

In Australia, exploration focussed on the Company's manganese projects with drilling completed at both the Table Hill and Wolfe Projects in Western Australia. This resulted in the relinquishment of the Wolfe Project and the recognition of new areas of prospectivity at Table Hill.

Tenements over the Stanley Manganese Project, located 150km east of Willuna, were granted during the year and initial reconnaissance exploration highlighted the potential for manganese within the Earahedy Basin sediments. Initial broad-spaced Reverse Circulation (RC) drilling to gain a better understanding of the area's potential commenced in late July 2010.

Base metal and gold exploration focused on the Plenty River (NT), Dundas (WA) and Savory (WA) projects, where targets have been identified for drilling in the 2010-11 financial year.

During the year, new nickel projects were secured at Wyo Well (Eastern Goldfields, WA), Cairn Hill (Pilbara, WA) and Mt Ramsay (Kimberley, WA) with initial drilling at Wyo Well completed in July 2010.

New resource project opportunities are also being sought in Peru with the appointment of Dr P Pearson to spearhead this initiative.

## **Gold West Africa – Comoe Joint Venture**

During the year, the Company secured a significant new gold exploration opportunity in south-western Burkina Faso, West Africa, after reaching agreement to establish an incorporated joint venture with Etruscan Resources Bermuda Ltd ("Etruscan"), a wholly-owned subsidiary of Canadian-based Etruscan Resources Inc. Details of the agreement were provided to the ASX on the 6<sup>th</sup> April 2010.

In summary, AusQuest acquired an initial 51% interest in the project and can earn up to an 80% interest by sole funding US\$6.0 million of exploration over a period of six years.

The Comoe Joint Venture area covers six Exploration Permits (a total area of 670km<sup>2</sup>) and is located in the south-west corner of Burkina Faso, West Africa within a NNE trending greenstone belt, approximately 20km east of the town of Banfora.

This area is relatively unexplored except for extensive surface sampling programs which were undertaken by Etruscan prior to the formation of the Joint Venture and scattered artisanal gold workings which occur along the belt.

Burkina Faso is emerging as a significant new West African gold province and is currently attracting investment in significant exploration expenditure by a number of Australian, Canadian and International companies.

Since the agreement was signed in April 2010, the Joint Venture has completed initial drill testing at eight prospects, confirming the gold prospectivity (plus 1g/t gold) of six of the eight targets tested.

A summary of results is presented in Table 1 below:

| Prospect         | Nos. of Holes | Metres drilled | Results                                                                                                                                                                                        |
|------------------|---------------|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Phaco Hill       | 5             | 665            | <b>26m @ 1.26g/t Au 4.5g/t Ag, 4m @ 1.87g/t Au 7.4g/t Ag, 1m @ 6.36% Zn, 9.0% Pb, 3.93g/t Au, and 750g/t Ag</b> associated with aluminous alteration in felsic volcanic rocks.                 |
| Siniko Central   | 6             | 758            | <b>76m</b> of anomalous gold ( <b>0.1 to 0.45g/t Au</b> ) from surface in last hole on drilled section                                                                                         |
| Siniko West      | 8             | 1034           | 16 metres from surface averaging 0.52g/tAu including <b>4m @ 1.36g/t Au, 2m @ 1.69g/t Au</b> at porphyry contact                                                                               |
| Baboro           | 9             | 1020           | Numerous intersections associated with altered basalts including <b>4m @ 1.45g/t Au, 2m @ 1.96g/t Au, 2m @ 1.48g/t Au, 2m @ 1.69g/t Au, 2m @ 1.94g/t Au, 2m @ 1.68g/t Au, 2m @ 2.16g/t Au.</b> |
| Diarabakoko West | 5             | 732            | Low grade gold values in sub-vertical shear zone including <b>8m @ 0.85g/t Au, 12m @ 0.45g/t Au, 22m @ 0.4g/t Au</b> with each intercept containing <b>2m @ 1.07 to 1.84g/t Au</b>             |
| Diarabakoko East | 5             | 600            | Drill holes under main workings intersected <b>8m @ 1.88g/t Au, 4m @ 1.87g/t Au, 4m @ 1.13g/t Au</b>                                                                                           |
| Degue-Degue      | 4             | 400            | <b>4m @ 1.68g/t Au</b> associated with a granite porphyry                                                                                                                                      |
| Lafigue          | 4             | 400            | Best results <b>8m @ 0.53g/t, 4m @ 0.58g/t</b>                                                                                                                                                 |

Table 1: Summary of gold assay results Comoe JV drilling.

The Phaco Hill prospect is centred on a large (1km x 0.5km) aluminous alteration system within felsic volcanic rocks that is anomalous at surface in gold (Au) and silver (Ag). Limited drilling to date has confirmed the presence of Au and Ag at depth but has not tested the full width of the target zone nor its potential strike extent.

Better intersections include 26m @ 1.26g/t Au 4.5g/t Ag and 4m @ 1.87g/t Au 7.4g/t Ag, with anomalous gold (>0.1g/t) and silver (>1g/t) values extending well beyond these intersections indicating the potential for a large mineralised system.

On the southernmost drill-section, a one metre intersection of high grade silver (750g/t Ag), gold (3.93g/t Au), zinc (6.36% Zn) and lead (9.0% Pb) suggests there is also potential to discover massive sulphide base metal mineralisation in this area, associated with economic gold grades.

A helicopter-borne Electromagnetic survey (VTEM) has been initiated to further investigate this potential.

Data from geological mapping and soil sampling together with detailed aeromagnetic/radiometric data were acquired during the year and will be used to assist in outlining targets for future drilling, which is scheduled to re-commence at the conclusion of the wet season.

Initial RC drilling at the Siniko West, Siniko Central and Baboro prospects provided an initial indication of gold distribution within the bedrock beneath the surface gold anomalies (>50ppb gold in soils, pit and/or auger samples) which collectively extend over many kilometres. There were no artisanal workings in these areas.

Drill coverage was limited to one or two drill lines at each prospect and tested the top 100 metres of section. Anomalous gold values were intersected at each prospect with narrow intercepts (2 to 4 metres) grading 1g/t Au to 2g/t Au reported in a number of drill-holes. Compilation of these results with recently acquired aeromagnetic and radiometric data will help identify structural trends associated with the gold mineralisation and prioritise future drilling requirements at each site.

Limited RC drilling was also completed at four artisanal gold mining sites (Diarabokoko East and West, Degue-Degue, and Lafigue), where extensive diggings of up to a kilometre in length reflect potential targets for near-surface gold mineralisation.

Better results to date occur beneath the Diarabokoko East workings where intersections of 8m @ 1.88g/t Au, 4m @ 1.87g/t Au and 4m @ 1.13g/t Au occur in adjacent drill-holes reflecting a continuous sub-vertical mineralised zone within the sediments. This mineralisation is open in all directions.

The Company looks forward to stepping up its exploration effort in this region once drilling resumes later in 2010, at the end of the wet season.

### Manganese

During the 2010 financial year, the Company continued an active exploration programme targeting manganese mineralisation in basin settings. Key activities included reconnaissance drilling in the Table Hill and Wolfe Project areas and the commencement of surface

sampling at the Stanley Project, which is located east of Wiluna in Western Australia.

The drilling resulted in the recognition of prospective new areas at Table Hill and the discovery of highly anomalous surface samples at Stanley, although the drilling at Wolfe downgraded this area and led to its relinquishment.

#### Stanley Project (100% AQD)

The Stanley Project is located 170km east of Wiluna within the Earaheedy Basin and covers an area of approximately 4,400km<sup>2</sup>. The project area contains anomalous manganese values (1 to 7% Mn) reported from wide-spaced surface sampling undertaken by the WA Department of Mines and Petroleum.

Reconnaissance mapping and sampling undertaken during the 2010 financial year confirmed the presence of high-grade manganese (20% to 48% Mn) at surface along the southern margin of the area, at both the Windidda prospect and, to the north, at the Niminga prospect.

The manganese appears to be, at least in part, stratigraphically controlled, occurring within thick carbonate and siltstone units which occur above the Frere iron formations in the south and above the Chiall Quartzite to the north.

Sampling to date has covered some 30km of strike, with the Company's title covering a further 150km of possible prospective stratigraphy. Mapping indicates that the stratigraphy is flat-dipping in the south and more steeply dipping in the north, where the basin margin appears to be complicated by structure.

At the time of writing, Reverse Circulation (RC) drilling was underway at the Niminga and Windidda prospects to test manganese anomalies in both soil and rock-chip samples. Drill sections are wide spaced, covering some 15km of potential strike.

This programme will provide an initial test of the local stratigraphy in these areas and help to identify the possible controls on mineralisation.

#### Table Hill (100% AusQuest)

The Table Hill Project, which covers an area of more than 10,000km<sup>2</sup>, is located 200km east of Newman in Western Australia within the western Officer Basin.

The area is dominantly sand covered and the potential to host high-grade manganese was first highlighted by the Company in late 2007, when drilling of an airborne EM target intersected high grade manganese (47.5% Mn) associated with clay alteration within calcareous sedimentary rocks.

Drilling of other EM targets around the project area failed to intersect further significant manganese but provided the first stratigraphic control for the area, enabling better identification of prospective stratigraphy to be undertaken. New areas with potential to host manganese and/or base metals were identified.

Computer modelling of GEOTEM data acquired in 2009 was used to produce conductivity-depth-sections which helped to outline targets within the areas of interest.

Planning was completed during the year to undertake surface sampling programs to cover ~70km of prospective strike to test these target areas. Inter-dunal surface materials will be sampled as part of this program which is scheduled to start in September 2010.

#### Wolfe Project (100% AQD)

Reconnaissance drilling during the 2010 financial year failed to upgrade the project and the tenement was subsequently relinquished.

#### **Base Metals and Gold**

Base metal and gold exploration activities were increased at several of the Company's projects.

A number of priority gold targets were identified at the Dundas Project in Western Australia, a potential massive sulphide target was identified at the Caroline prospect within the Plenty River Project (Northern Territory) and several new nickel projects were identified and acquired in Western Australia.

#### Dundas Project (100% AusQuest)

The Dundas Gold Project is located approximately 100km east-south east of Norseman in WA and covers an area of ~1,100km<sup>2</sup> within a structurally complex region 200km south west of the Tropicana gold discovery.

During the year, the Company completed wide-spaced surface sampling along major structural corridors defined by the detailed aeromagnetic survey, identifying at least seven gold (+/- Cu) targets for drill-testing.



Assay results ranged up to 32ppb gold and 50ppm Cu and outlined target areas several km<sup>2</sup> in size. Compilation of assay results with detailed aeromagnetic data showed the gold anomalies coincide with linear magnetic trends and/or contacts suggesting an underlying geological (structural) control for the mineralisation.

A 10,000 metre RAB drilling program (~450 holes) is planned to test these gold targets and is scheduled to commence in the second half of 2010.

#### Plenty River (100% AusQuest)

The Plenty River Project is located approximately 250km east of Alice Springs in the Northern Territory. The potential for new base metal discoveries within the region has been reinforced by recent discoveries of nickel and copper gossans in the area.

Drilling of geophysical targets at the Caroline and White Gums prospects in late 2009 intersected large thicknesses of sulphide-bearing sediments (mainly pyrrhotite, iron-sulphide) and occasional narrow sulphide-bearing veins (~10cm) containing anomalous metals (up to 2,968ppm lead, 1,883ppm copper, 1,208ppm zinc, 45ppb gold and 16g/t silver).

A review of the geochemical data revealed two metal associations in the Plenty River area – one hydrothermal (Cu, Au, Ag, Ni) and one sedimentary (Pb, Zn, Cd) – suggesting the potential for both styles of mineralisation in the region.

Subsequent ground electromagnetic (EM) surveys at the Caroline prospect identified a discrete late-time EM response centred 200 metres east of the 2009 drill-holes and interpreted to occur below the current depth of drilling. Revised modelling of gravity data suggests the EM target is at least partly coincident with the gravity response, and could reflect a large body of massive sulphide mineralisation.

Target drilling is planned for later in 2010 when a suitable rig is available.

#### Wyo Well (Farm-In earning to 80%)

The Wyo Well Project is located in the Kurnalpi region of WA approximately 60km east northeast of Kalgoorlie, in close proximity to a number of significant nickel sulphide mines and prospects, most notably the Silver Swan mine 60km to the WNW.

AusQuest acquired nickel rights to the project early in 2010 through a Farm-In Agreement with Eldore Mining Corporation Ltd (for details see the ASX release on April 27<sup>th</sup> 2010).

A review of historic data and a subsequent site visit confirmed the presence of gossanous material anomalous in nickel and copper in a similar geological setting to that at the high-grade Silver Swan nickel sulphide mine.

RC drilling was completed down-dip of the inferred channel location to confirm the presence of channel facies ultramafic rocks which could host buried accumulations of massive nickel sulphides at depth.

Preliminary geological logs suggest that this drilling may have intersected a channel in the basal contact of the komatiite sequence, although final confirmation of this awaits assessment of the assay results.

#### Savory (100% AusQuest)

The Savory Nickel Project is located 150km southeast of Newman in WA and covers an interpreted feeder zone to the Table Hill Volcanics, which is believed to be prospective for Noril'sk-style nickel sulphide deposits.

During the 2010 financial year, the Company was successful in obtaining funding assistance under the Government's 'Exploration Incentive Scheme' to drill test a deep nickel sulphide target within the interpreted Savory feeder system where, conceptually, concentrations of sulphide mineralisation are most likely to occur.

Access preparations are underway to enable drilling to commence when a suitable drill rig is available.

#### Diamantina Project (100% AusQuest)

The Diamantina Project is located approximately 450km south of Mt Isa along the southern margin of the Mt Isa Block in Queensland, and contains at least eight coincident magnetic/gravity targets of varying amplitude that could represent IOCG targets.

Deep drilling undertaken by the Company in 2008 found that two of these targets reflect very large Iron-Oxide intrusive systems which the Company believes have the potential to contain copper and gold mineralisation.

The targets occur beneath approximately 950 metres of sedimentary cover.

A deep penetrating MIMDAS IP survey has been planned to confirm the presence of a sizeable sulphide source near the eastern contact of the Machattie IOCG system, however this work continues to be delayed by availability of the appropriate crew and equipment. Current indications are that this work will be completed in late 2010.

### Other Prospects

During the year, the Company acquired two new nickel projects, one at Cairn Hill in the Pilbara and one at Mt Ramsay in the Kimberley region of Western Australia.

The Cairn Hill Project is located 50km west of Paraburdoo and contains extensive outcrops of ultramafic rocks which are considered to be prospective for nickel sulphide mineralisation. Approximately 30km of basal ultramafic contact is exposed within the tenement area and this will be the initial focus of exploration activity in the area.

The Mount Ramsay Project is located 40km south of Halls Creek and contains mafic intrusive rocks that the Company believes are prospective for nickel sulphide deposits similar to those found at Voiseys Bay in Canada or Noril'sk in Russia. Initial exploratory work is planned for later in 2010.

### Iron Ore – Pilbara Region WA

The Company continues to examine opportunities to maximize value to shareholders in the short to medium term for the resources delineated in the Rocklea and Nameless areas in the Pilbara region of WA.

#### Rocklea Project (75% AusQuest)

The Rocklea channel iron prospect is located 40km west of the iron ore mining centre of Tom Price in the Pilbara region of WA. Drilling in 2009 outlined an Inferred Resource of **63.1 million tonnes grading 53.4% Fe** (60.4% calcined Fe) including a higher grade component of 28.2 million tonnes grading 55.6% Fe (62.7% calcined Fe), as previously reported to the ASX.

#### Nameless Project (100% AusQuest)

The Nameless Project is located 5km north-west of Tom Price in the Pilbara region of Western Australia and contains both channel iron mineralisation and mineralised Marra Mamba iron formation.

### Business Development

AusQuest continues to target advanced exploration projects with definite signs of mineralisation and significant upside potential both within Australia and offshore which could add significant value to the Company.

A wide range of opportunities have been evaluated by the Company's Business Development Team and discussions are ongoing with several parties.

The Company recently contracted the services of Dr Paul Pearson (previously CEO of Alturas Minerals in Peru) to spearhead the search for new opportunities in South America. Dr Pearson's experience in South America and his technical knowledge of the major mineralised terrains, especially in Peru, will help the Company to fast-track its evaluation of opportunities in the area.

## Corporate governance statement

### INTRODUCTION

The Company is committed to implementing sound standards of corporate governance. In determining what those standards should involve, the Company has had regard to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 2<sup>nd</sup> Edition 2007 ("Recommendations").

Further information about the Company's corporate governance practices is set out on the Company's website at [www.ausquest.com.au](http://www.ausquest.com.au). In accordance with the ASX Principles and Recommendations, information published on the Company's website includes charters (for the Board and its committees), the Company's code of conduct and other policies and procedures relating to the Board and its responsibilities.

### PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

#### Recommendation 1.1 – Establish and disclose the functions reserved to the board and those delegated to senior executives.

The board has established functions that are reserved for the board, as separate from those functions discharged by the Managing Director and are summarised in the Company's Board Charter which is available on the Company's website.

The Board retains responsibility for the following key areas:

- (a) Providing leadership for and supervision of the Company's senior management. The Board provides the strategic direction of the Company and regularly measures the progression by senior management of that strategic direction.
- (b) overseeing the Company, including its control and accountability systems;
- (c) appointing the chief executive officer, or equivalent, for a period and on terms as the directors see fit and, where appropriate, removing the chief executive officer, or equivalent;
- (d) ratifying the appointment and, where appropriate, the removal of senior executives
- (e) approving the Company's policies on risk oversight and management, internal compliance and control, *Code of Conduct*, and legal compliance;
- (f) satisfying itself that senior management has developed and implemented a sound system of risk management and internal control in relation to financial reporting risks and reviewed the effectiveness of the operation of that system;
- (g) assessing the effectiveness of senior management's implementation of systems for managing material business risk including the making of additional enquiries and to request assurances regarding the management of material business risk, as appropriate;
- (h) monitoring, reviewing and challenging senior management's performance and implementation of strategy;
- (i) ensuring appropriate resources are available to senior management;
- (j) approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- (k) monitoring the financial performance of the Company;
- (l) ensuring the integrity of the Company's financial and other reporting (with the assistance of the Audit Committee, if applicable) through approval and monitoring;
- (m) providing overall corporate governance of the Company, including conducting regular reviews of the balance of responsibilities within the Company to ensure division of functions remain appropriate to the needs of the Company;
- (n) appointing the external auditor (where applicable, based on recommendations of the Audit Committee) and the appointment of a new external auditor when any vacancy arises, provided that any appointment made by the Board must be ratified by shareholders at the next annual general meeting of the Company;
- (o) engaging with the Company's external auditors and Audit Committee;

- (p) monitoring compliance with all of the Company's legal obligations, such as those obligations relating to the environment, native title, cultural heritage and occupational health and safety; and
- (q) make regular assessment of whether each non-executive director is independent in accordance with the Company's *Policy on Assessing the Independence of Directors*.

The Managing Director is responsible for running the affairs of the Company under delegated authority from the Board and to implement the policies and strategy set by the Board. The Managing Director must also report to the Board in a timely manner on those matters included in the Company's risk profile, all relevant operational matters and any other material matter.

The functions and responsibilities of the Board compared with those delegated to management are reflective of the Recommendations.

The Managing Director is also responsible for appointing and, where appropriate, removing senior executives, including the chief financial officer and the company secretary, with the approval of the Board. The Managing Director is also responsible for evaluating the performance of senior executives.

**Recommendation 1.2 – Disclose the process for evaluating the performance of senior executives.**

The Remuneration Committee is charged with periodic review of the job description and performance of the Managing Director according to agreed performance parameters.

The Managing Director and senior executives were the subject of informal evaluations against both individual performance and overall business measures. These evaluations were undertaken progressively and periodically.

The Company's website contains a section formally setting out the Company's Process for Performance Evaluation.

**Recommendation 1.3 – Provide the information in the guide to reporting on Recommendations.**

The Company is not aware of any departure from Recommendations 1.1 or 1.2. Performance evaluations for senior executives have taken place in the reporting period in accordance with the process disclosed.

The board charter is publicly available at [www.ausquest.com.au](http://www.ausquest.com.au) and it includes a description of what matters are reserved for the board or senior executives respectively.

**PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE**

**Recommendation 2.1 – A majority of the Board should be independent directors.**

The Company did not have a majority of independent directors during the year. As at the year end, two out of the five directors are independent.

The Board considers that its current composition is the most appropriate blend of skills and expertise, relevant to the Company's business and is appropriate given the Company's current size and operations. The Board is aware of the importance of independent judgement and considers independence, amongst other things, when new appointments to the Board are made

**Recommendation 2.2 – The chairperson should be an independent director.**

Greg Hancock, the Chairman of the company is an independent director.

**Recommendation 2.3 – The roles of chairperson and chief executive officer should not be exercised by the same individual.**

The role of the Chairperson is filled by Greg Hancock (Independent non-executive Director).

The role of the Managing Director and CEO is filled by Graeme Drew.

**Recommendation 2.4 – The Board should establish a nomination committee.**

The full Board performs the function of the Nomination Committee. The Board considers that at this stage, no efficiencies or other benefits would be gained by establishing a separate nomination committee. The Board has adopted a nomination committee charter to assist it to fulfil its function as the nomination committee and this is available on the Company's website.

**Recommendation 2.5 – Disclose the process for evaluating the performance of the Board, its committees and individual directors.**

The Board is charged with Board and Board Committee membership, succession planning and performance evaluation, as well as Board member induction, education and development.

The Company has adopted policies and procedures concerning the evaluation and development of its directors, executives and Board committee. Procedures include an internal Board performance assessment, an induction protocol and ongoing discussions with regard to the performance of the Board and its directors.

The Company's Process for Performance Evaluation is available on the Company's website.

**Recommendation 2.6 – Provide the information indicated in *Guide to reporting on Principle 2*.**

Contained in the Directors' Report section of this Annual Report are details of the skills, experience and expertise held by each Director in office at the date of this Annual Report;

The terms of office, and their status as executive/non-executive/independent, for each director for the year ending 30 June 2010 were as follows (with all directors noted as continuing in office as at 30 June 2010 and still being in office at the date of this annual report unless indicated otherwise):

| Director      | Independence status            | Date of appointment           |
|---------------|--------------------------------|-------------------------------|
| John Innes    | Non-executive/independent      | (resigned 5 November 2009)    |
| Graeme Drew   | Executive/ non-independent     | (appointed 15 February 2000)  |
| John Ashley   | Executive/ non-independent     | (appointed 15 February 2000)  |
| Greg Hancock  | Non executive/ independent     | (appointed 16 September 2003) |
| Chris Ellis   | Non executive/ independent     | (appointed 2 November 2006)   |
| Richard Mehan | Non executive/ non-independent | (appointed 10 December 2008)  |

The Company has accepted the definition of "independence" in the Recommendations in making the above assessments of independence.

The Company's Corporate Governance Charter empowers a director to take independent professional advice at the expense of the Company.

In accordance with the Process for Performance Evaluation, an evaluation of Board Performance took place during the period in accordance with this process.

The Company's procedure for the selection and appointment of new directors is available on the Company's website along with a copy of the Nomination Committee Charter.

**PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING**

**Recommendation 3.1: Establish a code of conduct and disclose the code, or a summary as to:**

- 3.1.1 the practices necessary to maintain confidence in the company's integrity;**
- 3.1.2 the practices necessary to take into account legal obligations and reasonable expectations of stakeholders;**
- 3.1.3 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.**

The Company has established a formal code of conduct to guide the Directors, the Managing Director and the CFO (or equivalent) with respect to the practices necessary to maintain confidence in the Company's integrity, the practices necessary to take into account legal obligations and reasonable expectations of stakeholders, and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. The code of conduct is disclosed on the company's website.

**Recommendation 3.2: Establish and disclose the Policy Concerning Trading in Company Securities by directors, officers and employees.**

The Company's policy concerning trading in Company securities by Directors, officers and employees is set out on the Company's website.

**Recommendation 3.3: Provide the Information Indicated in *Guide to Reporting on Principle 3*.**

The Company is not aware of any departures from Recommendations 3.1, 3.2 or 3.3.

Summaries of the Company's Code of Conduct and its Share Trading Policy are publicly available on the Company's website.

**PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

**Recommendation 4.1, 4.2, 4.3 and 4.4: The Board should establish an Audit Committee.**

The Board has established a separate Audit Committee comprising the two independent directors and an additional director. The Committee met twice during the year and attendances by committee members are recorded in the Directors' Report.

Mr Ellis, the Chair of the Audit Committee, is an experienced mining executive with over 30 years experience in geology, exploration, mine planning and project development in Australia and overseas. Mr Hancock and Mr Mehan are also financially literate. All Audit Committee members have industry experience.

3 meetings were held during the year and attendances by committee members are recorded in the Directors' Report.

A copy of the Company's Audit Committee Charter is available on the Company's website. The Company's process for the selection, appointment and rotation of the Company's external auditors is also available on the Company's website.

**PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE**

**Recommendation 5.1: Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of them.**

The Company has established written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance.

**Recommendation 5.2: Provide the information indicated in *Guide to reporting on Principle 5*.**

The Company is not aware of any departure from Recommendations 5.1 or 5.2.

A summary of the Company's policy on ASX Listing Rule Compliance is publicly available on the Company's website.

**PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS**

**Recommendation 6.1: Design and disclose a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings.**

The Company has adopted policies formally setting out the Company's communications strategy with its stakeholders including the effective use of electronic communications.

The board encourages the attendance of shareholders at the Shareholders' Meetings and sets the time and place of each Shareholders Meeting to allow maximum attendance by shareholders.

**Recommendation 6.2: Provide the information indicated in *Guide to reporting on Principle 6*.**

Details of how the Company will communicate with its shareholders publicly is set out under the heading "Shareholder Communication Policy" which is publicly available on the Company's website.

The Company is not aware of any departure from Recommendations 6.1 or 6.2.

## PRINCIPLE 7: RECOGNISE AND MANAGE RISK

**Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.**

The Board of Directors is responsible for overseeing and approving policies for the management and oversight of material business risks, internal compliance and internal controls. The objectives of AusQuest's risk management program are contained in the Risk Management Policy which is available on the Company's website.

**Recommendation 7.2: The Board to require management to design and implement the risk management and internal control system to manage the Company's material business risks, and report to it on whether those risks are being managed effectively. Board to disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.**

The Company has in place a system of risk management that identifies and categorises and manages material business risks faced by the Company. A risk register is updated and tabled at appropriate Board meetings throughout the year. Key risks addressed include

- Occupational Health and Safety;
- Protection of assets
- Market risk
- Liquidity risk
- Compliance risk

The Board has delegated responsibility for establishing and maintaining effective management strategies for material business risk to the Managing Director and senior executives. The Board requires that the senior executive team report on at least a quarterly basis as to the effectiveness of the Group's risk management systems.

The Board recognises that no cost effective internal control system will preclude all errors and irregularities. The system is based upon written procedures, policies and guidelines, an organisational structure that provides an appropriate division of responsibility, and the selection and training of qualified personnel.

The Board of Directors review the business and financial risk management systems and internal control systems implemented by management to obtain reasonable assurance that the entity's assets are safeguarded and that the reliability and integrity of its financial information is maintained. The Board will review, at least annually, the effectiveness of the Group's risk management systems.

**Recommendation 7.3: Board to disclose whether it has received assurance from the Managing Director (or equivalent) and the CFO (or equivalent) that the declaration provided in accordance with S.295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.**

The Company's Managing Director and CFO (or equivalent) provided the Board assurance in compliance with this Recommendation that the declaration provided in accordance with S.295A of the Corporations Act was founded on a sound system of risk management and internal control and that system was operating effectively in all material respects in relation to financial reporting risks.

**Recommendation 7.4: Provide the information indicated in *Guide to reporting on Principle 7*.**

The Company is not aware of any departure from Recommendations 7.1, 7.2 or 7.3 although notes it is continuing to develop and refine its risk management and internal control processes.

A copy of the Company's policies on risk oversight and management of material business risks is publicly available under the heading "Risk Management Policy".

## PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

**Recommendation 8.1: The Board should establish a remuneration committee.**

The Board has established a Remuneration Committee comprising the independent directors. 2 meetings were held during the year and attendances by committee members are recorded in the Directors' Report.

**Recommendation 8.2: Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.**

The structure of non-executive remuneration is clearly distinguishable from that of executive directors and senior executives.

The level of remuneration packages and policies applicable to directors are detailed in the Remuneration Report which forms part of the Directors' Report to this Annual Report.

**Recommendation 8.3: Provide the information indicated in *Guide to reporting on Principle 8***

*Non- Executive Director Retirement Benefits*

Non-executive directors are entitled to statutory superannuation. There are no other schemes for retirement benefits for non-executive directors.

*Limiting Risk*

Directors are prohibited from entering into transactions which limit the risk of participating in unvested entitlements under any equity based remuneration scheme.

*Information Publicly Available*

The Company's website contains a section formally setting out the Remuneration Committee Charter which is used by the Board when considering matters relevant to a Remuneration Committee



## Directors' report

The Directors of AusQuest Ltd herewith submit the annual financial report of the Company and the entities it controlled ("Consolidated Entity") for the financial year ended 30 June 2010. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

### Information about Directors and senior management

The names and particulars of the Directors of the Company during or since the end of the financial year and up to the date of this report are noted below. Except where indicated, directors have held office during and since the end of the financial year:

**Greg Hancock BA Econs, BEd Hons., F.Fin**

**Non-Executive Director and Chairman**

Greg is an Executive Director of Cooper Energy Ltd, an ASX listed oil and gas exploration and production Company. He has had over 20 years experience in capital markets practicing in the area of corporate finance. He maintains close links with the stockbroking and investment banking community on behalf of the Company.

Directorships held in listed companies over the last three years are as follows:

- Cooper Energy Limited – appointed 9 March 2001

**Graeme Drew B.Sc.Hons., FAIMM, MASEG**

**Managing Director**

Graeme has over 39 years experience in the exploration industry in Australia and overseas. Prior to co-founding AusQuest Ltd he was an Exploration Manager for CRAE and Rio Tinto Exploration Pty Ltd in Western Australia (9 years) and Eastern Australia (4 years). He has wide experience in the search for, and evaluation of, most base and precious metals (notably nickel, gold, uranium, zinc and diamonds). Graeme has developed a passion for the 'big picture' and 'big project' generation which he strongly believes are the building blocks for successful exploration outcomes. He has been involved in discoveries at Kintyre (uranium), Admiral Bay (lead/zinc), Honeymoon Well (nickel) plus gold deposits at Kirkalocka, Whistler and Ellen Dam.

Graeme has held no other Directorships in listed companies over the last three years.

**John Ashley B.Sc.Hons., M.Sc., FAIMM, MSEG, MASEG, MAIG**

**Executive Director**

John is a former Director of Southern Geoscience Consultants (SGC), which he established in 1985, and is a former Director of Aerodata Holdings and Conquest Mines NL (unlisted). John has over 4 decades experience as a geophysicist in the exploration industry with government agencies, exploration companies, and consulting companies and has worked in many countries. He has had significant involvement in discoveries of El Sherana West (uranium), Prieska (copper/lead/zinc), Red October, Ulysses (gold). As a co-founder he now works solely for AusQuest Ltd.

John has held no other Directorships in listed companies over the last three years.

**Christopher Ellis BSc (Hons)**

**Non-Executive Director**

Chris is an experienced mining executive with over 30 years experience in geology, exploration, mine planning and project development in Australia and overseas. He was a founding member and Executive Director of Excel Coal Limited which was the subject of a take-over bid by the US coal giant Peabody Energy Inc, and has held senior positions within Shell Coal's Exploration, BP Coal (London and USA), Agipcoal Australia and the Stratford Joint Venture.

Chris has held no other Directorships in listed companies over the last three years.

**Richard Mehan B.Econ; MAICD**

**Non-Executive Director**

Richard holds a Bachelor of Economics from Monash University and has been involved in the resources sector for 35 years predominately in the traded iron ore sector. After spending 16 years with Rio Tinto in a variety of commercial roles Richard joined Portman Ltd in 1998. During the period 1998 to 2007 he held a variety of senior roles including that of Managing Director and CEO from 2005 until 2008. In 2007 Richard took on the additional role of President and CEO of Cliffs Asia Pacific following Cliff's acquisition of Portman. Richard's current role is Senior Vice President of Cliffs Natural Resources and President and CEO of the Asia Pacific division.

Directorships held in listed companies over the last three (3) years are as follows:

- Portman Limited – 2005 to (de-listed in January 2009)

**Peter Ravenscroft M.Sc;FAIMM**

**Alternate Director for Mr Mehan**

Peter has over 30 years' experience in the mining industry in South Africa, Canada, France, UK and Australia. Specialising in resource evaluation and geostatistics, Peter has been involved in the resource definition, feasibility study and development of projects in a range of commodities, particularly diamonds and iron ore. Prior to joining Cliffs Natural Resources in 2007, Peter spent 17 years with Rio Tinto in a number of technical and executive roles. Peter is now in charge of Cliffs global exploration programme.

Peter has held no other Directorships in listed companies over the last three years.

**John Innes BE Hons, M.Eng.Sc, FTS, FAIMM, FAICD**

**Non-Executive Chairman (resigned 5 November 2009)**

John has held no other Directorship in listed companies over the last three years.

**Directors' shareholdings**

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

| Directors             | Fully paid ordinary shares<br>Number | Share options<br>Number |
|-----------------------|--------------------------------------|-------------------------|
| Greg Hancock          | 1,058,000                            | 300,000                 |
| Chris Ellis           | 10,668,658                           | -                       |
| John Ashley           | 6,071,630                            | 500,000                 |
| Graeme Drew           | 4,747,241                            | 1,000,000               |
| Richard Mehan (i)     | -                                    | -                       |
| Peter Ravenscroft (i) | -                                    | -                       |

- (i) Mr Richard Mehan and Mr Peter Ravenscroft are full time employees of Cliffs Natural Resources Pty Ltd ("Cliffs"). Cliffs hold 68,308,791 shares and 48,060,857 options but Mr Mehan and Mr Ravenscroft do not hold shares or options independently.

**Remuneration of Directors and senior management**

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

**Share options granted to Directors and senior management**

During and since the end of the financial year no share options were granted to Directors or the five highest remunerated officers of the Company as part of their remuneration (2009: Nil).

#### Company secretary

##### **Darren Crawte LL.B (Hons), ACA**

Darren is a qualified Chartered Accountant with over 10 years experience working within public practice, specifically within the area of audit and assurance both in Australia and the United Kingdom. He is a director of Ord Nexia Pty Ltd, a long established chartered accountancy firm and holds similar secretarial roles in various other listed public companies.

#### Principal activities

The principal activity of the Company was mineral exploration throughout Australia and Africa. There was no significant change in the nature of this activity during the year but there was expansion into Africa, via the acquisition of a 51% interest in the Banfora Project.

#### Review of operations

A review of the Company's exploration projects and activities during the year are discussed in the Exploration Report included in this Annual Report.

The loss of the consolidated entity after income tax and after allocation to non-controlling interests for the year was \$3,160,533 (2009: \$3,840,020).

#### Changes in state of affairs

During the financial year there was no significant change in the state of affairs of the consolidated entity other than as referred to in the financial statements or notes thereto.

#### Subsequent events

There has been no matter or circumstance, other than that referred to in the financial statement or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

#### Future developments

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

#### Safety and environmental regulations

The Company is aware of its occupational health and safety and environmental obligations with regard to its exploration activities and ensures that it complies with all regulations when carrying out exploration work.

#### Dividends

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

#### Share options

##### **Shares under option or issued on exercise of options**

Details of unissued shares or interests under option as at the date of this report are:

| Issuing entity | Number of shares under option | Class of shares | Exercise price of option | Expiry date of options |
|----------------|-------------------------------|-----------------|--------------------------|------------------------|
| AusQuest Ltd   | 48,060,857                    | Ordinary        | 40 cents each            | 21 May 2011            |
| AusQuest Ltd   | 3,700,000                     | Ordinary        | 54 cents each            | 30 June 2011           |
| AusQuest Ltd   | 500,000                       | Ordinary        | 30 cents each            | 31 January 2012        |
| AusQuest Ltd   | 1,250,000                     | Ordinary        | 35 cents each            | 31 December 2012       |
| AusQuest Ltd   | 1,350,000                     | Ordinary        | 20 cents each            | 1 December 2013        |
| AusQuest Ltd   | 1,150,000                     | Ordinary        | 40 cents each            | 1 December 2013        |

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

### Shares issued on the exercise of options

Details of shares or interests issued during or since the end of the financial year as a result of exercise of an option are:

| Issuing entity | Number of shares issued | Class of shares | Amount paid for shares | Amount unpaid on shares |
|----------------|-------------------------|-----------------|------------------------|-------------------------|
| AusQuest Ltd   | 366,265                 | Ordinary        | 20 cents each          | -                       |

### Share options that expired/lapsed

Details of share options that expired or lapsed during or since the end of the financial year are:

| Issuing entity            | Number of shares expired/lapsed | Class of shares | Exercise price of option | Expiry date of options |
|---------------------------|---------------------------------|-----------------|--------------------------|------------------------|
| AusQuest Ltd (Not Quoted) | 1,875,000                       | Ordinary        | 20 cents each            | 31 August 2009         |
| AusQuest Ltd (Quoted)     | 104,450,734                     | Ordinary        | 20 cents each            | 30 November 2009       |

### Indemnification of officers and auditors

During or since the end of the financial year the Company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

- except as may be prohibited by the Corporations Act 2001 the Directors and officers of the Company shall be indemnified out of the property of the Company against any liability incurred by him in his capacity as Director or officer of the Company or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings, whether civil or criminal;

Since the beginning of the financial year the Company has paid insurance premiums of \$32,003 in respect of Directors and Officers liability and corporate reimbursement, for Directors and officers in the Company. The insurance premiums relate to:

- any loss for which the Directors and officers may not be legally indemnified by the Company arising out of any claim, by reason of any wrongful act committed by them in their capacity as a Director or officer of the Company or any related corporation, first made against them jointly or severally during the year of insurance; and
- indemnifying the Company against any payment which it has made and was legally permitted to make arising out of any claim, by reason of any wrongful act, committed by any Director or officer in their capacity as a Director or officer of the Company or any related corporation, first made against the Director or officer during the period of insurance.

### Directors' meetings

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) held during the financial year and the number of meetings attended by each Director (while they were a Director or committee member). During the financial year, 6 board meetings, 2 audit committee meetings, and 2 remuneration committee meetings were held.

| Directors                       | Board of Directors |          | Remuneration committee |          | Audit committee (i) |          |
|---------------------------------|--------------------|----------|------------------------|----------|---------------------|----------|
|                                 | Eligible to attend | Attended | Eligible to attend     | Attended | Eligible to attend  | Attended |
| John Innes (resigned 5/11/2009) | 2                  | 2        | 1                      | 1        | 1                   | 1        |
| Greg Hancock                    | 6                  | 6        | 2                      | 2        | 3                   | 3        |
| Christopher Ellis               | 6                  | 6        | -                      | -        | 2                   | 2        |
| John Ashley                     | 6                  | 6        | -                      | -        | -                   | -        |
| Graeme Drew                     | 6                  | 6        | -                      | -        | -                   | -        |
| Richard Mehan                   | 6                  | 5        | 2                      | 2        | 2                   | 2        |
| Peter Ravenscroft               | 2                  | 2        | -                      | -        | -                   | -        |

In addition 6 circular resolutions have been passed by Directors during the year.

### Proceedings on behalf of the Company

No persons have applied for leave pursuant to s.237 of the Corporation Act 2001 to bring, or intervene in, proceedings on behalf of AusQuest Ltd.

### Non-audit services

There were no non-audit services performed during the year by the auditors (or by another person or firm on the auditors' behalf).

### Auditor's independence declaration

The auditor's independence declaration is included on page 23 of the financial report.

## Remuneration report

This remuneration report, which forms part of the Directors' report, sets out information about the remuneration of AusQuest Ltd's key management personnel for the financial year ended 30 June 2010. Disclosures required under AASB 124 *Related Party Disclosures* have been transferred from the financial report and have been audited. The additional disclosures required by the Corporations Act 2001 and the Corporations Regulations 2001 have not been audited.

The prescribed details for each person covered by this report are detailed below under the following headings:

- key management personnel details;
- remuneration policy and relationship between the remuneration policy and Company performance;
- remuneration of key management personnel; and
- key terms of employment contracts

### Key management personnel details

The key management personnel of AusQuest Ltd during the year or since the end of the year were:

|                   |                                                                   |
|-------------------|-------------------------------------------------------------------|
| Greg Hancock      | Non-Executive Chairman (appointed as Chairman on 5 November 2009) |
| Graeme Drew       | Managing Director                                                 |
| John Ashley       | Executive Director                                                |
| Christopher Ellis | Non-Executive Director                                            |
| Richard Mehan     | Non-Executive Director                                            |
| Peter Ravenscroft | Alternate Director for Mr Mehan                                   |
| John Innes        | Non-Executive Chairman (resigned 5 November 2009)                 |
| Darren Crawte     | Company Secretary                                                 |

There were no group executives employed by AusQuest Ltd during the year.

### Remuneration policy and relationship between the remuneration policy and Company performance

The Board policy for determining emoluments is based on the principle of remunerating Directors and senior executives on their ability to add value to the Company (taking into account the Company's strategic plan and operations) whilst also considering market emolument packages for similar positions within the industry and in consultation with external consultants. The Board appreciates the interrelationship between this policy and Company performance. It acknowledges that it is in the best interests of shareholders to provide challenging but achievable incentives to reward senior executives for reaching the Company's stated goals. The Board will discuss these issues internally and with candidates prior to engaging additional Directors or senior executives in the future.

#### Key management personnel (excluding non-executive Directors)

The Remuneration Committee is responsible for determining the remuneration policies for the Group, including those affecting executive Directors and other key management personnel. The Committee may seek appropriate external advice to assist in its decision making. Remuneration policies and practices are directed primarily at attracting, motivating and retaining key management personnel.

The remuneration policy for executive Directors and other key management personnel has the following key elements:

- Primary benefits (being salary, fees, bonus and non monetary benefits)
- Post-employment benefits (being superannuation)
- Equity (being share options granted at the discretion of the Board)
- Other benefits

Executive directors are also entitled to receive a cash bonus under the Executive Short Term Incentive Plan. The Plan, which was adopted by the Board on 17 December 2009, provides that executive directors may receive a cash bonus dependant on the achievement of a number of quantitative objectives aligned to exploration success, identification of new opportunities and implementation of those new opportunities. Approximately 85% of the bonus is aligned to the achievement of these objectives and the remaining 15% is aligned to qualitative goals in areas such as governance, funding and external relationships. The quantum of the bonus is defined as a percentage of annual salary and allows for a payment of between 15% and 50%, depending on whether goals are achieved on a threshold, target or stretch basis. The bonus is payable on a financial year basis. For the 2010 financial year, there were no cash bonuses approved for payment to the executive directors prior to 30 June 2010. The amounts awarded for the 2010 financial year will be shown as part of remuneration in the 2011 financial year, the year in which the payments are approved and are therefore granted to the executives.

#### Non-executive Directors

The Company's non-executive Directors receive only fees (including statutory superannuation) for their services and the reimbursement of reasonable expenses. The fees paid to the Company's non-executive Directors reflect the demands on, and responsibilities of these

Directors. They do not receive any retirement benefits (other than compulsory superannuation). The Board decides annually the level of fees to be paid to non-Executive Directors with reference to market standards.

Non -Executive Directors may also receive share options where this is considered appropriate by the Board as a whole and with regard to the stage of the Company's development. Such options vest across the life of the option and are primarily designed to provide an incentive to non-Executive Directors to remain with the Company.

A non-Executive Directors' fee pool limit of \$300,000 per annum was approved by the shareholders at the Annual General Meeting on 18 November 2008 and is currently utilised to a level of \$135,000 per annum. The fees currently paid to non-Executive Directors are \$55,000 per annum for the non-Executive Chairman and \$40,000 per annum for the non-Executive Directors.

#### Remuneration of key management personnel

|                   | Short-term employee benefits |       |              |        | Post-employment benefits | Other long-term employee benefits | Share-based payment | Total   | % of compensation consists of options |
|-------------------|------------------------------|-------|--------------|--------|--------------------------|-----------------------------------|---------------------|---------|---------------------------------------|
|                   | Salary & fees                | Bonus | Non-monetary | Other  | Superannuation           |                                   | Options             |         |                                       |
|                   | \$                           | \$    | \$           | \$     | \$                       | \$                                | \$                  | \$      | %                                     |
| <b>2010</b>       |                              |       |              |        |                          |                                   |                     |         |                                       |
| <u>Directors</u>  |                              |       |              |        |                          |                                   |                     |         |                                       |
| John Innes        | 19,250                       | -     | -            | 2,113  | 1,733                    | -                                 | -                   | 23,096  | -                                     |
| Graeme Drew       | 208,359                      | -     | -            | 5,978  | 18,752                   | -                                 | -                   | 233,089 | -                                     |
| John Ashley       | 140,458                      | -     | -            | 5,978  | -                        | -                                 | -                   | 146,436 | -                                     |
| Greg Hancock      | 49,962                       | -     | -            | 5,978  | 4,497                    | -                                 | -                   | 60,437  | -                                     |
| Chris Ellis       | 40,000                       | -     | -            | 5,978  | 3,600                    | -                                 | -                   | 49,578  | -                                     |
| Richard Mehan     | 40,000                       | -     | -            | 5,978  | 3,600                    | -                                 | -                   | 49,578  | -                                     |
| Peter Ravenscroft | -                            | -     | -            | -      | -                        | -                                 | -                   | -       | -                                     |
| <u>Executive</u>  |                              |       |              |        |                          |                                   |                     |         |                                       |
| Darren Crawte (i) | -                            | -     | -            | -      | -                        | -                                 | -                   | -       | -                                     |
|                   | 498,029                      | -     | -            | 32,003 | 32,182                   | -                                 | -                   | 562,214 | -                                     |
| <b>2009</b>       |                              |       |              |        |                          |                                   |                     |         |                                       |
| <u>Directors</u>  |                              |       |              |        |                          |                                   |                     |         |                                       |
| John Innes        | 55,000                       | -     | -            | 5,565  | 4,950                    | -                                 | -                   | 65,515  | -                                     |
| Graeme Drew       | 192,969                      | -     | -            | 5,565  | 17,367                   | -                                 | -                   | 215,901 | -                                     |
| John Ashley       | 135,260                      | -     | -            | 5,565  | -                        | -                                 | -                   | 140,825 | -                                     |
| Greg Hancock      | 40,000                       | -     | -            | 5,565  | 3,600                    | -                                 | -                   | 49,165  | -                                     |
| Chris Ellis       | 40,000                       | -     | -            | 5,565  | 3,600                    | -                                 | -                   | 49,165  | -                                     |
| Richard Mehan     | 22,462                       | -     | -            | 3,063  | 2,022                    | -                                 | -                   | 27,547  | -                                     |
| Peter Ravenscroft | -                            | -     | -            | -      | -                        | -                                 | -                   | -       | -                                     |
| <u>Executive</u>  |                              |       |              |        |                          |                                   |                     |         |                                       |
| Darren Crawte (i) | -                            | -     | -            | -      | -                        | -                                 | -                   | -       | -                                     |
|                   | 485,691                      | -     | -            | 30,888 | 31,539                   | -                                 | -                   | 548,118 | -                                     |

(i) The Company receives company secretarial, accounting, book keeping and taxation services from Ord Nexia Pty Ltd, a firm of Chartered Accountants of which Darren Crawte is an employee. Fees are charged on normal commercial terms.

During the year no options were issued to key management personnel (2009: Nil).

No options granted as remuneration were exercised by key management personnel or lapsed during the year

**Key terms of employment contracts**

Remuneration and other terms of employment for the Managing Director, Graeme Drew are formalised in a service agreement. Major provisions of this agreement are set out below:

- Term of agreement – two years commencing 25 November 2009.
- Base salary reviewed annually, currently \$227,390 per annum (inclusive of superannuation entitlements).
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equals 3 months salary, other than if there is a change of control of the Company, which will result in 12 months salary.
- Notice period of 90 days.

Remuneration and other terms of employment for the Executive Director, John Ashley are formalised in a service agreement. Major provisions of this agreement are set out below:

- Term of agreement – two years commencing 25 November 2009.
- Base fee reviewed annually, currently \$882 per day for a minimum 75 days per year.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equals 3 months salary, other than if there is a change of control of the Company, which will result in 12 months salary.
- Notice period of 90 days.

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

On behalf of the Directors



**Graeme Drew**  
**Managing Director**

Perth, 21 September 2010

## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of AusQuest Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

This declaration is in respect of AusQuest Limited.



**Perth, Western Australia**  
**21 September 2010**

**L DI GIALILONARDO**  
**Partner, HLB Mann Judd**



## INDEPENDENT AUDITOR'S REPORT

**To the members of  
AUSQUEST LIMITED:**

### **Report on the Financial Report**

We have audited the accompanying financial report of AusQuest Limited ("the company"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 26 to 52.

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

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 2, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

*Independence*

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

*Auditor's Opinion*

In our opinion:

- (a) the financial report of AusQuest Limited is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 20 to 22 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's Opinion*

In our opinion the Remuneration Report of AusQuest Limited for the year ended 30 June 2010 complies with section 300A of the *Corporations Act 2001*.



**HLB MANN JUDD**  
**Chartered Accountants**



**Perth, Western Australia**  
**21 September 2010**

**L DI GIALLONARDO**  
**Partner**

## **Directors' declaration**

The directors declare that:

- a. the financial statements, notes and the additional disclosures of the consolidated entity are in accordance with the Corporations Act 2001 including:
  - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year then ended; and
  - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- c. note 2 confirms that the financial statements also comply with International Financial Reporting Standards issued by the International Accounting Standards Board.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2010.

This declaration is signed in accordance with a resolution of the Board of Directors.

On behalf of the Directors



**Graeme Drew**  
**Managing Director**

Perth, 21 September 2010

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## Consolidated statement of comprehensive income for the financial year ended 30 June 2010

|                                                                             | Note | 2010<br>\$  | 2009<br>\$  |
|-----------------------------------------------------------------------------|------|-------------|-------------|
| <b>Continuing operations</b>                                                |      |             |             |
| Revenue                                                                     | 5    | 1,104,864   | 1,016,374   |
| Consultants & employee benefits expense                                     |      | (302,389)   | (462,259)   |
| Occupancy expenses                                                          |      | (85,586)    | (64,661)    |
| Administration expense                                                      |      | (1,259,879) | (811,681)   |
| Exploration expenditure written off                                         |      | (2,633,883) | (3,517,793) |
| <b>Loss before income tax expense</b>                                       |      | (3,176,873) | (3,840,020) |
| Income tax expense                                                          | 7    | -           | -           |
| <b>Loss for the year</b>                                                    | 6    | (3,176,873) | (3,840,020) |
| Other comprehensive income:                                                 |      | -           | -           |
| Exchange gain on translation of foreign operations                          |      | 31,658      | -           |
| <b>Total comprehensive income/(loss) for the year</b>                       |      | (3,145,215) | (3,840,020) |
| Loss for the year attributable to owners of the parent                      |      | (3,160,533) | (3,840,020) |
| Loss for the year attributable to non-controlling interests                 |      | (16,340)    | -           |
|                                                                             |      | (3,176,873) | (3,840,020) |
| Total comprehensive income/(loss) attributable to owners of the parent      |      | (3,128,875) | (3,840,020) |
| Total comprehensive income/(loss) attributable to non-controlling interests |      | (16,340)    | -           |
|                                                                             |      | (3,145,215) | (3,840,020) |
| <b>Loss per share:</b>                                                      |      |             |             |
| Basic (cents per share)                                                     | 16   | (1.39)      | (1.92)      |

Notes to the financial statements are included on pages 32 to 52.

**Consolidated statement of financial position  
as at 30 June 2010**

|                                        | <b>Note</b> | <b>2010<br/>\$</b> | <b>2009<br/>\$</b> |
|----------------------------------------|-------------|--------------------|--------------------|
| <b>Current assets</b>                  |             |                    |                    |
| Cash and cash equivalents              |             | 19,051,509         | 26,335,081         |
| Trade and other receivables            | 8           | 321,056            | 802,298            |
| Other assets                           | 9           | 38,634             | 39,021             |
| <b>Total current assets</b>            |             | <u>19,411,199</u>  | <u>27,176,400</u>  |
| <b>Non-current assets</b>              |             |                    |                    |
| Property, plant and equipment          | 10          | 143,506            | 185,082            |
| Exploration and evaluation expenditure | 11          | 23,531,396         | 17,523,608         |
| <b>Total non-current assets</b>        |             | <u>23,674,902</u>  | <u>17,708,690</u>  |
| <b>Total assets</b>                    |             | <u>43,086,101</u>  | <u>44,885,090</u>  |
| <b>Current liabilities</b>             |             |                    |                    |
| Trade and other payables               | 12          | 1,392,838          | 1,255,439          |
| Provisions                             | 13          | 44,390             | 39,748             |
| <b>Total current liabilities</b>       |             | <u>1,437,228</u>   | <u>1,295,187</u>   |
| <b>Total liabilities</b>               |             | <u>1,437,228</u>   | <u>1,295,187</u>   |
| <b>Net assets</b>                      |             | <u>41,648,873</u>  | <u>43,589,903</u>  |
| <b>Equity</b>                          |             |                    |                    |
| Issued capital                         | 14          | 52,307,672         | 52,238,377         |
| Reserves                               | 15          | 1,080,634          | 1,112,608          |
| Accumulated losses                     |             | (12,796,815)       | (9,761,082)        |
| Parent entity interest                 |             | 40,591,491         | 43,589,903         |
| Non controlling interests              |             | 1,057,382          | -                  |
| <b>Total equity</b>                    |             | <u>41,648,873</u>  | <u>43,589,903</u>  |

Notes to the financial statements are included on pages 32 to 52.

**Consolidated statement of changes in equity  
for the financial year ended 30 June 2010**

|                                                              | Fully paid<br>ordinary<br>shares<br>\$ | Option<br>reserve<br>\$ | Foreign<br>currency<br>translation<br>reserve<br>\$ | Accumulated<br>losses<br>\$ | Non<br>controlling<br>interests<br>\$ | Total<br>\$       |
|--------------------------------------------------------------|----------------------------------------|-------------------------|-----------------------------------------------------|-----------------------------|---------------------------------------|-------------------|
| <b>Balance at 1 July 2009</b>                                | 52,238,377                             | 1,112,608               | -                                                   | (9,761,082)                 | -                                     | 43,589,903        |
| Loss for the year                                            | -                                      | -                       | -                                                   | (3,160,533)                 | (16,340)                              | (3,176,873)       |
| Exchange differences on translation of<br>foreign operations | -                                      | -                       | 31,658                                              | -                           | -                                     | 31,658            |
| <b>Total comprehensive income for the year</b>               | -                                      | -                       | 31,658                                              | (3,160,533)                 | (16,340)                              | (3,145,215)       |
| Recognition of share-based payments                          | -                                      | 61,168                  | -                                                   | -                           | -                                     | 61,168            |
| Lapsed options during the year                               |                                        | (124,800)               |                                                     | 124,800                     | -                                     | -                 |
| Issue of shares                                              | 112,003                                | -                       |                                                     | -                           |                                       | 112,003           |
| Share issue expenses                                         | (42,708)                               | -                       |                                                     | -                           |                                       | (42,708)          |
| Initial recognition of non-controlling<br>interest           | -                                      | -                       | -                                                   | -                           | 1,073,722                             | 1,073,722         |
| <b>Balance at 30 June 2010</b>                               | <b>52,307,672</b>                      | <b>1,048,976</b>        | <b>31,658</b>                                       | <b>(12,796,815)</b>         | <b>1,057,382</b>                      | <b>41,648,873</b> |
| <b>Balance at 1 July 2008</b>                                | 25,379,173                             | 915,367                 |                                                     | (5,921,062)                 |                                       | 20,373,478        |
| Loss for the year                                            | -                                      | -                       |                                                     | (3,840,020)                 |                                       | (3,840,020)       |
| <b>Total comprehensive income for the year</b>               | -                                      | -                       |                                                     | (3,840,020)                 |                                       | (3,840,020)       |
| Recognition of share-based payments                          | -                                      | 197,241                 |                                                     | -                           |                                       | 197,241           |
| Issue of shares                                              | 28,182,406                             | -                       |                                                     | -                           |                                       | 28,182,406        |
| Share issue expenses                                         | (1,323,202)                            | -                       |                                                     | -                           |                                       | (1,323,202)       |
| <b>Balance at 30 June 2009</b>                               | <b>52,238,377</b>                      | <b>1,112,608</b>        |                                                     | <b>(9,761,082)</b>          |                                       | <b>43,589,903</b> |

Notes to the financial statements are included on pages 32 to 52.

**Consolidated statement of cash flows  
for the financial year ended 30 June 2010**

|                                                                         | Note   | 2010<br>\$  | 2009<br>\$  |
|-------------------------------------------------------------------------|--------|-------------|-------------|
| <b>Cash flows from operating activities</b>                             |        |             |             |
| Payments to suppliers and employees                                     |        | (878,081)   | (1,061,033) |
| Interest and other costs of finance paid                                |        | -           | (776)       |
| Interest received                                                       |        | 1,449,273   | 585,881     |
| Net cash provided by/(used in) operating activities                     | 20 (b) | 571,192     | (475,928)   |
| <b>Cash flows from investing activities</b>                             |        |             |             |
| Payment for property, plant and equipment                               |        | (17,950)    | (103,544)   |
| Exploration and evaluation expenditure                                  |        | (6,783,584) | (7,302,352) |
| Payment for acquisition of subsidiary                                   | 27     | (1,083,776) | -           |
| Net cash used in investing activities                                   |        | (7,885,310) | (7,405,896) |
| <b>Cash flows from financing activities</b>                             |        |             |             |
| Proceeds from issue of equity securities                                |        | 73,253      | 28,182,406  |
| Payment of share issue costs                                            |        | (42,708)    | (1,323,202) |
| Net cash provided by financing activities                               |        | 30,545      | 26,859,204  |
| <b>Net increase/(decrease) in cash and cash equivalents</b>             |        | (7,283,572) | 18,977,380  |
| <b>Cash and cash equivalents at the beginning of the financial year</b> |        | 26,335,081  | 7,357,701   |
| <b>Cash and cash equivalents at the end of the financial year</b>       | 20(a)  | 19,051,509  | 26,335,081  |

Notes to the financial statements are included on pages 32 to 52.



## Notes to the financial statements for the financial year ended 30 June 2010

### 1. General information

AusQuest Limited (the Company) is a public Company listed on the Australian Securities Exchange (trading under the symbol ("AQD"), incorporated in Australia and operating in Australia.

The Company's registered office and its principal place of business are as follows:

**Registered office**

C/-Ord Nexia Pty Ltd  
Level 1, 47-49 Stirling Highway  
NEDLANDS  
WA 6009

**Principal place of business**

8 Kearns Crescent  
Ardross WA 6153

The entity's principal activities are the exploration and evaluation of mineral resources in Australia and Africa.

### 2. Significant accounting policies

**Statement of compliance**

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

The Group has applied the revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been presented so that it is also in conformity with the revised standard.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the Directors on 21 September 2010.

**Basis of preparation**

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

**Critical accounting judgements and key sources of estimation uncertainty**

In the application of the group's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experiences and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects the current and future periods.

Refer to Note 3 for a discussion of critical judgements in applying the Group's accounting policies and key sources of estimation uncertainty.

## Notes to the financial statements for the financial year ended 30 June 2010

### 2. Significant accounting policies (contd)

#### Adoption of new and revised Accounting Standards

##### Changes in accounting policy on initial application of Accounting Standards

In the year ended 30 June 2010, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current reporting period.

The adoption of these new and revised Standards and Interpretations have not affected the amounts reported for the current or prior years, but have changed the disclosures made in the financial statements of the Company.

At the date of authorisation of the financial report, the following Standards and Interpretations were published but not mandatory for 30 June 2010 reporting periods.

- AASB 9 Financial Instruments includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 will become mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier.
- AASB 124 Related Party Disclosures (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government related entities. The amendments, which will become mandatory for the Group's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.
- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (applicable for annual reporting periods commencing from 1 January 2010) prescribes certain changes to existing standards.
- AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions resolves diversity in practice regarding the attribution of cash-settled share based payments between different entities within a group. As a result of the amendments AI 8 Scope of AASB 2 and AI 11 AASB 2 – Group Treasury Share Transactions will be withdrawn from the application date.
- AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issue [AASB 132] (October 2010) clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments will become mandatory for the Group's 30 June 2011 financial statements.
- AASB 2009-14 Amendments to Australian Interpretations – Prepayment of a Minimum Funding Requirement – AASB 14 makes amendments to Interpretation 14 AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements removing an unintended consequence arising from the treatment of the prepayments of future contributions in some circumstances when there is a minimum funding requirement. The amendments will become mandatory for the Group's 30 June 2012 financial statements, with retrospective application required.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing an equity instrument to a creditor of the entity to extinguish all or part of the financial liability. IFRIC 19 will become mandatory for the Group's 30 June 2011 financial statements, with retrospective application required.
- AASB 2010-4 amendments contained in AASB 2010-4 - amendments relate to accounting policy changes in the year of adoption (AASB 1); revaluation basis as deemed cost (AASB 1); use of deemed cost for operations subject to rate regulation (AASB 1); clarification of disclosures (AASB 7); clarification of statement of changes in equity (AASB 101); significant events and transactions (AASB 134); and fair value of award credits (AASB Interpretation 13). The amendments are mandatory from 1 January 2011 and are not expected to have a significant impact on the financial statements.

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Group.

These Standards and Interpretations will be first applied in the financial report of the Group that relates to the annual reporting period beginning after the effective date of each pronouncement.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

#### (a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries) referred to as 'the Group' or "the consolidated entity" in these financial statements.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

## Notes to the financial statements for the financial year ended 30 June 2010

### 2. Significant accounting policies (contd)

#### a) Basis of consolidation (cntd)

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing when the Group controls another entity.

Business combinations have been accounted for using the acquisition method of accounting. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expenses as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

Unrealised gains or transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the statement of comprehensive income and within equity in the consolidated statement of financial position. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

#### (b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand; cash in banks and investments in money market instruments, net of outstanding bank overdrafts.

#### (c) Employee benefits

A liability is recognised 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.

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

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

#### (d) Financial assets

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.

Investments in subsidiaries 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 cost price, net of transaction costs.

Subsequent to initial recognition, investments in subsidiaries are measured at cost.

#### Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

## Notes to the financial statements for the financial year ended 30 June 2010

### 2. Significant accounting policies (contd)

#### (e) Financial instruments issued by the Company

##### 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 as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

#### (f) Goods and services tax

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

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

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

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

#### (g) Impairment of assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### (h) 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 provided on all 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

## Notes to the financial statements for the financial year ended 30 June 2010

### 2. Significant accounting policies (contd)

#### (h) Income tax (contd)

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 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 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 entity intends to settle its current tax assets and liabilities on a net basis.

#### 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, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

#### Tax consolidation

The Company and its wholly-owned Australian resident entity are part of a tax-consolidated group under Australian taxation law. AusQuest Ltd is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group as and when they arise.

#### (i) **Exploration and Evaluation Expenditure**

Exploration, evaluation and development expenditure incurred may be accumulated in respect of each identifiable area of interest. These costs are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

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

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

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

## Notes to the financial statements for the financial year ended 30 June 2010

### 2. Significant accounting policies (contd)

#### (j) Joint ventures

##### Jointly controlled assets and operations

Interests in jointly controlled assets and operations are reported in the financial statements by including the entity's share of assets employed in the joint ventures, the share of liabilities incurred in relation to the joint ventures and the share of any expenses incurred in relation to the joint ventures in their respective classification categories.

##### Jointly controlled entities

Interests in jointly controlled entities are accounted for under the equity method in the financial statements and the cost method in the Company financial statements.

#### (k) Operating cycle

The operating cycle of the entity coincides with the annual reporting cycle.

#### (l) Payables

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

#### (m) Foreign currency translation

Both the functional and presentation currency of AusQuest Limited and its Australian subsidiaries is Australian dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the foreign operations, E&A Resources Pty Ltd and Comoe Exploration SARL is United States dollars (US\$). As at the balance date the assets and liabilities of these subsidiaries are translated into the presentation currency of AusQuest Limited at the rate of exchange ruling at the balance date and their statements of comprehensive income are translated at the weighted average exchange rate for the year.

The exchange differences arising on the translation are taken directly to the foreign currency translation reserve in equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

#### (n) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

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 is reviewed at the end of each annual reporting period.

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

| <i>Class of fixed asset</i>  | <i>Depreciation rate (%)</i> |
|------------------------------|------------------------------|
| Office furniture & equipment | 7.5 – 50.0                   |

## Notes to the financial statements for the financial year ended 30 June 2010

### 2. Significant accounting policies (contd)

**(o) Provisions**

Provisions are recognised when the consolidated entity has a present obligation (legal or constructive) as a result of a past event, 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 cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, 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.

**(p) Revenue recognition**

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 with employees granted after 7 November 2002 and that were unvested as of 1 January 2005, are measured at the fair value of the equity instrument at the grant date. The fair value at grant date is measured by use of the Black and 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, exercise restrictions, and behavioural considerations.

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 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) Earnings per share**

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

**(s) Operating segments**

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 maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management also considers other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the board of directors.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in the nature of the minerals targeted.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 Operating Segments are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

## Notes to the financial statements for the financial year ended 30 June 2010

### 2. Significant accounting policies (contd)

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments". Comparative segment information has been re-presented in conformity with the transitional requirements of AASB 8 Operating Segments. Since the change in accounting policy only affects presentation and disclosure aspects, there has been no impact on earnings per share.

### 3. Critical accounting judgements and key sources of estimation uncertainty

Judgements made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant note to the financial statements.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

#### Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Other than exploration expenditure written off totalling \$2,633,883 (2009: \$3,517,793) during the year, no impairment loss was recorded in the current financial year (2009: nil).

#### Share based payments

The Group measures the cost of equity settled transactions with consultants and employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black & Scholes model using various assumptions.

#### Loans to controlled entity

The Directors believe that the recoupment of the inter-company receivable from AusQuest Ltd to Fortescue Resources Pty Ltd and E&A Resources Pty Ltd is dependent on the successful development and commercial exploitation or, alternatively, the sale of the exploration assets held by the controlled entity.

### 4. Segment information

The Group has applied AASB 8 Operating Segments from 1 July 2009. AASB 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

Operating segments are now reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-maker has been identified as the board of directors of AusQuest Limited.

The following table presents the revenue and results information regarding the segment information provided to the Board of Directors for the year ended 30 June 2010.

|                                       | Continuing operations |           |                           | Consolidated |
|---------------------------------------|-----------------------|-----------|---------------------------|--------------|
|                                       | Australia             | Africa    | Intersegment eliminations |              |
|                                       | \$                    | \$        | \$                        | \$           |
| 30 June 2010:                         |                       |           |                           |              |
| Segment revenue                       | 1,104,864             | -         | -                         | 1,104,864    |
| Segment loss after tax                | (3,143,527)           | (33,346)  | -                         | (3,176,873)  |
| Unallocated expenses                  |                       |           |                           | -            |
| Segment net loss after tax            |                       |           |                           | (3,176,873)  |
| Segment assets                        | 44,186,601            | 3,609,212 | (4,709,712)               | 43,086,101   |
| Segment liabilities                   | 816,080               | 1,453,403 | (832,255)                 | 1,437,228    |
| Included within segment result:       |                       |           |                           |              |
| Depreciation                          | 59,526                | -         | -                         | 59,526       |
| Interest income                       | (1,104,864)           | -         | -                         | (1,104,864)  |
| Impairment of exploration expenditure | 2,633,883             |           |                           | 2,633,883    |

For the year ended 30 June 2009, all operations took place in Australia, and therefore there was only one operating segment.



## Notes to the financial statements for the financial year ended 30 June 2010

### 5. Revenue

An analysis of the Group's revenue for the year, from continuing operations, is as follows:

|                              | Consolidated     |                  |
|------------------------------|------------------|------------------|
|                              | 2010             | 2009             |
|                              | \$               | \$               |
| <b>Continuing operations</b> |                  |                  |
| Interest income              | 1,104,864        | 1,016,374        |
|                              | <b>1,104,864</b> | <b>1,016,374</b> |

### 6. Loss for the year

Loss for the year includes the following expenses:

|                                         | Consolidated |         |
|-----------------------------------------|--------------|---------|
|                                         | 2010         | 2009    |
|                                         | \$           | \$      |
| Depreciation of non-current assets      | 59,526       | 82,724  |
| <b>Operating lease rental expenses:</b> |              |         |
| Minimum lease payments                  | 85,586       | 64,661  |
| <b>Employee benefits expense:</b>       |              |         |
| Share-based payments                    | 61,168       | 197,241 |

### 7. Income taxes

#### Income tax recognised in profit or loss

|                                                                                                 | Consolidated |             |
|-------------------------------------------------------------------------------------------------|--------------|-------------|
|                                                                                                 | 2010         | 2009        |
|                                                                                                 | \$           | \$          |
| <b>Tax expense/(income) comprises:</b>                                                          |              |             |
| Current tax expense/(income)                                                                    | -            | -           |
| Deferred tax expense/(income) relating to the origination and reversal of temporary differences | -            | -           |
| Total tax expense/(income)                                                                      | -            | -           |
| Loss from operations                                                                            | (3,176,873)  | (3,840,020) |
| Income tax expense calculated at 30%                                                            | (953,062)    | (1,152,006) |
| Effect of expenses that are not deductible in determining taxable profit                        | 19,739       | 60,272      |
| Effect of changes in unrecognized temporary differences                                         | (586,501)    | (2,691,668) |
| Effect of unused tax losses and tax offsets not recognised as deferred tax assets               | 1,519,823    | 3,783,402   |
|                                                                                                 | -            | -           |

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

## Notes to the financial statements for the financial year ended 30 June 2010

### 7. Income Taxes (cntd)

#### Unrecognised deferred tax assets and liabilities

The following deferred tax assets and (liabilities) have not been brought to account as assets:

Tax losses – revenue

Tax losses – capital

Temporary differences

| <b>Consolidated</b>                                              |                  |
|------------------------------------------------------------------|------------------|
| <b>2010</b>                                                      | <b>2009</b>      |
| <b>\$</b>                                                        | <b>\$</b>        |
| 6,927,790                                                        | 6,533,471        |
| -                                                                | -                |
| (5,975,800)                                                      | (5,100,517)      |
| <b>951,990</b>                                                   | <b>1,432,954</b> |
| <br>                                                             |                  |
| Deferred tax assets not recognized in equity – share issue costs |                  |
| <b>916,162</b>                                                   | <b>904,350</b>   |

#### Relevance of tax consolidation to the consolidated entity

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group and are therefore taxed as a single entity. The head entity within the tax-consolidated group is AusQuest Ltd. The members of the tax-consolidated group (incorporated in Australia) are identified at note 19.

### 8. Trade and other receivables

#### Current

Goods and services tax recoverable

Accrued interest income

Other debtors

| <b>Consolidated</b> |                |
|---------------------|----------------|
| <b>2010</b>         | <b>2009</b>    |
| <b>\$</b>           | <b>\$</b>      |
| 103,252             | 240,086        |
| 217,223             | 561,632        |
| 581                 | 580            |
| <b>321,056</b>      | <b>802,298</b> |

### 9. Prepayments

#### Current

Prepayments

| <b>Consolidated</b> |               |
|---------------------|---------------|
| <b>2010</b>         | <b>2009</b>   |
| <b>\$</b>           | <b>\$</b>     |
| 38,634              | 39,021        |
| <b>38,634</b>       | <b>39,021</b> |

### 10. Property, plant and equipment

Gross carrying amount

Balance at 1 July 2008

Additions

Balance at 30 June 2009

Additions

Assets written off

Balance at 30 June 2010

| <b>Consolidated</b>                           |
|-----------------------------------------------|
| <b>Office furniture and equipment at cost</b> |
| <b>\$</b>                                     |
| 270,518                                       |
| 103,544                                       |
| <b>374,062</b>                                |
| 17,950                                        |
| (41,357)                                      |
| <b>350,655</b>                                |

## Notes to the financial statements for the financial year ended 30 June 2010

### 10. Property, Plant and Equipment (cntd)

|                                                | Consolidated<br>Office furniture<br>and equipment<br>at cost<br>\$ |
|------------------------------------------------|--------------------------------------------------------------------|
| <b>Accumulated depreciation and impairment</b> |                                                                    |
| <b>Balance at 1 July 2008</b>                  | 106,256                                                            |
| Depreciation expense                           | 82,724                                                             |
| <b>Balance at 30 June 2009</b>                 | 188,980                                                            |
| Assets written off                             | (41,357)                                                           |
| Depreciation expense                           | 59,526                                                             |
| <b>Balance at 30 June 2010</b>                 | 207,149                                                            |
| <b>Net book value</b>                          |                                                                    |
| As at 30 June 2009                             | 185,082                                                            |
| As at 30 June 2010                             | 143,506                                                            |

### 11. Exploration and evaluation expenditure

|                                   | Consolidated |             |
|-----------------------------------|--------------|-------------|
|                                   | 2010<br>\$   | 2009<br>\$  |
| Exploration and evaluation phase: |              |             |
| Balance at beginning of year      | 17,523,608   | 12,909,740  |
| Capitalised during the year       | 8,641,671    | 8,131,661   |
| Written off during the year       | (2,633,883)  | (3,517,793) |
| Balance at end of year            | 23,531,396   | 17,523,608  |

The ultimate recoupment of costs carried forward in respect of areas of interest still in the exploration and/or evaluation phases is dependent on successful development and commercial exploitation or, alternatively, sale of the respective areas of interest.

### 12. Trade and other payables

|                    | Consolidated |            |
|--------------------|--------------|------------|
|                    | 2010<br>\$   | 2009<br>\$ |
| Trade payables (i) | 1,392,838    | 1,255,439  |
|                    | 1,392,838    | 1,255,439  |

- (i) The average credit period on purchases and services is 30 days. No interest is charged on the trade payables for the first 30 to 60 days from the date of the invoice. Thereafter, interest may be charged at various penalty rates on the outstanding balance. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

### 13. Provisions

|                       | Consolidated |            |
|-----------------------|--------------|------------|
|                       | 2010<br>\$   | 2009<br>\$ |
| <u>Current</u>        |              |            |
| Employee benefits (i) | 44,390       | 39,748     |
|                       | 44,390       | 39,748     |

- (i) The current provision for employee benefits relates to annual leave entitlements.

## Notes to the financial statements for the financial year ended 30 June 2010

### 14. Issued capital

|                                                               | Consolidated |            |
|---------------------------------------------------------------|--------------|------------|
|                                                               | 2010<br>\$   | 2009<br>\$ |
| 228,312,235 fully paid ordinary shares<br>(2009: 227,695,970) | 52,307,673   | 52,238,377 |

  

|                                                         | 2010        |            | 2009        |             |
|---------------------------------------------------------|-------------|------------|-------------|-------------|
|                                                         | No.         | \$         | No.         | \$          |
| <b>Fully paid ordinary shares</b>                       |             |            |             |             |
| Balance at beginning of financial year                  | 227,695,970 | 52,238,377 | 155,092,729 | 25,379,173  |
| Options exercised during the year                       | 366,265     | 73,253     | 4,294,450   | 858,890     |
| Issue pursuant to a subscription placement              | -           | -          | 68,308,791  | 27,323,516  |
| Issue of shares as consideration for purchase of assets | 250,000     | 38,750     | -           | -           |
| Share issue costs                                       | -           | (42,708)   | -           | (1,323,202) |
| Balance at end of financial year                        | 228,312,235 | 52,307,672 | 227,695,970 | 52,238,377  |

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

#### Share options on issue

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

As at 30 June 2010, the Company has 56,010,857 share options on issue (2009: 162,702,856) exercisable on a 1:1 basis for 56,010,857 shares (2009: 162,702,856) at various exercise prices. The options will expire between 30/06/2011 and 31/12/12. Further details of options granted to Directors and employees are contained in note 23 to the financial statements.

### 15. Reserves

|                                      | Consolidated |            |
|--------------------------------------|--------------|------------|
|                                      | 2010<br>\$   | 2009<br>\$ |
| Share-based payments reserve         | 1,048,976    | 1,112,608  |
|                                      | 1,048,976    | 1,112,608  |
| Foreign currency translation reserve | 31,658       | -          |
|                                      | 31,658       | -          |
| Total reserves                       | 1,080,634    | 1,112,608  |

The share-based payments reserve arises on the grant of share options to executive, employees, consultants and advisors. Further information about share-based payments to employees is made in notes 22 and 23 to the financial statements.

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

### 16. Loss per share

|                      | Consolidated               |                            |
|----------------------|----------------------------|----------------------------|
|                      | 2010<br>Cents<br>per share | 2009<br>Cents<br>per share |
| Basic loss per share | (1.39)                     | (1.92)                     |

#### Basic loss per share

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

|          | 2010<br>\$  | 2009<br>\$  |
|----------|-------------|-------------|
| Net loss | (3,160,533) | (3,212,562) |

## Notes to the financial statements for the financial year ended 30 June 2010

### 16. Loss per share (cntd)

Weighted average number of ordinary shares for the purposes of basic loss per share

| 2009<br>No. | 2009<br>No. |
|-------------|-------------|
| 228,108,753 | 199,881,929 |

### Diluted loss per share

Diluted loss per share has not been calculated as the result does not increase loss per share.

### 17. Commitments for expenditure

#### (a) Other expenditure commitments

##### Exploration expenditure

Not longer than 1 year

Longer than 1 year and not longer than 5 years

Longer than 5 years

| Consolidated |            |
|--------------|------------|
| 2010<br>\$   | 2009<br>\$ |
| 4,718,161    | 2,767,636  |
| 10,192,504   | 5,131,787  |
| 74,430       | -          |
| 14,985,095   | 7,899,423  |

### 18. Contingent liabilities and contingent assets

In the opinion of the Directors, there were no material contingent liabilities as at 30 June 2010 and no contingent liabilities have arisen in the interval between the period end and the date of this financial report.

### 19. Subsidiaries

| Name of entity              | Country of incorporation | Ownership interest |           |
|-----------------------------|--------------------------|--------------------|-----------|
|                             |                          | 2010<br>%          | 2009<br>% |
| <b>Parent entity</b>        |                          |                    |           |
| AusQuest Ltd (i)            | Australia                |                    |           |
| <b>Subsidiaries</b>         |                          |                    |           |
| Fortescue Resources Pty Ltd | Australia                | 100%               | 100%      |
| E&A Resources Pty Ltd       | British Virgin Islands   | 51%                | -         |
| <b>Sub-subsidiary</b>       |                          |                    |           |
| Comoe Exploration SARL      | Burkina Faso             | 51%                | -         |

- (i) AusQuest Ltd is the head entity within the tax consolidated group. All the Australian-incorporated companies are members of the tax consolidated group.

### 20. Notes to the consolidated statement of cash flows

#### (a) Reconciliation of cash and cash equivalents

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

|                           | Consolidated |            |
|---------------------------|--------------|------------|
|                           | 2010<br>\$   | 2009<br>\$ |
| Cash and cash equivalents | 19,051,509   | 26,335,081 |
|                           | 19,051,509   | 26,335,081 |

## Notes to the financial statements for the financial year ended 30 June 2010

### 20. Notes to the consolidated statement of cash flows (cntd)

#### (b) Reconciliation of loss for the year to net cash flows from operating activities

|                                                                                                    | 2010        | 2009        |
|----------------------------------------------------------------------------------------------------|-------------|-------------|
|                                                                                                    | \$          | \$          |
| Loss for the year                                                                                  | (3,176,873) | (3,840,020) |
| Depreciation                                                                                       | 59,526      | 82,724      |
| Equity-settled share-based payment                                                                 | 61,168      | 197,241     |
| Exploration expenditure written off                                                                | 2,633,883   | 3,517,793   |
| Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses: |             |             |
| (Increase)/decrease in assets:                                                                     |             |             |
| Trade and other receivables                                                                        | 518,242     | (421,864)   |
| Prepayments                                                                                        | 387         | (39,020)    |
| Increase/(decrease) in liabilities:                                                                |             |             |
| Trade and other payables                                                                           | 470,217     | 22,285      |
| Provisions                                                                                         | 4,642       | 4,933       |
| Net cash from operating activities                                                                 | 571,192     | (475,928)   |

### 21. Financial instruments

#### Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Interest rate risk
- Capital management

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this note and the financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

#### Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored. Credit exposure is controlled by counterparty limits that are reviewed and approved by the audit committee annually. The consolidated entity measures credit risk on a fair value basis.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

#### Liquidity risk management

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

Liquidity risk management is the responsibility of the board of Directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements.

## Notes to the financial statements for the financial year ended 30 June 2010

### 21. Financial instruments (contd)

The 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, identifying when further capital raising initiatives are required.

#### Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial assets and liabilities and have been prepared on the following basis:

- Financial assets - based on the undiscounted contractual maturities including interest that will be earned on those assets except where the Company/Group anticipates that the cash flow will occur in a different period; and
- Financial liabilities - based on undiscounted cash flows on the earliest date on which the Group can be required to pay, including both interest and principal cash flows.

| 2010                         | CONSOLIDATED            |                  |                          |                   |                |             |
|------------------------------|-------------------------|------------------|--------------------------|-------------------|----------------|-------------|
|                              | Less than 1 month<br>\$ | 1-3 months<br>\$ | 3 months to 1 year<br>\$ | 1 - 5 years<br>\$ | 5+ years<br>\$ | Total<br>\$ |
| <b>Financial assets</b>      |                         |                  |                          |                   |                |             |
| Non-interest bearing         | 179,040                 | -                | 217,224                  | -                 | -              | 396,264     |
| Variable interest rate       | 2,104,161               | -                | -                        | -                 | -              | 2,104,161   |
| Fixed interest rate          | -                       | 1,500,000        | 15,354,172               | -                 | -              | 16,854,172  |
|                              | 2,283,201               | 1,500,000        | 15,571,396               | -                 | -              | 19,354,597  |
| <b>Financial liabilities</b> |                         |                  |                          |                   |                |             |
| Non-interest bearing         | 589,045                 | 786,838          | 17,000                   | -                 | -              | 1,392,883   |
|                              | 589,045                 | 786,838          | 17,000                   | -                 | -              | 1,392,883   |

| 2009                         | Less than 1 month |           |            |    |    |            |
|------------------------------|-------------------|-----------|------------|----|----|------------|
|                              | \$                | \$        | \$         | \$ | \$ | \$         |
| <b>Financial assets</b>      |                   |           |            |    |    |            |
| Non-interest bearing         | 249,362           | -         | 561,632    | -  | -  | 810,994    |
| Variable interest rate       | 3,163,832         | -         | -          | -  | -  | 3,163,832  |
| Fixed interest rate          | -                 | 3,074,384 | 20,083,448 | -  | -  | 23,157,832 |
|                              | 3,413,194         | 3,074,384 | 20,645,080 | -  | -  | 27,132,658 |
| <b>Financial liabilities</b> |                   |           |            |    |    |            |
| Non-interest bearing         | 1,255,439         | -         | -          | -  | -  | 1,255,439  |
|                              | 1,255,439         | -         | -          | -  | -  | 1,255,439  |

#### **Interest rate risk management**

The Group is exposed to interest rate risk as it places funds at both fixed and floating interest rates. The Group manages this risk by maintaining an appropriate mix between fixed and floating rated products, which also facilitate access to money.

Although some of the Group's assets are subject to interest rate risk, it is not dependent on this income. Interest income is only incidental to the Group's operations and operating cash flows.

The Group is not exposed to interest rate risk associated with borrowed funds.

#### Interest rate sensitivity analysis

The sensitivity analyses of the Group's exposure to interest rate risk at the reporting date has been determined based on a change of 50 basis points in interest rates.

At reporting dated, if interest rates had been 50 basis points higher and all other variables were constant, the Group's net loss after tax would have decreased by \$10,521 (2008: \$15,819) with a corresponding increase in equity. Where interest rates decreased, there would be an equal and opposite impact on the loss after tax and equity.

## Notes to the financial statements for the financial year ended 30 June 2010

### 21. Financial instruments (contd)

#### Foreign currency risk management

The Group undertakes certain transactions in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the balance date in Australian dollars are as follows:

|            | Assets     |            | Liabilities |            |
|------------|------------|------------|-------------|------------|
|            | 2010<br>\$ | 2009<br>\$ | 2010<br>\$  | 2009<br>\$ |
| US Dollars | 37,730     | -          | 621,148     | -          |

Movements in the exchange rate during the year would not have had a material effect on the loss of the Group.

#### Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The capital structure of the Group consists of equity only, comprising issued capital and reserves, net of accumulated losses. The Group's policy is to use capital market issues to meet the funding requirements of the Group.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

#### Fair value of financial assets and liabilities

As of 1 July 2009, the Group has adopted the amendments to AASB 7 Financial Instruments: Disclosures which require disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The Group has no financial assets or liabilities at 30 June 2010 which have been measured at fair value using any of the above measurements.

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 2. The Directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximate their values (2009: net fair values).

### 22. Share-based payments

#### Employee share options

The Company has an ownership-based compensation arrangement for consultants and employees of the Company.

Each option issued under the arrangement converts into one ordinary share of AusQuest Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. Options neither carry rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The number of options granted is at the sole discretion of the Directors.

Incentive options issued to Directors (executive and non-executive) are subject to approval by shareholders and attach vesting conditions as appropriate.



## Notes to the financial statements for the financial year ended 30 June 2010

### 22. Share-based payments (cntd)

#### Share based payment arrangements in existence during period

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

| Options series      | Number    | Grant date   | Expiry date  | Exercise price<br>\$ | Fair value at grant date<br>\$ |
|---------------------|-----------|--------------|--------------|----------------------|--------------------------------|
| 31 August 2008 (i)  | 1,000,000 | 16 Sept 2003 | 31 Aug 2008  | 0.20                 | 0.075                          |
| 31 August 2009 (ii) | 1,000,000 | 17 Sept 2004 | 31 Aug 2009  | 0.30                 | 0.064                          |
| 30 June 2011        | 3,700,000 | 11 July 2006 | 30 June 2011 | 0.54                 | 0.126                          |
| 31 Jan 2012         | 500,000   | 1 Aug 2007   | 31 Jan 2012  | 0.30                 | 0.172                          |
| 31 Dec 2012         | 1,250,000 | 1 Feb 2008   | 31 Dec 2012  | 0.35                 | 0.190                          |
| 1 Dec 2013          | 1,350,000 | 13 Feb 2009  | 1 Dec 2013   | 0.20                 | 0.548                          |
| 1 Dec 2013          | 1,150,000 | 13 Feb 2009  | 1 Dec 2013   | 0.40                 | 0.455                          |

(i) These options expired in the prior year

(ii) These options expired in the current year

There were no new share based payments granted during the current financial year. The fair value of the share options recognised as an expense in the current year, as a result of share options granted in the previous financial year was \$61,168.

The fair value of the share options granted during the financial year is nil (2009: \$258,409). In the previous financial year, options were priced using a Black & Scholes pricing model. Expected volatility is based on the movement of the underlying share price around its average share price over the expected term of the option. The Directors have determined the expected period of exercise to be similar to the option life based on historical experience.

| Inputs into the model          | Option series |            |
|--------------------------------|---------------|------------|
|                                | 1 Dec 2013    | 1 Dec 2013 |
| Grant date share price (cents) | 12 cents      | 12 cents   |
| Exercise price (cents)         | 20 cents      | 40 cents   |
| Expected volatility            | 150%          | 150%       |
| Option life                    | 4.7 years     | 4.7 years  |
| Dividend yield                 | -             | -          |
| Risk-free interest rate        | 3.61%         | 3.61%      |

The following table shows a reconciliation of the outstanding share options granted as share based payments at the beginning and end of the financial year:

|                                            | 2010                 |                                          | 2009                 |                                          |
|--------------------------------------------|----------------------|------------------------------------------|----------------------|------------------------------------------|
|                                            | Number of<br>Options | Weighted average<br>exercise price<br>\$ | Number of<br>Options | Weighted average<br>exercise price<br>\$ |
| Balance at beginning of the financial year | 8,950,000            | 0.40                                     | 7,450,000            | 0.41                                     |
| Granted during the financial year          | -                    | -                                        | 2,500,000            | 0.29                                     |
| Exercised during the financial year        | -                    | -                                        | (1,000,000)          | -                                        |
| Lapsed during the financial year           | (1,000,000)          | 0.30                                     | -                    | 0.30                                     |
| Balance at end of the financial year (i)   | 7,950,000            | 0.42                                     | 8,950,000            | 0.40                                     |
| Exercisable at end of the financial year   | 7,950,000            | 0.42                                     | 9,216,409            | 0.40                                     |

#### (i) Balance at end of the financial year

The share options outstanding at the end of the financial year had a weighted average remaining contractual life of 2.03 years (2009: 2.7 years).

#### Ordinary shares issued as consideration during the year

During the year there were 250,000 ordinary shares issued as consideration for the acquisition of exploration interests. The value of these ordinary shares issued was \$38,750.

## Notes to the financial statements for the financial year ended 30 June 2010

### 23. Related party transactions

#### (a) Equity interests in related parties

##### Equity interests in subsidiaries

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

#### (b) Transactions with key management personnel

##### Key management personnel compensation

Details of key management personnel compensation are disclosed in the Remuneration Report which forms part of the Directors' Report and has been audited. The aggregate compensation of the key management personnel is summarised below:

|                              | Consolidated   |                |
|------------------------------|----------------|----------------|
|                              | 2010<br>\$     | 2009<br>\$     |
| Short term employee benefits | 498,029        | 485,691        |
| Post employment benefits     | 32,182         | 31,539         |
| Other benefits               | 32,003         | 30,888         |
| Share based payments         | -              | -              |
|                              | <b>562,214</b> | <b>548,118</b> |

##### Key management personnel equity holdings

Fully paid ordinary shares of AusQuest Ltd

|                      | Balance<br>at 1 July<br>No. | Balance on<br>appointment/<br>resignation<br>No. | Granted as<br>compensation<br>No. | Received on<br>exercise of<br>options<br>No. | Balance on<br>resignation<br>No. | Balance<br>at 30 June<br>No. |
|----------------------|-----------------------------|--------------------------------------------------|-----------------------------------|----------------------------------------------|----------------------------------|------------------------------|
| <b>2010</b>          |                             |                                                  |                                   |                                              |                                  |                              |
| John Innes           | 3,903,158                   | -                                                | -                                 | -                                            | (3,903,158)                      | -                            |
| Greg Hancock         | 1,058,000                   | -                                                | -                                 | -                                            | -                                | 1,058,000                    |
| Chris Ellis          | 10,668,658                  | -                                                | -                                 | -                                            | -                                | 10,668,658                   |
| John Ashley          | 6,071,630                   | -                                                | -                                 | -                                            | -                                | 6,071,630                    |
| Graeme Drew          | 4,747,241                   | -                                                | -                                 | -                                            | -                                | 4,747,241                    |
| Richard Mehan(i)     | -                           | -                                                | -                                 | -                                            | -                                | -                            |
| Peter Ravenscroft(i) | -                           | -                                                | -                                 | -                                            | -                                | -                            |
|                      | <b>26,448,687</b>           | -                                                | -                                 | -                                            | <b>(3,903,158)</b>               | <b>22,545,529</b>            |

|                      | Balance<br>at 1 July | Balance on<br>appointment/<br>resignation | Granted as<br>compensation | Received on<br>exercise of<br>options | Balance on<br>resignation | Balance<br>at 30 June |
|----------------------|----------------------|-------------------------------------------|----------------------------|---------------------------------------|---------------------------|-----------------------|
| <b>2009</b>          |                      |                                           |                            |                                       |                           |                       |
| John Innes           | 3,903,158            | -                                         | -                          | -                                     | -                         | 3,903,158             |
| Greg Hancock         | 1,058,000            | -                                         | -                          | -                                     | -                         | 1,058,000             |
| Chris Ellis          | 10,668,658           | -                                         | -                          | -                                     | -                         | 10,668,658            |
| John Ashley          | 5,469,665            | -                                         | -                          | 535,965                               | 66,000                    | 6,071,630             |
| Graeme Drew          | 4,747,241            | -                                         | -                          | -                                     | -                         | 4,747,241             |
| Richard Mehan(i)     | -                    | -                                         | -                          | -                                     | -                         | -                     |
| Peter Ravenscroft(i) | -                    | -                                         | -                          | -                                     | -                         | -                     |
|                      | <b>25,846,722</b>    | -                                         | -                          | <b>535,965</b>                        | <b>66,000</b>             | <b>26,448,687</b>     |

## Notes to the financial statements for the financial year ended 30 June 2010

### 23. Related party transactions (contd)

#### Share options of AusQuest Ltd

|                      | Balance at 1 July No. | Balance on appointment No. | Granted as compensation No. | Exercised No. | Net other change No. | Balance on resignation No. | Balance at 30 June No. | Vested during year No. | Vested and exercisable at 30 June No. |
|----------------------|-----------------------|----------------------------|-----------------------------|---------------|----------------------|----------------------------|------------------------|------------------------|---------------------------------------|
| <b>2010</b>          |                       |                            |                             |               |                      |                            |                        |                        |                                       |
| John Innes           | 2,435,595             | -                          | -                           | -             | (2,435,595)          | -                          | -                      | -                      | -                                     |
| Greg Hancock         | 1,110,000             | -                          | -                           | -             | (810,000)            | -                          | 300,000                | -                      | 300,000                               |
| Chris Ellis          | 6,601,488             | -                          | -                           | -             | (6,601,488)          | -                          | -                      | -                      | -                                     |
| John Ashley          | 3,820,942             | -                          | -                           | -             | (3,320,942)          | -                          | 500,000                | -                      | 500,000                               |
| Graeme Drew          | 3,546,467             | -                          | -                           | -             | (2,546,467)          | -                          | 1,000,000              | -                      | 1,000,000                             |
| Richard Mehan(i)     | -                     | -                          | -                           | -             | -                    | -                          | -                      | -                      | -                                     |
| Peter Ravenscroft(i) | -                     | -                          | -                           | -             | -                    | -                          | -                      | -                      | -                                     |
|                      | 17,514,492            | -                          | -                           | -             | (15,714,492)         | -                          | 1,800,000              | -                      | 1,800,000                             |
| <b>2009</b>          |                       |                            |                             |               |                      |                            |                        |                        |                                       |
| John Innes           | 2,435,595             | -                          | -                           | -             | -                    | -                          | 2,435,595              | -                      | 2,435,595                             |
| Greg Hancock         | 2,110,000             | -                          | -                           | -             | (1,000,000)          | -                          | 1,110,000              | -                      | 1,110,000                             |
| Chris Ellis          | 6,601,488             | -                          | -                           | -             | -                    | -                          | 6,601,488              | -                      | 6,601,488                             |
| John Ashley          | 4,291,907             | -                          | -                           | (535,965)     | 65,000               | -                          | 3,820,942              | -                      | 3,820,942                             |
| Graeme Drew          | 3,546,467             | -                          | -                           | -             | -                    | -                          | 3,546,467              | -                      | 3,546,467                             |
| Richard Mehan(i)     | -                     | -                          | -                           | -             | -                    | -                          | -                      | -                      | -                                     |
| Peter Ravenscroft(i) | -                     | -                          | -                           | -             | -                    | -                          | -                      | -                      | -                                     |
|                      | 18,985,457            | -                          | -                           | (535,965)     | (935,000)            | -                          | 17,514,492             | -                      | 17,514,492                            |

(i) Mr Richard Mehan and Mr Pete Ravenscroft are full time employees of Cliffs Natural Resources Pty Ltd ("Cliffs"). Cliffs hold 68,308,791 shares and 48,060,857 options but Mr Mehan and Mr Ravenscroft do not hold shares or options independently.

Further details of the employee share option plan and of share options relating to the 2010 and 2009 financial years are contained in note 22 to the financial statements.

#### Other transactions with key management personnel of the Group

During the year, premises were rented by the Group from ASP Investments Pty Ltd, an entity associated with John Ashley on commercial terms. Rental fees incurred during the year totaled \$67,115 (2009: \$49,280) and the balance payable by the Company to ASP Investments Pty Ltd at the year end was \$nil (2009: \$nil).

During the year, consulting services were provided by Hancock Corporate Investments Pty Ltd, an entity associated with Greg Hancock. Services provided during the year totaled \$33,750 (2009: \$45,000) and the balance payable by the Company to Hancock Corporate Investments Pty Ltd at the year end was \$nil (2009: \$nil).

#### (c) Transactions with other related parties

Other related parties include:

- the parent entity
- entities with significant influence over the Group
- associates
- joint ventures in which the entity is a venturer
- other related parties.

There were no other transactions during the year with other related parties.

#### (d) Parent entities

The ultimate parent entity in the consolidated entity is AusQuest Ltd.

## Notes to the financial statements for the financial year ended 30 June 2010

### 24. Remuneration of auditors

#### Auditor of the Group

Audit or review of the financial report

Other audit services

| Consolidated |        |
|--------------|--------|
| 2010         | 2009   |
| \$           | \$     |
| 25,925       | 22,230 |
| -            | -      |
| 25,925       | 22,230 |

The auditor of AusQuest Ltd is HLB Mann Judd.

### 25. Subsequent events

There has been no matters or circumstance, other than that referred to in the financial statement or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

### 26. Parent Entity Disclosures

As at 30 June 2010, and throughout the financial year ended 30 June 2010 the parent company of the Group was AusQuest Ltd.

#### Result of the parent entity

Loss for the year

Other comprehensive income

**Total comprehensive income for the year**

| 2010        | 2009        |
|-------------|-------------|
| \$          | \$          |
| (3,144,283) | (3,841,245) |
| -           | -           |
| (3,144,283) | (3,841,245) |

#### Financial position of parent entity at year end

Current assets

Total assets

Current liabilities

Total liabilities

|            |            |
|------------|------------|
| 19,349,884 | 27,153,572 |
| 41,239,335 | 44,732,262 |
| 816,080    | 1,295,187  |
| 816,080    | 1,295,187  |

#### Total equity of the parent entity comprising of:

Share capital

Reserves

Accumulated losses

**Total equity**

#### Parent entity contingencies

The parent entity has no contingent liabilities as at 30 June 2010 (2009: nil).

|              |             |
|--------------|-------------|
| 52,307,672   | 52,238,377  |
| 1,048,976    | 1,112,608   |
| (12,933,393) | (9,913,910) |
| 40,423,255   | 43,437,075  |

#### Parent entity capital commitments

The parent entity currently has no capital commitments for the acquisition of property, plant and equipment.

## **Notes to the financial statements for the financial year ended 30 June 2010**

### **27. Acquisition of controlled entity**

During the year, the Group incorporated E&A Resources Pty Ltd, a wholly owned subsidiary with nominal issued capital in the British Virgin Islands, which, on 13 April 2010, was funded by way of additional equity with a further US \$1,000,000 by AusQuest Ltd. The amount paid in Australian dollars was \$1,083,776.