# MODENA RESOURCES LIMITED
**ACN 119 749 647**

# ANNUAL REPORT

# 30 JUNE 2008

# CORPORATE DIRECTORY

**DIRECTORS**

Peter Hampshire - Non-Executive Chairman
Craig Willis - Executive Director
Neville Bassett - Non-Executive

**SECRETARY**

Linton Scott

**REGISTERED AND PRINCIPAL OFFICE**

Suite B
150 Hay Street
Subiaco WA 6008

Telephone: (08) 9388 8430
Facsimile: (08) 8388 8450
Website: www.modenaresources.com

**SHARE REGISTRY**

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth WA 6000

Telephone: (08) 9323 2000
Facsimile: (08) 9323 2033

**AUDITORS**

BDO Kendalls Audit and Assurance (WA) Pty Ltd
128 Hay Street
Subiaco WA 6008

Telephone: (08) 9360 4200
Facsimile: (08) 9481 2524

**AUSTRALIAN SECURITIES EXCHANGE**

Modena Resources Limited shares (MDA) and options (MDAO) are listed on the Australian Securities Exchange.

# DIRECTORS REPORT

Your Directors present their report on the Company consisting of Modena Resources Limited and its controlled entities ("the Group") for the year ended 30 June 2008.

**DIRECTORS**

The names of the Directors of the Company in office during the financial year and up to the date of this report are as follows:

Peter Hampshire
Craig Willis
Neville Bassett
Linton Scott - resigned 16 July 2007

Directors were in office from the beginning of the financial year until the date of this report unless otherwise stated.

The particulars of the qualifications, experience and special responsibilities of each director are as follows:

**Peter Hampshire,** Non-Executive Chairman

Mr Hampshire has been a stockbroker and investment banker for 35 years. He started his career with Slater Walker Merchant Bank in London before moving back to Australia and spent 4 years with Merrill Lynch International. Mr Hampshire then joined Jacksons stockbrokers, followed by a period consulting to and director of both private and public investment and resource companies. Mr Hampshire was a stockbroker with Southern Cross Equities before joining Bell Potter Securities when he became Director of Investments for Admerex Limited.

During his career, Mr Hampshire has consulted to and advised a number of private and public companies in the areas of investment strategy, capital raising and currency and hedging strategies.

Director since 17 May 2006.

During the past three years Mr Hampshire has held the following other listed company directorships:

- White Cliff Nickel Limited (2 July 2007 – present)
- Eldore Mining Corporation Limited (30 November 2007 – present)

**Craig Willis,** Executive Director

Mr Willis is currently a director of Acclaim Exploration Limited and previously with listed company Syntech Group Limited. He has significant experience in dealing with government instrumentalities pertaining to contract negotiations between private and public entities. He has previously project managed a number of successful operational developments within Australia Post. He has considerable project management and technology development experience, holding a number of public and private company directorships.

Director since 11 September 2006.

During the past three years Mr Willis has held the following other listed company directorships:

- Acclaim Exploration NL (30 June 2003 – present)

**Neville Bassett,** CA, B.Bus – Non-Executive Director

Mr Bassett is a Chartered Accountant operating his own corporate consulting business, specialising in the area of corporate, financial and management advisory services. Mr Bassett consults to a number of publicly listed companies and private company groups in a diversity of industry sectors such as stockbroking, property and resources. He is a director or company secretary of a number of public and private companies.

Mr Bassett has been involved with numerous public company listings and capital raisings. His involvement in the corporate arena has also taken in mergers and acquisitions, and includes significant knowledge and exposure to the Australian financial markets. Mr Bassett has a wealth of experience in matters pertaining to the Corporations Act, ASX listing requirements, corporate taxation and finance.

Director since 14 September 2006.

During the past three years Mr Bassett has held the following other listed company directorships:

- Contact Uranium Limited (22 March 2004 – present)
- Pinnacle VRB Limited (30 September 2005 – 12 October 2006)

**Interests in the shares and options of the company and related bodies corporate**

As at the date of this report, the interests of the Directors in the shares and options of Modena Resources Limited were:

| | Number of Ordinary Shares | Number of Options over Ordinary Shares |
|---|---|---|
| P Hampshire | 60,000 | 60,000 |
| C Willis | - | - |
| N Bassett | - | - |
| L Scott | - | - |

**COMPANY SECRETARY**

**Linton Scott** CPA, ACIS, ACIM

Mr Scott was appointed company secretary on 11 September 2006. He qualified as an accountant in 1969 and gained experience in the financial aspect of listed companies whilst holding the position of Financial Accountant for companies involved in mining exploration within Western Australia and oil exploration off the Western Australian coast, and subsequently, a listed civil engineering & construction group throughout Australia.

Mr Scott has experience in commercial activities as Chief Executive Office of a family owned organisation with interest in finance, land subdivisions, property management & development, retail outlets and product distribution throughout Australia.

He has been Principal of his own accounting practice for the last 10 years.

Mr Scott was also a Non-Executive Director until 16 July 2007.

**CORPORATE INFORMATION**

**Corporate Structure**

Modena Resources Limited is a limited liability company that is incorporate and domiciled in Australia. Modena Resources Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year as follows:

| | | |
|---|---|---|
| Modena Resources Limited | - | parent entity |
| Murviel Trading SA | - | 100% owned controlled entity |

**Nature of Operations and Principal Activities**

The principal continuing activities during the year of entities within the consolidated entity was petroleum exploration.

**OPERATING AND FINANCIAL REVIEW**

**Review Of Operations**

**Corporate**

The Company lodged a Prospectus dated 24 September 2007 for the issue of 30,000,000 shares at an issue price of 20 cents per share. The Prospectus closed fully subscribed having raised $6,000,000 and the company was listed on the Australian Securities Exchange ("ASX") on 21 November 2007.

In conjunction with the listing of the Company, unsecured convertible notes with a face value of $1,666,818 were converted to 8,334,090 ordinary fully paid shares and the Company issued 20,000,000 ordinary fully paid shares at an issue price of 20 cents each as consideration for the acquisition of Murviel Trading SA.

During the year, the Company raised capital and issued securities as outlined under the heading 'Financing and Investing Activities'.

**Farm-in – Bullseye Prospect (15% working interest)**

During the year, the Company entered into a farm-in arrangement over an oil and natural gas exploration venture in the Iberia Parish, South Louisiana, USA named the Bullseye prospect. The Bullseye prospect leases cover 1,700 net acres.

The Bullseye prospect is testing deeper untested fault blocks on the crest of the Laurel Ridge field. Laurel Ridge Field is a "Turtle" feature or an (inverted basin) feature discovered in 1944 by Humble Oil (ExxonMobil).

At Bullseye the intention is to test two deeper geopressured targets with one vertical well. These have combined gross best estimate potential reserves (previously described as "P50 potential reserves") of 12.5 million barrels ("mmbo") of liquids and 33 billion cubic feet ("bcf") of natural gas.

The Bullseye Prospect is a deeper pool prospect that targets Miogyp and Cib Haz sandstones between 12,400 ft and 13,500ft on the crest of the Laurel Ridge anticline. Existing shallow normal pressured sands (10,100ft to 10,600ft) have produced 146 BCF and 4 MMBO and are now depleted.

The initial location is offset to a previously drilled well in which electric logs indicated 50ft of pay in the Miogyp, that well was lost due to mechanical difficulties and did not reach the Cib Haz. Mud log data from this well indicate gas and condensate shows across the Miogyp section. 3D seismic acquisition was completed in 2005 and clearly identifies independent stratigraphic traps in each zone. The high impedance sands are identified as high amplitude positive reflections within a much thicker shale section. The initial well will test both the Miogyp and Cib Haz objectives. Both the Miogyp and Cib Haz sands are high quality reservoirs with porosity ranging from 24-30% and permeability of 300-1000mD. This results in observed producing well rates from surrounding analog fields, of 500-1000 barrels per day and 4-10 million cubic feet of gas per day. These high rate wells provide an excellent economic return.

The Jumonville #1 well commenced drilling on 28 April 2008 and reached a revised total depth of 12,440ft MD on 21 August 2008.

The operator on the Bullseye prospect, Golden Gate Petroleum Ltd has reported that cased hole logs of the Jumonville #1 well indicate two hydrocarbon-bearing zones. The Miogyp, a primary target, has a 47 foot sandstone interval with the top at 12,332 feet, of which 41 feet appear to be net pay, probably with liquid hydrocarbons. The Camerina sands, a secondary target, appear to be hydrocarbon-bearing over a 42 foot interval with the top at 12,103 feet. The three sand lobes in the Camerina total 32 feet of estimated net pay, again with logs indicating possible liquid hydrocarbons.

Cased hole logs indicate a significant discovery:

- The logs indicate approximately 40 feet pay in the potentially oil-and-gas-bearing section of the Miogyp sands, and a further 32 feet of net oil or gas in the Camerina sands approximately two hundred feet above the Miogyp section. The two reservoir thicknesses are substantially above pre drilling expectations for each interval;

- Revised potential reserve estimates are 16 million barrels of oil equivalent for the Miogyp and, as a very preliminary estimate, several million barrels of oil equivalent for the Camerina;

- Further evaluation of the data and production testing is required to determine the size and commercial significance of the this discovery; and

- The Bullseye Prospect also has a further exploration target in the deeper Cib Haz interval which has had its probability of success increased with the results in the Miogyp. The Cib Haz could represent another 20+ million barrels of oil equivalent reservoir potential and will be targeted in the next well.

The next stage is to undertake a flow testing program. Planning and permitting for a gas sales pipeline for associated gas is underway.

The initial cost to Modena to participate in the Prospect was $450,000USD.

Modena shall pay its working interest and share of all future land and drilling costs after execution of the Participation Agreement. The estimated cost to Modena to drill the initial well in the Prospect to casing point will be $810,000 USD for Modena's (15%) working interest and completion costs will be approximately $225,000 USD.

**Wilson Prospect (10% working interest)**

As a condition precedent to listing, following the successful capital raising pursuant to the Prospectus, the Company farmed into the Wilson Prospect.

The Wilson Prospect located in Padre Island, Texas, USA, on the Gulf of Mexico coastline lies within a proven hydrocarbon producing area.

The first well to be drilled on the Wilson Prospect, Kindee ST949#1 was spudded on 7 February 2007 and production commenced on 10 September 2007 at an initial rate of 2.5 million cubic feet a day. During the period to 30 June 2008 the well has produced 483.6 million cubic feet of gas and 788 barrels of oil.

At the date of this report, the Wilson ST949# is presently shut-in, pending a workover to asses a possible mechanical problem associated with the tubing/packer seal within the well. Prior to shut-in, water production from the well increased significantly, coupled with a reduction in production volumes.

**South Lost Hills Properties (10% working interest)**

Modena holds a 10% working interest in two lease blocks each with an area of approximately 640 acres in Kern County, California, USA. This acreage is situated just south and adjacent to the southern limit of a major oil and gas producing area known as the South Lost Hills field.

No work was carried out on these properties during the year. A technical evaluation of the Citrus # 7 well drilled on the Block A Acreage is being undertaken to determine a course of action on Block B.

**Armstrong Properties (25% working interest)**

During the year, the Company entered into a Participation Agreement with BNP Petroleum Corporation of Houston, Texas, to acquire an undivided 25% leasehold and working interest in and to a defined oil and gas lease, covering certain lands and lease located in Kenedy County, Texas, USA ("the Lease"). The lease area covers an area of approximately 1,477 acres.

Pursuant to the Participation Agreement the Company agreed to participation in the drilling of a test well within the Lease area, Tobin Armstrong #2 well.

The principle terms of the Participation Agreement are:

(i) the payment of the sum of US$351,000 as acquisition cost for the interest in the Lease;

(ii) payment of an undivided 50% of all of the well costs attributable or allocable to the leasehold and working interest in the Tobin Armstrong #2 well, including those well costs incurred prior to completion under the Participation Agreement; and

(iii) other than with regard to the Tobin Armstrong #2 well, any other operations on the Lease and any other wells drilled on the Lease, Modena is not obligated to bear more than its 25% proportionate ownership (working interest) share of the costs relating thereto.

Drilling of the Tobin Armstrong #2 well to its target depth of 10 500' was completed in mid February 2008. The Tobin Armstrong #2 well was logged and based on initial analysis by the operator, BNP Petroleum Corporation ("BNP"), logs show in excess of 100 feet of productive sands. BNP proceeded to casing and completion of a program to test and bring this well on production. However, a problem was encountered with the casing pipe requiring the piping to be replaced. This has been completed and a workover rig is currently on site. Testing on a number of zones of interest is being undertaken. The Operator BNP is working on completion Plan #8 in zone #4 between 9790 - 9800 feet and 9830 – 9846 feet. These zones are of particular interest as the adjoining lease is producing from the equivalent zone.

BNP has submitted a claim to the pipe broker who has in turn submitted such claim to its insurance carrier for the amount of US$835,000. The claim represents the amount of cost incurred on the well associated with dealing with the defective surface casing.

**Manzano Properties (12.5% working interest)**

The Company entered into a Participation Agreement with BNP Petroleum Corporation, to acquire an undivided 12.5% leasehold and working interest in and to a defined oil and gas lease, covering certain lands and leases located in Kleberg County, Texas, USA ("the Lease") known as the "Manzano Prospect".

Pursuant to the Participation Agreement the Company agreed to participation in an initial test well (ST 991#1) to logging point. Drilling of the ST 991#1 well commenced on the 2 February 2008. Drilling of the well at a total depth of 11,117 feet (vertical depth) was completed in mid-March 2008.

A 7 5/8 inch production liner was set for the deeper zone (of a net 6 ft) to be perforated and flow tested. The well successfully flowed gas and was brought into immediate production. The well was tied directly into the sales grid, producing at a rate of 3.1 million cubic feet per day of gas as well as some condensate from a perforated 6 ft interval. However, due to excess water production of around 190 bbls per day, believed to be from a deeper zone and due to fault in the casing cement, production ceased.

Following the success of the initial test well (ST 991#1), the operator (BNP) proposed the drilling of a follow-up development well to be spudded immediately in order to reduce mobilisation and demobilisation costs significantly. The second Manzano well (Dunn McCambell 11A) was spudded on 5 April 2008. The well reached a depth of 10,755 ft MD (9,503 ft TVD). Electric logs were run and results within the primary objective indicated net pay of 10ft – 12ft within the Marg Tex reservoir. The well initially commenced production at a rate of 1.5 mmcfd from a perforated 8 foot interval.

Dunn McCambell 11A is presently producing an average rate of 1.7 mmcfd over an extended production testing period following a perforation of a 2-4 ft interval above the initial producing zone.

The principle terms of the Participation Agreement are:

(i) the payment of the sum of US$100,000 in respect to lease, geologic and seismic costs;

(ii) payment of an undivided 16.63% of all costs associated with the initial well (ST 991#1) to logging point, including those well costs incurred prior to completion under the Participation Agreement; and

(iii) after logging point in the initial well and for all future operations conducted on the Manzano Prospect with respect to same, and as to all operations conducted with respect to wells other than the initial well, Modena shall bear 12.5% of such costs.

**Jackson Shallow Gas Prospects (52.5% working interest)**

During the year, the Company entered into agreement with Seisgen Exploration Inc (Seisgen) to carry out drilling on three of their shallow gas prospects located in the Jackson County of Texas.

The three prospects are named the "Sandy Prospect", "Slazenger Prospect" and "Wagner Prospect".

The Company has entered into a Participation Agreement to acquire an undivided sixty percent (60%) of 87.5% of Seisgen's leasehold estate and working interest in and to the lands and leases covering the above mentioned shallow gas prospects located in Jackson County, Texas, with Seisgen retaining a 7.5% carried working interest.

Simultaneous with the Company entering into the agreement, Seisgen sold to Mr Paul Black of BNP Petroleum Corporation an undivided forty percent (40%) of 87.5% over the same shallow gas prospects, with Seisgen retaining a 5.0% carried working interest.

BNP Petroleum Corporation will be the Operator for the drilling campaign.

The Company paid 60% of US$327,839 to Seisgen which constitutes Seisgen's proportion of the cost of seismic, geophysical, acreage, lease, legal and administrative overhead costs associated with the properties which were incurred prior to the date of the agreement.

The Company will also pay 60% of all cost associated with the drilling (as defined) of all three test wells. Thereafter, the Company is responsible for 52.5% of all costs.

The contract depths are for shallow wells between 3300 feet and 4400 feet. For the Sandy Prospect 3300 feet to test the Miocene Catahoula formation. The Slazenger prospect will test the Frio Miocene formation seismic amplitude anomaly and the Wagner prospect will target 4400 feet to test the Frio formation seismic amplitude anomaly.

**Operating Results**

Consolidated loss after income tax for the financial year was $2,981,864 (2007: Loss $4,870).

**Financial Position**

At 30 June 2008, the Consolidated Group had

- cash reserves of $221,238.
- net assets of $9,659,256.

**Financing and Investing Activities**

The Company issued the following securities during the year:

- In November 2007, the company issued 30,000,000 ordinary fully paid shares at an issue price of 20 cents each, raising gross proceeds of $6,000,000.
- In November 2007, the company issued 8,334,090 ordinary fully paid shares at an issue price of 20 cents each, on the conversion of a convertible loan with a face value of $1,666,818.
- In November 2007, the company issued 20,000,000 ordinary fully paid shares at an issue price of 20 cents each as consideration for the acquisition of Murviel Trading SA.
- In June 2008, the company issued 2,156,966 ordinary fully paid shares on the conversion of convertible loans with a face value of $809,670.

In addition, the company issued unsecured convertible notes ("Notes") with a total face value of A$2,701,116.

The principle terms of the Notes were as follows:

| Description: | Series 1 | Series 2 |
|---|---|---|
| Face value: | $1,201,116 | $1,500,000 |
| Redemption date: | 31/01/2010 | 28/02/2010 |
| Conversion price: | The lesser of 35 cents or 85% of 5 day weighted average market price | The lesser of 45 cents or 85% of 5 day weighted average market price |
| Interest rate: | 10.5% | 12.5% |

Subsequent to issue, Notes with a face value of $1,639,012 have been converted to 6,985,529 ordinary fully paid shares. At the date of this report the face value of outstanding Notes was Series 1 - $457,104 and Series 2 - $605,000.

**Dividends**

No dividends were paid during the year and no recommendation is made as to dividends.

**SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

Significant changes in the state of affairs of the consolidated entity during the financial year are detailed under the heading 'Operating and Financial Review' of this Report.

In the opinion of the directors, there were no other significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review not otherwise disclosed in this report or in the financial report.

**EVENTS SUBSEQUENT TO BALANCE DATE**

No matters or circumstances have arisen, since the end of the financial year, which 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 subsequent financial years, other than:

(A) In July 2008, the company issued 66,491,056 options exercisable at 20 cents each on or before 30 June 2010, pursuant to a pro-rata non-renounceable entitlement issue. The issue raised $664,911;

(B) In September 2008, the company announced that it had reached agreement for:

(a) the placement of 3,750,000 ordinary fully paid shares at an issue price of $0.27 per share, together with one free attaching listed option for every two shares subscribed for and allotted, to raise $1,012,500 before costs; and

(b) the issue of unsecured convertible notes ("Notes") with a face value of $1,800,000.

The principle terms of the proposed Notes will be as follows:

(i) Redemption Date: 30 September 2010;

(ii) Convertible into ordinary fully paid shares at an issue price of 40 cents per share;

(iii) Subject to the Corporations Act, ASX Listing Rules and shareholder approval , if necessary, convertible, in whole or part, by the Noteholder at any time from the date of issue and prior to the Redemption Date; and by the Company where the closing price of the Company's shares is 40 cents or greater for 5 consecutive trading days;

(iv) Shares issued upon conversion of any Note will carry standard rights applicable to quoted ordinary shares in the Company and will, from the date of issue, rank equally with fully paid ordinary shares currently on issue;

(v) Interest rate – 10% per annum;

(vi) The company does not intend to list the Notes for quotation on ASX and it is not obligated to do so;

(vii) The Notes shall not provide for any voting rights at shareholder meetings of the Company;

(viii) Unless converted or redeemed during the term, the Notes will be redeemed at the Redemption Date at the face value of the Notes; and

(ix) The Notes will be unsecured and the Noteholder will rank equally with all other unsecured creditors of the Company.

The issue of shares and options, including shares on conversion of the Notes, will be subject to shareholder approval and will be to sophisticated or professional investors and will not require disclosure under the Corporations Act.

**LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

The consolidated entity will continue to pursue its principal activity of exploration and evaluation, particularly in respect to the Projects as more particularly outlined under the heading 'Operating and Financial Review' of this Report. The company will also continue to pursue other potential investment opportunities to enhance shareholder value.

**MEETINGS OF DIRECTORS**

The numbers of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

| | Board of Directors | |
|---|---|---|
| | **Number eligible to attend** | **Number attended** |
| P Hampshire | 13 | 13 |
| C Willis | 13 | 13 |
| N Bassett | 13 | 13 |
| L Scott | - | - |

**REMUNERATION REPORT (AUDITED)**

This report details the nature and amount of remuneration for each Director and Executive of Modena Resources Limited. The information provided in the remuneration report includes remuneration disclosures that are audited as required by section 308(3C) of the Corporations Act 2001.

For the purposes of this report Key Management Personnel of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the group, directly or indirectly, including any Director (whether Executive or otherwise) of the parent company, and includes five executives in the parent group receiving the highest remuneration.

For the purposes of this report the term "Executive" includes those key management personnel who are not Directors of the parent company.

**Remuneration Committee**
The full Board carries out the role and responsibilities of the Remuneration Committee and is responsible for determining and reviewing the compensation arrangements for the Directors themselves, the Managing Director and any Executives.

Executive remuneration is reviewed annually having regard to individual and business performance, relevant comparative remuneration and internal and independent external advice.

**A. Remuneration policy**

The board policy is to remunerate Directors at market rates for time, commitment and responsibilities. The board determines payments to the Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of Directors' fees that can be paid is subject to approval by shareholders in general meeting, from time to time. Fees for Non-Executive Directors are not linked to the performance of the consolidated entity. However, to align Directors' interests with shareholders interests, the Directors are encouraged to hold shares in the company.

The Company's aim is to remunerate at a level that will attract and retain high-calibre Directors and employees. Company officers and Directors are remunerated to a level consistent with the size of the Company.

The Executive Directors and full time Executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, may choose to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to Directors and Executives is valued at the cost to the Company and expensed.

The Board believes that it has implemented suitable practices and procedures that are appropriate for an organisation of this size and maturity.

The Company did not pay any performance-based component of remuneration during the year.

**B. Remuneration structure**

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive compensation is separate and distinct.

**Non-Executive Director Compensation**

*Objective*

The Board seeks to set aggregate compensation at a level that provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

*Structure*

The Constitution and the ASX Listing Rules specify that the aggregate compensation of Non-Executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed. The latest determination approved by shareholders was an aggregate compensation of $150,000 per year.

The amount of aggregate compensation sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The Board considers advice from external consultants as well as the fees paid to Non-Executive Directors of comparable companies when undertaking the annual review process. Non-Executive Directors' remuneration may include an incentive portion consisting of options, as considered appropriate by the Board, which may be subject to Shareholder approval in accordance with ASX listing rules.

Separate from their duties as Directors, the Non-Executive Directors undertake work for the Company directly related to the evaluation and implementation of various business opportunities, including oil and gas exploration/evaluation and new business ventures, for which they receive a daily rate. These payments are made pursuant to individual agreement with the non-executive Directors and are not taken into account when determining their aggregate remuneration levels.

**Executive Compensation**

*Objective*

The entity aims to reward executives with a level and mix of compensation commensurate with their position and responsibilities within the entity so as to:

- reward executives for Company and individual performance against targets set by appropriate benchmarks;
- align the interests of Executives with those of shareholders;
- link rewards with the strategic goals and performance of the Company; and
- ensure total compensation is competitive by market standards.

*Structure*
In determining the level and make-up of Executive remuneration, the Board negotiates a remuneration to reflect the market salary for a position and individual of comparable responsibility and experience. Due to the limited size of the Company and of its operations and financial affairs, the use of a separate remuneration committee is not considered appropriate. Remuneration is regularly compared with the external market by participation in industry salary surveys and during recruitment activities generally. If required, the Board may engage an external consultant to provide independent advice in the form of a written report detailing market levels of remuneration for comparable Executive roles.

Remuneration consists of a fixed remuneration and a long term incentive portion as considered appropriate.

Compensation may consist of the following key elements:

- Fixed Compensation;
- Variable Compensation;
- Short Term Incentive (STI); and
- Long Term Incentive (LTI).

*Fixed Remuneration*
The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Fixed remuneration is reviewed annually by the Board having regard to the Company and individual performance, relevant comparable remuneration in the mining exploration sector and external advice.

The fixed remuneration is a base salary or monthly consulting fee.

*Variable Pay — Long Term Incentives*
The objective of long term incentives is to reward Directors/Executives in a manner which aligns this element of remuneration with the creation of shareholder wealth. The incentive portion is payable based upon attainment of objectives related to the Director's/Executive's job responsibilities. The objectives vary, but all are targeted to relate directly to the Company's business and financial performance and thus to shareholder value.

Long term incentives (LTI's) granted to Directors/ Executives are delivered in the form of options.

LTI grants to Executives are delivered in the form of employee share options. These options are issued at an exercise price determined by the Board at the time of issue. The employee share options generally vest over a selected period.

The objective of the granting options is to reward Executives in a manner which aligns the element of remuneration with the creation of shareholder wealth. As such LTI's are made to Executives who are able to influence the generation of shareholder wealth and thus have an impact on the Company's performance.

The level of LTI granted is, in turn, dependent on the Company's recent share price performance, the seniority of the Executive, and the responsibilities the Executive assumes in the Company.

Typically, the grant of LTIs occurs at the commencement of employment or in the event that the individual receives a promotion and, as such, is not subsequently affected by the individual's performance over time.

**C. Employment contracts of Directors and senior Executives**

The employment arrangements of the Directors are not formalised in a contract of employment.

**D. Details of remuneration for year**

***Directors***
The following persons were Directors of Modena Resources Limited during the financial year:

| | |
|---|---|
| Peter Hampshire | Chairman (non-executive) |
| Craig Willis | Director (executive) |
| Neville Bassett | Director (non-executive) |
| Linton Scott | Director (non-executive) – resigned 16 July 2007 |

***Executives***
The following persons were Executives of Modena Resources Limited during the financial year:

| | |
|---|---|
| Linton Scott | Company Secretary |

There were no other persons that fulfilled the role of a key management person, other than those disclosed as Executive Directors.

***Remuneration***
Details of the remuneration of each Director and named Executive officer of the company, including their personally-related entities, during the year was as follows:

| | | Short Term Benefits | Post Employment | Share Based Payments | | |
|---|---|---|---|---|---|---|
| | **Year** | **Salary and fees $** | **Superannuation $** | **Options $** | **Total $** | Remuneration consisting of options during the year % |
| **Directors** | | | | | | |
| P Hampshire | **2008** | - | - | - | - | - |
| | 2007 | - | - | - | - | - |
| C Willis | **2008** | **100,000** | - | - | **100,000** | - |
| | 2007 | - | - | - | - | - |
| N Bassett | **2008** | **53,000** | - | - | **53,000** | - |
| | 2007 | - | - | - | - | - |
| L Scott | **2008** | - | - | - | - | - |
| Resigned 16/7/2007 | 2007 | - | - | - | - | - |
| **Executives** | | | | | | |
| L Scott | **2008** | **30,000** | - | - | **30,000** | - |
| | 2007 | - | - | - | - | - |

There were no performance related payments made during the year. Performance hurdles are not attached to remuneration options, however the Board determines appropriate vesting periods to provide rewards over a period of time to key management personnel.

**E. Compensation options to key management personnel**

No options were granted as equity compensation benefits to Directors and Executives during the year.

**F. Shares issued to key management personnel on exercise of compensation options**

No shares were issued to Directors and Executives on exercise of compensation options during the year.

End of Remuneration Report.

**INSURANCE OF OFFICERS**

The Company has in place an insurance policy insuring Directors and Officers of the Company against any liability arising from a claim brought by a third party against the Company or its Directors and officers, and against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity as a Director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

In accordance with a confidentiality clause under the insurance policy, the amount of the premium paid to the insurers has not been disclosed. This is permitted under Section 300(9) of the Corporations Act 2001.

**SHARE OPTIONS**

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

| Grant Date | Date of Expiry | Exercise Price | Number under Option |
|---|---|---|---|
| 21 July 2008 | 30 June 2010 | $0.20 | 66,491,056 |

No person entitled to exercise these options had or has any right, by virtue of the option, to participate in any share issue of any other body corporate.

**ENVIRONMENTAL REGULATIONS**

There have been no recorded incidents of non-compliance with any applicable international, national or local declarations, treaties, conventions or regulations associated with environmental issues during the reporting period. There have not been any known significant breaches of any environmental regulations during the year under review and up until the date of this report.

**CORPORATE GOVERNANCE**

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Modena Resources Limited support and have adhered to the principles of corporate governance and have established a set of policies and manuals for the purpose of managing corporate governance. The Company's detailed corporate governance policy statement is contained in the section headed 'Corporate Governance Statement' of the annual report.

**AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES**

The auditor's independence declaration for the year ended 30 June 2008, as required under section 307C of the Corporations Act 2001, has been received and is included within the financial report.

The Company is satisfied that non-audit services provided is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

Signed in accordance with a resolution of directors.

C Willis
Director

Perth, 30 September 2008

BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd
128 Hay Street
SUBIACO WA 6008
PO Box 700
WEST PERTH WA 6872
Phone 61 8 9380 8400
Fax 61 8 9380 8499
aa.perth@bdo.com.au
www.bdo.com.au

ABN 79 112 284 787

30 September 2008

The Directors
Modena Resources Limited
Suite B, 150 Hay Street
Subiaco WA 6008

Dear Sirs

**DECLARATION OF INDEPENDENCE BY PETER TOLL TO THE DIRECTORS OF MODENA RESOURCES LIMITED**

As lead auditor of Modena Resources Limited for the year ended 30 June 2008, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

This declaration is in respect of Modena Resources Limited and the entities it controlled during the period.

Peter Toll

**Peter Toll**
Director

BDO Kendalls

**BDO Kendalls Audit & Assurance (WA) Pty Ltd**
Perth, Western Australia.

BDO Kendalls is a national association of separate partnerships and entities

The Board of Directors of Modena Resources Limited is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of Modena Resources Limited on behalf of the shareholders by whom they are elected and to whom they are accountable. This statement reports on Modena Resources Limited's key governance principles and practices.

## 1. COMPLIANCE WITH BEST PRACTICE RECOMMENDATIONS

The Company, as a listed entity, must comply with the Corporations Act 2001 and the Australian Securities Exchange Limited (ASX) Listing Rules. The ASX Listing Rules require the Company to report on the extent to which it has followed the Corporate Governance Recommendations published by the ASX Corporate Governance Council (ASXCGC). Where a recommendation has not been followed, that fact is disclosed, together with the reasons for the departure.

The table below summaries the Company's compliance with the Corporate Governance Council's Recommendations:

| Principle # | ASX Corporate Governance Council Recommendations | Reference | Comply |
|---|---|---|---|
| **Principle 1** | **Lay solid foundations for management and oversight** | | |
| 1.1 | Establish the functions reserved to the board and those delegated to senior executives and disclose those functions. | 2(a) | Yes |
| 1.2 | Disclose the process for evaluating the performance of senior executives. | 2(h), 3(b), Remuneration Report | Yes |
| 1.3 | Provide the information indicated in the Guide to reporting on principle 1. | 2(a), 2(h), 3(b), Remuneration Report | Yes |
| | | | |
| **Principle 2** | **Structure the board to add value** | | |
| 2.1 | A majority of the board should be independent directors. | 2(e) | Yes |
| 2.2 | The chair should be an independent director. | 2(c), 2(e) | Yes |
| 2.3 | The roles of chair and chief executive officer should not be exercised by the same individual. | 2(b), 2(c) | Yes |
| 2.4 | The Board should establish a nomination committee. | 2(d) | No |
| 2.5 | Disclose the process for evaluating the performance of the board, its committees and individual directors. | 2(h) | Yes |
| 2.6 | Provide the information indicated in the Guide to reporting on principle 2. | 2(b), 2(c), 2(d), 2(e), 2(h) | Yes |
| | | | |
| **Principle 3** | **Promote ethical and responsible decision-making** | | |
| 3.1 | Establish a code of conduct and disclose the code or a summary as to: | 4(a) | Yes |
| | • the practices necessary to maintain confidence in the company's integrity; | | |
| | • the practices necessary to take into account the company's legal obligations and the reasonable expectations of its stakeholders; and | | |
| | • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | | |
| 3.2 | Establish a policy concerning trading in company securities by directors, senior executives and employees and disclose the policy or a summary. | 4(b) | Yes |
| 3.3 | Provide the information indicated in the Guide to reporting on principle 3. | 4(a), 4(b) | Yes |
| | | | |
| **Principle 4** | **Safeguard integrity in financial reporting** | | |
| 4.1 | The Board should establish an audit committee. | 3(a) | Yes |
| 4.2 | The audit committee should be structured so that it: | 3(a) | No |
| | • consists only of non-executive directors; | | |
| | • consists of a majority of independent directors; | | |
| | • is chaired by an independent chair, who is not chair of the Board; and | | |
| | • has at least three members. | | |

| Principle # | ASX Corporate Governance Council Recommendations | Reference | Comply |
|---|---|---|---|
| 4.3 | The audit committee should have a formal charter | 3(a) | Yes |
| 4.4 | Provide the information indicated in the Guide to reporting on principle 4. | 3(a) | Yes |
| | | | |
| **Principle 5** | **Make timely and balanced disclosure** | | |
| 5.1 | Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies. | 5(a), 5(b) | Yes |
| 5.2 | Provide the information indicated in the Guide to reporting on principle 5. | 5(a), 5(b) | Yes |
| | | | |
| **Principle 6** | **Respect the rights of shareholders** | | |
| 6.1 | Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of that policy. | 5(a), 5(b) | Yes |
| 6.2 | Provide the information indicated in the Guide to reporting on principle 6. | 5(a), 5(b) | Yes |
| | | | |
| **Principle 7** | **Recognise and manage risk** | | |
| 7.1 | Establish policies for the oversight and management of material business risks and disclose a summary of those policies. | 6(a) | Yes |
| 7.2 | The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks. | 6(a), 6(b), 6(d) | Yes |
| 7.3 | The Board should disclose whether it had received assurance from the chief executive officer and the chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | 6(c) | Yes |
| 7.4 | Provide the information indicated in the Guide to reporting on principle 7. | 6(a), 6(b), 6(c), 6(d) | Yes |
| | | | |
| **Principle 8** | **Remunerate fairly and responsibly** | | |
| 8.1 | The Board should establish a remuneration committee. | 3(b) | No |
| 8.2 | Clearly distinguish the structure on non-executive directors' remuneration from that of executive directors and senior executives. | 3(b), Remuneration Report | Yes |
| 8.3 | Provide the information indicated in the Guide to reporting on principle 8. | 3(b), | Yes |

## 2. THE BOARD OF DIRECTORS

### 2(a) Roles and Responsibilities of the Board

The Board is accountable to the shareholders and investors for the overall performance of the Company and takes responsibility for monitoring the Company's business and affairs and setting its strategic direction, establishing and overseeing the Company's financial position.

The Board is responsible for:

- Appointing, evaluating, rewarding and if necessary the removal of the Chief Executive Officer ("CEO") and senior management;
- Development of corporate objectives and strategy with management and approving plans, new investments, major capital and operating expenditures and major funding activities proposed by management;

- Monitoring actual performance against defined performance expectations and reviewing operating information to understand at all times the state of the health of the Company;
- Overseeing the management of business risks, safety and occupational health, environmental issues and community development;
- Satisfying itself that the financial statements of the Company fairly and accurately set out the financial position and financial performance of the Company for the period under review;
- Satisfying itself that there are appropriate reporting systems and controls in place to assure the Board that proper operational, financial, compliance, risk management and internal control process are in place and functioning appropriately.
- Approving and monitoring financial and other reporting;
- Assuring itself that appropriate audit arrangements are in place;
- Ensuring that the Company acts legally and responsibly on all matters and assuring itself that the Company has adopted a Code of Conduct and that the Company practice is consistent with that Code; and other policies; and
- Reporting to and advising shareholders.

Other than as specifically reserved to the Board, responsibility for the day-to-day management of the Company's business activities is delegated to the Chief Executive Officer and Executive Management.

**2(b) Board Composition**

The Directors determine the composition of the Board employing the following principles:

- the Board, in accordance with the Company's constitution must comprise a minimum of three Directors;
- the roles of the Chairman of the Board and of the Chief Executive Officer should be exercised by different individuals;
- the majority of the Board should comprise Directors who are non-executive;
- the Board should represent a broad range of qualifications, experience and expertise considered of benefit to the Company; and
- the Board must be structured in such a way that it has a proper understanding of, and competency in, the current and emerging issues facing the Company, and can effectively review management's decisions.

The Board is currently comprised of two Non-Executive Directors and one Executive Director. The skills, experience, expertise, qualifications and terms of office of each director in office at the date of the annual report is included in the Directors' Report.

The Company's constitution requires one-third of the Directors (or the next lowest whole number) to retire by rotation at each Annual General Meeting (AGM). The Directors to retire at each AGM are those who have been longest in office since their last election. Where Directors have served for equal periods, they may agree amongst themselves or determine by lot who will retire. A Director must retire in any event at the third AGM since he or she was last elected or re-elected. Retiring Directors may offer themselves for re-election.

A Director appointed as an additional or casual Director by the Board will hold office until the next AGM when they may be re-elected.

The Chief Executive Officer is not subject to retirement by rotation and, along with any Director appointed as an additional or casual Director, is not to be taken into account in determining the number of Directors required to retire by rotation.

**2(c) Chairman and Chief Executive Officer**

The Chairman is responsible for:

- leadership of the Board;
- the efficient organisation and conduct of the Board's functions;
- the promotion of constructive and respectful relations between Board members and between the Board and management;
- contributing to the briefing of Directors in relation to issues arising at Board meetings;
- facilitating the effective contribution of all Board members; and
- committing the time necessary to effectively discharge the role of the Chairman.

The Chief Executive Officer is responsible for:

- implementing the Company's strategies and policies; and
- the day-to-day management of the Company's business activities

The Board specifies that the roles of the Chairman and the Chief Executive Officer are separate roles to be undertaken by separate people.

Due to the nature of the company's current activities it does not currently have a chief executive officer and this role is effectively undertaken by the Executive Director, Mr Willis.

**2(d) Nomination Committee**

The Company does not comply with ASX Recommendation 2.4. The Company is not of a relevant size to consider formation of a nomination committee to deal with the selection and appointment of new Directors and as such a nomination committee has not been formed.

Nominations of new Directors are considered by the full Board in accordance with the Company's "Selection of New Directors Policy".

**2(e) Independent Directors**

The Company recognises that independent Directors are important in assuring shareholders that the Board is properly fulfilling its role and is diligent in holding senior management accountable for its performance. The Board assesses each of the directors against specific criteria to decide whether they are in a position to exercise independent judgment.

Directors of Modena Resources Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

In making this assessment, the Board considers all relevant facts and circumstances. Relationships that the Board will take into consideration when assessing independence are whether a Director:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- is employed, or has previously been employed in an executive capacity by the Company or another Company member, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- has within the last three years been a principal of a material professional advisor or a material consultant to the Company or another Company member, or an employee materially associated with the service provided;
- is a material supplier or customer of the Company or other Company member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; or
- has a material contractual relationship with the Company or another Company member other than as a Director.

The Board is currently comprised of two independent non-executive Directors.

In accordance with the definition of independence above, and the materiality thresholds set, the following Directors of Modena Resources Limited are considered to be independent:

| Name | Position |
|---|---|
| Peter Hampshire | Non-Executive Chairman |
| Neville Bassett | Non-Executive Director |

The term in office held by each director in office at the date of this report is as follows:

| Name | Term in Office |
|---|---|
| Peter Hampshire | Since 17 May 2006 |
| Craig Willis | Since 11 September 2006 |
| Neville Bassett | Since 14 September 2006 |

In recognition of the importance of independent views and the Board's role in supervising the activities of management the Chairman must be a Non-Executive Director.

**2(f) Avoidance of conflicts of interest by a Director**

In order to ensure that any interests of a Director in a particular matter to be considered by the Board are known by each Director, each Director is required by the Company to disclose any relationships, duties or interests held that may give rise to a potential conflict. Directors are required to adhere strictly to constraints on their participation and voting in relation to any matters in which they may have an interest.

**2(g) Board access to information and independent advice**

Directors are able to access members of the management team at any time to request relevant information.

There are procedures in place, agreed by the Board, to enable Directors, in furtherance of their duties, to seek independent professional advice at the company's expense.

**2(h) Review of Board performance**

The performance of the Board is reviewed regularly by the Chairman. The Chairman conducts performance evaluations which involve an assessment of each Board member's performance against specific and measurable qualitative and quantitative performance criteria. The performance criteria against which directors and executives are assessed is aligned with the financial and non-financial objectives of Modena Resources Limited. Directors whose performance is consistently unsatisfactory may be asked to retire.

**3. BOARD COMMITTEES**

**3(a) Audit Committee**

Given the size and scale of the Company's operations the full Board undertakes the role of the Audit Committee. The Audit Committee does not comply with ASX Recommendation 4.2 as the Chair of the Board is Chair of the Audit Committee and the Audit Committee does not comprise only Non-Executive Directors. The role and responsibilities of the Audit Committee are summarised below.

The Audit Committee is responsible for reviewing the integrity of the Company's financial reporting and overseeing the independence of the external auditors. The Board sets aside time to deal with issues and responsibilities usually delegated to the Audit Committee to ensure the integrity of the financial statements of the Company and the independence of the auditor.

The Board reviews the audited annual and half-year financial statements and any reports which accompany published financial statements and recommends their approval to the members. The Board also reviews annually the appointment of the external auditor, their independence and their fees.

The Board is also responsible for establishing policies on risk oversight and management. The Company has not formed a separate Risk Management Committee due to the size and scale of its operations.

*External Auditors*

The Company's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. It is BDO Kendalls Audit and Assurance (WA) Pty Ltd's policy to rotate engagement Directors on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the notes to the financial statements in the Annual Report.

There is no indemnity provided by the company to the auditor in respect of any potential liability to third parties.

The external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and preparation and content of the audit report.

There were no non-audit services provided by the auditors during the year.

**3(b) Remuneration Committee**

The role of a Remuneration Committee is to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees.

The Board has not established a separate Remuneration Committee due to the size and scale of its operations. This does not comply with Recommendation 8.1 however the Board as a whole takes responsibility for such issues.

The responsibilities include setting policies for senior officers remuneration, setting the terms and conditions for the CEO, reviewing and making recommendations to the Board on the Company's incentive schemes and superannuation arrangements, reviewing the remuneration of both executive and non-executive directors and undertaking reviews of the CEO's performance.

The Company has structured the remuneration of its senior executive, where applicable, such that it comprises a fixed salary, statutory superannuation and participation in the Company's employee share option plan. The Company believes that by remunerating senior executives in this manner it rewards them for performance and aligns their interests with those of shareholders and increases the Company's performance.

Non-executive directors are paid their fees out of the maximum aggregate amount approved by shareholders for non-executive director remuneration. The Company does not adhere to Recommendation 8.2 Box 8.2 'Non-executive directors should not receive options or bonus payments'. The Company may, in the future, granted options to non-executive directors. The Board is of the view that options (for both executive and non-executive directors) are a cost effective benefit for small companies such as Modena Resources Limited that seek to conserve cash reserves. They also provide an incentive that ultimately benefits both shareholders and the optionholders, as optionholders will only benefit if the market value of the underlying shares exceeds the option strike price. Ultimately, shareholders will make that determination.

The remuneration received by directors and executives in the current period is contained in the "Remuneration Report" within the Directors' Report of the Annual Report.

## 4. ETHICAL AND RESPONSIBLE DECISION MAKING

### 4(a) Code of Ethics and Conduct

The Board endeavours to ensure that the Directors, officers and employees of the Company act with integrity and observe the highest standards of behaviour and business ethics in relation to their corporate activities. The "Code of Conduct" sets out the principles, practices, and standards of personal behaviour the Company expects people to adopt in their daily business activities.

All Directors, officers and employees are required to comply with the Code of Conduct. Senior managers are expected to ensure that employees, contractors, consultants, agents and partners under their supervision are aware of the Company's expectations as set out in the Code of Conduct.

All Directors, officers and employees are expected to:

- comply with the law;
- act in the best interests of the Company;
- be responsible and accountable for their actions; and
- observe the ethical principles of fairness, honesty and truthfulness, including prompt disclosure of potential conflicts.

### 4(b) Policy concerning trading in Company securities

The Company's "Dealings in Company Shares and Options Policy" applies to all Directors, officers and employees. This policy sets out the restrictions on dealing in securities by people who work for, or are associated with the Company and is intended to assist in maintaining market confidence in the integrity of dealings in the Company's securities. The policy stipulates that the only appropriate time for a Director, officer or employee to deal in the Company's securities is when they are not in possession of price sensitive information that is not generally available to the market.

As a matter of practice, Company shares may only be dealt with by Directors and officers of the Company under the following guidelines:

- No trading is permitted in the period of 14 days preceding release of each quarterly report, half-yearly report and annual financial report of the Company or for a period of 2 trading days after the release of such report;
- Guidelines are to be considered complementary to and not replace the various sections of the Corporations Act 2001 dealing with insider trading; and
- Prior approval of the Chairman, or in his absence, the approval of two directors is required prior to any trading being undertaken.

## 5. TIMELY AND BALANCED DISCLOSURE

### 5(a) Shareholder communication

The Company believes that all shareholders should have equal and timely access to material information about the Company including its financial situation, performance, ownership and governance. The Company's "ASX Disclosure Policy" encourages effective communication with its shareholders by requiring that Company announcements:

- be factual and subject to internal vetting and authorisation before issue;
- be made in a timely manner;
- not omit material information;
- be expressed in a clear and objective manner to allow investors to assess the impact of the information when making investment decisions;
- be in compliance with ASX Listing Rules continuous disclosure requirements; and
- be placed on the Company's website promptly following release.

Shareholders are encouraged to participate in general meetings. Copies of addresses by the Chairman or Chief Executive Officer are disclosed to the market and posted on the Company's website. The Company's external auditor attends the Company's annual general meeting to answer shareholder questions about the conduct of the audit, the preparation and content of the audit report, the accounting policies adopted by the Company and the independence of the auditor in relation to the conduct of the audit.

**5(b) Continuous disclosure policy**

The Company is committed to ensuring that shareholders and the market are provided with full and timely information and that all stakeholders have equal opportunities to receive externally available information issued by the Company. The Company's "ASX Disclosure Policy" described in 5(a) reinforces the Company's commitment to continuous disclosure and outline management's accountabilities and the processes to be followed for ensuring compliance.

The policy also contains guidelines on information that may be price sensitive. The Company Secretary has been nominated as the person responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements with the ASX Listing Rules and overseeing and coordinating information disclosure to the ASX.

**6. RECOGNISING AND MANAGING RISK**

The Board is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. The Company's policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Company's business objectives. A written policy in relation to risk oversight and management has been established ("Risk Management and Internal Control Policy"). Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn responsibilities.

**6(a) Board oversight of the risk management system**

The Board is responsible for approving and overseeing the risk management system. The Board reviews, at least annually, the effectiveness of the implementation of the risk management controls and procedures.

The principle aim of the system of internal control is the management of business risks, with a view to enhancing the value of shareholders' investments and safeguarding assets. Although no system of internal control can provide absolute assurance that the business risks will be fully mitigated, the internal control systems have been designed to meet the Company's specific needs and the risks to which it is exposed.

Annually, the Board is responsible for identifying the risks facing the Company, assessing the risks and ensuring that there are controls for these risks, which are to be designed to ensure that any identified risk is reduced to an acceptable level.

The Board is also responsible for identifying and monitoring areas of significant business risk. Internal control measures currently adopted by the Board include:

- at least quarterly reporting to the Board in respect of operations and the Company's financial position, with a comparison of actual results against budget; and
- regular reports to the Board by appropriate members of the management team and/or independent advisers, outlining the nature of particular risks and highlighting measures which are either in place or can be adopted to manage or mitigate those risks.

**6(b) Risk management roles and responsibilities**

The Board is responsible for approving and reviewing the Company's risk management strategy and policy. Executive management is responsible for implementing the Board approved risk management strategy and developing policies, controls, processes and procedures to identify and manage risks in all of the Company's activities.

The Board is responsible for satisfying itself that management has developed and implemented a sound system of risk management and internal control.

**6(c) Chief Executive Officer and Chief Financial Officer Certification**

The Chief Executive Officer and Chief Financial Officer, or equivalent, provide to the Board written certification that in all material respects:

- The Company's financial statements present a true and fair view of the Company's financial condition and operational results and are in accordance with relevant accounting standards;
- The statement given to the Board on the integrity of the Company's financial statements is founded on a sound system of risk management and internal compliance and controls which implements the policies adopted by the Board; and
- The Company's risk management an internal compliance and control system is operating efficiently and effectively in all material respects.

**6(d) Internal review and risk evaluation**

Assurance is provided to the Board by executive management on the adequacy and effectiveness of management controls for risk on a regular basis.

# INCOME STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2008

| | | Consolidated | | Parent Entity | |
|---|---|---|---|---|---|
| | Note | 2008<br>$ | 2007<br>$ | 2008<br>$ | 2007<br>$ |
| **Revenue from continuing operations** | 2(a) | **278,175** | 297,396 | **278,175** | 297,396 |
| Exploration and evaluation expenditure | | **(2,167,701)** | - | **(2,167,701)** | - |
| Depreciation and impairment | | **(3,012)** | - | **(3,012)** | - |
| Directors fees and benefits expense | | **(153,000)** | - | **(153,000)** | - |
| Administration, consulting and other expenses | 2(b) | **(542,018)** | (264,109) | **(542,018)** | (264,109) |
| Interest and finance costs | | **(332,977)** | (38,157) | **(332,977)** | (38,157) |
| Loss on sale of available for sale assets | | **(61,431)** | - | **(61,431)** | - |
| **Loss before income tax expense** | | **(2,981,964)** | (4,870) | **(2,981,964)** | (4,870) |
| Income tax expense | 3 | **-** | - | **-** | - |
| **Net Loss attributable to members of the Modena Resources Limited** | | **(2,981,964)** | (4,870) | **(2,981,964)** | (4,870) |
| **Earnings per Share:** | | | | | |
| | | **Cents** | Cents | | |
| Basic and diluted earnings per share | 5 | **(6.98)** | - | | |

The accompanying notes form part of these financial statements.

# BALANCE SHEETS
# AS AT 30 JUNE 2008

| | | Consolidated | | Parent Entity | |
|---|---|---|---|---|---|
| | Note | 2008 $ | 2007 $ | 2008 $ | 2007 $ |
| **ASSETS** | | | | | |
| **Current Assets** | | | | | |
| Cash and cash equivalents | 6 | **221,238** | 48,628 | **221,238** | 48,628 |
| Trade and other receivables | 7 | **703,276** | 4,368 | **2,817,836** | 1,937,388 |
| Available for sale financial assets | 8 | **123,055** | - | **123,055** | - |
| **Total Current Assets** | | **1,047,569** | 52,996 | **3,162,129** | 1,986,016 |
| **Non-Current Assets** | | | | | |
| Available for sale financial assets | 8 | **-** | 435,000 | **-** | 435,000 |
| Other financial assets | 9 | **-** | - | **4,000,000** | - |
| Property, plant and equipment | 10 | **41,240** | - | **41,240** | - |
| Deferred exploration and evaluation | 11 | **11,849,989** | 2,344,549 | **5,735,429** | 411,529 |
| **Total Non-Current Assets** | | **11,891,229** | 2,779,549 | **9,776,669** | 846,529 |
| **Total Assets** | | **12,938,798** | 2,832,545 | **12,938,798** | 2,832,545 |
| **LIABILITIES** | | | | | |
| **Current Liabilities** | | | | | |
| Trade and other payables | 12 | **1,388,096** | 315,297 | **1,388,096** | 315,297 |
| Borrowings | 13 | **-** | 1,906,818 | **-** | 1,906,818 |
| **Total Current Liabilities** | | **1,388,096** | 2,222,115 | **1,388,096** | 2,222,115 |
| **Non-Current Liabilities** | | | | | |
| Borrowings | 13 | **1,891,446** | - | **1,891,446** | - |
| **Total Non-Current Liabilities** | | **1,891,446** | - | **1,891,446** | - |
| **Total Liabilities** | | **3,279,542** | 2,222,115 | **3,279,542** | 2,222,115 |
| **Net Assets** | | **9,659,256** | 610,430 | **9,659,256** | 610,430 |
| **EQUITY** | | | | | |
| Issued capital | 14 | **12,646,090** | 600,300 | **12,646,090** | 600,300 |
| Reserves | | **-** | 15,000 | **-** | 15,000 |
| Accumulated losses | | **(2,986,834)** | (4,870) | **(2,986,834)** | (4,870) |
| **Total Equity** | | **9,659,256** | 610,430 | **9,659,256** | 610,430 |

The accompanying notes form part of these financial statements.

# STATEMENTS OF CHANGES IN EQUITY
# FOR THE YEAR ENDED 30 JUNE 2008

| Consolidated | Issued Capital $ | Accumulated Losses $ | Options Reserve $ | Total $ |
|---|---|---|---|---|
| **Balance at 1 July 2006** | 300 | - | - | 300 |
| Securities issued during the year | 600,000 | - | - | 600,000 |
| Transaction costs | - | - | - | - |
| Transaction with equity holders in their capacity as equity holders | 600,000 | - | - | 600,000 |
| Fair value adjustment to available for sale investments | - | - | 15,000 | 15,000 |
| Net income recognised directly in equity | - | - | 15,000 | 15,000 |
| Loss attributable to members of the parent entity | - | (4,870) | - | (4,870) |
| Total recognised income and expense for the year | - | (4,870) | 15,000 | 10,130 |
| **Balance at 30 June 2007** | **600,300** | **(4,870)** | **15,000** | **610,430** |
| Securities issued during the year | **12,476,488** | **-** | **-** | **12,476,488** |
| Transaction costs | **(430,698)** | **-** | **-** | **(430,698)** |
| Transaction with equity holders in their capacity as equity holders | **12,045,790** | **-** | **-** | **12,045,790** |
| Fair value adjustment to available for sale investments | **-** | **-** | **(15,000)** | **(15,000)** |
| Net loss recognised directly in equity | **-** | **-** | **(15,000)** | **(15,000)** |
| Loss attributable to members of the parent entity | **-** | **(2,981,964)** | **-** | **(2,981,964)** |
| Total recognised income and expense for the year | **-** | **(2,981,964)** | **(15,000)** | **(2,996,964)** |
| **Balance at 30 June 2008** | **12,646,090** | **(2,986,834)** | **-** | **9,659,256** |

| Parent | Issued Capital $ | Accumulated Losses $ | Options Reserve $ | Total $ |
|---|---|---|---|---|
| **Balance at 1 July 2006** | 300 | - | - | 300 |
| Securities issued during the year | 600,000 | - | - | 600,000 |
| Transaction costs | - | - | - | - |
| Transaction with equity holders in their capacity as equity holders | 600,000 | - | - | 600,000 |
| Fair value adjustment to available for sale investments | - | - | 15,000 | 15,000 |
| Net income recognised directly in equity | - | - | 15,000 | 15,000 |
| Loss attributable to members of the parent entity | - | (4,870) | - | (4,870) |
| Total recognised income and expense for the year | - | (4,870) | 15,000 | 10,130 |
| **Balance at 30 June 2007** | **600,300** | **(4,870)** | **15,000** | **610,430** |
| Securities issued during the year | **12,476,488** | **-** | **-** | **12,476,488** |
| Transaction costs | **(430,698)** | **-** | **-** | **(430,698)** |
| Transaction with equity holders in their capacity as equity holders | **12,045,790** | **-** | **-** | **12,045,790** |
| Fair value adjustment to available for sale investments | **-** | **-** | **(15,000)** | **(15,000)** |
| Net loss recognised directly in equity | **-** | **-** | **(15,000)** | **(15,000)** |
| Loss attributable to members of the parent entity | **-** | **(2,981,964)** | **-** | **(2,981,964)** |
| Total recognised income and expense for the year | **-** | **(2,981,964)** | **(15,000)** | **(2,996,964)** |
| **Balance at 30 June 2008** | **12,646,090** | **(2,986,834)** | **-** | **9,659,256** |

The accompanying notes form part of these financial statements.

# CASH FLOW STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2008

| | | Consolidated | | Parent Entity | |
|---|---|---|---|---|---|
| | Note | 2008 $ | 2007 $ | 2008 $ | 2007 $ |
| | | Inflows/ (Outflows) | Inflows/ (Outflows) | Inflows/ (Outflows) | Inflows/ (Outflows) |
| **Cash flows from operating activities** | | | | | |
| Receipts from customers | | **158,409** | - | **158,409** | - |
| Payments to suppliers and employees | | **(794,563)** | (145,215) | **(794,563)** | (145,215) |
| Interest received | | **119,212** | 7,550 | **119,212** | 7,550 |
| Interest paid | | **(121,888)** | - | **(121,888)** | - |
| GST recoverable | | **(511)** | - | **(511)** | - |
| Net cash (used in) operating activities | 6(i) | **(639,341)** | (137,665) | **(639,341)** | (137,665) |
| **Cash flows from investing activities** | | | | | |
| Purchase of available-for-sale financial assets | | **(1,044,285)** | (134,300) | **(1,044,285)** | (134,300) |
| Proceeds on sale of available-for-sale financial assets | | **1,279,799** | - | **1,279,799** | - |
| Loan to controlled entity | | **-** | - | **(181,540)** | (1,933,020) |
| Loan to other entity | | **(672,035)** | - | **(672,035)** | - |
| Purchase of property, plant & equipment | | **(44,252)** | - | **(44,252)** | - |
| Payments on exploration interests | | **(6,737,694)** | (2,186,525) | **(6,556,154)** | (253,505) |
| Net cash (used in) investing activities | | **(7,218,467)** | (2,320,825) | **(7,218,467)** | (2,320,825) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issue of shares | | **6,000,000** | 600,000 | **6,000,000** | 600,000 |
| Payment of share issue costs | | **(430,698)** | - | **(430,698)** | - |
| Proceeds from borrowings | | **2,861,116** | 1,906,818 | **2,861,116** | 1,906,818 |
| Repayment of borrowings | | **(400,000)** | - | **(400,000)** | - |
| Net cash provided by financing activities | | **8,030,418** | 2,506,818 | **8,030,418** | 2,506,818 |
| Net increase (decrease) in cash held | | **172,610** | 48,328 | **172,610** | 48,328 |
| Cash at beginning of the financial year | | **48,628** | 300 | **48,628** | 300 |
| **Cash at end of the financial year** | 6 | **221,238** | 48,628 | **221,238** | 48,628 |

The accompanying notes form part of these financial statements.

## 1. *Summary of Significant Accounting Policies*

### (a) Basis of Preparation

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

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Modena Resources Limited (the parent) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The nature of the operations and principal activities of the Group are described in the Directors' Report.

*Reporting Basis and Conventions including Going Concern*

The financial report has been prepared on the basis of accounting principles applicable to a going concern, which assumes the commercial realisation of the future potential of the Company's and consolidated entity's assets and the discharge of their liabilities in the normal course of business.

The Board considers that the Company is a going concern and recognises that additional funding is required to ensure that the Company can continue to fund its and the consolidated entity's operations and further develop their petroleum exploration and evaluation assets during the twelve month period from the date of this financial report. Such additional funding, as occurred during the year ended 30 June 2008, can be derived from either one or a combination of the following:

- The placement of securities under ASX Listing Rule 7.1 or otherwise;
- An excluded offer pursuant to the Corporations Act 2001; or
- The sale of assets.

Accordingly, the Directors believe that subject to prevailing equity market conditions, the Company will obtain sufficient funding to enable it and the consolidated entity to continue as going concerns and that it is appropriate to adopt that basis of accounting in the preparation of the financial report. Should the company be unable to obtain sufficient funding as outlined above, there is significant uncertainty whether or not the entity will be able to continue as a going concern.

Subsequent to year end the following capital raisings have been completed or agreed to:

- In July 2008, the Company issued 66,491,056 options exercisable at 20 cents each on or before 30 June 2010, pursuant to a pro-rata non-renounceable entitlement issue. The issue raised $664,911;
- In September 2008, the Company reached agreement for:
  - the placement of 3,750,000 ordinary fully paid shares at an issue price of $0.27 per share, together with one free attaching listed option for every two shares subscribed for and allotted, to raise $1,012,500 before costs; and
  - the issue of unsecured convertible notes ("Notes") with a face value of $1,800,000.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts or classification of liabilities that might be necessary should the Company and the consolidated entity not be able to continue as going concerns.

The following is a summary of the significant accounting policies adopted by the consolidated group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

### (b) Adoption of new and revised standards

In the year ended 30 June 2008, the Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2007. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes set out below. The Group has also adopted the following Standards as listed below which only impacted on the Group's financial statements with respect to disclosure:

- AASB 101 'Presentation of Financial Instruments' (revised October 2006)
- AASB 7 'Financial Instruments: Disclosures'

**1. *Summary of Significant Accounting Policies (Cont.)***

**(b) Adoption of new and revised standards (Cont.)**

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2008. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report: There is no material impact in relation to adopting these standards.

(i) AASB 123 (revised June 2007) - Borrowing Costs

Applicable for periods commencing on or after 1 January 2009. The transitional provisions of this standard only require capitalisation of borrowing costs on qualifying assets where commencement date for capitalisation is on or after 1 January 2009. As such, there will be no impact on prior financial statements when this standard is adopted.

(ii) AASB 3 (reissued March 2008) - Business Combinations

Applicable to business combinations where the acquisition date is on or after the beginning of the first reporting period that commences 1 July 2009 or later. As there is no requirement to retrospectively restate comparative amounts for business combinations undertaken before this date, there is unlikely to be any impact on the financial statements when this revised standard is first adopted.

However, due to the nature of some of the changes in the revised standard, business combinations that the entity undertakes after this date may in future impact negatively on the results of the entity. For example, acquisition costs will have to be expensed instead of being recognised as part of goodwill.

Specific changes in respect of step acquisitions and sell downs may introduce situations whereby adopting the revised standard may improve profitability.

Also, deferred tax assets that do not satisfy recognition criteria when a business combination is initially accounted for, but do subsequently qualify for recognition post acquisition date, will be recognised as a credit to the income statement and there will be no consequential write-down of goodwill for a similar amount, provided that the deferred tax assets are recognised outside the initial measurement period of 12 months from acquisition date.

(iii) AASB 127 (reissued March 2008) - Consolidated and Separate Financial Statements

Applicable to periods commencing on or after 1 July 2009. As there is no requirement to retrospectively restate the effect of these revisions, there is unlikely to be any impact on the financial statements when this revised standard is first adopted.

(iv) AASB 2008-3 (issued March 2008) Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASB 1, AASB 2, AASB 4, AASB 5, AASB 7, AASB 101, AASB 107, AASB 112, AASB 114, AASB 116, AASB 121, AASB 128, AASB 131, AASB 132, AASB 133, AASB 134, AASB 136, AASB 137, AASB 138, AASB 139, Interpretation 9 and Interpretation 107]

Applicable to periods commencing on or after 1 July 2009. As there is no requirement to retrospectively restate the effect of these revisions, there is unlikely to be any impact on the financial statements when this revised standard is first adopted.

(v) AASB 2008-1 (issued February 2008) – Amendments to AASB 2 – Share-based Payments – Vesting Conditions and Cancellations.
Applicable to periods commencing on or after 1 January 2009. To date the entity has not issued any options to employees that include non-vesting conditions and as such there will be no impact on the financial statements when this revised standard is adopted for the first time.

(vi) AASB Interpretation 11 (issued Feb 2007) – AASB 2 – Group and Treasury Share Transactions

Applicable to periods commencing on or after 1 March 2007. There will be no impact because at the reporting date the entity has not issued any equity instruments to employees of subsidiaries.

**1.** ***Summary of Significant Accounting Policies (Cont.)***

**(b) Adoption of new and revised standards (Cont.)**

(vii) IAS27, IAS 18 and IAS 36 (issued May 2008) – Consolidated and Separate Financial Statements, Revenue and Impairment of Assets.

Applicable to periods commencing on or after 1 January 2009. There will be no impact as these requirements are only required to be applied prospectively for periods commencing on or after 1 January 2009. However, any pre-acquisition dividends received after this date may result in additional impairment charges on investments in subsidiaries, associates and jointly controlled entities. This is because such amounts would previously have been written off directly against the cost of the investment, whereas in future they will be recognised as revenue which may result in the investment being stated at an amount exceeding recoverable amount.

(viii) IAS 27 (issued May 2008) – paragraphs 38B and 38C

Applicable to periods commencing on or after 1 January 2009. There will be no impact as these requirements are only required to be applied prospectively to reorganisations occurring in annual periods commencing on or after 1 January 2009.

(ix) Improvements to IFRS (issued May 2008) – Improvements to IFRSs

i. IAS 27 - Consolidated and separate Financial Statements.
Applicable to periods commencing on or after 1 January 2009. This amendment will have no impact when this amendment is first adopted because the entity used the cost method under IAS 27 to account for its investment in subsidiaries, associates and jointed controlled entities which will continue to be measure under IFRS 5.

ii. IAS 23 – Borrowing costs
Applicable for periods commencing on or after 1 January 2009. There will be no impact as these amendments merely clarify existing practice.

iii. IAS 36 – Impairment of Assets
Applicable for periods commencing on or after 1 January 2009. There will be no financial impact when these amendments are first adopted because these amendments relate to additional disclosure requirements only.

(x) AASB 8 (issued Feb 2007) – Operating Segments

Applicable to periods commencing on or after 1 January 2009. As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, disclosures required for the operating segments will be significantly different to what is currently reported (business and geographical segment).

(xi) AASB 101 –(revised Sep 2007) – Presentation of Financial Statements

Applicable to annual reporting periods commencing on or after 1 January 2009. As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, there will be various changes to the way financial statements are presented and various changes to names of individual financial statements.

**(c) Statement of Compliance**

The financial report was authorised for issue on 30 September 2008.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

**1. *Summary of Significant Accounting Policies (Cont.)***

**(d) Basis of consolidation**

The consolidated financial statements comprise the financial statements of Modena Resources Limited ("Company" or "Parent Entity") and its subsidiaries as at 30 June each year (the Group).

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

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 acquisition of subsidiaries has been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition. Accordingly, the consolidated financial statements include the results of subsidiaries for the period from their acquisition.

A list of controlled entities is contained in Note 19. All controlled entities have a June financial year end.

**(e) Business combinations**

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

**(f) Income Tax**

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, expect where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

**1. *Summary of Significant Accounting Policies (Cont.)***

**(f) Income Tax (Cont.)**

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.
Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

**(g) Foreign currency translation**

*Functional and presentation currency*
The functional currency of the company is measured using the currency of the primary economic environment in which that entity operates. The financial report is presented in Australian dollars which is Modena Resources Limited's functional and presentation currency.

*Transaction and balances*
Foreign currency transactions are translated into functional currency using exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

**(h) Cash and cash equivalents**

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as described above, net of outstanding bank overdrafts.

**(i) Trade and other receivables**

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

**1. *Summary of Significant Accounting Policies (Cont.)***

**(j) Impairment of financial assets**

The company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

*(i) Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account.

The amount of the loss is recognised in profit or loss.

The company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

*(ii) Financial assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

*(iii) Available-for-sale investments*

If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses for debt instruments are reversed through profit or loss if the increase in an instrument's fair value can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

**(k) Property, Plant and equipment**

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

**Plant and equipment**

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present value in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

**1. *Summary of Significant Accounting Policies (Cont.)***

**(k) Property, Plant and equipment (Cont.)**

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

**Depreciation**
The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of improvements.

The depreciation rates used for each class of depreciable assets are:

| ***Class of Fixed Asset*** | ***Depreciation Rate*** |
|---|---|
| Plant and equipment | 15 – 30% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

**(l) Exploration and evaluation expenditure**

Exploration and evaluation expenditure in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

(i) the rights to tenure of the area of interest are current; and

(ii) at least one of the following conditions is also met:

(a) The exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale: or

(b) Exploration and evaluation activities in the area have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence, or otherwise, of economically recoverable reserves and active and significant operations in, or relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore studies, exploratory drilling, trenching, and sampling and associated activities and an allocation of depreciation and amortisation of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset for the cash generating unit(s) to which it has been allocated (being no larger than the relevant area of interest) is impaired and the recoverable amount is estimated to determine extent of the impairment loss (if any). Where an impairment subsequently reverses, the carrying amount of the asset 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 previous years.

Where a decision has been made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

**1. *Summary of Significant Accounting Policies (Cont.)***

**(m) Financial assets**

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The company determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

*(i) Financial assets at fair value through profit or loss*
Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

*(ii) Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

*(iii) Available-for-sale investments*
Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

**Fair value**

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

**(n) Impairment of assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

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. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

**1.** ***Summary of Significant Accounting Policies (Cont.)***

**(o) Trade and other payables**

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

**(p) Interest bearing loans and borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

**(q) Provisions**

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

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate assets but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

**(r) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Borrowings are initially recognised at fair value, net of transaction costs incurred.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or expenses.

All other borrowing costs are recognised in income in the period in which they are incurred.

**(s) Employee benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

**(t) Issued capital**

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

**1. *Summary of Significant Accounting Policies (Cont.)***

**(u) 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.

**(v) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Royalty revenue is recognised when the Group's right to receive the payment is established.

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

**(w) Other taxes**

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

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

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**(x) Segment reporting**

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other operating business segments. A geographical segment is a distinguishable component of the entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different than those of segments operating in other economic environments.

**(y) Significant Accounting Estimates and Judgments**

***Significant accounting judgments***

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

*Exploration and evaluation assets*

The Group's accounting policy for exploration and evaluation expenditure is set out at Note 1(l). The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under the policy, it is concluded that the expenditures are unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount will be written off to the income statement.

**1.** ***Summary of Significant Accounting Policies (Cont.)***

**(y) Significant Accounting Estimates and Judgments (Cont.)**

***Significant accounting estimates and assumptions***

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

- *Impairment of assets*

In determining the recoverable amount of assets, in the absence of quoted market prices, estimations are made regarding the present value of future cash flows using asset-specific discount rates and the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | **$** | **$** | **$** | **$** |
| **2. *Revenue and Expenses*** | | | | |
| **(a) Revenue** | | | | |
| *From continuing operations* | | | | |
| Royalty revenue | **158,409** | - | **158,409** | - |
| *Other revenue* | | | | |
| Interest received – other corporations | **119,766** | 11,696 | **119,766** | 11,696 |
| Profit on sale of available-for-sale assets | **-** | 285,700 | **-** | 285,700 |
| | **278,175** | 297,396 | **278,175** | 297,396 |
| **(b) Expenses** | | | | |
| Corporate consulting fees | **227,735** | 229,079 | **227,735** | 229,079 |
| Audit fee | **32,036** | - | **32,036** | - |
| ASX & registry fees | **19,262** | 6,557 | **19,262** | 6,557 |
| Legal fees | **11,807** | 4,755 | **11,807** | 4,755 |
| Travel & accommodation | **101,848** | - | **101,848** | - |
| Other expenses | **149,330** | 23,718 | **149,330** | 23,718 |
| | **542,018** | 264,109 | **542,018** | 264,109 |
| **3. *Income Tax Expense*** | | | | |
| **(a) Income Tax Expense** | | | | |
| The income tax expense for the year differs from the prima facie tax as follows: | | | | |
| Loss before income tax | **(2,981,964)** | (4,870) | **(2,981,964)** | (4,870) |
| Prima facie income tax (benefit) @ 30% | **(894,589)** | (1,461) | **(894,589)** | (1,461) |
| Deferred tax assets not brought to account | **894,589** | 1,461 | **894,589** | 1,461 |
| Total income tax expense | **-** | - | **-** | - |
| **(b) Deferred Tax Assets** | | | | |
| Deferred tax assets not brought to account arising from tax losses, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(f) occur: | **896,050** | 1,461 | **896,050** | 1,461 |

There are no franking credits available to the Group.

| | | | | |
|---|---|---|---|---|
| **4. *Auditors Remuneration*** | | | | |
| Amounts, received or due and receivable by BDO Kendalls Audit and Assurance (WA) Pty Ltd for: | | | | |
| - auditing and reviewing the financial report | **32,036** | 8,000 | **32,036** | 8,000 |

| | | Consolidated | | Parent Entity | |
|---|---|---|---|---|---|
| | Note | 2008 $ | 2007 $ | 2008 $ | 2007 $ |

**5. *Earnings per Share (EPS)***

| | Cents | Cents |
|---|---|---|
| Basic earnings per share | **(6.98)** | - |
| The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows: | | |
| Earnings – Net loss for year | **(2,981,964)** | (4,870) |
| | **No.** | No. |
| Weighted average number of ordinary shares used in the calculation of basic EPS | **42,705,181** | 490,163 |

Diluted earnings per share has not been calculated as there were no options on issue which would be potential ordinary shares having a dilutive effect.

**6. *Cash and Cash Equivalents***

| | | | | |
|---|---|---|---|---|
| Cash at bank and on hand | **221,238** | 48,628 | **221,238** | 48,628 |

Cash at bank earns interest at floating rates based on daily bank deposit rates.

The Group's and the parent entity's exposure to interest rate risk is discussed in note 21.

**(i) Reconciliation of loss for the year to net cash flows used in operating activities:**

| | | | | |
|---|---|---|---|---|
| Loss for the year | **(2,981,964)** | (4,870) | **(2,981,964)** | (4,870) |
| Depreciation | **3,012** | - | **3,012** | - |
| Exploration expenditure written off | **2,167,701** | - | **2,167,701** | - |
| (Profit) / Loss on sale of available-for-sale assets | **61,431** | (285,700) | **61,431** | (285,700) |
| **Changes in assets and liabilities** | | | | |
| Receivables | **(26,873)** | (4,368) | **(26,873)** | (4,368) |
| Payables | **137,352** | 157,273 | **137,352** | 157,273 |
| Net cash flows (used in) operating activities | **(639,341)** | (137,665) | **(639,341)** | (137,665) |

**(ii) Non-cash financing and investing activities**

During the year:

(a) Convertible Notes with a face value of $2,476,488 were converted to 10,491,056 ordinary fully paid shares, pursuant to the conversion terms of the Notes; and

(b) The company issued 20,000,000 ordinary fully paid shares at an issue price of 20 cents each as consideration for the acquisition of Murviel Trading SA.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2008 $ | 2007 $ | 2008 $ | 2007 $ |
| **7. *Trade and other receivables*** | | | | |
| **Current** | | | | |
| Prepayments | **10,685** | - | **10,685** | - |
| GST and other taxes recoverable | **15,336** | 4,146 | **15,336** | 4,146 |
| Other receivables | **5,220** | 222 | **5,220** | 222 |
| Amount owing by other entity | **672,035** | - | **672,035** | - |
| Amount owing by controlled entity | **-** | - | **2,114,560** | 1,933,020 |
| | **703,276** | 4,368 | **2,817,836** | 1,937,388 |

Terms and conditions relating to the above financial instruments:

- Other receivables are non-interest bearing and generally repayable within 30 days.
- Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.
- The amount owing by other entity is an advance to assist with the acquisition of an oil rig, upon which no interest is charged and the advance is repayable on demand. The fair value approximates the carrying value of the receivable.
- Transactions between the parent entity and its subsidiary consist of intercompany loans, upon which no interest is charged and the loan is repayable on demand. The fair value approximates the carrying value of the receivable. A provision for impairment loss is recognised when there is objective evidence that the inter-company loan receivable is impaired
- Information about the Group's and parent entity's exposure to credit risk, foreign currency and interest rate risk in relation to trade and other receivables is provided in note 21.
- The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above. Refer to note 21 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

| | | | | |
|---|---|---|---|---|
| **8. *Available for sale financial assets*** | | | | |
| **Current** | | | | |
| Listed shares – at fair value | **123,055** | **-** | **123,055** | **-** |
| **Non-Current** | | | | |
| Listed shares – at fair value | **-** | **435,000** | **-** | **435,000** |

Listed shares are readily saleable with no fixed terms. All shares held in listed companies are valued at their fair value. There would be no material capital gains tax payable if these assets were sold at the reporting date.

***Impairment and risk exposure***
The maximum exposure to credit risk at the reporting date is the fair value of listed shares classified as available-for-sale.

| | | | | |
|---|---|---|---|---|
| **9. *Other financial assets*** | | | | |
| **Non-Current** | | | | |
| Shares in controlled entities – Note 19 | **-** | - | **4,000,000** | - |
| **Reconciliation – Non Current** | | | | |
| At 1 July 2007, at fair value | **-** | - | **-** | - |
| Additions | **-** | - | **4,000,000** | - |
| At 30 June 2008, at fair value | **-** | - | **4,000,000** | - |

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2008 $ | 2007 $ | 2008 $ | 2007 $ |
| **10. *Property, Plant and Equipment*** | | | | |
| Plant and equipment – at cost | **44,252** | - | **44,252** | - |
| Accumulated depreciation | **(3,012)** | - | **(3,012)** | - |
| | **41,240** | - | **41,240** | - |
| Total written down amount | **41,240** | - | **41,240** | - |
| **Reconciliation** | | | | |
| At 1 July 2007, net of accumulated depreciation | - | - | - | - |
| Additions | **44,252** | - | **44,252** | - |
| Depreciation charge and impairment | **(3,012)** | - | **(3,012)** | - |
| At 30 June 2008, net of accumulated depreciation | **41,240** | - | **41,240** | - |
| **11. *Deferred exploration expenditure*** | | | | |
| Expenditure brought forward | **2,344,549** | - | **411,529** | - |
| Tenements acquired from acquisition of controlled entity | **4,000,000** | - | - | - |
| Expenditure incurred during year | **7,673,141** | 2,344,549 | **7,491,601** | 411,529 |
| Expenditure written off during year | **(2,167,701)** | - | **(2,167,701)** | - |
| Expenditure carried forward | **11,849,989** | 2,344,549 | **5,735,429** | 411,529 |

The ultimate recoupment of the exploration and evaluation expenditure carried forward is dependent on the successful development and commercial exploitation or, alternatively, sale of the relevant areas of interest, at amounts at least equal to book value.

| | | | | |
|---|---|---|---|---|
| **12. *Trade and Other Payables*** | | | | |
| **Current** | | | | |
| Trade payables and accruals | **1,277,225** | 277,140 | **1,277,225** | 277,140 |
| Interest payable – other corporations | **110,871** | 38,157 | **110,871** | 38,157 |
| | **1,388,096** | 315,297 | **1,388,096** | 315,297 |

Terms and conditions relating to the above financial instruments:

- Trade creditors are non-interest bearing and are normally settled between 30 to 90 days.
- Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.
- Information about the Group's and the parent entity's exposure to foreign exchange risk is provided in note 21.

| | | | | |
|---|---|---|---|---|
| **13. *Borrowings*** | | | | |
| **Current** | | | | |
| Convertible Notes - Unsecured | - | 1,506,818 | - | 1,506,818 |
| Loan - Unsecured | - | 400,000 | - | 400,000 |
| | - | 1,906,818 | - | 1,906,818 |
| **Non-Current** | | | | |
| Convertible Notes – Unsecured (i) | **1,891,446** | - | **1,891,446** | - |

***Risk exposures***
Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 21.

**13. *Borrowings (Cont.)***

(i) Convertible Notes – Unsecured

At balance date the company had convertible notes outstanding with a face value of $1,891,446. The principle terms of these convertible notes are as follows:

| | | |
|---|---|---|
| Number: | 2,961,274 | 1,900,000 |
| Face value: | $1,036,446 | $855,000 |
| Redemption date: | 31/01/2010 | 28/02/2010 |
| Conversion rights: | Convertible, in whole or part, by either the Noteholder or the Company at any time from the date of issue and prior to the Redemption date. | Convertible, in whole or part, by either the Noteholder or the Company at any time from the date of issue and prior to the Redemption date. |
| Conversion price: | The lesser of 35 cents or 85% of 5 day weighted average market price. | The lesser of 45 cents or 85% of 5 day weighted average market price. |
| Interest rate: | 10.5% | 12.5% |

The carrying amount of the Group's non-current borrowings, represented by unsecured convertible notes, approximates their fair value.

***Risk exposures***
Information about the Group's and parent entity's exposure to interest rate and foreign currency changes is provided in note 21.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2008 $** | **2007 $** | **2008 $** | **2007 $** |
| **14. *Issued Capital*** | | | | |
| (a) **Issued and paid up capital** | | | | |
| Ordinary shares fully paid | **12,646,090** | 600,300 | **12,646,090** | 600,300 |
| (b) **Movement in ordinary shares on issue** | **Number** | **$** | Number | $ |
| At 1 July 2006 | 3,000,000 | 300 | 3,000,000 | 300 |
| Issue for cash pursuant to prospectus – 5 September 2006 | 3,000,000 | 600,000 | 3,000,000 | 600,000 |
| At 1 July 2007 | 6,000,000 | 600,300 | 6,000,000 | 600,300 |
| Issue for cash pursuant to prospectus – 14 November 2007 | **30,000,000** | **6,000,000** | **30,000,000** | **6,000,000** |
| Issue on acquisition of Murviel Trading SA – 14 November 2007 | **20,000,000** | **4,000,000** | **20,000,000** | **4,000,000** |
| Issue on conversion of convertible notes – 14 November 2007 | **8,334,090** | **1,666,818** | **8,334,090** | **1,666,818** |
| Issue on conversion of convertible notes – 23 June 2008 | **2,156,966** | **809,670** | **2,156,966** | **809,670** |
| Expenses of issue | **-** | **(430,698)** | **-** | **(430,698)** |
| At 30 June 2008 | **66,491,056** | **12,646,090** | **66,491,056** | **12,646,090** |

(c) **Share Options**

Their were no options over unissued ordinary shares outstanding at 30 June 2008.

**14. *Issued Capital (Cont.)***

(d) **Terms and conditions of issued capital**

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

(e) **Capital Management Risk**

Information about the Group's and parent entity's capital risk management practices are provided in note 21.

**15. *Contingencies***

There are no contingent liabilities or contingent assets of the Group at balance date.

**16. *Interests in Joint Venture Operations***

At 30 June 2008 the Group was a participant in the following joint ventures:

| | Working Interest | |
|---|---|---|
| | **2008** | **2007** |
| **Bullseye Prospect**<br>Location: Iberia Parish, South Louisiana, USA | 15% | - |
| **Wilson Prospect**<br>Location: Padre Island, Texas, USA | 10% | - |
| **South Lost Hills Properties**<br>Location: Kern County, California, USA | 10% | - |
| **Armstrong Properties**<br>Location: Kenedy County, Texas, USA | 25% | - |
| **Manzano Prospect**<br>Location: Kleberg County, Texas, USA | 12.5% | - |
| **Jackson Shallow Gas Prospects**<br>Location: Jackson County, Texas, USA | 52.5% | - |

The joint ventures are not separate legal entities. They are contractual arrangements between the participants for the sharing of costs and output and do not in themselves generate revenues and profit.

In order to maintain its percentage working interest in the freehold and leasehold interest in petroleum licenses, the Group has certain obligations to meet its share of joint venture costs. These commitments may be varied as a result of renegotiations, relinquishments, farm-outs or sales.

## 17. *Financial Reporting by Segments*

During the year, the Group operated principally in one business segment (for primary reporting) being petroleum exploration, and one geographical segment (for secondary reporting) being the United States of America. This is consistent with the previous corresponding period.

## 18. *Business Combination*

### (a) Acquisition – Murviel Trading SA

During the year, the Company acquired 100% of the voting shares of Murviel Trading SA.

The total cost of the combination was $4,000,000 and comprised an issue of equity instruments. The Group issued 20,000,000 ordinary fully paid shares with a fair value of $0.20 each, based on the issue price of the shares of Modena Resources Limited pursuant to a public offer prospectus.

The fair value of the identifiable assets and liabilities of Murviel Trading SA as at the date of acquisition are:

| | Recognised on acquisition $ | Carrying Value $ |
|---|---|---|
| Cash and cash equivalents | - | - |
| Petroleum interests, exploration and evaluation expenditure | 4,000,000 | 4,000,000 |
| Fair value of identifiable net assets | 4,000,000 | 4,000,000 |
| | | |
| Cost of the combination: | | |
| Securities issued, at fair value | 4,000,000 | |
| Costs associated with the acquisition | - | |
| Total cost of the combination | 4,000,000 | |
| | | |
| The cash inflow (outflow) on acquisition is as follows: | | |
| Net cash acquired with subsidiary | - | |
| Cash paid | - | |
| Net cash inflow (outflow) | - | |

From the date of acquisition Murviel Trading SA has contributed $Nil to the net loss of the Group.

## 19. *Related Party Disclosures*

### (a) Subsidiaries

The consolidated financial statements include the financial statements of Modena Resources Limited and the subsidiary as listed in the following table.

| | County of Incorporation | % Equity Interest | | Investment at cost | |
|---|---|---|---|---|---|
| | | **2008 %** | 2007 % | **2008 $** | 2007 $ |
| Murviel Trading SA – at cost | Bahamas | **100** | - | **4,000,000** | - |

### (b) Parent entity

Modena Resources Limited is the ultimate Australian parent entity and ultimate parent of the Group.

### (c) Key management personnel

Disclosures relating to key management personnel are set out in Note 20.

**20.** ***Related Party Disclosure (Cont.)***

**(d) Transactions with related parties**

Transactions with related parties, where applicable, are made in arm's length transactions both at normal market prices and on normal commercial terms. Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash.

Modena Resources Limited has provided unsecured, interest free loans to its controlled entity, as disclosed in Note 7. An impairment assessment is undertaken each financial year by examining the financial position of the controlled entity and the market in which the controlled entity operates to determine whether there is objective evidence that the controlled entity is impaired. When such objective evidence exists, the company recognises an allowance for the impairment loss.

**20.** ***Key Management Personnel Disclosures***

**(a) Details of Key Management Personnel**

**Directors**

| | |
|---|---|
| P Hampshire | Chairman (non-executive) |
| C Willis | Director (executive) |
| N Bassett | Director (non-executive) |
| L Scott | Director (non-executive) – resigned 16 July 2007 |

**Executives**

| | |
|---|---|
| L Scott | Company Secretary |

**(b) Compensation of Key Management Personnel**

| | **Consolidated** | | **Parent Entity** | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$** | $ | **$** | $ |
| Short-Term employee benefits | **183,000** | - | **183,000** | - |
| Post Employment benefits | **-** | - | **-** | - |
| Other Long-Term benefits | **-** | - | **-** | - |
| Termination benefits | **-** | - | **-** | - |
| Share-based payment | **-** | - | **-** | - |
| Total compensation | **183,000** | - | **183,000** | - |

Modena Resources Limited has applied the option under *Corporations Amendments Regulation 2006* to transfer key management personnel remuneration disclosures required by AASB124 *Related Party Disclosures* paragraphs Aus 25.4 to Aus 25.7.2 to the Remuneration Report section of the Director's Report. These transferred disclosures have been audited.

**(c) Option holdings of Key Management Personnel**

| | **Balance 01/07/07** | **Granted as Remuneration** | **Options Exercised** | **Net Change Other #** | **Balance 30/06/08** | **Vested and Exercisable** |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| P Hampshire | - | - | - | - | - | - |
| C Willis | - | - | - | - | - | - |
| N Bassett | - | - | - | - | - | - |
| **Executives** | | | | | | |
| L Scott | - | - | - | - | - | - |

**20. *Director and Executive Disclosures (Cont.)***

**(d) Shareholdings of Key Management Personnel**

| | Balance 01/07/07 | Granted as Remuneration | Acquired | Disposed | Net Change Other# | Balance 30/06/08 |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| P Hampshire | 60,000 | - | - | - | - | 60,000 |
| C Willis | - | - | - | - | - | - |
| N Bassett | - | - | - | - | - | - |
| **Executives** | | | | | | |
| L Scott | - | - | - | - | - | - |

All equity transactions with key management personnel have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

**(e) Loans with Key Management Personnel**

There were no loans to key management personnel or their related entities during the financial year.

**21. *Financial Risk Management***

The Company's principal financial instruments comprise receivables, payables, cash and short-term deposits. The Company manages its exposure to key financial risks in accordance with the Company's financial risk management policy. The objective of the policy is to support the delivery of the Company's financial targets while protecting future financial security.

The main risks arising from the Company's financial instruments are interest rate risk, credit risk, liquidity risk and foreign currency risk. The Group does not speculate in the trading of derivative instruments. The Company uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rates and assessments of market forecasts for interest rates. Ageing analysis of and monitoring of receivables are undertaken to manage credit risk, liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as summarised below.

Primary responsibility for identification and control of financial risks rests with the Board. The Board reviews and agrees policies for managing each of the risks identified below, including for interest rate risk, credit allowances and cash flow forecast projections.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 1 to the financial statements.

**Risk Exposures and Responses**

***Interest rate risk***
The Company's exposure to risks of changes in market interest rates relates primarily to the Company's cash balances. The Company constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing positions and the mix of fixed and variable interest rates. As the company has no variable rate interest bearing borrowings its exposure to interest rate movements is limited to the amount of interest income it can potentially earn on surplus cash deposits. The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date.

**21. *Financial Risk Management (Cont.)***

At balance date, the Group had the following financial assets exposed to variable interest rates that are not designated in cash flow hedges:

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | **$** | **$** | **$** | **$** |
| *Financial Assets* | | | | |
| Cash and cash equivalents (interest-bearing accounts) | **221,238** | 48,628 | **221,238** | 48,628 |
| Trade and other receivables | **-** | - | **-** | - |
| Trade and other payables | **-** | - | **-** | - |
| Net exposure | **221,238** | 48,628 | **221,238** | 48,628 |

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date. The 1.0% sensitivity is based on reasonably possible changes, over a financial year, using an observed range of historical LIBOR movements over the last 3 years.

At 30 June 2008, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity relating to financial assets of the Group would have been affected as follows:

| | | | | |
|---|---|---|---|---|
| Judgements of reasonably possible movements: | | | | |
| *Post tax profit – higher / (lower)* | | | | |
| + 1.0% | **2,212** | 486 | **2,212** | 486 |
| - 1.0% | **(2,212)** | (486) | **(2,212)** | (486) |
| *Equity – higher / (lower)* | | | | |
| + 1.0% | **2,212** | 486 | **2,212** | 486 |
| - 1.0% | **(2,212)** | (486) | **(2,212)** | (486) |

***Liquidity Risk***
The Group manages liquidity risk by monitoring immediate and forecast cash requirements and ensuring adequate cash reserves are maintained or available to the Group.

***Credit risk***
Credit risk arises from the financial assets of the Company, which comprise deposits with banks and trade and other receivables. The Company's exposure to credit risk arises from potential default of the counter party, with the maximum exposure equal to the carrying amount of these instruments. The carrying amount of financial assets included in the Balance Sheet represents the Company's maximum exposure to credit risk in relation to those assets.

The Company does not hold any credit derivatives to offset its credit exposure.

The Company trades only with recognised, credit worthy third parties and as such collateral is not requested nor is it the Company's policy to securities it trade and other receivables.

Receivable balances are monitored on an ongoing basis with the result that the Company does not have a significant exposure to bad debts.

There are no significant concentrations of credit risk within the Company.

***Capital Management Risk***
Management controls the capital of the Group in order to maximise the return to shareholders and ensure that the group can fund its operations and continue as a going concern.

Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of expenditure and debt levels and share and option issues.

There have been no changes in the strategy adopted by management to control capital of the group since the prior year.

***Foreign Currency Risk***
As a result of the Group's farm-in operations in the United States of America, the Group's operations can be affected by movements in the US$/A$ exchange rates. The Company does not hedge this exposure.

The Group manages its foreign exchange risk by constantly reviewing its exposure to commitments payable in foreign currency and ensuring appropriate cash balances are maintained in United States Dollars, to meet current operational commitments.

Management believes the balance date risk exposures are representative of the risk exposure inherent in financial instruments. The Group exposure to the foreign currency risk is considered immaterial at 30 June 2008.

***Commodity Price Risk***
The Group's exposure to price risk is minimal given the Group is still in an exploration phase.

***Fair Value***
The methods of estimating fair value are outlined in the relevant notes to the financial statements. All financial assets and liabilities recognised in the balance sheet, whether they are carried at cost or fair value, are recognised at amounts that represent a reasonable approximation of fair values unless other wise stated in the applicable notes.

## 22. *Events Subsequent to Year End*

There are no matters or circumstances that have arisen since 30 June 2008 that have or may significantly affect the operations, results, or state of affairs of the consolidated entity in future financial years, other than:

(A) In July 2008, the company issued 66,491,056 options exercisable at 20 cents each on or before 30 June 2010, pursuant to a pro-rata non-renounceable entitlement issue. The issue raised $664,911;

(B) In September 2008, the company announced that it had reached agreement for:

(a) the placement of 3,750,000 ordinary fully paid shares at an issue price of $0.27 per share, together with one free attaching listed option for every two shares subscribed for and allotted, to raise $1,012,500 before costs; and

(b) the issue of unsecured convertible notes ("Notes") with a face value of $1,800,000.

The principle terms of the proposed Notes will be as follows:

(i) Redemption Date: 30 September 2010;

(ii) Convertible into ordinary fully paid shares at an issue price of 40 cents per share;

(iii) Subject to the Corporations Act, ASX Listing Rules and shareholder approval , if necessary, convertible, in whole or part, by the Noteholder at any time from the date of issue and prior to the Redemption Date; and by the Company where the closing price of the Company's shares is 40 cents or greater for 5 consecutive trading days;

(iv) Shares issued upon conversion of any Note will carry standard rights applicable to quoted ordinary shares in the Company and will, from the date of issue, rank equally with fully paid ordinary shares currently on issue;

(v) Interest rate – 10% per annum;

(vi) The company does not intend to list the Notes for quotation on ASX and it is not obligated to do so;

(vii) The Notes shall not provide for any voting rights at shareholder meetings of the Company;

(viii) Unless converted or redeemed during the term, the Notes will be redeemed at the Redemption Date at the face value of the Notes; and

(ix) The Notes will be unsecured and the Noteholder will rank equally with all other unsecured creditors of the Company.

The issue of shares and options, including shares on conversion of the Notes, will be subject to shareholder approval and will be to sophisticated or professional investors and will not require disclosure under the Corporations Act.

## 23. *Commitments*

Apart from as disclosed in Note 16 the Group has no other commitments as at 30 June 2008.

# DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements, comprising the income statement, balance sheet, cash flow statement, statement of changes in equity and accompanying notes, are in accordance with the Corporations Act 2001 and:

   (a) comply with Accounting Standards and the Corporations Regulations 2001; and

   (b) give a true and fair view of the financial position as at 30 June 2008 and of the performance for the year ended on that date of the company and the consolidated entity.

2. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

3. The remuneration disclosures included in page 11 of the directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2008, comply with section 300A of the Corporations Act 2001.

4. The directors have been given the declarations by the chief executive officer and chief financial officer, or equivalents, required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

C Willis
Director

Perth, 30 September 2008

BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd
128 Hay Street
SUBIACO WA 6008
PO Box 700
WEST PERTH WA 6872
Phone 61 8 9380 8400
Fax 61 8 9380 8499
aa.perth@bdo.com.au
www.bdo.com.au

ABN 79 112 284 787

# INDEPENDENT AUDITOR'S REPORT
# TO THE MEMBERS OF MODENA RESOURCES LIMITED

We have audited the accompanying financial report of Modena Resources Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement 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.

## Directors' Responsibility for the Financial Report

The directors of the group 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 1(c), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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 entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

## Independence

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

BDO Kendalls is a national association of
separate partnerships and entities

BDO Kendalls

**Auditor's Opinion**

In our opinion:

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

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(c).

**Material Uncertainty Regarding Going Concern**

Without qualification our opinion expressed above, attention is drawn to the matters detailed in Note 1 of the financial report. As a result of these matters there is existence of material uncertainty which may cast doubt about the consolidated entity's ability to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2008. 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 included in the Directors' Report of Modena Resources Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001.*

**BDO Kendalls Audit & Assurance (WA) Pty Ltd**

BDO Kendalls

Peter Toll

**Peter Toll**
Director

Perth, Western Australia
Dated this 30th day of September 2008.

**HOLDINGS AS AT 17 SEPTEMBER 2008**

| Number of Securities Held | FULLY PAID SHARES No. of Holders | OPTIONS 30 June 2010 No. of Holders |
|---|---|---|
| 1 to 1,000 | 8 | 2 |
| 1,001 to 5,000 | 155 | 87 |
| 5,001 to 10,000 | 149 | 95 |
| 10,001 to 100,000 | 336 | 277 |
| 100,001 and over | 77 | 76 |
| Total Number of Holders | 725 | 537 |
| Number of holders of less than a marketable parcel | 31 | 50 |
| Percentage of the 20 largest holders | 58.31% | 62.38% |

**Substantial Shareholders**

The company has been notified of the following substantial shareholdings:

| | Number |
|---|---|
| Azur Capital Group Limited | 6,010,000 |
| Ilanda Associates Limited | 6,010,000 |
| Mansa Private Foundation | 6,000,000 |

**Voting Rights**

The Constitution of the company makes the following provision for voting at general meetings:

On a show of hands, every ordinary shareholder present in person, or by proxy, attorney or representative has one vote. On a poll, every shareholder present in person, or by proxy, attorney or representative has one vote for any share held by the shareholder.

**20 Largest Holders of Securities as at 17 September 2008:**

***Fully Paid Ordinary Shares***

| | | No. | % |
|---|---|---|---|
| 1. | Azur Capital Group Limited | 6,010,000 | 8.43 |
| 2. | Ilanda Associates Limited | 6,010,000 | 8.43 |
| 3. | Mansa Private Foundation | 6,000,000 | 8.41 |
| 4. | Alimold Pty Ltd | 5,338,500 | 7.48 |
| 5. | ETR Nominees Pty Ltd <Asandas A/C> | 3,750,000 | 5.26 |
| 6. | Renford Consultants Pty Ltd | 2,000,000 | 2.80 |
| 7. | Lawnbet Pty Ltd <FMD Super Fund A/C> | 1,746,000 | 2.45 |
| 8. | Nicholas Barham | 1,304,121 | 1.83 |
| 9. | Andrew Waller | 1,085,000 | 1.52 |
| 10. | Mohammad Reza Samvat <Samvat Family A/C> | 1,019,000 | 1.43 |
| 11. | Everyoung International Holdings Limited | 1,000,000 | 1.40 |
| 12. | Palla Nominees Pty Ltd | 1,000,000 | 1.40 |
| 13. | Thomas Booth <Cedrus Libani Super Fund A/C> | 933,334 | 1.31 |
| 14. | Fodemo Pty Ltd | 900,000 | 1.26 |
| 15. | Rebecca Ann Price <The Wandering Moth A/C> | 658,000 | 0.92 |
| 16. | Najava Pty Ltd <MacIntosh Super Fund A/C> | 590,000 | 0.83 |
| 17. | Najava Pty Ltd <MacIntosh Family A/C> | 578,035 | 0.81 |
| 18. | Addenbrooke Pty Ltd | 561,063 | 0.79 |
| 19. | Andrew Waller | 554,000 | 0.78 |
| 20. | Diskfin Pty Ltd | 552,731 | 0.77 |
| | | 41,589,784 | 58.31 |

***Options 30 June 2010***

| | | No. | % |
|---|---|---|---|
| 1. | Thomas Booth <Cedrus Libani Super Fund A/C> | 11,953,044 | 17.98 |
| 2. | Andrew Waller | 8,929,054 | 13.43 |
| 3. | ETR Nominees Pty Ltd <Asandas A/C> | 3,750,000 | 5.64 |
| 4. | Lawnbet Pty Ltd <FMD Super Fund A/C> | 2,546,000 | 3.83 |
| 5. | Group Seventy Three Super Fund Pty Ltd | 2,000,000 | 3.01 |
| 6. | Renford Consultants Pty Ltd | 1,638,416 | 2.46 |
| 7. | Lawrence Angelo Buono & Valerie Jean Buono <Zoloto Super Fund A/C> | 1,410,000 | 2.12 |
| 8. | Nicholas Barham | 1,304,121 | 1.96 |
| 9. | Mohammad Reza Samvat <Samvat Family A/C> | 1,019,000 | 1.53 |
| 10. | Palla Nominees Pty Ltd | 1,000,000 | 1.50 |
| 11. | Najava Pty Ltd <MacIntosh Super Fund A/C> | 986,066 | 1.48 |
| 12. | Bell Potter Nominees Ltd <BB Nominees A/C> | 945,000 | 1.42 |
| 13. | Waterbeach Investments Pty Ltd | 700,000 | 1.05 |
| 14. | Addenbrooke Pty Ltd | 561,063 | 0.84 |
| 15. | Bernadette Ann Ross | 525,000 | 0.79 |
| 16. | Reza Samvat <Samvat Super Fund A/C> | 500,000 | 0.75 |
| 17. | Rebecca Ann Price <The Wandering Moth A/C> | 488,000 | 0.73 |
| 18. | Francis Maxwell Douglas | 436,757 | 0.66 |
| 19. | Chelmayne Pty Ltd | 400,000 | 0.60 |
| 20. | Peter James Christie | 400,000 | 0.60 |
| | | 41,491,521 | 62.38 |

**Restricted Securities**

The company has the following restricted securities on issue as at the date of this report:

- 20,000,000 ordinary fully paid shares held in escrow until 14 November 2008; and
- 47,500 ordinary fully paid shares held in escrow until 21 November 2009.

**On-market Buy-back**

Currently there is no on-market buy-back of the Company's securities.

**Consistency with business objectives**

The company has used its cash and assets in a form readily convertible to cash that it had at the time of listing in a way consistent with its stated business objectives.