Larus Energy Limited

(formerly Newport Energy Limited)

ABN 16 140 709 360

Financial Report
For the Half-year ended
30 June 2011

DIRECTORS
Graham Holdaway (Chairman)
David Williams (Managing Director)
Kay Philip (Non Executive Director)
Peter Fennessy (Non Executive Director) (appointed 14 June 2011)

COMPANY SECRETARY
Andrew Cooke

REGISTERED AND
ADMINISTRATION OFFICE
Level 8, 65 York Street, Sydney, NSW 2000

AUDITORS
PKF Chartered Accountants
Level 10, 1 Margaret Street, Sydney, NSW, 2000

BANK
Westpac Banking Corporation

CONTENTS

Directors' Report

Your Directors present their report on the consolidated entity consisting of Larus Energy Limited (formerly Newport Energy Limited) ("the Company" or "LEL") and the entities it controlled at the end of and during the 6 month period ended 30 June 2011 ("Financial Period").

Directors

The following persons were Directors of the Company during the whole or part of the financial period and up to the date of this report as set out below:

Graham Holdaway (Chairman)
David Williams (Managing Director)
Kay Philip (Non Executive Director)
Peter Fennessy (Non Executive Director) (appointed 14 June 2011)

Comparative Figures

The Company was incorporated on 23 November, 2009.

Accordingly the comparative figures cover the period from 23 November 2009 (date of incorporation) to 30 June 2010.

Principal activities

The principal activity of the consolidated entity is the exploration for oil and gas. There has been no change in the principal activities during the period.

Results

The net result of operations after applicable income tax expense of the consolidated entity for the half year to 30 June 2011 was a loss of $128,691 (2010: $567,363).

Review of operations

The consolidated entity continued its principal activity of the exploration for oil and gas. During the financial period these activities included the further collection and analysis of existing data, completion of a preliminary social mapping survey in PPL 326, surface geology surveys, planning for offshore and onshore seismic and preparation of a technical paper on the geological analysis of PPL 326. In addition the Company negotiated and concluded the acquisition of further assets, namely the issued capital of Larus Energy (Gippsland) Pty Ltd.

Significant changes in the state of affairs

The Company acquired all of the issued capital of Larus Energy Pty Ltd on 14 June 2011 and subsequently changed its name to Larus Energy Limited. At the same time Larus Energy Pty Ltd changed its name to Larus Energy (Gippsland) Pty Ltd. For further details of these matters refer to the Notice of General Meeting and Explanatory Statement for the Meeting held on 14 June 2011, which can be accessed from the Company's website – www.larusenergy.com.au.

There were no other significant changes in the state of affairs of the consolidated entity during the financial period.

Matters subsequent to the end of the financial period

At the date of this report there were no matters or circumstances which have arisen since 30 June 2011 that have significantly affected or may significantly affect:

i) the operations of the consolidated entity,
ii) the results of those operations, or
iii) the state of affairs of the consolidated entity

in the financial period to 30 June 2011.

Likely developments

The Company is hoping to identify oil and gas exploration and evaluation opportunities which are perceived to offer outstanding value. At this stage, it is not possible to postulate likely developments from any of these exploration activities. As the consolidated entity's areas of interest are at an early stage of exploration, it is not possible to postulate likely developments.

Environment

The Company, through its subsidiaries, holds exploration tenements in Papua New Guinea and Australia which are subject to various governmental statutes and guidelines for environmental impacts in relation to exploration activities. These provide for the satisfactory rehabilitation of the areas of exploration. There have been no material known breaches of the licence conditions.

This report is made in accordance with a resolution of the Directors.

Graham Holdaway
Chairman Sydney, 21 October 2011

STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2011

	Note	1 January to 30 June 2011	29 November 2009 to 30 June 2010
		$	$
Revenue	2	**14,373**	**3,099**
Expenses			
Administration costs		(93,311)	(30,394)
Corporate costs		(16,230)	(96,668)
Depreciation	3	(531)	(776)
Employment costs	3	(4,681)	(348,550)
Foreign currency gains / (losses)		(2,726)	(18)
Investor and public relations		(21,634)	(14,508)
Occupancy costs	3	(4,120)	(1,852)
Travel expenses		(36,442)	(61,559)
Other expenses from ordinary activities		(9,039)	(6,156)
Loss from ordinary activities before income tax expense		**(174,342)**	**(557,382)**
Income tax (expense) benefit		-	-
Net loss from ordinary activities after income tax expense		**(174,342)**	**(557,382)**
Other comprehensive income/(loss) after income tax:			
Exchange differences on translating foreign controlled entities		45,651	(18,836)
Other comprehensive income/(loss) for the period, before tax		-	-
Income tax (expense) benefit		-	-
Other comprehensive income/(loss) for the period, net of tax		**45,651**	**(18,836)**
Total comprehensive income/(loss) for the period attributable to members of the parent entity		**(128,691)**	**(576,218)**
Basic and diluted loss per share (cents)	5	**(0.14)**	

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

STATEMENT OF FINANCIAL POSITION

as at 30 June 2011

	Note	Consolidated 30 June 2011	Consolidated 31 December 2010
CURRENT ASSETS		**$**	**$**
Cash and cash equivalents		1,277,626	493,481
Trade and other receivables		39,597	98,203
Other current assets		-	28,977
TOTAL CURRENT ASSETS		**1,317,213**	**620,661**
NON-CURRENT ASSETS			
Trade and other receivables		40,455	38,212
Deferred exploration and evaluation expenditure		2,466,292	1,168,974
Plant and equipment		3,643	2,284
TOTAL NON-CURRENT ASSETS		**2,510,390**	**1,209,470**
TOTAL ASSETS		**3,827,613**	**1,830,131**
CURRENT LIABILITIES			
Trade and other payables		441,747	820,162
TOTAL CURRENT LIABILITIES		**441,747**	**820,162**
TOTAL NON-CURRENT LIABILITIES		**-**	**-**
TOTAL LIABILITIES		**441,747**	**820,162**
NET ASSETS		**3,385,866**	**1,009,968**
SHAREHOLDERS' EQUITY			
Issued capital	6	4,990,124	2,580,335
Foreign currency translation reserve		(59,363)	(105,014)
Share based payments reserve		378,011	283,211
Accumulated losses		(1,922,906)	(1,748,564)
TOTAL EQUITY		**3,385,866**	**1,009,968**

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

Statement of Changes in Equity

for the six months ended 30 June 2011

Consolidated	Issued Capital $	Accumulated Losses $	Foreign Currency Reserve $	Share Based Payments Reserve $	Total Equity $
At 23 November 2009	-	-	-	-	**-**
Transactions with owners in their capacity as owners					
Shares issued during the period	900,290	-	-	-	900,290
Capital raising costs	(567,170)	-	-	-	(567,170)
Share based payments	-	-	-	133,620	133,620
	333,120	-	-	133,620	**466,740**
Comprehensive loss for the period	-	(557,382)	(18,836)	-	(576,218)
At 30 June 2010	**333,120**	**(557,382)**	**(18,836)**	**133,620**	**(109,478)**
At 1 January 2011	2,580,335	(1,748,564)	(105,014)	283,211	1,009,968
Transactions with owners in their capacity as owners					
Shares issued during the year	2,655,000	-	-	-	2,655,000
Capital raising costs	(245,211)	-	-	-	(245,211)
Share based payments	-	-	-	94,800	94,800
	2,409,789	**-**	**-**	**94,800**	**2,504,589**
Comprehensive loss for the period	-	(174,342)	45,651	-	(128,691)
At 30 June 2011	**4,990,124**	**(1,922,906)**	**(59,363)**	**378,011**	**3,385,866**

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

STATEMENT OF CASH FLOWS

for the six months ended 30 June 2011

	Note	Consolidated 1 January to 30 June 2011 $	Consolidated 29 November 2009 to 30 June 2010 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Payment to suppliers (inclusive of GST)		(593,162)	(351,483)
Interest received		14,373	3,099
Interest paid		-	(21)
NET CASH (OUTFLOWS) FROM OPERATING ACTIVITIES		**(578,789)**	**(348,405)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditure on plant and equipment		(1,890)	-
Expenditure on mining interests (exploration)		(980,916)	(273,845)
Expenditure on security deposits		-	(38,212)
NET CASH (OUTFLOWS) FROM INVESTING ACTIVITIES		**(982,806)**	**(312,057)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		2,507,500	900,290
Share issue costs		(162,711)	(92,347)
Cash received from acquisition of controlled entity		951	30
NET CASH INFLOWS FROM FINANCING ACTIVITIES		**2,345,740**	**807,973**
NET INCREASE IN CASH HELD		**784,145**	**147,511**
Cash and cash equivalents at the beginning of the financial period		493,481	-
Cash and cash equivalents at the end of the financial period		**1,277,626**	**147,511**

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

Contents of the notes to the financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. The consolidated financial statements and notes represent those of Larus Energy Limited (formerly Newport Energy Ltd) and its subsidiaries ("the Consolidated Group" or "Group"). This Half Yearly Financial report has not been subject to an audit review.

Basis of preparation

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

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Going Concern

The Group made a loss after tax of $128,691 for the six months ended 30 June 2011.

The ongoing viability of the Group and the recoverability of its non-current assets are dependent on the successful development of its exploration tenements. The Directors believe that there are reasonable prospects the projects will be ultimately successful and that the non-current assets are included in the Financial Report at their recoverable amount.

The Financial Report has been prepared on the basis of a going concern. This basis presumes that funds will be available to finance future operations, project expenditure, exploration commitments and to repay liabilities and that the realisation of assets and settlement of liabilities will occur in the normal course of business. The Directors believe that the Group will be able to fund future operations through capital raising.

At the date of this report other sources of funds are being sought to fund future working capital requirements of the Group.

The Directors believe that they will be successful in raising sufficient funds to ensure that the Group can continue to meet its debts as and when they become due and payable. However, if additional funds are not raised, there is some uncertainty as to whether the going concern basis is appropriate with the result that the Company may have to realise its assets and extinguish its liabilities other than in the ordinary course of business and in amounts different from those stated in the Financial Report. No allowance for such circumstances has been made in the Financial Report.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting policies

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

The following significant accounting policies have been adopted in the preparation and presentation of the Financial Report:

(a) Borrowings

Loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accruals basis.

(b) Borrowing costs

Borrowing costs are expensed as incurred.

(c) Cash and cash equivalents

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

(d) Comparative figures

The Company was incorporated on 23 November, 2009.

Accordingly the comparative figures cover the period from 23 November 2009 (date of incorporation) to 30 June 2010.

(e) Equity-settled compensation

The Group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

(f) Exploration and evaluation expenditure

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

(g) Financial Instruments

Recognition and initial measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the entity commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified at fair value through profit or loss, in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Finance instruments are subsequently measured at fair value, amortised cost using the effective interest rate method or cost.

Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

a. the amount at which the financial asset or financial liability is measured at initial recognition;
b. less principal repayments;
c. plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and
d. less any reduction for impairment.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

Financial assets at fair value through profit or loss

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. All other loans and receivables are classified as non-current assets.

Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

De-recognition

Financial assets are de-recognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are de-recognised where the related obligations are discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(h) Fair value estimation

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

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(i) Foreign currency translation

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency

Transactions and balances

Foreign currency transactions are translated into functional currency using the 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 statement of comprehensive income, 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 statement of comprehensive income.

Group companies

The financial results and position of foreign operations, whose functional currency is different from the Group's presentation currency, are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at the end of the reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

(j) Goods and services tax

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

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

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

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

(k) Impairment of assets

At each the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

(l) Income tax

The income tax expense (revenue) for the period comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at the end of the reporting period. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the end of the reporting period. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(m) Loss per share

Basic loss per share

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

Diluted loss per share

Diluted earnings (loss) per share adjusts the figures used in the determination of basic loss per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Plant and equipment

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

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 the 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 values 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.

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 statement of comprehensive income during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life 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 the improvements.

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

Office equipment	5 – 10 years
Computer software	2 – 3 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

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 statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Principles of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by the Company at the end of the reporting period. A controlled entity is any entity over which the Company has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are shown separately within the equity section of the consolidated statement of financial position and statement of comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires that for each business combination one of the combining entities must be identified as the acquirer (i.e. parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. At this date, the parent shall recognise, in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

The acquisition may result in the recognition of goodwill or a gain from a bargain purchase. The method adopted for the measurement of goodwill will impact on the measurement of any non-controlling interest to be recognised in the acquiree where less than 100% ownership interest is held in the acquiree.

Goodwill

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

(i) the consideration transferred;

(ii) any non-controlling interest; and

(iii) the acquisition date fair value of any previously held equity interest;

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment. Consideration may comprise the sum of the assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is remeasured each reporting period to fair value through the statement of comprehensive income unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the consolidated statement of comprehensive income.

Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, which represent the lowest level at which goodwill is monitored but where such level is not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying values of goodwill.

(p) Revenue recognition

Interest revenue is recognised using the effective interest rate method, which for floating rate financial assets is the rate inherent in the instrument.

All revenue is stated net of the amount of goods and services tax (GST).

(q) Trade and other payables

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remains unpaid. The balance is recognised as a current liability with the amount normally being paid within 30 days of recognition of the liability.

(r) Trade and other receivables

Trade and other receivables are recorded at amounts due less any allowance for doubtful debts.

2. REVENUE

	Consolidated 2011 $	Consolidated 2010 $
Interest received	14,373	3,099
Total revenue from continuing operations	**14,373**	**3,099**

3. OPERATING LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

	Consolidated 2011	Consolidated 2010
The operating loss from ordinary activities before income tax expense has been determined after charging the following expenses:		
Depreciation		
Depreciation of plant and equipment	**531**	**776**
Employment costs		
Executive directors salary	13,761	108,567
Executive directors eligible termination payment	(99,885)	-
Non-executive directors fees	35,703	82,678
Other directors expenses	1,760	10,444
Employee salary	-	101,600
Employee service provider fees	100,200	-
Superannuation	16,629	26,778
Other employment expenses	36,713	2,316
Leave entitlements	-	16,167
Less allocated to exploration expenditure	(100,200)	-
	4,681	**348,550**
Interest paid	**-**	**21**
Occupancy Costs		
Office rent	4,120	1,709
Other office costs	-	143
	4,120	**1,852**

4. FINANCIAL REPORTING BY SEGMENTS

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of exploration in Papua New Guinea and Australia. Operating segments are therefore determined on the same basis.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors, being the chief decision makers with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Inter-segment transactions

An internally determined transfer price is set for all inter-segment sales. This price is reset quarterly and is based on what would be realised in the event the sale was made to an external party at arm’s length. All such transactions are eliminated on consolidation of the Group’s financial statements.

Inter-segment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives majority economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

4. FINANCIAL REPORTING BY SEGMENTS (CONTINUED)

Unallocated items

The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- impairment of assets and other non-recurring items of revenue or expense;
- income tax expense;
- deferred tax assets and liabilities;
- current tax liabilities;
- other financial liabilities;
- intangible assets;

2011	**Exploration Australia**	**Exploration Papua New Guinea**	**Total**
	2011	**2011**	**2011**
Segment performance	**$**	**$**	**$**
Interest received	20	14,353	14,373
Total revenue from continuing operations	**20**	**14,353**	**14,373**
Segment net profit from continuing operations before tax	(4,241)	(153,340)	(157,581)
Reconciliation of segment result to group net profit/loss before tax:			
Amounts not included in segment result but reviewed by the Board:			
— corporate charges			(16,230)
— depreciation and amortisation			(531)
— foreign currency gains/(losses)			45,651
Net profit before tax from continuing operations			**(128,691)**
Segment Assets	812,144	3,015,470	3,827,614
Reconciliation of segment assets to group assets:			
Unallocated assets			-
Group assets:			**3,827,614**
Segment Liabilities	-	331,747	331,747
Reconciliation of segment liabilities to group liabilities:			
Unallocated liabilities			110,000
Group liabilities			**441,747**

4. FINANCIAL REPORTING BY SEGMENTS (CONTINUED)

2010	Exploration Australia	Exploration Papua New Guinea	Total
	2010	2010	2010
Segment performance	**$**	**$**	**$**
Interest received	-	3,099	3,099
Total revenue from continuing operations	**-**	**3,099**	**3,099**
Segment net profit from continuing operations before tax	-	(459,938)	(459,938)
Reconciliation of segment result to group net profit/loss before tax:			
Amounts not included in segment result but reviewed by the Board:			
— corporate charges			(96,668)
— depreciation and amortisation			(776)
— foreign currency gains/(losses)			(18,836)
Net profit before tax from continuing operations			**(576,218)**
Segment Assets	**-**	1,830,131	1,830,131
Reconciliation of segment assets to group assets:			
Unallocated assets			-
Group assets:			**1,830,131**
Segment Liabilities	**-**	820,162	820,162
Reconciliation of segment liabilities to group liabilities:			
Unallocated liabilities			-
Group liabilities			**820,162**

5. LOSS PER SHARE

Basic and diluted	**2011**
Weighted average number of shares used in basic and diluted loss per share	93,348,242
Basic and diluted loss per share (cents per share)	**(0.14)**
Anti-dilutive options on issue not used in dilutive EPS calculation	15,250,000

6. CONTRIBUTED EQUITY

	Consolidated 2010 Number of shares	Consolidated 2010 $
Issued Capital		
Ordinary shares - fully paid	110,935,120	6,333,791
Less share issue costs		(1,343,667)
Total contributed equity		**4,990,124**

Movements in Issued Capital	Consolidated 2011 Number of shares	Consolidated 2011 $
Balance as at 1 January 2011	83,385,120	2,580,335
Issues during period:		
Share based payment for corporate advisory services	1,000,000	-
Shares issued pursuant to the acquisition of Larus Energy Pty Ltd	7,000,000	700,000
Shares issued pursuant to the Information Memorandum	19,550,000	1,955,000
	110,935,120	**5,235,335**
Less share issue costs		(245,211)
Balance as at 30 June 2011		**4,990,124**

7. CONTINGENT LIABILITIES

There are no contingent liabilities.

8. EVENTS OCCURRING AFTER THE END OF THE HALF YEAR

On 1 July 2011, the Company incorporated a wholly owned subsidiary company, Newport Energy Pty Ltd.

There were at the date of this report no other matters or circumstances which have arisen since 30 June 2011 that have significantly affected or may significantly affect:

i) the operations of the consolidated entity,
ii) the results of those operations, or
iii) the state of affairs of the consolidated entity

in the financial year subsequent to 30 June 2011.

9. ACQUISITION OF CONTROLLED ENTITY

	Acquiree's carrying amount $	Fair Value $
On 14 June 2011, the parent entity acquired 100% of the issued capital of Larus Energy Pty Ltd by issuing 7,000,000 ordinary shares and 4,000,000 options.		
Purchase Consideration		
Issue of 7,000,000 ordinary shares		700,000
Issue of 4,000,000 options		94,800
		794,800
Less :		
Cash	951	951
Receivables	3,948	3,948
Exploration expenditure	161,776	804,817
Payables	(14,916)	(14,916)
	151,759	**794,800**
Goodwill	-	-
The purchase consideration was allocated as follows in the parent company:		
Investment in subsidiary		794,800
		794,800

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 3 to 23, are in accordance with the Corporation Act 2001 and:
   (a) comply with Accounting Standards, which, as stated in accounting policy note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
   (b) give a true and fair view of the financial position as at 30 June 2011 and of their performance for the period ended on that date of the Company and economic 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.

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

Dated at Sydney this 21st day of October 2011

On behalf of the Board

Graham Holdaway
Chairman