Larus Energy Limited

and its Controlled Entities

(formerly Newport Energy Limited)
ABN 16 140 709 360

Annual Report 2011

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

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

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Chairman's Letter

Dear Shareholder

Larus Energy is an oil and gas exploration company and is constantly engaged in two main activities:

- raising capital; and
- applying that capital to exploration activities.

While your directors have considered (and continue to consider) multiple capital raising options, the productive source to date has been private capital. During 2011, our broker, YBR Securities, assisted the Company to raise $5.17M in new funds. $2.88M was raised at 10 cents a share during the first part of 2011 and $2.29M was raised at 20 cents a share during the latter part of 2011. While the Board remains focussed on listing on an appropriate Stock Exchange at the earliest reasonable opportunity, it is possible that private fund raising will be in the best interests of shareholders for some months yet.

The Company has applied the capital raised to derisk its PNG asset PPL 326. The undoubted highlight of the year was the undertaking of the Baramata 2D seismic survey, which was the first target specific survey in the area. This work has identified a large number of leads in the southern central part of the tenement and firmed up a strong lead to prospect status.

The survey enabled our Sunday strong lead to be elevated to a drillable prospect with a potentially huge resource. Using analogies with the Hides field in the PNG Highlands, our (unrisked) inventory of prospects and leads sums to in excess of 58Tcf of gas in place and 860 mmbbls of condensate in place - all of which are held 100% by the Company. This inventory covers only about $1/10^{th}$ of the area of PPL 326 and demonstrates that the potential resource in the tenement is substantial.

Plans for PPL326 in 2012 include a shallow water and transition zone 2D seismic survey and an onshore seismic program. The shallow water survey is underway as this is being written, while the onshore program remains subject to capital availability.

The Company has also, via a small issue of shares and options, acquired a second exploration asset, on the southern flanks of the Gippsland Basin. This acquisition has brought with it a comprehensive modern seismic data set over an area on the edge of Australia's most prolific oil producing basin. We have the opportunity of applying a fresh mind, modern techniques and new data to explore the opportunities in this neglected area – just as we have done in PNG.

The Company has provided a regular flow of information to shareholders through Updates posted on the Company's website. If you are not already registered for email alerts or have not already bookmarked the Company's website – www.larusenergy.com.au – then I encourage you to do so.

Graham Holdaway
Chairman
3 February 2012

REVIEW OF OPERATIONS

Overview

2011 proved a difficult year generally in relation to capital markets. As Tony Featherstone said in *The Weekend Australian Financial Review* on 28 December 2011 at p.23, "*Capital raised through initial public offerings (IPOs) in 2011 was the lowest in more than a decade, share price losses were horrendous and dozens of companies abandoned their float or slashed their capital raising. If the trend continues, several potential billion-dollar IPOs in 2012 will be at risk.*"

Larus Energy quietly got about its business raising capital privately through its brokers YBR Securities and applying this in a very efficient way to increase the value of its asset base. Significant de-risking has been achieved with respect to the PNG tenement and we now have a drillable prospect as well as a number of strong leads which are close to prospect status.

The Company also diversified its risk by acquiring 3 tenements in the offshore Gippsland Basin in Australia. It has a comprehensive modern 2D data set over the 3 tenements which it is working through to develop a prospects and leads inventory for those tenements.

General

The Company was incorporated in New South Wales, Australia on 23 November 2009.

The Company has 2 sets of tenements – PPL 326 in Papua New Guinea ("PPL 326") and VIC/P63, VIC/P64 and T/46P in Australia ("Gippsland Permits"). The Group owns 100% of the interest in each of the tenements. Each of these tenements is in early stages of oil and gas exploration. The Company has spent 2011 focused on implementing exploration work which will assist in in proving up the underlying geological concepts and the de-risking of the tenements. The current plan is to get each of the tenements to a drill ready stage by the end of 2012. There is a lot of work that still needs to be done to achieve this, all of which will require significant capital to achieve. Given our tenure and size of the tenements, such work needs to be conducted in a fairly short time frame.

The Company has through its efforts been able to achieve much in 2011 which, in the case of PPL 326, has culminated in its first inventory of prospects and leads. This inventory starts to quantify the enormity of the prospectivity of PPL 326. It expects to also develop such an inventory for the Gippsland Permits in early 2012.

There is major exploration activity planned for PPL 326 in 2012, subject to the availability of capital. The first of these programs is a shallow water 2D seismic survey to be conducted north of the Sunday Prospect commencing late January 2012.

Corporate Structure

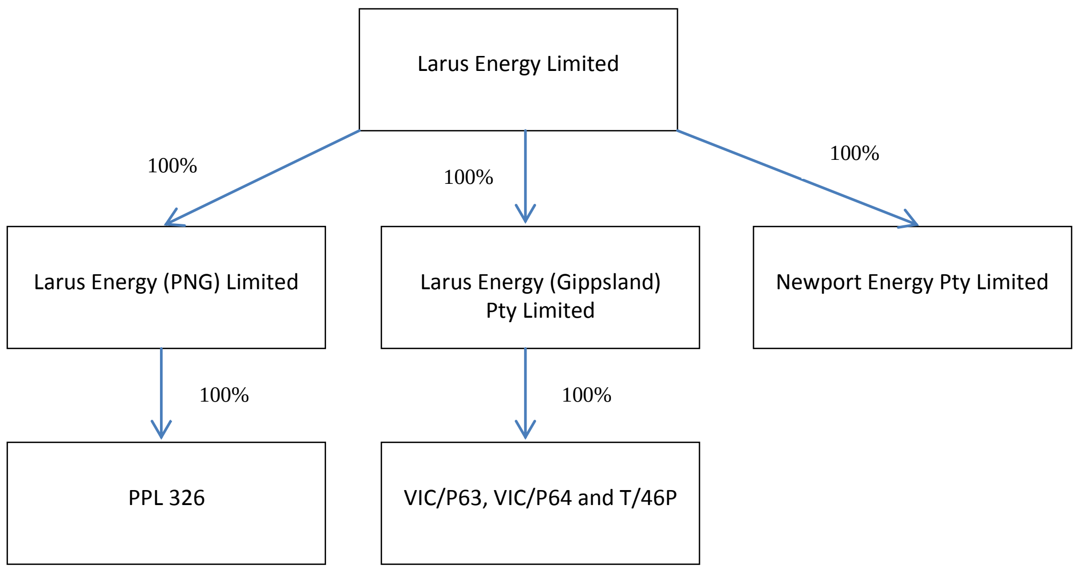
Larus Energy changed its name to Larus Energy Limited from Newport Energy Limited on 17 June 2011. The Company was originally created to focus specifically on PPL 326. PPL 326 was granted by Minister Duma to Newport Energy (PNG) Limited (now called Larus Energy (PNG) Limited) on 27 August 2009. That company was acquired by Larus Energy in December 2009.

Larus Energy (PNG) Limited is a wholly owned subsidiary of Larus Energy and holds the 100% interest in PPL 326. Larus Energy (PNG) Limited is a company incorporated under the laws of PNG.

On 14 June 2011, Larus Energy acquired all of the issued capital in Larus Energy (Gippsland) Pty Limited, a company incorporated in Victoria. Larus Energy (Gippsland) Pty Limited holds the 100% interest in the Gippsland Permits.

Review of Operations

Newport Energy Pty Limited is a wholly owned subsidiary of Larus Energy incorporated in the State of Victoria on 1 July 2011. Newport Energy Pty Limited is the holder of software licences used in exploration activities.



Acquisition of Larus Energy (Gippsland) Pty Ltd

Larus Energy acquired all of the issued capital of Larus Energy (Gippsland) Pty Limited on 14 June 2010. That acquisition was approved by a General Meeting of Larus Energy held on 14 June 2011.

In consideration for the acquisition of all of the issued capital in Larus Energy (Gippsland) Pty Limited, Larus Energy issued a total of 7 million ordinary shares and 4 million options with an exercise price of 15 cents and an exercise period of 3 years ("Gippsland Options") to the shareholders of Larus Energy (Gippsland) Pty Ltd.

Activities during the Financial Period

Papua New Guinea – PPL 326

PPL 326 lies to the south east of Port Moresby. No hydrocarbon exploration wells have been drilled in PPL 326 and previous exploration has been limited to surface geological mapping and a very small amount of reconnaissance seismic survey data acquisition.

PPL 326 consists of 200 blocks and covers an area of approximately 16,752km^2 (6,468 square miles). PPL 326 lies:

- approximately 47% onshore; and
- approximately 53% in the offshore region of the Coral Sea, with roughly half of that in depths of 200m or less and the balance in depths greater than 200m (maximum depth is 1,900m).

The onshore blocks within PPL 326 cover parts of the Central and Milne Bay Provinces with the Owen Stanley Ranges lying to the north. The coastline across PPL 326 is frequently rimmed by continental islands and reefs.

REVIEW OF OPERATIONS

The initial term of PPL 326 is for 6 years which currently expires on 26 August 2015. The Licence can be renewed for a further 5 years, but only for 50% or less of the existing area. Work commitments under the Licence are specified for each 2 year period within the term of the Licence. The first 2 year period expired during the Financial Period on 26 August 2011. That commitment comprised a minimum expenditure of US$2,000,000 on exploration activities comprising:

- Standardized aeromagnetic and gravity data and plan future surveys
- Conduct complete geological and geophysical review of the licence area
- Field geological mapping, seep sampling and analysis, where applicable
- Interpret remote sensing of data including aerial photographs and SAR where available
- Compile preliminary prospects and leads inventory
- Plan new seismic acquisition program to mature best leads into prospects

The Company met and exceeded that work commitment. The work commitment for the second period of 2 years has been approved by the PNG Petroleum Advisory Board and is currently completing the formal approval process. It comprises:

- Plan and acquire up to 300 km of seismic offshore
- Plan and acquire up to 300 km of seismic onshore
- Geological & Geophysical studies and review results
- Particulars of financials
- US$2 Million budget

During the Financial Period the Company continued its interpretation of existing seismic survey data, primarily nearly 1,300km of the Lahara 2D seismic survey data which had been acquired by Fugro-Searcher in 2006 and 3,200km of the Sonne regional seismic survey acquired by the German BGR in 1981. Additional work included the conduct of a preliminary social mapping and land owner identification study over PPL 326. That survey resulted in reporting of a number of potential oil seeps being reported and the Company commenced investigating those reported oil seeps during the Financial Period.

The Company also conducted a project using resources from the University of PNG, to conduct a geological investigation of Mount Bing (near Rigo and Unugau, about 75 km SE of Port Moresby) as a targeted geological feature that may be of interest to the Company. The Company also awarded its first scholarship for an Honours student at the University of PNG.

During the Financial Period Larus Energy completed and published the first basement map prepared for the area that clearly demonstrated that PPL 326 sits in an entirely separate and new basin, that we have named the Torres Basin. This was a significant development as it meant that many of the concerns expressed by others in the past regarding the region’s geological history and the area’s prospectivity could be put to one side.

The opportunity was also taken to engage RPS Energy to provide an updated review of the prospectivity of PPL 326 based on the further data obtained and the further work performed by the Company since RPS Energy provided its first independent geologist’s report on 29 March 2010.

REVIEW OF OPERATIONS

In August 2011, the Company embarked on the first targeted seismic acquisition survey in the area. The Company engaged Reflect Geophysical Pte Ltd, using the MV Orient Explorer, to acquire 2D seismic over the southern-central and western offshore parts of PPL 326 ("Baramata 2D seismic survey"). The original survey objectives were to focus on three anticlinal leads including and adjacent to the Sunday strong lead, as well as to demonstrate other shallower play concepts. In order of priority the objectives were:

- Sunday Strong Lead;
- Rodney Weak Lead;
- Grange Weak Lead;
- Anticlinal plays in the shallower over thrust section;
- 'First look' seismic in the north west of the permit; and
- Hint of next thrust fairway to the northeast.

Each of these objectives was achieved. In all 973 prime line km of data was acquired as part of the Baramata 2D seismic survey. Final processing of the data was completed and delivered to the Company in October 2011.

Interpretation of the Baramata 2D seismic survey data by the Company enabled the Company to start identifying and mapping leads and prospects and to develop an initial prospect inventory. That inventory includes the Sunday Prospect, the mapping of which suggests that by analogy it is larger than the Hides field in the Highlands and could have in excess of 13 Tcf gas in place and 140 mmbbls of condensate in place (assuming similar geological parameters as Hides). The inventory itself (which only quantifies those leads/prospects over which the Company has adequate seismic for the purpose) aggregates in excess of 58 Tcf gas in place and 860 mmbbls condensate in place (unrisked and assuming similar geological parameters as Hides).

Australia – VIC/P63. VIC/P64 and T/46P

The Gippsland Permits (VIC/P63, VIC/P64 and T/46P) ("Gippsland Permits") were acquired by the Company in June 2011. The Gippsland Permits consist of three separate tenements on the southern flank of the basin and comprise approximately 8,300 square kilometres. The Gippsland Permits target a hydrocarbon play with structural and stratigraphic traps of the Latrobe Group onlapping the basement and pinching out towards the basin margin. This occurs in water depths of less than 100 metres.

The southern margin of the Gippsland Basin, where the Permits are located, has not been drilled since the late 1960s and, until recently, has not had any new seismic shot since the early 1980s. Drilling density and seismic coverage are very low by world standards for such a prolific basin and the Gippsland Permits provide a great opportunity to apply modern exploration methods and proven ideas from other parts of the Gippsland Basin in the pursuit of large accumulations.

The seismic data that was originally available comprised many vintages of quite old data that was acquired in several phases over the 1960s to early 1980s. The majority of this data was not in a digital format suitable for interpretation on a modern workstation, so the initial work program set in place by the previous operator consisted of reprocessing 4,000 line kilometres of this vintage data to create a modern interpretation project which was then used to delineate exploration plays and to identify potential leads.

The previous operator acquired approximately 1,500 line km of new 2D seismic data ("Furneaux 2D") in May 2010 and that was processed by them, but not interpreted. Immediately after the Furneaux 2D data was acquired, GeoScience Victoria used the same seismic vessel to acquire approximately 8,000km of 2D seismic over the Gippsland Permits and surrounding areas ("Vic DPI Southern Flanks Seismic Survey"). This data was made available to Larus Energy to use at no cost late in 2011. Larus Energy has been interpreting both sets of data during the Financial Period and is continuing that activity. The work during the Financial Period strongly indicates that hydrocarbons have migrated through the region and our focus is now on identifying structures and traps using the new seismic data set.

Capital Raising

A substantial amount of time was spent during the Financial Period pursuing and exploring capital raising initiatives in order to provide funds for the various exploration programs. As noted at the commencement of this Report, 2011 proved a very difficult year for IPOs in Australia and for capital raising in general. While the October 2010 Information Memorandum capital raising ultimately achieved its target of raising $5,000,000, this was not completed until July 2011. A further capital raising was then commenced under the July 2011 Information Memorandum, but as at the end of the Financial Period only $2,286,500 had been received under that raising.

The lack of capital has constrained the pace of the Company's efforts to de-risk the various tenements and to develop cogent drillable prospects. Particularly in PNG, where our permit is very large by PNG standards, there is a paucity of data over PPL 326. Large and capital hungry exploration programs need to be conducted during the current term of the Licence. Given the extensive modern data set already available over the Gippsland Permits, less capital will be required.

The Board is committed to listing the Company at the earliest reasonable opportunity, but that opportunity did not present during 2011. It is possible that it will not present until late in 2012 or even 2013. The Board has looked at and continues to review opportunities to list in Australia, the United Kingdom, Canada or the US and to also look at private capital in the immediate term. The lack of predictable sources of capital matched to exploration needs has been a distraction for the Company since its inception, so the Board and Management continue to both develop the story (through the most efficient possible exploration program) and present the story to potential investors.

Corporate Activities

The main corporate activity of the Company during the Financial Period was the acquisition of all of the issued capital of Larus Energy (Gippsland) Pty Ltd as noted above.

The Company has established a small office and facilities in Kupiano, PNG to assist with its exploration activities in PNG.

Future Activities

Papua New Guinea – PPL 326

While the Company has a very clear program for the exploration activities it wishes to undertake in 2012, whether it can undertake any of these will be dependent on the availability of capital. Should the necessary capital be available, then these activities will include:

- Acquisition of approximately 500km of 2D seismic in shallow water and transition zones off Abau, PNG;
- Acquisition of approximately 1,500km of 2D seismic onshore in and around Kupiano, PNG;
- Interpret the above data and develop further leads and prospects;

- Drill 1 or more shallow exploration wells onshore in PPL 326, PNG to tie in the seismic data with the stratigraphy; and
- Develop drillable prospects for potential farm-out negotiations.

Australia – VIC/P63, VIC/P64 and T/46P

While the Company has a very clear program for the exploration activities it wishes to undertake in 2012, whether it can undertake any of these will be dependent on the availability of capital. Should the necessary capital be available, then these activities will include:

- Completion of interpretation of Furneaux 2D seismic survey data and Vic-DPI Southern Flanks 2D seismic survey data;
- Develop a leads and prospects inventory;
- Acquire further seismic data as necessary; and
- Develop drillable prospects for potential farm-out negotiations.

Corporate Activities

The main focus going forward will be on raising the capital necessary to undertake the above exploration work and to prepare the Company for listing, as appropriate.

Closing Words

2011 proved to be a much more positive year for the Company, although capital continued to be difficult to raise. Nevertheless the Company has achieved significant advancements and has demonstrated how it can achieve a lot with very little. We grow more and more confident that the Company is holding some potentially very valuable assets and the challenge for 2012 is to take these forward so that by the end of 2012 we will be on the cusp of opening them up. If we are given access to the capital we need, we are confident that we can achieve this and add significantly to shareholder value.

David Williams
Managing Director
3 February 2012

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity consisting of Larus Energy Limited (formerly Newport Energy Limited) and the entities it controlled at the end of and during the period ended 31 December 2011.

Directors

The following persons were Directors of Larus Energy Limited (formerly Newport Energy Limited) during the whole of the financial period and up to the date of this report:

Director	**Appointed**
Patricia Kay Philip	2 March 2010
Lindsay David Hale Williams	2 March 2010
Graham Ian Holdaway	2 March 2010
Peter Joseph Fennessy	14 June 2011

Current Directors' qualifications and experience

Graham Holdaway – Non Executive Chairman

Mr Holdaway is an accountant with experience in the energy sector and in developing countries.
From 1984 to March 2010 Mr Holdaway was with the accounting firm KPMG. For 20 of those years he was an advisory partner in the Melbourne practice. He was a key member of KPMG teams advising the Victorian and South Australian governments on the reform and privatisation of their electricity and natural gas industries. He has since provided advice to Federal and State governments on energy policy and energy sector regulation. He has also advised many energy infrastructure owners on access regulation and pricing issues.

Mr Holdaway also spent two periods (in total five years) with KPMG Indonesia based in Jakarta.

Mr Holdaway is an Associate of the Institute of Chartered Accountants in Australia, and a Member of the Australian Institute of Company Directors (AICD).

David Williams – Managing Director

Mr Williams has held the position of Managing Director of a number of ASX listed companies and privately owned companies, a number of which have had international owners. He brings over 15 years of experience in the energy and resource industry across all aspects of the value chain including exploration, production and infrastructure. He has demonstrated ability to develop and implement major strategic directional changes including capital raisings, acquisitions and mergers, cost and labour reductions.

Prior to accepting his appointment as Managing Director of Larus Energy, Mr Williams was President and a Director of Heathgate Resources Pty Ltd. Previously Mr Williams held the position of Managing Director of Drillsearch Energy Limited (2008) and Great Artesian Oil & Gas Limited (2007). From 2005 to 2007, Mr Williams was Managing Director of Chemeq Limited and, prior to that, was Chief Executive Officer of the Epic Energy group. Mr Williams is also a Principal of The Walton Group which is focused on high performance corporate governance. Mr Williams has professional experience as a lawyer, consultant, general counsel and company secretary.

Mr Williams is a member of the Australian Institute of Company Directors (AICD).

DIRECTORS' REPORT

Kay Philip ONM – Non-executive Director

Ms Philip is a geophysicist whose background embraces project acquisition, financial analysis of resource projects and companies, mining exploration and management. She also has experience in the financial markets, including rights issues and other capital raisings. Ms Philip has worked in the securities industry, conducting courses in Australia and South East Asia.

She is an Honorary Associate at the School of Physics, University of Sydney, and has been a director of a number of listed and unlisted companies in the financial and oil and gas sectors. Ms Philip is currently an independent non-executive director of AusTex Oil Limited. She is also a director of Proto Resources and Investments Limited (since 2006) and was a director of Stirling Resources Limited (formerly Alexanders Securities Limited) from 1985 to 2010 and Longreach Oil Limited from 1985 to 2010.

Ms Philip was decorated by the French government in 2005 with the award of Chevalier de l'Ordre National du Mérite (ONM), for facilitating collaborations between French and Australian scientists.

Ms Philip is a Senior Fellow of the Financial Services Institute of Australia (FINSIA), Member of the Australian Institute of Physics (AIP), Member Australian Society of Exploration Geophysicists (ASEG), Member of the Association of International Petroleum Negotiators (AIPN) and Secretary of the Australian-French Association for Science and Technology (AFAS).

Peter Joseph Fennessy – Non-executive Director (Appointed 14 June 2011)

Mr Fennessy is currently with Australasian Capital, a boutique financial and advisory firm focussing on energy and resource project development. Prior to this he worked for over 6 years on energy development projects with Alinta and before that with TXU (and the precursor businesses including Kinetik Energy) in their wholesale energy trading area for a total of 10 years.

Mr Fennessy's initial industry experience was with BP Exploration. He worked there for just under 10 years as a geologist and commercial analyst in oil and gas exploration, operations, production and basin review. During this period he spent time working and living in Papua New Guinea undertaking field exploration and drilling operations. He later took on the role of Commercial Analyst in the upstream exploration sector working on upstream oil and gas project investment, corporate strategy, planning and asset portfolio management.

In all, Mr Fennessy has had an extensive 25 year career in the energy industry in both the upstream and wholesale energy market sectors and has developed and executed a number of integrated gas supply, storage and transmission strategies often associated with power projects. He has also had key roles in the development of the continually evolving wholesale gas markets in Australia and is recognised as an industry leader in this area.

Andrew Cooke - Company Secretary

Mr Cooke has extensive experience in corporate and regulatory compliance in private, public and listed companies. A grounding in law and finance, coupled with international business experience and associations, has contributed to a very successful career.

From 1992 to date Mr Cooke has held the position of company secretary with Arc Exploration Limited, a gold exploration company listed on ASX with operations in Indonesia. Also from 2002 to date, Mr Cooke has fulfilled the role of company secretary for Malachite Resources Limited, a gold, silver and base metal exploration company listed on ASX with operations in New South Wales and Queensland. From 2007 to 2010 Mr Cooke also worked with Mosaic Oil NL, an oil and gas producer and explorer listed on ASX with operations in the Surat-Bowen Basin in Queensland.

From 2007 to 2009 Mr Cooke fulfilled the role of company secretary with Red Sky Energy Limited, a junior oil and gas explorer listed on ASX with operations in the Cooper Basin, South Australia and Darling Basin in New South Wales and from 2002 to 2006 with Emperor Mines Limited, a gold mining company listed on ASX with operations in Fiji. From 1986 to 1992, Mr Cooke was Manager of Corporate Financial Services with Lease Underwriting Limited, a tax and asset based finance group in Sydney. Prior to this he worked for three years with Gray and Perkins as a solicitor in Sydney.

Mr Cooke is a Fellow of the Institute of Chartered Secretaries and Administrators.

Incorporation

Larus Energy Limited (formerly Newport Energy Limited) was incorporated on 23 November, 2009 for the purpose of acquiring the whole of the issued capital of Larus Energy (PNG) Limited which holds Petroleum Prospecting Licence 326 ("PPL 326") in Papua New Guinea. Accordingly the comparative figures in this Annual Report cover the period from 23 November, 2009 (date of incorporation) to 31 December 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 year ended 31 December 2011 was a loss of $647,175 (period from 23 November 2009 (date of incorporation) to 31 December 2010 was a loss of $1,748,564).

Dividends

No dividends were either paid or declared for the period.

The Directors do not recommend the payment of a dividend in respect of the financial year ended 31 December 2011.

Review of operations

Information on the operation and financial position of the consolidated entity and its business strategies and prospects are set out in Operations Review.

Significant changes in the state of affairs

Larus Energy Limited acquired the whole of the issued capital of Larus Energy (Gippsland) Pty Limited on 14 June 2011 and incorporated Newport Energy Pty Ltd on 1 July 2011.

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

Since the end of the financial year 3,485,000 ordinary shares were issued in respect of the amounts received for shares which had not yet been allotted and a further 3,850,000 ordinary shares have been issued in respect of amounts received subsequent to year end.

DIRECTORS' REPORT

At the date of this report there were no other matters or circumstances which have arisen since 31 December 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 31 December 2011.

Likely developments

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

Directors' benefits

During the period no Director of the Company has received or become entitled to receive a benefit (other than a benefit included in the notes to the accounts) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

Share options

Particulars of options granted over unissued shares:

	2011
Total number of options granted by the Company over unissued ordinary shares	15,250,000
Options issued during the period	4,000,000
Shares issued in the period as the result of the exercise of options	Nil
Options expired during the period	Nil
Options cancelled during the period	Nil

Full details of options on issue are shown in note 20.

Meetings of directors

Attendance at Directors' meetings during the year

	Board Meetings		**Audit Committee Meetings**	
	Eligible to attend	**Attended**	**Eligible to attend**	**Attended**
Patricia Kay Philip	13	13	2	2
Lindsay David Hale Williams	13	13		
Graham Ian Holdaway	13	13	2	2
Peter Joseph Fennessy	6	6	1	1

DIRECTORS' REPORT

Environment

Larus Energy Limited (formerly Newport Energy Limited), through its subsidiaries, holds exploration tenements in Papua New Guinea and offshore Australia, that 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 known material breaches of the licence conditions.

Directors' and auditors' indemnification

The Company has, either during or since the end of the financial period, in respect of any person who is or has been an officer of the Company or a related body corporate, entered into deeds of access and indemnity with each director which includes indemnifying them against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings.

The Company has not, either during or since the end of the financial period, in respect of any person who is or has been an auditor of the Company or a related body corporate, indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings.

During or since the financial period, the Company has paid premiums in respect of a Directors and Officers Insurance contract insuring each director against a liability incurred as an officer for the costs or expenses to defend legal proceedings. It is a term of the contract that all other terms remain confidential.

Non-audit services

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the Group are important.

Details of the amounts paid or payable to the auditor (PKF, Chartered Accountants) for audit and non-audit services provided during the period are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Directors to ensure they do not impact the impartiality and objectivity of the auditor,
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms:

DIRECTORS' REPORT

	2011 $	2010 $
Non-Audit services		
PKF East Coast Practice:		
Investigating Accountants Report for Prospectus	-	29,002
Advice relating to various taxation and accounting matters	13,268	15,690
Total remuneration for non-assurance services	**13,268**	**44,692**

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 66.

Auditor

PKF Chartered Accountants were appointed as auditors on 25 March 2010 and hold office in accordance with Division 6 of Part 2M.4 of the Corporations Act 2001.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

The remuneration report is set out under the following main headings:

A) Principles used to determine the nature and amount of remuneration
B) Senior management employment contracts and remuneration
C) Details of remuneration
D) Performance based compensation
E) Share-based compensation

The information provided under headings A-E includes remuneration disclosures that are required under Accounting Standard AASB 124 Related Party Disclosures. These disclosures have been transferred from the financial report and have been audited.

The key management personnel of Larus Energy Limited and the Group includes the directors and the exploration manager.

A) Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance, being the development of the Larus Energy exploration tenements. The framework aligns executive reward with achievement of corporate strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation;
- transparency; and
- capital management.

The Group has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design;
- focuses on sustained growth in shareholder wealth and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracts and retains high calibre executives.

Alignment to programme participants' interests:

- rewards capability and experience;
- reflects competitive reward for contribution to growth in shareholder wealth;
- provides a clear structure for earning rewards; and
- provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short and long-term incentives.

REMUNERATION REPORT (AUDITED)

Non-executive directors

The Constitution provides that the non-executive Directors are entitled to such remuneration as determined by the Directors, which must not exceed in aggregate $500,000 per annum or such other maximum annual amount determined by Larus Energy in general meeting. Such remuneration is to be apportioned among the non-executive Directors as the Directors determine.

The Board has set Directors' fees at the following levels:
- Chairman - $40,000 pa; and
- Non-Executive Directors - $30,000 pa.

Non-executive Directors may be paid such additional or special remuneration as the Directors decide is appropriate where a non-executive Director performs extra services outside the scope of the ordinary duties of a Director provided that no such payment may be made if the effect would be to exceed the aggregate maximum sum referred to above.

Executive Directors

The Constitution provides that the executive Directors are entitled to such remuneration as determined by the Directors.

The Constitution also makes provision for Larus Energy to pay all expenses of Directors in attending meetings and carrying out their duties.

B) Senior management employment contracts and remuneration

David Williams - Managing Director

Pursuant to a services agreement dated 10 August 2011, the following contract was entered into.
With effect on and from 1 July 2011, Larus Energy contracted Mr Williams as Managing Director of Larus Energy on a total remuneration package of $350,000 per annum including superannuation.

It was also agreed that:
(a) A Short Term Performance Bonus (as described below) be provided; and
(b) A Long Term Performance Bonus (as described below) be provided.

Dr Michael Swift – Exploration Manager

Pursuant to a services agreement dated 23 September 2011, the following contract was entered into. With effect on and from 1 October 2011, Larus contracted Dr Swift as Exploration Manager of Larus Energy on a total remuneration package of $330,000 per annum including superannuation.
It was also agreed that an Overriding Royalty (as described below) be provided.

C) Details of remuneration

Amounts of remuneration
Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of Larus Energy Limited and the Larus Energy Limited Group are set out in the following tables.

REMUNERATION REPORT (AUDITED)

Remuneration paid to key management personnel of Larus Energy Limited and of the Group

2011	Short-term employee benefits			Post-employment benefits	Share-based payments		
Name	Salary	Directors Fees	Consulting Fees	Superannuation	Shares	Options	Total
	$	$	$	$	$	$	$
Non-executive directors							
Graham Holdaway	-	32,594	-	2,933	-	-	35,527
Kay Philip	-	37,003	-	3,330	-	-	40,333
Peter Fennessy	-	15,043	-	1,354	-	-	16,397
Sub-total non-executive directors	**-**	**84,640**	**-**	**7,617**	**-**	**-**	**92,257**
Executive directors							
David Williams (1)	160,550	-	100,200	18,578	-	-	279,328
Totals directors	**160,550**	**84,640**	**100,200**	**26,195**	**-**	**-**	**371,585**
Executives							
Michael Swift (2)	70,000	-	261,250	12,500	-	-	343,750
Sub-total executives	**70,000**	**-**	**261,250**	**12,500**	**-**	**-**	**343,750**
Totals	**230,550**	**84,640**	**361,450**	**38,695**	**-**	**-**	**715,335**

2010	Short-term employee benefits		Post-employment benefits		Share-based payments		
Name	Salary	Directors Fees	Superannuation	Termination payments	Shares	Options	Total
	$	$	$	$	$	$	$
Non-executive directors							
Reginald Edwards	-	10,000	-	-	-	-	10,000
David Murray	-	26,000	-	-	-	-	26,000
Kay Philip	-	45,872	4,128	-	31,250	14,959	96,209
Graham Holdaway	-	25,229	2,271	-	31,250	14,959	73,709
Sub-total non-executive directors	**-**	**107,101**	**6,399**	**-**	**62,500**	**29,918**	**205,918**
Executive directors							
David Williams (1)	228,237	-	21,699	200,000	62,500	59,836	572,272
Totals directors	**228,237**	**107,101**	**28,098**	**200,000**	**125,000**	**89,754**	**778,190**
Executives							
Michael Swift (2)	253,121	-	17,918	-	62,500	59,837	393,376
Sub-total executives	**253,121**	**-**	**17,918**	**-**	**62,500**	**59,837**	**355,876**
Totals	**481,358**	**107,101**	**46,016**	**200,000**	**187,500**	**149,591**	**1,171,566**

(1) Salary includes salary sacrificed relocation costs and superannuation.

(2) Salary includes salary sacrificed superannuation

REMUNERATION REPORT (AUDITED)

D) Performance based compensation

Mr D Williams

(i) Short Term Performance Bonus

Larus shall pay a performance bonus ("Bonus") to Mr Williams in respect of each period ending 31 December in any year (Bonus Period), determined by the Board on a reasonable basis, taking into account the performance of Larus in achieving its Business Plan and Strategic Objectives and any reasonable KPI's set prior to the commencement of each Bonus Period.

(ii) Long Term Performance Bonus

(a) ***prior to such time as Larus is listed on a recognised Stock Exchange.***

Larus shall pay a performance bonus ("Bonus") to Mr Williams in respect to any farm out agreement entered into by Larus in relation to PPL 326 or the Gippsland Permits ("Farmout Agreement") being 1% of the implied value of the farm out.

(b) on listing on a recognised Stock Exchange.

Larus shall pay a performance bonus ("Bonus") to Mr Williams on listing on a recognised Stock Exchange as follows:

Tranche 1 Options -
Equal to 2% of the issued quoted shares of Larus at an exercise price of 140% of the listing Market Price with a 3 year exercise period.

Tranche 2 Options -
Equal to 2% of the issued quoted shares of Larus at an exercise price of 160% of the listing Market Price with a 4 year exercise period.

Dr M Swift

(i) Overriding Royalty

The holder(s) of the interests in PPL 326 shall pay an Overriding Royalty to Mr Swift of 0.5% of the Wellhead Value of all Petroleum produced and sold from tenement PPL326 in PNG.

E) Share-based compensation

Options

No options over ordinary shares in the Company were provided as remuneration to a director of the Group or each of the key management personnel of the Group during the financial year.

Shares under option

Unissued ordinary shares of Larus Energy Ltd under option at the date of this report are shown in Note 20.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

Shares issued on the exercise of options

No ordinary shares of Larus Energy Ltd were issued during the year ended 31 December 2011 (2010 – Nil) on the exercise of options granted. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

Directors' interests in shares and options

The relevant interest of each Director in office at 31 December 2011 in the share capital of the Company as at the date of this report is as follows:

2011		**K Philip**	**G Holdaway**	**D Williams**	**P Fennessy**
Ordinary shares		430,000	2,450,000	5,504,722	126,389
Options					
Exercise price	**Expiry date**				
30 cents per share	28.02.2013	500,000	500,000	-	-
40 cents per share	28.02.2014	500,000	500,000	-	-
15 cents per share	30.06.2014	-	-	985,556	72,222

2010		**K Philip**	**G Holdaway**	**D Williams**
Ordinary shares		430,000	2,450,000	7,780,000
Options				
Exercise price	**Expiry date**			
30 cents per share	28.02.2013	500,000	500,000	-
40 cents per share	28.02.2014	500,000	500,000	-

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

David Williams
Director

Sydney, 3 February 2012

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2011

	Note	Consolidated 2011 $	Consolidated 23 November 2009 to 31 December 2010 $
Revenue	5	**44,158**	10,856
Expenses			
Administration costs		**(65,192)**	(101,783)
Corporate costs		**(208,720)**	(573,814)
Depreciation	6	**(4,704)**	(470)
Employment costs	6	**(317,441)**	(912,631)
Foreign currency gains		**43,414**	198
Investor and public relations		**(47,323)**	(68,716)
Occupancy costs	6	**(42,208)**	(3,172)
Other expenses from ordinary activities		**(49,159)**	(99,032)
Loss from ordinary activities before income tax expense		**(647,175)**	**(1,748,564)**
Income tax (expense)/benefit	11	-	-
Net loss from ordinary activities after income tax expense	23	**(647,175)**	(1,748,564)
Other comprehensive income/(loss) after income tax:			
Exchange differences on translating foreign controlled entities		**149,399**	(105,014)
Other comprehensive income for the year/period, before tax		**-**	**-**
Income tax (expense)/benefit		**-**	**-**
Other comprehensive income/(loss) for the year/period, net of tax		**149,399**	(105,014)
Total comprehensive loss for the year/period attributable to members of the parent entity		**(497,776)**	(1,853,578)
Basic and diluted loss per share (cents)	10	**(0. 60)**	(3.41)

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

STATEMENT OF FINANCIAL POSITION

at 31 December 2011

	Note	Consolidated 2011 $	Consolidated 2010 $
CURRENT ASSETS			
Cash and cash equivalents	12	**2,303,789**	493,481
Trade and other receivables	13	**24,839**	98,203
Other current assets	14	**38,016**	28,977
TOTAL CURRENT ASSETS		**2,366,644**	620,661
NON-CURRENT ASSETS			
Trade and other receivables	15	**45,229**	38,212
Exploration and evaluation expenditure	16	**4,144,081**	1,168,974
Plant and equipment	17	**73,334**	2,284
TOTAL NON-CURRENT ASSETS		**4,262,644**	1,209,470
TOTAL ASSETS		**6,629,288**	1,830,131
CURRENT LIABILITIES			
Trade and other payables	18	**882,619**	820,162
TOTAL CURRENT LIABILITIES		**882,619**	820,162
TOTAL NON-CURRENT LIABILITIES		**-**	-
TOTAL LIABILITIES		**882,619**	820,162
NET ASSETS		**5,746,669**	1,009,968
SHAREHOLDERS' EQUITY			
Issued capital	19	**7,620,155**	2,580,335
Foreign currency translation reserve	21	**44,385**	(105,014)
Share based payments reserve	22	**477,868**	283,211
Accumulated losses	23	**(2,395,739)**	(1,748,564)
TOTAL EQUITY		**5,746,669**	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 year ended 31 December 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 year	3,678,791	-	-	-	3,678,791
Capital raising costs	(1,098,456)	-	-	-	(1,098,456)
Share based payments	-	-	-	283,211	283,211
	2,580,335	**-**	**-**	**283,211**	**2,863,546**
Comprehensive loss for the period	-	(1,748,564)	(105,014)	-	(1,853,578)
At 31 December 2010	**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	5,630,500	-	-	-	5,630,500
Capital raising costs	(590,680)	-	-	-	(590,680)
Share based payments					
- Acquisition of Larus Energy (Gippsland) Pty Ltd	-	-	-	157,983	157,983
- Share issue costs	-	-	-	36,674	36,674
	7,620,155	**(1,748,564)**	**(105,014)**	**477,868**	**6,244,445**
Comprehensive loss for the period	-	(647,175)	149,399	-	(497,776)
At 31 December 2011	**7,620,155**	**(2,395,739)**	**44,385**	**477,868**	**5,746,669**

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

STATEMENT OF CASH FLOWS

for the year ended 31 December 2011

	Note	Consolidated 2011 $	Consolidated 23 November 2009 to 31 December 2010 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Payment to suppliers (inclusive of GST)		**(1,059,150)**	(714,876)
Interest received		**44,158**	10,856
Interest paid		**-**	(1,500)
NET CASH (OUTFLOWS) FROM OPERATING ACTIVITIES	33 (c)	**(1,014,992)**	(705,520)
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditure on plant and equipment		**(75,754)**	(2,755)
Expenditure on mining interests (exploration)		**(1,915,894)**	(1,057,577)
Expenditure on security deposits		**-**	(38,212)
NET CASH (OUTFLOWS) FROM INVESTING ACTIVITIES		**(1,991,648)**	(1,098,544)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**4,473,000**	2,895,971
Share issue costs		**(354,003)**	(598,456)
Cash received from acquisition of controlled entity	31	**951**	30
Share application monies received		**697,000**	-
Loans received		**-**	100,000
Loans repaid		**-**	(100,000)
NET CASH INFLOWS FROM FINANCING ACTIVITIES		**4,816,948**	2,297,545
NET INCREASE IN CASH HELD		**1,810,308**	493,481
Cash and cash equivalents at the beginning of the financial year/period		**493,481**	-
Cash and cash equivalents at the end of the financial year/period	33 (a)	**2,303,789**	493,481

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 and its subsidiaries ("the consolidated group" or "group").

The separate financial statements of the parent entity, Larus Energy Limited, have not been presented within this financial report as permitted by amendments made to the *Corporations Act 2001* effective as at 28 June 2011.

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.

Critical accounting estimates

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

Going Concern

The Group made an operating loss after tax of $647,175 and net cash outflows from operating activities of $1,014,992 for the year ended 31 December 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Going Concern (continued)

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 significant 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.

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

Larus Energy Limited was incorporated on 23 November 2009. Accordingly the comparative figures in this Annual Report cover the period from 23 November2009 (date of incorporation) to 31 December 2010.

(e) Employee Benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. 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. 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. In determining the liability, consideration is given to employee

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Employee Benefits (continued)

wages increases and the probability that the employee may satisfy any vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

Provision for long service leave is provided once an employee achieves five years of service.

(f) 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.

(g) Exploration and evaluation expenditure

Exploration and evaluation 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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial assets

The Group's financial assets fall into the categories discussed below, with the allocation depending to an extent on the purpose for which the asset was acquired. The Group does not use derivative financial instruments in economic hedges of currency or interest rate risk. The Group has not classified any of its financial assets as held to maturity.

Unless otherwise indicated, the carrying amounts of the Group's financial assets are a reasonable approximation of their fair values.

Other receivables
These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the sale of assets and GST receivable. They are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue and subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The effect of discounting on these financial instruments is not considered to be material.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Available for sale
Non-derivative financial assets not included in the above categories are classified as available for sale. They are carried at fair value with changes in fair value recognised directly in the available for sale reserve. Where there is a significant or prolonged decline in the fair value of an available for sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously charged to equity, is recognised in the income statement. Purchases and sales of available for sale financial assets are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the available for sale reserve. On sale, the amount held in the available for sale reserve associated with that asset is removed from equity and recognised in the income statement. Interest on corporate bonds classified as available for sale is calculated using the effective interest method and is recognised in finance income in the income statement.

(i) 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 company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial Instruments (continued)

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.

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.)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial Instruments (continued)

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.

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.

(j) 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.

(k) Financial liabilities

The Group classifies its financial liabilities as measured at amortised cost. The Group does not use derivative financial instruments in economic hedges of currency or interest rate risk.

Unless otherwise indicated, the carrying amounts of the Group's financial liabilities are a reasonable approximation of their fair values.

These financial liabilities include trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) 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.

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.

(m) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Impairment of assets

At 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.

(o) 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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Income tax (continued)

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.

(p) 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.

(q) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Plant and equipment (continued)

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.

(r) Principles of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Larus Energy Ltd at the end of the reporting period. A controlled entity is any entity over which Larus Energy Ltd 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. A list of controlled entities is contained in Note 27 to the financial statements.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Principles of consolidation (continued)

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;

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Principles of consolidation (continued)

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.

(s) 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).

(t) Share capital

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classified as equity instruments.

For the purposes of these disclosures, the Group considers its capital to comprise its ordinary share capital, and accumulated retained earnings. Neither the available for sale reserve nor the translation reserve is considered as capital. There have been no changes in what the Group considers to be capital since the previous period.

The Group is not subject to any externally imposed capital requirements.

(u) 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.

(v) Trade and other receivables

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

New accounting standards and UIG interpretations for application in future periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods.

The Group has decided against early adoption of these standards.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
New accounting standards and UIG interpretations for application in future periods (continued)

A discussion of those future requirements and their impact on the Group follows:

Operative date 1 July 2011 with an application date for the group of 1 January 2012.

AASB	Summary	Impact on group
AASB 2010–6: Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]	This Standard adds and amends disclosure requirements about transfers of financial assets, especially those in respect of the nature of the financial assets involved and the risks associated with them. Accordingly, this Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards, and AASB 7: Financial Instruments: Disclosures, establishing additional disclosure requirements in relation to transfers of financial assets.	This Standard will only affect certain disclosures relating to financial instruments and is not expected to significantly impact the Group.
AASB 1054: Australian Additional Disclosures and AASB 2011–1: Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132 & AASB 134 and Interpretations 2, 112 & 113]	AASB 1054 sets out the Australian-specific disclosures that are additional to IFRS disclosure requirements. The disclosure requirements in AASB 1054 were previously located in other Australian Accounting Standards.	These Standards are not expected to significantly impact the Group.

Operative date 1 January 2012 with an application date for the group of 1 January 2012.

AASB	Summary	Impact on group
AASB 2010–8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]	This Standard makes amendments to AASB 112: Income Taxes and incorporates Interpretation 121 into AASB 112. Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.	The amendments are not expected to significantly impact the Group.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New accounting standards and UIG interpretations for application in future periods (continued)

Operative date 1 July 2012 with an application date for the group of 1 January 2013.

AASB	Summary	Impact on group
AASB 2011–9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	The main change arising from this Standard is the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently.	This Standard affects presentation only and is not expected to significantly impact the Group.

Operative date 1 January 2013 with an application date for the group of 1 January 2013.

AASB	Summary	Impact on group
AASB 10: Consolidated Financial Statements,	AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees.	The Group has not yet been able to reasonably estimate the impact of this Standard on its financial statements.
AASB 11: Joint Arrangements,	AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either "joint operations" (whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or "joint ventures" (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed).	The amendments are not expected to significantly impact the Group.
AASB 12: Disclosure of Interests in Other Entities,	AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a "structured entity", replacing the "special purpose entity" concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities.	This Standard will only affect disclosures and is not expected to significantly impact the Group.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New accounting standards and UIG interpretations for application in future periods (continued)

Operative date 1 January 2013 with an application date for the group of 1 January 2013.

AASB	Summary	Impact on group
AASB 127: Separate Financial Statements (August 2011),	To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued.	The amendments are not expected to significantly impact the Group.
AASB 128: Investments in Associates and Joint Ventures (August 2011)	To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued.	The amendments are not expected to significantly impact the Group.
AASB 2011–7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009–11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17]	To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued.	The amendments are not expected to significantly impact the Group.
AASB 13: Fair Value Measurement and AASB 2011–8: Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009–11, 2010–7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132]	AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurements. AASB 13 requires: - inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and - enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) measured at fair value.	These Standards are not expected to significantly impact the Group.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New accounting standards and UIG interpretations for application in future periods (continued)

Operative date 1 January 2013 with an application date for the group of 1 January 2013.

AASB	Summary	Impact on group
AASB 119: Employee Benefits (September 2011) and AASB 2011–10: Amendments to Australian Accounting Standards arising from AASB 119 [AASB 1, AASB 8, AASB 101, AASB 124, AASB 134, AASB 1049 & AASB 2011–8 and Interpretation 14]	These Standards introduce a number of changes to the presentation and disclosure of defined benefit plans, including: - removal of the “corridor” approach from AASB 119, thereby requiring entities to recognise all changes in a net defined benefit liability (asset) when they occur; - disaggregation of changes in a net defined benefit liability (asset) into service cost (including past service cost and gains and losses on non-routine settlements and curtailments), net interest expense (interest based on the net defined benefit liability (asset) using the discount rate applicable to post-employment benefits) and remeasurements (comprising actuarial gains and losses, return on plan assets less the “revenue” component of the net interest expense, and any change in the limit on a defined benefit asset). In addition, AASB 119 (September 2011) requires recognition of: - service cost and net interest expense in profit or loss; and - remeasurements in OCI; and - introduction of enhanced disclosure requirements to facilitate the provision of more useful information in relation to an entity’s defined benefit plans. AASB 119 (September 2011) also includes changes to the accounting for termination benefits that require an entity to recognise an obligation for such benefits at the earlier of: (i) for an offer that may be withdrawn – when the employee accepts; (ii) for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and (iii) where the termination is associated with a restructuring of activities under AASB 137: Provisions, Contingent Liabilities and Contingent Assets, and if earlier than the first two conditions – when the related restructuring costs are recognised.	The Group has not yet been able to reasonably estimate the impact of these changes on its financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New accounting standards and UIG interpretations for application in future periods (continued)

Operative date 1 July 2013 with an application date for the group of 1 January 2014.

AASB	Summary	Impact on group
AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9	The changes made to accounting requirements include: - simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value; - simplifying the requirements for embedded derivatives; - removing the tainting rules associated with held-to-maturity assets; - removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost; - allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and - reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on the objective of the entity's business model for managing the financial assets and the characteristics of the contractual cash flows.	These Standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined potential impact on the financial statements.
AASB 1053: Application of Tiers of Australian Accounting Standards and AASB 2010–2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052]	This Standard establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements: - Tier 1: Australian Accounting Standards; and - Tier 2: Australian Accounting Standards — Reduced Disclosure Requirements.	This Standard deems the Group to be a Tier 1 entity and hence there is no accounting impact to be considered going forward.

The Group does not anticipate the early adoption of any of the above reporting requirements.

2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

(i) *Foreign exchange risk*
Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the consolidated entity's functional currency.

(ii) *Credit risk*
There is negligible credit risk on financial assets of the consolidated entity since there is no exposure to individual customers or countries and the economic entity's exposure is limited to the amount of cash, short term deposits and receivables which have been recognised in the statement of financial position and is minimised by using recognised financial intermediaries as counterparties.

(iii) *Liquidity risk*
Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed finance facilities.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Income taxes
The Group is subject to income taxes in Australia and Papua New Guinea. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made. The company has a nil income tax expense at the end of the reporting period.

Exploration and evaluation expenditure
The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been extracted, the directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded. Such capitalised expenditure is carried at the end of the reporting period at $4,144,081 (2010 - $1,168,974.)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Share based payments

The consolidated entity measures the cost of equity-settled transactions, including acquisition costs, payments for services rendered and transactions with employees, by reference to the fair value of the equity instruments at the date at which they are granted.

The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted, including an adjustment for non-transferability of the options.

The accounting estimates and assumptions relating to equity-settled share-based payments in respect of acquisitions would have an impact on the carrying amounts of assets and liabilities within the next annual reporting period but no impact on profit or loss and equity while those relating to payments for services rendered and transactions with employees would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Further details of all relevant terms and conditions and assumptions are contained in note 32.

4. PARENT COMPANY INFORMATION

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Accounting Standards.	**2011 $**	**2010 $**
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current assets	2,299,683	620,661
TOTAL ASSETS	**6,791,296**	**1,842,555**
LIABILITIES		
Current liabilities	845,867	820,162
TOTAL LIABILITIES	**845,867**	**820,162**
EQUITY		
Issued capital	7,620,155	2,580,335
Accumulated losses	(2,152,595)	(1,841,154)
Share based payments reserve	477,868	283,211
TOTAL EQUITY	**5,945,428**	**1,022,392**
STATEMENT OF COMPREHENSIVE INCOME		
Total loss	(311,411)	(1,841,154)
TOTAL COMPREHENSIVE INCOME (LOSS)	**(311,411)**	**(1,841,154)**

Guarantees

Larus Energy Ltd has not entered into any guarantees, in the current financial year, in relation to the debts of its controlled entities.

Contingent liabilities

At 31 December 2011, Larus Energy Ltd had no contingent liabilities.

Contractual commitments

At 31 December 2011, Larus Energy Ltd had not entered into any contractual commitments for the acquisition of property, plant and equipment.

5. REVENUE	Consolidated 2011 $	Consolidated 2010 $
Interest received	44,158	10,856
Total revenue from continuing operations	**44,158**	**10,856**

6. OPERATING LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

The operating loss from ordinary activities before income tax expense has been determined after charging the following expenses:

	Consolidated 2011 $	Consolidated 2010 $
Depreciation		
Depreciation of plant and equipment	4,704	470
	4,704	**470**
Employment costs		
Executive directors salary	145,877	228,237
Eligible termination payments	(99,885)	200,000
Non-executive directors fees	79,289	107,101
Other directors expenses	11,055	59,282
Employee salary	75,688	257,636
Consulting fees paid to Director and Key Management personnel	361,450	33,400
Share based payments	-	149,591
Shares issued on appointment	-	200,000
Superannuation	40,576	46,705
Other employment expenses	91,759	86,935
Annual Leave entitlements	10,422	-
Less allocated to exploration expenditure	(398,790)	(456,256)
	317,441	**912,631**
Interest paid	**-**	**1,500**
Occupancy Costs		
Office rent	41,440	3,029
Other office costs	768	143
	42,208	**3,172**

7. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

The following persons were Directors of Larus Energy Limited during the financial year and up to the date of this report:

Director	Appointed
Patricia Kay Philip	2 March 2010
Lindsay David Hale Williams	2 March 2010
Graham Ian Holdaway	2 March 2010
Peter Joseph Fennessy	14 June 2011

(b) Other key management personnel

All directors are identified as Key Management Personnel, as defined under AASB 124 "Related Party Disclosures".

Key management personnel comprise the Directors and the Exploration Manager.

(c) Key management personnel compensation

	Consolidated 2011 $	Consolidated 2010 $
Short-term employee benefits	**315,190**	588,459
Consultants Fees	**361,450**	-
Post-employment benefits	**38,695**	46,016
Termination benefits	-	200,000
Share-based payments	**-**	337,091
	715,335	**1,171,566**

The Group has taken advantage of the relief provided by the Corporations Regulations and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found in sections A-C of the remuneration report included in the Directors' Report.

(d) Equity instrument disclosures relating to key management personnel

Options provided as remuneration and shares issued on exercise of such options
No options (2010 - 10,000,000 options) were provided as remuneration, no options (2010 - 4,000,000 options) lapsed during the period and no shares were issued on the exercise of such options.

Options provided as consideration for acquisition of Larus Energy (Gippsland) Pty Ltd
1,057,778 options (2010 - nil options) were provided as consideration for the acquisition of Larus Energy (Gippsland) Pty Ltd for shares held by the directors in that company. No options (2010 - no options) lapsed during the period and no shares were issued on the exercise of such options.

7. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

Option holdings

The relevant interest of each Director and Executive in options of the Company as at the date of this report is as follows:

	Expiry Date	*Exercise Price*	*Number Granted*	*Number lapsed*	*Number at 31 December 2011*
Directors					
Kay Philip	28 February 2013	$0.30	-	-	500,000
	28 February 2014	$0.40	-	-	500,000
Graham Holdaway	28 February 2013	$0.30	-	-	500,000
	28 February 2014	$0.40	-	-	500,000
David Williams	30 June 2014	$0.15	985,556	-	985,556
Peter Fennessy	30 June 2014	$0.15	72,222		72,222
Executive					
Michael Swift	28 February 2013	$0.30	-	-	2,000,000
	28 February 2014	$0.40	-	-	2,000,000
			1,057,778	**-**	**7,057,778**

The options granted to D Williams and P Fennessy were granted as part of the consideration for their shareholding in Larus Energy Pty Ltd (renamed Larus Energy (Gippsland) Pty Ltd) when that company was acquired by the Group.

Share holdings

The numbers of shares in the Company held at the end of the financial year by each Director of the Company and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

Ordinary shares - *Directors and executives of Larus Energy Ltd*

2011 Name	**Balance at the start of the year**	**Acquired on acquisition of Larus Energy Pty Ltd**	**Other changes during the year**	**Balance at the end of the year**
Directors				
Kay Philip	430,000	-	-	430,000
Graham Holdaway	2,450,000	-	-	2,450,000
David Williams	7,780,000	1,724,722	(4,000,000)	5,504,722
Peter Fennessy	-	126,389	-	126,389
Executive				
Michael Swift	1,700,000	-	-	1,700,000

2010 Name	**Balance at the start of the year**	**Received during the year on appointment**	**Other changes during the year**	**Balance at the end of the year**
Directors				
Kay Philip	-	250,000	180,000	430,000
Graham Holdaway	-	250,000	2,200,000	2,450,000
David Williams	-	500,000	7,280,000	7,780,000
Executive				
Michael Swift	-	500,000	1,200,000	1,700,000

8. REMUNERATION OF AUDITORS

	Consolidated 2011 $	Consolidated 2010 $
Total amounts receivable by the auditors of the Company for:		
Audit of the Company's accounts		
2010	**25,270**	-
2011	**10,000**	-
Total remuneration for assurance services	**35,270**	-
Other services:		
Investigating Accountants Report for Prospectus	-	29,002
Advice relating to various taxation and accounting matters	13,268	15,690
Total remuneration for non-assurance services	**13,268**	**44,692**
Total auditors remuneration	**48,538**	**44,692**

9. 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 following basis:
- Head Office operations in Australia ,
- exploration activities in Australia,
- exploration activities in Papua New Guinea.

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.
Corporate charges are allocated to reporting segments based on the segments overall proportion of revenue generation within the Group. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

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.

9. FINANCIAL REPORTING BY SEGMENTS (CONTINUED)

Basis of accounting for purposes of reporting by operating segments (continued)

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.

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;

(a) Operating segments

2011	**Head Office**	**Exploration Gippsland**	**Exploration Papua New Guinea**	**Intersegment transactions/ eliminations**	**Total**
Segment performance	**$**	**$**	**$**		**$**
Interest received	44,138	20	-		44,158
Management Fees	362,037			(362,037)	-
Total revenue from continuing operations	406,175	20	-	(362,037)	44,158
Segment net loss from continuing operations before tax	(488,699)	(51,914)	(6,867)	138,405	(685,885)
Reconciliation of segment result to group net profit/loss before tax:					
Amounts not included in segment result but reviewed by the Board:					
— depreciation and amortisation					(4,704)
— foreign currency gains/(losses)					43,414
Net loss before tax from continuing operations					**(647,175)**

9. FINANCIAL REPORTING BY SEGMENTS (CONTINUED)

(a) Operating segments (continued)

2011	Head Office	Exploration Gippsland	Exploration Papua New Guinea	Intersegment transactions/ eliminations	Total
	$	$	$	$	$
Segment Assets	6,780,566	353,380	3,273,694	(3,778,352)	6,629,288
Reconciliation of segment assets to group assets:					
Unallocated assets					-
Group assets					**6,629,288**
Segment Liabilities	203,515	244,956	3,247,007	(3,509,859)	185,619
Reconciliation of segment liabilities to group liabilities:					
Unallocated liabilities					697,000
Group liabilities					**882,619**

	Head Office	Exploration Papua New Guinea	Total
2010	**2010**	**2010**	**2010**
Segment performance	**$**	**$**	**$**
Interest received	-	10,856	10,856
Total revenue from continuing operations	**-**	**10,856**	**10,856**
Segment net loss from continuing operations before tax	-	(1,279,492)	(1,279,492)
Reconciliation of segment result to group net profit/loss before tax:			
Amounts not included in segment result but reviewed by the Board:			
— corporate charges			(573,814)
— depreciation and amortisation			(470)
— foreign currency gains/(losses)			105,212
Net loss before tax from continuing operations			**(1,748,564)**

9. FINANCIAL REPORTING BY SEGMENTS (CONTINUED)

(a) Operating segments (continued)

2010	Head Office $	Exploration Papua New Guinea $	Intersegment $	Total $
Segment Assets	-	1,830,131	-	1,830,131
Reconciliation of segment assets to group assets:				
Unallocated assets				-
Group assets				**1,830,131**
Segment Liabilities	-	562,662	-	562,662
Reconciliation of segment liabilities to group liabilities:				
Unallocated liabilities				257,500
Group liabilities				**820,162**

(b) Geographical segments

2011	Australia	Papua New Guinea	Intersegment	Total
Segment performance	$	$	$	$
Interest received	44,158	-		44,158
Management Fees	362,037		(362,037)	-
Total revenue from continuing operations	406,195	-	(362,037)	44,158
Segment net loss from continuing operations before tax	(538,417)	(6,867)	(140,601)	(685,885)
Reconciliation of segment result to group net profit/loss before tax:				
Amounts not included in segment result but reviewed by the Board:				
— depreciation and amortisation				(4,704)
— foreign currency gains/(losses)				43,414
Net loss before tax from continuing operations				**(647,175)**

9. FINANCIAL REPORTING BY SEGMENTS (CONTINUED)

(b) Geographic segments (continued)

2011	Australia $	Papua New Guinea $	Intersegment $	Total $
Segment Assets	6,782,861	3,232,284	(3,385,857)	6,629,288
Reconciliation of segment assets to group assets:				
Unallocated assets				-
Group assets				6,629,288
Segment Liabilities	880,866	3,247,007	(3,245,254)	882,619
Reconciliation of segment liabilities to group liabilities:				
Unallocated liabilities				-
Group liabilities				**882,619**

2010 **Segment performance**	Australia 2010 $	Papua New Guinea 2010 $	Total 2010 $
Interest received	-	10,856	10,856
Total revenue from continuing operations	**-**	**10,856**	**10,856**
Segment net loss from continuing operations before tax	-	(1,279,492)	(1,279,492)
Reconciliation of segment result to group net profit/loss before tax:			
Amounts not included in segment result but reviewed by the Board:			
— corporate charges			(573,814)
— depreciation and amortisation			(470)
— foreign currency gains/(losses)			105,212
Net loss before tax from continuing operations			**(1,748,564)**

2010	Australia $	Papua New Guinea $	Intersegment $	Total $
Segment Assets	-	1,830,131	-	1,830,131
Reconciliation of segment assets to group assets:				
Unallocated assets				-
Group assets				**1,830,131**
Segment Liabilities	-	562,662	-	562,662
Reconciliation of segment liabilities to group liabilities:				
Unallocated liabilities				257,500

Group liabilities		**820,162**

10. LOSS PER SHARE	**2011**	**2010**
Basic and diluted		
	$	**$**
Comprehensive Loss for the year	**(647,175)**	(1,853,578)
	2011	**2010**
Weighted average number of shares used in basic and diluted loss per share	**107,551,516**	54,357,155
Basic and diluted loss per share (cents per share)	**(0.60)**	(3.41)
Anti-dilutive options on issue not used in dilutive EPS calculation	**15,250,000**	11,250,000

Since the end of the financial year 3,485,000 ordinary shares were issued in respect of the amounts received for shares which had not yet been allotted and a further 3,850,000 ordinary shares have been issued in respect of amounts received subsequent to year end. The loss per share would have remained at (0.60) cents per share if these shares had been included in the calculation.

11. TAXATION	**Consolidated 2011 $**	**Consolidated 2010 $**
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:		
Loss from ordinary activities	(647,175)	(1,748,564)
Income tax expense calculated at 30% of operating loss	**194,153**	524,569
Deferred tax amounts not recognised	(194,153)	(524,569)
Income tax expense (benefit)	-	-
Adjusted franking account balance	-	-

Deferred tax balances not recognised	**Statement of Financial Position 2011**	**Statement of Comprehensive Income 2011**
Deferred tax balances not recognised	**$**	**$**
Calculated at 30% not brought to account as assets:		
Deferred tax assets		
Capital raising costs capitalised	437,378	293,749
Employee benefits and accruals	6,126	6,126
Revenue tax losses available for offset against future tax income	842,578	318,009
Deferred tax assets not recognised		(617,884)
Net deferred tax asset (liability) not recognised	**1,286,082**	**-**

	2010	**2010**
Deferred tax balances not recognised	**$**	**$**
Calculated at 30% not brought to account as assets:		
Deferred tax assets		
Capital raising costs capitalised	143,629	143,629
Revenue tax losses available for offset against future tax income	524,569	524,569
Deferred tax assets not recognised		(668,198)

Net deferred tax asset (liability) not recognised	**668,198**	**-**

11. TAXATION (CONTINUED)

The taxation benefits of revenue tax losses and temporary differences not brought to account will only be obtained if:

(i) the company and the consolidated entity derive further assessable income of a nature and of an amount sufficient to enable the benefit from the deductions to be realised;

(ii) the company and the consolidated entity continue to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the company's and the consolidated entity's ability in realising the benefit from the deductions.

	Consolidated 2011 $	Consolidated 2010 $
12. CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	2,303,789	493,481
	2,303,789	**493,481**
13. TRADE AND OTHER RECEIVABLES		
Other receivables	-	5,000
GST debtor	24,839	93,203
	24,839	**98,203**
14. OTHER CURRENT ASSETS		
Prepayments	38,016	28,977
	38,016	**28,977**
15. TRADE AND OTHER RECEIVABLES – NON-CURRENT		
Security bonds and environmental deposits	45,229	38,212
	45,229	**38,212**
16. EXPLORATION AND EVALUATION EXPENDITURE		
Exploration costs	**4,144,081**	**1,168,974**
Exploration costs brought forward	1,168,974	-
Expenditure incurred during the year	1,915,894	1,127,594
Acquired through acquisition of subsidiary	867,999	41,380
Exchange fluctuation on opening balance	201,571	-
Exploration expenditure written off	(10,357)	-
Exploration costs carried forward	**4,144,081**	**1,168,974**

The above amounts represent costs incurred on exploration areas of interest which have been carried forward as an asset in accordance with the accounting policy set out in note 1. The ultimate recoupment of exploration and evaluation expenditure carried forward in respect of an area of interest is dependent upon the discovery of commercially viable reserves and the successful development and exploitation of the respective areas or alternatively sale of the underlying areas of interest for at least their carrying value.

Amortisation, in respect of the relevant area of interest, is not charged until a hydrocarbon production operation has commenced.

17. PLANT AND EQUIPMENT

	Consolidated 2011 $	Consolidated 2010 $
Computer Hardware		
Cost	26,125	-
Accumulated depreciation	(2,155)	-
	23,970	**-**
Computer software		
Cost	45,661	1,302
Accumulated depreciation	(1,519)	(250)
	44,142	**1,052**
Office equipment		
Cost	1,453	1,453
Accumulated depreciation	(512)	(221)
	941	**1,232**
Assets < $1,000		
Cost	5,269	-
Accumulated depreciation	(988)	-
	4,281	**-**
Total Plant and equipment	**73,334**	**2,284**

Reconciliations of the carrying amount of each class of plant and equipment at the beginning and end of the current financial period are set out below.

	Computer Hardware	Computer Software	Office equipment	Assets < $1,000	Total
Carrying amount at 23 November 2009	-	-	-	-	-
Additions	-	1,302	1,453	-	2,755
Depreciation	-	(250)	(221)	-	(471)
Disposals	-	-	-	-	-
Carrying amount at 31 December 2010	**-**	**1,052**	**1,232**	**-**	**2,284**
Additions	26,125	44,360	-	5,269	75,754
Depreciation	(2,155)	(1,270)	(291)	(988)	(4,704)
Disposals	-	-	-	-	-
Carrying amount at 31 December 2011	**23,970**	**44,142**	**941**	**4,281**	**73,334**

18. TRADE AND OTHER PAYABLES

	Consolidated 2011 $	Consolidated 2010 $
Trade creditors and accruals	185,619	562,662
Cash received for shares which have not yet been allotted	697,000	257,500
	882,619	**820,162**

Refer note 30 for detailed information on financial instruments.

19. ISSUED CAPITAL

	Consolidated 2011 $	Consolidated 2010 $
Issued Capital		
Ordinary shares - fully paid 131,742,620 (2010 - 83,385,120)	9,309,291	3,678,791
Less share issue costs	(1,689,136)	(1,098,456)
Total contributed equity	**7,620,155**	**2,580,335**

Ordinary shares participate in dividends and the proceeds of winding up of the parent entity in proportion to the number of shares held.

Movements in Issued Capital	Number of shares	$
Balance as at 23 November 2009	-	-
Issues during period:		
Issued on incorporation	120	1
Shares issued to acquire 100% of the issued capital of Larus Energy (PNG) Limited	50,000,000	82,790
Shares issued pursuant to the 1st seed raising	4,000,000	500,000
Share based payment for corporate advisory services	4,000,000	500,000
Share based payment to Directors, Company Secretary and Employees	1,600,000	200,000
Shares issued pursuant to the 2nd seed raisings	5,000,000	517,500
Shares issued pursuant to the Information Memorandum	18,785,000	1,878,500
Balance as at 31 December 2010	**83,385,120**	**3,678,791**
Issues during period:		
Shares issued to acquire 100% of the issued capital of Larus Energy (Gippsland) Pty Limited	7,000,000	700,000
Share based payment for corporate advisory services	2,000,000	200,000
Shares issued pursuant to the Information Memorandum	39,357,500	4,730,500
	131,742,620	**9,309,291**
Less share issue costs		(1,689,136)
Balance as at 31 December 2011		**7,620,155**

20. OPTIONS

A summary of the movements of all company options on issue is as follows:

2011 Expiry Date	Exercise Price	Issued 31 Dec 10	Granted	Exercised	Lapsed	Issued 31 Dec 11
13 January 2013	0.20	3,750,000	-	-	-	3,750,000
13 January 2013	0.25	1,500,000	-	-	-	1,500,000
28 February 2013	0.30	3,000,000	-	-	-	3,000,000
28 February 2014	0.40	3,000,000	-	-	-	3,000,000
30 June 2014	0.15	-	4,000,000	-	-	4,000,000
		11,250,000	**4,000,000**	**-**	**-**	**15,250,000**

2010 Expiry Date	Exercise Price	Issued 23 Nov 09	Granted	Exercised	Lapsed	Issued 31 Dec 10
13 January 2013	0.20	-	3,750,000	-	-	3,750,000
13 January 2013	0.25	-	1,500,000	-	-	1,500,000
28 February 2013	0.30	-	5,000,000	-	(2,000,000)	3,000,000
28 February 2014	0.40	-	5,000,000	-	(2,000,000)	3,000,000
		-	**15,250,000**	**-**	**(4,000,000)**	**11,250,000**

Further details of all relevant terms and conditions and assumptions relating to options issued during the year are contained in note 32

21. FOREIGN CURRENCY TRANSLATION RESERVE

	Consolidated 2011 $	Consolidated 2010 $
Balance at the beginning of the financial year	(105,014)	-
Exchange difference arising on translation of foreign subsidiaries	149,399	(105,014)
Balance at the end of the financial year	**44,385**	**(105,014)**

Nature and purpose of reserve
The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

22. SHARE BASED PAYMENTS RESERVE

Balance at the beginning of the financial year	283,211	-
Share based payment transactions for the year/period		
Share options issued in relation to costs of corporate advisory services.	36,674	133,620
Share options issued to directors and executives on appointment	-	149,591
Share options issued on acquisition of Larus Energy (Gippsland) Pty Ltd	157,983	-
Balance at the end of the financial year	**477,868**	**283,211**

22. SHARE BASED PAYMENTS RESERVE (CONTINUED)

Nature and purpose of reserve

The share based payments reserve records the value of options issued to employees and Directors which have been taken to expenses and options issued as consideration for services rendered by and goods received from others.

Further details of all relevant terms and conditions and assumptions relating to options issued during the year are contained in note 32.

23. ACCUMULATED LOSSES

	Consolidated 2011 $	Consolidated 2011 $
Accumulated losses at the beginning of the financial year	(1, 748,564)	-
Net loss for the year/period	(647,175)	(1,748,564)
Accumulated losses at the end of the financial year	**(2,395,739)**	**(1, 748,564)**

24. CONTINGENT LIABILITIES

Deferred payment for acquisition of tenements.

A controlled entity has entered into an agreement with Great Artesian Oil and Gas Pty Limited and Drillsearch Energy Limited to acquire exploration tenements in Gippsland, Victoria. Part of the consideration for the tenements was deferred until 5 business days after Larus Energy Ltd achieves listing on ASX. Negotiations are currently being held to amend this to a listing on any major stock exchange.

The deferred consideration is $600,000 plus the "Consideration Shares".

Consideration Shares means a number of Listing Entity Securities which are to be issued and allotted to Drillsearch as calculated as follows:

NCS = $1,600,000.00 divided by LEP

where

NCS is the number of Consideration Shares to be issued to Drillsearch, and

LEP is the price per Listing Entity Security on the Listing Date;

There are no other contingent liabilities.

25. COMMITMENTS

Exploration Tenement Expenditure Commitments

In order to maintain the consolidated entity's tenements in good standing with Papua New Guinea and Australian regulatory authorities, the Company will be required to incur exploration expenditure under the terms of each tenement.

25. COMMITMENTS (CONTINUED)

PPL 326 (PNG)
PPL 326 was granted on 27 August 2009 for a period of 6 years.

The PPL covers 200 graticular blocks.

The annual licence fee required is k500 per block equalling k100,000 (AUD 38,120) per annum.

Work commitments under the licence are looked at in periods of 2 years. The first 2 year period expired on 26 August 2011 and the Company exceeded its work commitments. The work commitments for the next period of 2 years is currently going through formal approval, but is expected to comprise the following:

(a) Plan and acquire up to 300 km of seismic offshore
(b) Plan and acquire up to 300 km of seismic onshore
(c) G&G and review results.
(d) Particulars of Financials.
(e) US$2 Million budget

Gippsland Permits (Australia)
Each of the 3 permits (VIC/P63, VIC/P64 and T/46P are currently in Year 4. Year 4 for each Permit expires at different times in March 2012 as per the table below and Year 4 for each Permit covered the whole of the financial period. Having completed the work commitments as outlined in the table below, the Company can elect whether to go into Year 5 in relation to each of the Permits, and similarly for Year 6.

VIC/P63 and VIC/P64:

Permit Year	Start Date	End Date	Work Program	Indicative Expenditure
Year 4	29 September 2010	28 March 2012	Geological & Geophysical Studies (Seismic Interpretation and Prospect Generation)	$250,000
Year 5	29 March 2012	28 March 2013	Geological, Geophysical & Engineering Studies (Prospect and well economics, Farmout and Well Planning)	$500,000
Year 6	29 March 2013	28 March 2014	Drill one (1) exploration well and geological and geophysical studies	$4,000,000

T/46P:

Permit Year	Start Date	End Date	Work Program	Indicative Expenditure
Year 4	6 September 2010	5 March 2012	Geological & Geophysical Studies (Seismic Interpretation and Prospect Generation)	$250,000
Year 5	6 March 2012	5 March 2013	Geological, Geophysical & Engineering Studies (Prospect and well economics, Farmout and Well Planning)	$500,000
Year 6	6 March 2013	5 March 2014	Drill one (1) exploration well and geological and geophysical studies	$100,000

26. ROYALTIES

M Swift – Overriding Royalty
The holders of the interests in PPL 326 are obligated to pay an Overriding Royalty to Mr Swift of 0.5% of the Wellhead Value of all Petroleum produced and sold from tenement PPL326 in PNG.

P Cooney – Overriding Royalty
The holders of the interests in the applicable Gippsland Permit are obligated to pay an Overriding Royalty to Mr Cooney of 1.0% of the Wellhead Value of all Petroleum produced and sold from the applicable Gippsland Permit (being any of VIC/P63, VIC/P64 and T/46P in Australia).

27. PARTICULARS RELATING TO CONTROLLED ENTITIES

Company	Country of Incorporation and Operation	Percentage of Equity Held 2011	Percentage of Equity Held 2010
Larus Energy (Gippsland) Pty Ltd	Australia	100%	-
Newport Energy Pty Ltd	Australia	100%	-
Larus Energy (PNG) Ltd	Papua New Guinea	100%	100%

Full details of the acquisition of Larus Energy (Gippsland) Pty Ltd and Newport Energy Pty Ltd are contained in note 31.

28. RELATED PARTY DISCLOSURES

(a) Directors

The names of each person holding the position of director of Larus Energy Ltd during the financial period were:

Director	Appointed
Patricia Kay Philip	2 March 2010
Lindsay David Hale Williams	2 March 2010
Graham Ian Holdaway	2 March 2010
Peter Joseph Fennessy	14 June 2011

(b) Directors interests

Interests in the shares and options of the Company held by current directors and their director-related entities are shown in note 7.

(c) Associates of directors

Director	Associated company
Patricia Kay Philip	
Lindsay David Hale Williams	LDHW Pty Ltd
Graham Ian Holdaway	
Peter Joseph Fennessy	Camgowrie Pty Ltd

28. RELATED PARTY DISCLOSURES (CONTINUED)

(d) Transactions with associates of directors	Consolidated 2011 $	Consolidated 2010 $
LDHW Pty Ltd, a company in which Mr Williams is a Director and shareholder, entered into a Loan Facility Agreement with the Company in the prior year.		
Amount loaned to company	-	100,000
Amount repaid by company	-	100,000
Interest paid	-	1,500
Consideration paid in respect of the acquisition of Larus Energy (Gippsland) Pty Ltd for shares held by LDHW Pty Ltd in Larus Energy (Gippsland) Pty Ltd	211,397	-

29. EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR

Since the end of the financial year 3,485,000 ordinary shares were issued in respect of the amounts received for shares which had not yet been allotted and a further 3,850,000 ordinary shares have been issued in respect of amounts received subsequent to year end.

There were at the date of this report no other matters or circumstances which have arisen since 31 December 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 31 December 2011.

30. FINANCIAL INSTRUMENTS DISCLOSURES

(a) Capital

The Group considers its capital to comprise its ordinary share capital and accumulated retained earnings.

In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and distributions. In order to achieve this objective, the Group seeks to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy, new share issues, or reduction of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

It is the Group's policy to maintain its gearing ratio within the range of 0-25%. The Group's gearing ratio at the end of the financial year is shown below:

30. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

	Consolidated 2011 $	Consolidated 2010 $
Cash and cash equivalents	2,303,789	493,481
Net debt	Nil	Nil
Share capital	7,620,155	2,580,335
Reserves	522,253	178,197
Accumulated losses	(2,255,137)	(1,748,564)
Total capital	**5,887,271**	1,009,968
Gearing ratio	**Nil**	Nil

(b) Financial instrument risk exposure and management

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them.

Further quantitative information in respect of these risks is presented throughout these financial statements.

(c) Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- other receivables;
- cash at bank;
- trade and other payables.

(d) General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and has the responsibility for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives monthly reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

30. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)
(d) General objectives, policies and processes (continued)

(i) Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period, excluding the value of any collateral or other security held, is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the statement of financial position.

(ii) Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 45 days.

The Board receives cash flow projections on a monthly basis as well as information regarding cash balances. At the end of the financial year, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

The table below reflects an undiscounted contractual maturity analysis for financial liabilities and assets. The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as property, plant, equipment and investments in working capital (e.g., trade receivables). These assets are considered in the Group's overall liquidity risk.

Maturity Analysis - Consolidated – 2011

	Within 1 year	1 to 5 years	Over 5 years	Total contractual cash flow
Financial Liabilities				
Trade Creditors and accruals	185,619	-	-	185,619
Share monies received in advance	697,000	-	-	697,000
Total	**882,619**	-	-	**882,619**
Financial assets				
Cash	2,303,789	-	-	2,303,789
Receivables - Current	24,839	-	-	24,839
Receivables – Non Current	-	-	45,229	45,229
	2,328,658	-	**45,229**	**2,373,887**
Net (outflow) / inflow for financial instruments	**1,446,039**	-	**45,229**	**1,491,268**

Financial assets are not past due nor impaired.

30. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(d) General objectives, policies and processes (continued)

Maturity Analysis - Consolidated – 2010

	Within 1 year	1 to 5 years	Over 5 years	Total contractual cash flow
Financial Liabilities				
Trade Creditors and accruals	562,662	-	-	562,662
Share monies received in advance	257,500	-	-	257,500
Total	**820,162**	-	-	**820,162**
Financial assets				
Cash	493,481	-	-	493,481
Receivables - Current	98,203	-	-	98,203
Receivables – Non Current	-	-	38,212	38,212
	591,684	-	**38,212**	**629,896**
Net (outflow) / inflow for financial instruments	**(228,478)**	-	**38,212**	**(190,266)**

(iii) Market risk

Market risk does not arise as the Group does not use interest bearing, tradable and foreign currency financial instruments.

(iv) Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments. The Group does not engage in any hedging or derivative transactions to manage interest rate risk.

Net fair value of financial assets and liabilities: the net fair value of cash and cash equivalents and non-interest bearing financial assets and financial liabilities approximates their carrying value.

(v) Foreign exchange risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

With instruments being held by overseas operations, fluctuations in the US Dollar and Papua New Guinea kina may impact on the Group's financial results.

The Group does not engage in any hedging or derivative transactions to manage foreign exchange risk.

The following table shows the foreign currency risk on the financial assets and liabilities of the Group's operations denominated in currencies other than the functional currency of the operations.

30. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(d) General objectives, policies and processes (continued)

	Consolidated 2011 kina	Consolidated 2010 kina
Environmental Bonds	100,000	100,000
Net Exposure	**100,000**	**100,000**

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the year end. The below analysis assumes all other variables remain constant.

Sensitivity Analysis

2011	Carrying amount kina	+10% kina /AUD Profit & Loss AUD$	-10% kina /AUD Profit & Loss AUD$
Environmental Bonds	100,000	4,523	(4,523)
		4,523	(4,523)
Tax charge of 30%		(1,357)	(1,357)
Post tax profit increase / (decrease)		**3,166**	**3,166**

Sensitivity Analysis

2010	Carrying amount kina	+10% kina /AUD Profit & Loss AUD$	-10% kina /AUD Profit & Loss AUD$
Environmental Bonds	100,000	3,821	(3,821)
		3,821	(3,821)
Tax charge of 30%		(1,146)	(1,146)
Post tax profit increase / (decrease)		**2,675**	**2,675**

(vi) Sovereign risk

Country or sovereign risk relates to the likelihood that changes in the business environment will occur that reduce the profitability of doing business in a country. These changes can adversely affect operating profits as well as the value of assets. Types of country risk include:

Political changes. Governments may change economic policies. Changes in the ruling party in Australia or Papua New Guinea (brought about by elections, coups or wars) may results in major policy changes. This could result in expropriation of the Group's exploration leases, inability to repatriate future profits, higher taxes, higher tariffs and import costs, elimination of FDI incentives, domestic ownership requirements and local content requirements.

30. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)
(d) General objectives, policies and processes (continued)

Macroeconomic mismanagement. The Australian and Papua New Guinean governments may pursue unsound monetary and fiscal policies which may lead to inflation, higher interest rates, recession and hard currency shortage.

Other types of country risk include war and labour unrest which could result in higher costs and work stoppages.

The Group has maintained a working policy of keeping all relevant Government offices informed and updated on activities to allow clear avenues of communication with Government authorities and an understanding of any policy changes and any effects that they may have on the Group's work.

(e) Accounting policies

Accounting policies are stated in note 1.

31. ACQUISITION OF CONTROLLED ENTITIES

		Acquiree's carrying amount	Fair Value
Larus Energy (Gippsland) Pty Ltd		**$**	**$**
On 14 June 2011, the parent entity acquired 100% of the issued capital of Larus Energy Pty Ltd (renamed Larus Energy (Gippsland) Pty Ltd) by issuing 7,000,000 ordinary shares and 4,000,000 options with an exercise price of $0.15 expiring 30 June 2014.			
Purchase Consideration:			
	Issue of 7,000,000 ordinary shares		700,000
	Issue of 4,000,000 options		157,983
			857,983
Less:	Cash	951	951
	Trade and other receivables	3,949	3,949
	Trade and other payables	(14,916)	(14,916)
	Exploration expenditure	161,776	867,999
		151,760	**857,983**
Goodwill		-	-
The purchase consideration was allocated as follows in the parent company:			
	Cash		951
	Trade and other receivables		3,949
	Trade and other payables		(14,916)
	Exploration expenditure		867,999
			857,983

31. ACQUISITION OF CONTROLLED ENTITIES (CONTINUED)

Larus Energy (Gippsland) Pty Ltd (continued)

Revenue of Larus Energy (Gippsland) Pty Ltd included in the consolidated revenue of the Group since the acquisition date on 14 June 2011 amounted to $20. Loss of Larus Energy (Gippsland) Pty Ltd included in consolidated loss of the Group since the acquisition date amounted to $43,336.

Had the results of Larus Energy (Gippsland) Pty Ltd been consolidated from 1 January 2011, revenue of the consolidated group would have been $44,303 and total consolidated comprehensive loss would have been $365,765 for the year ended 30 June 2011.

Further details of all relevant terms and conditions and assumptions relating to options issued in respect of the acquisition are contained in note 32.

Newport Energy Pty Ltd

On 1 July 2011, the parent entity acquired 100% of the issued capital of Newport Energy Pty Ltd on its incorporation by payment of $100.

Revenue of Newport Energy Pty Ltd included in the consolidated revenue of the Group since the acquisition date on 14 June 2011 amounted to $nil. Loss of Newport Energy Pty Ltd included in consolidated loss of the Group since the acquisition date amounted to $2,296.

Had the results of Newport Energy Pty Ltd been consolidated from 1 January 2011, revenue of the consolidated group would have been $44,158 and total consolidated comprehensive loss would have been $357,174 for the year ended 30 June 2011.

32. SHARE-BASED PAYMENTS

(i) Acquisition of Larus Energy Pty Ltd

On 14 June 2011, 4,000,000 share options were granted to shareholders of Larus Energy Pty Ltd (renamed Larus Energy (Gippsland) Pty Ltd) as part of the acquisition cost of the company.

The options give the right to take up ordinary shares at an exercise price of $0.15 each. The options are exercisable on or before 30 June 2014. The options hold no voting or dividend rights and are not transferable.

These options vest immediately.

The fair value of the options granted to Larus Energy Pty Ltd shareholders is deemed to represent the value of the purchase price for the company.

The fair value of options granted in respect of the acquisition was $157,983

These values were calculated using the Black-Scholes option pricing model applying the following inputs:

Share price	$0.10
Exercise price:	$0.15
Vesting date	30 June 2011
Expected exercise date	15 December 2012
Expected share price volatility:	106.92%
Risk-free interest rate:	4.75%

32. SHARE-BASED PAYMENTS

Comparative volatility of similar companies has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements.

(ii) Payment of capital raising costs

Since the end of the financial year, 400,000 share options were granted to YBR Securities Pty Ltd as consideration pursuant to a contract for the raising of capital. These costs were accrued as the benchmark of raising $2 million was reached prior to year end.

The options give the right to take up ordinary shares at an exercise price of $0.26 each. The options are exercisable on or before 31 December 2015. The options hold no voting or dividend rights and are not transferable.

These options vest immediately.

The fair value of the options granted to YBR Securities Pty Ltd is deemed to represent the value of the capital raising services rendered.

The fair value of options granted in respect of the acquisition was $36,674

These values were calculated using the Black-Scholes option pricing model applying the following inputs:

Share price	$0.20
Exercise price:	$0.26
Vesting date	31 December 2011
Expected exercise date	31 August 2013
Expected share price volatility:	112.00%
Risk-free interest rate:	3.67%

Comparative volatility of similar companies has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements.

33. NOTES TO THE STATEMENT OF CASH FLOWS

	Consolidated 2011 $	**Consolidated 2010 $**
(a) Cash on hand comprises:		
Cash at bank and on hand	2,303,789	493,481
	2,303,789	**493,481**
(b) Non cash transactions during period:		
Acquisition of controlled entities	857,983	82,790
Shares issued to directors, secretary and executives on appointment	-	200,000
Options issued to directors and executives	-	149,591
Options issued in relation to costs of corporate advisory services.	36,674	133,620
Shares issued in relation to costs of corporate advisory services	200,000	500,000

33. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

(c) Reconciliation of loss from ordinary activities after income tax to net cash outflows from operating activities as follows:

Operating (loss) after income tax	(647,175)	(1,748,564)
Depreciation and amortisation	4,704	470
Share based payments	-	349,591
Exploration expenditure written off	10,357	-
Employee entitlements	10,422	-
Change in operating assets and liabilities:		
- Decrease / (Increase) in receivables	77,310	(98,203)
- Decrease / (Increase) in other assets	(16,060)	(28,977)
- Increase / (Decrease) in accounts payable	(454,550)	820,163
Net cash inflow (outflow) from operating activities	**(1,014,992)**	**(705,520)**

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 19 to 67, 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 31 December 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 on 3 February 2012

On behalf of the Board

David Williams
Director

Chartered Accountants
& Business Advisers

Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

To the Directors of Larus Energy Ltd and the entities it controlled during the year

I declare to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2011 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and
- no contraventions of any applicable code of professional conduct in relation to the audit.

PKF

Bruce Gordon
Partner

3 February 2012
Sydney

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PKF

Chartered Accountants
& Business Advisers

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF LARUS ENERGY LTD AND ITS CONTROLLED ENTITIES

Report on the Financial Report

We have audited the accompanying financial report of Larus Energy Ltd, which comprises the statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies, other explanatory information, and the directors' declaration of Larus Energy Ltd (the company) and the consolidated entity. The consolidated entity comprises 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 company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

Independence

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

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Opinion

In our opinion:

(a) the financial report of Larus Energy Ltd and the consolidated entity 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 31 December 2011 and of their performance for the year ended on that date; and

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

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 1 in the financial report, which indicates that the consolidated entity incurred an operating loss of $647,175 and net cash outflows from operating activities of $1,014,992 during the year ended 31 December 2011. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern, and therefore the consolidated entity may be unable realise its assets and discharge its liabilities in the normal course of business

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Larus Energy Ltd for the year ended 31 December 2011, complies with section 300A of the *Corporations Act 2001.*

PKF

PKF

Bruce Gordon

Bruce Gordon
Partner

3 February 2012
Sydney

CORPORATE GOVERNANCE STATEMENT

As the Company is incorporated in Australia and in due course aims to list on an appropriate stock exchange, it has elected to report on its main corporate governance practices by reference to the principles and recommendations of the Australian Securities Exchange Corporate Governance Council.

RECOMMENDATION 1.1 **- Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.**

The Board of Directors has been charged by shareholders with overseeing the affairs of the Company to ensure that they are conducted appropriately and in the interests of all shareholders. The Board defines the strategic goals and objectives of the Company, as well as broad issues of policy and establishes an appropriate framework of Corporate Governance within which the Board members and management must operate. The Board reviews and monitors management and the Company's performance and specifically has responsibility for appointing, monitoring, managing the performance of the Managing Director.

The Board takes responsibility for evaluating, approving and monitoring major capital expenditure, annual operating budgets, capital management and all major corporate transactions.

The Board also has responsibility for approving and monitoring the company's risk management framework and ensuring compliance with the Corporations Act 2001, stock exchange listing rules and other relevant regulations.

Management is charged with the day to day running and administration of the Company consistent with the objectives and policies as set down by the Board. Within this framework, the Managing Director is directly accountable to the Board for the performance of the management team.

RECOMMENDATION 1.2 **- Companies should disclose the process for evaluating the performance of senior executives**.

Each of the Company's senior executives report directly to the Managing Director. The Managing Director closely monitors the performance of individual senior executives and reports to the Board in respect of each employee's performance and contribution to the Company's objectives.

Formal evaluation of senior executives is undertaken on an annual basis by the Managing Director who provides appropriate feedback to individual employees and recommendations to the Board in respect of remuneration. Performance evaluations were undertaken throughout the year in conjunction with a review of remuneration arrangements.

RECOMMENDATION 1.3 **- Companies should provide the information indicated in the Guide to reporting on Principal 1.**

The Company has provided this information.

CORPORATE GOVERNANCE STATEMENT

RECOMMENDATION 2.1 **- A majority of the Board should be independent Directors.**

The majority of the Board are independent Non-Executive Directors. The Board of Directors is currently comprised of the Managing Director (David Williams) and three independent Non-Executive Directors (Kay Philip, Graham Holdaway and Peter Fennessy). The Company determines Directors to be independent where they are non-executive and being free of any business or other relationship which could materially interfere with the independent exercise of their judgment. The composition of the Board is subject to periodic review.

All Directors of the Company have direct access to the management of the Company and, where necessary, to external advisers. Directors are entitled to seek independent advice at the Company's expense, subject to prior approval of the Chairman, which shall not be unreasonably withheld. A copy of the advice received by the Director will be made available to all members of the Board.

The skills, experience and expertise of each Director are set out below:

Graham Holdaway – Chairman

Mr Holdaway is an accountant with experience in the energy sector and in developing countries.

From 1984 to March 2011 Mr Holdaway was with the accounting firm KPMG. For 20 of those years he was an advisory partner in the Melbourne practice. He was a key member of KPMG teams advising the Victorian and South Australian governments on the reform and privatisation of their electricity and natural gas industries. He has since provided advice to Federal and State governments on energy policy and energy sector regulation. He has also advised many energy infrastructure owners on access regulation and pricing issues. Mr Holdaway also spent two periods (in total five years) with KPMG Indonesia based in Jakarta.

Mr Holdaway is an Associate of the Institute of Chartered Accountants in Australia, and a Member of the Australian Institute of Company Directors (AICD).

David Williams – Managing Director

Mr Williams has held the position of Managing Director of a number of ASX listed companies and privately owned companies, a number of which have had international owners. He brings over 15 years of experience in the energy and resource industry across all aspects of the value chain including exploration, production and infrastructure. He has demonstrated ability to develop and implement major strategic directional changes including capital raisings, acquisitions and mergers, cost and labour reductions.

Prior to accepting his appointment as Managing Director of Larus Energy, Mr Williams was President of Heathgate Resources Pty Ltd. He remains a director of Heathgate Resources Pty Ltd. Previously Mr Williams held the position of Managing Director of Drillsearch Energy Limited (2008) and Great Artesian Oil & Gas Limited (2007). From 2005 to 2007, Mr Williams was Managing Director of Chemeq Limited and, prior to that, was Chief Executive Officer of the Epic Energy group from 1999 to 2004. Mr Williams has professional experience as a lawyer, consultant, general counsel and company secretary.

Mr Williams is a member of the Australian Institute of Company Directors (AICD).

Kay Philip ONM – Non Executive Director

Ms Philip is a geophysicist whose background embraces project acquisition, financial analysis of resource projects and companies, mining exploration and management. She also has experience in the financial markets, including rights issues and other capital raisings.

Ms Philip has worked in the securities industry, conducting courses in Australia and South East Asia.

She is an Honorary Associate at the School of Physics, University of Sydney, and has been a director of a number of listed and unlisted companies in the financial and oil and gas sectors. Ms Philip is currently an independent non-executive director of AusTex Oil Limited. She is also a director of Proto Resources and Investments Limited (since 2006) and was a director of Stirling Resources Limited (formerly Alexanders Securities Limited) from 1985 to 2009 and Longreach Oil Limited from 1985 to 2009.

Ms Philip was decorated by the French government in 2005 with the award of Chevalier de l'Ordre National du Mérite (ONM), for facilitating collaborations between French and Australian scientists.

Ms Philip is a Senior Fellow of the Financial Services Institute of Australia (FINSIA), Member of the Australian Institute of Physics (AIP), Member Australian Society of Exploration Geophysicists (ASEG), Member of the Association of International Petroleum Negotiators (AIPN) and Secretary of the Australian-French Association for Science and Technology (AFAS).

Peter Joseph Fennessy – Non-executive Director

Mr Fennessy is currently with Australasian Capital, a boutique financial and advisory firm focussing on energy and resource project development. Prior to this he worked for over 6 years on energy development projects with Alinta and before that with TXU (and the precursor businesses including Kinetik Energy) in their wholesale energy trading area for a total of 10 years.

Mr Fennessy's initial industry experience was with BP Exploration. He worked there for just under 10 years as a geologist and commercial analyst in oil and gas exploration, operations, production and basin review. During this period he spent time working and living in Papua New Guinea undertaking field exploration and drilling operations. He later took on the role of Commercial Analyst in the upstream exploration sector working on upstream oil and gas project investment, corporate strategy, planning and asset portfolio management.

In all, Mr Fennessy has had an extensive 25 year career in the energy industry in both the upstream and wholesale energy market sectors and has developed and executed a number of integrated gas supply, storage and transmission strategies often associated with power projects. He has also had key roles in the development of the continually evolving wholesale gas markets in Australia and is recognised as an industry leader in this area.

RECOMMENDATION 2.2 **- The Chairperson should be an independent Director.**

Mr. Holdaway was appointed as the Chairperson during the year and is an independent Director.

RECOMMENDATION 2.3 **- The roles of Chairperson and Chief Executive Officer should not be exercised by the same individual.**

Mr. Holdaway is the Chairperson and Mr. David Williams is the Managing Director.

CORPORATE GOVERNANCE STATEMENT

RECOMMENDATION 2.4 **- The Board should establish a Nomination Committee.**

The Board has not established a formal Nomination Committee. Where a vacancy arises or it is considered appropriate to vary the size of the Board of Directors, the Board as a whole reviews its composition and the qualifications and experience of candidates. Directors are selected on the basis of their specialist skills and business background so as to provide an appropriate mix of skills, perspective and business experience.

Directors are not appointed for a fixed term but are, except for the Managing Director, subject to re-election by shareholders at least every three years in accordance with the Constitution of the Company.

The Directors' terms of appointment are governed by the Constitution of the Company. A Director appointed to fill a casual vacancy, or as an addition to the Board, only holds office until the next general meeting of members and must then retire.

After providing for the foregoing, one-third of the remaining Directors (excluding the Managing Director) must retire at each annual general meeting of members.

The Board periodically:

(a) reviews the structure, size and composition of the Board;
(b) reviews the desired competencies across Board members;
(c) identifies appropriate individuals as Board nominees;
(d) conducts appropriate enquiries into the backgrounds and qualifications of Board nominees.
(e) undertakes director education, induction processes and company succession plans;
(f) reviews the composition of committees.

RECOMMENDATION 2.5 **- Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.**

The Company has adopted a Board Charter which provides for the performance evaluation of the Board, its Committees and individual Directors including:

(a) an individual performance assessment for each Director on an annual basis;
(b) reviewing the performance and effectiveness of the Board as a whole;
(c) reviewing and implementing governance practices designed to enhance the Board's effectiveness;
(d) comparing the Board's practices with the Board Charter requirements;
(e) identifying any desirable enhancements to the Board Charter; and
(f) determining the Board's principal objectives for the following year.

RECOMMENDATION 2.6 **- Companies should provide the information indicated in the Guide to reporting on Principal 2**.

The Company has provided this information.

CORPORATE GOVERNANCE STATEMENT

RECOMMENDATION 3.1 - **Companies should establish a code of conduct and disclose the code or a summary of the code as to:**

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

The Board has established a Code of Conduct. In addition the Company has in place a range of policies which deal with matters designed to maintain confidence in the Company's integrity.

Each Code of Conduct and the relevant policies will be disclosed on the Company's website in the Corporate Governance Section.

RECOMMENDATION 3.2 **- Companies should establish a policy concerning trading in Company securities by directors, senior executives and employees and disclose the policy or a summary of that policy.**

The Company maintains a policy which requires that Directors, officers and employees of the Company not engage in any dealings in the shares of the Company without giving prior notice to the Company including details of the type and date of dealing, number of securities, parties and price.

In addition, Directors, officers and employees shall not engage in any dealings in shares of the Company during the period two weeks prior to and within 24 hours after the date of the announcement of the Company's annual or half year results or any quarterly activities report, or at any time while in the possession of inside information. The policy is to be reproduced on the Company's website.

RECOMMENDATION 3.3 **- Companies should provide the information indicated in the Guide to reporting on Principal 3.**

The Company has provided this information.

RECOMMENDATION 4.1 **– The Board should establish an Audit Committee.**

The Board has established an Audit Committee which is responsible for ensuring compliance with all appropriate accounting standards and the integrity of related reporting obligations.

The Committee is also responsible for reviewing the Company's internal financial controls, and for maintaining open lines for communication between the Board and the external auditors, independently of management.

All Audit Committee deliberations are routinely reported to the full Board at the earliest opportunity and any action taken, or proposal made, is submitted to the full Board for ratification or approval and implementation.

RECOMMENDATION 4.2 - **The Audit Committee should be structured so that it:**

- **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;**
- **has at least three members.**

The Company has established an Audit Committee which is comprised only of non-executive and independent directors.

The Audit Committee is comprised of three independent Non-Executive Directors (Graham Holdaway, Peter Fennessy and Kay Philip). Their qualifications, expertise and experience are set out in Recommendation 2.1 above. Other Directors, management and external auditors may be invited to attend Audit Committee meetings at the discretion of the Audit Committee.

The Audit Committee reviews the performance of the external auditor and makes recommendations to the full Board as required from time to time in relation to the ongoing role of the external auditor and the selection and appointment of the external auditor. The Audit Committee also monitors the rotation of the external engagement auditor.

The Audit Committee met formally on three occasions during the financial period ended 31 December 2011. Both Mr. Holdaway and Ms. Philip attended each meeting and Mr Fennessy attended the meeting held after his appointment to the Committee.

Mr. Holdaway was the chairman of the Committee during the year until his appointment as chairman of the Board. Ms. Philip is now the chairman of the Committee. The chairman of the committee has not been and is not the chairman of the Board.

RECOMMENDATION 4.3 - **The Audit Committee should have a formal charter.**

The Company has established a formal Audit Committee Charter. The composition of the Audit Committee is set out in both the Board Charter and the Audit Committee Charter.

RECOMMENDATION 4.4 - **Companies should provide the information indicated in the Guide to reporting on Principal 4.**

The Company has provided this information.

CORPORATE GOVERNANCE STATEMENT

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

The Board has approved a Continuous Disclosure Policy which is reproduced on the Company's website.

Although the Company has not listed on a stock exchange, its Directors and staff are aware of the principles of continuous disclosure and operate in an environment where strong emphasis is placed on full and appropriate disclosure.

The Chairman & Managing Director are together responsible for interpreting and monitoring the Company's disclosure policy and where necessary informing the Board and shareholders.

RECOMMENDATION 5.2 - **Companies should provide the information indicated in the Guide to reporting on Principal 5.**

The Company has provided this information.

RECOMMENDATION 6.1 - **Companies should design a communications policy to promote effective communication with shareholders and encouraging effective participation at general meetings and disclose their policy or a summary of that policy.**

The Company has not established a formal policy for communicating with shareholders.

As a matter of practice, information is communicated to shareholders through Newsletters media releases and the Annual Report. The Annual General Meeting and other meetings may also be called from time to time. The Company maintains a website which provides a description of the Company's projects and ongoing operations.

The Company will endeavour to encourage effective participation at general meetings by providing extensive opportunity for shareholders present at such meetings to direct questions to the Board and management.

RECOMMENDATION 6.2 **- Companies should provide the information indicated in the Guide to reporting on Principal 6.**

The Company has provided this information.

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

There are inherent risks associated with exploration and the development of resource projects. The Board continuously reviews the activities of the Company to identify key business and operational risks and, where possible, has implemented policies and procedures to address such risks.

The Company has adopted a Risk Management Policy which provides an overview of the Company's risk management policies and its compliance and control systems.

The Board is provided with regular reporting on the management of operations and the financial condition of the Company aimed at ensuring that risks are identified, assessed and appropriately managed as and when they arise.

Management and staff of the Company are required to ensure that Occupational Health and Safety practices and Environmental practices are of the highest standard.

RECOMMENDATION 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.**

Management has formalised a number of risk management strategies and internal control systems to manage the company's material business risks.

The Board and management constantly monitor the effectiveness of the Company's management of its material business risks.

RECOMMENDATION 7.3 - **The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration required 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 issues.**

The Company does not presently employ a Chief Financial Officer given its size and the nature of its activities. The Managing Director and the Company's external accountant address these areas to the extent that they are relevant to the Company in a statement in writing to the Board.

RECOMMENDATION 7.4 **- Companies should provide the information indicated in the Guide to reporting on Principal 7.**

CORPORATE GOVERNANCE STATEMENT

The Company has provided this information.

RECOMMENDATION 8.1 **- The Board should establish a Remuneration Committee.**

The Board has not established a formal Remuneration Committee. The Board is responsible to ensure that the remuneration of executive directors and key executives is appropriate in the context of the nature of the Company's operations and market conditions.

The Board Charter stipulates that the Board will annually review the performance of the senior management and determine appropriate remuneration for the senior management team in line with the annual business plan and budget and after receipt of a recommendation from the Managing Director.

RECOMMENDATION 8.2 **- Companies should clearly distinguish the structure of non-executive director's remuneration from that of executive directors and senior executives.**

The remuneration of Non-Executive Directors must be within the aggregate amount approved for such remuneration by shareholders.

There are no arrangements for payment of retirement benefits to Non-Executive Directors.

The Board reviews the remuneration of employees within the Company which are set at a level to attract and retain suitably qualified staff to enable the Company to achieve its exploration and corporate objectives. In normal circumstances, the level of remuneration paid to employees reflects the competitive employment market in the resource sector.

The Managing Director is employed on a full time basis and is entitled to short term bonus payments on an annual basis with reference to KPI established by the Board and a long term bonus structure where performance payments are calculated on an implied farmout value basis or options are issued upon listing on an appropriate stock exchange.

All employees receive a base salary (which is based on factors such as length of service and experience) and superannuation. The Company's Exploration Manager is entitled to an Over Riding Royalty in respect of PPL 326 which was approved by shareholders at the annual general meeting of the Company held in Aril 2011.

Employees are prohibited from entering into transactions or arrangements which limit the economic risk of participating in unvested entitlements under the Company's Employee Incentive Plan.

RECOMMENDATION 8.3 **- Companies should provide the information indicated in the Guide to reporting on Principal 8.**

The Company has provided this information.

Tenement Schedule

Tenement	Location	Status	Date Granted	Renewal Date	Area (sq km) (unless otherwise specified)	Registered Holder / Applicant
PPL 326	Torres Basin, Papua New Guinea	Granted/ Current	27/8/09	27/8/15	16,752 (200 graticular blocks)	Larus Energy (PNG) Ltd (100%)
VIC/P63	Offshore Gippsland Basin, Australia	Granted/ Current	29/3/07	29/3/14	1,315.6 (24 blocks)	Larus Energy (Gippsland) Pty Ltd (100%)
VIC/P64	Offshore Gippsland Basin, Australia	Granted/ Current	29/3/07	29/3/14	2,039.3 (36 blocks)	Larus Energy (Gippsland) Pty Ltd (100%)
T/46P	Offshore Gippsland Basin, Australia	Granted/ Current	6/3/07	6/3/14	4,942.3 (81 blocks)	Larus Energy (Gippsland) Pty Ltd (100%)