

**MODUN RESOURCES LIMITED  
(FORMERLY TVN CORPORATION LIMITED)  
ABN 95 066 139 991**

**ANNUAL REPORT  
30 June 2012**

## **CORPORATE DIRECTORY**

### **Directors**

Hugh Warner – Non-executive Chairperson  
Chris Mardon- Managing Director  
Gerry Fahey – Non-executive Director  
James Thompson – Non-executive Director

### **Company Secretary**

Neil Hackett

### **Auditors**

Stantons International  
Level 2  
1 Walker Avenue  
West Perth WA 6005

### **Solicitors**

King & Wood Mallesons  
Level 10  
Central Park  
152 St Georges Terrace  
Perth WA 6000

### **Bankers**

Westpac Banking Corporation  
109 St George's Terrace  
Perth WA 6000

### **Registered Office**

Suite 7  
245 Churchill Ave  
Subiaco WA 6008

Telephone: +61 8 6143 9108  
Facsimile: +61 8 9388 3006

### **Share Registry**

Computershare Limited  
Level 2  
45 St Georges Terrace  
PERTH WA 60000

Investor Enquiries: 1300 850 505  
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### **Stock Exchange Listing**

Securities of Modun Resources Limited are listed on the Australian Securities Exchange.

ASX Code: MOU

**Web Site:** [www.modunresources.com](http://www.modunresources.com)

**Annual Report – 30 June 2012**

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**DIRECTORS' REPORT**  
**30 June 2012**

Your directors submit the Directors' Report and Financial Report of Modun Resources Limited ("Company") for the year ended 30 June 2012.

**Directors**

The names of the directors of the Company in office for the financial year and until the date of this report are as follows:

Hugh Warner  
Chris Mardon  
Gerry Fahey  
James Thompson

**Principal activities**

The principal activities of the entities within the consolidated entity during the year were focusing on exploration and development of its coal project in Mongolia.

**Operating results**

During the year the Company made a loss from continuing operations of \$2,512,034 (2011: \$992,322).

**Review of operations**

This year has been a period of significant growth and activity for the Company. The Company has grown into an international resources company with the completion of the acquisition of 100% of the Nuurst Thermal Coal Project in Mongolia in October. Significant exploration was conducted during the period resulting in the discovery of a JORC Reportable Coal Resource of 489 million tonnes on the Nuurst Project License (417 Mt Indicated, 72 Mt Inferred).

The Company is currently working through the process of converting the exploration license into a mining license as it seeks to begin development of mining operations during Calendar year 2013. To support and drive the transformation of the Company from explorer to producer, the Company appointed Mr Rick Dalton as the Company's new Managing Director, subsequent to the end of the financial year.

Mr Dalton is due to commence as Managing Director with the Company in October 2012. He is an experienced coal mining engineer with an extensive background in mine planning, strategy, operations and logistics at large scale open cut coal mines. During his career he has also been responsible for leading numerous feasibility studies on expansion and development of new coal mining projects. His background and skills are an ideal fit for Modun as it moves into its next phase of development.

The Board of Directors would like to thank the current Managing Director, Mr Chris Mardon, for his dedicated service over the last 4 years, in particular for his efforts in overseeing the development of the maiden JORC resource at the Nuurst project. Mr Mardon is due to finish his employment as Managing Director on 30 September 2012.

The last quarter of the financial year was a challenging three month period with significant uncertainty created by the introduction of new foreign investment laws into Mongolia and a general election that resulted in a new coalition government led by the centre right Democratic Party coming to power. These events and the market response to them have compounded the challenges of operating in Mongolia. Despite these challenges, Modun has continued to progress the Nuurst Project towards the granting of a mining license as well as putting in place plans to broaden its geographical focus when searching for additional projects to add to its portfolio.

***Nuurst Thermal Coal Project in Mongolia***

On 7 October 2011, Modun completed the acquisition of the Nuurst Thermal Coal Project in central Mongolia. The total purchase price for the acquisition of 100% ownership of the project was \$US1.64 million dollars including taxes and associated fees.

Nuurst is a 34.5 sq. km exploration license located 120kms south of Ulaanbaatar in an area with a number of operating coal mines. Nuurst is 6km from existing rail infrastructure providing low cost access to the local Mongolian market as well as the Chinese coal export market.

**DIRECTORS' REPORT**  
30 June 2012



Map sourced from: [http://www.nationsonline.org/oneworld/map/mongolia\\_map2.htm](http://www.nationsonline.org/oneworld/map/mongolia_map2.htm)

Figure 1; Location of the Nuurst Thermal Coal Project in Central Mongolia and its proximity to China

During the year, the Company completed a significant drilling programme that peaked at 49 people and 4 diamond drill rigs on site in early November. A total of 7,411m of drilling over 26 holes was completed that discovered a major coal seam development of 1.5km x 3km in size with some coal sequences being greater than 100m in thickness. A further 700m of sub-cropping coal seam development was also identified.

The drilling programme culminated in the release of the Company's significant maiden JORC Reportable Coal Resource of 489 million tonnes (417 million tonnes Indicated, 72 million tonnes Inferred) in December 2011. The resource estimate, compiled by consultancy CSA Global Pty Ltd, was almost double the Company's targets and confirmed the potential for a large scale thermal coal mine.

In July 2012, the Company was advised by the Mongolian laboratory that assayed last year's drill core, that the procedure used in relation to the measurement of inherent moisture was incorrect for this type of coal. As a result, the Company undertook another drilling programme consisting of a 3 hole confirmatory programme to verify previous assay work and as a consequence the classification of the Nuurst Coal Resource.

The Board appointed CSA Global to oversee and audit the correct procedures and recently sent a senior coal expert to Mongolia to ensure that the Mongolian laboratories have used the appropriate international standards during the 2012 drill programme.

**DIRECTORS' REPORT**  
**30 June 2012**

Results from the drilling programme have confirmed that the inherent moisture in the overall Nuurst Coal Resource is materially lower than was reported last year. This will result in a corresponding adjustment in other quality parameters which will include an upward revision of the calorific value of the coal as previously reported on an "air dried" basis. The full impact these results will have on the overall resource quality will be determined by analysis of the new data and re-processing of the old data to provide a revised resource quality.

A new hole NDH26 was drilled to twin one of the holes in the existing resource (NDH06). The table below highlights the magnitude of the change in the inherent moisture which has resulted in the calorific value on an air dried basis increasing to 5,025 kcal/kg compared with the previously reported result of 4,115 kcal/kg.

| Drillhole Number  | Cumulative coal seam thickness /m/ to 245m | Inherent Moisture _ADB (%) | Ash_ ADB (%) | Volatile Matter ADB (%) | Fixed Carbon _ADB (%) | Total Sulphur _ADB (%) | Gross Calorific Value _ADB (kcal/kg) | Gross Calorific Value _DB (kcal/kg) | Gross Calorific Value _DAF (kcal/kg) | Density AD, (g/cm3) |
|-------------------|--------------------------------------------|----------------------------|--------------|-------------------------|-----------------------|------------------------|--------------------------------------|-------------------------------------|--------------------------------------|---------------------|
| NDH06 (2011 hole) | 135.46                                     | 28.57                      | 10.30        | 37.68                   | 23.44                 | 0.72                   | 4,115                                | 5,762                               | 6,734                                | 1.34                |
| NHD – NDH26       | 136                                        | <b>9.89</b>                | 14.94        | 39.49                   | 35.67                 | 0.95                   | <b>5025</b>                          | 5,581.                              | 6,685                                | 1.53                |

*Note: NDH26 assay above is a sub-set of the full coal seam intersections to allow a direct comparison with NDH06 results. Overall assay results for NDH26 in table below.*

When comparing the two assay results, there was less than 1% difference in total moisture results with the twinned holes. This confirms that the issue identified by Modun relates only to the determination of inherent moisture at the lab and not the previous coal sampling and handling procedures on site.

The impact of lower Inherent Moisture with corresponding higher "air dried" energy of this coal would result in improved power station boiler efficiency.

The appropriate ISO standard was used to measure both the total and inherent moisture in all three confirmatory holes. The analytical results of these holes confirm both the consistency of the quality characteristics of this deposit and that the coal at Nuurst is of similar rank to other known deposits in the basin.

| Drillhole Number | Cumulative coal seam thickness (m) | Inherent Moisture _ADB (%) | Ash_ ADB (%) | Volatile Matter ADB (%) | Fixed Carbon _ADB (%) | Total Sulphur _ADB (%) | Gross Calorific Value _ADB (kcal/kg) | Gross Calorific Value _DB (kcal/kg) | Gross Calorific Value _DAF (kcal/kg) | Density AD, (g/cm3) |
|------------------|------------------------------------|----------------------------|--------------|-------------------------|-----------------------|------------------------|--------------------------------------|-------------------------------------|--------------------------------------|---------------------|
| NHD -26          | 147.05                             | 9.95                       | 15.68        | 39.09                   | 35.27                 | 0.95                   | 4,967                                | 5,520                               | 6,679                                | 1.53                |
| NDH- 27          | 24                                 | 10.42                      | 10.70        | 34.15                   | 44.74                 | 0.55                   | 5,347                                | 5,971                               | 6,778                                | 1.51                |
| NDH- 29          | 77.77                              | 9.73                       | 12.21        | 38.36                   | 39.70                 | 1.05                   | 5,500                                | 6,092                               | 7,045                                | 1.50                |

A re-calculation of the quality parameters of the resource is currently underway and it is anticipated that a revised Resource will be issued in the last quarter of calendar year 2012.

In August 2012, the Company also completed a trenching programme designed to test for coal sub-cropping to the north of the existing Coal Resource. This trenching programme outlined a new area of sub-cropping coal north of the existing Nuurst Coal Resource (417 million tonnes Indicated, 72 million tonnes Inferred) which is likely to be an up dip extension of the existing resource on the Nuurst License. The sub-crop is approximately 1.2 km north of the northernmost hole (NDH05) drilled into the Nuurst Coal Resource. The sub-crop has been traced over a length of 900 m and may extend further west below shallow cover. This sub-cropping clearly demonstrates the potential for further shallow coal seam development to the north of the existing Nuurst Coal Resource. Trench depth limited the extent of identified coal sub-crop to the west of the newly identified subcrop area. Future drilling is expected to identify the full extent and tenor of the coal seam development in that area.

**DIRECTORS' REPORT**  
**30 June 2012**

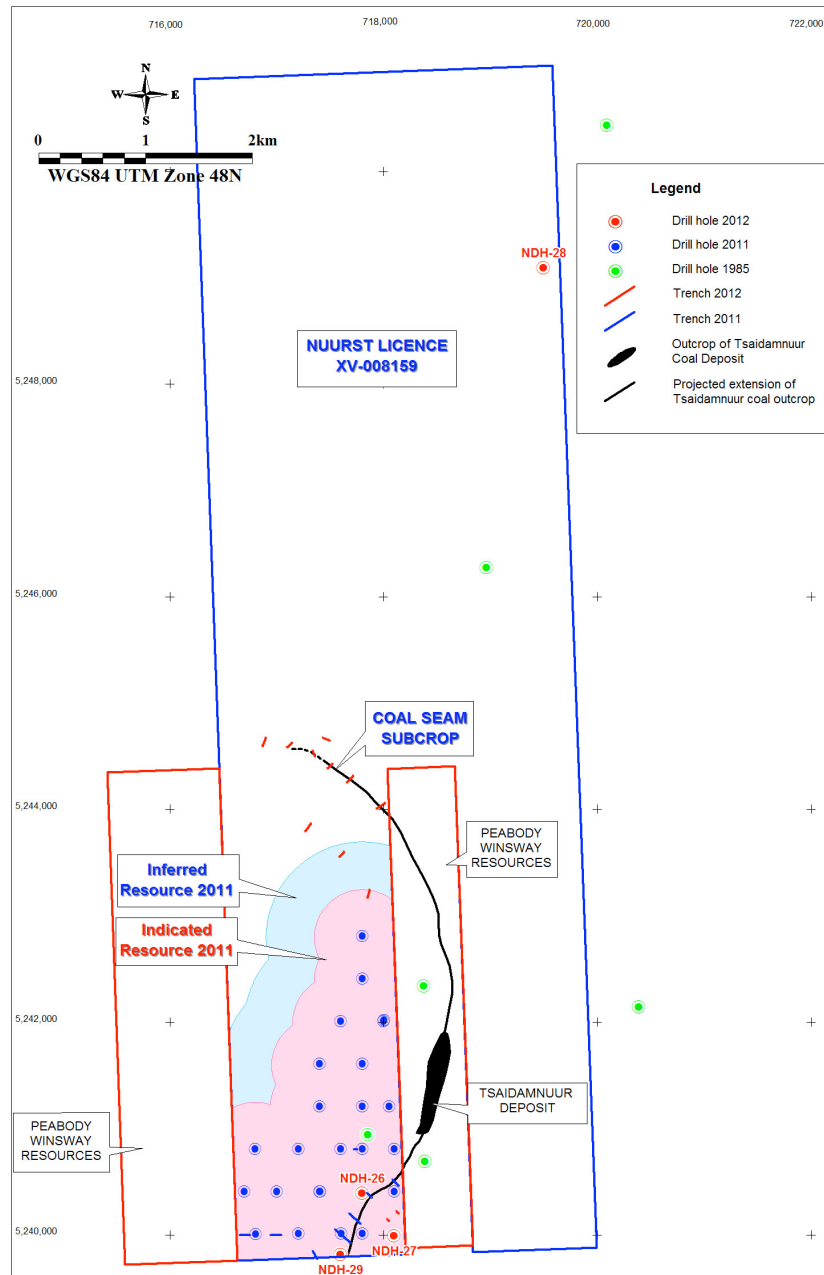


Figure 2: Site plan showing drilling and trenching locations and Coal Seam Sub-crop

The Company is on schedule to lodge its application to have the Nuurst thermal coal deposit registered with Mineral Resources Authority of Mongolia by 30 September 2012. This application is the precursor to receiving a mining license that enables the Company to move towards the development and production of its thermal coal resource.

**Competent Person Statement**

The information in this report that relates to the Nuurst Coal Resource is based on information compiled by Mr Dwiyo TU. Taruno of CSA Global Pty Ltd, who is a member of the Australasian Institute of Mining and Metallurgy. Mr. Dwiyo TU. Taruno has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Mr Dwiyo TU. Taruno consents to the inclusion of such information in this report in the form and context in which it appears.

**DIRECTORS' REPORT**  
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The information in this report that relates to exploration results is based on information obtained from drilling and trenching activities on site undertaken by Modun in 2011 & 2012. This information has been reviewed by Ms Dierdre Westblade of CSA Global Pty Ltd, Western Australia. Ms Westblade is a member of the Australian Institute of Geoscientists and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a competent person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Ms Westblade consents to the inclusion in the report of the matters based on his information in form and context in which it appears

***Tsagaan Tolgoi Project in Mongolia***

On 5 March 2012, Modun announced the proposed acquisition (subject to shareholder and regulatory approvals and other conditions precedent) of 100% of the Tsagaan Tolgoi coal deposit and 100% of exploration license Ajlyn Talbai (Tsagaan Tolgoi Coal Project) from SouthGobi Resources Ltd (SouthGobi).

On 16 April 2012 the Mineral Resources Authority of Mongolia (MRAM) requested the suspension of certain licenses owned by SouthGobi Sands LLC, a wholly-owned division of SouthGobi. As a result, on 24 April 2012 Modun and SouthGobi announced that they had agreed to extend the time to complete the proposed acquisition of the Tsagaan Tolgoi Coal Project from 1 June 2012 to 31 December 2012.

On 29 August 2012, the Company reached mutual agreement with SouthGobi to terminate the transaction to acquire the Tsagaan Tolgoi Coal Project on the basis that the transaction could not be completed by 31 December 2012. Under the terms of the Termination Deed, each party released the other from all obligations and liabilities in relation to the previously announced transaction.

***New Foreign Investment Legislation in Mongolia***

On 17 May 2012, the Mongolian Government approved a new Foreign Investment Law to regulate foreign investment into Mongolia's mineral resources sector. This Foreign Investment Law formalises a process of Mongolian Government approval for significant investments into industries of strategic importance to the country. The legislation is designed to assist Mongolia in controlling the ownership of significant mineral resource assets to secure their economic future. Mongolia's Foreign Investment Legislation's approval regime is based on the following levels of investment:

- All foreign direct investments in excess of 5% in an entity operating in a sector of strategic importance must register with the Foreign Investment Agency of Mongolia.
- Foreign direct investments in excess of 33% in an entity operating in a sector of strategic importance must obtain Mongolian Government approval.
- Foreign direct investments in excess of 49% in an entity operating in a sector of strategic importance and in excess of 100bn MNT (approximately AUD\$75m) will require approval from the Mongolian Parliament.
- Foreign direct investments made by a company with State ownership will require Mongolian Government approval.

The legislation does not apply retrospectively (for example to the Nuurst Project) and is similar to foreign investment regimes in other resource rich jurisdictions such as Australia (FIRB) and Canada.

The new legislation requires Modun to notify the Foreign Investment Agency within 180 days of its existing investment in the Nuurst Coal Project. No further Mongolian Governmental approvals are anticipated. However, the newly formed Government is yet to provide details as to how the new Foreign Investment Law will be administered and implemented and Modun continues to work with the relevant Government authorities to ensure that all the requirements to progress the Nuurst Project towards the granting of a mining license continue to be met. Any new acquisitions made by Modun in Mongolia will now be subject to the approval process described above.

***Australian Projects***

***Western Australian Tenements***

With the Company's focus on coal in Mongolia, a review of the licenses and applications still active in Western Australia was undertaken. It was decided that the prospectivity of the two granted exploration tenements (E08/2110 and E08/2111) didn't warrant further work and they have both been surrendered. The remaining pending applications (ELA74/464, ELA47/2295 and ELA 47/2296) have either been withdrawn or refused.

**DIRECTORS' REPORT**  
**30 June 2012**

**Dividends**

No dividends were paid or proposed to be paid to members during the financial year (2011: Nil).

**Significant changes in the state of affairs**

There was no significant change in the state of affairs of the Company since the previous Financial Report and during the financial year.

**Matters subsequent to the end of the financial year**

On 29 August 2012, the Company reached mutual agreement with SouthGobi to terminate the transaction to acquire the Tsagaan Tolgoi Coal Project. On the same date, the Company announced the appointment of Mr Rick Dalton as the Company's new Managing Director and the resignation of Chris Mardon as the current Managing Director. Each of these events has been described in detail in the Directors Report above.

Except for these matters, there has been no other matter or circumstance that has arisen since 30 June 2012 that has significantly affected, or may significantly affect:

- (1) the Company's operations in future financial years, or
- (2) the results of those operations in future financial years, or
- (3) the Company's state of affairs in future financial years.

**Likely developments and expected results of operations**

The Company will continue with its current activities to progress the Nuurst Coal Project towards obtaining a mining license and developing a mining operation. It also plans to broaden its geographical focus to include regions outside of Mongolia when searching for additional thermal and coking coal projects to add to its portfolio.

**Information on Directors**

**Chris Mardon** (Managing Director, age 44)  
B Eng (Mining), MAusIMM  
Appointed 27 March 2008

**Experience and expertise**

Chris Mardon has over 20 years of experience in the resources industry having graduated in mining engineering in 1990. He has held senior roles in resource companies and overseen feasibility studies, development and management of a number of mining operations both locally and overseas.

**Other current directorships**

Nil

**Former directorships in the last three years**

Nil

**Special responsibilities**

None

**Interests in shares and options**

16,000,000 ordinary shares

25,000,000 options to acquire ordinary shares

**DIRECTORS' REPORT**  
**30 June 2012**

**Information on Directors (continued)**

**Gerry Fahey** (Non-executive director, age 60)  
BSc (Hons, Geol), FAusIMM, MAIG  
Appointed 25 September 2008

**Experience and expertise**

Gerry Fahey has over 35 years experience in both the international and local minerals industry. He is a specialist in mining geology, mine development and training and worked for 10 years as Chief Geologist Mining for Delta Gold where he was actively involved with the development of Kanowna Belle, Golden Feather, Sunrise and Wallaby projects. Gerry is currently a Director of CSA Global Pty Ltd and a member of the Joint Ore Reserve Committee (JORC) and outgoing Chairman of the WA Branch of the Federal Council for the Australian Institute of Geoscientists (AIG).

**Other current directorships**

Focus Minerals Ltd (Appointed 20th April 2011)

**Former directorships in the last three years**

Nil

**Special responsibilities**

None

**Interests in shares and options**

4,000,000 ordinary shares

3,000,000 options to acquire ordinary shares

**Hugh Warner** (Non-executive director and Chairperson, age 43)

BEC

Appointed 20 April 2010

***Experience and Expertise***

Hugh Warner holds a Bachelor of Economics degree from the University of Western Australia. Hugh has a broad experience as a public company director having been a director of approximately 25 publicly listed companies involved in the mining, oil & gas, biotechnology and service industries.

***Other Current Directorships***

TPL Corporation Limited, PLD Corporation Limited, FRR Corporation Limited and Prospect Resources Limited

**Former Directorships in the Last Three Years**

None

***Special Responsibilities***

None

**Interests in Shares and Options**

70,205,528 ordinary shares

**James Thompson** (Non-executive director, age 43)

B.Comm, LLB, CA, FINSIA

Appointed 6 April 2011

***Experience and Expertise***

James Thompson has 19 years experience in principal investment, investment banking and corporate finance and restructuring related activities. He is a qualified chartered accountant, admitted legal practitioner, Fellow of FINSIA and Holds a Bachelor of Commerce and Bachelor of Laws.

**DIRECTORS' REPORT**  
**30 June 2012****Information on Directors (continued)*****Other Current Directorships***

Stratos Resources Limited and Sprint Energy Limited

**Former Directorships in the Last Three Years**

None

***Special Responsibilities***

None

**Interests in Shares and Options**

40,000,000 ordinary shares

3,000,000 options to acquire ordinary shares

**Company secretary**

The company secretary is Neil Hackett. Neil was appointed to the position of company secretary on 19 July 2010.

***Experience and Expertise***

Neil Hackett has approximately 20 years company secretarial, compliance and corporate governance experience including 12 years ASX200 listed company secretary experience with mining, diversified industrial and financial services entities. Neil is a non-executive director of Rialto Energy Ltd, TPL Corporation Ltd and WestCycle Inc and is company secretary of Ampella Mining Limited and Steel Blue Pty Ltd. Neil holds a Bachelor of Economics, Postgraduate Applied Finance and Investment qualifications, is a Fellow of FINSIA, a Graduate of the AICD and an Affiliate of Chartered Secretaries Australia.

**Meetings of directors**

The number of meetings of the Company's board of directors held during the year ended 30 June 2012, and the number of meetings attended by each director were:

| <b>Director</b> | <b>Number of Meetings</b> |                 |
|-----------------|---------------------------|-----------------|
|                 | <b>Eligible to attend</b> | <b>Attended</b> |
| Chris Mardon    | 6                         | 5               |
| Gerry Fahey     | 6                         | 4               |
| Hugh Warner     | 6                         | 6               |
| James Thompson  | 6                         | 6               |

The Board and executive positions of Modun Resources Limited, including the CFO and Company Secretary, are based at the company's offices in Churchill Avenue, Subiaco. As a result, the company has been able to convene regular management meetings with members of the Board to oversee the operations and governance of the company. In addition, formal board meetings and circular resolutions have been utilised where specific resolutions binding the company are required.

The Board meetings held during the year include Board meetings held as part of general meetings of shareholders.

**DIRECTORS' REPORT**  
**30 June 2012**

**Remuneration Report (Audited)**

The Remuneration Report is set out under the following main headings:

- (1) Principles used to determine the nature and amount of remuneration;
- (2) Details of remuneration;
- (3) Service agreements; and
- (4) Share-based compensation.

The information provided in this Remuneration Report has been audited as required by Section 308(3C) of the *Corporations Act 2001*.

**1 Principles used to determine the nature and amount of remuneration**

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms to market best practice for delivery of reward. The board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- (i) competitiveness and reasonableness;
- (ii) acceptability to shareholders;
- (iii) performance linkage / alignment of executive compensation;
- (iv) transparency; and
- (v) capital management.

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

Alignment to shareholders' interests:

- (i) focuses on sustained growth in shareholder wealth; and
- (ii) attracts and retains high calibre executives.

Alignment to program participants' interests:

- (i) rewards capability and experience; and
- (ii) provides a clear structure for earning rewards.

**2 Details of remuneration**

*Directors' fees*

*Executive director*

The fees and payments to the executive director reflect the demands which are made on, and the responsibilities of the director, and are in line with market. There is no past or current relationship between the executive directors remuneration and the financial performance of the Company. The executive directors remuneration is reviewed annually by the board to ensure that the fees and payments remain appropriate and in line with the market.

The remuneration package of the executive director, Chris Mardon, in his capacity as Managing Director, is detailed below under "Service agreements".

The executive director did not receive any share-based payments during the financial year.

**DIRECTORS' REPORT**  
**30 June 2012**

**Remuneration report (continued)**

**2 Details of remuneration (continued)**

*Non-executive directors*

Fees to the non-executive directors are determined by the board as appropriate having regard to the market and the aggregate remuneration specified in the Company's Constitution and determined by the shareholders in general meeting. The fees are reviewed annually. There is no relationship between the non-executive director's remuneration and the financial performance of the Company. In addition to his Directors fees, James Thompson provided corporate advisory services which included mergers and acquisitions, capital raising and strategic advice during the financial year. The details of fees paid to a company associated with James Thompson are detailed below.

None of the non-executive directors received share based payments during the financial year. During the 2011 financial year, with shareholder approval given on 17 June 2011, James Thompson received a share-based payment by the grant of 3,000,000 options exercisable at 2 cents before 30 September 2012.

*Retirement allowances and benefits for directors*

There are no retirement or termination allowances, profit sharing, bonuses, or other performance related remuneration or benefits paid to directors.

The amount of remuneration of the directors of the Company (as defined in AASB 124 *Related Party Disclosures*) and other key management personnel is set out in the following table.

## DIRECTORS' REPORT

30 June 2012

## Remuneration report (continued)

|                                       | Short term     |                 |                |                   |          | Post-employment | Share based payments | Total            | Performance related | Value of options of total |
|---------------------------------------|----------------|-----------------|----------------|-------------------|----------|-----------------|----------------------|------------------|---------------------|---------------------------|
|                                       | Salary         | Consulting Fees | Cash bonus     | Non-cash benefits | Other    | Super           | Options              |                  | %                   | %                         |
| <b>12 Months Ended 30 June 2012</b>   |                |                 |                |                   |          |                 |                      |                  |                     |                           |
| <b>Directors</b>                      |                |                 |                |                   |          |                 |                      |                  |                     |                           |
| <b>Non-executive Directors</b>        |                |                 |                |                   |          |                 |                      |                  |                     |                           |
| Hugh Warner, Chairman                 | 91,743         |                 | 50,000         | -                 | -        | 8,257           | -                    | 150,000          | 33%                 | -                         |
| Gerry Fahey                           | 27,523         |                 | -              | -                 | -        | 2,477           | -                    | 30,000           | -                   | -                         |
| James Thompson                        | 30,000         | 120,000         | 25,000         | -                 | -        | -               | -                    | 175,000          | 14%                 | -                         |
| <b>Executive Directors</b>            |                |                 |                |                   |          |                 |                      |                  |                     |                           |
| Chris Mardon, Managing Director       | 268,303        |                 | 200,000        | -                 | -        | 22,706          | -                    | 491,009          | 42%                 | -                         |
| <b>Executives</b>                     |                |                 |                |                   |          |                 |                      |                  |                     |                           |
| Daniel Rohr, CFO (appointed 10/10/11) | 145,810        |                 | -              | -                 | -        | 13,058          | 90,400               | 249,268          | 36%                 | 36%                       |
| <b>Total</b>                          | <b>563,379</b> | <b>120,000</b>  | <b>275,000</b> | <b>-</b>          | <b>-</b> | <b>46,498</b>   | <b>90,400</b>        | <b>1,095,277</b> |                     |                           |

|                                     |                |                |          |               |              |               |              |                |   |        |
|-------------------------------------|----------------|----------------|----------|---------------|--------------|---------------|--------------|----------------|---|--------|
| <b>12 Months Ended 30 June 2011</b> |                |                |          |               |              |               |              |                |   |        |
| <b>Directors</b>                    |                |                |          |               |              |               |              |                |   |        |
| <b>Non-executive Directors</b>      |                |                |          |               |              |               |              |                |   |        |
| Hugh Warner, Chairman               | 66,055         |                | -        | 5,707         | -            | 5,945         | -            | 77,707         | - | -      |
| James Thompson (appointed 6/4/11)   | 7,250          |                | -        | 1,345         | -            | -             | 6,731        | 15,326         | - | 43.92% |
| Gerry Fahey                         | 27,523         |                | -        | 5,707         | -            | 2,477         | -            | 35,707         | - | -      |
| <b>Executive Directors</b>          |                |                |          |               |              |               |              |                |   |        |
| Chris Mardon, Managing Director     | 82,569         | 164,004        | -        | 5,707         | 1,088        | 7,431         | -            | 260,799        | - | -      |
| <b>Total</b>                        | <b>183,397</b> | <b>164,004</b> | <b>-</b> | <b>18,466</b> | <b>1,088</b> | <b>15,853</b> | <b>6,731</b> | <b>389,539</b> |   |        |

**DIRECTORS' REPORT**  
**30 June 2012**

**Remuneration report (continued)**

**2 Details of remuneration (continued)**

The fees paid to director related entities were for the provision of services of the particular director to the Company are as follows:

- (a) Ophiolite Consultants Pty Ltd (Ophiolite), an entity associated with James Thompson, was paid \$30,000 (2011: \$7,250) for director's fees. Ophiolite was also paid consulting fees of \$120,000 (2011: Nil) for consulting services provided during the financial year; and
- (b) Reef Resources Pty Ltd, an entity associated with Chris Mardon, charged the Company for consulting fees in the prior financial period. This agreement terminated on 30 June 2011 and no consulting fees were paid during the current year (2011:\$164,004); and
- (c) Anglo Pacific Ventures Pty Ltd (Anglo), an entity associated with Hugh Warner, charged the Company for office accommodation in the prior financial period. This agreement terminated on 30 June 2011 and no rental expense was paid to Anglo for the current year (2011: \$30,000).

In addition to the above, CSA Global Pty Ltd (CSA), an entity associated with Gerry Fahey, was paid \$226,050 (2011: \$Nil) for the provision of geological services during the financial year

**3 Service agreements**

There is an Executive Services Agreement with Chris Mardon, to perform the function of Managing Director from 1 June 2011 until termination in accordance with the agreement. The details are:

- 1. Remuneration of \$275,000 per annum (including superannuation and directors fees) subject to an annual review on each 30 June;
- 2. the Company shall pay a bonus of \$100,000 if the Nuurst Thermal Coal Project delivers a JORC indicated Resource of no less than two hundred million (200m) tonnes of thermal coal on or before 31 December 2011. A bonus of \$50,000 will be paid by the Company if the Nuurst Thermal Coal Project delivers a JORC indicated Resource of no less than three hundred million (300m) tonnes of thermal coal on or before 30 June 2012.;
- 3. The Company reimburses costs and expenses reasonably incurred;
- 4. Either party can terminate the agreement on three months (3) months written notice; and

There are letters of director appointment with each director which set out the annual fixed fee and terms and conditions of the appointment including compliance with the Company's Constitution and Corporate Governance Policies; re-election, retirement and office vacancy; duties; remuneration; insurance and indemnity; disclosure of interests; and confidentiality. They serve until they resign, are removed, cease to be a director or prohibited from being a director under the provisions of the *Corporations Law 2001*, or are not re-elected to office. They are remunerated on a monthly basis with no termination payments payable.

Except for the Executive Services Agreement with the Managing Director, it is the Group's policy that service contracts for executives are unlimited in term and capable of termination by either party upon three (3) months written notice.

In the case of wilful or fraudulent misconduct, the Group retains the right to terminate all service contracts without notice.

Key management personnel are entitled to receive on termination of employment their statutory entitlements, including any accrued annual and long service leave, together with any superannuation benefits. Each service contract outlines the components of compensation paid to the key management personnel but does not prescribe how compensation levels are modified year to year.

**DIRECTORS' REPORT**  
**30 June 2012**

**Remuneration report (continued)**

**4 Share-based compensation**

With shareholder approval given on 16 November 2011, Daniel Rohr received a share-based payment on 14 February 2012, by the grant and vesting of 4,000,000 options exercisable at 10 cents on or before 31 December 2014. The fair value of the options totaled \$90,400.

In the previous financial year, James Thompson received a share-based payment by the grant and vesting of 3,000,000 options exercisable at 2 cents on or before 30 September 2012. The fair value of the options totaled \$6,732.

The fair value of the options at the grant date is determined using the Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at the grant date, the expected price volatility of the underlying share, the expected dividend yield, and the risk-free interest rate for the term of the option. The fair value calculation and inputs to the Black Scholes model are shown at Note 13(b).

No options issued to key management personnel were cancelled or lapsed during the year. The numbers of options over ordinary shares in the Company held during the financial year by each key management personnel of Modun Resources Limited, including their personally related parties, are set out below:

| <b>2012</b>                           |                                         |                                |                                  |                                       |                                                      |
|---------------------------------------|-----------------------------------------|--------------------------------|----------------------------------|---------------------------------------|------------------------------------------------------|
| <b>Directors</b>                      | <b>Balance at the start of the year</b> | <b>Granted during the year</b> | <b>Exercised during the year</b> | <b>Balance at the end of the year</b> | <b>Vested and exercisable at the end of the year</b> |
| Chris Mardon                          | 33,000,000                              | -                              | (8,000,000)                      | 25,000,000                            | 25,000,000                                           |
| Gerry Fahey                           | 5,000,000                               | -                              | (2,000,000)                      | 3,000,000                             | 3,000,000                                            |
| Hugh Warner                           | -                                       | -                              | -                                | -                                     | -                                                    |
| James Thompson                        | 8,000,000                               | -                              | (5,000,000)                      | 3,000,000                             | 3,000,000                                            |
| <b>Other key management personnel</b> |                                         |                                |                                  |                                       |                                                      |
| Daniel Rohr                           | -                                       | 4,000,000                      | -                                | 4,000,000                             | 4,000,000                                            |
|                                       | <b>46,000,000</b>                       | <b>4,000,000</b>               | <b>(15,000,000)</b>              | <b>35,000,000</b>                     | <b>35,000,000</b>                                    |

The options granted during the year were share based payments. The options exercised during the year were exercised at a price of 1 cent per share. Daniel Rohr was appointed as the Chief Financial officer during the year. All options are vested and exercisable at the end of the reporting period.

| <b>2011</b>      |                                         |                                |                      |                                       |                                                      |
|------------------|-----------------------------------------|--------------------------------|----------------------|---------------------------------------|------------------------------------------------------|
| <b>Directors</b> | <b>Balance at the start of the year</b> | <b>Granted during the year</b> | <b>Other changes</b> | <b>Balance at the end of the year</b> | <b>Vested and exercisable at the end of the year</b> |
| Chris Mardon     | 33,000,000                              | -                              | -                    | 33,000,000                            | 33,000,000                                           |
| Gerry Fahey      | 5,000,000                               | -                              | -                    | 5,000,000                             | 5,000,000                                            |
| Hugh Warner      | 12,000,000                              | -                              | (12,000,000)         | -                                     | -                                                    |
| James Thompson   | -                                       | 3,000,000                      | 5,000,000            | 8,000,000                             | 8,000,000                                            |
|                  | <b>50,000,000</b>                       | <b>3,000,000</b>               | <b>(7,000,000)</b>   | <b>46,000,000</b>                     | <b>46,000,000</b>                                    |

The options granted during the year were share based payments. James Thompson was appointed as a director during the year. The options held on appointment are shown in "Other changes during the year". All options are vested and exercisable at the end of the reporting period.

**(End of remuneration report)**

**DIRECTORS' REPORT**  
**30 June 2012**

**Additional information**

**(a) Shares under option**

At 30 June 2012, there were 48,500,000 ordinary shares under option with 31,000,000 options exercisable at 2 cents that expire on 30 September 2012 and 17,500,000 options exercisable at 10 cents that expire on 31 December 2014 (2011: 53,500,000 ordinary shares under option exercisable at 1 cent on or before 31 December 2011, 31,000,000 options exercisable at 2 cents on or before 30 September 2012 and nil options exercisable at 10 cents on or before 31 December 2014). Refer to note 13(b) of the financial statements for details of movements in options.

53,500,000 ordinary shares were issued during the financial year on the exercise of options at an exercise price of 1 cent per share (2011:17,000,000).

**(b) Insurance of officers**

During the financial year the Company paid premiums of \$17,650 (2011: \$18,466) to insure the directors and officers of the Company. The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for them or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities and as a result these amounts are not disclosed individually in the remuneration report.

**(c) Agreement to indemnify officers**

The Company has entered into an agreement with each director and executive officer to allow access to the Company's records, to provide directors and officers insurance cover and to indemnify the director and officer against any liability as a result of being, or acting in their capacity as, an officer of the Company to the maximum extent permitted by law; and for legal costs incurred in successfully defending civil or criminal proceedings. No liability has arisen under these indemnities as at the date of this report.

**(d) Proceedings on behalf of the Company**

No person has applied to the court under Section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. No proceedings have been brought or intervened in on behalf of the Company with leave of the court under Section 237 of the *Corporations Act 2001*.

**(e) Auditor**

Stantons International continues in office in accordance with Section 327 of the *Corporations Act 2001*.

**(f) Indemnity of Auditor**

The auditor (Stantons International) has not been indemnified under any circumstance.

**(g) Audit services**

During the financial year \$42,049 was paid or is payable for audit services provided by the auditor, Stantons International (2011: \$19,018). This does not include fees paid to auditors of subsidiaries as outlined in note 16 of the financial report.

**DIRECTORS' REPORT**  
**30 June 2012**

**Additional information (continued)**

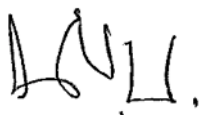
**(h) Non-audit services**

During the period Stantons International, the Company's auditor, has provided due diligence services in addition to their statutory duties in Australia, in the amount of \$7,763. The board has considered the non-audit services provided during the period by the auditor and is satisfied that the provision of those non-audit services during the period by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001.

**(i) Auditor's independence declaration**

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 19 of the Annual Report.

Signed in accordance with a resolution of the directors.  
On behalf of the Directors



**Hugh Warner**  
**Director**  
Perth  
27 September 2012

27 September 2012

The Directors

Modun Resources Limited  
Suite 7  
245 Churchill Ave  
Subiaco WA 6008

Dear Sirs

**RE: MODUN RESOURCES LIMITED**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Modun Resources Limited.

As Audit Director for the audit of the financial statements of Modun Resources Limited for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours faithfully

**STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LIMITED**  
(Trading as Stantons International)  
(An Authorised Audit Company)



**John Van Dieren**  
Director

## CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Statement sets out Modun Resources Limited's (**the Company**) current compliance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (**the ASX Principles and Recommendations**). The ASX Principles and Recommendations are not mandatory. However, the Company will be required to provide a statement in its future annual reports disclosing the extent to which the Company has followed the ASX Principles and Recommendations.

| ASX Principles and Recommendations                                                                                                          | Comply (Yes/No) | Explanation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|---------------------------------------------------------------------------------------------------------------------------------------------|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1. Lay solid foundations for management and oversight</b>                                                                                |                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 1.1. Companies should establish the functions reserved for the board and those delegated to senior executives and disclose those functions. | Yes             | <p>The Company's board of directors (<b>the Board</b>) is responsible for corporate governance of the Company. The Board develops strategies for the Company, reviews strategic objectives and monitors performance against those objectives. The goals of the corporate governance processes are to:</p> <ul style="list-style-type: none"> <li>(a) maintain and increase Shareholder value;</li> <li>(b) ensure a prudential and ethical basis for the Company's conduct and activities; and</li> <li>(c) ensure compliance with the Company's legal and regulatory objectives.</li> </ul> <p>Consistent with these goals, the Board assumes the following responsibilities:</p> <ul style="list-style-type: none"> <li>(a) developing initiatives for profit and/or asset growth;</li> <li>(b) reviewing the corporate, commercial and financial performance of the Company on a regular basis;</li> <li>(c) acting on behalf of, and being accountable to, the Shareholders; and</li> <li>(d) identifying business risks and implementing actions to manage those risks and corporate systems to assure quality.</li> </ul> <p>The Company is committed to the circulation of relevant materials to Directors in a timely manner to facilitate Directors' participation in Board discussions on a fully-informed basis.</p> <p>It is expected that the division of responsibility of the Board and senior executives will vary with the evolution of the Company. The Company intends to regularly review the balance of responsibilities to ensure that the division of functions remains appropriate to the needs of the Company.</p> |
| 1.2. Companies should disclose the process for evaluating the performance of senior executives.                                             | Yes             | <p>During the period the Board set Key Performance Indicators for the Managing Director as the key senior executive. Given the current size of the Company the process for evaluating performance of senior executives is under review.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

## CORPORATE GOVERNANCE STATEMENT

| ASX Principles and Recommendations                                                                                               | Comply (Yes/No) | Explanation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|----------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>2. Structure the board to add value</b>                                                                                       |                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 2.1. A majority of the board should be independent directors.                                                                    | No              | The Board has reviewed the position and associations of each of the three directors in office and has determined that none of the directors are independent. Three of the directors, Hugh Warner, James Thompson and Gerry Fahey are non-executive. In making this determination the Board has had regard to the independence criteria in ASX Principle 2 and other facts, information and circumstances that the Board considers relevant. The Board assesses the independence of new directors upon appointment and reviews their independence, and the independence of the other directors, as appropriate. The Board strives to ensure that it is comprised of directors with a blend of skills, experience and attributes appropriate to the Company and its business. The principle criterion for the appointment of new directors is their ability to add value to the Company and its business.                                                                                                                                                                                                         |
| 2.2. The chair should be an independent director.                                                                                | No              | The Company's current Chairman Mr Hugh Warner, does not satisfy the ASX Principles and Recommendations definition of an independent director. However, the Board considers Mr Warner's role as chairman essential to the success of the Company at this early stage of its restructure and the development of its new business.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 2.3. The roles of chair and chief executive officer should not be exercised by the same individual.                              | Yes             | The Company's Managing Director oversees the executive management of the company. The Company has recently announced the appointment of a new experienced Managing Director commencing in October 2012.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| 2.4. The board should establish a nomination committee.                                                                          | No              | No formal nomination committee or procedures have been adopted for the identification, appointment and review of the Board membership, but an informal assessment process, facilitated by the Chairman in consultation with the Company's professional advisers and relevant Professional Associations (if required), has been committed to by the Board.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 2.5. Companies should disclose the process for evaluating the performance of the board, its committees and individual directors. | No              | <p>The Company does not have in place a separately constituted remuneration committee due to the size and current operations of the Company. The remuneration of an executive director will be decided by the Board, without the affected executive director participating in that decision-making process.</p> <p>The total maximum remuneration of non-executive directors is currently set at \$300,000. Any increases will be the subject of a shareholder resolution in accordance with clause 13.7 of the Company's constitution, the Corporations Act and the ASX Listing Rules, as applicable. The determination of non-executive directors' remuneration within that maximum amount will be made by the Board, having regard to the inputs and value to the Company of the respective contributions by each non-executive director.</p> <p>The Board may award additional remuneration to executive directors called upon to perform executive services or make special exertions on behalf of the Company. This has been the case for Mr Hugh Warner and Mr James Thompson throughout the period.</p> |

## CORPORATE GOVERNANCE STATEMENT

| ASX Principles and Recommendations                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Comply (Yes/No) | Explanation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>3. Promote ethical and responsible decision-making</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <p>3.1. Companies should establish a code of conduct and disclose the code or a summary of the code as to:</p> <ul style="list-style-type: none"> <li>the practices necessary to maintain confidence in the company's integrity;</li> <li>the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders;</li> <li>the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul> | Yes             | <p>The Board is committed to the establishment and maintenance of appropriate ethical standards.</p> <p>The Company has a statement of values and a code of conduct endorsed by the board that applies to all directors and any employees if and when they are engaged. The code is reviewed and updated as necessary to ensure it reflects the standards of behaviour and professionalism, and the practices necessary to maintain confidence in the Company's integrity. The directors are satisfied that the Company has complied with its policies on ethical standards, including securities trading during the period.</p> |
| <p>3.2. Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measureable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.</p>                                                                                                                                                                     | No              | <p>The Company has not established a formal policy addressing diversity. Given the current size of the Company and the fact that the Company is in the early stages of its restructure and the development of its new business, the Board does not consider it necessary to have a diversity policy.</p> <p>As the Company develops, the Board intends to review its practices, and if deemed necessary in the future, the Board may consider adopting a policy in the future. The Policy will focus on securing the most appropriately qualified and experienced personnel to achieve the Company's objectives.</p>             |
| <p>3.3. Companies should disclose in each annual report the measureable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.</p>                                                                                                                                                                                                                                                                                            | No              | <p>As mentioned in 3.2 above, the Company has not established a formal policy addressing diversity</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

## CORPORATE GOVERNANCE STATEMENT

| ASX Principles and Recommendations                                                                                                                                                                                                                                                                                                       | Comply (Yes/No) | Explanation                                                                                                                                                                                                                                                                                                                                                                                                                              |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.4. Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.                                                                                                                                                            | No              | There are currently no women on the Board.                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>4. Safeguard integrity in financial reporting</b>                                                                                                                                                                                                                                                                                     |                 |                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| 4.1. The board should establish an audit committee.                                                                                                                                                                                                                                                                                      | No              | <p>The Company does not have a separately constituted audit committee due to its current size and the fact that the Company is in the early stages of its restructure and the development of its business.</p> <p>The Company in general meeting is responsible for the appointment of the external auditors of the Company, and the Board from time to time will review the scope, performance and fees of those external auditors.</p> |
| 4.2. The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>• consists only of non-executive directors;</li> <li>• consists of a majority of independent directors;</li> <li>• is chaired by an independent chair, who is not chair of the board;</li> <li>• has at least three members.</li> </ul> | N/A             | The Company does not currently have an audit committee.                                                                                                                                                                                                                                                                                                                                                                                  |
| 4.3. The audit committee should have a formal charter.                                                                                                                                                                                                                                                                                   | N/A             | The Company does not currently have an audit committee.                                                                                                                                                                                                                                                                                                                                                                                  |

## CORPORATE GOVERNANCE STATEMENT

| ASX Principles and Recommendations                                                                                                                                                                                                                                    | Comply (Yes/No) | Explanation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>5. Make timely and balanced disclosure</b>                                                                                                                                                                                                                         |                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| 5.1. Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies. | Yes             | <p>The Company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Company that a reasonable person would expect to have a material effect on the price of the Company's securities. These policies and procedures also include the arrangements the Company has in place to promote communication with shareholders and encourage effective participation at general meetings. A summary of these policies and procedures is included in the board charter and is available at the Company's registered office and website <a href="http://www.modunresources.com">www.modunresources.com</a>.</p> <p>The company secretary has been nominated as the person responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and coordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public. Shareholders that have made an election, receive a copy of the Company's Annual Report by mail. Otherwise, the Annual Report is available on the Company's website.</p> <p><b>Trading in the Company's shares</b></p> <p>A director must not trade in any securities of the Company at any time when they are in possession of unpublished price sensitive information in relation to those securities.</p> <p>As required by the ASX Listing Rules, the Company is to notify the ASX of any transaction conducted by any director in the listed securities of the Company. Modun has established procedures and protocols to be complied with if a director, officer or employee wishes to trade in Modun's securities.</p> <p>There was no trading of the Company's securities in the period by directors whilst in that position (2011: Nil).</p> |
| <b>6. Respect the rights of shareholders</b>                                                                                                                                                                                                                          |                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| 6.1. Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.                                           | Yes             | <p>The Company has a formal communications policy in place and all material matters will be disclosed to the market in accordance with the Listing Rules.</p> <p>The Company encourages shareholders to register for receipt of announcements and updates electronically.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |

**CORPORATE GOVERNANCE STATEMENT**

| ASX Principles and Recommendations                                                                                                                                                                                                                                                                                                                                                                                                           | Comply (Yes/No) | Explanation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>7. Recognise and manage risk</b>                                                                                                                                                                                                                                                                                                                                                                                                          |                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| 7.1. Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.                                                                                                                                                                                                                                                                                               | Yes             | <p>The Board is responsible for the oversight and management of all material business risks. The Board's collective experience will enable accurate identification of the principal risks that may affect the Company's business. Key operational risks and their management will be recurring items for deliberation as Board meetings.</p> <p>The risk profile can be expected to change and procedures adapted as the Company develops and it grows in size and complexity.</p> <p>The Board intends to continue to regularly review and approve the risk management and oversight policies of the Company.</p> |
| 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.                                                     | No              | This has not been formalised as a role of management, as this responsibility presently sits at Board level.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 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 provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | Yes             | The section 295A Corporations Act Declaration is provided annually by the Chief Executive Officer (or equivalent) and the Chief Financial Officer.                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

## CORPORATE GOVERNANCE STATEMENT

| ASX Principles and Recommendations                                                                                                                                                                                                                          | Comply (Yes/No) | Explanation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>8. Remunerate fairly and responsibly</b>                                                                                                                                                                                                                 |                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 8.1. The Board should establish a remuneration committee.                                                                                                                                                                                                   | No              | As mentioned in 2.5 above, the Company does not have in place a separately constituted remuneration committee due to the size and current operations of the Company.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| 8.2. The remuneration committee should be structured so that it: <ul style="list-style-type: none"> <li>• consists of a majority of independent directors;</li> <li>• is chaired by an independent chair;</li> <li>• has at least three members.</li> </ul> | No              | The Company does not currently have a remuneration committee.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| 8.3. Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.                                                                                                    | Yes             | <p>The remuneration of an executive director will be decided by the Board, without the affected executive director participating in that decision-making process.</p> <p>The total maximum remuneration of non-executive directors is currently set at \$300,000. Any increases will be the subject of a shareholder resolution in accordance with clause 13.7 of the Company's constitution, the Corporations Act and the ASX Listing Rules, as applicable. The determination of non-executive directors' remuneration within that maximum amount will be made by the Board, having regard to the inputs and value to the Company of the respective contributions by each non-executive director.</p> |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 30 June 2012

|                                                    | Note | 2012<br>\$  | 2011<br>\$ |
|----------------------------------------------------|------|-------------|------------|
| <b>Continuing operations</b>                       |      |             |            |
| Revenue                                            | 5    | 64,663      | 14,556     |
| Depreciation                                       |      | (15,079)    | (1,650)    |
| Employee benefits expense                          |      | (282,596)   | -          |
| Directors' remuneration                            |      | (835,292)   | (363,254)  |
| Share based payment                                |      | (316,400)   | (46,732)   |
| Exploration expenditure written off                |      | (4,214)     | -          |
| Foreign exchange gain, net                         |      | 74,671      | -          |
| Professional and consulting fees                   |      | (556,516)   | (12,091)   |
| Project assessment costs                           |      | (234,297)   | (184,326)  |
| Project acquisition costs                          | 9    | -           | (169,624)  |
| Capitalised expenditure from prior year            | 9    | 169,624     | -          |
| Rental expense                                     |      | (81,147)    | (30,000)   |
| Travel expense                                     |      | (221,667)   | (15,946)   |
| Other administrative expenses                      |      | (273,784)   | (183,255)  |
| <b>Loss before income tax</b>                      |      | (2,512,034) | (992,322)  |
| Income tax expense                                 | 6    | -           | -          |
| <b>Loss for the year</b>                           |      | (2,512,034) | (992,322)  |
| Other comprehensive income/(loss)                  |      | -           | -          |
| <b>Total Comprehensive loss for the year</b>       |      | (2,512,034) | (992,322)  |
| Basic and diluted loss per share (cents per share) | 22   | (0.34)      | (0.22)     |

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As at 30 June 2012**

|                             | <b>Note</b> | <b>Consolidated<br/>2012<br/>\$</b> | <b>2011<br/>\$</b>    |
|-----------------------------|-------------|-------------------------------------|-----------------------|
| <b>Assets</b>               |             |                                     |                       |
| <b>Current assets</b>       |             |                                     |                       |
| Cash and cash equivalents   | 7           | 3,452,382                           | 394,923               |
| Trade and other receivables | 8           | 41,391                              | 38,627                |
| Prepayment                  | 8           | 32,023                              | 15,612                |
| Total current assets        |             | <u>3,525,796</u>                    | <u>449,162</u>        |
| <b>Non-current Asset</b>    |             |                                     |                       |
| Exploration                 | 9           | 4,077,131                           | 4,214                 |
| Plant & equipment           | 10          | 117,861                             | 2,797                 |
| Total non-current assets    |             | <u>4,194,992</u>                    | <u>7,011</u>          |
| <b>Total assets</b>         |             | <u><b>7,720,788</b></u>             | <u><b>456,173</b></u> |
| <b>Liabilities</b>          |             |                                     |                       |
| <b>Current liabilities</b>  |             |                                     |                       |
| Trade and other payables    | 11          | 127,766                             | 52,776                |
| Provisions                  | 11          | 23,112                              | 6,377                 |
| <b>Total liabilities</b>    |             | <u><b>150,878</b></u>               | <u><b>59,153</b></u>  |
| <b>Net Assets</b>           |             | <u><b>7,569,910</b></u>             | <u><b>397,020</b></u> |
| <b>Equity</b>               |             |                                     |                       |
| Contributed equity          | 12          | 300,660,089                         | 291,255,874           |
| Reserves                    | 13(a)       | 356,011                             | 75,302                |
| Accumulated losses          | 13(d)       | (293,446,190)                       | (290,934,156)         |
| <b>Total Equity</b>         |             | <u><b>7,569,910</b></u>             | <u><b>397,020</b></u> |

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 30 June 2012

|                                                                              | Issued<br>Capital<br>\$ | Share Based<br>Payments<br>Reserve<br>\$ | Foreign<br>Currency<br>Translation<br>Reserve<br>\$ | Accumulated<br>Losses<br>\$ | Total Equity<br>\$ |
|------------------------------------------------------------------------------|-------------------------|------------------------------------------|-----------------------------------------------------|-----------------------------|--------------------|
| Balance at 1 July 2011                                                       | 291,255,874             | 75,302                                   | -                                                   | (290,934,156)               | 397,020            |
| Loss for the year and total<br>recognised income and<br>expense for the year | -                       | -                                        | -                                                   | (2,512,034)                 | (2,512,034)        |
| Exchange differences arising<br>on translation of foreign<br>operations      | -                       | -                                        | (118,991)                                           |                             | (118,991)          |
| Shares issued                                                                | 9,477,500               | -                                        | -                                                   | -                           | 9,477,500          |
| Options exercised                                                            | 535,000                 | -                                        | -                                                   | -                           | 535,000            |
| Share based payment                                                          | 243,667                 | -                                        | -                                                   | -                           | 243,667            |
| Options issued                                                               | -                       | 399,700                                  | -                                                   | -                           | 399,700            |
| Share issue costs                                                            | (851,952)               | -                                        | -                                                   | -                           | (851,952)          |
| <b>Balance at 30 June 2012</b>                                               | <b>300,660,089</b>      | <b>475,002</b>                           | <b>(118,991)</b>                                    | <b>(293,446,190)</b>        | <b>7,569,910</b>   |

For the year ended 30 June 2011

|                                                                              | Issued<br>Capital<br>\$ | Share Based<br>Payments<br>Reserve<br>\$ | Foreign<br>Currency<br>Translation<br>Reserve<br>\$ | Accumulated<br>Losses<br>\$ | Total Equity<br>\$ |
|------------------------------------------------------------------------------|-------------------------|------------------------------------------|-----------------------------------------------------|-----------------------------|--------------------|
| Balance at 1 July 2010                                                       | 290,255,797             | 68,570                                   | -                                                   | (289,941,834)               | 382,533            |
| Loss for the year and total<br>recognised income and<br>expense for the year | -                       | -                                        | -                                                   | (992,322)                   | (992,322)          |
| Shares issued                                                                | 800,000                 | -                                        | -                                                   | -                           | 800,000            |
| Options exercised                                                            | 170,000                 | -                                        | -                                                   | -                           | 170,000            |
| Share based payment                                                          | 40,000                  | -                                        | -                                                   | -                           | 40,000             |
| Options issued                                                               | -                       | 6,732                                    | -                                                   | -                           | 6,732              |
| Share issue costs                                                            | (9,923)                 | -                                        | -                                                   | -                           | (9,923)            |
| <b>Balance at 30 June 2011</b>                                               | <b>291,255,874</b>      | <b>75,302</b>                            | <b>-</b>                                            | <b>(290,934,156)</b>        | <b>397,020</b>     |

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended 30 June 2012

|                                                               | <b>Note</b> | <b>Consolidated<br/>2012<br/>\$</b> | <b>2011<br/>\$</b> |
|---------------------------------------------------------------|-------------|-------------------------------------|--------------------|
| <b>Cash flows from operating activities</b>                   |             |                                     |                    |
| Payments to suppliers and employees                           |             | (2,311,090)                         | (597,608)          |
| Interest received                                             |             | 54,832                              | 9,628              |
| Other payments/refunds                                        |             | (2,867)                             | 5,650              |
| <b>Net cash outflow from operating activities</b>             | <b>21</b>   | <b>(2,259,125)</b>                  | <b>(582,330)</b>   |
| <b>Cash flows from investing activities</b>                   |             |                                     |                    |
| Payments for plant & equipment                                |             | (130,885)                           | (2,945)            |
| Payments for evaluation and exploration expenditure           |             | (2,376,420)                         | (176,543)          |
| Payments for acquisition of exploration assets                |             | (1,492,554)                         | (169,624)          |
| <b>Net cash outflow from investing activities</b>             |             | <b>(3,999,859)</b>                  | <b>(349,112)</b>   |
| <b>Cash flows from financing activities</b>                   |             |                                     |                    |
| Proceeds from issue of shares and options                     |             | 9,855,000                           | 970,000            |
| Transaction costs paid related to issue of shares             |             | (612,438)                           | (9,923)            |
| <b>Net cash inflow from financing activities</b>              |             | <b>9,242,562</b>                    | <b>960,077</b>     |
| <b>Net increase in cash and cash equivalents</b>              |             | <b>2,983,578</b>                    | <b>28,635</b>      |
| Cash and cash equivalents at beginning of the year            |             | 394,923                             | 367,008            |
| Effect of exchange rate fluctuations on cash held             |             | 73,881                              | (720)              |
| <b>Cash and cash equivalents at end of the financial year</b> | <b>7</b>    | <b>3,452,382</b>                    | <b>394,923</b>     |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**30 June 2012**

Modun Resources Limited is a company limited by shares, incorporated and domiciled in Australia.

The Financial Report of Modun Resources Limited ("Company") for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the board of directors on 27 September 2012.

**1 Summary of significant accounting policies**

The principal accounting policies adopted in the preparation of the Financial Report are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

**(a) Basis of preparation**

This general purpose Financial Report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001* unless stated otherwise.

The Financial Report has been prepared on the basis that the Company is a going concern. The board considers that the Company has sufficient cash resources to meet all operating costs for at least the next twelve months from the date of this report.

It is recommended that this Financial Report be read in conjunction with the public announcements made by Modun Resources Limited during the year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

*Compliance with IFRS*

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the Financial Report of Modun Resources Limited complies with International Financial Reporting Standards (IFRS).

*Historical cost convention*

These financial statements have been prepared under the historical cost convention.

*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 Company's accounting policies. Where there are areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, these are disclosed in Note 3.

*Comparative figures*

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current year. When the Group applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statements, a statement of financial position as at the beginning of the earliest comparative period will be disclosed.

**(b) Foreign Currency**

Transactions in foreign currencies are translated to the functional currency of the operation at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at balance sheet date are translated to the presentation currency at the balance date at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non monetary items in a foreign currency that are measured in terms of historical cost are measured using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in the profit or loss.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**30 June 2012**

**1 Summary of significant accounting policies (continued)**

**(b) Foreign Currency (continued)**

**Foreign operations**

The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates at reporting date. The income and expenses of foreign operations are translated to Australian dollars at average exchange rates prevailing during the period. Foreign currency differences are recognised in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to the income statement.

**(c) Revenue recognition**

Interest revenue is recognised on a time proportional basis using the effective interest method.

**(d) Income tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred tax is accounted for using the liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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.

**(d) Income tax (continued)**

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and tax losses.

**(e) Cash and cash equivalents**

For cash flow statement presentation purposes, cash and cash equivalents includes 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.

**(f) Other receivables**

Other receivables are recognised at fair value and subsequently measured at amortised cost, less provision for impairment.

**(g) Exploration expenditure**

Exploration and evaluation expenditure incurred on granted exploration licenses is accumulated in respect of each identifiable area of interest. These costs are carried forward where the rights to tenure of the area of interest are current and 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 any abandoned area will be 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 will be amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. A regular review will be undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**30 June 2012**

**1 Summary of significant accounting policies (continued)**

**(h) Property, plant and equipment**

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss. When re-valued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives for the current and comparative periods are as follows:

- Furniture and fittings      5 - 10 years
- Computer equipment      3 years
- Motor Vehicles              10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

**(i) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and usually paid within 30 days of recognition.

**(j) Provisions**

Provisions are recognised when the Company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

**(k) Contributed equity**

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

**(l) Loss per share**

Basic loss per share ("LPS") is calculated by dividing the result attributable to equity holders of the Company by the weighted number of shares outstanding during the year.

Diluted LPS adjusts the figures used in the calculation of basic LPS 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 or known to have been issued in relation to dilutive potential ordinary shares.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**30 June 2012****1 Summary of significant accounting policies (continued)****(m) Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**(n) Dividends**

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

**(o) Application of new and revised Accounting Standards**

The following new and revised Accounting Standards and Interpretations have, where applicable, been adopted in the current year but have had no significant effect on the amounts reported or disclosures.

**Standards affecting presentation and disclosure**

|                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                               |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Amendments to AASB 7 'Financial Instruments' Disclosure'                                                                                                    | The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify the required level of disclosures about credit risk and collateral held.                                                                                                                    |
| Amendments to AASB 101 'Presentation of Financial Statements'                                                                                               | The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. |
| AASB 1054 'Australian Additional Disclosures' and AASB 2011-1 'Amendments to Australian Accounting Standards arising from Trans-Tasman Convergence Project' | AASB 1054 sets out the Australian-specific disclosures for entities that have adopted Australian Accounting Standards.<br><br>AASB 2011-1 makes amendments to a range of Australian Accounting Standards and Interpretations for the purpose of closer alignment to IFRSs and harmonisation between Australian and New Zealand Standards.     |
| AASB 124 'Related Party Disclosures' (revised December 2009)                                                                                                | AASB 124 (revised December 2009) has been revised on the following two aspects: (a) AASB 124 (revised December 2009) has changed the definition of a related party and (b) AASB 124 (revised December 2009) introduces a partial exemption from the disclosure requirements for government-related entities.                                  |
| AASB 2009-14 'Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement'                                                       | Interpretation 114 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of AASB 119.                                                                                                                                                                                  |
| AASB 2009-12 'Amendments to Australian Accounting Standards'                                                                                                | The application of AASB 2009-12 makes amendments to AASB 8 'Operating Segments' as a result of the issuance of AASB 124 'Related Party Disclosures' (2009).                                                                                                                                                                                   |
| AASB 2010-5 'Amendments to Australian Accounting Standards'                                                                                                 | The Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations.                                                                                                                                                                                                                           |
| AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets'                                                  | The application of AASB 2010-6 makes amendments to AASB 7 'Financial Instruments – Disclosures' to introduce additional disclosure requirements for transactions involving transfer of financial assets.                                                                                                                                      |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 30 June 2012

#### 1 Summary of significant accounting policies (continued)

##### (p) New Accounting Standards for Application in Future Periods

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group

At the date of the authorization of the financial statements, the standards and Interpretations listed below were in issue but not yet effective.

| Standard/Interpretation                                                                                                                                                                                             | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|---------------------------------------------------------------|
| AASB 9 'Financial Instruments', AASB 200911 'Amendments to Australian Accounting Standards arising from AASB 9' and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)' | 1 January 2013                                               | 30 June 2014                                                  |
| AASB 10 'Consolidated Financial Statements'                                                                                                                                                                         | 1 January 2013                                               | 30 June 2014                                                  |
| AASB 11 'Joint Arrangements'                                                                                                                                                                                        | 1 January 2013                                               | 30 June 2014                                                  |
| AASB 12 'Disclosure of Interests in other Entities'                                                                                                                                                                 | 1 January 2013                                               | 30 June 2014                                                  |
| AASB 127 'Separate Financial Statements' (2011)                                                                                                                                                                     | 1 January 2013                                               | 30 June 2014                                                  |
| AASB 128 'Investments in Associates and Joint Ventures' (2011)                                                                                                                                                      | 1 January 2013                                               | 30 June 2014                                                  |
| AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'                                                                                               | 1 January 2013                                               | 30 June 2014                                                  |
| AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 19 (2011)'                                                                                    | 1 January 2013                                               | 30 June 2014                                                  |
| AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: recovery of Underlying Assets'                                                                                                           | 1 January 2012                                               | 30 June 2013                                                  |
| AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'                                                                                   | 1 July 2013                                                  | 30 June 2014                                                  |
| AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards'                                                                                         | 1 January 2013                                               | 30 June 2014                                                  |
| AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'                                                                                                   | 1 July 2012                                                  | 30 June 2013                                                  |
| Interpretation 20 'Stripping Costs in the Production Phase of a Surface Mine' and AASB 2011-12 'Amendments to Australian Accounting Standards arising from Interpretation 20'.                                      | 1 January 2013                                               | 30 June 2014                                                  |

The Group has decided not to early adopt any of the new and amended pronouncements. Of the above new and amended Standards and Interpretations the Group's assessment of those new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

- AASB 9: Financial Instruments (December 2010) and AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**30 June 2012**

**1 Summary of significant accounting policies (continued)**

**(p) New Accounting Standards for Application in Future Periods (continued)**

The key 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
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

The Group has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

- AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and 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] (applicable for annual reporting periods commencing on or after 1 January 2013).

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 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).

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.

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. These Standards are not expected to significantly impact the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**30 June 2012**

**1 Summary of significant accounting policies (continued)**

**(p) New Accounting Standards for Application in Future Periods (continued)**

- 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] (applicable for annual reporting periods commencing on or after 1 January 2013).

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.

- 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] (applicable for annual reporting periods commencing on or after 1 July 2012).

The main change arising from this Standard is the requirement for entities to group items presented in other comprehensive income 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.

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 to AASB 9.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 30 June 2012

## 2 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's current activities expose it to minimal risk. However, as activities increase there may be increased exposure to market, credit, and liquidity risks.

Risk management is the role and responsibility of the board.

### (a) Market Risk

#### (i) Interest rate risk

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

|                              | Weighted<br>Average Interest<br>Rate | Floating<br>Interest Rate | Non-interest<br>Bearing | Total      |
|------------------------------|--------------------------------------|---------------------------|-------------------------|------------|
| <b>2012</b>                  |                                      |                           |                         |            |
| <b>Financial Assets:</b>     |                                      |                           |                         |            |
| Cash and cash equivalents    | 4.2%                                 | 3,388,748                 | 63,634                  | 3,452,382  |
| Trade & other receivables    |                                      | -                         | 41,391                  | 41,391     |
| Total Financial Assets       |                                      | 3,388,748                 | 105,025                 | 3,493,773  |
| <b>Financial Liabilities</b> |                                      |                           |                         |            |
| Payables                     |                                      | -                         | 127,766                 | 127,766    |
| Total Financial Liabilities  |                                      | -                         | 127,766                 | 127,766    |
| Net Financial Assets         |                                      | 3,388,748                 | (22,741)                | 3,366,007  |
| <b>2011</b>                  |                                      |                           |                         |            |
| <b>Financial Assets:</b>     |                                      |                           |                         |            |
| Cash and cash equivalents    | 4.4%                                 | \$ 164,640                | \$ 230,283              | \$ 394,923 |
| Trade and other receivables  |                                      | -                         | 38,627                  | 38,627     |
| Total Financial Assets       |                                      | 164,640                   | 268,910                 | 433,550    |
| <b>Financial Liabilities</b> |                                      |                           |                         |            |
| Payables                     |                                      | -                         | 52,776                  | 52,776     |
| Total Financial Liabilities  |                                      | -                         | 52,776                  | 52,776     |
| Net Financial Assets         |                                      | 164,640                   | 216,134                 | 380,774    |

The Company's income and operating cash flows are subject to changes in the market rates. A movement in interest rates at 30 June of +/- 100 basis points will result in less than a +/- \$13,000 impact on the Company's income and operating cash flows (2011:\$1,600). The Group does not hedge against interest rate risk.

#### (ii) Price risk

The Group is not exposed to equity securities price risk as it holds no investments in securities classified on the balance sheet either as available-for-sale or at fair value through profit or loss.

The Group is not currently exposed to commodity price risk as it operates in the exploration phase. However, future operational cash flows are affected by fluctuations in the coal price. The Group will develop strategies to mitigate this risk when it moves from the exploration phase into the development phase.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 30 June 2012

## 2 Financial risk management (continued)

### (iii) Currency risk

Currency risk arises from investments and borrowings that are denominated in a currency other than the respective functional currencies of Group entities.

The Group is exposed to foreign currency risk in the form of financial instruments held in Mongolian Tugrik (MNT) and US Dollars (USD). The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollars, was as follows:

|                           | 30 June 2012 |        | 30 June 2011 |     |
|---------------------------|--------------|--------|--------------|-----|
|                           | USD          | MNT    | USD          | MNT |
| Cash and cash equivalents | 16,736       | 14,607 | -            | -   |

Assuming all other variables remain constant, a 10% strengthening of the Australian dollar at 30 June 2012 against the MNT would have resulted in an increased loss of \$3,000. A 10% weakening of the AUD would have resulted in a decreased loss of \$3,000, assuming all other variables remain constant. The Group does not hedge against currency risk.

### (b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents.

Cash and cash equivalents comprise of cash on hand and demand deposits. The Group limits its credit risk by holding cash balances and demand deposits with reputable counterparties with acceptable credit ratings.

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash to meet commitments as and when they fall due. The Group manages liquidity risk by preparing forecasts and monitoring actual cash flows and requirements for future capital raisings. The Company does not have committed credit lines available, which is appropriate given the nature of its operations. Surplus funds are invested in a cash management account with Westpac Banking Corporation which is available as required.

As the Group is primarily involved in the exploration of its Nuurst Coal Project, the Group will continue to have negative cash flow until the Nuurst Project moves into production and becomes cash flow positive itself. As a result, the material liquidity risk for the Company is the ability to raise equity in the future to fund the Nuurst project into the production stage. At the end of the reporting period, the Group held cash and cash equivalents of \$3,452,382 that will be used to fund the operations until at least 30 June 2013, however additional funding will be required to successfully develop the mine into a producing asset. Historically, the Company has raised sufficient capital to fund its operations but is however, at the risk of financial markets to fund the operation through to production.

### (d) Fair value measurements

Carrying amounts of financial assets and liabilities equate to their corresponding fair values.

## 3 Critical accounting estimates and judgements

In applying the Group's accounting policies management continually evaluates judgments, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgments, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgments, estimates and assumptions. Significant judgments, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 30 June 2012

### 3 Critical accounting estimates and judgements (continued)

#### *Carrying value of exploration assets*

Determining the recoverability of exploration and evaluation expenditure capitalised in accordance with the Group's accounting policies requires estimates and assumptions as to future events and circumstances, in particular, whether successful development and commercial exploitation, or alternatively sale of the respective area of interest will be achieved. Critical to this assessment is estimates and assumptions as to ore reserves, the timing of expected cash flows, exchange rates, commodity prices and future capital requirements. Changes in these estimates and assumptions as new information about the presence or recoverability of an ore reserve becomes available, may impact the assessment of the recoverable amount of exploration and evaluation assets. If, after having capitalised the expenditure, a judgement is made that recovery of the expenditure is unlikely, an impairment loss is recorded in the income statement in accordance with the Group's accounting policies.

#### *Share based payments*

The Company measures the cost of equity settled transactions with directors and employees by reference to the fair value of the equity instruments at the date at which they are granted. The assessed fair value of the options at the grant date is allocated equally over the period from the grant date to the vesting date. The fair value at the grant date is determined by independent written valuation using the Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at the grant date, the expected price volatility of the underlying share, the expected dividend yield, and the risk-free interest rate for the term of the option. The fair value calculation and inputs to the Black Scholes model are shown at Note 13(b).

#### *Impairment*

The Group assesses impairment at each reporting period by evaluating conditions and events specific to the Group that may be indicative triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

### 4 Segment information

#### **Business and geographical segments**

The consolidated entity is an exploration company that is focusing on the exploration and development of the Nuurst Thermal Coal Project in central Mongolia. The consolidated entity classifies these activities under a single operating segment being Mongolian exploration activities. Whilst expenditure is incurred in Australia as part of managing its corporate operations, they are directly related to the Mongolian exploration activities.

Operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the chief operating decision maker for the Company, being the Board of Directors. In this regard, such information is provided using similar measures to those used in preparing the statement of comprehensive income, statement of financial position and statement of cash flow.

### 5 Revenue

|                      | Consolidated<br>2012<br>\$ | 2011<br>\$    |
|----------------------|----------------------------|---------------|
| <b>Revenue</b>       |                            |               |
| Interest earned      | 54,987                     | 9,628         |
| Sundry               | 9,676                      | 4,928         |
| <b>Total Revenue</b> | <b>64,663</b>              | <b>14,556</b> |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**30 June 2012**
**6 Income tax**

| <b>(a) Numerical reconciliation of income tax expense to prima facie tax payable</b>      | <b>Consolidated<br/>2012<br/>\$</b> | <b>2011<br/>\$</b> |
|-------------------------------------------------------------------------------------------|-------------------------------------|--------------------|
| Loss before income tax expense                                                            | (2,512,034)                         | (992,322)          |
| Tax at the Australian tax rate of 30% (2011: 30%)                                         | (753,610)                           | (297,696)          |
| Tax effect of amounts which are not deductible (allowable) in calculating taxable income: |                                     |                    |
| Non-deductible expenses                                                                   | 173,390                             | 116,231            |
| Other deductible expenses                                                                 | (7,619)                             | (4,864)            |
| Tax effect of amounts deductible over more than one year                                  | (8,772)                             | (12,289)           |
| Tax losses not recognised                                                                 | 596,611                             | 198,618            |
| <b>Income tax expense</b>                                                                 | <b>-</b>                            | <b>-</b>           |
| <b>(b) Tax losses</b>                                                                     | <b>2012<br/>\$</b>                  | <b>2011<br/>\$</b> |
| Unused tax losses for which no deferred tax asset has been recognised                     | 4,009,496                           | 2,238,370          |
| Potential tax benefit at 30%                                                              | <b>1,202,849</b>                    | <b>671,511</b>     |

Current tax losses have not been recognised as a deferred tax asset as recoupment is dependent on, amongst other matters, sufficient future assessable income being earned. That is not considered certain in the foreseeable future and accordingly there is uncertainty that the losses can be utilised.

| <b>(c) Unrecognised deferred tax balances</b>                          | <b>Consolidated<br/>2012<br/>\$</b> | <b>2011<br/>\$</b> |
|------------------------------------------------------------------------|-------------------------------------|--------------------|
| Losses available to offset against future taxable income               | 1,202,849                           | 671,511            |
| Capital raising costs                                                  | 2,861                               | 20,597             |
| Accruals                                                               | 12,934                              | 3,600              |
| Provisions                                                             | 6,934                               | 326                |
| Capitalised exploration cost                                           | (1,223,139)                         | -                  |
| Deferred tax assets not brought to account as realisation not probable | (2,439)                             | (696,034)          |
| <b>Deferred tax assets recognised in the balance sheet</b>             | <b>-</b>                            | <b>-</b>           |

| <b>7 Current assets – cash and cash equivalents</b> | <b>Consolidated<br/>2012<br/>\$</b> | <b>2011<br/>\$</b> |
|-----------------------------------------------------|-------------------------------------|--------------------|
| Cash at bank and in hand                            | 3,452,382                           | 394,923            |

As at 30 June 2012, \$3,388,748 of cash at bank is in an interest bearing account with a current floating interest rate of 3.75% per annum at balance date (2011: 4.75%).

| <b>8 Current assets – other current assets</b> | <b>Consolidated<br/>2012<br/>\$</b> | <b>2011<br/>\$</b> |
|------------------------------------------------|-------------------------------------|--------------------|
| Other receivables                              | 36,184                              | 13,042             |
| Prepayments                                    | 32,023                              | 15,612             |
| Advances                                       | 5,207                               | 25,585             |
|                                                | <b>73,414</b>                       | <b>54,239</b>      |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**30 June 2012**
**9 Exploration**

|                                                                                | Consolidated<br>2012<br>\$ | 2011<br>\$   |
|--------------------------------------------------------------------------------|----------------------------|--------------|
| Opening book value                                                             | 4,214                      | -            |
| Acquisition of tenements (1)                                                   | 1,830,280                  | 4,214        |
| Direct exploration expenditure                                                 | 2,246,851                  |              |
| Expenditure written off during the year                                        | (4,214)                    |              |
| Total exploration expenditure                                                  | <b>4,077,131</b>           | <b>4,214</b> |
| Total expenditure incurred and carried forward in respect of specific projects |                            |              |
| - Nuurst Coal Project, Mongolia                                                | 4,077,131                  | -            |
| - Minier & Duck Creek Pilbara                                                  | -                          | 4,214        |
| Total exploration expenditure                                                  | <b>4,077,131</b>           | <b>4,214</b> |

The recoupment of costs carried forward in relation to area of interest in the exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas. The area of interest is an exploration license that will need to be converted to a mining license before it can be commercially developed. The Company is in the process of applying for a mining license which requires approval from the Mineral Resources Authority of Mongolia. If a mining license is not granted for the area of interest, the Board of Directors may consider a write down of these assets. At the date of this report, the Board are not aware of any reasons that a mining license may not be granted over the area of interest.

(1) During the year ended 30 June 2012, Modun Resources LLC (Mongolia) acquired 100% of the Nuurst exploration license for total consideration of \$1,830,280 including taxes and associated fees. Costs of \$169,624 incurred in relation to the acquisition were expensed in the prior year. These expenses have been capitalised during the current financial year.

**10 Non-current asset - Plant & Equipment**

|                          | Furniture<br>& Fittings<br>\$ | Computer<br>Equipment<br>\$ | Motor<br>Vehicles<br>\$ | Total<br>\$    |
|--------------------------|-------------------------------|-----------------------------|-------------------------|----------------|
| <b>30 June 2012</b>      |                               |                             |                         |                |
| Opening book value       | -                             | 2,797                       | -                       | 2,797          |
| Addition at cost         | 40,865                        | 39,074                      | 48,720                  | 128,659        |
| Depreciation charge      | (5,831)                       | (4,968)                     | (2,796)                 | (13,595)       |
| Closing book value       | <b>35,034</b>                 | <b>36,903</b>               | <b>45,924</b>           | <b>117,861</b> |
| Cost or fair value       | 40,865                        | 46,247                      | 48,720                  | 135,832        |
| Accumulated Depreciation | (5,831)                       | (9,344)                     | (2,796)                 | (17,971)       |
| Net book value           | <b>35,034</b>                 | <b>36,903</b>               | <b>45,924</b>           | <b>117,861</b> |
|                          | Furniture<br>& Fittings<br>\$ | Computer<br>Equipment<br>\$ | Motor<br>Vehicles<br>\$ | Total<br>\$    |
| <b>30 June 2011</b>      |                               |                             |                         |                |
| Opening book value       | -                             | 1,502                       | -                       | 1,502          |
| Addition at cost         | -                             | 2,945                       | -                       | 2,945          |
| Depreciation charge      | -                             | (1,650)                     | -                       | (1,650)        |
| Closing book value       | -                             | <b>2,797</b>                | -                       | <b>2,797</b>   |
| Cost or fair value       | -                             | 7,173                       | -                       | 7,173          |
| Accumulated Depreciation | -                             | (4,376)                     | -                       | (4,376)        |
| Net book value           | -                             | <b>2,797</b>                | -                       | <b>2,797</b>   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 June 2012

| 11 | Current liabilities – trade and other payables and provisions | Consolidated<br>2012<br>\$ | 2011<br>\$    |
|----|---------------------------------------------------------------|----------------------------|---------------|
|    | Trade and other payables                                      | 127,766                    | 52,776        |
|    | Employee entitlement – Provision for annual leave             | 23,112                     | 6,377         |
|    |                                                               | <b>150,878</b>             | <b>59,153</b> |

| 12  | Contributed equity         | 2012<br>Shares | Consolidated<br>2012<br>\$ | 2011<br>Shares | 2011<br>\$  |
|-----|----------------------------|----------------|----------------------------|----------------|-------------|
| (a) | Issued share capital       |                |                            |                |             |
|     | Ordinary shares fully paid | 844,568,109    | 300,660,089                | 510,901,442    | 291,255,874 |

## (b) Movement in ordinary share capital

| Date                                   | Details                   | Number of shares   | Issue price | \$                 |
|----------------------------------------|---------------------------|--------------------|-------------|--------------------|
| <b>For the year ended 30 June 2012</b> |                           |                    |             |                    |
| 01/07/11                               | Opening Balance           | 510,901,442        |             | 291,255,874        |
| 11/07/11                               | Placement                 | 76,000,000         | \$0.02      | 1,520,000          |
| 18/07/11                               | Options Exercised         | 2,000,000          | \$0.01      | 20,000             |
| 29/07/11                               | Options Exercised         | 13,000,000         | \$0.01      | 130,000            |
| 23/08/11                               | Placement                 | 90,000,000         | \$0.04      | 3,600,000          |
| 20/10/11                               | Options Exercised         | 12,000,000         | \$0.01      | 120,000            |
| 9/01/12                                | Options Exercised         | 26,500,000         | \$0.01      | 265,000            |
| 13/01/12                               | Share based payment (i)   | 3,500,000          | \$0.045     | 157,500            |
| 14/02/12                               | Share based payment (ii)  | 5,666,667          | \$0.043     | 243,667            |
| 13/03/12                               | Share Issue               | 105,000,000        | \$0.04      | 4,200,000          |
|                                        | Cost of share issues      |                    |             | (851,952)          |
| <b>30/06/2012</b>                      | <b>Balance</b>            | <b>844,568,109</b> |             | <b>300,660,089</b> |
| <b>For the year ended 30 June 2011</b> |                           |                    |             |                    |
| 01/07/10                               | Opening Balance           | 378,901,442        |             | 290,255,797        |
| 03/09/10                               | Share based payment (iii) | 5,000,000          | \$0.008     | 40,000             |
| 23/09/10                               | Placement                 | 40,000,000         | \$0.005     | 200,000            |
| 23/12/10                               | Placement                 | 20,000,000         | \$0.005     | 100,000            |
| 01/03/11                               | Options Exercised         | 17,000,000         | \$0.01      | 170,000            |
| 22/03/10                               | Placement                 | 50,000,000         | \$0.01      | 500,000            |
|                                        | Cost of share issues      |                    |             | (9,923)            |
| <b>30/06/2011</b>                      | <b>Balance</b>            | <b>510,901,442</b> |             | <b>291,255,874</b> |

(i) 3,500,000 shares were issued to Azure and DJ Carmichael as a success fee associated with a capital raising. The deemed consideration is based on the share price on the day of issue of 4.5 cents per share.

(ii) 5,666,667 shares were issued to EMPI Pte Ltd as a success fee associated with the acquisition of the Nuurst Coal Project. The deemed consideration is based on the share price on the day of issue of 4.3 cents per share.

(iii) 5,000,000 shares were issued to the Company Secretary, Neil Hackett, on 3 September 2010 as consideration for his services in that capacity. The deemed consideration is based on the share price on the day of issue of 0.8 cents per share.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands or poll every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**30 June 2012**
**13 Reserves and accumulated losses**

|                                      | Consolidated<br>2012<br>\$ | 2011<br>\$    |
|--------------------------------------|----------------------------|---------------|
| <b>(a) Reserves</b>                  |                            |               |
| Share based payments reserve         | 475,002                    | 75,302        |
| Foreign currency translation reserve | (118,991)                  | -             |
| <b>Total reserves</b>                | <b>356,011</b>             | <b>75,302</b> |

**(b) Movement in share based payments reserve**

| Date                                   | Details           | Number of options | Weighted<br>ave exercise<br>price | \$             |
|----------------------------------------|-------------------|-------------------|-----------------------------------|----------------|
| <b>For the year ended 30 June 2012</b> |                   |                   |                                   |                |
| 1/07/2011                              | Opening Balance   | 84,500,000        | \$0.014                           | 75,302         |
| Various                                | Options exercised | (53,500,000)      | \$0.01                            | -              |
| 13/01/2012                             | Options issued    | 3,500,000         | \$0.10                            | 83,300         |
| 12/02/2012                             | Options issued    | 14,000,000        | \$0.10                            | 316,400        |
| <b>30/06/2012</b>                      | <b>Balance</b>    | <b>48,500,000</b> | <b>\$0.049</b>                    | <b>475,002</b> |
| <b>For the year ended 30 June 2011</b> |                   |                   |                                   |                |
| 01/07/2010                             | Opening Balance   | 86,000,000        | \$0.01                            | 68,570         |
| 01/03/2011                             | Options exercised | (17,000,000)      | \$0.01                            | -              |
| 22/03/2011                             | Options issued    | 12,500,000        | \$0.01                            | -              |
| 17/06/2011                             | Options issued    | 3,000,000         | \$0.02                            | 6,732          |
| <b>30/06/2011</b>                      | <b>Balance</b>    | <b>84,500,000</b> | <b>\$0.01</b>                     | <b>75,302</b>  |

On 13/1/2012, 3,500,000 options exercisable at 10 cents on or before 31/12/14 were issued to EMPI Pte Ltd as a success fee associated with the acquisition of the Nuurst Coal Project. On 12/2/2012, 14,000,000 options exercisable at 10 cents on or before 31/12/14 were issued to employees of the Modun group of companies. The grant date fair value of the share options was measured by an independent company using the Black-Scholes formula. The inputs to the model used to determine the fair value of options granted during the period were:

|                                      |            |            |
|--------------------------------------|------------|------------|
| Date of grant                        | 13/1/12    | 12/2/12    |
| Market price of shares at grant date | 4.2 cents  | 4.1 cents  |
| Exercise price                       | 10 cents   | 10 cents   |
| Expiry date                          | 31/12/14   | 31/12/14   |
| Volatility                           | 118.71%    | 118.71%    |
| Risk free rate                       | 3.26%      | 3.46%      |
| Fair value at grant date             | 2.38 cents | 2.26 cents |

The balance of options outstanding as at 30 June 2012 is represented by:

| Number of options outstanding | Exercise Price | Expiry Date       |
|-------------------------------|----------------|-------------------|
| 31,000,000                    | 2 cents        | 30 September 2012 |
| 17,500,000                    | 10 cents       | 31 December 2014  |

Each option gives the option holder to subscribe for one ordinary share. There are no voting rights attached to the options.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**30 June 2012**
**13 Reserves and accumulated losses (continued)**

|                                                             | <b>Consolidated<br/>2012<br/>\$</b> | <b>2011<br/>\$</b> |
|-------------------------------------------------------------|-------------------------------------|--------------------|
| <b>(c) Movement in foreign currency translation reserve</b> |                                     |                    |
| Opening balance                                             | -                                   | -                  |
| Currency translation differences                            | (118,991)                           | -                  |
| Closing balance                                             | <u>(118,991)</u>                    | <u>-</u>           |

**Nature and Purpose of Reserves**

The share based payments reserve arises pursuant to an issue of shares or options as consideration for a service or an acquisition transaction.

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

**(d) Accumulated losses**

|                                                  | <b>Consolidated<br/>2012<br/>\$</b> | <b>2011<br/>\$</b>   |
|--------------------------------------------------|-------------------------------------|----------------------|
| Movements in accumulated losses were as follows: |                                     |                      |
| Opening Balance                                  | (290,934,156)                       | (289,941,834)        |
| Loss for the year                                | (2,512,034)                         | (992,322)            |
| <b>Balance</b>                                   | <u>(293,446,190)</u>                | <u>(290,934,156)</u> |

**14 Dividends**

There were no dividends recommended or paid during the financial year.

**15 Key management personnel disclosures****(a) Key management personnel compensation**

|                              | <b>Consolidated<br/>2012<br/>\$</b> | <b>2011<br/>\$</b> |
|------------------------------|-------------------------------------|--------------------|
| Short-term employee benefits | 958,379                             | 366,955            |
| Post-employment benefits     | 46,498                              | 15,853             |
| Share based payments         | 90,400                              | 6,731              |
|                              | <u>1,095,277</u>                    | <u>389,539</u>     |

Detailed remuneration disclosures are provided in sections 1 to 4 of the Remuneration Report in the Directors' Report at pages 12 to 16.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**30 June 2012**
**15 Key management personnel disclosures (continued)**
**(b) Equity instrument disclosures relating to key management personnel**
*(i) Option holdings*

The numbers of options over ordinary shares in the Company held during the financial year by each key management personnel of Modun Resources Limited, including their personally related parties, are set out below:

| <b>2012</b>                           |                                         |                                |                                  |                                       |                                                      |
|---------------------------------------|-----------------------------------------|--------------------------------|----------------------------------|---------------------------------------|------------------------------------------------------|
| <b>Directors</b>                      | <b>Balance at the start of the year</b> | <b>Granted during the year</b> | <b>Exercised during the year</b> | <b>Balance at the end of the year</b> | <b>Vested and exercisable at the end of the year</b> |
| Chris Mardon                          | 33,000,000                              | -                              | (8,000,000)                      | 25,000,000                            | 25,000,000                                           |
| Gerry Fahey                           | 5,000,000                               | -                              | (2,000,000)                      | 3,000,000                             | 3,000,000                                            |
| Hugh Warner                           | -                                       | -                              | -                                | -                                     | -                                                    |
| James Thompson                        | 8,000,000                               | -                              | (5,000,000)                      | 3,000,000                             | 3,000,000                                            |
| <b>Other key management personnel</b> |                                         |                                |                                  |                                       |                                                      |
| Daniel Rohr                           | -                                       | 4,000,000                      | -                                | 4,000,000                             | 4,000,000                                            |
|                                       | <b>46,000,000</b>                       | <b>4,000,000</b>               | <b>(15,000,000)</b>              | <b>35,000,000</b>                     | <b>35,000,000</b>                                    |

The options granted during the year were share based payments. Daniel Rohr was appointed as the Chief Financial officer during the year. All options are vested and exercisable at the end of the reporting period.

| <b>2011</b>      |                                         |                                |                      |                                       |                                                      |
|------------------|-----------------------------------------|--------------------------------|----------------------|---------------------------------------|------------------------------------------------------|
| <b>Directors</b> | <b>Balance at the start of the year</b> | <b>Granted during the year</b> | <b>Other changes</b> | <b>Balance at the end of the year</b> | <b>Vested and exercisable at the end of the year</b> |
| Chris Mardon     | 33,000,000                              | -                              | -                    | 33,000,000                            | 33,000,000                                           |
| Gerry Fahey      | 5,000,000                               | -                              | -                    | 5,000,000                             | 5,000,000                                            |
| Hugh Warner      | 12,000,000                              | -                              | (12,000,000)         | -                                     | -                                                    |
| James Thompson   | -                                       | 3,000,000                      | 5,000,000            | 8,000,000                             | 8,000,000                                            |
|                  | <b>50,000,000</b>                       | <b>3,000,000</b>               | <b>(7,000,000)</b>   | <b>46,000,000</b>                     | <b>46,000,000</b>                                    |

The options granted during the year were share based payments. James Thompson was appointed as a director during the year. The options held on appointment are shown in "Other changes during the year". All options are vested and exercisable at the end of the reporting period.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**30 June 2012**
**15 Key management personnel disclosures (continued)**
**(b) Equity instrument disclosures relating to key management personnel (continued)**
*(ii) Share holdings*

The numbers of shares in the Company held during the financial year by each key management personnel of Modun Resources Limited, including their personally related parties, are set out below:

| <b>2012<br/>Directors</b>                 | <b>Balance at the<br/>start of the<br/>year</b> | <b>Acquired during<br/>the year</b> | <b>Other<br/>changes<br/>during the<br/>year</b> | <b>Balance at the end<br/>of the year</b> |
|-------------------------------------------|-------------------------------------------------|-------------------------------------|--------------------------------------------------|-------------------------------------------|
| Chris Mardon                              | 8,000,000                                       | 8,000,000                           | -                                                | 16,000,000                                |
| Gerry Fahey                               | 2,000,000                                       | 2,000,000                           | -                                                | 4,000,000                                 |
| Hugh Warner                               | 70,205,528                                      | -                                   | -                                                | 70,205,528                                |
| James Thompson                            | 35,000,000                                      | 5,000,000                           | -                                                | 40,000,000                                |
| <b>Other key management<br/>personnel</b> |                                                 |                                     |                                                  |                                           |
| Daniel Rohr                               | -                                               | -                                   | 500,000                                          | 500,000                                   |
|                                           | <b>115,205,528</b>                              | <b>15,000,000</b>                   | <b>500,000</b>                                   | <b>130,705,528</b>                        |

Daniel Rohr was appointed as the Chief Financial Officer during the year and the shares held on appointment are shown in "Other changes during the year".

| <b>2011<br/>Directors</b> | <b>Balance at the<br/>start of the year</b> | <b>Acquired<br/>during the year</b> | <b>Other changes<br/>during the year</b> | <b>Balance at the<br/>end of the year</b> |
|---------------------------|---------------------------------------------|-------------------------------------|------------------------------------------|-------------------------------------------|
| Chris Mardon              | 8,000,000                                   | -                                   | -                                        | 8,000,000                                 |
| Gerry Fahey               | 2,000,000                                   | -                                   | -                                        | 2,000,000                                 |
| Hugh Warner               | 38,205,528                                  | 32,000,000                          | -                                        | 70,205,528                                |
| James Thompson            | -                                           | -                                   | 35,000,000                               | 35,000,000                                |
|                           | <b>48,205,528</b>                           | <b>32,000,000</b>                   | <b>35,000,000</b>                        | <b>115,205,528</b>                        |

James Thompson was appointed as a Director during the year and the shares held on appointment are shown in "Other changes during the year". Except for the Directors, there were no other key management personnel during the 2011 financial year.

**(c) Other transactions with key management personnel**

A director, Mr G Fahey, is a director and shareholder of CSA Global Pty Ltd (CSA). Modun Resources Ltd entered into a contract during the year with CSA for the provision of geological services. The contract was based on normal terms and conditions and the total fees paid to CSA during the financial year were \$226,050 (2011: nil).

A director, Mr J Thompson, is a director and shareholder of Ophiolite Consultants Pty Ltd (Ophiolite). Modun Resources Ltd entered into a contract during the year with Ophiolite for the provision of corporate advisory services which included mergers and acquisitions, capital raising and strategic advice. The contract was based on normal terms and conditions and the total fees paid to Ophiolite during the financial year were \$120,000 (2011: Nil). Ophiolite was also paid \$30,000 (2011: \$7,250) for Directors fees during the year.

Anglo Pacific Ventures Pty Ltd, a company associated with Hugh Warner, charged the Company for office accommodation on normal commercial terms and conditions in the prior financial period. This agreement terminated on 30 June 2011 and Anglo Pacific Ventures Pty Ltd was paid no rental expense for the current year (2011: \$30,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 30 June 2012

#### 16 Remuneration of auditors

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

|                                                   | Consolidated<br>2012<br>\$ | 2011<br>\$    |
|---------------------------------------------------|----------------------------|---------------|
| <b>Stantons International</b>                     |                            |               |
| <i>Audit and other assurance services</i>         |                            |               |
| Audit and review of financial reports             | 42,049                     | 19,018        |
| Other assurance services – due diligence services | 7,763                      | -             |
| Total audit and other assurance services          | 49,812                     | 19,018        |
| <b>Non-Stanton audit firms</b>                    |                            |               |
| Audit and review of financial statements          | 12,020                     | -             |
| Other services – taxation services                | 490                        | -             |
| Total remuneration of non-Stantons audit firms    | 12,510                     | -             |
| <b>Total auditors' remuneration</b>               | <b>62,322</b>              | <b>19,018</b> |

#### 17 Commitments

These obligations at balance date have not been provided for and are as set out in the table below.

|                                                                            | Consolidated<br>2012<br>\$ | 2011<br>\$     |
|----------------------------------------------------------------------------|----------------------------|----------------|
| <b>Not yet provided for</b>                                                |                            |                |
| <b>Minimum exploration expenditure commitments</b>                         |                            |                |
| Within a year                                                              | 5,075                      | 38,605         |
| <b>Contractual commitments</b>                                             |                            |                |
| Within a year                                                              | 39,215                     | -              |
| <b>Total commitments within one year</b>                                   | <b>44,290</b>              | <b>38,605</b>  |
| <b>Minimum exploration expenditure commitments</b>                         |                            |                |
| Later than one year but not later than five years                          | -                          | 154,420        |
| <b>Contractual commitments</b>                                             |                            |                |
| Later than one year but not later than five years                          | 13,278                     | -              |
| <b>Total commitments later than one year but not later than five years</b> | <b>13,278</b>              | <b>154,420</b> |
| <b>Total commitments</b>                                                   | <b>57,568</b>              | <b>193,025</b> |

#### *Minimum exploration expenditure requirements*

In order to maintain current rights of tenure to exploration tenements, the Group is required to meet minimum expenditure requirements specified by the Mongolian government. These commitments are subject to renewal of exploration permits, renegotiation upon expiry of the exploration permit or when an application for a mining permit is made.

There is no capital expenditure contracted for at the reporting date that has not been recognised as a liability.

#### 18 Related party transactions

##### (a) Parent Entity

The parent and ultimate parent entity within the group is Modun Resources Limited.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 30 June 2012

#### 18 Related party transactions (continued)

##### (b) Subsidiaries

Interests in subsidiaries are set out in Note 20.

##### (c) Key management personnel

Disclosures relating to key management personnel are set out in Note 15 and the detailed remuneration disclosures to the Directors' Report.

##### (d) Transaction with other related parties

There were no transactions with other related parties during the reporting period.

##### (e) Outstanding balances arising from sales / purchases of goods and services

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

|                                          | <b>Consolidated<br/>2012</b> | <b>2011</b> |
|------------------------------------------|------------------------------|-------------|
|                                          | <b>\$</b>                    | <b>\$</b>   |
| Current payables (purchases of services) |                              |             |
| Key management personnel related parties | 61,685                       | -           |

#### 19 Events occurring after the balance sheet date

During the financial year, Modun announced a proposed acquisition (subject to shareholder and regulatory approvals and other conditions precedent) of 100% of the Tsagaan Tolgoi coal deposit and 100% of exploration license Ajlyn Talbai (Tsagaan Tolgoi Coal Project) from SouthGobi Resources Ltd (SouthGobi).

On 16 April 2012 the Mineral Resources Authority of Mongolia (MRAM) requested the suspension of certain licenses owned by SouthGobi Sands LLC, a wholly-owned division of SouthGobi. As a result, on 24 April 2012 Modun and SouthGobi announced that they had agreed to extend the time to complete the proposed acquisition of the Tsagaan Tolgoi Coal Project from 1 June 2012 to 31 December 2012.

On 29 August 2012, the Company reached mutual agreement with SouthGobi Resources Ltd (SouthGobi) to terminate the transaction to acquire the Tsagaan Tolgoi Coal Project on the basis that the transaction could not be completed by the deadline of 31 December 2012. Under the terms of the Termination Deed, each party releases the other from all obligations and liabilities in relation to the transaction.

On 29 August 2012, the Company announced the appointment of Rick Dalton as its new managing director following the resignation of the current managing director Chris Mardon. Mr Dalton is an experienced coal mining engineer with an extensive background in mine planning, strategy, operations and logistics at large scale open cut coal mines. During his career he has also been responsible for leading numerous feasibility studies on expansion and development of new coal mining projects. His background and skills are an ideal fit for Modun as it moves into its next phase of development. Mr Dalton is expected to commence his employment in October 2012. The key terms of Mr Dalton's employment agreement include:

- A salary of \$290,000 including superannuation
- Subject to shareholder approval, the granting of options over ordinary shares of the Company as follows:
  - 10,000,000 options at an exercise price of \$0.04 expiring 31/12/15
  - 10,000,000 options at an exercise price of \$0.06 expiring 31/12/15
  - 10,000,000 options at an exercise price of \$0.10 expiring 31/12/15
  - The expiry date of the options is valid whilst Mr Dalton remains employed by the Company. Upon termination of Mr Dalton's employment, these options must be exercised within 3 months of the date of termination.
- Termination by either party with 3 months written notice

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**30 June 2012**

**20 Group Entities**

|                                | Country of incorporation                   | Interest<br>2012 | Interest<br>2011 |
|--------------------------------|--------------------------------------------|------------------|------------------|
| <b>Parent entity</b>           |                                            |                  |                  |
| Modun Resources Limited        | Australia                                  |                  |                  |
| <b>Subsidiaries</b>            |                                            |                  |                  |
| Modun Resources LLC            | Mongolia                                   | 100%             | -                |
| Modun Resources Pte Ltd        | Singapore                                  | 100%             | -                |
| Nuurst Mineral Corporation LLC | Mongolia (through Modun Resources Pte Ltd) | 100%             | -                |

**21 Reconciliation of comprehensive loss after income tax to net cash outflow from operating activities**

|                                                                                                  | Consolidated<br>2012 | 2011             |
|--------------------------------------------------------------------------------------------------|----------------------|------------------|
|                                                                                                  | \$                   | \$               |
| Comprehensive loss for the year                                                                  | (2,512,034)          | (992,322)        |
| Depreciation                                                                                     | 15,079               | 1,650            |
| Share based payment                                                                              | 316,400              | 46,732           |
| Change in provisions                                                                             | 16,735               | 1,088            |
| Amount expensed in prior year reclassified to investing activities as per note 9 to the accounts | -                    | 346,167          |
| Exploration expenditure written off                                                              | 4,214                | -                |
| Net exchange differences                                                                         | (155,334)            | -                |
| <i>Changes in operating assets and liabilities:</i>                                              |                      |                  |
| Change in receivables & prepayments                                                              | (19,175)             | (101)            |
| Change in trade and other payables                                                               | 74,990               | 14,456           |
| Net cash outflow from operating activities                                                       | <b>(2,259,125)</b>   | <b>(582,330)</b> |

**22 Loss per share**

|                                                                                            | Consolidated<br>2012 | 2011         |
|--------------------------------------------------------------------------------------------|----------------------|--------------|
|                                                                                            | Cents                | Cents        |
| <b>(a) Basic loss per share</b>                                                            |                      |              |
| Loss from continuing operations attributable to the ordinary equity holders of the Company | (0.34)               | (0.22)       |
| <b>(b) Diluted loss per share</b>                                                          |                      |              |
|                                                                                            | <b>2012</b>          | <b>2011</b>  |
|                                                                                            | <b>Cents</b>         | <b>Cents</b> |
| Loss from continuing operations attributable to the ordinary equity holders of the Company | (0.34)               | (0.22)       |

As the Company made a loss for the year ended 30 June 2012, the options on issue have no dilutive effect, and therefore diluted loss per share is equal to basic loss per share.

**(c) Reconciliation of loss used in calculating loss per share**

|                                                                                            | Consolidated<br>2012 | 2011      |
|--------------------------------------------------------------------------------------------|----------------------|-----------|
|                                                                                            | \$                   | \$        |
| <i>Basic loss per share</i>                                                                |                      |           |
| Loss from continuing operations attributable to the ordinary equity holders of the Company | (2,512,034)          | (992,322) |
| <i>Diluted loss per share</i>                                                              |                      |           |
| Loss from continuing operations attributable to the ordinary equity holders of the Company | (2,512,034)          | (992,322) |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**30 June 2012**
**22 Loss per share (continued)**

| <b>(d) Weighted average number of shares used as the denominator</b>                                                                   | <b>2012<br/>Number</b> | <b>2011<br/>Number</b> |
|----------------------------------------------------------------------------------------------------------------------------------------|------------------------|------------------------|
| Weighted average number of ordinary shares used as the denominator in calculating basic loss per share                                 | 731,307,835            | 443,748,017            |
| Adjustments for calculation of diluted loss per share – Options                                                                        | -                      | -                      |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted loss per share | 731,307,835            | 443,748,017            |

**(e) Information concerning the classification of securities**
*Options*

Options are considered to be potential ordinary shares but have not been included in the determination of diluted loss per share as a loss was incurred and the options are unlikely to be exercised given that the exercise price is currently higher than the ASX quoted share price. The options have not been included in the determination of basic loss per share.

**23 Parent entity financial information**

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

|                                 | <b>2012<br/>\$</b> | <b>2011<br/>\$</b> |
|---------------------------------|--------------------|--------------------|
| <b>Result</b>                   |                    |                    |
| Loss for the period             | (2,573,884)        | (992,322)          |
| Other comprehensive income      | -                  | -                  |
| <b>Total comprehensive loss</b> | <b>(2,573,884)</b> | <b>(992,322)</b>   |
| <b>Financial position</b>       |                    |                    |
| Current assets                  | 3,486,417          | 449,162            |
| Total assets                    | 7,777,929          | 456,173            |
| Current liabilities             | 150,878            | 59,153             |
| Total liabilities               | 150,878            | 59,153             |
| <b>Net assets</b>               | <b>7,627,051</b>   | <b>397,020</b>     |
| <b>Equity</b>                   |                    |                    |
| Share capital                   | 300,660,089        | 291,255,874        |
| Reserves                        | 475,002            | 75,302             |
| Accumulated losses              | (293,508,040)      | (290,934,156)      |
| <b>Total equity</b>             | <b>7,627,051</b>   | <b>397,020</b>     |

**DIRECTORS' DECLARATION**

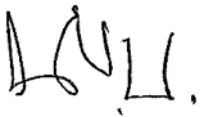
**30 June 2012**

In the directors' opinion:

- (a) the consolidated financial statements and notes set out on pages 27 to 51 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable,
- (c) the consolidated financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board; and
- (d) the audited remuneration disclosures set out on pages 12 to 16 of the Directors' Report comply with accounting standard AASB 124 Related Party Disclosures and the *Corporations Regulations 2001*.

The directors have been given the declarations required by Section 295(A) of the *Corporations Act 2001* from the Managing Director and the Chief Financial Officer for the period ending 30 June 2012.

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



**Hugh Warner**  
**Chairman**

Perth  
27 September 2012

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF  
MODUN RESOURCES LIMITED**

**Report on the Financial Report**

We have audited the accompanying financial report of Modun Resources Limited, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' responsibility for the Financial Report*

The directors of the 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error. In note 1(a), the directors also state, in accordance with Australian 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 whether the financial report is free from material misstatement.

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

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

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

*Independence*

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

*Opinion*

In our opinion:

- (a) the financial report of Modun Resources Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

*Inherent Uncertainty Regarding Capitalised Exploration Costs*

Without qualification to the audit opinion expressed above, attention is drawn to the following matter.

As described in Note 9, the recoupment of costs carried forward in relation to the area of interest in the exploration and evaluation phase is dependent on the successful development and commercial exploitation or sale of the respective areas. The area of interest is an exploration license that will need to be converted to a mining license before it can be commercially developed. The Company is in the process of applying for a mining license which requires approval from the Mineral Resources Authority of Mongolia. If a mining license is not granted for the area of interest, the Board of Directors may consider a write down of these assets. At the date of this report, the Board are not aware of any reasons that a mining license may not be granted over the area of interest. The recoverability of the Group's carrying value of capitalised exploration and acquisition costs of \$4,077,131 is dependent on obtaining the mining licence. In the event that the Group is not successful in obtaining the mining licence, the realisable value of the consolidated entity's assets may be significantly less than their current carrying values.

**Report on the Remuneration Report**

We have audited the remuneration report included in pages 12 to 16 of the directors' report for the year ended 30 June 2012. 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 Modun Resources Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

**STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD**

(Trading as Stantons International)

(An Authorised Audit Company)

*Stantons International Audit and Consulting Pty Ltd*

**John P Van Dieren**  
Director

West Perth, Western Australia  
27 September 2012

Additional Information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

The shareholder information was applicable as at 20 September 2012.

**(a) Substantial Shareholders**

The number of shares held by substantial shareholders and their associates are:

| <b>Name</b>                              | <b>Number Held</b> | <b>Percentage of Issued Shares</b> |
|------------------------------------------|--------------------|------------------------------------|
| ELLIOT HOLDINGS PTY LTD <CBM FAMILY A/C> | 55,205,528         | 6.54                               |

**(b) Voting Rights**

Ordinary Shares

On a show of hands every member present at a meeting of shall have one vote and upon a poll each share shall have one vote.

Options

There are no voting rights attached to the unquoted options

**(c) Distribution of Equity Security Holders**

| <b>Category</b>  | <b>Ordinary Fully Paid Shares</b> | <b>% Issued Capital</b> |
|------------------|-----------------------------------|-------------------------|
| 1 – 1,000        | 118,956                           | 0.01                    |
| 1,001 – 5,000    | 775,830                           | 0.10                    |
| 5,001 – 10,000   | 673,772                           | 0.08                    |
| 10,001 – 100,000 | 22,842,937                        | 2.70                    |
| 100,001 and over | 820,156,614                       | 97.11                   |
| <b>Total</b>     | <b>844,568,109</b>                | <b>100.00</b>           |

There were 1,052 holders of less than a marketable parcel of ordinary shares.

**ASX Additional Information (continued)**
**(d) Equity Security Holders**

The names of the twenty largest holders of quoted equity securities are listed below:

| <b>Name</b>                                                                | <b>Number Held</b> | <b>Percentage of Issued Shares</b> |
|----------------------------------------------------------------------------|--------------------|------------------------------------|
| ELLIOT HOLDINGS PTY LTD <CBM FAMILY A/C>                                   | 55,205,528         | 6.54                               |
| LEILANI INVESTMENTS PTY LTD <RICE FAMILY INVESTMENT A/C>                   | 35,645,200         | 4.22                               |
| RZJ CAPITAL MANAGEMENT LLC                                                 | 35,000,000         | 4.14                               |
| J P MORGAN NOMINEES AUSTRALIA LIMITED                                      | 25,000,000         | 2.96                               |
| BATAVIA CAPITAL PTY LTD <AUSTLEY A/C>                                      | 21,620,000         | 2.56                               |
| GOLDSHORE INVESTMENTS PTY LTD <M R DAY SUPERFUND A/C>                      | 21,300,000         | 2.52                               |
| INVICTUS CAPITAL PTY LTD <MAIN FAMILY A/C>                                 | 19,307,090         | 2.29                               |
| YF FINANCE LIMITED                                                         | 16,800,000         | 1.99                               |
| MS GERALDINE ANNE MARDON                                                   | 16,000,000         | 1.89                               |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED                                  | 15,279,132         | 1.81                               |
| SAMLISA NOMINEES PTY LTD                                                   | 15,070,000         | 1.78                               |
| MR HUGH DAVID WARNER + MRS DIANNE MICHELLE WARNER <CBM SUPERFUND A/C>      | 15,000,000         | 1.78                               |
| SURFBOARD PTY LTD <ARW SUPER FUND NO 1 A/C>                                | 12,000,000         | 1.42                               |
| MRS ANNE ELIZABETH GRIBBLE <PENTON A/C>                                    | 10,890,000         | 1.29                               |
| HOLLOWAY COVE PTY LTD <HOLLOWAY COVE S/F A/C>                              | 10,050,000         | 1.19                               |
| AUTOTRADING PTY LTD                                                        | 9,390,000          | 1.11                               |
| MR CARL PHILIP MAGNUS COWARD                                               | 9,000,000          | 1.07                               |
| MR NICHOLAS SIMON DRAPER + MRS MELINDA JANE DRAPER <DRAPER SUPER FUND A/C> | 7,120,000          | 0.84                               |
| ZERO NOMINEES PTY LTD                                                      | 7,000,000          | 0.83                               |
| TISIA NOMINEES PTY LTD <HENDERSON FAMILY A/C>                              | 6,339,522          | 0.75                               |
|                                                                            | <b>363,016,472</b> | <b>42.98</b>                       |

**(e) Unquoted Equity Security Holders**
*Unquoted equity securities*

|                                                           | <b>Number on Issue</b> | <b>Number of Holders</b> |
|-----------------------------------------------------------|------------------------|--------------------------|
| Options – exercisable at 2 cents before 30 September 2012 | 31,000,000             | 5                        |
| Options – exercisable at 10 cents before 31 December 2014 | 17,500,000             | 6                        |

**Tenements**

| <b>Tenement Type</b> | <b>Tenement Number</b> | <b>Project/Location</b>                       | <b>Registered Holders &amp; Interests</b> | <b>Date Granted</b> |
|----------------------|------------------------|-----------------------------------------------|-------------------------------------------|---------------------|
| E                    | 8159X                  | Nuurst Thermal Coal Project, Central Mongolia | Modun Resources LLC (Mongolia) (100%)     | 7/10/2011           |