Newport Energy Limited

ABN 16 140 709 360

Annual Report 2010

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

COMPANY SECRETARY
Andrew Cooke

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

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

BANK
Westpac Banking Corporation

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Chairman's Letter

Dear Shareholder

This is the Company's first Annual Report. It has been an eventful period, but I am pleased to say that we have emerged in good shape and ready to advance the Company to the next level. The Report outlines in greater detail the events of the period which now leaves us in a very exciting and unique position. This was highlighted at the recent 11th PNG Mining and Petroleum Investment Conference in Sydney in December, with the changing expressions of the audience during our Managing Director's excellent presentation (which I encourage you to view on our website - www.newportenergylimited.com).

However, there is still much to do. A further capital raising will be required to support this early exploration stage. The feedback received during the previous IPO process made it clear to the Board that we needed to change the structure and persona of the Company prior to relaunching an IPO (the Board is still committed to listing the Company at the appropriate time). Part of the process will be a new look website after the AGM and we are considering changing the name of the Company.

Over the past 6 months we have considerably de-risked PPL 326 and with the work programmed for 2011, subject to raising the necessary capital, we will be on the cusp of commencing drilling - indeed, a most exciting period.

I can assure you that the Board and the Management team remain very focused and committed to the Company and to increasing shareholder value. I thank my fellow Directors and Management for their continued loyalty and support (including financial) during 2010 through the various trials and tribulations we faced. Without that devotion and conviction, we would not be as well placed as we are now.

I would also like to thank you the shareholders, old and new, for your support. I look forward to reporting to you next year on a very positive 2011.

Yours sincerely

Kay Philip
Chairman
28 February 2011

Review of Operations

Overview

The first half of this Financial Period proved to be very disappointing as capital constraints held back the exploration work needed to de-risk the tenement. Despite that, the Management team were able to achieve some substantive developments, given the minimal funding that was available to them.

With the benefit of hindsight, we would have approached the capital raising in a different way. Once the new Board and Management got on top of the situation, they changed the approach to a more appropriate path. The last part of this Financial Period has therefore been quite different and significant gains have now been achieved on de-risking the tenement.

General

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

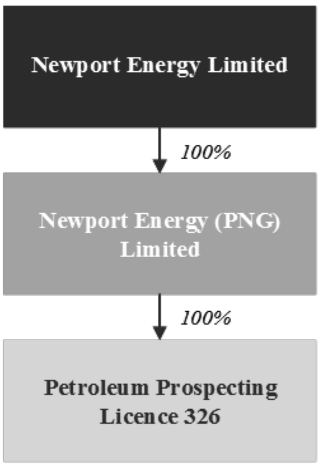
The focus of the Company during its first financial period was essentially on acquiring its key asset, namely PPL 326, and raising capital to enable the Company to undertake exploration of the tenement. While the raising of capital originally proved more difficult than expected, towards the end of the period this changed and the Company has been able to afford to undertake more detailed geological and geophysical work on the tenement.

Acquisition of PPL 326

PPL 326 was granted by Papua New Guinea's Minister Duma to Newport Energy (PNG) Limited ("PNG Subsidiary") on 27 August 2009. The PNG Subsidiary was acquired by the Company in December 2009.

In consideration for the acquisition of all of the issued capital in the PNG Subsidiary, Newport Energy issued a total of 50 million Shares. Of those 50 million Shares, 43,134,801 Shares were issued to the four vendor shareholders as consideration for their shares in the PNG Subsidiary, and 6,865,199 Shares were issued to other entities and individuals as compensation for cash and/or services which had been provided in connection with the PNG Subsidiary's acquisition of PPL 326.

The PNG Subsidiary is a wholly owned subsidiary of Newport Energy and the PNG Subsidiary holds a 100% interest in PPL 326. The PNG Subsidiary is a company incorporated under the laws of PNG.



Review of Operations

The four vendor shareholders and their respective interests in Newport Energy (PNG) Limited and Newport Energy before and after the acquisition are set out below:

Vendor Shareholder	Newport Energy (PNG) Limited shares	Newport Energy Shares received as consideration
Slane Limited	5 "A" class shares	2,318,600
Newport Mining Limited	10 "A" class shares	2,000,000
Newport Oil & Gas Limited	56 "A" class shares	25,946,258
CVC Capital & Infrastructure Limited	28 "A" class shares and 1 ordinary share	12,869,943

Description of PPL 326

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

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

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

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

The Licence Area is in close proximity to InterOil's existing Napa Napa refinery and LNG plant site near Port Moresby. Other major oil companies already active within the north western Papuan Fold Belt region include ExxonMobil, Oil Search Limited, Santos Limited, Nippon Oil Corporation, Chevron Corporation and BHP Billiton Limited. Major infrastructure currently planned by these oil companies, or which is in the construction phase, includes major pipelines, refineries and two LNG plants. The close proximity of this infrastructure presents an opportunity for efficient commercialisation of any discoveries in PPL 326, subject to commercial agreements being negotiated.

The Licence Area overlaps the south west portion of the geological structural feature known as the Papuan Fold Belt. The north western region of the Papuan Fold Belt holds the Papuan Basin within which are all of PNG's existing productive oil and gas fields. The geological basin underneath PPL 326 has several strong analogies with the Papuan Basin.

The shallow structural configuration in the Licence Area is analogous with InterOil's productive Elk and Antelope discoveries located to the west of Port Moresby. The play type of InterOil's Antelope-1 well, reported to be producing over 68,700 boepd, is one of those believed to exist in the Licence Area. Further, the deeper geology in the Licence Area includes rifted margin sediments similar to the north western Papuan Fold Belt.

The limited seismic information currently available in respect of PPL 326 defines large geological structures, which the Board considers to have significant upside potential. Two oil seeps have also been reported in PPL 326.

Review of Operations

The likely geological structures within PPL 326 have potentially more fold anticlines than the productive north western Fold Belt thrust, as the overall area of PPL 326 is larger and the geological compression is considered by the Company to be similar. In the north western Papuan Fold Belt thrust, the anticline lead density is 32 anticlines in a 150km by 25km fairway. PPL 326 has a play fairway over 300km in length and twice the size of the north western Fold Belt thrust.

Activities during this Financial Period

Capital Raising

After the acquisition of all the issued capital in the PNG Subsidiary, the prime focus of the Company has been on raising capital to enable the Company to undertake exploration activities in relation to PPL 326.

The first capital raising occurred in December 2009 and January 2010 and raised $500,000 to enable the Company to meet ongoing working capital requirements and the initial costs of an Initial Public Offering ("IPO").

In March 2010 a new Board and Management team were appointed and that Board and Management team have remained without change since that time.

On 1 April 2010 a Prospectus for the IPO to raise $10,000,000 at 25 cents per share was lodged with ASIC. Initial feedback from the market to the IPO was very positive. However, clearance of the Prospectus became protracted due to an area of concern ASIC had with one of the Company's major shareholders. By the time these matters had been dealt with the Prospectus was then not issued until 24 June 2010. Unfortunately by this time the market was less conducive to the capital raising, exacerbated by the federal election and aftermath.

On 30 August 2010 the Board withdrew the IPO and in October 2010 commenced a private capital raising at 10 cents per share. As at 31 December 2010 this aggregated $2,136,000. That capital raising continues with a target of between $3-5,000,000.

For the first time, as a result of that capital raising, the Company had funding to clear its capital raising costs and commence significant work on its geological and geophysical program. Details of this are set out below.

Exploration Work

With the new Management team joining the Company in March 2010 and, in particular, the appointment of Dr Mike Swift as Exploration Manager, the Company was able to commence work on pulling together existing information, in the public domain and otherwise, relevant to understanding the prospectivity of PPL 326 and de-risking that. Dr Swift had already undertaken some work before as evidenced in his published paper which you can view on the Company's website – www.newportenergylimited.com. However, progress was limited for most of the period due to the lack of available funds. Nevertheless Dr Swift has stuck resolutely to the task, pulling in what material he could, and continuing to strengthen the view of the prospectivity of PPL 326.

This persistence paid off in a large way as the Company managed to locate the seismic data acquired by the German BGR in 1981, referred to as "the 1981 Sonne data". 3,200km of processed regional offshore seismic data was uncovered and obtained. This data was believed to have been lost and had not previously been viewed by operators in PNG. Of significance in this package was a composite 450km line running from the Queensland Plateau to the southern edge of PPL 326. You may view details of this in the Company's presentation to the 11th PNG Mining and Petroleum Conference in December 2010 which is on the Company's website ("PNG Conference Presentation"). Previously the belief had been that the Mesozoic petroleum system had been cut out down to basement, but now we can see clearly the hinge points and the similarities between the Queensland Plateau and the PPL 326 region. Plate tectonic studies show the basement and younger rocks were probably part of the Laura Basin of Queensland, which has Jurassic coals onshore near Cape Melville. We now have evidence to support the proposition that the PPL 326 area was once joined to the Queensland Plateau and that it contains a wedge of Mesozoic rocks.

The acquisition of this data has provided a saving of at least a year in time and millions of dollars in costs. In addition, it has been important in unravelling the regional architecture and providing further support for our view that there is a Mesozoic petroleum system in PPL 326.

Finally in the last Quarter of the Financial Period, with access to disposable funds, we have been able to acquire 3rd party owned data. Principal amongst this has been acquiring data from Fugro-Searcher. We have now purchased 1,297km of the Lahara 2D seismic data acquired in 2006 and associated gravity and magnetic data as well as 714km of reprocessed vintage data. With full access to this data, which is within and outside of the tenement, we have been able to build the picture of what is in PPL 326 with the aid of modern high resolution data. This has led to the Company being able to confirm a number of its views and thinking as to what has been occurring from a geological perspective in the region as well as what formations are sitting within PPL 326.

Further for the first time we have had the data to enable us to start identifying and mapping the leads. This has even enabled us to lift the ranking of one of these leads to a strong lead – the Sunday Strong Lead. You may view detail of the Sunday Strong Lead and the other leads in the PNG Conference Presentation. In short, current mapping of the Sunday Strong Lead suggests it is larger than the Hides field in the Highlands and may have in excess of 13 TCF gas in place and 160 million barrels of condensate in place (assuming similar geological parameters as Hides) – and that is just one of the leads.

The work we have been able to conduct on this tenement to date demonstrates it is world class and has the potentiality of being much larger than all of the Highlands fields together.

As also outlined in the PNG Conference Presentation we have identified a number of Miocene reef structures which are of a similar nature to the prolific Elk and Antelope discoveries made by InterOil.

So we can see the 2 known and proven plays in PNG, but we believe that there are at least another 8 plays possible in PPL 326.

South eastern Papua New Guinea has not been seriously explored for hydrocarbons until now. The Company has collated all the available data and undertaken extensive geological and geophysical interpretation of this data. It has been able to examine this area from a completely different perspective than in the past. The results have reinforced the Company's view that there is a world class exploration opportunity in the region. PPL326 constitutes a large footprint over what we consider is a new petroleum basin. The Company has the advantage over previous explorers in being able to review all the data, not just ad hoc pieces.

In addition, we commenced the social mapping survey of the region to help us understand who the peoples are in the area and what activities are occurring there. This is a first for this region, where there has not been previous exploration for hydrocarbons and very limited work for other resources. The Company is acutely conscious of setting an exemplary standard in its work with minimal impact on the resident landholders in the region.

During the Financial Period the Company initiated a scholarship for an Honours student at the University of PNG focusing on geological work in the PPL 326 region. In addition the Company engaged the University to provide its geology students to assist us with surface geology work.

Review of Operations

Future Exploration Program

Despite the difficult start to the exploration program during most of the Financial Period, the work gained a significant momentum in the final Quarter. This momentum has carried through to 2011.

During 2011 it is the Company's present intent to undertake the following work:

- complete the social mapping survey (assisted by Firewall Logistics) and lodge this with the Department of Petroleum;
- engage with local landholders in the region and develop a system of communication with them;
- acquire 2D seismic onshore in PPL 326 using existing roads and a vibes crew – a first for PNG;
- identify suitable drilling targets onshore;
- acquire 2D seismic offshore in PPL 326 focusing on the area with no existing seismic data as well as acquiring further seismic over the Sunday Strong Lead and the other existing leads;
- continue to populate the prospects and leads map;
- conduct an hydrocarbon seep survey in the region and analyse reported possible seeps ;
- populate a virtual data room with relevant data in anticipation of the potential for future farm-out agreements;
- award the first Company scholarship to a University of PNG Honours student;
- continue to acquire surface geology data;
- publish further peer reviewed articles regarding the prospectivity of PPL 326;
- prepare for potential drilling opportunities whether conducted by the Company or under Farm-out agreements.

It is important to recognise that this program may change during the year depending on our results and so no guarantees can be given that exactly the above will be undertaken.

However we are confident this work will contribute to the de-risking of the tenement and increase the recognition of the prospectivity of PPL 326.

Corporate Activities

With the withdrawal of the IPO, the Company had to revisit its systems which had been focused on transitioning to the ASX CHESS system managed by a professional share registry company. The Company has been extremely fortunate to have Andrew Cooke as our part time Company Secretary. Andrew's experience has enabled a transition to an accurate stand-alone system managed by the Company. However it has necessitated moving back to a more traditional system of share registry, in the middle of a capital raising.

To preserve costs the Company has operated on a virtual office environment relying on the Management team's own resources. The Management team has even agreed to change their engagement basis to preserve cash. All of this has presented challenges, but the whole team, including our accounting support, have remained committed and motivated.

Future Corporate Activities

The Board has recognised the need for at least 2 further capital raisings. The first and very immediate is anticipated to be a further capital raising to fund the onshore seismic acquisition program. The second and more significant raising is currently anticipated to be by way of an IPO and listing on the ASX. This will be necessary to raise the funds to conduct the offshore seismic program. Obviously this is subject to prevailing market conditions at the time.

Review of Operations

We also believe that the Company needs to change its shape and identity before it launches an IPO again. A proposal will be put to the AGM to change that identity which may be coupled with the acquisition of other oil and gas interests with different risk profiles.

We will be changing and updating our website and implementing a modern site which will enable the Company to manage the content. This platform, along with electronic communications, will provide shareholders and other interested people with a convenient mechanism for remaining informed of our developments.

Closing Words

A recent scouting trip in the region has demonstrated to us the considerable advantages the location of the tenement presents compared with the traditional areas of exploration in PNG. It also demonstrated the interest and enthusiasm our work is generating from both the people in the region as well as the Government of PNG.

It has been a difficult year for the Company. It did not pan out as the new Board and Management team had expected. It is a tribute to them that they have stuck with it at some considerable personal sacrifice. Out of that though, we have come with even greater enthusiasm and belief in the Company. 2011 is going to be quite a different year.

In particular I would like to thank the Management team for hanging in there, particularly Mike Swift, and to the Board for its support. The Shareholders can rest assured it has a very strong and committed team on the job.

David Williams
Managing Director

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity consisting of Newport Energy Limited and the entities it controlled at the end of and during the period ended 31 December 2010.

Directors

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

Director	Appointed	Resigned
Jay M Bracher	23 November 2009 (date of incorporation)	5 December 2009
Reginald E Edwards	23 November 2009 (date of incorporation)	2 March 2010
Francis J Joslin	23 November 2009 (date of incorporation)	2 March 2010
David RM Murray	5 December 2009	2 March 2010
Patricia Kay Philip	2 March 2010	
Lindsay David Hale Williams	2 March 2010	
Graham Ian Holdaway	2 March 2010	

Current Directors' qualifications and experience

Kay Philip ONM – Chairman

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

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

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

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

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

David Williams – Managing Director

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

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

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

Graham Holdaway – Non Executive Director

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

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

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

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

Andrew Cooke - Company Secretary

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

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

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

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

Incorporation

Newport Energy Limited was incorporated on 23 November 2009 for the purpose of acquiring the whole of the issued capital of Newport Energy (PNG) Limited which holds Petroleum Prospecting Licence 326 ("PPL 326") in Papua New Guinea.

Accordingly this Annual Report covers the period from 23 November 2009 (date of incorporation) to 31 December 2010 and there are no comparative figures.

Principal activities

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

DIRECTORS' REPORT

Results

The net result of operations after applicable income tax expense of the consolidated entity for the period from 23 November 2009 (date of incorporation) to 31 December 2010 was a loss of $1,748,564.

Dividends

No dividends were either paid or declared for the period.

The Directors do not recommend the payment of a dividend in respect of the financial period ended 31 December 2010.

Review of operations

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

Significant changes in the state of affairs

Newport Energy Limited was incorporated on 23 November 2009 and acquired the whole of the issued capital of Newport Energy (PNG) Limited in December 2009.

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

Matters subsequent to the end of the financial period

At the date of this report there were no matters or circumstances which have arisen since 31 December 2010 that have significantly affected or may significantly affect:

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

in the financial period to 31 December 2010.

Likely developments

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

Directors' benefits

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

Share options

Particulars of options granted over unissued shares:

	2010
Total number of options granted by the Company over unissued ordinary shares	15,250,000
Options issued during the period	15,250,000
Shares issued in the period as the result of the exercise of options	Nil
Options expired during the period	Nil
Options cancelled during the period	4,000,000

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

Meetings of directors

Attendance at Directors' meetings during the period from 23 November 2009 (date of incorporation) to 31 December 2010.

	Board Meetings		Audit Committee Meetings	
	Eligible to attend	Attended	Eligible to attend	Attended
Jay M Bracher	1	1		
Reginald E Edwards	4	4		
Francis J Joslin	4	4		
David RM Murray	3	3		
Patricia Kay Philip	17	17	1	1
Lindsay David Hale Williams	17	17		
Graham Ian Holdaway	17	17	1	1

Environment

Newport Energy Limited, through its subsidiary, holds an exploration tenement in Papua New Guinea that is subject to various governmental statutes and guidelines for environmental impacts in relation to exploration activities. These provide for the satisfactory rehabilitation of the areas of exploration. There have been no material known breaches of the licence conditions.

Directors' and auditors' indemnification

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

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

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

Non-audit services

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

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

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

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

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

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

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 60.

Auditor

PKF Chartered Accountants were appointed as auditors on 25 March 2010 and hold office in accordance with section 327 of the Corporations Act 2001.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

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

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

The information provided under headings A-D includes remuneration disclosures that are required under Accounting Standard AASB 124 Related Party Disclosures. These disclosures have been transferred from the financial report and have been audited. The disclosures in Section E are additional disclosures required by the Corporations Act 2001 and the Corporations Regulations 2001 which have not been audited.

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

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

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

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

Alignment to shareholders' interests:

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

Alignment to programme participants' interests:

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

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

Non-executive directors

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

The Board initially set Directors' fees at the following levels:

- Chairman - $80,000 pa; and
- Non-Executive Directors - $40,000 pa.

After the IPO was withdrawn on 30 August 2010, the Board set Directors' fees at the following levels with effect from 1 September 2010:

- Chairman - $40,000 pa; and
- Non-Executive Directors - $30,000 pa.

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

As part of their remuneration, Ms Philip and Mr Holdaway have each been issued during the financial period:

- 250,000 Shares, which Shares may not be transferred prior to 28 February 2012 and a proportion of which are liable to be cancelled in the event that they cease to be a Director within 24 months of the commencement date of their appointment, being 1 March 2010;
- 500,000 Options with an exercise price of $0.30, exercisable at any time on or before 28 February 2013; and
- 500,000 Options with an exercise price of $0.40, exercisable at any time on or before 28 February 2014.

The non-executive Directors are entitled to have the Shares and Options referred to above issued in their own name or in the name of a nominee, being a spouse, a body corporate of which they hold at least 50% of the issued voting capital, the trustee of a trust of which they are a beneficiary or object or the trustee of a superannuation fund of which they are a member.

In the event that Ms Philip or Mr Holdaway cease to be a Director (or in the event that a nominee holding their Options for them ceases to be an Eligible Person), the Options referred to above will automatically lapse on the earlier of the end of the exercise period or the expiration of 90 days from such termination, unless the Board otherwise determines.

Executive Directors

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

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

B) Senior management employment contracts and remuneration

David Williams - Managing Director

(i) Initial contract

Pursuant to a services agreement dated 7 February 2010, (as amended), Mr David Williams was appointed Managing Director of Newport Energy Limited commencing on 1 March 2010.

Newport Energy Limited agreed to pay Mr Williams a salary of $350,000 per annum (inclusive of superannuation and allowances), which was to be reviewed annually.

In addition, Mr Williams:

(a) has received:

(i) 500,000 Shares, which Shares may not be transferred by Mr Williams prior to 28 February 2012 and a proportion of which are liable to be cancelled in the event that Mr Williams terminates his employment within 24 months of the commencement date;

(ii) 2 million Options at an exercise price of $0.30, exercisable at any time on or before 28 February 2013;

(iii) 2 million Options at an exercise price of $0.40, exercisable at any time on or before 28 February 2014; and

(b) was entitled to receive 500,000 Shares if Newport Energy Limited's market capitalisation equals or exceeds $50 million at any time on or before 28 February 2015 (based on the volume weighted average price for the 20 ASX trading days prior to the relevant date), which Shares may not be transferred by Mr Williams prior the date that is 12 months from the date on which Mr Williams becomes entitled to them.

Mr Williams is entitled to have the Shares and Options referred to above issued in his own name or in the name of his nominee, being a spouse, a body corporate of which he holds at least 50% of the issued voting capital, the trustee of a trust of which he is a beneficiary or object or the trustee of a superannuation fund of which he is a member.

On termination of Mr Williams' employment, the Options referred to above will automatically lapse on the earlier of the end of the exercise period or the expiration of 90 days from such termination, unless the Board otherwise determines.

Newport Energy Limited may terminate Mr Williams' employment immediately in the event of serious misconduct or neglect in the discharge by Mr Williams of his duties. Further, Newport Energy Limited may terminate Mr Williams' employment without cause at any time by giving six months' written notice to Mr Williams or by making a payment of six months' remuneration in lieu of notice.

Mr Williams may terminate his employment by giving six months' written notice to Newport Energy Limited.

(ii) Current contract

Pursuant to a services agreement dated 25 November 2010, the initial contract of Mr Williams was terminated and the following contract entered into.

With effect on and from 1 November 2010, Newport Energy Limited contracted with Mr Williams or his service company to provide general management services on a retainer of $16,700 (excl GST) per month.

It was also agreed that:

(a) The Sign On Shares can be retained as issued and continue to be subject to the conditions set out in the initial contract;

(b) The Options lapse;

(c) The entitlement to the Bonus-Performance Shares lapses; and

(d) A Farmout Bonus (as described below) be provided.

Dr Michael Swift – Exploration Manager

(i) Initial contract

Pursuant to a services agreement dated 10 February 2010, (as amended) Dr Michael Swift was appointed Exploration Manager of Newport Energy Limited commencing on 1 March 2010.

Newport Energy Limited agreed to pay Dr Swift $330,000 per annum (inclusive of superannuation), which will be reviewed annually. In addition, Dr Swift is entitled to receive:

(a) has received

   (i) 500,000 Shares, which Shares may not be transferred by Dr Swift prior to 28 February 2012 and a proportion of which are liable to be cancelled in the event that Dr Swift terminates his employment within 24 months of the commencement date;

   (ii) 2 million Options at an exercise price of $0.30, exercisable at any time on or before 28 February 2013;

   (iii) 2 million Options at an exercise price of $0.40, exercisable at any time on or before 28 February 2014; and

(b) is entitled to receive 300,000 Shares if Newport Energy Limited's market capitalisation equals or exceeds $50 million at any time on or before 28 February 2015 (based on the volume weighted average price for the 20 ASX trading days prior to the relevant date), which Shares may not be transferred by Dr Swift prior the date that is 12 months from the date on which Dr Swift becomes entitled to them.

Dr Swift is entitled to have the Shares and Options referred to above issued in his own name or in the name of his nominee, being a spouse, a body corporate of which he holds at least 50% of the issued voting capital, the trustee of a trust of which he is a beneficiary or object or the trustee of a superannuation fund of which he is a member.

On termination of Dr Swift's employment, the Options referred to above will automatically lapse on the earlier of the end of the exercise period or the expiration of 90 days from such termination, unless the Board otherwise determines.

Newport Energy Limited may terminate Dr Swift's employment immediately in the event of serious misconduct or neglect in the discharge by Dr Swift of his duties. Further, Newport Energy Limited may terminate Dr Swift's employment without cause at any time by giving three months' written notice to Dr Swift or by making a payment of three months' remuneration in lieu of notice.

Dr Swift may terminate his employment by giving three months' written notice to Newport Energy Limited.

(ii) Current contract

Pursuant to a services agreement dated 25 November 2010, Dr Swift's initial contract was terminated and the following contract entered into. With effect on and from 1 November 2010, Newport Energy Limited contracted with Dr Swift or his service company to provide general exploration services and to manage the exploration program of Newport Energy Limited at a rate of $1,250.00 (excl. GST) per day, with a maximum aggregate liability of $250,000.00 (excl. GST) per annum

It was also agreed that:

(a) The Sign On Shares and Options can be retained as issued and continue to be subject to the conditions set out in the initial contract; and

(b) The entitlement to the Bonus -Performance Shares lapses; and

(c) A Farmout Bonus (as described below) be provided.

C) Details of remuneration

Amounts of remuneration

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

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

Remuneration paid to key management personnel of Newport Energy and of the Group

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

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

(2) Salary includes salary sacrificed superannuation

D) Performance based compensation

(i) Performance Shares

Performance Shares would have been issued to the Managing Director and Exploration Manager on the following terms, but this entitlement was cancelled as part of the new arrangements entered into on 25 November 2010:

Newport Energy Limited's market capitalisation must have equalled or exceeded $50 million at any time on or before 28 February 2015 (based on the volume weighted average price for the 20 ASX trading days prior to the relevant date) before the executive would have become entitled to receive the shares.

Any Shares issued under these terms could not be transferred by the executive prior the date that is 12 months from the date on which the executive became entitled to them.

(ii) Performance Bonus

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

E) Share-based compensation

Options

The following options over ordinary shares in the company were provided as remuneration to each director of Newport Energy Limited and each of the key management personnel of the Group during the financial year.

Executive	*Expiry Date*	*Exercise Price*	*Number Granted*	*Number lapsed*	*Number at 31 December 2010*
Kay Philip	28 February 2013	$0.30	500,000	-	500,000
	28 February 2014	$0.40	500,000	-	500,000
Graham Holdaway	28 February 2013	$0.30	500,000	-	500,000
	28 February 2014	$0.40	500,000	-	500,000
David Williams	28 February 2013	$0.30	2,000,000	(2,000,000)	-
	28 February 2014	$0.40	2,000,000	(2,000,000)	-
Michael Swift	28 February 2013	$0.30	2,000,000	-	2,000,000
	28 February 2014	$0.40	2,000,000	-	2,000,000

Shares provided on appointment.

The following ordinary shares in the company were provided on appointment as directors or executives.

Director	*Number Granted*
Kay Philip	250,000
Graham Holdaway	250,000
David Williams	500,000
Executive	
Michael Swift	500,000

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

Shares under option

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

Shares issued on the exercise of options

No ordinary shares of Newport Energy Limited were issued during the period ended 31 December 2010 on the exercise of options granted. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

Directors' interests in shares and options

The relevant interest of each Director in office at 31 December 2010 in the share capital of the Company as at the date of this report is as follows:

2010		K Philip	G Holdaway	D Williams
Ordinary shares		380,000	2,450,000	9,780,000
Options				
Exercise price	**Expiry date**			
30 cents per share	20.02.2013	500,000	500,000	-
40 cents per share	20.02.2014	500,000	500,000	-

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

David Williams
Director

Sydney, 1 March 2011

STATEMENT OF COMPREHENSIVE INCOME

for the period from 23 November 2009 (date of incorporation) to 31 December 2010

	Note	2010 $
Revenue	5	**10,856**
Expenses		
Administration costs		(101,783)
Corporate costs		(573,814)
Depreciation	6	(470)
Employment costs	6	(912,631)
Foreign currency gains		198
Investor and public relations		(68,716)
Occupancy costs	6	(3,172)
Other expenses from ordinary activities		(99,032)
Loss from ordinary activities before income tax expense		**(1,748,564)**
Income tax (expense) benefit		-
Net loss from ordinary activities after income tax expense	23	**(1,748,564)**
Other comprehensive income/(loss) after income tax:		
Exchange differences on translating foreign controlled entities		(105,014)
Other comprehensive income/(loss) for the period, before tax		**-**
Income tax (expense) benefit		**-**
Other comprehensive income/(loss) for the period, net of tax		**(105,014)**
Total comprehensive income/(loss) for the period attributable to members of the parent entity		**(1,853,578)**
Basic and diluted loss per share (cents)	10	**(3.41)**

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

STATEMENT OF FINANCIAL POSITION

at 31 December 2010

	Note	Consolidated 2010 $
CURRENT ASSETS		
Cash and cash equivalents	12	493,481
Trade and other receivables	13	98,203
Other current assets	14	28,977
TOTAL CURRENT ASSETS		**620,661**
NON-CURRENT ASSETS		
Trade and other receivables	15	38,212
Deferred exploration and evaluation expenditure	16	1,168,974
Plant and equipment	17	2,284
TOTAL NON-CURRENT ASSETS		**1,209,470**
TOTAL ASSETS		**1,830,131**
CURRENT LIABILITIES		
Trade and other payables	18	820,162
TOTAL CURRENT LIABILITIES		**820,162**
TOTAL NON-CURRENT LIABILITIES		**-**
TOTAL LIABILITIES		**820,162**
NET ASSETS		**1,009,968**
SHAREHOLDERS' EQUITY		
Issued capital	19	2,580,335
Foreign currency translation reserve	21	(105,014)
Share based payments reserve	22	283,211
Accumulated losses	23	(1,748,564)
TOTAL EQUITY		**1,009,968**

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

STATEMENT OF CHANGES IN EQUITY

for the period from 23 November 2009 (date of incorporation) to 31 December 2010

Consolidated	**Issued Capital**	**Accumulated Losses**	**Foreign Currency Reserve**	**Share Based Payments Reserve**	**Total Equity**
	$	**$**	**$**	**$**	**$**
At 23 November 2009	**-**	**-**	**-**	**-**	**-**
Transactions with owners in their capacity as owners					
Shares issued during the year	3,678,791	-	-	-	3,678,791
Capital raising costs	(1,098,456)	-	-	-	(1,098,456)
Share based payments	-	-	-	283,211	283,211
	2,580,335	**-**	**-**	**283,211**	**2,863,546**
Comprehensive loss for the period	-	(1,748,564)	(105,014)	-	(1,853,578)
At 31 December 2010	**2, 580,335**	**(1,748,564)**	**(105,014)**	**283,211**	**1,009,968**

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

STATEMENT OF CASH FLOWS

for the period from 23 November 2009 (date of incorporation) to 31 December 2010

	Note	Consolidated 2010 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Payment to suppliers (inclusive of GST)		(714,876)
Interest received		10,856
Interest paid		(1,500)
NET CASH (OUTFLOWS) FROM OPERATING ACTIVITIES	31 (c)	**(705,520)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditure on plant and equipment		(2,755)
Expenditure on mining interests (exploration)		(1,057,577)
Expenditure on security deposits		(38,212)
NET CASH (OUTFLOWS) FROM INVESTING ACTIVITIES		**(1,098,544)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares		2,895,971
Share issue costs		(598,456)
Cash received from acquisition of controlled entity	30	30
Loans received		100,000
Loans repaid		(100,000)
NET CASH INFLOWS FROM FINANCING ACTIVITIES		**2,297,545**
NET INCREASE IN CASH HELD		**493,481**
Cash and cash equivalents at the beginning of the financial period		-
Cash and cash equivalents at the end of the financial period	31 (a)	**493,481**

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

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2010

Contents of the notes to the financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. The consolidated financial statements and notes represent those of Newport Energy Limited and its subsidiary ("the consolidated group" or "group").

The separate financial statements of the parent entity, Newport Energy Limited, have not been presented within this financial report as permitted by amendments made to the *Corporations Act 2001* effective as at 28 June 2010.

Basis of preparation

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

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

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

Critical accounting estimates

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

Going Concern

The Group made a loss after tax of $1,748,564 for the period ended 31 December 2010.

The on going viability of the Group and the recoverability of its non-current assets are dependent on the successful development of its exploration tenement. The Directors believe that the project will be ultimately successful and that the non-current assets are included in the Financial Report at their recoverable amount.

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Going Concern (continued)

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

Significant accounting policies

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

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

(a) Borrowings

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

(b) Borrowing costs

Borrowing costs are expensed as incurred.

(c) Cash and cash equivalents

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

(d) Comparative figures

Newport Energy Limited was incorporated on 23 November2009.

Accordingly this Annual Report covers the period from 23 November2009 (date of incorporation) to 31 December 2010 and there are no comparative figures.

(e) Equity-settled compensation

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Exploration and evaluation expenditure

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

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

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.
A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

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

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

(g) Financial Instruments

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

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

Classification and subsequent measurement
Finance instruments are subsequently measured at fair value, amortised cost using the effective interest rate method or cost. *Fair value* represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial Instruments (continued)

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

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

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Fair value estimation

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

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

(i) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate.

Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

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

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

Group companies

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Goods and services tax

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

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

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

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

(k) Impairment of assets

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

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.
Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

(l) Income tax

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Income tax (continued)

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

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

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

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

(m) Loss per share

Basic loss per share

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

Diluted loss per share

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Plant and equipment

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

Plant and equipment are measured on the cost basis.

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

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

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

Depreciation

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

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

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

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

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

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

(o) Principles of consolidation

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Principles of consolidation (continued)

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 26 to the financial statements.

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

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

Business Combinations

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

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

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

Goodwill

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

- (i) the consideration transferred;
- (ii) any non-controlling interest; and
- (iii) the acquisition date fair value of any previously held equity interest;

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Principles of consolidation (continued)

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

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

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

Goodwill on acquisitions of subsidiaries is included in intangible assets

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

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

(p) Revenue recognition

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

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

(q) Trade and other payables

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

(r) Trade and other receivables

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

New accounting standards and UIG interpretations for application in future periods

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

The Group has decided against early adoption of these standards.

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

Operative date 1 February 2010 with an application date for the group of 1 January 2011.

AASB	Summary	Impact on group
AASB 2009–10 Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132]	These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments.	These amendments are not expected to impact the Group.

Operative date 1 July 2010 with an application date for the group of 1 January 2011.

AASB	Summary	Impact on group
AASB 2009–13 Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1]	This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19.	These amendments are not expected to impact the Group.
AASB 2010–3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]	This standard makes amendments - requiring that recognition and/or adjustment of contingent consideration for acquisitions preceding 1 July 2009 be recognised against the cost of acquisition - clarifying the accounting for replacement share-based payments awarded to the acquiree's employees as part of the cost of the combination service, or in the case of non-replaced and unvested share-based payments of the acquiree that do not form part of the exchange, an allocation to both the cost of acquisition and post-combination services on the basis of a market-based measure; and - making sundry transitional amendments to various Standards	These amendments are not expected to impact the Group.
AASB Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred.	This Interpretation is not expected to impact the Group.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

AASB	Summary	Impact on group
AASB 124 Related Party Disclosures	This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard..	These amendments are not expected to impact the Group.
AASB 2009–12 Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052	This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures.	These amendments are not expected to impact the Group.
AASB 2009–14 Amendments to Australian Interpretation — Prepayments of a Minimum Funding Requirement [AASB Interpretation 14]	This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.	These amendments are not expected to impact the Group.
AASB 2010–4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13]	This Standard details numerous non-urgent but necessary changes to Accounting Standards arising from the IASB's annual improvements project. Key changes include: - clarifying the application of AASB 108 prior to an entity's first Australian-Accounting-Standards financial statements; - adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments; - amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes; - adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and - making sundry editorial amendments to various Standards and Interpretations.	These amendments are not expected to impact the Group.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

2. FINANCIAL RISK MANAGEMENT

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

(i) Foreign exchange risk

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

(ii) Credit risk

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

(iii) Liquidity risk

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Income taxes

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

Exploration and evaluation expenditure

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

4. PARENT INFORMATION

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Accounting Standards.

	2010 $
STATEMENT OF FINANCIAL POSITION	
ASSETS	
Current assets	620,661
TOTAL ASSETS	**1,842, 555**
LIABILITIES	
Current liabilities	820,162
TOTAL LIABILITIES	**820,162**
EQUITY	
Issued capital	2,580,335
Accumulated losses	(1,841,154)
Share based payments reserve	283,211
TOTAL EQUITY	**1,022,392**
STATEMENT OF COMPREHENSIVE INCOME	
Total loss	(1,841,154)
TOTAL COMPREHENSIVE INCOME (LOSS)	**(1,841,154)**

Guarantees

Newport Energy Limited has not entered into any guarantees, in the current financial period, in relation to the debts of its subsidiary.

Contingent liabilities

At 31 December 2010, Newport Energy Limited had no contingent liabilities.

Contractual commitments

At 31 December 2010, Newport Energy Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment.

5. REVENUE

	Consolidated 2010 $
Interest received	10,856
Total revenue from continuing operations	**10,856**

6. OPERATING LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

	Consolidated 2010 $
The operating loss from ordinary activities before income tax expense has been determined after charging the following expenses:	
Depreciation	
Depreciation of plant and equipment	470
	470
Employment costs	
Executive directors salary	228,237
Executive directors eligible termination payment	200,000
Non-executive directors fees	107,101
Other directors expenses	59,282
Employee salary	257,636
Employee service provider fees	33,400
Share based payments	149,591
Shares issued on appointment	200,000
Superannuation	46,705
Other employment expenses	86,935
Less allocated to exploration expenditure	(456,256)
	912,631
Interest paid	**1,500**
Occupancy Costs	
Office rent	3,029
Other office costs	143
	3,172

7. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

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

Director	Appointed	Resigned
Jay M Bracher	23 November 2009 (date of incorporation)	5 December 2009
Reginald E Edwards	23 November 2009 (date of incorporation)	2 March 2010
Francis J Joslin	23 November 2009 (date of incorporation)	2 March 2010
David RM Murray	5 December 2009	2 March 2010
Patricia Kay Philip	2 March 2010	
Lindsay David Hale Williams	2 March 2010	
Graham Ian Holdaway	2 March 2010	

7. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(b) Other key management personnel

All directors are identified as key management personnel under AASB 124 "Related Party Disclosures".

The Exploration Manager is also identified as key management personnel.

(c) Key management personnel compensation

	Consolidated 2010 $
Short-term employee benefits	588,459
Post-employment benefits	46,016
Termination benefits	200,000
Share-based payments	337,091
	1,171,566

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

(d) Equity instrument disclosures relating to key management personnel

Options provided as remuneration and shares issued on exercise of such options

10,000,000 options were provided as remuneration, 4,000,000 options lapsed during the period and no shares were issued on the exercise of such options.

Option holdings

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

Executive	***Expiry Date***	***Exercise Price***	***Number Granted***	***Number lapsed***	***Number at 31 December 2010***
Kay Philip	28 February 2013	$0.30	500,000	-	500,000
	28 February 2014	$0.40	500,000	-	500,000
Graham Holdaway	28 February 2013	$0.30	500,000	-	500,000
	28 February 2014	$0.40	500,000	-	500,000
David Williams	28 February 2013	$0.30	2,000,000	(2,000,000)	-
	28 February 2014	$0.40	2,000,000	(2,000,000)	-
Michael Swift	28 February 2013	$0.30	2,000,000	-	2,000,000
	28 February 2014	$0.40	2,000,000	-	2,000,000
			10,000,000	**(4,000,000)**	**6,000,000**

7. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

Shares provided on appointment.

The following ordinary shares in the company were provided on appointment as directors or executives.

Director	***Number Granted***
Kay Philip	250,000
Graham Holdaway	250,000
David Williams	500,000
Executive	
Michael Swift	500,000

Share holdings

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

Ordinary shares - ***Directors and executives of Newport Energy Limited***

2010 Name	**Balance at the start of the year**	**Received during the year on appointment**	**Other changes during the year**	**Balance at the end of the year**
Directors				
Kay Philip	-	250,000	130,000	380,000
Graham Holdaway	-	250,000	2,200,000	2,450,000
David Williams	-	500,000	9,280,000	9,780,000
Executive				
Michael Swift	-	500,000	1,200,000	1,700,000

Incentive Share holdings

The numbers of incentive shares in the company unallotted but able to be issued on satisfaction of certain criteria at the end of the financial period by each Director of the Company and other key management personnel of the Group, including their personally related parties, are set out below. There were no incentive shares allotted during the reporting period as compensation.

Incentive shares - ***Directors and executives of Newport Energy Limited***

2010 Name	**Balance at the start of the year**	**Entitlement during the year**	**Entitlement Lapsed during the year**	**Balance at the end of the year**
Directors				
Kay Philip	-	-	-	-
Graham Holdaway	-	-	-	-
David Williams	-	500,000	(500,000)	-
Executive				
Michael Swift	-	500,000	(500,000)	-

8. REMUNERATION OF AUDITORS	Consolidated 2010 $
Total amounts receivable by the auditors of the Company for:	
Audit of the Company's accounts	-
Other services:	
Investigating Accountants Report for Prospectus	29,002
Advice relating to various taxation and accounting matters	15,690
Total remuneration for non-assurance services	**44,692**

9. FINANCIAL REPORTING BY SEGMENTS

Identification of reportable segments

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

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

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

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

Inter-segment transactions

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

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

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

9. FINANCIAL REPORTING BY SEGMENTS (CONTINUED)

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

Segment assets

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

Segment liabilities

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

Unallocated items

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

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

Segment performance	Exploration Papua New Guinea 2010 $	Total 2010 $
Interest received	10,8	10,8
Total revenue from continuing operations	**10,8**	**10,8**
Segment net profit from continuing operations before tax	(1,279,492)	(1,279,492)
Reconciliation of segment result to group net profit/loss before tax:		
Amounts not included in segment result but reviewed by the Board:		
— corporate charges		(573,814)
— depreciation and amortisation		(470)
— foreign currency gains/(losses)		105,212
Net profit before tax from continuing operations		**(1,748,564)**

9. FINANCIAL REPORTING BY SEGMENTS (CONTINUED)

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

10. LOSS PER SHARE

	2010
Basic and diluted	
Weighted average number of shares used in basic and diluted loss per share	54,357,1
Basic and diluted loss per share (cents per share)	**(3.41)**
Anti-dilutive options on issue not used in dilutive EPS calculation	11,250,0

11. TAXATION

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

11. TAXATION (CONTINUED)

	Consolidated 2010 $
Adjusted franking account balance	-

Deferred tax balances not recognised

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

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

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

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

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

12. CASH AND CASH EQUIVALENTS

	Consolidated 2010 $
Cash at bank and on hand	493,481
	493,481

13. TRADE AND OTHER RECEIVABLES

Other receivables	5,000
GST debtor	93,203
	98,203

14. OTHER ASSETS

Prepayments	28,977
	28,977

15. RECEIVABLES – NON-CURRENT

	Consolidated 2010 $
Security bonds and environmental deposits	38,212
	38,212

16. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

Deferred exploration costs	**1,168,974**
Deferred exploration costs brought forward	-
Expenditure incurred during the year	1,127,594
Acquired through acquisition of subsidiary	41,380
Exploration expenditure written off	-
Deferred exploration costs carried forward	**1,168,974**

The above amounts represent costs incurred on exploration areas of interest which have been carried forward as an asset in accordance with the accounting policy set out in note 1. The ultimate recoupment of deferred exploration and evaluation expenditure carried forward in respect of an area of interest is dependent upon the discovery of commercially viable reserves and the successful development and exploitation of the respective areas or alternatively sale of the underlying areas of interest for at least their carrying value. Amortisation, in respect of the relevant area of interest, is not charged until a mining operation has commenced.

17. PLANT AND EQUIPMENT

Office equipment	
Cost	1,453
Accumulated depreciation	(221)
	1,232
Computer software	
Cost	1,302
Accumulated depreciation	(249)
	1,053
Total Plant and equipment	**2,285**

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

	Office equipment	Computer Software	Total
Carrying amount at 23 November 2009	-	-	-
Additions	1,453	1,302	2,755
Depreciation	(221)	(249)	(470)
Disposals	-	-	-
Carrying amount at 31 December 2010	**1,232**	**1,053**	**2,285**

18. TRADE AND OTHER PAYABLES

	Consolidated 2010 $
Trade creditors and accruals	562,662
Cash received for shares which have not yet been allotted	257,500
	820,162

19. CONTRIBUTED EQUITY

	Consolidated 2010 Number of shares	Consolidated 2010 $
Issued Capital		
Ordinary shares - fully paid	83,385,120	3,678,791
Less share issue costs		(1,098,456)
Total contributed equity		**2,580,335**

Movements in Issued Capital	Consolidated 2010 Number of shares	Consolidated 2010 $
Balance as at 23 November 2009	-	-
Issues during period:		
Issued on incorporation	120	1
Shares issued to acquire 100% of the issued capital of Newport Energy (PNG) Limited	50,000,000	82,790
Shares issued pursuant to the 1st seed raising	4,000,000	500,000
Share based payment for corporate advisory services	4,000,000	500,000
Share based payment to Directors, Company Secretary and Employees	1,600,000	200,000
Shares issued pursuant to the 2nd seed raisings	5,000,000	517,500
Shares issued pursuant to the Information Memorandum	18,785,000	1,878,500
	83,385,120	**3,678,791**
Less share issue costs		(1,098,456)
Balance as at 31 December 2010		**2, 580,335**

20. OPTIONS

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

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

21. FOREIGN CURRENCY TRANSLATION RESERVE

	Consolidated 2010 $
Balance at the beginning of the financial period	-
Exchange losses transferred to reserve	(105,014)
Balance at the end of the financial period	**(105,014)**

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

22. SHARE BASED PAYMENTS RESERVE

	Consolidated 2010 $
Balance at the beginning of the financial period	
Share based payments transferred to reserve	
Share options issued in relation to costs of corporate advisory services.	133,620
Share options issued to directors and executives on appointment	149,591
Balance at the end of the financial period	**283,211**

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

23. ACCUMULATED LOSSES

	Consolidated 2010 $
Accumulated losses at the beginning of the financial period	-
Net loss for the period	(1,748,564)
Accumulated losses at the end of the financial period	**(1, 748,564)**

24. CONTINGENT LIABILITIES

There are no contingent liabilities.

25. COMMITMENTS

Exploration Tenement Expenditure Commitments

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

PPL 326

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

The PPL covers 200 graticular blocks.

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

In addition Newport Energy Limited has agreed to spend a minimum of USD $2,000,000 (AUD $1,963,000) within the first two years of holding the licence.

Commitments for year 3 onwards are to be negotiated with the State prior to the end of year 2.

26. PARTICULARS RELATING TO CONTROLLED ENTITY

Company	Country of Incorporation and Operation	Percentage of Equity Held
		2010
Newport Energy (PNG) Ltd	Papua New Guinea	100%

Full details of the acquisition of Newport Energy (PNG) Ltd are contained in note 30.

27. RELATED PARTY DISCLOSURES

(a) Directors

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

Director	Appointed	Resigned
Jay M Bracher	23 November 2009 (date of incorporation)	5 December 2009
Reginald E Edwards	23 November 2009 (date of incorporation)	2 March 2010
Francis J Joslin	23 November 2009 (date of incorporation)	2 March 2010
David RM Murray	5 December 2009	2 March 2010
Patricia Kay Philip	2 March 2010	
Lindsay David Hale Williams	2 March 2010	
Graham Ian Holdaway	2 March 2010	

(b) Directors interests

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

(c) Associates of directors

Director	Associated company
Jay M Bracher	
Reginald E Edwards	
Francis J Joslin	
David RM Murray	Pacific Star International Industries Ltd Newport Oil & Gas Ltd
Patricia Kay Philip	
Lindsay David Hale Williams	LDHW Pty Ltd
Graham Ian Holdaway	

(d) Transactions with associates of directors

	Consolidated 2010 $
LDHW Pty Ltd, a Company in which Mr Williams is a Director and shareholder, entered into a Loan Facility Agreement with the company.	
Amount loaned to company	100,000
Amount repaid by company	100,000
Interest paid	1,500

At 31 December 2010 no amounts were outstanding in respect of the facility.

The terms and conditions entered into when undertaking the loan facility from LDHW Pty Ltd were

- Interest rate at 10%pa
- Repayable upon raising sufficient funds to repay all debt;
- Lender had option to convert to equity at 10cps in lieu of repayment of cash
- Loan unsecured

28. EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR

There were at the date of this report no matters or circumstances which have arisen since 31 December 2010 that have significantly affected or may significantly affect:

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

in the financial year subsequent to 31 December 2010.

29. FINANCIAL INSTRUMENTS DISCLOSURES

(a) *Capital*

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

In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and distributions. In order to achieve this objective, the Group seeks to maintain a gearing ratio that balances risks and returns

29. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(a) ***Capital (continued)***
at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy, new share issues, or reduction of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

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

	Consolidated 2010 $
Cash and cash equivalents	493,481
Net debt	Nil
Share capital	2,580,335
Reserves	178,197
Accumulated losses	(1,748,564)
Total capital	**1,009,968**
Gearing ratio	**Nil**

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

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

(c) ***Principal financial instruments***
The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

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

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

29. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

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

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

(i) Credit risk

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

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

(ii) Liquidity risk

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

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

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

The table below reflects an undiscounted contractual maturity analysis for financial liabilities and assets.

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

29. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

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

Maturity Analysis - Consolidated – 2010

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

(iii) Market risk

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

(iv) Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments.

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

(v) Foreign exchange risk

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

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

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

29. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

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

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

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

Sensitivity Analysis

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

(vi) Sovereign risk

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

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

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

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

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

29. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(e) Accounting policies

(i) Financial assets

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

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

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

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

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

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

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

29. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(e) Accounting policies (continued)

***(ii) Financial liabilities* (continued)**

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

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

(iii) Share capital

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

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

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

30. ACQUISITION OF CONTROLLED ENTITY

	Acquiree's carrying amount $	**Fair Value $**
On 10 December 2009, the parent entity acquired 100% of the issued capital of Newport Energy (PNG) Ltd by issuing 50,000,000 ordinary shares.		
Purchase Consideration:		
Issue of 50,000,000 ordinary shares		82,790
Less:		
Cash	30	30
Security Deposits	41,380	41,380
Exploration expenditure	-	41,380
	41,410	**82,790**
Goodwill	**-**	**-**
The purchase consideration was allocated as follows in the parent company:		
Security deposits		41,410
Exploration expenditure		41,380
		82,790

31. NOTES TO THE STATEMENT OF CASH FLOWS

	Consolidated 2010 $
(a) Cash on hand comprises:	
Cash at bank and on hand	493,481
	493,481

(b) Non cash transactions during period:	
Acquisition of Newport Energy (PNG) Ltd	82,790
Shares issued to directors, secretary and executives on appointment	200,000
Options issued to directors and executives	149,591
Share options issued in relation to costs of corporate advisory services.	133,620
Shares issued in relation to costs of corporate advisory services	500,000

(c) Reconciliation of loss from ordinary activities after income tax to net cash outflows from operating activities as follows:	
Operating (loss) after income tax	(1,748,564)
Depreciation and amortisation	470
Share based payments	349,591
Change in operating assets and liabilities:	
- Decrease / (Increase) in receivables	(98,203)
- Decrease / (Increase) in other assets	(28,977)
- Increase / (Decrease) in accounts payable	820,163
Net cash inflow (outflow) from operating activities	**(705,520)**

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 20 to 58, are in accordance with the Corporation Act 2001 and:
   (a) comply with Accounting Standards, which, as stated in accounting policy note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
   (b) give a true and fair view of the financial position as at 31 December 2010 and of their performance for the period ended on that date of the Company and economic entity.

2. in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Dated at Sydney this 1st day of March 2011
On behalf of the Board

David Williams
Director

Chartered Accountants
& Business Advisers

AUDITORS' INDEPENDENCE DECLARATION

As lead auditor for the audit of Newport Energy Limited for the period ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Newport Energy Limited and the entities it controlled during the year.

PKF

Bruce Gordon
Partner

Sydney
1 March 2011

Tel: 61 2 9251 4100 | Fax: 61 2 9240 9821 | www.pkf.com.au
PKF | ABN 83 236 985 726
Level 10, 1 Margaret Street | Sydney | New South Wales 2000 | Australia
DX 10173 | Sydney Stock Exchange | New South Wales

INDEPENDENT AUDITOR'S REPORT

To the members of Newport Energy Limited

Report on the Financial Report

We have audited the accompanying financial report of Newport Energy Limited, which comprises the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period ended on that date, a summary of significant accounting policies and other explanatory notes and the Directors' Declaration of the Consolidated Entity. The Consolidated Entity comprises Newport Energy Limited and the entities it controlled at 31 December 2010, or from time to time during the financial period.

Directors' Responsibility for the Financial Report

The Directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian Equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Tel: 61 2 9251 4100 | Fax: 61 2 9240 9821 | www.pkf.com.au
PKF | ABN 83 236 985 726
Level 10, 1 Margaret Street | Sydney | New South Wales 2000 | Australia
DX 10173 | Sydney Stock Exchange | New South Wales

Independence

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

Auditor's Opinion

In our opinion:

(a) the financial report of Newport Energy 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 31 December 2010 and of it's performance for the period ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in the Directors' Report for the period ended 31 December 2010. The Directors of the Consolidated Entity are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Newport Energy Limited for the period ended 31 December 2010 complies with Section 300A of the *Corporations Act 2001*.

Emphasis of Matter - Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to the financial statements, which indicates that the Consolidated Entity recorded an operating loss of $1,748,564 for the period ended 31 December 2010. This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Consolidated Entity's ability to continue as a going concern, and therefore whether it may realise its assets and extinguish its liabilities in the ordinary course of business and at the amounts stated in the Financial Report.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the Consolidated Entity be unable to continue as a going concern.

PKF

Bruce Gordon
Partner

Sydney
1 March 2011

CORPORATE GOVERNANCE STATEMENT

As a the Company aims to listed on the Australian Securities Exchange (ASX) in due course, it has elected to report on its main corporate governance practices by reference to the principles and recommendations of the ASX Corporate Governance Council.

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

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

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

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

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

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

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

Formal evaluation of senior executives is undertaken on an annual basis by the Managing Director who provides appropriate feedback to individual employees and recommendations to the Board in respect of remuneration. Performance evaluations were undertaken in November 2010 in conjunction with a review of remuneration arrangements.

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

The Company has provided this information.

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

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

The composition of the Board is subject to periodic review.

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

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

Kay Philip ONM – Chairman

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

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

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

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

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

David Williams – Managing Director

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

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

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

Graham Holdaway – Non Executive Director

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

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

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

RECOMMENDATION 2.2 - The Chairperson should be an independent Director.

Ms. Philip is the Chairperson and an independent Director.

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

Ms. Philip is the Chairperson and Mr. David Williams is the Managing Director.

RECOMMENDATION 2.4 - The Board should establish a Nomination Committee.

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

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

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

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

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

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

The Company has adopted a Board Charter which provides for the performance evaluation of the Board, its Committees and individual Directors including:
(a) an individual performance assessment for each Director on an annual basis;
(b) reviewing the performance and effectiveness of the Board as a whole;
(c) reviewing and implementing governance practices designed to enhance the Board's effectiveness;
(d) comparing the Board's practices with the Board Charter requirements;
(e) identifying any desirable enhancements to the Board Charter; and
(f) determining the Board's principal objectives for the following year.

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

The Company has provided this information.

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

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

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

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

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

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

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

The policy is to be reproduced on the Company's website.

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

The Company has provided this information.

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

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

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

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

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

- **consists only of non-executive directors;**
- **consists of a majority of independent directors;**
- **is chaired by an independent chair, who is not chair of the Board;**
- **has at least three members.**

The Company has established an Audit Committee which is comprised only of non-executive and independent directors. However the committee does not fully meet with the requirements of this recommendation as the committee has only two members. This is due to the limited number of directors available to form this committee and the responsibilities of each of the directors.

The Audit Committee is comprised of two independent Non-Executive Directors (Graham Holdaway and Kay Philip) and the chairman of the Committee (Mr Holdaway) is not the Chairman of the Board. Their qualifications, expertise and experience are set out in Recommendation 2.1 above. Other Directors, management and external auditors may be invited to attend Audit Committee meetings at the discretion of the Audit Committee.

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

The Audit Committee met formally on one occasion during the financial period ended 31 December 2010. Both Mr. Holdaway and Ms. Philip attended this meeting.

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

The Company has not yet established a formal Audit Committee Charter. The Composition of the Audit Committee is set out in the Board Charter.

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

The Company has provided this information.

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

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

Although the Company has not yet listed on the ASX, its Directors and staff are aware of the ASX's continuous disclosure requirements and operate in an environment where strong emphasis is placed on full and appropriate disclosure.

The Chairman & Managing Director is responsible for interpreting and monitoring the Company's disclosure policy and where necessary informing the Board. The Company Secretary will be primarily responsible for all communications with the ASX.

CORPORATE GOVERNANCE STATEMENT

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

The Company has provided this information.

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

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

As a matter of practice, information is communicated to shareholders through Newsletters and will in the future be based upon compliance with ASX Listing Rules and the Corporations Act 2001, by way of announcements to the ASX, media releases, the Annual Report, Half-Yearly Report. The Annual General Meeting and other meetings may also be called from time to time. The Company maintains a website which provides a description of the Company's projects.

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

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

The Company has provided this information.

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

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

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

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

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

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

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

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

RECOMMENDATION 7.3 - **The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration required in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting issues.**

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

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

The Company has provided this information.

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

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

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

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

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

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

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

The Managing Director is engaged on a consulting retainer basis for approximately half of his normal working time. The Managing Director is entitled to performance payments calculated on an implied farmout value basis to reflect the current circumstances of the Company.

All employees receive a base salary (which is based on factors such as length of service and experience) and superannuation. Retention payments and performance payments have been agreed to in the case of the Company's Exploration Manager to reflect the current circumstances of the Company. These arrangements are to be replaced by an Overriding Royalty if approved by shareholders at a general meeting of the Company.

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

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

The Company has provided this information.

TENEMENT SCHEDULE

TENEMENT	**Location**	*STATUS*	**Date Granted**	**Renewal Date**	**Area (sq km) (unless otherwise specified)**	**Registered Holder / Applicant**
PPL 326	Eastern Papuan Basin, Papua New Guinea	Granted/ Current	27/8/09	27/8/15	16,752 (200 graticular blocks)	Newport Energy (PNG) Ltd