

AMBRE ENERGY LIMITED – CONSOLIDATED ENTITY

ACN 114812074

Notes to the financial statements

Note 1: Statement of Significant Accounting Policies

The consolidated financial report of Ambre Energy Limited and its controlled entities for the financial year ended 30 June 2010 comprises Ambre Energy Limited and its controlled entities (together referred to as the consolidated entity). Ambre Energy Limited (the parent) is an unlisted public company incorporated in and domiciled in Australia.

Basis of preparation

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

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report 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.

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

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

Accounting Policies

(a) Principles of Consolidation

A controlled entity is any entity Ambre Energy Limited has the power to govern the financial and operating policies so as to obtain benefits from its 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.

A list of controlled entities is contained in Note 11 to the financial statements. All controlled entities have a June financial year end.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

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 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.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits and losses are eliminated in preparing the financial statements. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those policies applied by the parent entity.

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Notes to the financial statements (continued)

Note 1: Statement of Significant Accounting Policies (cont'd)

Business combinations

Business combinations occur where control over another business is obtained 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. 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 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. All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

(b) Income tax

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

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. 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 as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

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

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. 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, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where

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Notes to the financial statements (continued)

Note 1: Statement of Significant Accounting Policies (cont'd)

(b) Income tax (cont'd)

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.

Tax Consolidation

Ambre Energy Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. Each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax liabilities assets resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax liability of each group entity is then subsequently assumed by the parent entity. The group notified the Australian Taxation Office that it had formed an income tax consolidated group to apply from 20 October 2006.

(c) Property, plant and equipment

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

Property

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

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

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of 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.

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Notes to the financial statements (continued)

Note 1: Statement of Significant Accounting Policies (cont'd)

(c) Property, plant and equipment (cont'd)

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 income statement 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 land is depreciated on a straight-line basis over their useful lives to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

Class of Fixed Asset	Depreciation Rate
Buildings	0-33%
Plant and Equipment	5-100%
Leasehold Improvements	5-20%

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

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

Gains and losses on disposal 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 reserve relating to that asset are transferred to retained earnings.

(d) Exploration and Development 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

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Notes to the financial statements (continued)

Note 1: Statement of Significant Accounting Policies (cont'd)

(d) Exploration and Development Expenditure (cont'd)

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.

(e) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated entity are classified as finance leases.

Finance leases are capitalised by recording an asset and liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(f) Financial Instruments

Initial recognition and 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 either of fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

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

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future

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Notes to the financial statements (continued)

Note 1: Statement of Significant Accounting Policies (cont'd)

(f) Financial Instruments (cont'd)

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.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Financial liabilities

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

Derivative instruments

The consolidated entity designates certain derivatives as either:
i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
ii) hedges of highly probable forecast transactions (cash flow hedges).

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Notes to the financial statements (continued)

Note 1: Statement of Significant Accounting Policies (cont'd)

(f) Financial Instruments (cont'd)

At the inception of the transaction the relationship between hedging instruments and hedged items, as well as the Group's risk management objective and strategy for undertaking various hedge transactions is documented.

Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items, are also documented.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of hedged assets or liabilities that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred to a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income.

Amounts accumulated in the hedge reserve in equity are transferred to the statement of comprehensive income in the periods when the hedged item will affect profit or loss.

Fair value

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

Impairment

At each reporting date, 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 impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

Financial guarantees

Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition.

The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and

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Notes to the financial statements (continued)

Note 1: Statement of Significant Accounting Policies (cont'd)

(f) Financial Instruments (cont'd)

—the maximum loss exposed if the guaranteed party were to default.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires 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 derecognised 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.

(g) Impairment of Assets

At the end of each reporting period, the consolidated entity assesses whether there is an 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 cost to sell and value in use, to the assets 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.

(h) Intangible Assets

Patents

Patents are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over their estimated useful lives. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes being recognised as a change in accounting estimate.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably. Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

(i) Foreign Currency Transactions and Balances

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of

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Notes to the financial statements (continued)

Note 1: Statement of Significant Accounting Policies (cont'd)

(i) Foreign Currency Transactions and Balances (cont'd)

Ambre Energy Limited and the presentation currency for the consolidated financial statements.

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 income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

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

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

- i. assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- ii. income and expenses are translated at average exchange rates for the period where this approximates the rate at the date of the transaction; and
- iii. 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.

(j) Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

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 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 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.

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Notes to the financial statements (continued)

Note 1: Statement of Significant Accounting Policies (cont'd)

(k) Provisions

Provisions are recognised in the balance sheet when the consolidated group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and that outflow can be reliably measured.

(l) Cash and cash equivalents

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

(m) Revenue

Revenue is measured at the fair value of consideration received or receivable, net of the amount of goods and service tax.

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

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers. All revenue is stated net of the amount of goods and services tax (GST)

(n) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and service tax (GST), except where an amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO, is included as a current asset or liability in the balance sheet.

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

(o) Presentation of financial statements

The Group applies revised AASB 101 *Presentation of Financial Statements (2007)*, which became effective for the Group as of 1 July 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income.

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(p) New Accounting Standards for Application in Future Periods

The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report:

AASB 9: Financial Instruments and AASB 2009–11: These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined the potential impact on the financial statements.

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Notes to the financial statements (continued)

Note 1: Statement of Significant Accounting Policies (cont'd)

(p) New Accounting Standards for Application in Future Periods (cont'd)

AASB 124: Related Party Disclosures: (applicable for annual reporting periods commencing on or after 1 January 2011): 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. No changes are expected to materially affect the Group.

AASB 2009–4, 5: Amendments to Australian Accounting Standards arising from the Annual Improvements Project; affects various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. No changes are expected to materially affect the Group.

AASB 2009–8: Amendments to Australian Accounting Standards — Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010): These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Group.

AASB 2009–10: Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010): 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.

AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010). 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.

(q) Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trend and economic data, obtained both externally and within the group.

Key Judgements

Included in the financial statements are intangibles (Note 13), mineral leases and capitalised exploration costs (Note 14) and a retort pilot plant (Note 12). The initial value of these assets has been determined by the directors after assessing the value of similar assets and the expected value of the assets (discounted) upon successful commercialisation of these assets. The directors believe that the amounts shown are recoverable and no provision for impairment needs to be made at 30 June 2010.

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Notes to the financial statements (continued)

Note 1: Statement of Significant Accounting Policies (cont'd)

(r) Going Concern

The financial statements have been prepared on a going concern basis. The Board acknowledges that without further funding the company will deplete its cash reserves before June 2011. The consolidated entity has raised significant funding of \$10.5 million since 30 June 2010 by way of redeemable convertible notes. The majority of the notes (\$10.0million) are repayable by 24 June 2011 if not converted into shares in the parent entity.

The company is currently preparing an Information Memorandum to raise further funds for working capital purposes. The company is also investigating a possible listing of all or part of the Group on the Australian Securities Exchange (ASX) to raise significant funding for its major projects in the 2011 calendar year when appropriate conditions exist.

Given these factors, the Board has assessed the resources available to the company and consequently believe that the company will be able to pay its debts as and when they fall due.

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Notes to the financial statements (continued)

Note 2: Revenue

	Note	2010 \$	2009 \$
Operating Activities			
— interest received		110,815	425,023
— other revenue		6,866	1,493
Total revenue		117,681	426,516
Non-operating Activities			
— assignment of mineral leases		-	64,477
		-	64,477

Note 3: Profit for the year

	Note	2010 \$	2009 \$
Expenses			
— Employee benefit expense		4,275,486	3,925,081
— Interest expense on financial liabilities			
— external parties		224,413	-
— Depreciation of property, plant & equipment	12a	1,235,585	1,324,901
— Amortisation of non current assets:			
— Intangible assets	13a	274,983	193,330
— Leasehold improvements	12a	17,216	6,130
— Share based payments	26	3,362,504	2,932,174
— Rental expense on operating leases		552,083	377,022
— Research & development costs		2,127,100	2,928,720
— Write-off of capitalised exploration expenditure	14a	134,199	-
— Loss on disposal of property, plant and equipment		10,365	32,039

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Notes to the financial statements (continued)

Note 4: Income Tax Expense

Note	2010 \$	2009 \$
a. The components of tax expense/(benefit) comprise:		
Current tax asset	(447,551)	-
Deferred tax asset	-	-
	<u>(447,551)</u>	<u>-</u>
b. The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2009: 30%)		
— consolidated group	(4,932,877)	(4,123,183)
	<u>(4,932,877)</u>	<u>(4,123,183)</u>
Add:		
Tax effect of amounts which are not deductible		
— Entertainment	5,458	10,508
— Fines & penalties	15	7
— Gifts and donations	2,326	3,231
— Share option expense	1,008,751	879,652
— Deferred tax assets not brought to account	3,916,327	3,494,043
	<u>-</u>	<u>264,258</u>
Less:		
Tax effect of:		
— Tax concessions (research and development)	(447,551)	(264,258)
Income tax attributable to entity	<u>(447,551)</u>	<u>-</u>
Where applicable, grants and tax concessions are accrued in the year in which they are receivable.		
Potential deferred tax assets at 30% attributable to unused tax losses and unrecognized temporary differences carried forward:		
	<u>9,750,493</u>	<u>5,834,166</u>

Potential deferred tax assets have not been brought to account because the Directors do not believe it is appropriate to regard realisation of the deferred tax as probable. These benefits will only be obtained if:

- the Consolidated Entity derives future assessable income of a nature and of an amount sufficient to enable benefit from deduction of the loss to be realised;
- and
- no changes in the tax legislation adversely affect the Consolidated Entity in realising the benefit from the deductions for the loss.

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Notes to the financial statements (continued)

Note 5: Interests of Key Management Personnel (KMP)

The totals of remuneration paid to KMP of the company and the Group during the year are as follows:

Note	2010 \$	2009 \$
— Short-term employee benefits	1,683,926	1,879,323
— Share-based payment	1,671,600	1,603,038
	<u>3,355,526</u>	<u>3,482,361</u>

Note 6: Auditors' remuneration

	2010 \$	2009 \$
Remuneration of the auditor of the parent entity for:		
— auditing or reviewing the financial report	52,635	76,714
— taxation services provided by related practice of auditor	24,890	20,867
	<u>77,525</u>	<u>97,581</u>

Note 7: Dividends

No dividends were paid or declared during the current or prior year.

Note 8: Cash and cash equivalents

Cash at bank and in hand	<u>2,909,037</u>	<u>4,297,221</u>
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Notes to the financial statements (continued)

Note 9: Trade and other receivables

	Note	2010 \$	2009 \$
CURRENT			
Interest receivable		-	779
GST receivable		124,015	79,240
FBT receivable		7,148	-
Security deposits refundable		10,000	-
		<u>141,163</u>	<u>80,019</u>

Note 10: Financial assets

NON-CURRENT			
Held to maturity investments	10a	131,088	-
		<u>131,088</u>	<u>-</u>

a. Held to maturity investments

Unlisted investments, at cost			
— option fees paid for freehold land		200,671	-
less options expired		(69,583)	-
		<u>131,088</u>	<u>-</u>

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Notes to the financial statements (continued)

Note 11: Controlled entities

a. Controlled entities consolidated

	Country of Incorporation	Percentage Owned (%)*	
		2010	2009
Subsidiaries of Ambre Energy Limited:			
Ambre Energy (Felton) Pty Ltd	Aust	100	100
Ambre Energy Exploration Pty Ltd	Aust	100	100
Ambre CTL Limited	Aust	100	-
Ambre EOR Pty Ltd	Aust	100	-
Ambre Pipelines Pty Ltd	Aust	100	-
Ambre Energy North America, Inc.	USA	100	100
AE Mining, LLC	USA	100	-
Ambre Energy Partners, Inc.	USA	100	100
Ambre Energy Technology, LLC	USA	100	100
Ambre Energy Exploration, LLC	USA	100	100
Ambre Energy Montana, LLC	USA	100	100
Ambre Energy Coal Marketing, LLC	USA	100	100

* percentage of voting power is in proportion to ownership

Note 12: Property, plant and equipment

	2010 \$	2009 \$
Land and buildings		
Freehold land		
At cost	966,604	966,604
Total land	<u>966,604</u>	<u>966,604</u>
Buildings & improvements		
At cost	259,188	170,000
Accumulated depreciation	(106,863)	(44,402)
Total buildings	<u>152,325</u>	<u>125,598</u>
Total land and buildings	<u>1,118,929</u>	<u>1,092,202</u>
Plant and equipment		
At cost	6,505,918	6,625,342
Accumulated depreciation	(4,123,374)	(3,100,569)
	<u>2,382,544</u>	<u>3,524,773</u>
Leasehold improvements		
At cost	89,031	92,997
Accumulated amortisation	(19,418)	(4,791)
Total Leasehold Improvements	<u>69,613</u>	<u>88,206</u>
Total Plant and Equipment	<u>2,452,157</u>	<u>3,612,979</u>
Total Property, Plant and Equipment	<u>3,571,086</u>	<u>4,705,181</u>

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Notes to the financial statements (continued)

Note 12: Property, plant and equipment (cont'd)

a. Movements in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	Freehold Land \$	Buildings \$	Leasehold Improvements \$	Plant and Equipment \$	Total \$
Consolidated Group:					
Balance at 1 July 2008			18,531	3,817,176	3,835,707
Additions	966,604	170,000	107,261	391,892	1,635,757
Disposals	-	-	(23,027)	(24,189)	(47,216)
Net exchange difference arising on translation of a foreign subsidiary into the presentation currency	-	-	(8,429)	620,393	611,964
Depreciation and amortisation expense (Note 3)		(44,402)	(6,130)	(1,280,499)	(1,331,031)
Balance at 30 June 2009	966,604	125,598	88,206	3,524,773	4,705,181
Additions	-	89,188	-	184,792	273,980
Disposals	-	-	-	(10,365)	(10,365)
Net exchange difference arising on translation of a foreign subsidiary into the presentation currency	-	-	(1,377)	(143,532)	(144,909)
Depreciation and amortisation expense (Note 3)	-	(62,461)	(17,216)	(1,173,124)	(1,252,801)
Balance at 30 June 2010	966,604	152,325	69,613	2,382,544	3,571,086

Note 13: Intangible assets

	2010 \$	2009 \$
Patents		
at cost	3,511,603	3,767,823
Accumulated amortisation	(715,003)	(509,591)
Net carrying value	2,796,600	3,258,232
Total intangible assets	2,796,600	3,258,232

a. Movements in carrying amounts

	Patents	
	2010 \$	2009 \$
Balance at the beginning of year	3,258,232	2,881,477
Patents allowed to lapse	(34,934)	-
Amortisation charge (Note 3)	(274,983)	(193,330)
Net exchange difference arising on translation of a foreign subsidiary into the presentation currency	(151,715)	570,085
Closing value at 30 June 2010	2,796,600	3,258,232

Patents owned by the consolidated group have finite useful lives between 17 and 25 years. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the income statement.

Patents and provisional patents owned by the consolidated group are set out below:

Title	Country
Retort heating apparatus & methods	US

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Notes to the financial statements (continued)

Note 14: Exploration and evaluation assets

	Note	2010 \$	2009 \$
Mineral leases & exploration expenditure capitalised			
— Exploration and evaluation phases- Felton, Queensland, Australia	14a	6,852,216	6,373,642
— Exploration and evaluation phases- Utah, United States of America	14b	22,599,042	23,738,184
Total exploration expenditure		<u>29,451,258</u>	<u>30,111,826</u>
		<u>29,451,258</u>	<u>30,111,826</u>

a. Movements in carrying amounts

	2010 \$	2009 \$
Opening balance	6,373,642	4,294,234
Exploration expenditure capitalised	612,773	2,079,408
Exploration costs written off (Note 3)	(134,199)	-
Closing Balance	<u>6,852,216</u>	<u>6,373,642</u>

Capitalised costs amounting to \$612,773 (2009:\$2,079,408) have been included in cash flows from investing activities in the statement of cashflows.

b. Movements in carrying amounts

	2010 \$	2009 \$
Opening balance	23,738,184	19,258,707
Fair value uplift of mineral leases acquired	-	749,711
Assignment of leases to third parties	-	(10,520)
Net exchange difference arising on translation of a foreign subsidiary into the presentation currency	(1,139,142)	3,740,286
Closing balance	<u>22,599,042</u>	<u>23,738,184</u>

Recoverability of the carrying amount of exploration assets is dependent on the successful exploration and commercial exploitation, or alternatively, sale of the respective areas of interest.

Note 15: Other assets

	2010 \$	2009 \$
CURRENT		
Deposits paid	25,060	6,162
Other	-	5,318
Prepayments	146,836	43,257
	<u>171,896</u>	<u>54,737</u>
NON-CURRENT		
Deposits paid	61,329	65,752
Note Receivable	9,320	10,520
Cash backed bank guarantees	15a 172,920	172,920
	<u>243,569</u>	<u>249,192</u>

a. Restricted cash deposited with a bank as security under an office lease

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Notes to the financial statements (continued)

Note 16: Trade and other payables	Note	2010	2009
		\$	\$
CURRENT			
Trade payables		203,612	238,234
Sundry payables and accrued expenses		461,869	307,443
Amounts payable to:			
— key management personnel related entities		-	27,614
		665,481	573,291

Note 17: Employee Entitlements

	Short-term employee benefits	Long-term employee benefits
	\$	\$
Opening balance at 1 July 2009	110,294	17,882
Additional provisions	215,004	6,435
Amounts used	(181,987)	(6,951)
Balance at 30 June 2010	143,311	17,366

Analysis of total provisions

	2010	2009
	\$	\$
Current	143,311	110,294
Non-current	17,366	17,882
	160,677	128,176

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Notes to the financial statements (continued)

Note 18 : Borrowings

	Note	2010 \$	2009 \$
CURRENT			
Unsecured liabilities			
Redeemable convertible notes	18a	4,871,741	-
Total current borrowings		4,871,741	-
NON-CURRENT			
Unsecured liabilities			
Redeemable convertible notes	18b	83,444	-
Total non-current borrowings		83,444	-
Total borrowings		4,955,185	-

Redeemable convertible notes have been issued as a source of short-term finance for operational cashflow. The notes are redeemable or convertible to ordinary shares in the parent entity at the election of the noteholder.

a.

On 28 March 2010 the parent entity issued 6,250,000 convertible notes with a face value of \$0.80 per note, for total consideration of \$5,000,000 to a sophisticated investor. The notes were convertible into ordinary shares in the parent entity at a conversion rate of one share for each note. The notes have a redemption date of 28 March 2011 and interest rate of 10% per annum. As part of the note issue the investor was granted a first right of refusal to participate in a project subsidiary. Subsequent to year end, in order to facilitate an investment into the project subsidiary by another party the note holder and the parent entity entered into a deed of variation and termination under which the note holder surrendered its first right of refusal in exchange for a variation to the conversion rate for the notes. The deed provides that the conversion rate will now be 15 ordinary shares for every 10 notes held by the note holder, with interest also to be converted at the rate of 1 ordinary share for each \$0.5333 of interest owing. The deed becomes effective, and is conditional upon, the investment in the project subsidiary proceeding as anticipated.

The convertible notes are compound financial instruments. The present value of the liability component at initial recognition was \$4,650,074. The balance of \$349,926 was recognised in equity (see Note 19b). Interest accrued on notes since issue totals \$211,727. Also included under current liability is \$9,940 of interest payable within 12 months in relation to notes granted on 18 September 2009 (see Note 18b).

The liability component is based on a reasonable interest rate that the company would need to offer to pure debt investors had they not the opportunity to convert to equity. 17.68% is the effective interest rate which has been determined, should a company such as the parent entity require debt funding.

b. On 18 September 2009 the parent entity issued 142,000 notes with a face value of \$0.70 per note, for total consideration of \$99,400. The redemption date of the notes is 30 September 2011 and fixed interest of 10% per annum is payable quarterly in arrears.

The convertible notes are compound financial instruments. The present value of the liability component at initial recognition was \$86,534. The balance of \$12,866 was recognised in equity (see Note 19b). The present value of the liability at reporting date totals \$93,384.

The debt component is based on a reasonable interest rate that the company would need to offer to pure debt investors had they not the opportunity to convert to equity. 17.68% is the effective interest rate which has been determined, should a company such as the parent entity require debt funding.

\$5,099,400 has been included in cash flows from financing activities in the statement of cashflows.

Interest paid during the year in respect of convertible notes was \$5,310 and is included in cash flows from operating activities in the statement of cashflows.

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Notes to the financial statements (continued)

Note 19: Issued capital

Effective 1 July 1998 the corporations law abolished the concepts of authorised share capital and par value. Accordingly the parent entity has no authorised capital and its shares have no par value.

	Note	2010 No.	2009 No.
Ordinary Shares- issued	19a	287,382,633	276,213,100
		\$	\$
Ordinary shares- fully paid		64,305,685	58,944,309
Ordinary shares- deferred settlement		400,000	-
Issue costs		(208,060)	(196,540)
Issued capital		64,497,625	58,747,769
		No.	No.
a. Ordinary shares			
At the beginning of the reporting period		276,213,100	25,461,737
Effect of share sub-division 1:10 (26 November 2008)		-	248,573,790
Shares issued on equity settled transactions		11,169,533	2,177,573
At the end of the reporting period		287,382,633	276,213,100

During the year 11,169,533 shares were issued for a total net consideration of \$5,349,856.

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

	2010 No.	2009 No.
b. Redeemable convertible notes		
At the end of the reporting period	6,392,000	-
	\$	\$
The convertible notes are compound financial instruments (see Note 18a,b).	362,792	-

c. Options

For information relating to share options issued during the financial year, refer to Note 26 Share-based payments.

Capital Management

Management controls the capital of the group in order to ensure that the group can fund its operations and continue as a going concern. The group's capital includes ordinary share capital and redeemable convertible notes and there are no externally imposed capital requirements. Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of share issues to ensure adequate equity is raised as required. There have been no changes in the strategy adopted by management to control the capital of the group since the prior year.

Note 20: Reserves

a. Foreign currency translation reserve

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

b. Option reserve

The Option Reserve records items recognised as expenses on valuation of share options.

AMBRE ENERGY LIMITED – CONSOLIDATED ENTITY

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Notes to the financial statements (continued)

Note 21: Capital and leasing commitments

These commitments are not provided for in the financial report and are payable:

a. Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements.

Payable — minimum lease payments

	2010 \$	2009 \$
— Not later than 12 months	569,953	568,458
— One year or later and not later than five years	2,152,531	2,394,146
— Later than five years	68,886	492,020
	<u>2,791,370</u>	<u>3,454,624</u>

The operating lease commitments relate to non-cancellable office property leases in Australia and the United States of America. The leases allow for subletting of all lease areas. Options exist under both leases for further terms of 7 and 5 years respectively.

Financial guarantees

Related party guarantees provided by the parent entity:

The parent entity has provided a guarantee to a third party in relation to the performance and obligations of the controlled entity, Ambre Energy North America, Inc., in respect to a property lease rental. The guarantee is for the term of the lease and represents a financial commitment of \$840,645 as at 30 June 2010. In addition a cash backed guarantee of \$172,290 (see Note 15a) is held as security for performance and obligations of the parent entity in respect to a property lease rental.

b. Exploration expenditure commitments

The consolidated entity has certain statutory obligations to undertake a minimum level of exploration activity in order to maintain rights of tenure to its exploration licenses. These obligations may vary from time to time in accordance with the type of tenements held and are expected to be fulfilled in the normal course of operations of the consolidated entity to avoid forfeiture of any tenement.

	2010 \$	2009 \$
Exploration Commitments Payable:		
— Not later than 12 months	220,000	420,000
— One year or later and not later than five years	730,000	640,000
Tenement & Mineral Lease rental payable:		
— Not later than 12 months	75,933	83,182
— One year or later and not later than five years	238,786	266,753
— Later than five years	280,099	373,998
	<u>1,544,818</u>	<u>1,783,933</u>
c. Fees payable on Pilot Plant site, Utah, United States:		
— Not later than 12 months	3,872	4,662
— One year or later and not later than five years	15,488	18,649
— Later than five years	64,854	41,961
	<u>84,214</u>	<u>65,272</u>

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Notes to the financial statements (continued)

Note 21: Capital and leasing commitments (cont'd)

d. **Other commitments**

On the 1st April 2009 the parent entity and the University of Utah, a body politic and corporate of the State of Utah, United States, amended the research agreement originally dated the 14th May 2007. This amendment reduced the total amount payable to the University to \$US 2,147,921 for performance of the Research under the Agreement. The agreement has been extended to 13 May 2011. This agreement may be terminated by either party at any time, by giving written notice to the other party. Such termination will be effective thirty days after receipt of such notice. Termination of the agreement will not relieve either party of any obligation or liability accrued prior to such termination.

This net commitment is shown below:

	2010 \$	2009 \$
— Not later than 12 months	427,636	1,056,483

- e. Under an agreement for the purchase of land and buildings in Felton, Queensland, Australia entered into on 22 August 2008, the parent entity must allocate \$100,000 worth of shares upon an IPO by the company, based on the issue price of the shares in the prospectus, to the vendor of the land and buildings.

Note 22: Contingent liabilities and contingent assets

The Company does not believe it has any material contingent liabilities or contingent assets.

Note 23: Related party transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Details of transactions between the reporting entity and its related parties are as follows:

a. **Loans with wholly owned subsidiaries**

Loans made between the parent entity and wholly owned subsidiaries are non interest bearing.

b. **Other related parties**

The company entered into an arrangement with Emerald Investments Pty Ltd, a related party of Mr J Russell, exploration manager of Ambre Energy Limited for the provision of industrial storage. Amounts paid to Emerald investments totalled \$6,240 during the financial year (2009:\$9,740).

Accounting fees were paid to the Ritchie Group, LC a related party of Mr P Ritchie (Director). The total of these fees were \$USD 25,468. (2009:\$USD 60,932).

Remuneration paid to Directors of the company is included under Note 5.

Note 24: Segment reporting

The Group is not required to disclose segment information.

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Notes to the financial statements (continued)

Note 25: Cash flow information

	Note	2010 \$	2009 \$
a. Reconciliation of cash flow from operations with profit after income tax			
Profit/(loss) after income tax		(15,995,372)	(13,743,945)
Cash flows excluded from profit attributable to operating activities			
Non-cash flows in profit			
Amortisation		292,199	199,460
Depreciation		1,235,585	1,324,901
Share based payments		3,362,504	2,932,174
Net loss on disposal of property, plant & equipment		10,365	32,039
Net loss/(gain) on disposal of other assets		104,517	(64,477)
Exchange differences not related to operating activities		60,010	(543,963)
Other equity settled transactions		193,689	
Write-off of capitalised expenditure		134,199	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries			
(Increase)/decrease in trade and term receivables		(16,369)	4,756
(Increase)/decrease in other assets		(112,736)	(20,993)
Increase/(decrease) in trade payables and accruals		(27,288)	(233,981)
Increase/(decrease) in income taxes payable		(447,551)	-
Increase/(decrease) in financial liabilities		218,576	-
Increase/(decrease) in provisions		32,500	61,183
Cashflow from operations		<u>(10,955,172)</u>	<u>(10,052,846)</u>
b. Acquisition of entities			
During the 2009 year the remaining 7% of issued capital plus outstanding options and rights of the controlled entity Oil-Tech, Inc. was acquired and merged into Ambre Energy Partners, Inc.			
Opening Balance			
Purchase consideration		-	2,579,584
Equity consideration			-
Cash consideration		-	2,579,584
Less cash payable (included under note 16 sundry payables)		47,426	80,627
Cash outflow		33,201	2,498,957
Assets and liabilities held at acquisition date:			
Cash and Cash equivalents		-	1,523
Investment in Ambre Energy Technology, LLC, at fair value		-	28,377,483
		-	28,379,006
c. Credit facilities			
The consolidated group has no unused credit facilities with banks or other financial institutions.			
d. Non-cash financing and investing activities			
i) Share issues:			
Non cash equity movement represented by:			
- During the year 403,519 shares were issued at \$0.48 per share, for total consideration of \$193,689 in lieu of employee bonuses payable for the 2009 calendar year.			

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Notes to the financial statements (continued)

Note 26: Share-based payments

During the period a further 10,200,000 options were issued to employees under the Company's employee share option plans (2,680,000 options lapsed during the period). The vesting of 2,400,000 of the options granted is conditional upon the grantee being an employee of the company or one of its related entities on the relevant vesting date.

All options granted are for ordinary shares in Ambre Energy Limited, which confer a right of one ordinary share for every option held. The Board has discretion to allow for the transfer of employee options in special circumstances. The options hold no voting or dividend rights.

	2010		2009	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding at the beginning of the year	70,500,000	0.27	5,830,000	
Effect of subdivision 1:10	-		52,470,000	0.22
Granted	10,200,000	0.55	12,200,000	0.48
Expired	(2,680,000)	0.48	-	-
Outstanding at year-end	78,020,000	0.29	70,500,000	0.27
Exercisable at year-end	71,250,000	0.28	62,100,000	0.21

The options outstanding at 30 June 2010 had a weighted average exercise price of \$0.29 and a weighted average remaining contractual life of 2.2 years. Exercise prices range from \$0.20 to \$0.60 in respect of options outstanding at 30 June 2010.

The weighted average fair value of the options granted during the year was \$0.34

This price was calculated by using a Black-Schols option pricing model applying the following inputs:

Weighted average exercise price	0.48-0.60
Weighted average life of the option	3-6 years
Underlying share price	\$0.48
Expected share price volatility	85.5%
Risk free interest rate	5.1-5.6%

Due to the company's low trading volumes over recent times, it is the view of the company's management that the future expected volatility is better represented by an average volatility of similar companies listed on the Australian Securities Exchange. An analysis of similar listed companies provides a volatility of 85.5%.

Included under share-based payments in the income statement is \$3,362,504 (2009:\$2,932,174). These amounts relate, in full, to equity-settled share-based payment transactions.

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Notes to the financial statements (continued)

Note 27: Events after the reporting period

i) Subsequent to reporting date the following wholly owned subsidiaries were created to prepare for acquisitions and facilitate fundraising in specific projects within the group.

Name of subsidiary	Country of incorporation
AE Minerals Limited ACN 145 616 833	Australia
AE Group Holdings, Inc.	USA
AE Coal, Inc.	USA
Millennium Bulk Logistics, Inc.	USA
Millennium Bulk Terminals-Longview, LLC	USA

ii) Subsequent to reporting date, the parent entity issued a further 625,000 unsecured convertible notes to a sophisticated investor for a total consideration of \$500,000. Issue price per note was \$0.80 and entitles the holder to an interest rate of 10% per annum on the issue price. Noteholders may elect to convert their notes at any time. Any notes not converted by the redemption date, being 12 months after the issue date, must be redeemed by the Company at the issue price on the redemption date.

iii) On 17 August 2010, subsidiary Millennium Bulk Terminals-Longview, LLC ("MBTL") executed a binding Asset Purchase Agreement to acquire certain leases, assets and contracts comprising a private bulk terminals business located at Longview in Cowlitz County, Washington, USA. The closing date for this transaction has been extended on a number of occasions to allow more time for certain contract conditions to be satisfied, in particular, receipt of consent from the Washington Department of Natural Resources to an assignment to MBTL of a sublease under an aquatic lease required to operate the terminal.

On 23 November 2010, Cowlitz County commissioners voted unanimously to approve a shoreline permit which would allow MBTL to upgrade the terminal facility to handle coal and other bulk commodities more safely and efficiently. On 13 December 2010, an appeal against the approval was lodged by certain environmental groups with the Shorelines Hearings Board. MBTL proposes to begin construction if and when the appeal is dismissed.

To assist with funding for the acquisition and development of the terminal facility, the group has granted an option to a US company to acquire a 35% equity interest in MBTL. The Group intends listing its securities through an IPO on a recognised stock exchange in 2011 to raise the capital required for its share of the development costs, whilst also seeking debt funding to support the terminal development.

iv) Subsequent to reporting date, wholly owned subsidiary AE Minerals Limited issued 12,500,000 convertible notes to a sophisticated investor for a total consideration of \$10,000,000. Issue price was \$0.80 per note. Under the note deed, the note holder was entitled to an interest rate of 12% per annum on the issue price from 18 October 2010. The notes were convertible to 16,020 fully paid shares in a US subsidiary AE Group Holdings, Inc. If not converted, the notes were redeemable on 31 January 2011 with interest. In December 2010 it was agreed in principle between the relevant parties to terminate the existing deed and replace with a new note deed. Documentation to record the new arrangements is being finalised. Key terms of the new arrangements include that no interest is payable under the terminating note deed, interest under the new deed will accrue from 7 January 2011 at the rate of 10% per annum, and each of the 12,500,000 notes may be converted into one share in Ambre Energy Limited (AEL), at the note holder's election. If the notes are not converted into shares, AEL must redeem the notes on 24 June 2011 including any unpaid interest.

v) On 27 August 2010 a subsidiary, Ambre Energy Felton Pty Ltd exercised an option which was entered into on 19 August 2009 to purchase land and buildings in Felton, Queensland, Australia. The property purchase completion date is 30 April 2011.

The financial report was authorised for issue on 24 December 2010 by the board of directors.

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Notes to the financial statements (continued)

Note 28: Financial risk management

The Group's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable and redeemable convertible notes.

Consolidated Group	Floating Interest Rate		Non- Interest Bearing	
	2010	2009	2010	2009
Financial assets:	\$	\$	\$	\$
- Cash and cash equivalents	2,909,037	4,297,221	-	-
- Receivables	-	-	141,163	80,019
- Other assets	172,920	172,920	-	-
Total financial assets	3,081,957	4,470,141	141,163	80,019

Weighted average effective interest rate	3.62%	2.53%	-	-
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Financial liabilities:	Fixed Interest Rate		Non- Interest Bearing	
	2010	2009	2010	2009
Financial liabilities at amortised cost	\$	\$	\$	\$
- Trade and sundry payables	-	-	665,481	545,677
- Redeemable convertible notes	4,955,185	-	-	-
- Amounts payable to related parties	-	-	-	27,614
Total financial liabilities	4,955,185	-	665,481	573,291

Weighted average effective interest rate	10.00%	-	-	-
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Financial liabilities are expected to be paid as follows:	2010	2009
Less than six months	\$ 665,481	\$ 573,291
Less than a year	4,955,185	-

Financial Risk Management Policies

The Audit and Risk Committee (ARC) has been delegated responsibility by the Board of Directors for, amongst other issues, monitoring and managing financial risk exposures of the Group. The ARC reviews the effectiveness of internal controls relating to currency risk, financing risk and interest rate risk. Minutes of the ARC are reviewed by the Board.

The ARC's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, while minimising potential adverse effects on financial performance. Its functions include the review of the use of hedging derivative instruments, and future cash flow requirements.

Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk.

a. Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at reporting date 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.

AMBRE ENERGY LIMITED – CONSOLIDATED ENTITY

ACN 114812074

Notes to the financial statements (continued)

Note 28: Financial instruments (cont'd)

b. Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities
- obtaining funding from a variety of sources
- maintaining a reputable credit profile
- managing credit risk related to financial assets
- investing only in surplus cash with major financial institutions

Financial assets pledged as collateral:

Certain financial assets have been pledged as security for contract guarantees and their realisation into cash may be restricted subject to the terms and conditions of the contract. Refer to Note 21 (a) for further details.

c. 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 US Dollar may impact on the Group's financial results unless those exposures are appropriately hedged.

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

Net financial assets/(liabilities) in AUD

	2010	2009
Functional currency of the Group Entity	\$	\$
AUD	(2,292,094)	3,766,771
USD	(105,452)	210,098
Total	<u>(2,397,546)</u>	<u>3,976,869</u>

AMBRE ENERGY LIMITED – CONSOLIDATED ENTITY

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Notes to the financial statements (continued)

Note 28: Financial risk management (cont'd)

d. Credit risk

The maximum exposure to credit risk, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

There are no material amounts of collateral held as security at 30/06/2010.

The consolidated group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the consolidated group. Credit risk related to balances with banks and other financial institutions is managed by the ARC. The following table provides information regarding credit risk relating to cash and money market securities based on Standard & Poor's counter party credit ratings.

	2010	2009
	\$	\$
Cash and cash equivalents excluding cash on hand		
— AA rated	2,786,816	3,990,595
— AA- rated	120,738	305,160
	<u>2,907,554</u>	<u>4,295,755</u>

e. Net Fair Values

The net fair values of:

- Assets and liabilities are carried at their approximate carrying value
- No financial Assets and financial liabilities are readily traded on organised markets in standardised form

Sensitivity Analysis

The following table illustrates sensitivities to the Group's exposures to changes in exchange rates. The table indicates the impact on how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

	Profit	Equity
	\$	\$
Year ended 30 June 2010		
— +/- 10% in \$AUD/\$USD	+/- 506,000	+/- 506,000
Year ended 30 June 2009		
— +/- 10% in \$AUD/\$USD	+/- 426,000	+/- 426,000

Note 29: Company details

Ambre Energy Limited's registered office and its principal place of business is as follows:

Level 27
AMP Place
10 Eagle Street
BRISBANE QLD 4000 AUSTRALIA

AMBRE ENERGY LIMITED – CONSOLIDATED ENTITY

ACN 114812074

Notes to the financial statements (continued)

Note 30: Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2010 the parent company of the Group was Ambre Energy Limited.

	2010 \$	2009 \$
Financial position of parent entity at reporting date		
Current assets	22,043,945	15,542,852
Total assets	55,610,309	49,061,228
Current liabilities	5,377,891	455,083
Total liabilities	5,478,700	472,965
Total equity of the parent entity comprising of:		
Share capital	64,860,417	58,747,769
Share-based payment reserve	14,576,940	11,214,436
Retained earnings	(29,305,748)	(21,373,942)
Total equity	50,131,609	48,588,263
Result of the parent entity		
Profit/(loss) for the year	(7,931,806)	(13,739,378)
Total comprehensive income	(7,931,806)	(13,739,378)
Parent entity commitments for operating leases		
Non-cancellable operating leases contracted for but not capitalised in the financial statements	2010 \$	2009 \$
Payable — minimum lease payments		
— not later than 12 months	343,984	338,006
— One year or later and not later than five years	1,537,854	1,511,127
— Later than five years	68,886	492,020
	1,950,724	2,341,153

Guarantees

The company has provided bank guarantees totalling \$172,920 (2009: \$172,920) in respect of the Company's Brisbane head office. These amounts are secured by bank deposits to the value of \$172,920 (2009: \$172,920)

Refer to Note 21(a) for details of other guarantees provided by the Company.

AMBRE ENERGY LIMITED – CONSOLIDATED ENTITY

ACN 114812074

Directors' declaration

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 39 to 72, are in accordance with the *Corporations Act 2001* and;
 - (a) comply with Accounting Standards; and
 - (b) give a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date of the Consolidated Entity;
2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Edward (Edek) Choros

Director

Brisbane 24 December 2010



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF AMBRE ENERGY LIMITED

Grant Thornton Audit Pty Ltd
ABN 91 130 913 594
ACN 130 913 594

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Queensland 4001

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F + 61 7 3222 0444
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W www.grantthornton.com.au

We have audited the accompanying financial report of Ambre Energy Limited (the "Company"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial report and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation 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 are 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. The directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards which require us to 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.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Auditor's opinion

In our opinion

- 1 The financial report of Ambre Energy Limited is in accordance with the Corporations Act 2001, including:
 - a giving a true and fair view of the Company's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - b complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- 2 The financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

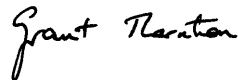
Material Uncertainty Regarding the Recoverability of Certain Assets and Going Concern

Without qualifying our opinion, the financial report includes patents (\$2,796,600 – note 13), capitalised exploration costs and mineral leases (\$29,451,258 – note 14) and the pilot retort plant (\$1,777,803 – note 12), valued by the directors using a fair value methodology. In addition, the parent entity assets at Note 30 includes investments in subsidiaries (\$33,111,376) and amounts receivable (\$18,769,430) from subsidiaries.

The ultimate recovery of the above asset balances by the consolidated entity and parent entity is dependent upon accessing sufficient equity and / or debt funding to successfully commercialise the patented technologies and mineral leases owned by the group.

The consolidated entity has recorded a loss of \$15,995,372 for the year. As detailed in Note 1(r), the Board has forecast that without further funding the group will deplete its current cash reserves by June 2011. As detailed in note 27, subsequent to year end, the company raised additional funding by way of redeemable convertible notes, which if not repaid by 24 June 2011 are convertible into shares in the parent entity. The Board is currently seeking further funding via an Information Memorandum. The group is also planning an ASX listing of some or all of the Group next year.

If this planned funding or alternative sources of capital are not obtained, there exists significant uncertainty whether Ambre Energy Limited and its controlled entities would be able to continue as a going concern and therefore may be forced to realise its assets and extinguish its liabilities other than in the normal course of business and at the amounts stated in the financial report.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

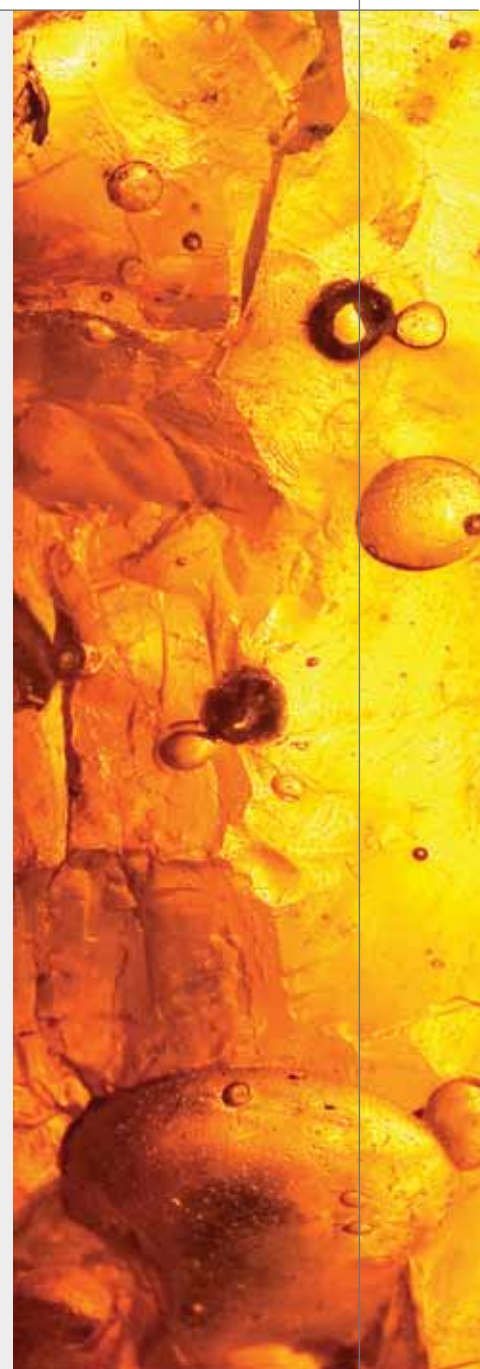


D J Carroll
Director – Audit & Assurance

Brisbane, 24 December 2010

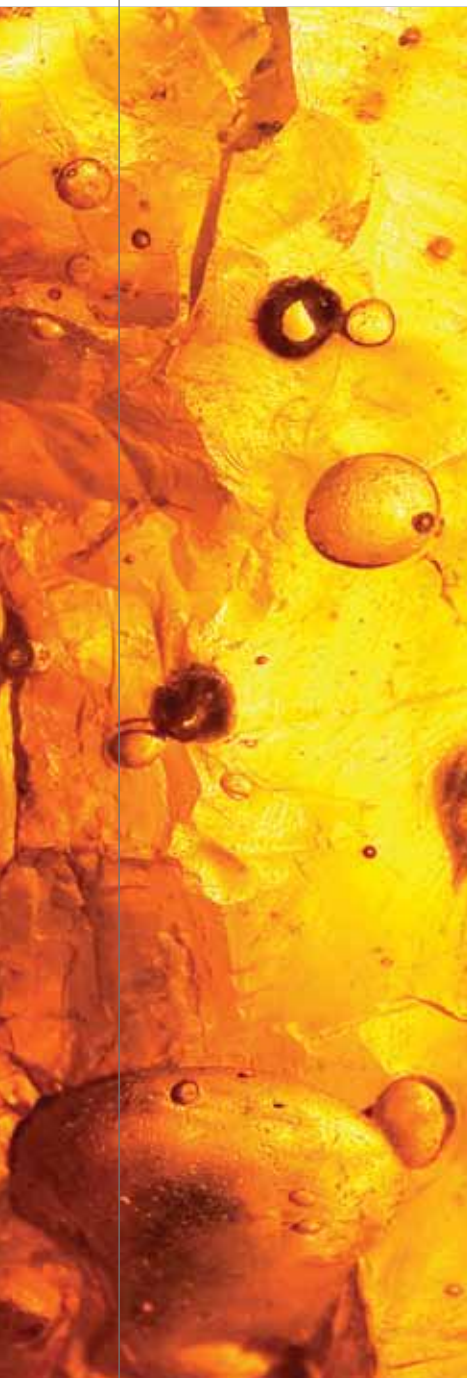
Glossary

AGM	Annual General Meeting
ASX	Australian Securities Exchange
catalyst	a substance, usually used in small amounts relative to the reactants, that modifies and increases the rate of a reaction
CEO	Chief Executive Officer
CFO	Chief Financial Officer
char	The solid material that remains after light gases (e.g. coal gas) and tar have been driven out or released from a carbonaceous material during the initial stage of combustion
CTL	coal-to-liquids
depolymerisation	see liquefaction
DME	dimethyl ether, a synthetic fuel and potential diesel substitute. It can act as a clean fuel when burned in engines properly optimised for DME
EIS	Environmental Impact Statement, the document produced for the Queensland Government from environmental impact assessment process
EPC	engineering, procurement and construction
EPC	Exploration Permit for Coal, granted by the Queensland Government
IAS	Initial Advice Statement, a document providing sufficient information about the nature and scope of a project to the Queensland Government
hydroprocessing	the catalytic upgrading of oil products, resulting in greater purity and stability
IPO	Initial Public Offering
JORC	(Australasian) Joint Ore Reserves Committee





▶ Brisbane office team members



lignin	an abundant organic polymer, it is commonly derived from wood, it is an integral part of the secondary cell wall of plants and can be found in some algae
lignite	a yellow to dark brown coal, formed from peat at shallow depths and temperatures lower than 100°C
liquefaction	a process to liquefy, or change from a solid or gaseous to liquid state
LPG	liquefied petroleum gas
ML	megalitres, ie. one million litres
ML/yr	megalitres per year
Mtpa	million tonnes per year
NO_x	nitrogen oxides, a binary compound of oxygen and nitrogen, typically produced during combustion at high temperatures
pyrolysis	decomposition of organic material at elevated temperatures in the absence of oxygen. Pyrolysis typically occurs at operating temperatures above 430 °C
thermochemical	the absorption or evolution of heat that accompanies chemical reactions
syngas	synthesis gas, a gas mixture that contains varying amounts of carbon monoxide and hydrogen; a fuel artificially made as opposed to natural gas, which is found in nature.
ULP	unleaded petrol, commonly referred to in the USA as gasoline