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MARENICA ENERGY LIMITED

ABN 71 001 666 600

ANNUAL FINANCIAL STATEMENTS

30 JUNE 2012

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CORPORATE INFORMATION

DIRECTORS

R Pearce (Non-executive Chairman)
D Sanders (Non-executive director)
G Becker (Non-executive director)
D Buerger (Non-executive director)
N Chen (Non-executive director)
S Yang (Non-executive director)

CHIEF EXECUTIVE OFFICER

M Hill

COMPANY SECRETARY

M van Uffelen

REGISTERED OFFICE

Ground Floor, 47 Colin Street
West Perth WA 6005
Tel: 61 8 9321 7355
Fax: 61 8 9321 7399

WEB SITE

www.marenicaenergy.com.au

AUDITOR

Rothsay Chartered Accountants
Level 18, Central Park Building
152-158 St Georges Tce
Perth WA 6000
Tel: 61 8 9227 0552

STOCK EXCHANGES

Australian Securities Exchange Limited – MEY
Namibia Stock Exchange – MEY
Various German Exchanges

HOME EXCHANGE

Perth

SHARE REGISTRY

Advanced Share Registry Services
150 Stirling Highway
Nedlands WA 6009
Tel: 61 8 9389 8033 Fax: 61 8 9389 7871

ASX CODE

MEY

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DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Marenica Energy Limited and the entities it controlled at the end of, or during, the year ended 30 June 2012.

DIRECTORS

The following persons were directors of Marenica Energy Limited during or since the end of the financial year and up to the date of this report. Directors were in office for the entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Robert Pearce – Non-executive chairman

Mr Pearce has been an Australian Chartered Accountant for over 40 years and has more than 25 years experience in the resource sector. Over that time, he has been a director (in some cases chairman) and held senior executive positions in several resource and industrial companies listed on the Australian, UK and US stock exchanges.

During the last three years, Mr Pearce has been a director of the following listed company:

- New Talisman Gold Mines Limited – appointed 11 April 2012, retired 31 July 2012

David Sanders

Mr Sanders is a lawyer with over 15 years experience in corporate and resources law. He advises numerous ASX listed companies, including companies in the resources sector, on capital raising, mergers and acquisitions, Corporations Act and ASX Listing Rules compliance and corporate governance. He holds Bachelor of Law and Bachelor of Commerce degrees from the University of Western Australia and a Graduate Diploma of Applied Finance and Investments from the Securities Institute of Australia.

During the last three years, Mr Sanders has been a director of the following listed companies:

- Golden West Resources Limited – appointed 27 November 2009, retired 30 January 2012
- Eclipse Metals Limited – appointed 2 December 2011, retired 6 July 2012

Gavin Becker

Mr Becker is a metallurgist with over 35 years industry experience. During that time he has worked in senior operational, R&D, feasibility study and consulting roles on lead/zinc, gold, uranium, copper and nickel mines and/or projects. He holds a Bachelor of Science (Engineering) degree from the University of London and completed his MBA at Bond University. Mr Becker is a fellow of the Australasian Institute of Mining and Metallurgy and is an Associate of the Royal School of Mines (UK).

Directorships in the past 3 years: None

Douglas Buerger

Mr Buerger specialises in exploration, geochemistry and geology. He has extensive industry experience in project management, general management and executive management roles. Most recently he held the position of Managing Director and CEO of Bendigo Mining Limited until his retirement in 2007.

During the last three years, Mr Buerger has been a director of the following listed company:

- New Talisman Gold Mines Limited – appointed 26 April 2012, retired 1 August 2012

DIRECTORS' REPORT (continued)

DIRECTORS (continued)

Nelson Chen (appointed 6 October 2011), (retired on 30 November 2011), (appointed 30 November 2011)

Mr Chen has served as Chief Operating Officer of Hanlong (Australia) Resources Pty Ltd since March 2010. Mr. Chen has served as a director of Hanlong (Australia) Resources Pty Ltd since June 2010 and has served on the board of Moly Mines Limited as an alternate director to the principal of Hanlong Group since April 2010.

Prior to joining Hanlong, Mr. Chen was an Associate Director at the Sydney, Australia office of PricewaterhouseCoopers with experience in audit and M&A transaction advisory experience.

During the last three years, Mr Chen has been a director of the following listed company:

- Moly Mines Limited* – appointed 23 April 2010

* Denotes current directorship

Bo (Simon) Yang (appointed 1 June 2012)

Mr Yang is the Chief Financial Officer of Hanlong Resources Limited ("Hanlong"). He graduated from Si Chuan University in China with a bachelor's degree in physics and holds master degree of business and administration from the University of Queensland. Mr Yang is a member of the Australian Institute of Company Directors and has 15+ years business experience in Australia across a number of industries including marketing, mining and finance.

Directorships in the past 3 years: None

Calvin Zhu (retired 13 September 2011)

Mr Zhu has over 8 years of commercial experience spanning across Investment Banking, Management Consulting and Financial Analysis.

Directorships in the past 3 years: None

Directors' interests

The interests of directors in securities of the Company at the date of this report are:

Director	Fully Paid Ordinary Shares	Options
R Pearce	5,106,250	2,000,000
D Sanders	1,050,000	1,500,000
G Becker	1,675,000	1,500,000
D Buerger	1,305,000	1,500,000
N Chen	1,000,000	-
B Yang	-	-

DIRECTORS' REPORT (continued)

CHIEF EXECUTIVE OFFICERS

Murray Hill *(appointed 1 May 2012)*

Mr Hill has 27 years of experience in the mining industry. He is a very well respected metallurgist with extensive operating and process plant commissioning experience. He has also managed a metallurgical testwork laboratory, has been a Senior Process Engineer in a Perth based engineering group and is well experienced in uranium metallurgy. For the 11 years prior to joining the Company, Mr. Hill operated his own business providing metallurgical consulting services to the mining industry world-wide. Mr Hill is a fellow of the Australasian Institute of Mining and Metallurgy.

John Young *(resigned 30 November 2011)*

Mr Young is a geologist with experience in resource project management. He is a Member of the Australian Institute of Mining and Metallurgy and the Australian Institute of Company Directors and has worked on a wide variety of mineral and resource projects throughout Australia in operational and management roles.

He has held senior management and operational positions at Arrow Resources Management Pty Limited, Haddington Resources Limited, and as CEO and director of AIM and ASX listed Thor Mining PLC, a company focused in specialty metals.

COMPANY SECRETARIES

Michael van Uffelen *(appointed 1 December 2011)*

Mr van Uffelen holds a Bachelor of Commerce degree from the University of Western Australia and is a Chartered Accountant. He has more than 24 years accounting and finance experience gained with major accounting firms, investment banks and public companies, both in Australia and internationally.

Simon Robertson *(resigned 30 November 2011)*

Mr Robertson gained a Bachelor of Business from Curtin University in Western Australia and Master of Applied Finance from Macquarie University in New South Wales. He is a member of the Institute of Chartered Accountants and the Chartered Secretaries Australia. He currently holds the position of Company Secretary for a number of publically listed companies and has experience in corporate finance, accounting and administration, capital raisings and ASX compliance and regulatory requirements.

DIVIDENDS

No dividends have been provided for or paid by the consolidated entity in respect of the year ended 30 June 2012 (30 June 2011: Nil).

PRINCIPAL ACTIVITIES

The principal activity of the consolidated entity during the course of the financial year was the exploration and evaluation of mineral tenements in Namibia for uranium. There were no significant changes in the nature of the consolidated entity's principal activities during the year.

DIRECTORS' REPORT (continued)

OPERATING AND FINANCIAL REVIEW

Review of operations

During the year, the Company continued to focus on the exploration and development of its 75% owned Marenica Uranium Project, which is located in one of the world's emerging uranium "hot spots", the uranium-rich Damara Province in Namibia, southern Africa.

Marenica Uranium Project - Namibia

The Company's principal asset is the Marenica Uranium Project located in the uranium rich Damara Province in Namibia. The project covers 527km², with identified secondary uranium resources with high prospectivity for additional secondary uranium deposits.

The regional geology of this area consists of basin and dome tectonic features, where massive marbles of the Karibib Formation form three prominent domal structures, while steeply dipping biotite schists (Kuseb Formation) form the basins similar to that of the Rossing Mine. Potential to find a hard rock deposit is therefore encouraging. The recent discovery of uraninite bearing alaskites on the Marenica Project further enhances the hard rock potential of the area.

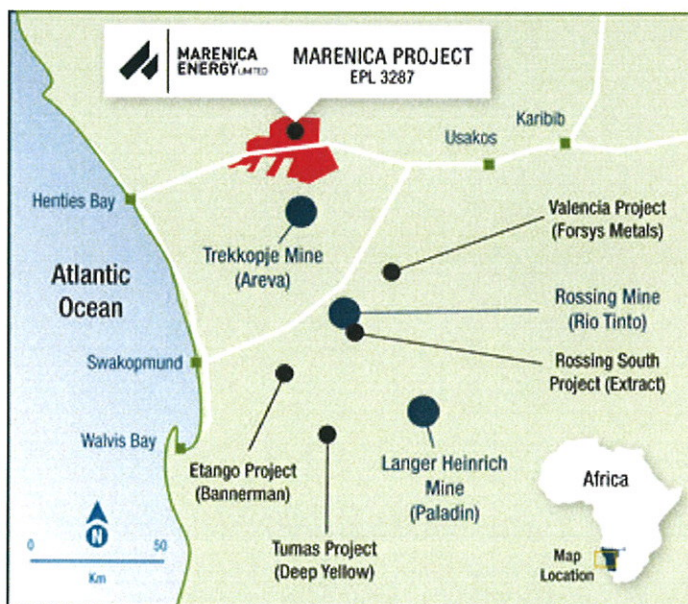


Figure 1: Marenica Project location

In April of 2006, Marenica Energy entered into a Joint Venture agreement approved by the Ministry of Mines and Energy on 31 May 2006, whereby it could earn an 80% interest in the project. Due to high uranium prices in the 1970's, Namibia underwent considerable exploration for uranium particularly along a 100km wide corridor extending east from the coast. The Geological Survey of Namibia flew several airborne radiometric surveys which outlined a number of potential targets. Rio Tinto, Anglo America and Goldfields all conducted exploration in the region that delineated hard rock, palaeochannel and calcrete deposits.

Previous exploration notably by the Goldfields Group of South Africa, over the north-east portion of the EPL, outlined several uranium mineralised areas. Over 32,000 metres of drilling was conducted in the delineation of secondary uranium deposits associated with palaeo drainage channels and weathered bedrock. Extensive metallurgical testwork was also undertaken and an historical resource estimated. Drill intersections included 9.7m at 980ppm eU₃O₈, 8.1m at 500ppm eU₃O₈ and 3m at 754ppm eU₃O₈. The collapse in the uranium price resulted in Goldfields withdrawing from the project at the end of 1982.

The Marenica uranium deposit predominantly comprises of calcrete paleochannel with a portion of the deposit comprising secondary mineralisation in the weathered basement bedrock.

DIRECTORS' REPORT (continued)

OPERATING AND FINANCIAL REVIEW (continued)

The uranium itself has been derived from granites and felsic material associated with the Damara Mobile Belt, which has been weathered within a semi-arid environment creating surficial deposits – typically incised valley-fill sediments along tertiary drainage channels. Leaching and transportation of uranium from the source rocks by oxidising, possibly alkaline, waters leads to leaching of uranium and migration. Neutralisation of these solutions by interactions with organic acids or carbon dioxide leads to the formation of surficial uranium deposits within calcretised channel and calcrete pedogenic soil horizons.

Two styles of mineralisation occur, namely secondary uranium (Carnotite) in the palaeochannel within the calcrete and gypsum sediments and also secondary uranium mineralisation associated with joints, planes and fractures within the basement rocks.

In November 2011, Optiro Pty Ltd (Optiro) completed a resource estimate for the Company. The estimate was constrained by a 20ppm grade envelope, for the purpose of ongoing feasibility studies for the deposit. The resource totals 276Mt grading 94ppm U_3O_8 comprising an Indicated Mineral Resource of 26.5Mt grading 110ppm U_3O_8 and an Inferred Mineral Resource of 249.6 Mt grading 92ppm U_3O_8 , for a combined total of 57 Mlbs of contained U_3O_8 (at a 50ppm cut-off grade).

The Commonwealth Scientific and Industrial Research Organisation (CSIRO) was engaged to undertake testing on the upgrade potential and characteristics of the Marenica deposit. The potential to significantly upgrade the ore by beneficiation, ahead of leaching, means the preferred process option is now tank leaching as opposed to heap leaching. This testwork concluded that the uranium mineralisation at Marenica has distinctive characteristics including that the uranium occurs as a single mineral, in a distinct size band, is well liberated and is heavier than the host rock. It indicates that the Marenica uranium deposit should be amenable to lower capital and operating cost metallurgical beneficiation processes than those previously considered. The Board believes that these characteristics present an opportunity to significantly concentrate the uranium, targeting levels in excess of 30 times at high recovery.

Successful implementation of the beneficiation processes, which are widely used in other industries, would reduce the amount of material to be leached and lower the capital and operating costs compared to conventional uranium processes – resulting in enhanced project economics.

Initial scoping level bench scale upgrade tests have produced encouraging results and a more advanced programme on bulk samples is now underway. Bulk samples were collected at 1m intervals from five test pits varying from a depth of 4 to 8m with sub samples from these pits dispatched to Perth and a nominal 2-3t of each 1m interval have been stored at site for future testwork requirements. The first bulk shipment arrived in the Perth and was sent to a metallurgical laboratory in early July for testing to commence.

In addition to the updated Marenica resource, a maiden resource estimate was also completed for the MA7 prospect. This resource totals 23Mt grading 81ppm U_3O_8 for a total of 4Mlbs of contained U_3O_8 (at a 50ppm cut-off grade).

The Exclusive Prospecting Licence (EPL) held by the Group expires on 30 November 2012. Application for extension was lodged on 22 August 2012.

Badgebup Gold Project – Western Australia

The Company has an entitlement to receive 1.125% of the gross production of gold and other minerals produced from the Badgebup Gold Project located in Western Australia.

Texas & Oklahoma Coal Company Limited (incorporated in the British Virgin Islands) (TOCC)

The Company invested \$191,838 for a 6.4% interest in TOCC. The investment is an early-stage entry and an opportunity to participate in the development of coal export opportunities from the United States of America (USA). TOCC is in the process of acquiring options over, or equity interests in, selected coal projects in the USA.

DIRECTORS' REPORT (continued)

OPERATING AND FINANCIAL REVIEW (continued)

Operating results for the year

The total loss of the consolidated entity attributable to the owners of Marenica Energy Limited for the financial year was \$3,537,992 (2011: \$5,300,603).

Financial position and significant changes in state of affairs

The net assets of the consolidated entity decreased by \$259,448 as a result of expenditure on continuing exploration activities, net of a capital increase.

Cash on hand at 30 June 2012 totalled \$3.0 million (2011: \$3.2 million).

During the year a total of \$3.2 million was raised from an entitlement issue.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There have been no matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect:

- (i) the consolidated entity's operations in future years; or
- (ii) the results of those operations in future years; or
- (iii) the consolidated entity's state of affairs in future years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Company intends to continue exploration and to develop the resources on the Marenica Uranium project in Namibia, consider the acquisition of further tenements for exploration of minerals and to seek other areas of investment.

ENVIRONMENTAL REGULATIONS

The Company's environmental obligations are regulated by the Laws of Namibia. The Company has complied with its environmental performance obligations. No environmental breaches have been notified by any Government agency to the date of the Directors' Report.

SHARE OPTIONS

At the date of this report, the unissued ordinary shares of the Company under option are as follows:

Expiry Date	Exercise Price	Number under Option
15 December 2013	\$0.21	12,500,000
31 October 2013	\$0.13	6,500,000
30 April 2015	\$0.028	18,000,000

The Options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

During or since the end of the financial year the Company has not issued any Shares as a result of the exercise of Options.

DIRECTORS' REPORT (continued)

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company resolved that it would indemnify its current directors and officers. Coverage in respect of this indemnity has been provided via a Directors and Officers insurance policy negotiated at commercial terms. The premium paid during the year was \$13,627 (2011: \$10,807).

Excluding the matter noted above the company has not, during or since the financial year-end, in respect of any person who is, or has been an officer or 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; or
- Paid or agreed to pay a premium in respect of a contract insuring against a liability incurred as an officer for the costs or expenses to defend legal proceedings.

DIRECTORS' MEETINGS

The number of meetings attended by each director during the year is as follows:

Director	Number of meetings held while in office	Number of meetings attended
R Pearce	6	6
G Becker	6	5
D Sanders	6	6
D Buerger	6	6
N Chen	4	4
B Yang	1	1
C Zhu	1	1

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The auditor's independence declaration for the year ended 30 June 2012 has been received and can be found on the next page.

NON-AUDIT SERVICES

No non-audit services have been provided by the Company's auditor, Rothsay Chartered Accountants, during the year.

*R*OTHSA Y

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P.O. Box 8716, Perth Business Centre WA 6849
Phone (08) 6364 5076 www.rothsay.com.au

The Directors
Marenica Energy Ltd
47 Colin St
West Perth WA 6005

Dear Sirs

In accordance with Section 307C of the Corporations Act 2001 (the "Act") I hereby declare that to the best of my knowledge and belief there have been:

- i) no contraventions of the auditor independence requirements of the Act in relation to the audit of the 30 June 2012 financial statements; and
- ii) no contraventions of any applicable code of professional conduct in relation to the audit.



Graham R Swan (Lead auditor)

Rothsay Chartered Accountants

Dated 20 September 2012



Chartered Accountants

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DIRECTORS' REPORT (continued)

REMUNERATION REPORT - AUDITED

This remuneration report for the year ended 30 June 2012 outlines remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report details the remuneration arrangements for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and including the executives in the Parent and the Group receiving the highest remuneration.

For the purposes of this report, the term "executive" includes the Chief Executive Officer (CEO), executive directors, senior management and company secretaries of the Parent and the term "director" refers to non-executive directors only.

A. Individual key management personnel disclosures

Details of KMP including the top five remunerated executives of the Parent and Group are set out below:

Key management personnel

(i) Directors

R Pearce	Non-executive chairman	
D Sanders	Non-executive director	
G Becker	Non-executive director	
D Buerger	Non-executive director	
N Chen	Non-executive director	appointed 4 October 2011 retired 30 November 2011
S Yang	Non-executive director	appointed 30 November 2011 appointed 1 June 2012
C Zhu	Non-executive Director	retired 13 September 2011

(i) Executives

M Hill	Chief Executive Officer	appointed 1 May 2012
J Young	Chief Executive Officer	resigned 30 November 2011
E van Noort	Chief Geologist	resigned 2 March 2012
M van Uffelen	Company Secretary	appointed 1 December 2011
S Robertson	Company Secretary	resigned 30 November 2011

There have not been any changes to KMP after the reporting date and before the financial report was authorised for issue.

B. Principles used to determine the nature and amount of remuneration

The objective of the Company's reward framework is to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors and executives of the highest calibre whilst maintaining a cost which is acceptable to shareholders

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed by the Board. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

Directors' fees

Directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$300,000 in aggregate. This amount is separate from any specific tasks the directors may take on for the company in the normal course of business, which are charged at normal commercial rates.

Fees for directors are not linked to the performance of the consolidated entity however, to align all directors' interests with shareholders' interests, directors are encouraged to hold shares in the company and may receive options. This effectively links directors' performance to the share price performance and therefore to the interests of shareholders. There have been no performance conditions imposed prior to the grant of options which act as an incentive to increase the value for all shareholders.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT – AUDITED (continued)

Executive remuneration

The Company aims to reward executives (both directors and Company's executives) with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to:

- Reward executives for company performance;
- Align the interest of executives with those of shareholders; and
- Ensure total remuneration is competitive by market standards.

Fixed remuneration is reviewed annually or upon renewal of fixed term contracts by the Board and the process consists of a review of company and individual performance, relevant comparative remuneration in the market and internal policies and practices. Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

The objective of variable remuneration provided is to reward executives in a manner which aligns this element of remuneration with the creation of shareholder wealth. Variable remuneration may be delivered in the form of share options granted with or without vesting conditions.

C. Executive contractual arrangements

M Hill – Chief Executive Officer

A formal written service agreement is in place. Details of Mr Hill's employment agreement are:

- Base salary, inclusive of superannuation, effective 01 May 2012 is \$283,400 per annum, reviewable on an annual basis.
- Payment of a termination benefit on early termination by the Company, other than for grave misconduct or long term incapacity, equal to six (6) months salary.

M van Uffelen – Company Secretary

Mr van Uffelen does not have a formal written contract.

D. Remuneration of Key Management Personnel

<u>30-Jun-12</u>	Salary & Fees	Super-annuation	Non monetary benefits	Share Based Payments	Total	Performance Related %
Directors						
R Pearce	102,004	-	-	-	102,004	-
D Sanders	48,000	4,320	-	-	52,320	-
G Becker	38,500	17,320	-	-	55,820	-
D Buerger	30,300	25,520	-	-	55,820	-
N Chen ^(a)	35,419	3,188	-	-	38,607	-
B Yang ^(b)	4,000	360	-	-	4,360	-
C Zhu ^(c)	5,733	516	-	-	6,249	-
Total directors	263,956	51,224	-	-	315,180	
Other Key Management Personnel						
M Hill ^(e)	43,333	3,900	-	70,082	117,315	60
J Young ^(f)	129,775	11,680	3,495	-	144,950	-
E van Noort ^(g)	138,888	12,500	5,592	-	156,980	-
M van Uffelen ^(h)	47,250	-	-	-	47,250	-
S Robertson ⁽ⁱ⁾	33,665	-	-	-	33,665	-
Total executive KMP	392,911	28,080	9,087	70,082	500,160	
Totals	656,867	79,304	9,087	70,082	815,340	

DIRECTORS' REPORT (continued)

REMUNERATION REPORT – AUDITED (continued)

<u>30 June 2011</u>	Salary & Fees	Super-annuation	Share Based Payments	Total	Performance Related %
Directors					
R Pearce	59,587	-	91,105	150,692	60
D Sanders	48,000	4,320	68,329	120,649	57
G Becker	41,578	3,742	68,329	113,649	60
D Buerger	40,002	-	68,329	108,331	60
C Zhu ^(c)	26,322	2,369	-	28,691	-
N Biddle ^(d)	41,700	-	-	41,700	-
Total directors	257,189	10,431	296,092	563,712	
Other Key Management Personnel					
J Young	266,000	23,940	-	289,940	-
E van Noort	160,000	14,400	-	174,400	-
S Robertson	81,700	-	-	81,700	-
Total executive KMP	507,700	38,340	-	546,040	
Totals	764,889	48,771	296,092	1,109,752	

(a) Mr Chen was appointed on 6 October 2012, retired on 30 November 2012 and was re-appointed on 30 November 2012

(b) Mr Yang was appointed on 1 June 2012

(c) Mr Zhu retired on 13 September 2011

(d) Mr Biddle retired on 19 November 2010

(e) Mr Hill was appointed CEO on 1 May 2012 and received an award of 18 million options with an expiry date of 30 April 2015 and an exercise price of 2.8 cents per share on commencement of employment.

(f) Mr Young resigned as CEO on 30 November 2011

(g) Mr van Noort resigned as Senior Geologist on 2 March 2012

(h) Mr van Uffelen was appointed Company Secretary on 1 December 2011.

(i) Mr Robertson resigned as Company Secretary on 30 November 2011.

E. Options awarded and vested during the year

Details of vesting profile of options vested or expired during the year and those options unexercised at balance date granted as remuneration to current key management personnel of the company are detailed below:

Year ended 30 June 2012

During the 2012 year, 18,000,000 options with an exercise price of \$0.028 and an expiring date of 30 April 2015 were issued to the CEO on the commencement of employment.

Year ended 30 June 2011

Directors	Number	Award Date	Fair value per option at grant date \$	Exercise price per option \$	First exercise date	Expiry and last exercise date	Number vested	Percentage vested
R Pearce	2,000,000	19/11/10	0.0455	0.13	19/11/10	31/10/13	2,000,000	100%
G Becker	1,500,000	19/11/10	0.0455	0.13	19/11/10	31/10/13	1,500,000	100%
D Buerger	1,500,000	19/11/10	0.0455	0.13	19/11/10	31/10/13	1,500,000	100%
D Sanders	1,500,000	19/11/10	0.0455	0.13	19/11/10	31/10/13	1,500,000	100%
	<u>6,500,000</u>						<u>6,500,000</u>	

No options were issued to other KMP during the year ended 30 June 2011.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT – AUDITED (continued)

E. Value of options awarded, exercised and lapsed during the year

Year ended 30 June 2012

No options were awarded or vested.

Year ended 30 June 2011

Directors	Value of options granted during the year	Value of options exercised during the year	Value of options lapsed during the year	Percentage of total remuneration for the year that consists of options
R Pearce	91,105	-	-	60%
D Sanders	68,329	-	-	57%
G Becker	68,329	-	-	60%
D Buerger	68,329	-	-	63%

There were no alterations to the terms and conditions of options awarded as remuneration since their award date.

Signed in accordance with a resolution of the directors.



Robert Pearce

Perth

20 September 2012

This Mineral Resource estimate has been compiled by Ian Glacken in accordance with the guidelines of the JORC Code (2004). Ian Glacken is a full-time employee of Optiro Pty Ltd and has sufficient experience relevant to the style of mineralisation and type of deposit represented by the Marenica orebodies and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code). Ian Glacken consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2012

	Note	2012 \$	2011 \$
Continuing operations			
Other revenues	4	243,963	3,593,425
Financial income	4	80,180	197,368
		<u>324,143</u>	<u>3,790,793</u>
Expenses			
Exploration and evaluation expenditure		(1,908,164)	(1,511,762)
Employee benefit expense		(845,293)	(1,126,636)
Project introduction fees		-	(323,178)
Foreign exchange loss/(gain)		(74,194)	(807,489)
Administration expenses		(539,476)	(1,411,486)
Fair value of options granted as employee remuneration		-	(296,091)
Impairment of loan	6	-	(3,425,275)
Investment impairment	8	(160,713)	-
Depreciation expense		(46,238)	(32,973)
Finance expense		(288,057)	(158,512)
Total expenses		<u>(3,862,135)</u>	<u>(9,093,402)</u>
Loss before income tax expense		(3,537,992)	(5,302,609)
Income tax expense	5	-	-
Net loss for the year		<u>(3,537,992)</u>	<u>(5,302,609)</u>
Net loss for the year is attributable to:			
Owners of Marenica Energy Limited		(3,537,992)	(5,300,603)
Non-controlling interests		-	(2,006)
Net loss for the year		<u>(3,537,992)</u>	<u>(5,302,609)</u>
Other comprehensive income			
Exchange differences on translation of foreign operations			792,042
Total comprehensive income for the year		<u>(3,537,992)</u>	<u>(4,510,567)</u>
Total comprehensive income for the year is attributable to:			
Owners of Marenica Energy Limited		(3,537,992)	(4,508,561)
Non-controlling interests		-	(2,006)
		<u>(3,537,992)</u>	<u>(4,510,567)</u>
Earnings per share			
Basic loss per share (cents per share)	22	(0.71)	(1.14)
Diluted losses per share are not disclosed as they are not materially different to basic losses per share.			

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

STATEMENT OF FINANCIAL POSITION
as at 30 June 2012

	Note	2012 \$	2011 \$
ASSETS			
Current Assets			
Cash and cash equivalents	20	3,000,498	3,248,641
Trade and other receivables	6	30,981	162,944
Other	9	9,804	7,612
Total Current Assets		<u>3,041,283</u>	<u>3,419,197</u>
Non-Current Assets			
Trade and other receivables	6	-	-
Plant & equipment	7	117,290	221,166
Investment	8	31,125	-
Other	9	21,726	29,752
Total Non-Current Assets		<u>170,141</u>	<u>250,918</u>
TOTAL ASSETS		<u>3,211,424</u>	<u>3,670,115</u>
LIABILITIES			
Current Liabilities			
Trade and other payables	10	114,089	403,266
Borrowings	11	138,706	114,653
Employee benefits	12	4,791	42,659
Total Current Liabilities		<u>257,586</u>	<u>560,578</u>
Non-Current Liabilities			
Borrowings	11	1,867,431	1,763,682
Total Non-Current Liabilities		<u>1,867,431</u>	<u>1,763,682</u>
TOTAL LIABILITIES		<u>2,125,017</u>	<u>2,324,260</u>
NET ASSETS		<u>1,086,407</u>	<u>1,345,855</u>
EQUITY			
Contributed equity	13	41,356,405	38,147,944
Reserves	14	1,509,072	2,470,544
Accumulated losses	15	(41,779,070)	(39,105,848)
TOTAL CAPITAL AND RESERVES ATTRIBUTABLE TO THE OWNERS OF MARENICA ENERGY LIMITED		<u>1,086,407</u>	<u>1,512,640</u>
Non-controlling interests		-	(166,785)
TOTAL EQUITY		<u>1,086,407</u>	<u>1,345,855</u>

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

**STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2012**

<u>30 June 2012</u>	Notes	Issued Capital	Accumulated Losses	Reserves	Total	Non-controlling Interests	Total Equity
Balance at beginning of year		38,147,944	(39,105,848)	2,470,544	1,512,640	(166,785)	1,345,855
Total comprehensive income for the year		-	(3,537,992)	-	(3,537,992)	-	(3,537,992)
Issue of shares	13	3,241,093	-	-	3,241,093	-	3,241,093
Share issue costs	13	(32,632)	-	-	(32,632)	-	(32,632)
Value of options granted	25	-	-	70,083	70,083	-	70,083
Transfer on exercise or expiry of options	14, 15	-	369,651	(369,651)	-	-	-
Other	14, 15	-	495,119	(661,904)	(166,785)	166,785	-
Balance at end of year		41,356,405	(41,779,069)	1,509,072	1,086,407	-	1,086,407

<u>30 June 2011</u>	Notes	Issued Capital	Accumulated Losses	Reserves	Total	Non-controlling Interests	Total Equity
Balance at beginning of year		35,311,163	(34,018,024)	1,307,739	2,600,878	(164,779)	2,436,099
Total comprehensive income for the year		-	(5,300,603)	-	(5,300,603)	(2,006)	(5,302,609)
Issue of shares, net of transaction costs	13	2,836,781	-	-	2,836,781	-	2,836,781
Value of options granted	25	-	-	296,091	296,091	-	296,091
Transfer on exercise or expiry of options	14	-	212,779	(212,779)	-	-	-
Currency translation movements	14	-	-	792,042	792,042	-	792,042
Transfer on recognition or conversion of notes	14	-	-	287,451	287,451	-	287,451
Balance at end of year		38,147,944	(39,105,848)	2,470,544	1,512,640	(166,785)	1,345,855

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

STATEMENT OF CASH FLOWS
for the year ended 30 June 2012

	Note	2012 \$	2011 \$
Cash flows from operating activities			
Payments to suppliers and employees		(3,171,934)	(4,563,494)
Government grant received		80,180	162,361
Interest received		77,988	195,497
Interest paid		(160,000)	(9,097)
Net cash outflow from operating activities	21	<u>(3,173,766)</u>	<u>(4,214,733)</u>
Cash flows from investing activities			
Purchase of plant and equipment		-	(63,315)
Proceeds from sale of plant and equipment		-	84,360
Acquisition of available for sale financial assets		(191,838)	-
Payment of security bonds		-	(2,924)
Cash (used in) / generated from investing activities		<u>(191,838)</u>	<u>18,121</u>
Cash flows from financing activities			
Proceeds from issue of shares		3,150,093	3,053,216
Share issue costs		(32,632)	(216,435)
Proceeds (repayments) of borrowings		-	2,016,371
Net cash inflow from financing activities		<u>3,117,461</u>	<u>4,853,152</u>
Net increase/(decrease) in cash and cash equivalents		(248,143)	656,540
Cash and cash equivalents at the beginning of the financial year		3,248,641	2,592,101
Cash at the end of the financial year	20	<u>3,000,489</u>	<u>3,248,641</u>

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

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2012

1. CORPORATE INFORMATION

The financial statements of Marenica Energy Limited (the "Company") for the year ended 30 June 2012 were authorised for issue in accordance with a resolution of the directors on 26 September 2012.

Marenica Energy Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange, the Namibia Stock Exchange and various German exchanges.

The nature of operations and principal activities of the consolidated entity, comprising Marenica Energy Limited and its subsidiaries, (the "Group") are described in the Directors' Report.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues consolidated entity Interpretations and the Corporations Act 2001.

Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Critical Accounting Estimates

The preparation of financial statements 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.

Functional and Presentation Currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the Group's current financial transactions.

Going Concern

The Group incurred losses of \$3,537,992 (2011: \$5,300,603) and net operating cash outflows of \$3,173,766 (2011: \$4,214,733). These were offset by net cash inflows from financing activities of \$3,117,461 (2011: \$4,853,152).

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2012

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

The Group's ability to continue as a going concern and pay its debts as and when they fall due is dependent on the following:

- Active management of the current level of discretionary expenditure in line with the funds available to the consolidated entity; and
- The ability to raise additional funding through either debt facilities or capital raising, if required.

Based on the existing cash resources, the ability to reduce operational, administration and exploration expenditure and the ability to raise additional funding either by way of debt or capital raisings if required, the directors are satisfied that the going concern basis of preparation is appropriate.

(b) Application of new and revised Accounting Standards

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

Amendments to AASB 7
'Financial Instruments' Disclosure'

The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify the required level of disclosures about credit risk and collateral held.

Amendments to AASB 101
'Presentation of Financial Statements'

The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

AASB 1054 'Australian Additional Disclosures' and AASB 2011-1 'Amendments to Australian Accounting Standards arising from Trans-Tasman Convergence Project'

AASB 1054 sets out the Australian-specific disclosures for entities that have adopted Australian Accounting Standards.

AASB 2011-1 makes amendments to a range of Australian Accounting Standards and Interpretations for the purpose of closer alignment to IFRSs and harmonisation between Australian and New Zealand Standards.

AASB 124 'Related Party Disclosures' (revised December 2009)

AASB 124 (revised December 2009) has been revised on the following two aspects: (a) AASB 124 (revised December 2009) has changed the definition of a related party and (b) AASB 124 (revised December 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

AASB 2009-14 'Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement'

Interpretation 114 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of AASB 119.

AASB 2009-12 'Amendments to Australian Accounting Standards'

The application of AASB 2009-12 makes amendments to AASB 8 'Operating Segments' as a result of the issuance of AASB 124 'Related Party Disclosures' (2009).

AASB 2010-5 'Amendments to Australian Accounting Standards'

The Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations.

AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets'

The application of AASB 2010-6 makes amendments to AASB 7 'Financial Instruments – Disclosures' to introduce additional disclosure requirements for transactions involving transfer of financial assets.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2012

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Application of new and revised Accounting Standards (continued)

New Accounting Standards for Application in Future Periods

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

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

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', AASB 200911 'Amendments to Australian Accounting Standards arising from AASB 9' and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)'	1 January 2013	30 June 2014
AASB 10 'Consolidated Financial Statements'	1 January 2013	30 June 2014
AASB 11 'Joint Arrangements'	1 January 2013	30 June 2014
AASB 12 'Disclosure of Interests in other Entities'	1 January 2013	30 June 2014
AASB 127 'Separate Financial Statements' (2011)	1 January 2013	30 June 2014
AASB 128 'Investments in Associates and Joint Ventures' (2011)	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 19 (2011)'	1 January 2013	30 June 2014
AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: recovery of Underlying Assets'	1 January 2012	30 June 2013
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	30 June 2014
AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'	1 July 2012	30 June 2013
Interpretation 20 'Stripping Costs in the Production Phase of a Surface Mine' and AASB 2011-12 'Amendments to Australian Accounting Standards arising from Interpretation 20'.	1 January 2013	30 June 2014
Interpretation 20 'Stripping Costs in the Production Phase of a Surface Mine' and AASB 2011-12 'Amendments to Australian Accounting Standards arising from Interpretation 20'.	1 January 2013	30 June 2014
AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'	1 June 2012	1 January 2013
AASB 2012-3 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'	1 June 2012	1 January 2014
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle'	1 June 2012	1 January 2013

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2012

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Application of new and revised Accounting Standards (continued)

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

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

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

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

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

- AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and AASB 2011-7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009-11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17] (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation - Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees. The Group has not yet been able to reasonably estimate the impact of this Standard on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2012

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Application of new and revised Accounting Standards (continued)

- AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either "joint operations" (whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or "joint ventures" (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed).
- AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a "structured entity", replacing the "special purpose entity" concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will only affect disclosures and is not expected to significantly impact the Group.

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

- AASB 13: Fair Value Measurement and AASB 2011-8: Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009-11, 2010-7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132] (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurements.

AASB 13 requires:

- inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and
- enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) measured at fair value.

These Standards are not expected to significantly impact the Group.

- AASB 2011-9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049] (applicable for annual reporting periods commencing on or after 1 July 2012).

The main change arising from this Standard is the requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently.

This Standard affects presentation only and is not expected to significantly impact the Group.

AASB 119 (September 2011) also includes changes to the accounting for termination benefits that require an entity to recognise an obligation for such benefits at the earlier of:

- (i) for an offer that may be withdrawn – when the employee accepts;
- (ii) for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and
- (iii) where the termination is associated with a restructuring of activities under AASB 137: Provisions, Contingent Liabilities and Contingent Assets, and if earlier than the first two conditions – when the related restructuring costs are recognised.

The Group has not yet been able to reasonably estimate the impact of these changes to AASB 9.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2012

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Marenica Energy Limited ("company" or "parent entity") as at 30 June 2011 and the results of all subsidiaries for the year then ended. Marenica Energy Limited and its subsidiaries together are referred to in these financial statements as the Group or the Consolidated Entity.

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. The effects of all intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated in full.

(d) Exploration expenses

Exploration and evaluation costs represent intangible assets. Exploration and evaluation costs (including costs incurred as a result of the introduction agreement referred to in note 26 but excluding other acquisition costs) are expensed as incurred. Acquisition costs related to an area of interest are capitalised and 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 which permits reasonable assessment of the existence of economically recoverable reserves and active and significant operations in, or in relation to, the areas of interest are continuing.

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

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.

(e) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2012

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Plant and equipment

Plant and equipment is stated at historical cost less depreciation. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset during their expected useful life of 3 to 5 years.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not shown in the accounts at a value in excess of the recoverable amount from assets.

(g) Investments and other financial assets

Classification

The company classifies its investments in the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after year end which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

Available-for-sale financial assets

Available-for-sale financial assets, principally comprising marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of year end.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade date – the date on which the company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed to the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership.

When securities are classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2012

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investments and other financial assets (continued)

Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognised in the income statement as part of income from continuing operations when the company's right to receive payment is established.

Fair value

The fair values of quoted investments are based on last trade prices. If the market for financial assets is not active (and for unlisted securities), the company establishes fair value by using valuation techniques.

Impairment

The company assesses at each balance date whether there is objective evidence that a financial asset is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement.

(h) Provisions and employee benefits

Provisions and employee benefits

Provisions are recognised when the group has a present obligation (either legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at 30 June 2011 using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. The increase in the provision resulting from the passage of time is recognised in finance costs.

Employee leave benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2012

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Share based payments

The company provides benefits to directors, employees, consultants and other advisors of the company in the form of share-based payments, whereby the directors, employees, consultants and other advisors render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the market price of the shares of the company if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant recipient becomes fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

- (i) the extent to which the vesting period has expired and
- (ii) the company's best estimate of the number of equity instruments that will ultimately vest.

No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the recipient, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

(j) Earnings per share

Basic earnings per share is determined by dividing the profit (loss) after income tax attributable to equity holders of the company by the weighted average number of ordinary shares outstanding during the year.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2012

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Fair value estimation

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

The fair value of financial instruments traded in active markets (such as shares in listed companies) is based on quoted market prices at year end.

The nominal value, less any estimated credit adjustments, of trade receivables and payables are assumed to approximate their fair value.

(l) Impairment of assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

(m) Payables

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

(n) Revenue recognition

Interest income is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

(o) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at 30 June 2011 are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

(p) Segment reporting

The Group uses a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2012

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Income tax

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the notional income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

A deferred tax asset for unused tax losses is recognised only if it is probable that future taxable amounts will be available to utilise losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the assets and settle the liability simultaneously.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the results of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Significant accounting judgements

Determination of mineral resources

The determination of mineral resources impacts the accounting for asset carrying values. The group estimates its mineral resources in accordance with the *Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004* (the 'JORC' Code). The information on mineral resources was prepared by or under the supervision of Competent Persons as defined in the JORC Code. The amounts presented are based on the mineral resources determined under the JORC Code.

There are numerous uncertainties inherent in estimating mineral resources and assumptions that are valid at the time of estimation may change significantly when new information becomes available.

Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2012

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Significant accounting estimates and assumptions

Share based payment transactions

The Group measures the cost of equity-settled share based payment transactions with employees by reference to the fair value of the equity instruments at the grant date. The fair value is determined by using a recognised option valuation model, with the assumptions detailed in note 25. The accounting estimates and assumptions relating to equity-settled share based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

	2012 \$	2011 \$
4. REVENUE FROM CONTINUING OPERATIONS		
<i>Other revenues</i>		
Net gain on disposal of plant and equipment	(370)	1,117
Research and development grant	244,333	162,361
Gain on sale of 5% interest in subsidiary (refer Note 6)	-	3,425,275
Sundry income	-	4,672
	<u>243,963</u>	<u>3,593,425</u>
<i>Financial income</i>		
Interest received	<u>80,180</u>	<u>197,368</u>
5. INCOME TAX		
Income tax expense	-	-
Loss for year	(3,537,992)	(5,302,609)
Non-deductible items	-	6,124,799
Unused tax losses for which no deferred tax asset has been recognised	(3,537,992)	822,190
Tax losses utilised	<u>3,537,992</u>	<u>(822,190)</u>
Potential tax benefit at 30%	-	-
The directors estimate that the potential future income tax benefit, at the prevailing rate of 30% (2011: 30%), in respect of tax losses not brought to account is (note (i))	<u>5,403,242</u>	<u>6,732,008</u>

(i) tax losses from a subsidiary which are not expected to be able to be utilised have been excluded in 2012.

No income tax expense has been provided in the accounts because the Company has an operating loss for the year. No future tax benefit attributable to tax losses has been brought to account as recovery is not certain or assured.

The benefit will only be obtained if the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit to be realised, continues to comply with the conditions for deductibility imposed by taxation legislation and there are no changes in tax legislation adversely affecting the consolidated entity in realising the benefit.

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012**

	2012 \$	2011 \$
6. TRADE AND OTHER RECEIVABLES		
Current Assets		
GST and VAT refundable	29,483	161,912
Other receivables	1,498	1,032
	<u>30,981</u>	<u>162,944</u>
None of the receivables are past due and are therefore not impaired.		
Non-Current Assets		
Amount receivable from sale of Marenica Minerals (Proprietary) Limited (incorporated in Namibia)	3,425,275	3,425,275
Provision for impairment	<u>(3,425,275)</u>	<u>(3,425,275)</u>
	-	-
The recoverability of the amount receivable from the sale to the Company's Black Economic Empowerment partner Millennium Minerals Pty Ltd of a 5% interest in the entity's shareholding in Marenica Minerals (Proprietary) Limited (incorporated in Namibia) is subject to the successful exploitation and development of the company's Marenica Uranium Project. As the project has not yet reached a stage at which this can be assured, the amount receivable from the purchaser is considered to be impaired		
7. PLANT AND EQUIPMENT		
Cost	352,063	409,701
Less: Accumulated Depreciation	(234,773)	(188,535)
Net book value	<u>117,290</u>	<u>221,166</u>
Movement in carrying value		
Opening net book amount	221,166	274,067
Additions	-	63,315
Disposals	(57,658)	(83,243)
Depreciation charge	(46,238)	(32,973)
Closing net book amount	<u>117,290</u>	<u>221,166</u>
8. INVESTMENT		
The Company hold an 6.4% interest in Texas and Oklahoma Coal Company Limited. Details are noted below:		
(a) Investment details		
<i>Unlisted</i>		
Texas and Oklahoma Coal Company Limited (incorporated in the British Virgin Islands)	31,125	-
	<u>31,125</u>	<u>-</u>
The investment is an early-stage entry and an opportunity to participate in the development of coal export opportunities from the United States of America (USA).		
(b) Movements in the carrying amount of the Company's investment		
At beginning of year	-	-
New investment	191,838	-
Impairment	(160,713)	-
	<u>31,125</u>	<u>-</u>

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012**

	2012 \$	2011 \$
9. OTHER ASSETS		
Current Assets		
Accrued income	9,804	7,612
Non-Current Assets		
Rental and security bonds	21,726	29,752
10. PAYABLES		
Trade payables	114,089	403,266
	114,089	403,266
11. BORROWINGS		
Current Liabilities		
Insurance funding loan	22,194	16,371
Convertible notes	116,512	98,282
	138,706	114,653
Non-Current Liabilities		
Convertible notes	1,867,431	1,763,682
<p>The Convertible Notes are held by Hanlong Energy Limited, have a value of \$2,000,000, bear interest at 8% per payable annually and can be converted into ordinary shares at \$0.02674 per share on or before 15 November 2013. The original Convertible Note, which was issued on 15 November 2010, had a conversion price of \$0.07 per share and was replaced with the current Convertible Note, which has a \$0.02674 per share conversion price, on 2 April 2012.</p>		
12. PROVISIONS		
Provision for annual leave	4,791	42,659
13. CONTRIBUTED EQUITY		
(a) Ordinary Shares		
Paid up capital – ordinary shares	41,893,163	38,652,070
Capital raising costs capitalised	(536,758)	(504,126)
	41,356,405	38,147,944
Movement during the year:	Number of shares	\$
Balance at 1 July 2011	498,629,688	38,147,944
Entitlement Issue Shares at 1.3 cents each (note i)	249,314,844	3,241,093
Less capital raising costs	-	(32,632)
Balance at 30 June 2012	747,944,532	41,356,405

(i) Entitlement Issue Shares at 1.3 cents per share

On 2 April 2012, the Company announced a one for two non-renounceable entitlement issue of fully paid ordinary shares in the Company at an issue price of 1.3 cents per share, underwritten by Hanlong Energy Limited. The Company issued 249,314,844 ordinary shares, raising \$3,241,093.

Ordinary shares participate in dividends and the proceeds on winding up of Marenica Energy Limited in proportion to the number of shares held.

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012**

	2012 \$	2011 \$
13. CONTRIBUTED EQUITY (continued)		
(a) Ordinary Shares		
At shareholder meetings, when a poll is called, each ordinary share is entitled to one vote otherwise each shareholder has one vote on a show of hands.		
(b) Shares Options		
Movements in share options:		
	Unlisted, 2.8c Options 30/04/15	Unlisted, 21c Options 15/12/13
		Unlisted, 13c Options 15/12/13
Balance at 1 July 2011	-	12,500,000
Movement during the year (see notes 24 and 25)	18,000,000	-
Balance at 30 June 2012	<u>18,000,000</u>	<u>6,500,000</u>
14. RESERVES		
Share option reserve	1,221,621	1,521,188
Convertible notes reserve	287,451	287,451
Foreign currency translation reserve	-	661,905
	<u>1,509,072</u>	<u>2,470,544</u>
(a) Share Option Reserve		
Balance at beginning of year:	1,521,188	1,437,878
Options expired during year	(369,650)	(212,779)
Options issued during year (see note 25)	70,083	296,089
Balance at end of year:	<u>1,221,620</u>	<u>1,521,188</u>
(b) Convertible Note Reserve		
Balance at beginning of year:	287,451	-
Issue of convertible notes	-	287,451
Transfer to retained earnings on conversion	-	-
Balance at end of year:	<u>287,451</u>	<u>287,451</u>
(c) Foreign Exchange Translation Reserve		
Balance at beginning of year:	661,905	(130,139)
Movement for year (see note 15)	(661,905)	792,044
Balance at end of year:	<u>-</u>	<u>661,905</u>

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2012

14. RESERVES (continued)

Nature and purpose of reserves

(i) Share option reserve

The share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to management and consultants of the Company recognised in accordance with the accounting policy adopted for share-based payments and the cash price of rights options issued to investors.

(ii) Convertible note reserve

The convertible note reserve represents the fair value of the option portion on the convertible note.

(iii) Foreign currency translation reserve

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

	2012 \$	2011 \$
15. ACCUMULATED LOSSES		
Accumulated losses at beginning of year	(39,105,848)	(34,018,024)
Net losses attributable to members of the parent entity	(3,537,992)	(5,300,603)
Transfer from foreign currency translation reserve (i)	661,904	-
Transfer from minority interest (ii)	(166,785)	-
Transfer from share option reserve	369,651	212,779
Accumulated losses at the end of the year	<u>(41,779,070)</u>	<u>(39,105,848)</u>

(ii) The balance of the foreign currency translation reserve was transferred to accumulated losses as the Group expenses all exploration expenditure and assets denominated in a foreign currency are negligible.

(iii) The minority interest was transferred to accumulated losses during the year as the holder of the 20% interest in Marenica Minerals (Proprietary) Limited is free carried to development and there is a balance due from the holder of the 5% interest in Marenica Minerals (Proprietary) Limited which is fully provisioned (see note 6).

16. SEGMENT INFORMATION

The Group operates predominately in the mineral exploration industry in Namibia. For management purposes, the Group is organised into one main operating segment which involves the exploration and evaluation of a uranium deposit in Namibia. All of the Group's activities are inter-related and discrete financial information is reported to the Board (Chief Operating Decision Maker) as a single segment. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial results of the Group as a whole.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2012

17. RELATED PARTIES

(a) Subsidiaries

The consolidated financial statements include the financial statements of Marenica Energy Limited and the subsidiary listed in the following table:

Name	Country of Incorporation	% Equity Interest 2012	% Equity interest 2011
Bronzewing Gold Pty Ltd	Australia	100%	100%
Marenica Energy Namibia (Proprietary) Limited	Namibia	100%	100%
Marenica Minerals (Proprietary) Limited (incorporated in Namibia)	Namibia	75%	75%

(b) Ultimate parent

Marenica Energy Limited is the ultimate Australian parent entity and ultimate parent of the Group.

(c) Key management personnel

Details relating to key management personnel, including remuneration paid, are included in note 24 and the audited remuneration report section of the directors' report.

(d) Transaction with other related parties

A director, Mr D Sanders, was a shareholder, director and employee of the legal firm Bennett + Co and Lavan Legal. These firms provided legal services to the Company on normal commercial terms and conditions. Total fees paid in the financial year ended 30 June 2012 was \$28,237 (2011: \$43,977).

18. INTEREST IN JOINT VENTURE

The Company has a 1.125% gross production income interest in Badgebup, a joint venture with Great Southern Resources Pty Limited.

19. COMMITMENTS FOR EXPENDITURE

Mineral Tenement Leases

In respect of the Namibia tenements, there is no minimum annual outlay required to maintain current rights of tenure which expire in November 2012. Future expenditure is dependent on the success of pre-feasibility work that is currently being undertaken.

Building Lease

The Company leases offices under a non-cancellable operating lease expiring within 12 months.

Commitments for minimum lease payments are:

	2012 \$	2011 \$
Within one year	57,475	66,747

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012**

	2012 \$	2011 \$
20. CASH AND CASH EQUIVALENTS		
Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:		
Cash at bank and on deposit	3,000,489	3,248,641
Balance per statement of cash flows	<u>3,000,489</u>	<u>3,248,641</u>
21. RECONCILIATION OF LOSS AFTER INCOME TAX TO CASH FLOWS USED IN OPERATING ACTIVITIES		
Operating Profit (Loss)	(3,537,992)	(5,302,609)
<u>Add (less) non-cash items</u>		
Net gain on disposal of plant & equipment	-	(1,117)
Depreciation	46,238	32,973
Impairment of investment	160,713	-
Amortisation of convertible note	103,749	51,133
Fair value of options granted as employee remuneration	70,083	296,089
Foreign exchange (gain)	-	792,044
<u>Decrease/increase in operating assets and liabilities:</u>		
Receivables	131,963	(1,871)
Other assets	5,834	-
Trade and other payables	(154,354)	(81,375)
Net cash (outflow) from operating activities	<u>(3,173,766)</u>	<u>(4,214,733)</u>
22. EARNINGS PER SHARE		
(a) Basic earnings per share – cents per share		
Loss attributable to the ordinary equity holders of the Company	(0.71)	(1.14)
(b) Diluted earnings per share		
Diluted earnings per share are not disclosed as they are not materially different to basic earnings per share.		
(c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares outstanding during the year used in calculation of basic earnings per share	498,629,688	463,181,163
23. AUDITORS' REMUNERATION		
During the year the following fees were paid or payable for services provided by the auditors:		
(a) Audit services		
Audit and review of financial reports under the Corporations Act 2001	41,500	41,500
Audit and review of financial reports of Namibian subsidiaries	34,070	6,160
(b) Other services		
Income tax return preparation	-	-
Total remuneration of auditors	<u>75,570</u>	<u>47,660</u>

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012**

	2012 \$	2011 \$
24. KEY MANAGEMENT PERSONNEL		
(a) Compensation for Key Management Personnel		
Short term employee benefits	665,954	764,889
Post-employment benefits	79,304	48,771
Share based payments (see note 25)	70,082	296,092
Total compensation	<u>815,340</u>	<u>1,109,752</u>

(b) Option holdings of Key Management Personnel ("KMP")

30 June 2012	Balance at beginning of period	Granted as remuneration	Options exercised	Net change other	Balance at end of period	Vested at 30 June 2012		
						Total	Exercisable	Not exercisable
Directors								
R Pearce	2,000,000	-	-	-	2,000,000	2,000,000	2,000,000	-
D Sanders	1,500,000	-	-	-	1,500,000	1,500,000	1,500,000	-
G Becker	1,500,000	-	-	-	1,500,000	1,500,000	1,500,000	-
D Buerger	1,500,000	-	-	-	1,500,000	1,500,000	1,500,000	-
N Chen	-	-	-	-	-	-	-	-
B Yang	-	-	-	-	-	-	-	-
C Zhu	-	-	-	-	-	-	-	-
Other KMP								
M Hill	-	18,000,000 ⁽²⁾	-	-	18,000,000	-	-	-
J Young	6,000,000	-	-	(6,000,000) ⁽¹⁾	-	-	-	-
E Van Noort	3,500,000	-	-	(3,500,000) ⁽¹⁾	-	-	-	-
M van Uffelen	-	-	-	-	-	-	-	-
S Robertson	2,500,000	-	-	(2,500,000) ⁽¹⁾	-	-	-	-
	<u>18,500,000</u>	<u>18,000,000</u>	<u>-</u>	<u>(12,000,000)</u>	<u>24,500,000</u>	<u>6,500,000</u>	<u>6,500,000</u>	<u>-</u>

(1) Represents number of options held at date of retirement/resignation.

(2) 18 million options with an exercise price of 2.8 cents and an expiry date of 30 April 2015 were issued to Mr Hill upon appointment as CEO and vest upon Mr Hill being employed by the Company on 31 July 2012. Refer to note 25 for further details.

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012**

24. KEY MANAGEMENT PERSONNEL (continued)

(b) Option holdings of Key Management Personnel ("KMP") (continued)

30 June 2011	Balance at beginning of period	Granted as remuneration	Options exercised	Net change other	Balance at end of period	Vested at 30 June 2011		
						Total	Exercisable	Not exercisable
Directors								
R Pearce	-	2,000,000	-	-	2,000,000	2,000,000	2,000,000	-
D Sanders	-	1,500,000	-	-	1,500,000	1,500,000	1,500,000	-
G Becker	-	1,500,000	-	-	1,500,000	1,500,000	1,500,000	-
D Buerger	-	1,500,000	-	-	1,500,000	1,500,000	1,500,000	-
C Zhu	-	-	-	-	-	-	-	-
N Biddle	-	-	-	-	-	-	-	-
Other KMP								
J Young	6,000,000	-	-	-	6,000,000	6,000,000	6,000,000	-
E Van Noort	3,500,000	-	-	-	3,500,000	3,500,000	3,500,000	-
S Robertson	2,500,000	-	-	-	2,500,000	2,500,000	2,500,000	-
	12,000,000	6,500,000	-	-	18,500,000	18,500,000	18,500,000	-

(c) Share holdings of key management personnel

30 June 2012	Balance at start of the period	Granted as remuneration	On exercise of options	Net change other ⁽¹⁾	Balance at the end of period	Vested and exercisable
Directors						
R Pearce	212,500	-	-	4,893,750	5,106,250	-
D Sanders	100,000	-	-	950,000	1,050,000	-
G Becker	450,000	-	-	775,000	1,225,000	-
D Buerger	110,000	-	-	1,195,000	1,305,000	-
N Chen	-	-	-	1,000,000	1,000,000	-
B Yang	-	-	-	-	-	-
C Zhu	-	-	-	-	-	-
Other KMP						
M Hill	-	-	-	-	-	-
J Young	-	-	-	-	-	-
E Van Noort	-	-	-	-	-	-
M van Uffelen	-	-	-	-	-	-
S Robertson	-	-	-	-	-	-
	872,500	-	-	8,813,750	9,686,250	-

(1) Acquired under the entitlement issue

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012**

25. SHARE BASED PAYMENTS

(a) Recognised share based payment expenses

The expense recognised for employee services received during the year is show in the table below:

	2012	2011
	\$	\$
Expense arising from equity-settled share based payment transactions with Key Management Personnel	70,082	296,091

(b) Option pricing model

The fair value of the equity-settled share options granted to Key Management Personnel was estimated as at the date of grant using a Black and Scholes Model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model:

	2012	2011
Dividend yield (%)	0%	0%
Expected volatility (%)	53%	85%
Risk free interest rate (%)	3.75%	4.93%
Expected life of the option (years)	3.00	2.95
Option exercise price (\$)	\$0.028	\$0.13
Share price at grant date (\$)	\$0.017	\$0.093

26. PARENT ENTITY FINANCIAL INFORMATION

(a) Information relating to Marenica Energy Limited

	2012	2011
	\$	\$
Current Assets	3,013,893	3,173,376
Total Assets	3,372,673	3,455,500
Current Liabilities	251,449	2,303,218
Total Liabilities	2,118,880	2,303,218
NET ASSETS	1,253,793	1,152,282
EQUITY		
Issued capital	41,356,405	38,147,944
Reserves	1,509,072	1,808,639
Accumulated losses	(41,611,684)	(38,804,301)
TOTAL EQUITY	1,253,793	2,964,660
Loss for the year	(2,807,383)	(5,232,700)
Total comprehensive income	(2,807,383)	(5,232,700)

(b) Guarantees

No guarantees have been entered into by the Company in relation to the debts of its subsidiaries.

(c) Commitments

Commitments of the Company as at reporting date are disclosed in note 19 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2012

27. CONTINGENT LIABILITIES

On 7 April 2006, the Company entered into an introduction agreement with Mallee Minerals Pty Limited in respect of a mineral licence in Namibia (Project). Upon the Company receiving a bankable feasibility study in respect of the Project or the Company delineating, classifying or reclassifying uranium resources in respect of the project, the Company will pay to Mallee Minerals Pty Limited:

- (i) \$0.01 per tonne of uranium ore classified as inferred resources in respect of the Project; and a further
- (ii) \$0.02 per tonne of uranium ore classified as indicated resources in respect of the Project; and a further
- (iii) \$0.03 per tonne of uranium ore classified as measured resources in respect of the Project.

Pursuant to this agreement no payments were made during the year ended June 2012 (2011: \$968,500 excluding GST). In total \$2,026,000 has been paid under this agreement.

28. EVENTS AFTER THE REPORTING PERIOD

There have been no other matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect:

- (i) the consolidated entity's operations in future years; or
- (ii) the results of those operations in future years; or
- (iii) the consolidated entity's state of affairs in future years.

29. FINANCIAL INSTRUMENTS

Overview – Risk Management

This note presents information about the Group's exposure to credit, liquidity and market risks, its objectives, policies and processes for measuring and managing risk and the management of capital.

The Group does not use any form of derivatives as it is not at a level of exposure that requires the use of derivatives to hedge its exposure. Exposure limits are reviewed by management on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The board of directors of the Company has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Company and the consolidated entity through regular reviews of the risks.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the consolidated entity's receivables from customers and investment securities. At 30 June 2012 there were no significant concentrations of credit risk.

Cash and cash equivalents

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have an acceptable credit rating.

Trade and other receivables

As the Group operates primarily in exploration activities, it does not have trade receivables and therefore is not exposed to credit risk in relation to trade receivables.

The Group where necessary establishes an allowance for impairment that represents its estimate of incurred losses in respect of other receivables and investments. Management does not expect any counterparty to fail to meet its obligations.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2012

29. FINANCIAL INSTRUMENTS (continued)

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The consolidated entity's maximum exposure to credit risk at the reporting date was:

	Note	2012 \$	2011 \$
Receivables	6	30,981	162,944
Other current assets	9	9,804	7,612
Cash and cash equivalents	20	3,000,489	3,248,641

Impairment Losses

None of the Group's other receivables are past due (2011: \$nil).

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual flows. The Group does not have any external borrowings.

The Group will need to raise additional capital in the next 12 months to meet forecast operational and exploration activities. The decision on when and how the consolidated entity will raise future capital will depend on market conditions existing at that time.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

30 June 2012

	Note	Carrying amount	Contractual cash flow	6 months or less	>12 months
Trade and other payables	10	114,089	114,089	114,089	-
Borrowings	11	2,006,137	2,342,194	182,194	2,160,000

30 June 2011

	Note	Carrying amount	Contractual cash flow	6 months or less	>12 months
Trade and other payables	10	403,266	403,266	403,266	-
Borrowings	11	1,878,335	2,336,371	176,371	2,160,000

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the consolidated entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2012

29. FINANCIAL INSTRUMENTS (continued)

Currency Risk

The Group's exposure to currency risk at 30 June 2012 on financial assets denominated in Namibian dollars was nil (2011: \$113,181) which amounts are not hedged. The effect of future movements in the exchange rate for Namibian dollars on the Group's financial position and results of fully expensed exploration and evaluation activities is likely to be negligible.

Interest Rate Risk

The Group is exposed to interest rate risk (primarily on its cash and cash equivalents), which is the risk that a financial instrument's value will fluctuate as a result of changes in the market interest rates on interest-bearing financial instruments. The consolidated entity does not use derivatives to mitigate these exposures.

The Company adopts a policy of ensuring that as far as possible it maintains excess cash and cash equivalents on short term deposit at interest rates maturing over 30 to 90 day rolling periods.

Profile

At the reporting date the interest rate profile of the consolidated entity's interest-bearing financial instruments was:

	Carrying Amount	
	2012	2011
	\$	\$
Fixed rate instruments		
Financial assets – cash and cash equivalents	-	-
Variable rate instruments		
Financial assets – cash and cash equivalents	3,000,489	3,248,641

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss or through equity, therefore a change in interest rates at the reporting date would not affect profit or loss or equity.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2011.

	Profit or loss		Equity	
	100bp increase	100bp decrease	100bp increase	100bp Decrease
30 June 2012				
Variable rate instruments	300,069	(300,069)	300,069	(300,069)
30 June 2011				
Variable rate instruments	32,486	(32,486)	32,486	(32,486)

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2012

29. FINANCIAL INSTRUMENTS (continued)

Fair Values

Fair Values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	30 June 2012		30 June 2011	
	Carrying Amount	Fair value	Carrying amount	Fair value
Receivables	30,981	30,981	162,944	162,944
Other current assets	9,804	9,804	7,612	7,612
Cash and cash equivalents	3,000,489	3,000,489	3,248,641	3,248,641
Trade and other payables	(114,081)	(114,081)	(403,266)	(403,266)
Borrowings	(2,006,137)	(2,006,137)	(1,878,335)	(1,878,335)
	921,057	921,057	1,137,596	1,137,596

Commodity Price Risk

The Group operates primarily in the exploration and evaluation phase and accordingly the consolidated entity's financial assets and liabilities are subject to minimal commodity price risk.

Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so as to maintain a strong capital base sufficient to maintain future exploration and development of its projects. The consolidated entity's focus has been to raise sufficient funds through equity or debt to fund its exploration and evaluation activities.

There were no changes in the consolidated entity's approach to capital management during the year. Risk management policies and procedures are established with regular monitoring and reporting.

The Group is not subject to externally imposed capital requirements.

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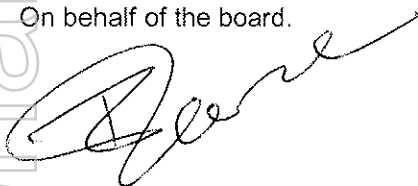
DIRECTORS' DECLARATION

The directors of the Company declare that:

1. the financial statements, notes and additional disclosures included in the directors' report designated as audited, of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (a) complying with Accounting Standards and the Corporations Regulations 2001; and
 - (b) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2012 and of their performance for the year ended on that date.
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.
3. the financial report also complies with International Financial Reporting Standards.
4. this declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2012.

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

On behalf of the board.



Robert Pearce
Perth
20 September 2012



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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF MARENICA ENERGY LTD

Report on the financial report

We have audited the accompanying financial report of Marenica Energy Ltd (the Company) which comprises the balance sheet as at 30 June 2012 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 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 year.

Directors Responsibility for the Financial Report

The Directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The Directors are also responsible for the remuneration disclosures contained in the directors' report.

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 as to whether the financial report is free of 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 our 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, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used in 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

We are independent of the Company, and have met the independence requirements of Australian professional ethical requirements and the *Corporations Act 2001*.



Chartered Accountants

Liability limited by the Accountants Scheme, approved
under the Professional Standards Act 1994 (NSW).

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Audit opinion

In our opinion the financial report of Marenica Energy Ltd is in accordance with the *Corporations Act 2001*, including:

- a) (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of their performance for the year ended on that date; and
(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- b) the consolidated financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 paragraph (b) in the financial report which indicates the basis for preparing the accounts on a going concern basis. We note the consolidated entity incurred a net loss of \$3,537,992 and net cash outflows from operating activities of \$3,173,766 for the year ending 30 June 2012. In the event the consolidated entity is unable to raise additional funding by way of debt or capital raisings, and reduce operational, administrative and exploration expenditure there is material uncertainty as to whether the consolidated entity could continue as a going concern and therefore it may be unable to realise its assets and extinguish its liabilities in the normal course of business and for the amounts stated in the financial report.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2012. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Audit opinion

In our opinion the remuneration report of Marenica Energy Ltd for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

Rothsay

Graham R Swan
Partner

Dated 20 September 2012

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