

Form 388

Corporations Act 2001
294, 295, 298-300, 307, 308, 319, 321, 322
Corporations Regulations
1.0.08

Copy of financial statements and reports

Company details

Company name

IGNITE ENERGY RESOURCES LIMITED

ACN

117 136 795

Lodgement details

Registered agent number

13904

Registered agent name

**ABSOLUTE ACCOUNTING SERVICES
PTY LTD**

Reason for lodgement of statement and reports

A public company or a disclosing entity which is not a registered scheme or prescribed interest undertaking

Dates on which financial
year ends

Financial year end date

31-12-2012

Auditor's report

Were the financial statements audited?

Yes

Is the opinion/conclusion in the report modified? (The opinion/conclusion in the report is qualified, adverse or disclaimed)

No

Does the report contain an Emphasis of Matter and/or Other Matter paragraph?

Yes

Details of current auditor or auditors

Current auditor

Date of appointment **22-03-2007**
Name of auditor **ERNST & YOUNG**
Address **'SANTOS HOUSE'
91 KING WILLIAM STREET
ADELAIDE SA 5001**

Certification

I certify that the attached documents are a true copy of the original reports required to be lodged under section 319 of the Corporations Act 2001.

Yes

Signature

Select the capacity in which you are lodging the form
Agent

I certify that the information in this form is true and complete and that I am lodging these reports as, or on behalf of, the company.

Yes

Authentication

This form has been authenticated by
Name **ABSOLUTE ACCOUNTING SERVICES PTY LTD**
This form has been submitted by
Name **Gavin SWAN**
Date **23-05-2013**

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Ignite Energy Resources Limited

ABN 14 117 136 795

Financial Report

For the year ended 31 December 2012

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Corporate information

ABN 14 117 136 795

Directors

Dr. Leonard James Humphreys
Mr. James Overton
Mr. Larry Ciccarelli
Mr. Paul Axon
Mr. Matthew Reynolds

Company Secretary

Mr. Gordon Ewart

Registered Office

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Melbourne VIC 3000

Bankers

Commonwealth Bank of Australia
Brisbane Water Drive
West Gosford NSW 2250
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Financial Advisor

Rothschild Asustralia Limited
Level 41, 50 Bridge Street
Sydney NSW 2000
Australia

Auditors

Ernst & Young
Ernst & Young Building
680 George Street
Sydney, NSW, 2000
Australia

Lawyers

HWL Ebsworth
Level 23, Riverside Centre
123 Eagle Street
Brisbane, QLD, 4000

Director's Report

For the year ended 31 December 2012

The Board of Directors of Ignite Energy Resources Ltd ("the Company") and the entities it controlled (collectively, the "Group") has pleasure in submitting the consolidated Balance Sheet, consolidated Statement of Comprehensive Income, consolidated Statement of Changes in Equity and consolidated Cash Flow Statement as at 31 December 2012, and report as follows:

DIRECTORS

The names and details of the Group's Directors in office during the financial year and until the date of the report are as follows. Directors were in office for this entire period unless otherwise stated.

Mr. Larry Ciccarelli
Dr. Leonard James Humphreys
Mr. James Overton
Mr. Paul Axon (Appointed 23 August 2012)
Mr. Matthew Reynolds (Appointed 4 September 2012)
Mr. Anton Richard Rosenberg (Resigned 8 August 2012)
Mr. Ian James Ross (Resigned 16 August 2012)
Mr. William Jephcott (Resigned 23 August 2012)

PRINCIPAL ACTIVITIES

The principal activities of the Company during the financial year were:

- the exploration of minerals (unconventional gas, lignite and heavy mineral sands) in Gippsland, Victoria;
- the development of technology to upgrade lignite into higher density fuel; and
- the development of technology to upgrade biomass into high density fuel.

REVIEW AND RESULTS OF OPERATIONS

The consolidated entity's loss for the year ended 31 December 2012 was \$6,004,208 (31 December 2011: loss of \$24,609,438).

Dividends

No dividends were paid during the financial period and no dividends are recommended.

Significant changes in the state of affairs

On 6 June 2012 the Company signed a Farm Out Agreement (FOA) and a Joint Operating Agreement (JOA) with ESSO Ventures Pty Ltd for the joint development of the coal seam gas (CSG) resource within exploration licence 4416 (EL4416). Both the FOA and the JOA along with all rights to EL4416 CSG was subsequently assigned to Gippsland Gas Pty Ltd (GGPL) a wholly owned subsidiary of the Company. GGPL is the operator under the JOA.

Fund Raising Activities

Options were exercised during the year resulting in 1,846,714 shares being issued and \$1,034,160 capital raised.

On 16 November 2012, the Company appointed Rothschild Australia Limited as its exclusive financial advisor under a mandate letter setting out terms and conditions of the engagement including the right for the Company to undertake certain pre-existing activities outside the terms of that mandate letter.

Significant events after balance date

The Directors are not aware of any other matter or circumstance not otherwise dealt with in this report or in Note 23.

On 1 February 2013 Licella Pty Ltd, a wholly owned subsidiary of the Company signed a Funding Agreement with the Australian Renewable Energy Agency (ARENA) for a \$5.4 million Government grant towards undertaking a feasibility study into the construction of its first pre-commercial biofuels plant.

Directors' Report

For the year ended 31 December 2012 (continued)

Likely developments and future results

The Directors have excluded from this report any further information on likely developments in the operations of the entity and the expected results of those operations in future financial years, since, in the opinion of the Directors, it would prejudice the interests of the entity if this information were included.

Employee Share Issue

During the year the Company established an Employee Share Plan for the benefit of employees. A total of 7,080,000 shares were placed into trust with a value of \$2,528,956. The majority of these shares (3,940,000) are subject to performance vesting conditions established by the directors, while the remainder (3,140,000) are subject to an employment retention condition.

Directors' benefits

During the year, no Director has received or become entitled to receive a benefit, other than a fixed salary of a full-time employee of the entity or a related body corporate, by reason of a contract made by the entity or a related body corporate with the Director or with a firm of which they are a member, or with an entity in which they have a substantial financial interest.

Environmental regulation performance

The Group is subject to environmental regulation in respect of the mining tenements granted to it and the mining legislation of Victoria. The Group is also subject to environmental regulation in respect of the engineering workshop located in Somersby, NSW. The Directors are satisfied that no breaches of the environmental conditions of these licences have occurred as they are continually monitoring the Group's operations. No such notices of breaches have been received from authorities.

Indemnification of Officers and Auditors

During the year the Group paid insurance premiums in respect of a contract insuring each of the Directors and Officers against all liabilities and expenses arising as a result of work performed in their capacities as Director. The terms of the insurance policy prohibit disclosure of information specific to the policy.

No indemnity arrangements were entered into with the Group's auditors.

Auditor Independence

The Directors have received an independence declaration from the auditor of Ignite Energy Resources Ltd. This is included in page 6 to the financial statements.

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



Dr Leonard Humphreys
Managing Director
17 April 2013



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Auditor's Independence Declaration to the Directors of Ignite Energy Resources Ltd

In relation to our audit of the financial report of Ignite Energy Resources Ltd for the financial year ended 31 December 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in blue ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in blue ink that reads 'Nigel Stevenson'.

Nigel Stevenson
Partner
17 April 2013

Statement of Comprehensive Income

For the year ended 31 December 2012

	<i>Note</i>	<i>2012</i>	<i>Consolidated</i>	<i>2011</i>
		<u>\$</u>		<u>\$</u>
Continuing operations				
Rendering of services	5	<u>173,768</u>		<u>1,109,818</u>
		173,768		1,109,818
Other income	6	8,031,570		1,794,309
Legal and accounting	7a	(1,123,002)		(515,272)
Other expenses	7b	(4,589,938)		(4,436,293)
Finance expenses	7c	(95,925)		(122,975)
Depreciation and write down expenses	7d	(3,203,589)		(886,386)
Employee benefits expenses - cash	7e	(4,640,892)		(1,494,989)
Employee benefits expenses - share based	7e	(556,200)		(450,370)
Fund raising expenses	7f	-		(242,481)
Impairment of assets	7g	-		(19,364,799)
		<u>(6,177,976)</u>		<u>(25,719,256)</u>
Loss from continuing operations before income tax		(6,004,208)		(24,609,438)
Income tax (expense) / benefit		-		-
Net loss for the year		<u><u>(6,004,208)</u></u>		<u><u>(24,609,438)</u></u>
Other comprehensive income		-		-
Total comprehensive income for the period		<u><u>(6,004,208)</u></u>		<u><u>(24,609,438)</u></u>
Profit / (loss) attributable to:				
Owner of the parent		(6,004,208)		(24,609,438)
Non-controlling interest		-		-
		<u><u>(6,004,208)</u></u>		<u><u>(24,609,438)</u></u>
Total comprehensive income attributable to:				
Owners of the parent		(6,004,208)		(24,609,438)
Non controlling interest		-		-
		<u><u>(6,004,208)</u></u>		<u><u>(24,609,438)</u></u>
			<i>Consolidated</i>	
		<i>2012</i>		<i>2011</i>
		<u>Cents</u>		<u>Cents</u>
Loss per share from continuing operations attributable to the ordinary equity holders of the parent:				
Basic loss per share	26	(2.78)		(11.96)
Diluted loss per share		(2.78)		(11.96)

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

Balance Sheet

As at 31 December 2012

	<i>Note</i>	<i>2012</i>	<i>Consolidated</i>	<i>2011</i>
		<u>\$</u>		<u>\$</u>
ASSETS				
Current Assets				
Cash and cash equivalents	10	3,923,531		4,250,390
Trade and other receivables	11	5,231,312		936,417
Total Current Assets		<u>9,154,843</u>		<u>5,186,807</u>
Non-current Assets				
Plant and equipment	12	5,204,703		6,247,826
Exploration and evaluation	13	45,973,818		59,496,987
Intangible assets and goodwill	14	86,195,722		85,925,366
Total Non-current Assets		<u>137,374,243</u>		<u>151,670,179</u>
TOTAL ASSETS		<u>146,529,086</u>		<u>156,856,986</u>
LIABILITIES				
Current Liabilities				
Trade and other payables	15	11,139,794		4,379,329
Provisions	16	244,765		154,024
Total Current Liabilities		<u>11,384,559</u>		<u>4,533,353</u>
Non-current Liabilities				
Other payables	17	4,501,952		17,973,856
Total Non-current Liabilities		<u>4,501,952</u>		<u>17,973,856</u>
TOTAL LIABILITIES		<u>15,886,511</u>		<u>22,507,209</u>
NET ASSETS		<u>130,642,575</u>		<u>134,349,777</u>
EQUITY				
Contributed equity	18	183,719,895		181,621,888
Accumulated losses		(56,442,127)		(50,437,918)
Employee equity benefit reserve		864,807		665,807
Acquisition reserve		2,187,500		2,187,500
Equity attributable to owners of the parent		<u>130,330,075</u>		<u>134,037,277</u>
Non-controlling interest		312,500		312,500
TOTAL EQUITY		<u>130,642,575</u>		<u>134,349,777</u>

The above balance sheet should be read in conjunction with the accompanying notes.

Cash Flow Statement

For the year ended 31 December 2012

	<i>Note</i>	<i>2012</i>	<i>Consolidated</i>	<i>2011</i>
		<u>\$</u>		<u>\$</u>
Cash flows from operating activities				
Receipts from customers		730,840		2,300,215
Payments to suppliers and employees		(9,496,043)		(6,866,490)
Payments for exploration and evaluation not capitalised		(65,430)		(293,203)
Grants received		2,110,071		712,500
Research & Development Tax Refund		726,269		731,434
Interest received		299,494		321,055
Interest and other costs of finance paid		(95,925)		(48,343)
Net cash flows used in operating activities	10	<u>(5,790,723)</u>		<u>(3,142,832)</u>
Cash flows from investing activities				
Proceeds from the sale of certain Exploration Rights		12,500,000		-
Payments for property, plant and equipment		(2,160,466)		(5,257,955)
Payments for patents		(270,356)		(221,156)
Net cash flows used in investing activities		<u>10,069,177</u>		<u>(5,479,111)</u>
Cash flows from financing activities				
Proceeds from deemed disposal of 12.5% of subsidiary		-		2,500,000
Proceeds from issue of ordinary shares		1,034,227		11,770,000
Fund raising expenses written off		-		(242,481)
Proceeds / (Repayments) of loans		(5,639,538)		(2,046,000)
Net cash flows from financing activities		<u>(4,605,311)</u>		<u>11,981,519</u>
Net increase/ (decrease) in cash and cash equivalents		(326,859)		3,359,576
Cash and cash equivalents at beginning of year		4,250,390		890,814
Cash and cash equivalents at end of year	10	<u>3,923,531</u>		<u>4,250,390</u>

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

Statement of Changes in Equity

For the year ended 31 December 2012

	<i>Contributed Equity</i>	<i>Accumulated losses</i>	<i>Employee Equity Benefit Reserve</i>	<i>Acquisition Reserve</i>	<i>Total</i>	<i>Non controlling interest</i>	<i>Total equity</i>
	\$	\$	\$	\$	\$	\$	\$
Consolidated							
At 1 January 2011	167,651,480	(25,828,480)	495,437	-	142,318,437	-	142,318,437
Loss for the period	-	(24,609,439)	-	-	(24,609,439)	-	(24,609,439)
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the year	-	(24,609,439)	-	-	(24,609,439)	-	(24,609,439)
Share based payment	-	-	450,370	-	450,370	-	450,370
Private Placement Capital Raising	13,690,408	-	-	-	13,690,408	-	13,690,408
Transfer from employee EBR on issuance of shares	280,000	-	(280,000)	-	-	-	-
Deemed disposal of 12.5% of subsidiary	-	-	-	2,187,500	2,187,500	312,500	2,500,000
At 31 December 2011	181,621,888	(50,437,919)	665,807	2,187,500	134,037,276	312,500	134,349,776
Loss for the period	-	(6,004,208)	-	-	(6,004,208)	-	(6,004,208)
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the year	-	(6,004,208)	-	-	(6,004,208)	-	(6,004,208)
Share based payment	357,200	-	199,000	-	556,200	-	556,200
Shares issued in lieu of cash payment	706,580	-	-	-	706,580	-	706,580
Private Placement Capital Raising	1,034,227	-	-	-	1,034,227	-	1,034,227
Issuance of shares in relation to Employee Share Plan	2,528,956	-	-	-	2,528,956	-	2,528,956
Transfer of Employee Share Plan shares to Employee Share Trust	(2,528,956)	-	-	-	(2,528,956)	-	(2,528,956)
At 31 December 2012	183,719,895	(56,442,127)	864,807	2,187,500	130,330,075	312,500	130,642,575

On 22 December 2011 Licella Fibre Fuels (LFF) issued shares comprising 12.5% of its total issued capital to NSA for \$2.5 million in cash. This transaction has been accounted for by LFF's immediate parent, Licella, and within the Group, as a deemed disposal of 12.5% of LFF. The difference between the initial carrying amount of the non-controlling interest in LFF (\$2.5 million) and the actual carrying amount of the non-controlling interest in LFF at 31 December 2011 (\$312k) has been accounted for directly within the acquisition reserve

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

Notes to the Financial Statements

For the year ended 31 December 2012

1 CORPORATE INFORMATION

The financial report of Ignite Energy Resources Ltd (IER) (the Group) for the year ended 31 December 2012 was authorised for issue in accordance with a resolution of the Directors on 17 April 2013. The Group is limited by shares incorporated in Australia. The nature of the operations and principal activities of the Group are described in the directors' report.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis.

(i) The financial report is presented in Australian dollars.

(ii) The Group has reported an operating loss of \$6,004,208 and has net current liabilities of \$2,229,716, which is an indication that the business may be unable to continue as a going concern and realise its assets and repay its liabilities in the ordinary course, however \$4,001,952 of current liabilities can be settled by the issuance of shares instead of cash (note 3(iii)). The financial report has been prepared on a going concern basis at 31 December 2012. The Group continues to investigate further capital raising opportunities which will be used to finance on-going operations, repayment of balances outstanding and general corporate purposes to realise value from the Group's intellectual property, exploration rights and patented technology. While no assurances can be given about the success of future fund raising activities, with a proven past ability to raise funds, the Group believes it can raise future funds to pursue its business strategy.

(b) Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(c) New accounting standards and interpretations

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies nor affected the amounts reported for the current or prior years.

At the date of authorisation of the Financial Report none of the Australian Accounting Standards and Interpretations issued or amended but not yet effective have been adopted by the Group for the financial reporting period ending 31 December 2012.

The directors have not considered the financial impact, if any, of the adoption of these standards and interpretations on the financial statements of the Company or the Consolidated Entity.

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries Ignite Energy Resources Engineering Pty Ltd, Licella Pty Ltd, Licella Fibre Fuels Pty Ltd, Gippsland Gas Pty Ltd, Ignite Resources Pty Ltd, Gelliondale Resources Pty Ltd, Gormandale Resources Pty Ltd, Stradbroke Resources Pty Ltd and Entrance Energy Inc..

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The acquisition of subsidiaries are accounted for using the acquisition method of accounting. The acquisition method of accounting involves the recognition and measurement of the identifiable assets acquired, the liabilities assumed any non controlling interest in the acquired entity and recognising and measuring goodwill or a gain from a bargain purchase option.

(e) Business combinations

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or contracted to be issued or liabilities incurred or assumed at the date of exchange. Where equity instruments are issued in a business combination, the instruments are recorded at the fair value at the date of exchange. As the equity of the company is not traded on a stock exchange, fair value is based on references to expert independent valuations of the equity issued and compared with recent private placement share valuations undertaken by the Group with knowledgeable third party investors. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Notes to the Financial Statements

For the year ended 31 December 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Foreign currency translation

Functional currency presentation

The presentation currency of the Group and its subsidiaries is Australian dollars (\$).

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(g) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity 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.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the balance sheet.

(h) Trade and other receivables

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(i) Property, plant and equipment

Plant & equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred. Depreciation of non mobile assets at the Somersby site is over the useful life of the asset or for the remaining period of the property lease, whichever is the lesser.

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific assets as follows:

Leasehold improvements	5 years
Demonstration plant	3 years
Furniture, fittings & equipment	2 years

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate, at each financial year end.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

(j) Goodwill and intangibles

Goodwill

Goodwill was fully impaired in 2011 and the impairment was determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units), to which the goodwill relates.

Intangibles

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Patents & intellectual property

Patent and intellectual property represents the fair value of these intangible assets recorded as a result of acquisition of Ignite Energy Resources Engineering Pty Ltd and Licella Pty Ltd. The fair value at acquisition is based on valuations obtained on the patents and technology owned by these entities by management and supported by the view of the Directors.

Rights to pending patents and intellectual property have been acquired through business combinations and are carried at initial cost less accumulated impairment losses. The intangible assets held at 31 December 2012 have been determined to have indefinite useful lives. The patents shall be granted for a minimum of twenty years by the relevant government agency with the option of renewal without significant cost at the end of this period provided that the Group meets certain predetermined targets which are currently expected to be achieved. The rights to the pending patents are subject to impairment testing on an annual basis or whenever there is an indication of impairment.

Notes to the Financial Statements

For the year ended 31 December 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Exploration and evaluation expenditure

Expenditure on exploration and evaluation is accounted for in accordance with the 'area of interest' method. Exploration and evaluation expenditure is capitalised provided the rights to tenure of the area of interest is current and either:

- the exploration and evaluation activities are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not at the reporting date reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or relating to, the area of interest are continuing.

When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated then any capitalised exploration and evaluation expenditure is reclassified as capitalised mine development. Prior to reclassification, capitalised exploration and evaluation expenditure is assessed for impairment.

Impairment

The carrying value of capitalised exploration and evaluation expenditure is assessed for impairment at the cash generating unit level at least annually and whenever facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount. An impairment exists when the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. Any impairment losses are recognised in the income statement.

Farm-out Agreements

Farm-outs commonly occur in the exploration phase and are characterised by the farmer giving up future economic benefits, in the form of reserves, in exchange for reduced future funding obligations. In the exploration phase the Group accounts for farm-outs as follows:

- (i) there is no recognition of expenditure made by the farmee on the Groups behalf;
- (ii) gains or losses are not recognised on the farm-out arrangement, but rather any costs previously capitalised in relation to the whole interest are re-designated as relating to the partial interest retained;
- (iii) any cash consideration received is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the Group as a gain on disposal.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level consistent with the methodology outlined for goodwill above. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

(l) Trade, related party and other payables

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

Convertible notes

The convertible notes on issue are classified as a liability on the basis that their characteristics meet requirements for such classification. The holder of these notes has the sole discretion to require settlement in cash for 50% of the face value at maturity or full cash settlement on the occurrence of certain default events, in addition to an option to convert the note to equity. (Note 17)

Farm-Out Agreements

Farm-outs commonly occur in the exploration phase and are characterised by the farmer giving up future economic benefits, in the form of reserves, in exchange for reduced future funding obligations. In the exploration phase the Group accounts for farm-outs as follows:

- there is no recognition of expenditures made by the farmee on the Group's behalf
- gains or losses are not recognised on the farm-out arrangement, but rather any costs previously capitalised in relation to the whole interest are redesignated as relating to the partial interest retained; and
- any cash consideration received is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the Group as a gain on disposal.

(m) Employee benefits

Employee leave benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include annual leave and long service leave.

Annual service leave provisions are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled.

The liability for long service leave is recognised and measured as the present value of the expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturities and currencies that match, as closely as possible, the estimated future cash flows.

(n) Contributed equity

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

Where a contractual right exists to exchange a fixed number of equity units for assets (or other contributions), the number and value of this equity is disclosed as shares to be issued.

(o) Revenue recognition

Rendering of services revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the asset.

Notes to the Financial Statements

For the year ended 31 December 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Income tax and other taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

* When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

* When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

* When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

* When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

* When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable

* Receivables and payables, which are stated with the amount of GST included

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

MRRT and PRRT

During the year the Mineral Resources Rent Tax (MRRT) and Petroleum Resources Rent Tax (PRRT) regimes commenced. The Company is subject to both regimes as a result of its interest in EL 4416.

R&D Incentive Grants

On 1 July 2011 the Research & Development (R&D) incentive regime commenced. Under this regime, entities with aggregated revenue of less than \$20 million can receive 45% cash grants within the existing R&D scheme. The Group accounts for R&D grants under the requirements of AASB 120 Government Grants rather than under the requirements of AASB 112 Income Taxes as receipt of grants will occur (provided the relevant criteria set out in the R&D regime are met) regardless of the level of the Group's taxable income. The Group recognises R&D incentive grants in the period to which they relate, but only upon having filed the signed tax return giving rise to the potential grant.

Tax Consolidation

Subsequent to year end, Ignite Energy Resources Limited and its wholly owned subsidiaries elected to form a tax consolidated group effective from 1 January 2010.

The entities in the tax consolidated group have not to date entered into a tax sharing agreement or a tax funding agreement.

(q) Share-based payment transactions

Equity settled transactions

The Group provides benefits to some of its executive Directors and employees in the form of share-based payments, whereby directors and employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of equity-settled transactions is measured by reference to the fair value of the equity instruments at the date at which they are granted.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than (if applicable):

- (i) Non-vesting conditions that do not determine whether the Group or Company receives the services that entitle the employee to receive payment in equity
- (ii) Conditions that are linked to the price of the shares of Ignite Energy Resources Limited (market conditions)

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 (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

Employee equity benefits reserve

The employee equity benefits reserve is used to record the value of share based payments provided to employees, including Directors, as part of their remuneration.

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of:

Notes to the Financial Statements

For the year ended 31 December 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payment transactions (continued)

- (i) The grant date fair value of the award.
- (ii) The current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met.
- (iii) The expired portion of the vesting period.

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Equity-settled awards granted by the Group to employees of subsidiaries are recognised in the parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. As a result, the expense recognised by the Group in relation to equity-settled awards only represents the expense associated with grants to employees of the parent. The expense recognised by the Group is the total expense associated with all such awards.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition or non-vesting condition is considered to vest irrespective of whether or not that market condition or non-vesting condition is fulfilled, provided that all other conditions are satisfied.

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. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, 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.

Long term incentives

The objective of the Long Term Incentive Scheme is to provide incentives to focus on long term projects with participation in the scheme open to all employees (including Executive Directors) who are invited by the Board and these incentive awards are granted by way of offers to participate in the Long Term Incentive Share Trust (LTIST)

Shares are acquired by a trustee who holds those shares on behalf of participants. The shares are acquired by the trustee by subscribing for new shares and vesting conditions may be a combination of service and performance hurdles, as determined by the directors. Participants hold their interest in the LTIST through units, where one unit represents one share. Participants are issued units at the prevailing market value of the shares and if the participant's employment ceases prior to the shares vesting, the participant's units in the LTIST are forfeited.

- (r) Trade receivables are non-interest bearing and are generally on 30-day terms. A provision for doubtful debts is recognised when there is objective evidence that an individual trade receivable is doubtful. A provision for doubtful debts of \$nil was made during the year (2011-\$nil).

The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, inter-company loans and cash and short-term deposits.

Risk exposures and responses

The purpose of these financial instruments is to raise finance for the Group's operations and to enable the continued development of the Group's technology, intellectual property and exploration activities.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate, foreign exchange and commodity prices. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

Primary responsibility for identification and control of financial risks rests with the Board of Directors. The Board reviews and agrees policies for managing each of the risks identified below.

(i) Interest rate risk

At balance date, the Group had the following financial assets and liabilities exposed to Australian variable interest rate risk:

	2012	Consolidated	2011
	<u>\$</u>		<u>\$</u>
Financial Assets			
Cash and cash equivalents	3,923,531		4,250,390
Financial Liabilities			
Interest bearing liabilities	628,635		1,878,635
Net exposure	<u>3,294,896</u>		<u>2,371,755</u>

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing and the mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date.

At 31 December 2012, if interest rates had moved, as illustrated in the table below, with all other variables held constant, profit/(loss) and other comprehensive income would have been affected as follows:

Notes to the Financial Statements

For the year ended 31 December 2012

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk continued

Judgements of reasonably possible movements:	Post Tax Profit higher/(lower)		Other comprehensive income higher/(lower)	
	2012 \$	2011 \$	2012 \$	2011 \$
Consolidated				
+1% (100 basis points)	39,235	42,504	-	-
-.5% (50 basis points)	(19,618)	(21,252)	-	-

The movements in profit are due to higher/lower interest receipts from variable rate cash balances.

(ii) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's experience of bad debts has not been significant.

(iii) Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due. The Group manages its liquidity risk by monitoring the total cash inflows and outflows expected on a monthly basis.

However, where the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay. When the Group is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the Group is required to pay.

Liquid non-derivative assets comprising cash and receivables are considered in the Group's overall liquidity risk. The Group ensures sufficient liquid assets are available to meet all the required short-term cash payments with trade creditors.

Liabilities include Convertible Notes of up to \$11.7m (2011 \$17.1m). The holder of the Convertible Note has the sole discretion to require settlement in cash for 50% of the value at maturity or full cash settlement on the occurrence of certain default events, in addition to an option to convert the notes to equity. Following repayment of the initial 50% of the loan the Company may repay the balance, at its sole discretion, by issuance of shares to the noteholder based on a conversion price of \$1.2375 per share (\$8,003,904). The Convertible Notes are paid based on a calculation of available cash. Should the Company receive a significant inflow of funds during 2013 then it may be required to pay some of the Convertible Notes during 2013.

Consolidated	≤ 6 months \$	6-12 months \$	1-5 years \$	Total \$
Year ended 31 December 2012				
<i>Liquid financial assets</i>				
Cash and cash equivalents	3,923,531	-	-	3,923,531
Trade and other receivables	5,231,312	-	-	5,231,312
	<u>9,154,843</u>	<u>-</u>	<u>-</u>	<u>9,154,844</u>
<i>Financial liabilities</i>				
Trade and other payables	1,894,662	500,000	-	2,394,662
Loans from external parties	-	-	-	-
Related party payables	-	400,000	500,000	900,000
Related party payables (Convertible Notes)	2,000,976	1,713,569	-	3,714,545
	<u>3,895,638</u>	<u>2,613,569</u>	<u>500,000</u>	<u>7,009,207</u>
Net inflow/(outflow)	5,259,205	(2,613,569)	(500,000)	2,145,637
Payment of Convertible Note through share issuance	-	4,001,952	4,001,952	8,003,904
Year ended 31 December 2011				
<i>Liquid financial assets</i>				
Cash and cash equivalents	4,250,390	-	-	4,250,390
Trade and other receivables	936,417	-	-	936,417
	<u>5,186,806</u>	<u>-</u>	<u>-</u>	<u>5,186,807</u>
<i>Financial liabilities</i>				
Trade and other payables	1,900,694	500,000	-	2,400,694
Loans from external parties	1,250,000	-	-	1,250,000
Related party payables	-	100,000	900,000	1,000,000
<i>Liabilities subject to waiver and release</i>				
Related party payables subject to waiver and release	-	628,635	8,536,928	9,165,563
	<u>3,150,694</u>	<u>1,228,635</u>	<u>9,436,928</u>	<u>13,816,257</u>
Net inflow/(outflow)	2,036,113	(1,228,635)	(9,436,928)	(8,629,450)
Payment of Convertible Note through share issuance	-	-	8,536,928	8,536,928

Notes to the Financial Statements

For the year ended 31 December 2012

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(iv) Fair value

The fair value of the Group's current financial assets and liabilities is approximated by their carrying values due to the short-term nature of the items. The fair value of the Group's other long-term investments is reflected by their carrying values as the instruments have recently been negotiated and, as such, reflect prevailing market rates.

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

(a) Assumptions of fair value in business combinations

The Group uses assumptions and estimates in determining the fair value of assets acquired and liabilities assumed in business combinations. A significant portion of the purchase price in these business combinations is assigned to intangible assets that require significant judgement in determining (i) fair value and (ii) whether such intangibles are amortisable or non-amortisable and if the former, the period and method of amortisation.

(b) Impairment of capitalised exploration and evaluation expenditure

The Group accumulates certain costs associated with exploration activities as specific areas of interest where the Group has rights of tenure. The Group has the expectation that all such rights of tenure will remain current.

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related mining tenements or, if not, whether it successfully recovers the related exploration and evaluation asset through commercially viable exploration or sale. Factors that could impact the future recoverability include the level of reserves and resources, future technological changes (which could impact the cost of mining), future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made. In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent it is determined in the future that this capitalised expenditure should be written off, profits and net assets will be reduced in the period in which this determination is made.

(c) Impairment of property, plant and equipment

Property, plant and equipment is reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) or 'fair value less costs to sell'. In determining recoverable value, future cash flows are based on:

- estimates of the quantities of mineral resources for which there is a high degree of confidence of economic extraction;
- future production levels;
- future commodity prices; and
- future cash costs of production and capital expenditure.

Variations to the expected future cash flows expected by the Directors, and the timing thereof, could result in significant changes to any impairment losses recognised, which could in turn impact future financial results.

(d) Impairment of goodwill and intangibles with indefinite useful lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis including the capitalised patents and intellectual property disclosed in note 14. This requires an estimation of the recoverable amount of the cash-generating units, using either a value in use discounted cash flow methodology or fair value less costs to sell, to which the goodwill and intangibles with indefinite useful lives are allocated. The Group has currently determined that intellectual properties and patents have indefinite useful lives. The discounted cash flow methodology is based on future revenue streams expected to be generated from the use of these non-current intangible assets discounted at the rate of 10% to reflect the risk conditions.

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. An impairment loss is recognised for the amount by which the assets carrying value exceeds its recoverable value. For the purposes of assessing impairment, assets are reported at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

As a high percentage of the Group's asset base is comprised of intangible assets, secondary valuation techniques are also applied by the Directors with references to the value of shares in the Group issued in arm's length private placements as an indicator of expected fair value through sale, to further support fair value assumptions in the impairment assessments.

(e) Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The Group's shares have not been listed. Due to difficulty providing an accurate market derived share price, the Group has estimated the fair value of the shares based on the date of the last issuance in private placements. The option value attributed to employees has been estimated based on the difference between the exercise price of the option and the price of the shares at the date of granting to employees. The related assumptions are detailed in note 21. 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 in the event of equity valuation changes.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

	2012	Consolidated	2011
	\$		\$
5 Revenues			
Rendering of services	173,768		1,109,818
	<u>173,768</u>		<u>1,109,818</u>
		Consolidated	
	2012		2011
	\$		\$
6 Other Income			
Interest	299,494		321,055
Government grant	2,110,071		712,500
Research & Development Incentive Tax Refund	4,719,074		-
Research & Development Tax Refund	726,268		731,434
Other	176,662		25,365
Net foreign exchange gain	-		3,955
	<u>8,031,570</u>		<u>1,794,308</u>
		Consolidated	
	2012		2011
	\$		\$
7 Expenses			
(a) Legal and accounting	<u>1,123,002</u>		<u>515,272</u>
(b) Administrative overheads	474,636		317,938
Exploration costs not capitalised	65,430		293,203
General operating	180,621		179,965
Operating lease rental	332,464		334,820
Consulting and Contractors	3,207,207		1,476,758
Travel	329,560		257,783
Other expenses	20		16,291
	<u>4,589,938</u>		<u>4,436,293</u>
(c) <i>Finance expenses</i>			
Other finance expense	95,925		123,527
Net foreign exchange loss	-		(552)
	<u>95,925</u>		<u>122,975</u>
(d) <i>Depreciation, impairment and amortisation</i>			
Depreciation and amortisation	3,199,799		882,399
Amortisation	3,791		3,987
	<u>3,203,589</u>		<u>886,386</u>
(e) <i>Employee Benefits Expenses</i>			
Wages and salaries	2,509,457		905,890
Contracted Staff	1,372,529		1,559,535
Other employee benefits expense	758,906		589,099
	<u>4,640,892</u>		<u>1,494,989</u>
<i>Employee share benefits</i>			
Share-based payments expense	556,200		450,370
	<u>556,200</u>		<u>450,370</u>
(f) <i>Fund Raising Expenses</i>			
Capital Raising Expenses	-		242,481
	<u>-</u>		<u>242,481</u>
(g) <i>Impairment</i>			
Impairment of Intellectual Property	-		18,744,995
Impairment of Goodwill	-		619,804
	<u>-</u>		<u>19,364,799</u>

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

	<i>Consolidated</i>	
	<u>2012</u>	<u>2011</u>
	<u>\$</u>	<u>\$</u>
8 Income tax		
(a) Income tax expense		
The major components of income tax expense are:		
<i>Current income tax</i>	-	-
<i>Deferred income tax</i>	-	-
Income tax refund reported in income statement	<u>-</u>	<u>-</u>
A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense for the years ended 31 December 2012 and 31 December 2011 is as follows:		
Accounting loss before tax	(6,004,208)	(24,609,439)
At the income tax rate of 30% (2011: 30%)	(1,801,263)	(7,382,832)
Non-accessible income:		
R&D refund - Prior Year	(217,880)	(219,430)
R&D refund - Current Year	(1,415,723)	
Non-Deductible expenses:		
R&D Expenditure	2,776,853	
Impairment Losses	-	5,809,440
Meals & Entertainment	12,763	
Other bonus	-	-
Tax losses not recognised	<u>645,250</u>	<u>1,792,822</u>
Income tax expense reported in the income statement	<u>-</u>	<u>-</u>
Accumulated tax losses not recognised	<u>28,918,927</u>	<u>16,086,265</u>
(b) Unrecognised deferred tax assets and liabilities		
Provision annual leave	45,711	28,556
Provision long service leave	27,720	17,651
Other	<u>661,250</u>	<u>-</u>
Deferred tax assets	<u>734,681</u>	<u>46,207</u>
Foreign Currency losses	-	552
Deferred tax liabilities	<u>-</u>	<u>552</u>
	<u>2012</u>	<u>2011</u>
	<u>\$</u>	<u>\$</u>
9 Auditors Remuneration		
Auditing the financial report of the entity and other entities in the consolidated group	100,000	90,000
Other services in relation to the entity and other entities in the consolidated entity (R&D)	37,068	10,940
Tax	<u>174,901</u>	<u>-</u>
	<u>311,969</u>	<u>100,940</u>
	<u>2012</u>	<u>2011</u>
	<u>\$</u>	<u>\$</u>
10 Cash and cash equivalents		
Cash at bank and in hand	3,854,736	4,185,312
Short-term deposits	<u>68,796</u>	<u>65,078</u>
	<u>3,923,531</u>	<u>4,250,390</u>

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

Cash and cash equivalents continued	<i>Consolidated</i>	
	<i>2012</i>	<i>2011</i>
a) Reconciliation to cash flow statement	<u>\$</u>	<u>\$</u>
Net loss	(6,004,208)	(24,609,439)
<i>Adjustments for non-cash and other items:</i>		
Depreciation and Amortisation	3,203,589	886,386
Share based payments	556,200	450,370
Bad debt expense	-	(89,626)
Other expenses paid via share issuance	706,580	908,706
Interest accrued and not paid	-	74,362
Foreign exchanges losses	-	(3,955)
Movement in provisions for:		
Employee entitlements	90,744	59,260
Impairment of intangible assets	-	19,364,798
<i>Changes in assets and liabilities:</i>		
(Increase)/decrease in Receivables	482,029	1,071,684
(Increase)/decrease in R&D incentive receivable	(4,776,924)	-
(Decrease)/increase in Payables	(48,730)	(1,255,379)
Net cash used in operating activities	<u>(5,790,719)</u>	<u>(3,142,832)</u>

	<i>Consolidated</i>	
	<i>2012</i>	<i>2011</i>
11 Current assets - trade and other receivables	<u>\$</u>	<u>\$</u>
Trade receivables	359,512	840,292
less: Provision for Doubtful Debts	-	-
R&D Incentive receivables	4,719,074	-
Sundry debtors	87,860	37,860
Prepaid expenses	64,866	58,265
	<u>5,231,312</u>	<u>936,417</u>

(a) Provision for doubtful debts

Trade receivables are non-interest bearing and are generally on 30-day terms. A provision for doubtful debts is recognised when there is objective evidence that an individual trade receivable is doubtful. A provision for doubtful debts of \$nil was made during the year (2011-\$nil).

As at start of period	-	89,626
Charge for the period	-	(89,626)
As at end of period	<u>-</u>	<u>-</u>

At 31 December 2012, the ageing analysis of trade receivables is as follows:

	0-30 days	>90 days	Total
	\$	\$	\$
2012 Consolidated	252,419	107,093	359,512
2011 Consolidated	840,292	-	840,292

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

11 Current assets- trade and other receivables continued

Other balances within trade and sundry receivables includes \$107,093 past due but not impaired. All other balances were within normal trading terms.

(b) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security.

(c) Foreign exchange and interest rate risk

Detail regarding foreign exchange and interest rate risk exposure is disclosed in note 3.

	<i>Leasehold Improvements</i>	<i>Plant and Buildings</i>	<i>Furniture, Fixtures & Equipment</i>	<i>Total</i>
	\$	\$	\$	\$
<i>Consolidated</i>				
12 Property, plant and equipment				
<i>Year ended 31 December 2012</i>				
Opening balance net of depreciation and impairment	44,576	5,537,377	665,873	6,247,826
Additions	231	2,083,861	72,584	2,156,676
Depreciation	(12,213)	(3,166,016)	(21,570)	(3,199,800)
Closing balance	<u>32,593</u>	<u>4,455,222</u>	<u>716,887</u>	<u>5,204,703</u>
<i>Total property, plant and equipment</i>				
Cost	141,460	9,272,152	1,461,211	10,874,823
Accumulated depreciation	(108,866)	(4,816,929)	(744,325)	(5,670,120)
Net carrying amount	<u>32,594</u>	<u>4,455,223</u>	<u>716,886</u>	<u>5,204,703</u>
<i>Consolidated</i>				
<i>Year ended 31 December 2011</i>				
Opening balance net of depreciation and impairment	41,141	1,161,050	674,066	1,876,257
Additions	25,304	5,209,889	22,762	5,257,955
Depreciation	(21,869)	(833,562)	(30,955)	(886,386)
Closing balance	<u>44,576</u>	<u>5,537,377</u>	<u>665,873</u>	<u>6,247,826</u>
<i>Total property, plant and equipment</i>				
Cost	141,229	7,188,291	1,388,627	8,718,147
Accumulated depreciation	(96,653)	(1,650,914)	(722,754)	(2,470,321)
Net carrying amount	<u>44,576</u>	<u>5,537,377</u>	<u>665,873</u>	<u>6,247,826</u>

	<i>Consolidated</i>	
	<i>2012</i>	<i>2011</i>
	\$	\$
13 Exploration and Evaluation		
Balance at the beginning of the period, at cost	<u>59,496,987</u>	<u>59,496,987</u>
Expenditure for the period at cost on EL4968	40,000	-
Valuation adjustment (i)	(1,063,170)	-
Sale of 10% interest in EL4416 (ii)	(12,500,000)	-
Balance at the end of the period	<u>45,973,818</u>	<u>59,496,987</u>

- (i) The Group acquired certain exploration assets from CBM Resources in 2008 in exchange for shares and a note payable. The quantum of the note payable was originally \$17.1 million. During 2012 CBM Resources assigned the note to Karr Securities Inc. During 2013 the Group and Karr agreed that the quantum of the note be reduced to \$16.0 million, of which \$4.3 million was paid to Karr during the year. The reduction in the quantum of the note payable has been offset against the related exploration and evaluation assets.
- (ii) During June 2012 the Group entered into an agreement with Esso Ventures Pty Ltd, whereby the Group sold an initial 10% interest in the coal seam gas rights within EL 4416 for proceeds of \$12.5 million. Under the agreement, Esso has the right to earn up to a total interest of 51% in exchange for funding the next \$50 million of exploration expenditures.

In accordance with the Group's accounting policy for farm out arrangements, the Group has accounted for the initial sale by crediting the funds received against the costs previously capitalised in relation to this interest and has not recognised any expenditures made on its behalf by Esso.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

14 Intangible Assets and Goodwill

(a) Reconciliation of carrying amounts at the beginning and end of the period

	<i>Patents</i>	<i>Intellectual Property</i>	<i>Goodwill</i>	<i>Total</i>
	\$	\$	\$	\$
<i>Consolidated</i>				
Year ended 31 December 2012				
At 1 January 2012 net of accumulated amortisation and impairment	17,324,289	68,601,077	-	85,925,366
Other movements at cost	270,356	-	-	270,356
Impairment Loss	-	-	-	-
At 31 December 2012, net of accumulated amortisation and impairment	17,594,645	68,601,077	-	86,195,722

	<i>Patents</i>	<i>Intellectual Property</i>	<i>Goodwill</i>	<i>Total</i>
	\$	\$	\$	\$
<i>Consolidated</i>				
Year ended 31 December 2011				
At 1 January 2011 net of accumulated amortisation and impairment	17,103,133	86,346,072	619,804	104,069,009
Other additions at cost	221,156	1,000,000	-	1,221,156
Impairment Loss	-	(18,744,995)	(619,804)	(19,364,799)
At 31 December 2011, net of accumulated amortisation and impairment	17,324,289	68,601,077	-	85,925,366

The recoverable amount of these intangible assets and goodwill is estimated based on a 'value in use calculation' using cash flow forecasts approved by the Directors. The forecasts assumes licence fees payable by third parties for the use of related patents and technology and assume certain volumes of throughput for processing using the technology and further investments in plant development technology and other activities requiring further fund raising in the future. There are no terminal value assumptions or earnings multipliers included in these forecasts. As the Group has control of the technology patents and technology intellectual property under various legal and contractual rights preventing direct technological competition for at least a period of 20 years, the value in use assessments have taken this time period into account. Cashflows have been discounted at 15%. As a cross check to these value in use impairment assessments, reference is made to recent equity issues made by the Group in arm's length equity placements to assess the fair value through sale of the intangible assets and goodwill.

Events or circumstances such as adverse business conditions, volatile economic factors, unanticipated technological changes or competitive factors, loss of key employees or acts by governments, regulators or courts may materially impact the impairment assumptions used by the Directors to assess the fair value of these intangibles and goodwill in future reporting periods.

(b) Description of the Group's intangible assets and goodwill

(i) Patents

The Group is progressing seven separate patent applications. Rights to patents have been acquired through business combinations and are carried at initial cost less accumulated impairment losses. These intangible assets have been determined to have indefinite useful lives. The patents are granted for a minimum of twenty years by the relevant government agency with the option of renewal without significant cost at the end of this period provided that the Group meets certain predetermined targets which are currently expected to be achieved. The fact that there is evidence to support the Group's ability to meet the necessary targets has enabled the Group to determine that these assets have an indefinite useful life. The rights to the patents are subject to impairment testing on an annual basis or whenever there is an indication of impairment.

It is anticipated that the patents, once accepted in the signatory nations to the Patent Cooperation Treaty, will have no foreseeable limit to the period over which the assets are expected to generate net cash inflows for the Group on either a national or global basis. The assets are anticipated to have indefinite useful lives on the basis of these facts.

(ii) Intellectual Property

The intellectual property acquired through business combinations includes unpatented technology, databases, design contracts, process documentation, trademarks and brands.

The Group has developed a low-carbon emission technology (Cat-HTR) which converts low ranked energy sources such as lignite (brown coal) and cellulosic biomass such as wood wastes, agricultural residues or algae and aquatic plants, into non-conventional crude oil.

(iii) Goodwill

Goodwill has been fully impaired in the prior year.

(c) Impairment losses recognised

During the year a \$nil (2011 -\$18,744,995) impairment loss was recognised.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

	2012	<i>Consolidated</i>	2011
	\$		\$
15 Current liabilities - trade & other payables			
Trade payables	376,261		647,468
Accrued and other liabilities	<u>1,518,401</u>		<u>1,253,226</u>
	<u>1,894,662</u>		<u>1,900,694</u>
Due to Brookstone Pty Ltd	628,635		628,635
Due to Solid Energy	-		1,250,000
Due to Karmin Exploration, Inc	500,000		500,000
Related party payables			
Convertible loan due to Karr Securities Inc. (note 3(iii))	7,716,497		-
Due to Cellulo Pte Limited (note 17)	<u>400,000</u>		<u>100,000</u>
	<u>9,245,132</u>		<u>2,478,635</u>
	<u>11,139,794</u>		<u>4,379,329</u>

(a) Fair value

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

(b) Foreign exchange, interest rate and liquidity risk

Detail regarding foreign exchange, interest rate and liquidity risk exposure is disclosed in note 3.

	2012	<i>Consolidated</i>	2011
	\$		\$
16 Provisions			
Annual Leave	152,366		95,186
Long Service Leave	<u>92,399</u>		<u>58,838</u>
	<u>244,765</u>		<u>154,024</u>

	2012	<i>Consolidated</i>	2011
	\$		\$
17 Non current liabilities - other payables			
Related party payables			
Convertible loan due to Karr Securities Inc. (note 3(iii))	4,001,952		17,073,856
Due to Cellulo Pte Limited	<u>500,000</u>		<u>900,000</u>
	<u>4,501,952</u>		<u>17,973,856</u>

(a) Assignment of Convertible Note - Karr Securities, Inc

During the prior year the convertible notes were transferred from CBM Resources Pty Ltd to Karr Securities, Inc (Karr). There is one common director of both Karr and the Company.

(b) Amount due to Cellulo Pte Limited

During the prior year Cellulo Pte Limited (Cellulo) agreed to amend a royalty agreement with the Company for a consideration of \$1 million. There is one common director of both Cellulo and the Company

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

18 Contributed Equity and Equity to be Issued

	<i>Number of shares (Thousands)</i>	<i>Consolidated Contributed Equity \$</i>
Movement in ordinary shares on issue		
At 1 January 2011	185,195	167,651,480
Other contributed equity		
Private Placement Capital Raising	27,821	13,690,408
Transfer from	500	280,000
At 1 January 2012	213,516	181,621,888
Share based payment	1,000	357,200
Shares issued in lieu of cash payment	911	706,580
Private Placement Capital Raising	1,847	1,034,227
Issuance of shares in relation to Employee Share Plan	7,080	2,528,956
Transfer of Employee Share Plan shares to Employee Share Trust	(7,080)	(2,528,956)
At 31 December 2012	217,274	183,719,895

19 Related party disclosures

(a) Subsidiaries

The consolidated financial statements include the financial statements of Ignite Energy Resources Limited and the subsidiaries listed in the following table.

Name	Country of incorporation	% Equity interest		Investment	
		2012	2011	2012	2011
Ignite Energy Resources Engineering Pty Limited	Australia	100	100	65,000,000	65,000,000
Licella Pty Limited	Australia	100	100	40,000,000	40,000,000
Licella Fibre Fuels Pty Ltd	Australia	87.5	87.5	120	120
Gippsland Gas Pty Ltd	Australia	100	-	500	-
Ignite Resources Pty Ltd	Australia	100	-	2	-
Gelliondale Resources Pty Ltd	Australia	100	-	2	-
Gormandale Resources Pty Ltd	Australia	100	-	2	-
Stradbroke Resources Pty Ltd	Australia	100	-	2	-
Entrance Energy Inc. (formerly Gastar Inc.)	U.S.A.	100	-	40,000	-
				105,040,628	105,000,120

(b) Ultimate parent

At 31 December 2012, Ignite Energy Resources Limited is the ultimate parent.

(c) Key management personnel (KMP)

Details relating to KMP, including remuneration paid, are included in note 20.

(d) Transactions with related parties

The following table provides the total amount of transactions that were entered into with related parties for the relevant period (for information regarding outstanding balances on related party trade receivables and payables at period end, refer to notes 11 and 15 respectively with note 17 disclosing non current related party payables):

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

19 Related party disclosures continued

Related Party	Purchases from related parties \$	Loans to related parties \$	Fees paid to related parties \$
2012			
Claymore Capital Pty Ltd	84,476	-	-
Gordon Ewart	-	50,000	-
2011			
Cellulo Pty Ltd	-	-	-
Global Sustainable Development Pty Ltd	60,000	-	-
HCS Enviromental Pty Ltd	465,000	-	-
Claymore Capital Pty Ltd	180,000	-	1,558,119

20 Key management personnel (KMP)

Compensation for key management personnel

	<i>2012</i>	<i>Consolidated</i>	<i>2011</i>
	<u>\$</u>		<u>\$</u>
Short-term employee benefits	640,000		1,256,250
Post-employment benefits	-		21,600
Share-based payment	178,600		420,000
Total compensation	<u>818,600</u>		<u>1,697,850</u>

21 Share-based payment plans

(a) Recognised share-based payment expenses

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

	<i>2012</i>	<i>Consolidated</i>	<i>2011</i>
	<u>\$</u>		<u>\$</u>
Expense arising from equity-settled share-based payment transactions	556,200		450,370
Total expense arising from share-based payment transactions (note 7(e))	<u>556,200</u>		<u>450,370</u>

(b) Types of share based payment plans

Employee share option plan (ESOP)

Share options were granted to executives and staff. The ESOP is designed to align participants' interests with those of shareholders by increasing the value of the Company's shares. Under the ESOP, the exercise price of the options was set at a discount to the share price on the date of grant which is determined by the Board.

When a participant ceases employment prior to the vesting of their share options, the share options are forfeited unless cessation of employment is due to termination initiated by the Group or death. In the event of a change of control the performance period end date will be brought forward to the date of the change of control and awards will vest subject to performance over this shortened period.

The contractual life of each option granted is between two and three years. There are no cash settlement alternatives.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

21 Share-based payment plans continued

(b) Types of share based payment plans

In the prior period the Company had been seeking to list on a public exchange and had significant discussions regarding this strategy with a number of suitably qualified people to support this listing. Under the Key Consultant Option Plan (KCOP), the exercise price of the options is set equal to the share price on the date of grant. Performance is measured by the completion of a successful public listing. The performance measurement date is anticipated to occur in 2013.

When a participant ceases to provide services to the company prior to the vesting of their share options, the share options are forfeited unless cessation of employment is due to termination initiated by the Group or death. In the event of a change of control the performance period end date will be brought forward to the date of the change of control and awards will vest subject to performance over this shortened period. The Company prohibits consultants from entering into arrangements to protect the value of unvested KCOP and ESOP awards

Options granted under the KCOP vest following 12 months of the Company's stock being listed on a public exchange and the stock closing price trading above the exercise price for a period of 60 days continuously. The options may be exercised any time from the vesting date up to 31 December 2013.

(c) Summaries of options granted under ESOP & KCOP

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, ESOP & KCOP share options issued during the year:

	2012 No.	2012 WAEP	2011 No.	2011 WAEP
Outstanding at the beginning of the year	13,311,250	1.52	14,613,750	1.46
Granted during the year	-	-	750,000	1.90
Exercised during the year	-	-	(500,000)	0.56
Terminated during the year	-	-	(1,552,500)	1.60
Terminated during the year and renegotiated	-	-	-	-
Outstanding at the end of the year	<u>13,311,250</u>	<u>1.52</u>	<u>13,311,250</u>	<u>1.52</u>

Exercisable prior to the end of the year

	-	-	-	-
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The outstanding balance (13,311,250) as at 31 December 2012 is represented by:

Granted under ESOP or KCOP

- 1,000,000 options over ordinary shares with exercise price of \$0.00 each
- 2,000,000 options over ordinary shares with exercise price of \$0.55 each
- 1,311,250 options over ordinary shares with exercise price of \$1.60 each, exercisable upon meeting the above conditions
- 9,000,000 options over ordinary shares with exercise price of \$1.90 each, exercisable upon meeting the above conditions

	2012	2011
-The weighted average share price at the date of exercise is:	1.52	1.52

(d) Summary of all options granted

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options issued during the year:

	2012 No.	2012 WAEP	2011 No.	2011 WAEP
Outstanding at the beginning of the year	66,353,477	0.82	27,457,110	1.29
Movement during the year under ESOP & KCOP	-	-	(1,302,500)	1.35
Granted during the year	1,000,000	1.00	44,252,921	0.58
Exercised during the year	-	-	-	-
Terminated during the year	(41,333,113)	0.56	(4,054,054)	1.85
Outstanding at the end of the year	<u>26,020,364</u>	<u>1.27</u>	<u>66,353,477</u>	<u>0.82</u>

Not granted under ESOP or KCOP

- 4,054,054 options over ordinary shares with exercise price of \$1.85 each.
- 4,053,433 options over ordinary shares with exercise price of \$0.00 each, exercise conditional upon meeting milestones
- 2,601,626 options over ordinary shares with exercise price of \$0.62 each, exercisable to 14 March 2016
- 1,000,000 options over ordinary shares with exercise price of \$1.00 each, exercisable to 30 November 2014
- 1,000,000 options over ordinary shares with exercise price of \$1.00 each, exercisable to 28 June 2015

	2012	2011
-The weighted average share price at the date of exercise is:	1.27	0.82

The options are granted based upon the following terms and conditions:

- Each option entitles the holder to subscribe for one share upon exercise of each option.
- The options are exercisable at any time prior to the expiry date and on exercise conditions being met.
- Shares issued on exercise of the options rank equally with the then shares of the Company.
- If there is any reconstruction of the issued share capital of the Company subsequent to being listed, the rights of the option holders may be varied to comply with the ASX Listing Rules which apply to the reconstruction at the time of the reconstruction.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

21 Share-based payment plans continued

(e) Summary of Long Term Incentive Scheme

The following table illustrates the number (No.) and movements in, Employee Share Plan Share Units issued during the year under either Continuous Employment or Performance Target vesting conditions:

Retention Shares: Share Units subject to the Continuous Employment vesting condition shall only be issued on the condition that the employee has been continuously employed by the Company from the grant date and has not materially breached their employment contract until the vesting date of 1 July 2015.

Performance Shares: Share Units subject to the Performance Target vesting condition shall only be issued on the condition that the Company has realised a share price of \$0.74 per share through either sale of the Company or its assets to a third party investor and/or the listing of the Company's shares on a public exchange. This date is estimated to be 30 June 2015

	2012 No.	2011 No.
Outstanding at the beginning of the year	-	-
Granted during the year	7,080,000	-
Outstanding at the end of the year	<u>7,080,000</u>	<u>-</u>

Granted under LTIS

- 2,754,000 shares issued in October 2012 with a fair value of \$0.36 each, vesting on 30 June 2015, subject to retention vesting conditions.
- 3,166,000 shares issued in October 2012 with a fair value of \$0.36 each, vesting on 30 June 2015, subject to performance vesting conditions.
- 386,000 shares issued in December 2012 with a fair value of \$0.36 each, vesting on 30 June 2015, subject to retention vesting conditions.
- 774,000 shares issued in December 2012 with a fair value of \$0.36 each, vesting on 30 June 2015, subject to performance vesting conditions.

(f) Range of exercise price

The range of exercise prices for options outstanding at the end of the year was \$0.00 - \$1.90 (2011: \$0.00 - \$1.90)

As the range of exercise prices is wide, refer to section (c) above for further information in assessing the number and timing of additional shares that may be issued and the cash that may be received upon exercise of those options.

(g) Option Pricing Model: ESOP, KCOP, LTIS

The fair value of the equity-settled share options granted is estimated as at the date of grant using a weighted average price calculation method which is based on the share prices used in private equity raisings by the company during the period.

22 Contingencies and commitments

(a) Leasing Commitments

Operating lease commitments – as lessee

The Group has entered into commercial leases on certain premises. These leases expire within two years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December 2012 are as follows:

	2012 \$	<i>Consolidated</i> 2011 \$
Within one year	261,076	197,661
After one year but not more than five years	397,012	327,685
After more than five years	-	-
Total minimum lease payments	<u>658,088</u>	<u>525,346</u>

b) Equity Fundraising

Obligation to issue share on listing

The Company has made a commitment to issue additional ordinary shares in the Company to three shareholders that invested \$2,770,027 in December 2009 for 1,521,993 shares. The Company is required to issue additional shares to these shareholders should it list on public stock exchange with a share price lower than AU\$2.093 per share. The number of shares required to be issued reduces as the listing price increases until no shares are to be issued in the event of a listing price of AU\$2.093 per share. For example, should the Company's list in the future for a price of \$0.60 per share then the Company would be required to issue an additional 4,053,433 shares to these shareholders.

Norske Skog (Australia) No. 2 Pty Ltd - Put Option over Licella Fibre Fuels Pty Ltd

On 1 December 2011, the Company and its subsidiary Licella Pty Ltd (Licella) entered into a Subscription and Shareholders' Deed (Shareholders' Deed) with Norske Skog (Australia) No. 2 Pty Ltd (NSA) relating to the allotment of shares in Licella subsidiary Licella Fibre Fuels P/L (LFF). At balance date allotment of shares in LFF totalled \$2,250,000.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

c) Contingent Liabilities

During the prior year the Company fully paid both principal and interest owing on a loan that had been received from a former related party. The amount paid included interest accrued in the accounts since the signing of the original loan agreement and was consistent with prior year financial statements and approved by the lender. When the Company arranged final payment on the loan, the lender stated a claim for additional interest relating to a period prior to the signing of the loan agreement. The Company had accrued \$36,505 interest whereas the lender claimed \$277,683. The Company continues to dispute the claim and has recorded the loan as being fully paid.

23 Events after the balance sheet date

On 1 February 2013 Licella Pty Ltd, a wholly owned subsidiary of the Company signed a Funding Agreement with the Australian Renewable Energy Agency (ARENA) for a \$5.4 million Government grant towards undertaking a feasibility study into the construction of its first pre-commercial biofuels plant.

24 Information relating to Ignite Energy Resources Limited - the Parent Entity

	2012 \$	2011 \$
Current assets	6,776,267	1,359,715
Non current assets	164,725,967	176,903,353
Total assets	171,502,234	178,263,068
Current liabilities	1,688,028	2,210,209
Non current liabilities	11,718,450	17,573,858
Total liabilities	13,406,478	19,784,066
Issued capital	183,719,895	181,251,828
Retained earnings	(26,488,946)	(24,828,263)
Employee equity benefits reserve	864,807	2,055,437
	158,095,756	158,479,002
Loss of the parent entity - current year	2,110,484	4,664,960

25 Segment reporting

For management purposes, the Company is organised into one main operating segment, which involves the exploration and upgrading of coal and biomass in Australia. All of the Company's activities are interrelated, 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 Company as one segment. The financial results from this segment are equivalent to the financial statements of the Company as a whole.

The accounting policies applied for internal reporting purposes are consistent with those applied in the preparation of these financial statements.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

26 Earnings per share

The following reflects the income used in the basic and diluted earnings per share computations:

(a) Loss used in calculating Earnings (Loss) Per Share

For basic and diluted loss per share:

	<i>2012</i>	<i>Consolidated</i>	<i>2011</i>
	\$		\$
Net Profit / (loss) attributable to ordinary equity holders of the parent	<u>(6,004,208)</u>		<u>(24,609,439)</u>

(b) Weighted Average number of Shares

	<i>2012</i>	<i>2011</i>
Weighted average number of ordinary shares for basic loss per share	<u>216,039,496</u>	<u>205,734,344</u>
Effect of dilution	<u>-</u>	<u>-</u>
Weighted average number of ordinary shares adjusted for the effect of dilution	<u><u>216,039,496</u></u>	<u><u>205,734,344</u></u>

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

(c) Information on the classification of securities

(i) Options

Options granted to employees (including KMP) as described in note 21 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. These options have not been included in the determination of basic earnings per share.

Directors' Declaration

In accordance with a resolution of the directors of Ignite Energy Resources Limited, I state that:

In the opinion of the Directors:

- (a) the financial statements and notes of the company and the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company and the consolidated entity 's financial position as at 31 December 2012 and of their performance for the year ended on that date;
 - (ii) complying with Accounting Standards and the Corporations Regulations 2001; and
- (b) the financial statements and notes comply with International Financial Reporting Standards as disclosed in note 2(b); and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable subject to the circumstances outlined in Note 2 (a)(ii) of the financial report in respect to going concern.

On behalf of the Board



Dr Leonard Humphreys
Managing Director
17 April 2013

Independent auditor's report to the members of Ignite Energy Resources Ltd

Report on the financial report

We have audited the accompanying financial report of Ignite Energy Resources Ltd, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

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

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration.

Opinion

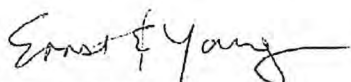
In our opinion:

- a. the financial report of Ignite Energy Resources Ltd is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

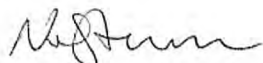
Material uncertainty regarding continuation as a going concern

Without qualifying our opinion, we draw attention to the consolidated statement of comprehensive income in the financial report which indicates the consolidated entity incurred a net loss of \$6,004,208 during the year ended 31 December 2012 and as of that date, the consolidated entity's current liabilities exceed its current assets by \$2,229,716. The ability of the consolidated entity to continue as a going concern is dependent on generating sufficient income to cover its costs and obtain necessary finance to continue its operations and in particular realise the value from material intangible assets included on the balance sheet of \$132,169,540. The recoverability of these assets is dependent on realisation of economically recoverable reserves, maintenance of interests in mining tenements and future funding to build appropriate processing plants from which license revenues for the consolidated entity's intellectual property and technology can be realised. The directors are using their best efforts to ensure such sources of funds are obtained and will continue to be available in the future however, should losses continue and future funding not be successful, the consolidated entity may be unable to continue as a going concern. No adjustments have been made relative to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern. Such adjustments could be material, in particular relating to the carrying value of intangibles, capitalised exploration and evaluation expenditure and goodwill.

As a result of these matters there is significant uncertainty whether the consolidated entity will continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

A handwritten signature in black ink, appearing to read "Ernst & Young".

Ernst & Young

A handwritten signature in black ink, appearing to read "Nigel Stevenson".

Nigel Stevenson
Partner
Sydney
17 April 2013