

# MEC RESOURCES LTD

ABN 44 113 900 020

Appendix 4E  
Preliminary Final Report  
For the year ended 30 June 2009

**Appendix 4E - Preliminary Final Report  
MEC Resources Ltd and its controlled subsidiaries  
For the Year Ended 30 June 2009**

***Results for announcement to the market***

\$A'000

|   |    |                            |    |                                    |
|---|----|----------------------------|----|------------------------------------|
| Revenues and other income from ordinary activities              | Up | 15%                        | to | 108                                |
| Loss from ordinary activities after tax attributable to members | Up | 675%                       | to | (3,357,021)                        |
| Net loss for the financial year attributable to members         | Up | 675%                       | to | (3,357,021)                        |
| <b>Dividends (distributions)</b>                                |    | <b>Amount per security</b> |    | <b>Franked amount per security</b> |
| Final dividend  |    | nil                        |    | nil                                |
| Interim dividend  |    |                            |    |                                    |
| Previous corresponding period                                   |    | n/a                        |    | n/a                                |

**Other notes to the condensed financial statements**

|   | Current period | Previous corresponding Period |
|---|----------------|-------------------------------|
| <b>Ratios</b>   |                |                               |
| <b>Profit before tax / revenue</b>  |                |                               |
| Consolidated profit (loss) from ordinary activities before tax as a percentage of revenue   | (3108.33)%     | (181.07)%                     |
| <b>Profit after tax / equity interests</b>  |                |                               |
| Consolidated net profit (loss) from ordinary activities after tax attributable to members as a percentage of equity (similarly attributable) at the end of the period | (81.08)%       | (8.06)%                       |

|  | Current period | Previous corresponding period |
|--|----------------|-------------------------------|
| <b>NTA Backing</b>                               |                |                               |
| Net tangible asset backing per ordinary security | 1.5 cps        | 8.3 cps                       |

**Appendix 4E - Preliminary Final Report  
MEC Resources Ltd and its controlled subsidiaries  
For the Year Ended 30 June 2009**

---

**Commentary on Results**

The operating loss for the consolidated entity after tax for the year ended 30 June 2009 was \$3,357,021 (2008: Loss \$433,939).

The net assets of the consolidated entity have decreased by \$2,067,180 to \$4,140,930 at 30 June 2009. The decrease can be wholly attributed to the reduction in the value of the consolidated entities listed investments. The decrease is in line with expectations and current market conditions.

Developments during the year included:

- a) MEC's investee Advent Energy Ltd secured a \$7 million conditional funding agreement.
- b) On 7th August 2008 MEC completed a non renounceable rights issue. A total of 34,825,125 shares and 52,237,697 options were issued to shareholders who participated. Funds of \$1,741,256 were raised.
- c) On 27<sup>th</sup> October 2008 MEC's investee Advent Energy provided a significantly increased resource estimate for the Petroleum Exploration Permit (PEP) 11. Prospective recoverable resources are estimated at up to 16.3 P10 trillion cubic feet of gas.
- d) Advent Energy farmed out 100% of EP 419 in the onshore Perth Basin to Exoma Energy. Advent retains a 3% royalty on profitable production.
- e) Advent invited tenders for drilling rigs to drill the PEP 11 exploration well. Tenders closed on 30<sup>th</sup> June and evaluation is continuing. Advent is also evaluating various other rig sublet options.

# Income Statement for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

|   | Note | Consolidated |            | Parent      |            |
|---|------|--------------|------------|-------------|------------|
|   |      | 2009<br>\$   | 2008<br>\$ | 2009<br>\$  | 2008<br>\$ |
| Revenue   | 2    | 108,306      | 239,646    | 94,696      | 239,646    |
| Other Income  | 2    | (1,591,434)  | 828,048    | (513,309)   | 805,736    |
| Administration expenses   |      | (217,650)    | (190,122)  | (127,025)   | (190,122)  |
| Consulting and Legal expenses   |      | (801,692)    | (314,178)  | (258,530)   | (314,178)  |
| Depreciation and amortisation expense                                     |      | (3,040)      | (2,376)    | (3,040)     | (2,376)    |
| Impairment expense  |      | (55,611)     | -          | -           | -          |
| Employee expenses   |      | (653,199)    | (527,081)  | (421,918)   | (527,081)  |
| Insurance expenses  |      | (25,350)     | (19,466)   | (24,562)    | (19,466)   |
| Data Centre administration  |      | (31,927)     | (53,055)   | -           | (53,055)   |
| Service Fees  |      | (347,029)    | (216,000)  | (216,000)   | (216,000)  |
| Traveling expenses  |      | (181,132)    | (54,830)   | (6,139)     | (54,830)   |
| Other expenses from ordinary activities                                   |      | (198,742)    | (124,525)  | (55,444)    | (124,525)  |
| <i>Operating Loss Before Income Tax</i>                                   |      | (3,998,500)  | (433,939)  | (1,531,271) | (456,251)  |
| Income tax expense  |      | -            | -          | -           | -          |
| <b><i>Operating Loss from continuing operations</i></b>                   |      | (3,998,500)  | (433,939)  | (1,531,271) | (456,251)  |
| <i>Operating Loss for the year</i>  |      | (3,998,500)  | (433,939)  | (1,531,271) | (456,251)  |
| <i>Operating Loss attributable to minority equity interest</i>            |      | (641,479)    | -          | -           | -          |
| <b><i>Operating Loss attributable to members of the parent entity</i></b> |      | (3,357,021)  | (433,939)  | (1,531,271) | (456,251)  |
| <i>Earnings Per Share -</i>   |      |              |            |             |            |
| <i>Basic and diluted earnings per share (cents per share)</i>             | 3    | (3.27)       | (0.67)     |             |            |

The accompanying notes form part of these financial statements.

# Balance Sheet as at 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

|                                      | Note | Consolidated     |                  | Parent           |                  |
|--------------------------------------|------|------------------|------------------|------------------|------------------|
|                                      |      | 2009<br>\$       | 2008<br>\$       | 2009<br>\$       | 2008<br>\$       |
| <b>Current Assets</b>                |      |                  |                  |                  |                  |
| Cash and cash equivalents            |      | 1,480,629        | 1,966,361        | 544,661          | 1,500,338        |
| Trade and other receivables          |      | 43,382           | 43,651           | 28,993           | 39,388           |
| Financial assets                     |      | 178,063          | 40,698           | 1,718,111        | 46,335           |
| <b>Total Current Assets</b>          |      | <b>1,702,074</b> | <b>2,050,710</b> | <b>2,291,765</b> | <b>1,586,061</b> |
| <b>Non-Current Assets</b>            |      |                  |                  |                  |                  |
| Other non-current assets             |      | 22,673           | 22,673           | -                | -                |
| Capitalised exploration costs        |      | 2,617,507        | 2,671,564        | 62,365           | 62,365           |
| Financial assets                     |      | 817,013          | 2,385,911        | 3,473,951        | 3,983,474        |
| Property, plant & equipment          |      | 4,378            | 6,095            | 4,207            | 6,095            |
| <b>Total Non-Current Assets</b>      |      | <b>3,461,571</b> | <b>5,086,243</b> | <b>3,540,523</b> | <b>4,051,934</b> |
| <b>Total Assets</b>                  |      | <b>5,163,645</b> | <b>7,136,953</b> | <b>5,832,288</b> | <b>5,637,995</b> |
| <b>Current Liabilities</b>           |      |                  |                  |                  |                  |
| Trade and other payables             |      | 348,086          | 290,052          | 136,506          | 202,856          |
| Provisions                           |      | 101,971          | 95,727           | 20,127           | 13,884           |
| <b>Total Current Liabilities</b>     |      | <b>450,057</b>   | <b>385,779</b>   | <b>156,633</b>   | <b>216,740</b>   |
| <b>Non Current Liabilities</b>       |      |                  |                  |                  |                  |
| Financial liabilities                |      | 572,658          | 543,064          | 1,684            | 41,047           |
| <b>Total Non Current Liabilities</b> |      | <b>572,658</b>   | <b>543,064</b>   | <b>1,684</b>     | <b>41,047</b>    |
| <b>Total Liabilities</b>             |      | <b>1,022,715</b> | <b>928,843</b>   | <b>158,317</b>   | <b>257,787</b>   |
| <b>Net Assets</b>                    |      | <b>4,140,930</b> | <b>6,208,110</b> | <b>5,673,971</b> | <b>5,380,208</b> |
| <b>Equity</b>                        |      |                  |                  |                  |                  |
| Issued capital                       | 4    | 8,412,535        | 6,671,278        | 8,412,535        | 6,671,278        |
| Option Reserve                       |      | 219,953          | 29,890           | 113,667          | 29,890           |
| Accumulated losses                   |      | (4,677,981)      | (1,320,960)      | (2,852,231)      | (1,320,960)      |
| Total Parent Entity Equity Interest  |      | 3,954,507        | 5,380,208        | 5,673,971        | 5,380,208        |
| Minority Equity Interest             |      | 186,423          | 827,902          | -                | -                |
| <b>Total Equity</b>                  |      | <b>4,140,930</b> | <b>6,208,110</b> | <b>5,673,971</b> | <b>5,380,208</b> |

The accompanying notes form part of the financial statements.

# Statement of Changes in Equity as at 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

|   | Consolidated                       |                             |                |                            |                  |
|---|------------------------------------|-----------------------------|----------------|----------------------------|------------------|
|   | Ordinary<br>Share<br>Capital<br>\$ | Accumulated<br>losses<br>\$ | Options<br>\$  | Minority<br>Interest<br>\$ | Total<br>\$      |
| <b>Balance at 1 July 2007</b>                           | 4,349,560                          | (872,198)                   | 440,997        | -                          | 3,918,359        |
| Shares issued during the financial year                 | 1,772,346                          | -                           | -              | -                          | 1,772,346        |
| Options exercised during the financial year             | 140,028                            | -                           | (6,668)        | -                          | 133,360          |
| Options expired during the financial year               | 408,328                            | -                           | (408,328)      | -                          | -                |
| Options issued during the financial year                | -                                  | -                           | 3,889          | -                          | 3,889            |
| Transaction costs                                       | 1,016                              | -                           | -              | -                          | 1,016            |
| Loss attributable to members of the consolidated entity | -                                  | (433,939)                   | -              | -                          | (433,939)        |
| Sale of Subsidiary                                      | -                                  | (14,823)                    | -              | -                          | (14,823)         |
| Minority Equity Interest                                | -                                  | -                           | -              | 827,902                    | 827,902          |
| <b>Balance at 30 June 2008</b>                          | <b>6,671,278</b>                   | <b>(1,320,960)</b>          | <b>29,890</b>  | <b>827,902</b>             | <b>6,208,110</b> |
| <b>Balance at 1 July 2008</b>                           | 6,671,278                          | (1,320,960)                 | 29,890         | 827,902                    | 6,208,110        |
| Shares issued during the financial year                 | 1,741,257                          | -                           | -              | -                          | 1,741,257        |
| Options issued during the financial year                | -                                  | -                           | 190,063        | -                          | 190,063          |
| Loss attributable to members of the consolidated entity | -                                  | (3,357,021)                 | -              | -                          | (3,357,021)      |
| Minority Equity Interest                                | -                                  | -                           | -              | (641,479)                  | (641,479)        |
| <b>Balance at 30 June 2009</b>                          | <b>8,412,535</b>                   | <b>(4,677,981)</b>          | <b>219,953</b> | <b>186,423</b>             | <b>4,140,930</b> |

# Statement of Changes in Equity as at 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

|   | Company                            |                             |                |                  |
|---|------------------------------------|-----------------------------|----------------|------------------|
|   | Ordinary<br>Share<br>Capital<br>\$ | Accumulated<br>losses<br>\$ | Options<br>\$  | Total<br>\$      |
| <b>Balance at 1 July 2007</b>                 | 4,349,560                          | (864,709)                   | 440,997        | 3,925,848        |
| Shares issued during the financial year       | 1,772,346                          | -                           | -              | 1,772,346        |
| Options exercised during the financial year   | 140,028                            | -                           | (6,668)        | 133,360          |
| Options expired during the financial year     | 408,328                            | -                           | (408,328)      | -                |
| Options issued during the financial year      | -                                  | -                           | 3889           | 3,889            |
| Transaction costs                             | 1,016                              | -                           | -              | 1,016            |
| Loss attributable to members of parent entity |                                    | (456,251)                   | -              | (456,251)        |
| <b>Balance at 30 June 2008</b>                | <b>6,671,278</b>                   | <b>(1,320,960)</b>          | <b>29,890</b>  | <b>5,380,208</b> |
| <b>Balance at 1 July 2008</b>                 | 6,671,278                          | (1,320,960)                 | 29,890         | 5,380,208        |
| Shares issued during the financial year       | 1,741,257                          | -                           | -              | 1,741,257        |
| Options issued during the financial year      | -                                  | -                           | 83,777         | 83,777           |
| Loss attributable to members of parent entity | -                                  | (1,531,271)                 | -              | (1,531,271)      |
| <b>Balance at 30 June 2009</b>                | <b>8,412,535</b>                   | <b>(2,852,231)</b>          | <b>113,667</b> | <b>5,673,971</b> |

The accompanying notes form part of these financial statements.

# Statement of Cash Flows as at 30 June 2009

MEC Resources Limited and its controlled subsidiaries

|   | Note | Consolidated       |                    | Parent             |                    |
|---|------|--------------------|--------------------|--------------------|--------------------|
|   |      | 2009<br>\$         | 2008<br>\$         | 2009<br>\$         | 2008<br>\$         |
| <b><i>Cash Flows From Operating Activities</i></b>  |      |                    |                    |                    |                    |
| Receipts from customers                             |      | -                  | 70,000             | -                  | 70,000             |
| Payments to suppliers and employees                 |      | (1,933,146)        | (1,050,237)        | (1,013,417)        | (1,001,200)        |
| Payment for deferred exploration expenditure        |      | (1,554)            | (49,321)           | -                  | (35,400)           |
| Interest received                                   |      | 102,840            | 169,646            | 94,696             | 169,646            |
| <b>Net cash used in operating activities</b>        |      | <b>(1,831,860)</b> | <b>(859,912)</b>   | <b>(918,721)</b>   | <b>(796,954)</b>   |
| <b><i>Cash Flows From Investing Activities</i></b>  |      |                    |                    |                    |                    |
| Amounts repaid by/ (loaned to) other entities       |      | (371,280)          | 57,599             | (1,773,274)        | (5,182)            |
| Payment for investments                             |      | (22,526)           | (2,369,316)        | (3,786)            | (2,369,316)        |
| Payment for property, plant and equipment           |      | (1,323)            | (6,731)            | (1,153)            | (6,731)            |
| Net cash inflow on acquisition of subsidiary        |      | -                  | 465,408            | -                  | -                  |
| <b>Net cash used in investing activities</b>        |      | <b>(395,129)</b>   | <b>(1,853,040)</b> | <b>(1,778,213)</b> | <b>(2,381,229)</b> |
| <b><i>Cash Flows From Financing Activities</i></b>  |      |                    |                    |                    |                    |
| Proceeds from capital raising                       |      | 1,741,257          | 1,651,721          | 1,741,257          | 1,651,721          |
| Proceeds from/(repayment of) borrowings             |      | -                  | -                  | -                  | -                  |
| Share issue costs                                   |      | -                  | -                  | -                  | -                  |
| <b>Net cash provided by financing activities</b>    |      | <b>1,741,257</b>   | <b>1,651,721</b>   | <b>1,741,257</b>   | <b>1,651,721</b>   |
| <i>Net increase (decrease) in Cash Held</i>         |      | (485,732)          | (1,061,231)        | (955,677)          | (1,526,462)        |
| <i>Cash At the Beginning Of The Financial Year</i>  |      | 1,966,361          | 3,027,592          | 1,500,338          | 3,026,800          |
| <b><i>Cash At The End Of The Financial Year</i></b> |      | <b>1,480,629</b>   | <b>1,966,361</b>   | <b>544,661</b>     | <b>1,500,338</b>   |

The accompanying notes form part of these financial statements.



# Notes to the Financial Statements for the year ended 30 June 2009

MEC Resources Ltd

---

## 1. Statement of Significant Accounting Policies

### Corporate Information

The financial report includes the consolidated financial statements and the notes of MEC Resources Ltd and controlled entities ('Consolidated Group' or 'Group'), and the separate financial statements and notes of MEC Resources Lt as an individual parent entity ('Parent Entity').

MEC Resources Ltd is a public listed company on the ASX, which is incorporated and domiciled in Australia.

The financial report was authorised for issue on 19<sup>th</sup> August 2009 by the board of directors.

### Basis of Preparation

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

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

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

### Going Concern

The consolidated entity and the parent entity has incurred losses for the year ended 30 June 2009 of \$3,357,021 (30 June 2008: losses of \$433,939) and \$1,531,271 (30 June 2008: losses of \$456,251) respectively.

The directors have reviewed their expenditure and commitments for the consolidated entity and parent entity and have implemented methods of costs reduction.

On the 14th August 2009, the directors announced that it has mandated the Pareto Group from Norway to act as lead brokers to help source the company's capital requirements in relation to the proposed drilling program in the offshore Sydney Basin (PEP 11).

The directors have prepared cash flow forecasts that indicate that the consolidated entity and the parent entity will have sufficient cashflows for a period of at least 12 months from the date of this report.

Based on the cash flow forecasts and the monitoring of operational costs, the directors are satisfied that, the going concern basis of preparation is appropriate. The financial report has therefore been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

## Accounting Policies

### (a) Principles of Consolidation

A controlled entity is any entity MEC Resources Ltd has the power to control the financial and operating policies of so as to obtain benefits from its activities.

All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the consolidated group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

### (b) Business Combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method.

The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

### (c) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date. Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

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

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

# Notes to the Financial Statements for the year ended 30 June 2009

MEC Resources Ltd

---

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

## (d) Property, plant and equipment

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

### Plant and equipment

Plant and equipment are measured on the cost basis.

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

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

### Depreciation

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

### Class of Fixed Asset

### Depreciation Rate

Plant and equipment

33.33%

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

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

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

## (e) Exploration and Development Expenditure

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

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

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

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

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

## **(f) Financial Instruments**

### **Recognition and Initial Measurement**

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

### **Derecognition**

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

### **Classification and Subsequent Measurement**

#### ***(i) Financial assets at fair value through profit or loss***

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

*(ii) Loans and receivables*

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

*(iii) Held-to-maturity investments*

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

*(iv) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

*(v) Financial Liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

## **Fair value**

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

## **Impairment**

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

**(g) Impairment of Assets**

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

# Notes to the Financial Statements for the year ended 30 June 2009

MEC Resources Ltd

---

## **(h) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

## **(i) Revenue**

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

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

## **(j) Goods and Services Tax (GST)**

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

Receivables and payables in the balance sheet are shown inclusive of GST.

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

## **(k) Trade and other payables**

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether or not billed to the consolidated entity. The amounts are unsecured and are usually paid within 30 days.

## **(l) Share based payments**

Share based compensation benefits are provided to employees via the Company's Employee Option plan.

The fair value of options granted under the Company's Employee Option Plan is recognized as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognized over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black and Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and risk free interest rate for the term of the option.

# Notes to the Financial Statements for the year ended 30 June 2009

MEC Resources Ltd

---

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

The market value of shares issued to employees for no cash consideration is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

## **(m) Earnings per share**

Basic earnings per share (EPS) is calculated as net profit/loss attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

## **(n) Comparative Figures**

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

### Critical accounting estimates and judgments

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

### Key estimates — Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

### Key Judgments — Impairment of capitalised and carried forward exploration expenditure

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current. During the period \$55,611 was written off to the income statement. These costs are carried forward in respect of an area that has not at balance sheet date reached a stage that permits reasonable assessment of the existence of economically recoverable reserves, refer to the accounting policy stated in note 1(e).

### Key Judgments — Impairment of financial assets

No impairment has been recognised in respect of the Company's carrying value of its investments in its subsidiaries Advent Energy Ltd and Asset Energy Pty Ltd. After a review of the carrying values, the directors believe that the full amount of these investments is recoverable through the projected activities of each entity and no provision for impairment has been made as at 30 June 2009.

# Notes to the Financial Statements for the year ended 30 June 2009

MEC Resources Ltd

|                                   | Consolidated       |                | Parent         |                |
|-----------------------------------|--------------------|----------------|----------------|----------------|
|                                   | 2008<br>\$         | 2007<br>\$     | 2008<br>\$     | 2007<br>\$     |
| <b>2. Revenue</b>                 |                    |                |                |                |
| <b>Revenue</b>                    |                    |                |                |                |
| Interest revenue : other entities | 102,840            | 169,646        | 94,696         | 169,646        |
| Consulting income                 | 5,466              |                | -              | -              |
| Sub underwriting income           | -                  | 70,000         | -              | 70,000         |
| <b>Total revenue</b>              | <b>108,306</b>     | <b>239,646</b> | <b>94,696</b>  | <b>239,646</b> |
| <b>Other Income</b>               |                    |                |                |                |
| Unrealised gain on investments    | (1,606,457)        | 336,986        | (515,832)      | 336,986        |
| Gain on Sale of Investments       | 15,023             | 468,750        | 2,523          | 468,750        |
| Other gains                       | -                  | 22,312         | -              | -              |
|                                   | <b>(1,591,434)</b> | <b>828,048</b> | <b>513,309</b> | <b>805,736</b> |

## 3. Earnings per share

|  | Consolidated |            |
|--|--------------|------------|
|  | 2009<br>\$   | 2008<br>\$ |
| (a) Reconciliation of Earnings to Profit or Loss   |              |            |
| Net loss attributable to members of the parent   | (3,357,021)  | (433,939)  |
| Earnings used to calculate basic EPS   | (3,357,021)  | (433,939)  |
| (b) Weighted average number of ordinary shares outstanding during the year used in calculating basic and diluted EPS | 102,367,745  | 64,939,561 |

The Company's potential ordinary shares, being its options granted, are not considered dilutive as the conversion of these options will result in a decreased net loss per share.



# Notes to the Financial Statements for the year ended 30 June 2009

MEC Resources Ltd

|  | Consolidated |            | Parent      |            |
|--|--------------|------------|-------------|------------|
|  | 2009<br>\$   | 2008<br>\$ | 2009<br>\$  | 2008<br>\$ |
| <b>4. Issued Capital</b>   |              |            |             |            |
| 105,897,963 (2008: 71,072,838) fully paid ordinary shares                            | 9,145,684    | 7,404,427  | 9,145,684   | 7,404,427  |
| Less: Capital raising costs  | (733,149)    | (733,149)  | (733,149)   | (733,149)  |
| Issued Capital   | 8,412,535    | 6,671,278  | 8,412,535   | 6,671,278  |
| The Company does not have an authorized capital and issued shares have no par value. |              |            |             |            |
| <b>Ordinary Shares</b>   | <b>No</b>    | <b>No</b>  | <b>No</b>   | <b>No</b>  |
| At the beginning of reporting period   | 71,072,838   | 52,260,942 | 71,072,838  | 52,260,942 |
| Shares issued during the year  | 34,825,125   | 18,145,096 | 34,825,125  | 18,145,096 |
| Shares issued during the year on conversion of options                               |              | 666,800    |             | 666,800    |
| At reporting date  | 105,897,963  | 71,072,838 | 105,897,963 | 71,072,838 |

## Fully Paid Ordinary Share Capital

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

### (a) Options

There were 31,475,000 unlisted employee options on issue at the end of the year:

| Advent Energy     |                |                  |
|-------------------|----------------|------------------|
| Total number      | Exercise price | Expiry date      |
| 12,825,000        | \$0.20         | 30 June 2010     |
| 3,500,000         | \$0.06         | 30 June 2012     |
| 2,000,000         | \$0.06         | 28 December 2012 |
| <b>18,325,000</b> |                |                  |
| MEC Resources     |                |                  |
| 9,000,000         | \$0.21         | 1 December 2010  |
| 2,150,000         | \$0.15         | 30 June 2013     |
| 1,500,000         | \$0.15         | 6 August 2013    |
| 500,000           | \$0.20         | 30 June 2010     |
| <b>13,150,000</b> |                |                  |

There were 52,237,694 listed options on issue at the end of the year:

# Notes to the Financial Statements for the year ended 30 June 2009

MEC Resources Ltd

| MEC Resources |                |              |
|---------------|----------------|--------------|
| Total number  | Exercise price | Expiry date  |
| 52,237,694    | \$0.20         | 04 July 2013 |
| 52,237,694    |                |              |

The market price of the company's ordinary shares at 30 June 2009 was 10.5 cents.

The holders of options do not have the right, by virtue of the option, to participate in any share issue or interest issue of any other body corporate or registered scheme.

The difference between the total market value of options issued during the period, at the date of issue, and the total amount received from executives and employees is not recognised in the financial statements except for the purposes of determining directors' and executives' remuneration in respect of that period.

## (b) Capital risk management

The Group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they may continue to provide returns for shareholders and benefits for other stakeholders.

The focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. The working capital position of the Group and the parent entity at 30 June 2009 and 30 June 2008 are as follows:

|                             |           |           |           |           |
|-----------------------------|-----------|-----------|-----------|-----------|
| Cash and cash equivalents   | 1,480,629 | 1,966,361 | 544,661   | 1,500,338 |
| Trade and other receivables | 43,382    | 43,651    | 28,993    | 39,388    |
| Trade and other payables    | (348,086) | (290,052) | (136,506) | (202,856) |
| Working capital position    | 1,175,925 | 1,719,960 | 437,148   | 1,336,870 |

## 5. Events After Balance Date

On 23 July 2009 MEC Resources Ltd issued 2,000,000 shares and 500,000 unlisted options to Mr Ding Gui Ming, a member of their advisory board. The options are exercisable at 20 cents and have an expiry date of 30 June 2010.

On the 14th August 2009, the directors announced that it has mandated the Pareto Group from Norway to act as lead brokers to help source the company's capital requirements in relation to the proposed drilling program in the offshore Sydney Basin (PEP 11).

## 6. Segment Information

MEC Resources Ltd operates predominantly in one industry, namely investments in the mining and resources. These activities are predominantly in Australia.

## Compliance Statement

1. This report has been prepared under accounting policies, which comply with accounting standards as defined in the Corporations Act or other standards acceptable to the ASX.
2. This report, and the accounts upon which the report is based (if separate), use the same accounting policies.
3. This report does give a true and fair view of the matters disclosed.
4. This report is based on accounts to which one of the following applies.

The accounts have been audited

The accounts are in the process of being audited or subject to review.

The accounts have been subject to review.

The accounts have not yet been audited.



Sign here: ..... Date: 19 August 2009  
Company secretary

Print name: Deborah Ambrosini

---

MEC RESOURCES LTD

ACN 113 900 020

Annual Financial Report 2009

---

# Contents

MEC Resources Ltd and its controlled subsidiaries

---

|  | Page Number |
|--|-------------|
| Directors' Report.....                           | 1           |
| Auditor Independence Declaration .....           | 14          |
| Corporate Governance .....                       | 15          |
| Income Statement .....                           | 22          |
| Balance Sheet .....                              | 23          |
| Statement of Changes in Equity .....             | 24          |
| Cash Flow Statement.....                         | 26          |
| Notes to the Financial Statements .....          | 27          |
| Directors' Declaration .....                     | 56          |
| Independent Auditor's Report .....               | 57          |
| Additional Securities Exchange Information ..... | 59          |

## **Directors**

H Goh – Non-Executive Chairman  
S K Yap – Non-Executive Director  
D L Breeze – Executive Director  
K O Yap – Non-Executive Director  
C T Lim – Non-Executive Director

## **Registered Office**

14 View Street  
NORTH PERTH WA 6006

## **Principal Business Address**

14 View Street  
NORTH PERTH WA 6006  
Telephone: (08) 9328 8477  
Facsimile: (08) 9328 8733  
Website: [www.mecresources.com.au](http://www.mecresources.com.au)  
E-mail: [admin@mecresources.com.au](mailto:admin@mecresources.com.au)

## **Auditor**

PKF  
Level 7  
BGC Centre  
28 The Esplanade  
Perth WA 6000

## **Share Registry**

Security Transfer Registrars Pty Ltd  
770 Canning Highway  
APPLECROSS WA 6153

## **Australian Securities**

### **Exchange Listing**

Australian Securities Exchange Limited  
(Home Exchange: Perth, Western Australia)  
ASX Code: MMR

## **Australian Business Number**

44 113 900 020

# Directors' Report

MEC Resources Ltd and its controlled subsidiaries

---

The directors of MEC Resources Ltd present their report on the company for the financial year ended 30 June 2009.

## Directors

The names of directors in office at any time during or since the end of the year are:

H Goh  
S K Yap  
D L Breeze  
K O Yap  
C T Lim

## Company Secretary

Ms Deborah Ambrosini continues in her role of Company Secretary. She also holds the position of Financial Controller of the Company and has over 10 years experience in Corporate accounting roles.

## Principal Activities

MEC Resources Ltd ("MEC") is registered as a Pooled Development Fund under the Pooled Development Fund Act (1992). It has been formed to invest into exploration companies that are targeting potentially large energy and mineral resources.

MEC will provide carefully selected companies in the energy and mineral exploration sectors with development and exploration funding. MEC intends to identify investment opportunities with a number of specific characteristics including: large targets; a stage of development that permits a strategic investor or PO within several years; strong and experienced management team and a definitive competitive advantage.

MEC is initially working to develop investment opportunities in PEP 11 (offshore Sydney Basin Gas prospect) and Advent Energy Ltd.

### Advent Energy -Oil and Gas

MEC Resources Ltd has a controlling interest in the unlisted energy explorer Advent Energy Ltd ("Advent Energy") by funding the company with an initial \$1,000,000.

Advent Energy has assembled a range of hydrocarbon permits which contain near term production opportunities with pre-existing infrastructure and exploration upside. It intends to undertake development activities on the tenement package with a view to supplying electrical power generation, gas and diesel markets by developing and value-adding to its oil and gas resources.

Advent Energy is actively seeking further oil and gas permits to include in its portfolio and after completing negotiations will seek a listing of its securities, either directly or indirectly, on the ASX.

## Operating Results

Operating loss for the consolidated entity after tax for the year was \$3,357,021 (2008: Loss \$433,939)

# Directors' Report

MEC Resources Ltd and its controlled subsidiaries

---

## Dividends

The Directors recommend that no dividend be paid in respect of the current period and no dividends have been paid or declared since the commencement of the period.

## Financial Position

The net assets of the consolidated entity have decreased by \$2,067,180 to \$4,140,930 at 30 June 2009. The decrease can be wholly attributed to the reduction in the value of the consolidated entities listed investments. The decrease is in line with expectations and current market conditions.

## Significant Changes In State Of Affairs

During the year MEC's subsidiary Advent secured a \$7 million conditional funding agreement.

On 7th August 2008 MEC completed a non renounceable rights issue. A total of 34,825,125 shares and 52,237,697 options were issued to shareholders who participated. Funds of \$1,741,256 were raised.

## After Balance Date Events

On the 14th August 2009, the directors announced that it has mandated the Pareto Group from Norway to act as lead brokers to help source the company's capital requirements in relation to the proposed drilling program in the offshore Sydney Basin (PEP 11).

## Future Developments

The entity will continue to develop its investee portfolio projects including PEP11 and Advent Energy Ltd and will evaluate and invest in a range of resource projects.

## Information on Directors

### H Goh

*Non-Executive Chairman – Age 54*

Shares held – 5,096,248

Listed Options held – 4,725,144

Unlisted Options held – nil

Mr Hock Goh was formerly President of Network and Infrastructure Solutions, a division of Schlumberger Limited, based in London with revenue in excess of US\$1.5 billion. He had global responsibility of Schlumberger's outsourcing services, security, business continuity and networked related business units.

Prior to that, Hock was President of Schlumberger Asia based in Beijing, China where he managed their Asian operations consisting of a broad range of services including oil field services, outsourcing, financial software and smartcards. Hock was responsible for US\$800 million in revenue and more than 2,000 employees spread across 17 countries.

In his 25 year career with Schlumberger, Hock held several other field and management responsibilities in the oil and gas industry spanning more than ten countries in Asia, the Middle East and Europe. Hock started as an oil field service engineer in Indonesia in 1980 before moving to Australia where he worked on the rigs in Roma, Queensland, Bass Strait in Victoria and the Northwest Shelf, offshore Western Australia.

# Directors' Report

MEC Resources Ltd and its controlled subsidiaries

---

Hock is also an operating partner with Baird Capital Partners, the U.S. based buyout fund of Baird Private Equity, providing change-of-control and growth capital to middle-market companies. Baird Private Equity has raised and managed \$1.7 billion in capital.

Hock is the Chairman of Netgain Systems, a network monitoring software provider. He also serves on the Board of Xaloy Holdings, a US based steel components manufacturer for the plastic industry, as well as an independent director of THISS Technologies Pte Ltd, a Singapore based satellite communication provider. He received his B Eng (Hons) in Mechanical Engineering from Monash University, Australia. He also completed an Advanced Management Program at INSEAD/ France in 2004.

Hock is a Non Executive director of ASX listed company BioPharmica Limited.

## **S K Yap**

*Non-Executive Director – Age 54*

Shares held – 2,382,250

Listed options - nil

Unlisted Options held – 3,000,000

After graduating from Kyoto University, Seng Yap was employed by Schlumberger Limited, working in international Oil & Gas exploration projects across Asia, Australia and New Zealand. He worked as an International Staff Engineer at various Schlumberger onshore and offshore locations in Indonesia, Brunei, Japan, Australia, New Zealand and Papua New Guinea. He was Engineer in charge of land operations in Western Australia, and worked in Brunei as Engineer-in-Charge.

Seng was head of the joint venture between the NSW Investment Corporation and the venture capital operation of Daiwa Securities. He was Executive Director of Daiwa Securities Australia Limited and was instrumental in the establishment of the Australian stockbroking operations for the company.

Seng also worked as a senior advisor to leading venture capital groups and multi-nationals in Australia, Japan and China, advising on corporate, investment and development strategies. Seng, in his former investment banker role, was the leader in a series of transactions worth in excess of AU\$500 million. He has also been on the Board of several resort management companies.

Seng is currently a Director on the Board of a Japanese Coca-Cola Bottler with an annual turnover of approximately one billion dollars. He is also a Director for ASX listed Biopharmica Limited and a number of unlisted companies in Australia, Japan and China. Seng was also an Associate of the Securities Institute of Australia and a Fellow of the Australian Institute of Company Directors.

## **D L Breeze**

*Executive Director – Age 55*

Shares held – 10,144,304

Listed Options – 7,608,228

Unlisted Options held – 3,000,000

David has extensive experience in transaction structuring, corporate advisory and funding for listed and unlisted companies and has held executive, consulting and/or board positions across a range of stockbroking companies in Australia including Daiwa Securities, Eyres Reed McIntosh and BNZ North's.

David has provided capital raising, valuation and corporate advisory services for a wide ranging group of resources companies including Independent Experts reports for asset valuation under the provisions of the Australian Securities Exchange Rules and Corporations Law. The advisory function included



# Directors' Report

MEC Resources Ltd and its controlled subsidiaries

---

advice on corporate structure, ASX listing rules and the structuring and running of IPO's. He has also published in the Australian Securities Industry Journal on resource valuation.

David has worked on the structuring, capital raising and public listing of over 80 companies involving in excess of \$250M. These capital raisings covered a diverse range of areas including oil and gas, gold, biotechnology and manufacturing. David is Chairman of Grandbridge Limited, a publicly listed investment and advisory company and BioPharmica Limited an ASX listed biotechnology commercialization business.

He holds a Bachelor of Economics and a Masters of Business Administration (MBA) and is a Member of the Australian Institute of Management, an Affiliate member of the Securities Institute of Australia and a Fellow of the Institute of Company Directors of Australia.

## **K O Yap**

*Non-Executive Director – Age 47*

Shares held – 4,000,000

Listed options – 3,000,000

Unlisted Options held – nil

K.O Yap has over 16 years experience in investment banking. Prior to establishing Eton Advisory Services Ltd, K.O was Head of Corporate Finance at Daiwa Securities (H.K.) Ltd. and Executive Director at Alta Financial Group. His career took him from general audit, computer audit and corporate advisory with Ernst & Young in London to investment banking with Barclays de Zoete Wedd Asia Ltd. and then Daiwa Securities (H.K.) Ltd.

His extensive experience covers all aspects of corporate finance, advisory, M&A and capital raisings throughout Asia. These include privatisation, listing and public offerings from the PRC (Northeast Electric, H-Share), Malaysia (Petronas Gas), Thailand (PTTEP); equity-linked issues from HK (Emperor International) and Thailand (Bangkok Land) and debt issues including a samurai bond for Wharf (H.K.).

K.O also has extensive experience in mergers and acquisitions (and related restructurings) with transactional experience in Thailand, Indonesia, Malaysia, Hong Kong and China.

K.O a graduate from the London School of Economics, in 1984, is also a fellow of the Institute of Chartered Accountants in England and Wales.

## **C T Lim**

*Non-executive Director – Age 54*

Shares held – 3,395,000

Listed options – 2,062,500

Unlisted Options held – nil

Mr Lim is a founder and director of Encus International Pte Ltd, a contract design and manufacturing company. Mr Lim was also the Chief Executive of Xpress Holdings Ltd during the period from 2001 to August 2005 and its Group Managing Director in 2000. He is currently an Executive Director of Manufacturing Integration Technology Ltd.

For 20 years Mr Lim was with the Singapore Economic Development Board and held various positions with responsibilities for promoting and developing venture capital, mergers and acquisitions, engineering industries, local enterprises, skills training, automation and overseas investments. This included a period as a Director for the Enterprise Development Division of the Singapore Economic Development Board.

# Directors' Report

MEC Resources Ltd and its controlled subsidiaries

---

Mr Lim is also involved with several listed and private companies in Singapore.

He is an Independent and Non-Executive Director on the boards of FibreChem Technologies Ltd, Metal Component Engineering Ltd, RotoI Singapore Ltd, all of which are listed on the Singapore Exchange. In addition, he sits on the Boards of GRN Singapore Pte Ltd and Atlas Vending Pte Ltd.

In the academic area, Mr Lim is a member of the Board of Governors of Nanyang Polytechnic in Singapore.

Mr Lim holds a Bachelor of Science (Honours) Degree in Mechanical Engineering from the University of Leeds and a Diploma in Business Administration from the National University of Singapore. In addition, Mr Lim attended the Program for Management Development at Harvard Business School.

Mr Lim is a Non Executive director of ASX listed company Grandbridge Limited.

## Remuneration Report

This report details the nature and amount of remuneration for each director of MEC Resources Ltd, and for the executives receiving the highest remuneration.

H Goh – Non-Executive Chairman  
D L Breeze - Executive Director  
S K Yap - Non-Executive Director  
K O Yap - Non-Executive Director  
C T Lim - Non-Executive Director  
C R Murphy – Non Executive Director ( resigned 29 November 2007)  
D Ambrosini – Company Secretary

## Remuneration Policy

The remuneration policy of MEC Resources Ltd has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the economic entity's financial results. The board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the economic entity, as well as create goal congruence between directors, executives and shareholders.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the economic entity is as follows:

- The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was approved by the board after seeking professional advice from independent external consultants.
- All executives receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.
- The Board reviews executive packages annually by reference to the economic entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

# Directors' Report

MEC Resources Ltd and its controlled subsidiaries

---

The performance of executives is measured against criteria agreed biannually with each executive and is based predominantly on the forecast growth of the economic entity's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements.

The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the economic entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in the employee option plan.

## Compensation Practices

The board's policy for determining the nature and amount of compensation of key management for the group is as follows:

The compensation structure for key management personnel is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. The contracts for service between the company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future. Upon retirement key management personnel are paid employee benefit entitlements accrued to date of retirement. Key management personnel are paid six months of salary in the event of redundancy options not exercised before or on the date of termination do not lapse.

The employment conditions of the executive directors and other key management personnel are formalised in contracts of employment.

The employment contract stipulates a six month resignation period. The company may terminate an employment contract without cause by providing six months written notice or making payment in lieu of notice, based on the individual's annual salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the company can terminate employment at any time. Any options not exercised before or on the date of termination will lapse.

The Board determines the proportion of fixed and variable compensation for each key management personnel.

# Directors' Report

MEC Resources Ltd and its controlled subsidiaries

## Employment contracts of directors and senior executives

The employment conditions of the executive director and specified executives are formalised in contracts of employment. The directors are permanent employees of MEC Resources Ltd. The employment contracts stipulate a six month resignation period. The company may terminate an employment contract without cause by providing six months written notice or making payment in lieu of notice, based on the individual's annual salary component together with a redundancy payment of six months of the individual's fixed salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the company can terminate employment at any time. Any options not exercised before or on the date of termination will not lapse.

## Details of Remuneration for the year ended 30 June 2009

The remuneration for each director and each of the executive officers of the consolidated entity receiving the highest remuneration during the year was as follows:

### 2009

| Key Management Person | Cash, Salary and Fees | Short-term Benefits |                  |       | Post-employment Benefits |
|-----------------------|-----------------------|---------------------|------------------|-------|--------------------------|
|                       |                       | Director fees       | Non-cash benefit | Other | Superannuation           |
| H Goh                 | -                     | 50,000              | -                | -     | -                        |
| S K Yap               | -                     | 25,000              | -                | -     | -                        |
| D L Breeze            | 65,000                | 25,000              | -                | -     | -                        |
| K O Yap               | -                     | 25,000              | -                | -     | -                        |
| C T Lim               | -                     | 25,000              | -                | -     | -                        |
| D Ambrosini           | -                     | -                   | -                | -     | -                        |

### 2009 (cont'd)

| Key Management Person | Long-term Benefits | Share-based payment |        | Total   | Performance Related |
|-----------------------|--------------------|---------------------|--------|---------|---------------------|
|                       |                    | Other               | Equity | Options | \$                  |
| H Goh                 | -                  | -                   | -      | 50,000  | -                   |
| S K Yap               | -                  | -                   | -      | 25,000  | -                   |
| D L Breeze            | -                  | -                   | 60,941 | 150,941 | -                   |
| K O Yap               | -                  | -                   | -      | 25,000  | -                   |
| C T Lim               | -                  | -                   | -      | 25,000  | -                   |
| D Ambrosini           | -                  | -                   | -      | -       | -                   |

# Directors' Report

MEC Resources Ltd and its controlled subsidiaries

## 2008

| Key Management Person | Cash, Salary and Fees | Short-term Benefits |                  |       | Post-employment Benefits |
|-----------------------|-----------------------|---------------------|------------------|-------|--------------------------|
|                       |                       | Cash profit share   | Non-cash benefit | Other | Superannuation           |
| H Goh                 | -                     | -                   | -                | -     | -                        |
| S K Yap               | 25,000                | -                   | -                | -     | -                        |
| D L Breeze            | 65,000                | 25,000              | -                | -     | -                        |
| C R Murphy            | 16,250                | -                   | -                | -     | -                        |
| K O Yap               | 25,000                | -                   | -                | -     | -                        |
| C T Lim               | 25,000                | -                   | -                | -     | -                        |
| D Ambrosini           | -                     | -                   | -                | -     | -                        |

## 2008 (cont'd)

| Key Management Person | Long-term Benefits | Share-based payment |        | Total   | Performance Related |
|-----------------------|--------------------|---------------------|--------|---------|---------------------|
|                       |                    | Other               | Equity | Options | \$                  |
| H Goh                 | -                  | 252,000             | -      | 252,000 | 60.00               |
| S K Yap               | -                  | -                   | -      | 25,000  | -                   |
| D L Breeze            | -                  | -                   | -      | 90,000  | -                   |
| C R Murphy            | -                  | -                   | -      | 16,250  | -                   |
| K O Yap               | -                  | -                   | -      | 25,000  | -                   |
| C T Lim               | -                  | -                   | -      | 25,000  | -                   |
| D Ambrosini           | -                  | -                   | 1,548  | 1,548   | 100.00              |

The company has an agreement with Trandcorp Pty Ltd on normal commercial terms procuring the services of David Breeze. The agreement is at the rate of \$65,000 per annum, commencing from the time of receiving listing approval. Board payments may be made up to a level of \$250,000 per annum. Payments are to be made up to \$25,000 per annum per director and \$50,000 per annum for the Chairman.

### Options and Rights Holdings

#### 2009 Number of Listed Options Held by Key Management Personnel

|             | Balance 1.7.2008 | Granted as Compensation | Options Exercised | Net Change Other | Balance 30.6.2009 | Total Vested 30.6.2009 | Total Exercisable 30.6.2009 | Total Unexercisable 30.6.2009 |
|-------------|------------------|-------------------------|-------------------|------------------|-------------------|------------------------|-----------------------------|-------------------------------|
| H Goh       | -                | -                       | -                 | 4,725,144        | 4,725,144         | 4,725,144              | 4,725,144                   | -                             |
| S K Yap     | -                | -                       | -                 | -                | -                 | -                      | -                           | -                             |
| D Breeze    | -                | -                       | -                 | 7,608,228        | 7,608,228         | 7,608,228              | 7,608,228                   | -                             |
| K O Yap     | -                | -                       | -                 | 3,000,000        | 3,000,000         | 3,000,000              | 3,000,000                   | -                             |
| C T Lim     | -                | -                       | -                 | 2,062,500        | 2,062,500         | 2,062,500              | 2,062,500                   | -                             |
| D Ambrosini | -                | -                       | -                 | 13,635           | 13,635            | 13,635                 | 13,635                      | -                             |

# Directors' Report

MEC Resources Ltd and its controlled subsidiaries

## 2008 Number of Listed Options Held by Key Management Personnel

|             | Balance<br>1.7.2007 | Granted as<br>Compensation | Options<br>Exercised | Net<br>Change<br>Other | Balance<br>30.6.2008 | Total<br>Vested<br>30.6.2008 | Total<br>Exercisable<br>30.6.2008 | Total<br>Unexercisable<br>30.6.2008 |
|-------------|---------------------|----------------------------|----------------------|------------------------|----------------------|------------------------------|-----------------------------------|-------------------------------------|
| H Goh       | -                   | -                          | -                    | -                      | -                    | -                            | -                                 | -                                   |
| S K Yap     | 2,382,250           | -                          | -                    | (2,382,250)            | -                    | -                            | -                                 | -                                   |
| D Breeze    | 5,006,252           | -                          | -                    | (5,006,252)            | -                    | -                            | -                                 | -                                   |
| K O Yap     | 2,000,000           | -                          | -                    | (2,000,000)            | -                    | -                            | -                                 | -                                   |
| C R Murphy  | 1,000,000           | -                          | -                    | (1,000,000)            | -                    | -                            | -                                 | -                                   |
| C T Lim     | 1,666,667           | -                          | -                    | (1,666,667)            | -                    | -                            | -                                 | -                                   |
| D Ambrosini | -                   | -                          | -                    | -                      | -                    | -                            | -                                 | -                                   |

## 2009 Number of Unlisted Options Held by Key Management Personnel

|             | Balance<br>1.7.2008 | Granted as<br>Compensation | Options<br>Exercised | Net<br>Change<br>Other | Balance<br>30.6.2009 | Total<br>Vested<br>30.6.2009 | Total<br>Exercisable<br>30.6.2009 | Total<br>Unexercisable<br>30.6.2009 |
|-------------|---------------------|----------------------------|----------------------|------------------------|----------------------|------------------------------|-----------------------------------|-------------------------------------|
| H Goh       | -                   | -                          | -                    | -                      | -                    | -                            | -                                 | -                                   |
| S K Yap     | 3,000,000           | -                          | -                    | -                      | 3,000,000            | 3,000,000                    | 3,000,000                         | -                                   |
| D Breeze    | 3,000,000           | -                          | -                    | -                      | 3,000,000            | 3,000,000                    | 3,000,000                         | -                                   |
| K O Yap     | -                   | -                          | -                    | -                      | -                    | -                            | -                                 | -                                   |
| C T Lim     | -                   | -                          | -                    | -                      | -                    | -                            | -                                 | -                                   |
| D Ambrosini | 1,000,000           | -                          | -                    | -                      | 1,000,000            | 333,333                      | 333,333                           | 666,667                             |

## 2008 Number of Unlisted Options Held by Key Management Personnel

|             | Balance<br>1.7.2007 | Granted as<br>Compensation | Options<br>Exercised | Net<br>Change<br>Other | Balance<br>30.6.2008 | Total<br>Vested<br>30.6.2008 | Total<br>Exercisable<br>30.6.2008 | Total<br>Unexercisable<br>30.6.2008 |
|-------------|---------------------|----------------------------|----------------------|------------------------|----------------------|------------------------------|-----------------------------------|-------------------------------------|
| H Goh       | -                   | -                          | -                    | -                      | -                    | -                            | -                                 | -                                   |
| S K Yap     | 3,000,000           | -                          | -                    | -                      | 3,000,000            | 3,000,000                    | 3,000,000                         | -                                   |
| D Breeze    | 3,000,000           | -                          | -                    | -                      | 3,000,000            | 3,000,000                    | 3,000,000                         | -                                   |
| K O Yap     | -                   | -                          | -                    | -                      | -                    | -                            | -                                 | -                                   |
| C R Murphy  | 3,000,000           | -                          | -                    | -                      | 3,000,000            | 3,000,000                    | 3,000,000                         | -                                   |
| C T Lim     | -                   | -                          | -                    | -                      | -                    | -                            | -                                 | -                                   |
| D Ambrosini | -                   | 1,000,000                  | -                    | -                      | 1,000,000            | -                            | -                                 | 1,000,000                           |

# Directors' Report

MEC Resources Ltd and its controlled subsidiaries

## Shareholdings Number of Shares Held by Key Management Personnel

2009

|             | Balance<br>1.7.2008 | Received as<br>Compensation | Options<br>Exercised | Net Change<br>Other | Balance<br>30.6.2009 |
|-------------|---------------------|-----------------------------|----------------------|---------------------|----------------------|
| H Goh       | 3,150,096           | -                           | -                    | 2,150,096           | 5,300,192            |
| S K Yap     | 2,382,250           | -                           | -                    | -                   | 2,382,250            |
| D L Breeze  | 5,072,151           | -                           | -                    | 5,072,153           | 10,144,304           |
| K O Yap     | 2,000,000           | -                           | -                    | 2,000,000           | 4,000,000            |
| C T Lim     | 2,020,000           | -                           | -                    | 1,375,000           | 3,395,000            |
| D Ambrosini | -                   | -                           | -                    | 18,180              | 18,180               |

2008

|             | Balance<br>1.7.2007 | Received as<br>Compensation | Options<br>Exercised | Net Change<br>Other | Balance<br>30.6.2008 |
|-------------|---------------------|-----------------------------|----------------------|---------------------|----------------------|
| H Goh       | -                   | 3,100,096                   | -                    | 50,000              | 3,150,096            |
| S K Yap     | 2,382,250           | -                           | -                    | -                   | 2,382,250            |
| D L Breeze  | 5,022,151           | -                           | -                    | 50,000              | 5,072,151            |
| C R Murphy  | 3,850,000           | -                           | -                    | -                   | 3,850,000            |
| K O Yap     | 2,000,000           | -                           | -                    | -                   | 2,000,000            |
| C T Lim     | 2,000,000           | -                           | -                    | 20,000              | 2,020,000            |
| D Ambrosini | -                   | -                           | -                    | -                   | -                    |

There were no shares or options granted to key management personnel during the year.

## Company performance, shareholder wealth, and director and executive remuneration

The following table shows the gross revenue and the operating result for the last 3 years for the listed entity, as well as the share price at the end of the respective financial years. Analysis of the actual figures shows an increase in the operating loss in the last year, however the share price has been maintained. The Board is of the opinion that the increased expenses is in line with expectations as the company progresses with its drilling preparations. The Board is satisfied that the current developments will translate to increased shareholder wealth.

|                         | 2007      | 2008      | 2009        |
|-------------------------|-----------|-----------|-------------|
| Revenue                 | 105,971   | 1,067,694 | 108,306     |
| Net Profit/Loss         | (765,217) | (433,939) | (3,357,021) |
| Share price at Year end | \$0.115   | \$0.115   | \$0.105     |

# Directors' Report

MEC Resources Ltd and its controlled subsidiaries

---

## Meetings of Directors

During the financial year, four meetings of directors (including committees of directors) were held. Attendances by each director during the year were:

|            | Directors' Meetings       |                 |
|------------|---------------------------|-----------------|
|            | Number eligible to attend | Number attended |
| H Goh      | 4                         | 4               |
| S K Yap    | 4                         | 4               |
| D L Breeze | 4                         | 4               |
| K O Yap    | 4                         | 4               |
| C T Lim    | 4                         | 4               |

## Indemnifying Officers or Auditors

During or since the end of the financial year the company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The company has paid premiums to insure each of the following directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the company. The amount of the premium was \$18,810.

- D Breeze
- S K Yap
- H Goh
- K O Yap
- C T Lim

## Options

At the date of this report, the unissued ordinary shares of MEC Resources Ltd under unlisted options are as follows:

### MEC Resources

|            |            |        |           |
|------------|------------|--------|-----------|
| 18/05/2006 | 1/12/2010  | \$0.21 | 9,000,000 |
| 01/06/2008 | 30/06/2013 | \$0.15 | 2,150,000 |
| 22/01/2009 | 1/12/2010  | \$0.20 | 500,000   |
| 23/07/2009 | 30/06/2010 | \$0.20 | 500,000   |
| 06/08/2008 | 06/08/2013 | \$0.15 | 1,500,000 |



# Directors' Report

MEC Resources Ltd and its controlled subsidiaries

## Advent Energy

| Grant Date | Date of Expiry | Exercise Price | Number Under Option |
|------------|----------------|----------------|---------------------|
| 28/07/2004 | 30/06/2010     | \$0.20         | 9,000,000           |
| 10/11/2004 | 30/06/2010     | \$0.20         | 100,000             |
| 04/03/2005 | 30/06/2010     | \$0.20         | 100,000             |
| 04/04/2005 | 30/06/2010     | \$0.20         | 125,000             |
| 13/05/2005 | 30/06/2010     | \$0.20         | 2,500,000           |
| 04/10/2005 | 30/06/2010     | \$0.20         | 1,000,000           |
| 14/05/2008 | 28/12/2012     | \$0.06         | 2,000,000           |
| 01/06/2008 | 30/06/2012     | \$0.06         | 3,500,000           |

## Listed Options – MEC Resources Ltd

| Grant Date | Date of Expiry | Exercise Price | Number Under Option |
|------------|----------------|----------------|---------------------|
| 07/08/2008 | 04/07/2013     | \$0.20         | 52,237,694          |

On 6 August 2008 1,500,000 options were issued under the MEC Resources Ltd Employee Incentive Option Plan. The options are exercisable at 15 cents with an expiry date of 6 August 2013. The options had a fair value of \$69,450. The fair value of the options was determined using the Black Scholes option pricing model.

On 22 January 2009 500,000 options were issued under the MEC Resource Ltd Employee Incentive Option Plan. The options are exercisable at 20 cents with an expiry date of 1 December 2010. The options had a fair value of \$4,300. The fair value of the options was determined using the Black Scholes option pricing model.

On 23 July 2009 500,000 options were issued under the MEC Resource Ltd Employee Incentive Option Plan. The options are exercisable at 20 cents with an expiry date of 30 June 2010. The options had a fair value of \$8,550. The fair value of the options was determined using the Black Scholes option pricing model.

During the year ended 30 June 2009, no ordinary shares of MEC Resources Ltd were issued on the exercise of options granted under the MEC Resources Ltd Employee Option Plan. No amounts are unpaid on any of the shares.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

## Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any such proceedings during the year.

# Directors' Report

MEC Resources Ltd and its controlled subsidiaries

---

## Environmental Issues

The consolidated group's operations are not subject to significant environmental regulation under the law of the Commonwealth and State.

## Non-audit Services

The board of directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

No fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2009.

## Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2009 has been received and can be found on page 14.

Signed in accordance with a resolution of the Board of Directors.



David Breeze

Director

Dated this 19th day of August 2009

**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of MEC Resources Ltd for the year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of MEC Resources Ltd and the entities it controlled during the year.



**PKF**  
Chartered Accountants



**Chris Nicoloff**  
Partner

Dated at Perth, Western Australia this 19<sup>th</sup> day of August 2009.

Tel: 61 8 9278 2222 | Fax: 61 8 9278 2200 | [www.pkf.com.au](http://www.pkf.com.au)  
West Australian Partnership | ABN 39 542 778 278  
Level 7, BGC Centre | 28 The Esplanade | Perth | Western Australia 6000 | Australia  
PO Box Z5066 | St Georges Terrace | Perth | Western Australia 6831

PKF is a national association of independent chartered accounting and consulting firms, each trading as PKF. PKF Australia Ltd is also a member of PKF International, an association of legally independent chartered accounting and consulting firms.

Liability Ltd by a scheme approved under Professional Standards Legislation

# Corporate Governance Statement

---

The Board of Directors of MEC Resources Limited (“MEC or “the Company”) is responsible for the corporate governance of the economic entity. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

To ensure that the Board is well equipped to discharge its responsibilities, it has established guidelines and accountability as the basis for the administration of corporate governance.

## **CORPORATE GOVERNANCE DISCLOSURES**

MEC and the board are committed to achieving and demonstrating the highest standards of corporate governance. The board continues to review the framework and practices to ensure they meet the interests of shareholders. The company and its controlled entities together are referred to as the Group in this statement.

## **COMPOSITION OF THE BOARD**

The composition of the Board is determined in accordance with the following principles and guidelines:

- the Board should comprise a majority or at least 50% of the Board will be independent non-executive directors;
- the Board should comprise of at least one director with an appropriate range of qualifications and expertise; and
- the Board shall meet at regular intervals and follow meeting guidelines set down to ensure all directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

When a vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the service of a new director with particular skills, the Board selects a candidate or panel of candidates with the appropriate expertise.

The Board then appoints the most suitable candidate, who must stand for election at the next general meeting of shareholders. The Company does not have a formal Nomination Committee.

## **REMUNERATION AND NOMINATION COMMITTEES**

The Company does not have a formal Remuneration or Nomination Committees. The full Board attends to the matters normally attended to by a Remuneration Committee and a Nomination committee. Remuneration levels are set by the Company in accordance with industry standards to attract suitable qualified and experienced Directors and senior executives.

## **AUDIT COMMITTEE**

The Company does not have a formal Audit Committee. The full Board carried out the functions of an Audit Committee. Due to the status of the Company and the relatively straight forward accounts of the Company, the Directors believe that at the moment there would be no additional benefits obtained by establishing such a committee. The Board follows the Audit Committee Charter, a copy of which is available on request.

# Corporate Governance Statement

---

## BOARD RESPONSIBILITIES

As the Board acts on behalf of and is accountable to the shareholders, it seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. The Board seeks to discharge these responsibilities in a number of ways.

The responsibility for the operation and administration of the economic entity is delegated by the Board to the Chief Executive Officer. The Board ensures that the Chief Executive Officer is appropriately qualified and experienced to discharge his responsibilities, and has in place procedures to assess the performance for the Company's officers, employees, contractors and consultants.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. It has a number of mechanisms in place to ensure this is achieved, including the following:

- Board approval of a strategic plan, designed to meet shareholder needs and manage business risk;
- Implementation of operating plans and budgets by management and Board monitoring progress against budget;
- Procedures to allow directors, in the furtherance of their duties, to seek independent professional advice at the Company's expense.

## MONITORING OF THE BOARD'S PERFORMANCE

In order to ensure that the Board continues to discharge its responsibilities in an appropriate manner, the performance of all directors is to be reviewed annually by the chairperson. Directors whose performance is unsatisfactory are asked to retire.

## BEST PRACTICE RECOMMENDATION

Outlined below are the 8 Essential Corporate Governance Principles as outlined by the ASX and the Corporate Governance Council. The Company has complied with the Corporate Governance Best Practice Recommendations except as identified below.

| Action taken and reasons if not adopted   |
|---|
| <p><b>Principle 1: Lay solid foundations for management and oversight</b></p> <p>The relationship between the board and senior management is critical to the Group's long-term success. The directors are responsible to the shareholders for the performance of the Group in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.</p> <p>The responsibilities of the board include:</p> <ul style="list-style-type: none"><li>• providing strategic guidance to the Group including contributing to the development of and approving the corporate strategy;</li></ul> |

# Corporate Governance Statement

## Action taken and reasons if not adopted

- reviewing and approving business plans, and financial plans including major capital expenditure initiatives;
- overseeing and monitoring:
  - organisational performance and the achievement of the Group's strategic goals and objectives and
  - progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments
- monitoring financial performance including approval of the annual and half-year financial reports;
- appointment, performance assessment and, if necessary, removal of the Managing Director;
- ratifying the appointment and/or removal and contributing to the performance assessment for the members of the senior management team including the CFO and the Company Secretary;
- ensuring there are effective management processes in place and approving major corporate initiatives;
- enhancing and protecting the reputation of the organization;
- overseeing the operation of the Group's system for compliance and risk management reporting to shareholders;

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the board to the Managing Director and senior executives.

### **Principle 2: Structure the board to add value**

The board operates in accordance with the broad principles set out in its charter. The charter details the board's composition and responsibilities.

The board seeks to ensure that :

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors with an external or fresh perspective; and
- the size of the board is conducive to effective discussion and efficient decision-making.

### **Directors' independence**

The board has adopted specific principles in relation to directors' independence. These state that when determining independence, a director must be a non-executive and the board should consider whether the director:

- is a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company;
- is or has been employed in an executive capacity by the company or any other Group member within three years before commencing to serve on the board;

# Corporate Governance Statement

---

## Action taken and reasons if not adopted

---

- within the last three years has been a principal of a material professional adviser or a material consultant to the company or any other Group member, or an employee materially associated with the service provided;
- has a material contractual relationship with the company or a controlled entity other than as a director of the Group;
- is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's independent exercise of their judgement.

Materiality for these purposes is determined on both quantitative and qualitative bases. A transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the director's performance.

The board assesses independence each year. To enable this process, the directors must provide all information that may be relevant to the assessment.

### Board members

Details of the members of the board, their experience, expertise, qualifications, term of office, relationships affecting their independence and their independent status are set out in the directors' report under the heading "Information on directors". At the date of signing the directors' report, there are two non-executive directors and one executive director, two of whom have no relationships adversely affecting independence and so are deemed independent under the principles set out above.

- Mr Breeze has business dealings with the Group as disclosed in note 23 to the financial report. However, these are not of a value or significance that adversely affects the directors' independence.

### Term of office

The company's Constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting (AGM) following their last election. Where eligible, a director may stand for re-election, subject to the following limitations:

- on attaining the age of 72 years a director will retire, by agreement, at the next AGM and will not seek re-election.

### Chair and Chief Executive Officer (CEO)

The Chair is responsible for leading the board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating board discussions and managing the board's relationship with the company's senior executives. In accepting the position, the Chair has acknowledged that it will require a significant time commitment and has confirmed that other positions will not hinder his effective performance in the role of Chair.

The CEO is responsible for implementing Group strategies and policies.

### Committees

The number of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2009, and the number of meetings attended by each director is disclosed on page 11.

It is the company's practice to allow its executive directors to accept appointments outside the company. No appointments of this nature were accepted during the year ended 30 June 2009.

# Corporate Governance Statement

---

## Action taken and reasons if not adopted

---

The Company is not of a size at the moment that justifies having a separate Nomination Committee. However, matters typically dealt with by such a committee are dealt with by the Board.

Notices of meetings for the election of directors comply with the ASX Corporate Governance Council's best practice recommendations.

### **Principle 3: Promote ethical and responsible decision making**

The company has developed a statement of values which has been fully endorsed by the board and applies to all directors and employees. The Statement is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity and to take into account legal obligations and reasonable expectations of the company's stakeholders.

The Statement requires that at all times all company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and company policies.

The purchase and sale of company securities by directors and employees is monitored by the Board.

### **Principle 4: Safeguard integrity in financial reporting**

Adopted except as follows:-

The Company does not have a separate Audit Committee. The full Board carries out the functions of an Audit Committee. The Board has the authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

Due to the status of the Company and the relatively straight forward accounts of the Company, the Directors at the moment can see no additional benefits to be obtained by establishing such a committee.

The Board follows the Audit Committee Charter, a copy of which is available on request.

The Company is not of a size at the moment that justifies having an internal audit division.

### **External auditors**

The Board's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. PKF was appointed as the external auditor in 2008. It is PKF's policy to rotate audit engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the directors' report and in note 4 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Board.

The external auditor will attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.



# Corporate Governance Statement

---

## Action taken and reasons if not adopted

---

### Principle 5&6: Make timely and balanced disclosures and respect the rights of shareholders

#### Continuous disclosure and shareholder communication

The company has policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the company's securities. These policies and procedures also include the arrangements the company has in place to promote communication with shareholders and encourage effective participation at general meetings.

The Company Secretary has been nominated as the person responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

All information disclosed to the ASX is posted on the company's website as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the Group's operations, the material used in the presentation is released to the ASX and posted on the company's web site. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed and, if so, this information is also immediately released to the market.

All shareholders receive a copy of the company's annual (full or concise) and half-yearly reports. In addition, the company seeks to provide opportunities for shareholders to participate through electronic means. Recent initiatives to facilitate this include making all company announcements, media briefings, details of company meetings, and financial reports available on the company's website.

#### Principle 7: Recognise and manage risk

The board and senior executives are responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. In summary, the company policies are designed to ensure strategic, operational, legal, reputational and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. The board actively promotes a culture of quality and integrity.

The responsibility for the operation and administration of the economic entity is delegated by the Board to the Chief Executive Officer. The Board ensures that the Chief Executive Officer is appropriately qualified and experienced to discharge his responsibilities, and has in place procedures to assess the performance for the Company's officers, employees, contractors and consultants. The board receives monthly updates as to the effectiveness of the company's management of material risks that may impede meeting business objectives.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. It has a number of mechanisms in place to ensure this is achieved, including the following:

# Corporate Governance Statement

---

## Action taken and reasons if not adopted

---

- Board approval of a strategic plan, designed to meet shareholder needs and manage business risk;
- Implementation of operating plans and budgets by management and Board monitoring progress against budget;
- Procedures to allow directors, in the furtherance of their duties, to seek independent professional advice at the Company's expense.

Control procedures cover management accounting, financial reporting, project appraisal, IT security, compliance and other risk management issues. The Chief Executive Officer is required to ensure that appropriate controls are in place to effectively manage the identified risks. This is monitored by the board on a monthly basis.

### The environment

Information on compliance with significant environmental regulations is set out in the directors' report.

### Corporate reporting

The Managing Director and CFO have made the following certifications to the board:

- that the company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the company and Group and are in accordance with relevant accounting standards;
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board and that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects in relation to financial reporting risks.

### Principle 8: Remunerate fairly and responsibly

The Company is not of a size at the moment that justifies having a separate Remuneration Committee. However, matters typically dealt with by such a committee are dealt with by the board.

The board makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description.

Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the directors' report under the heading "Remuneration report". In accordance with Group policy, participants in equity-based remuneration plans are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements.

The board with the Chief Executive Office also assumes responsibility for overseeing management succession planning, including the implementation of appropriate executive development programmes and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions.

# Income Statement for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

|   | Note | Consolidated |            | Parent      |            |
|---|------|--------------|------------|-------------|------------|
|   |      | 2009<br>\$   | 2008<br>\$ | 2009<br>\$  | 2008<br>\$ |
| Revenue   | 2    | 108,306      | 239,646    | 94,696      | 239,646    |
| Other Income  | 2    | (1,591,434)  | 828,048    | (513,309)   | 805,736    |
| Administration expenses   |      | (217,650)    | (190,122)  | (127,025)   | (190,122)  |
| Consulting and Legal expenses   |      | (801,692)    | (314,178)  | (258,530)   | (314,178)  |
| Depreciation and amortisation expense                                     |      | (3,040)      | (2,376)    | (3,040)     | (2,376)    |
| Impairment expense  |      | (55,611)     | -          | -           | -          |
| Employee expenses   | 3    | (653,199)    | (527,081)  | (421,918)   | (527,081)  |
| Insurance expenses  |      | (25,350)     | (19,466)   | (24,562)    | (19,466)   |
| Data Centre administration  |      | (31,927)     | (53,055)   | -           | (53,055)   |
| Service Fees  |      | (347,029)    | (216,000)  | (216,000)   | (216,000)  |
| Traveling expenses  |      | (181,132)    | (54,830)   | (6,139)     | (54,830)   |
| Other expenses from ordinary activities                                   |      | (198,742)    | (124,525)  | (55,444)    | (124,525)  |
| <i>Operating Loss Before Income Tax</i>                                   |      | (3,998,500)  | (433,939)  | (1,531,271) | (456,251)  |
| Income tax expense  | 8    | -            | -          | -           | -          |
| <b><i>Operating Loss from continuing operations</i></b>                   |      | (3,998,500)  | (433,939)  | (1,531,271) | (456,251)  |
| <i>Operating Loss for the year</i>  |      | (3,998,500)  | (433,939)  | (1,531,271) | (456,251)  |
| <i>Operating Loss attributable to minority equity interest</i>            |      | (641,479)    | -          | -           | -          |
| <b><i>Operating Loss attributable to members of the parent entity</i></b> |      | (3,357,021)  | (433,939)  | (1,531,271) | (456,251)  |
| <i>Earnings Per Share –</i>   |      |              |            |             |            |
| <i>Basic and diluted earnings per share (cents per share)</i>             | 6    | (3.27)       | (0.67)     |             |            |

The accompanying notes form part of these financial statements.

# Balance Sheet as at 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

|                                      | Note | Consolidated     |                  | Parent           |                  |
|--------------------------------------|------|------------------|------------------|------------------|------------------|
|                                      |      | 2009<br>\$       | 2008<br>\$       | 2009<br>\$       | 2008<br>\$       |
| <b>Current Assets</b>                |      |                  |                  |                  |                  |
| Cash and cash equivalents            | 7    | 1,480,629        | 1,966,361        | 544,661          | 1,500,338        |
| Trade and other receivables          | 9    | 43,382           | 43,651           | 28,993           | 39,388           |
| Financial assets                     | 12   | 178,063          | 40,698           | 1,718,111        | 46,335           |
| <b>Total Current Assets</b>          |      | <b>1,702,074</b> | <b>2,050,710</b> | <b>2,291,765</b> | <b>1,586,061</b> |
| <b>Non-Current Assets</b>            |      |                  |                  |                  |                  |
| Other non-current assets             | 10   | 22,673           | 22,673           | -                | -                |
| Capitalised exploration costs        | 11   | 2,617,507        | 2,671,564        | 62,365           | 62,365           |
| Financial assets                     | 12   | 817,013          | 2,385,911        | 3,473,951        | 3,983,474        |
| Property, plant & equipment          | 13   | 4,378            | 6,095            | 4,207            | 6,095            |
| <b>Total Non-Current Assets</b>      |      | <b>3,461,571</b> | <b>5,086,243</b> | <b>3,540,523</b> | <b>4,051,934</b> |
| <b>Total Assets</b>                  |      | <b>5,163,645</b> | <b>7,136,953</b> | <b>5,832,288</b> | <b>5,637,995</b> |
| <b>Current Liabilities</b>           |      |                  |                  |                  |                  |
| Trade and other payables             | 14   | 348,086          | 290,052          | 136,506          | 202,856          |
| Provisions                           | 15   | 101,971          | 95,727           | 20,127           | 13,884           |
| <b>Total Current Liabilities</b>     |      | <b>450,057</b>   | <b>385,779</b>   | <b>156,633</b>   | <b>216,740</b>   |
| <b>Non Current Liabilities</b>       |      |                  |                  |                  |                  |
| Financial liabilities                | 16   | 572,658          | 543,064          | 1,684            | 41,047           |
| <b>Total Non Current Liabilities</b> |      | <b>572,658</b>   | <b>543,064</b>   | <b>1,684</b>     | <b>41,047</b>    |
| <b>Total Liabilities</b>             |      | <b>1,022,715</b> | <b>928,843</b>   | <b>158,317</b>   | <b>257,787</b>   |
| <b>Net Assets</b>                    |      | <b>4,140,930</b> | <b>6,208,110</b> | <b>5,673,971</b> | <b>5,380,208</b> |
| <b>Equity</b>                        |      |                  |                  |                  |                  |
| Issued capital                       | 17   | 8,412,535        | 6,671,278        | 8,412,535        | 6,671,278        |
| Option Reserve                       | 18   | 219,953          | 29,890           | 113,667          | 29,890           |
| Accumulated losses                   |      | (4,677,981)      | (1,320,960)      | (2,852,231)      | (1,320,960)      |
| Total Parent Entity Equity Interest  |      | 3,954,507        | 5,380,208        | 5,673,971        | 5,380,208        |
| Minority Equity Interest             |      | 186,423          | 827,902          | -                | -                |
| <b>Total Equity</b>                  |      | <b>4,140,930</b> | <b>6,208,110</b> | <b>5,673,971</b> | <b>5,380,208</b> |

The accompanying notes form part of the financial statements.

# Statement of Changes in Equity for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

|   | Consolidated                       |                             |                         |                            | Total<br>\$      |
|---|------------------------------------|-----------------------------|-------------------------|----------------------------|------------------|
|   | Ordinary<br>Share<br>Capital<br>\$ | Accumulated<br>losses<br>\$ | Option<br>Reserve<br>\$ | Minority<br>Interest<br>\$ |                  |
| <b>Balance at 1 July 2007</b>                           | 4,349,560                          | (872,198)                   | 440,997                 | -                          | 3,918,359        |
| Shares issued during the financial year                 | 1,772,346                          | -                           | -                       | -                          | 1,772,346        |
| Options exercised during the financial year             | 140,028                            | -                           | (6,668)                 | -                          | 133,360          |
| Options expired during the financial year               | 408,328                            | -                           | (408,328)               | -                          | -                |
| Options issued during the financial year                | -                                  | -                           | 3,889                   | -                          | 3,889            |
| Transaction costs                                       | 1,016                              | -                           | -                       | -                          | 1,016            |
| Loss attributable to members of the consolidated entity | -                                  | (433,939)                   | -                       | -                          | (433,939)        |
| Sale of Subsidiary                                      | -                                  | (14,823)                    | -                       | -                          | (14,823)         |
| Minority Equity Interest                                | -                                  | -                           | -                       | 827,902                    | 827,902          |
| <b>Balance at 30 June 2008</b>                          | <b>6,671,278</b>                   | <b>(1,320,960)</b>          | <b>29,890</b>           | <b>827,902</b>             | <b>6,208,110</b> |
| <b>Balance at 1 July 2008</b>                           | 6,671,278                          | (1,320,960)                 | 29,890                  | 827,902                    | 6,208,110        |
| Shares issued during the financial year                 | 1,741,257                          | -                           | -                       | -                          | 1,741,257        |
| Options issued during the financial year                | -                                  | -                           | 190,063                 | -                          | 190,063          |
| Loss attributable to members of the consolidated entity | -                                  | (3,357,021)                 | -                       | -                          | (3,357,021)      |
| Minority Equity Interest                                | -                                  | -                           | -                       | (641,479)                  | (641,479)        |
| <b>Balance at 30 June 2009</b>                          | <b>8,412,535</b>                   | <b>(4,677,981)</b>          | <b>219,953</b>          | <b>186,423</b>             | <b>4,140,930</b> |

# Statement of Changes in Equity for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

|   | Company                            |                             |                         |                  |
|---|------------------------------------|-----------------------------|-------------------------|------------------|
|   | Ordinary<br>Share<br>Capital<br>\$ | Accumulated<br>losses<br>\$ | Option<br>Reserve<br>\$ | Total<br>\$      |
| <b>Balance at 1 July 2007</b>                 | 4,349,560                          | (864,709)                   | 440,997                 | 3,925,848        |
| Shares issued during the financial year       | 1,772,346                          | -                           | -                       | 1,772,346        |
| Options exercised during the financial year   | 140,028                            | -                           | (6,668)                 | 133,360          |
| Options expired during the financial year     | 408,328                            | -                           | (408,328)               | -                |
| Options issued during the financial year      | -                                  | -                           | 3,889                   | 3,889            |
| Transaction costs                             | 1,016                              | -                           | -                       | 1,016            |
| Loss attributable to members of parent entity | -                                  | (456,251)                   | -                       | (456,251)        |
| <b>Balance at 30 June 2008</b>                | <b>6,671,278</b>                   | <b>(1,320,960)</b>          | <b>29,890</b>           | <b>5,380,208</b> |
| <b>Balance at 1 July 2008</b>                 | 6,671,278                          | (1,320,960)                 | 29,890                  | 5,380,208        |
| Shares issued during the financial year       | 1,741,257                          | -                           | -                       | 1,741,257        |
| Options issued during the financial year      | -                                  | -                           | 83,777                  | 83,777           |
| Loss attributable to members of parent entity | -                                  | (1,531,271)                 | -                       | (1,531,271)      |
| <b>Balance at 30 June 2009</b>                | <b>8,412,535</b>                   | <b>(2,852,231)</b>          | <b>113,667</b>          | <b>5,673,971</b> |

The accompanying notes form part of these financial statements.

# Cash Flow Statement for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

|   | Note      | Consolidated       |                    | Parent             |                    |
|---|-----------|--------------------|--------------------|--------------------|--------------------|
|   |           | 2009<br>\$         | 2008<br>\$         | 2009<br>\$         | 2008<br>\$         |
| <b><i>Cash Flows From Operating Activities</i></b>  |           |                    |                    |                    |                    |
| Receipts from customers                             |           | -                  | 70,000             | -                  | 70,000             |
| Payments to suppliers and employees                 |           | (1,933,146)        | (1,050,237)        | (1,013,417)        | (1,001,200)        |
| Payment for deferred exploration expenditure        |           | (1,554)            | (49,321)           | -                  | (35,400)           |
| Interest received                                   |           | 102,840            | 169,646            | 94,696             | 169,646            |
| <b>Net cash used in operating activities</b>        | <b>19</b> | <b>(1,831,860)</b> | <b>(859,912)</b>   | <b>(918,721)</b>   | <b>(796,954)</b>   |
| <b><i>Cash Flows From Investing Activities</i></b>  |           |                    |                    |                    |                    |
| Amounts repaid by/ (loaned to) other entities       |           | (371,280)          | 57,599             | (1,773,274)        | (5,182)            |
| Payment for investments                             |           | (22,526)           | (2,369,316)        | (3,786)            | (2,369,316)        |
| Payment for property, plant and equipment           |           | (1,323)            | (6,731)            | (1,153)            | (6,731)            |
| Net cash inflow on acquisition of subsidiary        | <b>19</b> | -                  | 465,408            | -                  | -                  |
| <b>Net cash used in investing activities</b>        |           | <b>(395,129)</b>   | <b>(1,853,040)</b> | <b>(1,778,213)</b> | <b>(2,381,229)</b> |
| <b><i>Cash Flows From Financing Activities</i></b>  |           |                    |                    |                    |                    |
| Proceeds from capital raising                       |           | 1,741,257          | 1,651,721          | 1,741,257          | 1,651,721          |
| Proceeds from/(repayment of) borrowings             |           | -                  | -                  | -                  | -                  |
| Share issue costs                                   |           | -                  | -                  | -                  | -                  |
| <b>Net cash provided by financing activities</b>    |           | <b>1,741,257</b>   | <b>1,651,721</b>   | <b>1,741,257</b>   | <b>1,651,721</b>   |
| <i>Net increase (decrease) in Cash Held</i>         |           | (485,732)          | (1,061,231)        | (955,677)          | (1,526,462)        |
| <i>Cash At the Beginning Of The Financial Year</i>  |           | 1,966,361          | 3,027,592          | 1,500,338          | 3,026,800          |
| <b><i>Cash At The End Of The Financial Year</i></b> | <b>7</b>  | <b>1,480,629</b>   | <b>1,966,361</b>   | <b>544,661</b>     | <b>1,500,338</b>   |

The accompanying notes form part of these financial statements.

# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

---

## 1. Statement of Significant Accounting Policies

### Corporate Information

The financial report includes the consolidated financial statements and the notes of MEC Resources Ltd and controlled entities ('Consolidated Group' or 'Group'), and the separate financial statements and notes of MEC Resources Ltd as an individual parent entity ('Parent Entity').

MEC Resources Ltd is a public listed company on the ASX, which is incorporated and domiciled in Australia.

The financial report was authorised for issue on 19<sup>th</sup> August 2009 by the board of directors.

### Basis of Preparation

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

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

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

### Going Concern

The consolidated entity and the parent entity has incurred losses for the year ended 30 June 2009 of \$3,357,021 (30 June 2008: losses of \$433,939) and \$1,531,271 (30 June 2008: losses of \$456,251) respectively.

The directors have reviewed their expenditure and commitments for the consolidated entity and parent entity and have implemented methods of costs reduction.

On the 14th August 2009, the directors announced that it has mandated the Pareto Group from Norway to act as lead brokers to help source the company's capital requirements in relation to the proposed drilling program in the offshore Sydney Basin (PEP 11).

The directors have prepared cash flow forecasts that indicate that the consolidated entity and the parent entity will have sufficient cashflows for a period of at least 12 months from the date of this report.

Based on the cash flow forecasts and the monitoring of operational costs, the directors are satisfied that, the going concern basis of preparation is appropriate. The financial report has therefore been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.



# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

---

## Accounting Policies

### (a) Principles of Consolidation

A controlled entity is any entity MEC Resources Ltd has the power to control the financial and operating policies of so as to obtain benefits from its activities.

All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the consolidated group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

### (b) Business Combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method.

The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss

### (c) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date. Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

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

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

---

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

## (d) Property, plant and equipment

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

### Plant and equipment

Plant and equipment are measured on the cost basis.

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

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

### Depreciation

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

| Class of Fixed Asset | Depreciation Rate |
|----------------------|-------------------|
| Plant and equipment  | 33.33%            |

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

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

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

## (e) Exploration and Development Expenditure

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

# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

---

reserves.

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

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

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

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

## (f) Financial Instruments

### Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

### Derecognition

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

### Classification and Subsequent Measurement

#### (i) *Financial assets at fair value through profit or loss*

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

# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

---

gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

## *(ii) Loans and receivables*

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

## *(iii) Held-to-maturity investments*

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

## *(iv) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

## *(v) Financial Liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

## **Fair value**

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

## **Impairment**

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

## **(g) Impairment of Assets**

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

---

## **(h) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

## **(i) Revenue**

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

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

## **(j) Goods and Services Tax (GST)**

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

Receivables and payables in the balance sheet are shown inclusive of GST.

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

## **(k) Trade and other payables**

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether or not billed to the consolidated entity. The amounts are unsecured and are usually paid within 30 days.

## **(l) Share based payments**

Share based compensation benefits are provided to employees via the Company's Employee Option plan.

The fair value of options granted under the Company's Employee Option Plan is recognized as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognized over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black and Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and risk free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for

# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

---

example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

The market value of shares issued to employees for no cash consideration is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

## **(m) Earnings per share**

Basic earnings per share (EPS) is calculated as net profit/loss attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

## **(n) Comparative Figures**

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

### Critical accounting estimates and judgments

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

### Key estimates — Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

### Key Judgments — Impairment of capitalised and carried forward exploration expenditure

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current. During the period \$55,611 was written off to the income statement. These costs are carried forward in respect of an area that has not at balance sheet date reached a stage that permits reasonable assessment of the existence of economically recoverable reserves, refer to the accounting policy stated in note 1(e).

### Key Judgments — Impairment of financial assets

No impairment has been recognised in respect of the Company's carrying value of its investments in its subsidiaries Advent Energy Ltd and Asset Energy Pty Ltd. After a review of the carrying values, the directors believe that the full amount of these investments is recoverable through the projected activities of each entity and no provision for impairment has been made as at 30 June 2009.

# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

|  | Consolidated       |                | Parent         |                |
|--|--------------------|----------------|----------------|----------------|
|  | 2009<br>\$         | 2008<br>\$     | 2009<br>\$     | 2008<br>\$     |
| <b>2. Revenue</b>  |                    |                |                |                |
| <b>Revenue</b>   |                    |                |                |                |
| Interest revenue : other entities                            | 102,840            | 169,646        | 94,696         | 169,646        |
| Consulting income  | 5,466              |                | -              | -              |
| Sub underwriting income                                      | -                  | 70,000         | -              | 70,000         |
| <b>Total revenue</b>   | <b>108,306</b>     | <b>239,646</b> | <b>94,696</b>  | <b>239,646</b> |
| <b>Other Income</b>  |                    |                |                |                |
| Fair value adjustment of available for sale financial assets | (1,606,457)        | 336,986        | (515,832)      | 336,986        |
| Gain on Sale of Investments                                  | 15,023             | 468,750        | 2,523          | 468,750        |
| Other gains  | -                  | 22,312         | -              | -              |
|  | <b>(1,591,434)</b> | <b>828,048</b> | <b>513,309</b> | <b>805,736</b> |
| <b>3. Profit For The Year</b>                                |                    |                |                |                |
| <b>Expenses</b>  |                    |                |                |                |
| <b>Employee Expenses</b>                                     |                    |                |                |                |
| Salary   | 468,330            | 247,851        | 343,333        | 247,851        |
| Superannuation expense                                       | 17,400             | 13,346         | 17,400         | 13,346         |
| Share-based payments   | 161,226            | 252,000        | 54,942         | 252,000        |
| Other payroll expenses                                       | 6,243              | 13,884         | 6,243          | 13,884         |
|  | <b>653,199</b>     | <b>527,081</b> | <b>421,918</b> | <b>527,081</b> |
| <b>4. Auditors' Remuneration</b>                             |                    |                |                |                |
| Remuneration of the auditor of the parent entity for:        |                    |                |                |                |
| - auditing or reviewing the financial report                 | 33,006             | 34,243         | 33,006         | 34,243         |
| - other services   |                    | -              |                | -              |
| Remuneration of other auditors of subsidiaries for:          |                    |                |                |                |
| - auditing or reviewing the financial report of subsidiaries | 12,000             | -              | -              | -              |
|  | <b>45,006</b>      | <b>34,243</b>  | <b>33,006</b>  | <b>34,243</b>  |

# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

## 5. Key Management Personnel Compensation

(a) Names and positions held of economic and parent entity key management personnel in office at any time during the financial year are:

### *Key Management Personnel*

H Goh – Non-Executive Chairman  
 D L Breeze - Executive Director  
 S K Yap - Non-Executive Director  
 K O Yap - Non-Executive Director  
 C T Lim - Non-Executive Director  
 D Ambrosini – Company Secretary

Key management personnel remuneration, shareholdings and option holdings have been included in the Remuneration Report section of the Directors Report.

## 6. Earnings per share

|   | Consolidated |            |
|---|--------------|------------|
|   | 2009         | 2008       |
|   | \$           | \$         |
|   |              |            |
| (a) Reconciliation of Earnings to Profit or Loss  |              |            |
| Net loss attributable to members of the parent  | (3,357,021)  | (433,939)  |
| Earnings used to calculate basic and diluted EPS  | (3,357,021)  | (433,939)  |
|   |              |            |
| (b) Weighted average number of ordinary shares outstanding during the year used in calculating basic and diluted EPS  | 102,367,745  | 64,939,561 |
| The Company's potential ordinary shares, being its options granted, are not considered dilutive as the conversion of these options will result in a decreased net loss per share. |              |            |

|  | Consolidated |      | Parent |      |
|--|--------------|------|--------|------|
|  | 2009         | 2008 | 2009   | 2008 |
|  | \$           | \$   | \$     | \$   |
|  |              |      |        |      |

## 7. Cash and cash equivalents

|                          |           |           |         |           |
|--------------------------|-----------|-----------|---------|-----------|
| Cash at bank and in hand | 1,480,629 | 1,966,361 | 544,661 | 1,500,338 |
|                          |           |           |         |           |

Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the balance sheet as follows:

|                           |           |           |         |           |
|---------------------------|-----------|-----------|---------|-----------|
| Cash and cash equivalents | 1,480,629 | 1,966,361 | 544,661 | 1,500,338 |
|---------------------------|-----------|-----------|---------|-----------|



# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

## 8. Income Tax Expense

|   | Consolidated |            | Parent      |            |
|---|--------------|------------|-------------|------------|
|   | 2009<br>\$   | 2008<br>\$ | 2009<br>\$  | 2008<br>\$ |
| The components of tax expense comprise:   |              |            |             |            |
| Current tax   | -            | -          | -           | -          |
| Deferred tax  | -            | -          | -           | -          |
| a) The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:     |              |            |             |            |
| Prima facie tax payable on profit from ordinary activities before income tax at 15% (2008: 15%)                             |              |            |             |            |
| Company   | (1,199,550)  | (65,091)   | (1,531,271) | (68,437)   |
| Tax benefit of revenue losses not recognised  | 699,675      | 94,529     | 504,163     | 95,773     |
| Permanent differences   | 553,366      |            | 89,728      |            |
| Temporary differences   | (53,491)     |            | 937,380     |            |
| Exploration and evaluation costs  | -            | (7,398)    | -           | (5,310)    |
| Tax benefit of equity raising costs not recognised  | -            | (22,040)   | -           | (22,040)   |
| Income tax attributable to parent entity  | -            | -          | -           | -          |
|   | %            | %          | %           | %          |
| Weighted average rate of tax  | -            | -          | -           | -          |
| The following deferred tax balances at 15% (2008: 15%) have not been recognised   |              |            |             |            |
| Deferred Tax Assets:  |              |            |             |            |
| Carry forward revenue losses  | 1,121,181    | 421,506    | 924,697     | 420,534    |
| Capital raising costs   | -            | 44,050     | -           | 44,050     |
| (b) The tax benefits of the above Deferred Tax Assets will only be obtained if:   |              |            |             |            |
| (i) company derives future assessable income in a nature and of an amount sufficient to enable the benefits to be utilised; |              |            |             |            |
| (ii) the company continues to comply with the conditions for deductibility imposed by law; and                              |              |            |             |            |
| (iii) no changes in income tax legislation adversely affect the company in utilising the benefits.                          |              |            |             |            |

# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

|                          | Consolidated |            | Parent     |            |
|--------------------------|--------------|------------|------------|------------|
|                          | 2009<br>\$   | 2008<br>\$ | 2009<br>\$ | 2008<br>\$ |
| Deferred Tax Liabilities |              |            |            |            |
| Exploration Expenditure  | 233          | 7,398      | -          | 5,310      |

The above Deferred Tax Liabilities have not been recognised as they have given rise to the carry forward revenue losses for which the Deferred Tax Asset has not been recognised.

## 9. Trade and other receivables

### CURRENT

|                   |        |        |        |        |
|-------------------|--------|--------|--------|--------|
| Trade receivables | 22,507 | 16,505 | 13,164 | 13,163 |
| Other receivables | 20,875 | 27,146 | 15,829 | 26,225 |
|                   | 43,382 | 43,651 | 28,993 | 39,388 |

## 10. Other Assets

|                    |        |        |   |   |
|--------------------|--------|--------|---|---|
| Other Assets       | 22,673 | 22,673 | - | - |
| Total Other Assets | 22,673 | 22,673 | - | - |

## 11. Capitalised Exploration Costs

Exploration expenditure capitalised

|                                   |           |           |        |        |
|-----------------------------------|-----------|-----------|--------|--------|
| Exploration and evaluation phases | 2,617,507 | 2,671,564 | 62,365 | 62,365 |
|                                   | 2,617,507 | 2,671,564 | 62,365 | 62,365 |

Recoverability of the carrying amount of exploration assets is dependent on the successful exploration and sale of natural or coal seam gas.

Capitalised costs amounting to \$1,554 (2008:\$49,321) have been included in cash flows from operating activities in the cash flow statement.

# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

|                                     | Consolidated |            | Parent     |            |
|-------------------------------------|--------------|------------|------------|------------|
|                                     | 2009<br>\$   | 2008<br>\$ | 2009<br>\$ | 2008<br>\$ |
| <b>12. Financial Assets</b>         |              |            |            |            |
| <b>Current</b>                      |              |            |            |            |
| Loans receivable                    | 178,063      | 40,698     | 1,718,111  | 46,335     |
| - loan to Grandbridge Limited       | 178,063      | 40,698     | 178,063    | 40,698     |
| - loans to subsidiaries             | -            | -          | 1,540,048  | 5,637      |
| <b>Non current</b>                  |              |            |            |            |
| Investment in Advent Energy Ltd     | -            | -          | 3,285,062  | 3,285,062  |
| Investment in Asset Energy Pty Ltd  | -            | -          | -          | -          |
| Investment in Central Petroleum Ltd | 817,013      | 2,385,911  | 188,889    | 698,412    |
|                                     | 817,013      | 2,385,911  | 3,473,951  | 3,983,474  |

Refer to Note 23 for details of related party terms and conditions.

The loan to Grandbridge Limited is an unsecured, non-interest bearing and repayable on demand.

## 13. Property, Plant and Equipment

Plant and Equipment:

|                                     |         |         |         |         |
|-------------------------------------|---------|---------|---------|---------|
| At cost                             | 9,952   | 8,580   | 9,733   | 8,580   |
| Accumulated depreciation            | (5,574) | (2,485) | (5,526) | (2,485) |
| Total Property, Plant and Equipment | 4,378   | 6,095   | 4,207   | 6,095   |

### (a) Movements in Carrying Amounts

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

|  | 2009    | Total   | 2008    | Total   |
|--|---------|---------|---------|---------|
|  | \$      | \$      | \$      | \$      |
| Consolidated Entity:                   |         |         |         |         |
| Balance at the beginning of the year   | 6,095   | 6,095   | 1,740   | 1,740   |
| Additions                              | 1,370   | 1,370   | 6,731   | 6,731   |
| Disposals                              | -       | -       | -       | -       |
| Depreciation expense                   | (3,087) | (3,087) | (2,376) | (2,376) |
| Carrying amount at the end of the year | 4,378   | 4,378   | 6,095   | 6,095   |



# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

## Provision for Employee Entitlements

A provision has been recognised for employee entitlements relating to annual leave. The measurement and recognition criteria relating to employee benefits has been included in Note 1 to this report.

## Provision for Share Sale Agreement

A provision has been recognised for the payment of fees to relevant parties upon the successful listing of Advent Energy Ltd.

|                                  | Consolidated |            | Parent     |            |
|----------------------------------|--------------|------------|------------|------------|
|                                  | 2009<br>\$   | 2008<br>\$ | 2009<br>\$ | 2008<br>\$ |
| <b>16. Financial Liabilities</b> |              |            |            |            |
| Loans payable                    | 572,658      | 543,064    | 1,684      | 41,047     |
| Loan to Grandbridge Limited      | 570,974      | 543,064    | -          | 41,047     |
| Loans to other entities          | 1,684        | -          | 1,684      | -          |

Loans payable are unsecured, non-interest bearing and repayable on demand.

The loan from Grandbridge Limited is secured by a registered charge over all assets and rights over Advent Energy including but not limited to , all real and personal property, choses in action, goodwill and called but unpaid nominal and premium capital. The loan does not have a fixed repayment date.

## 17. Issued Capital

|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| 105,897,963 (2008: 71,072,838) fully paid ordinary shares | 9,145,684 | 7,404,427 | 9,145,684 | 7,404,427 |
| Less: Capital raising costs                               | (733,149) | (733,149) | (733,149) | (733,149) |
| Issued Capital  | 8,412,535 | 6,671,278 | 8,412,535 | 6,671,278 |

The Company does not have an authorized capital and issued shares have no par value.

|  | No          | No         | No          | No         |
|--|-------------|------------|-------------|------------|
| <b>Ordinary Shares</b>                                 |             |            |             |            |
| At the beginning of reporting period                   | 71,072,838  | 52,260,942 | 71,072,838  | 52,260,942 |
| Shares issued during the year                          | 34,825,125  | 18,145,096 | 34,825,125  | 18,145,096 |
| Shares issued during the year on conversion of options |             | 666,800    |             | 666,800    |
| At reporting date                                      | 105,897,963 | 71,072,838 | 105,897,963 | 71,072,838 |

# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

---

## Fully Paid Ordinary Share Capital

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

### (a) Options

There were 31,475,000 unlisted employee options on issue at the end of the year:

| <b>Advent Energy</b> |                       |                    |
|----------------------|-----------------------|--------------------|
| <b>Total number</b>  | <b>Exercise price</b> | <b>Expiry date</b> |
| 12,825,000           | \$0.20                | 30 June 2010       |
| 3,500,000            | \$0.06                | 30 June 2012       |
| 2,000,000            | \$0.06                | 28 December 2012   |
| <b>18,325,000</b>    |                       |                    |
| <b>MEC Resources</b> |                       |                    |
| 9,000,000            | \$0.21                | 1 December 2010    |
| 2,150,000            | \$0.15                | 30 June 2013       |
| 1,500,000            | \$0.15                | 6 August 2013      |
| 500,000              | \$0.20                | 30 June 2010       |
| <b>13,150,000</b>    |                       |                    |

There were 52,237,694 listed options on issue at the end of the year:

| <b>MEC Resources</b> |                       |                    |
|----------------------|-----------------------|--------------------|
| <b>Total number</b>  | <b>Exercise price</b> | <b>Expiry date</b> |
| 52,237,694           | \$0.20                | 04 July 2013       |
| <b>52,237,694</b>    |                       |                    |

The market price of the company's ordinary shares at 30 June 2009 was 10.5 cents.

The holders of options do not have the right, by virtue of the option, to participate in any share issue or interest issue of any other body corporate or registered scheme.

The difference between the total market value of options issued during the period, at the date of issue, and the total amount received from executives and employees is not recognised in the financial statements except for the purposes of determining directors' and executives' remuneration in respect of that period.

### (b) Capital risk management

The Group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they may continue to provide returns for shareholders and benefits for other stakeholders.

The focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. The working capital position of the Group and the parent entity at 30 June 2009 and 30 June 2008 are as follows:

# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

|                             | Consolidated |            | Parent     |            |
|-----------------------------|--------------|------------|------------|------------|
|                             | 2009<br>\$   | 2008<br>\$ | 2009<br>\$ | 2008<br>\$ |
| Cash and cash equivalents   | 1,480,629    | 1,966,361  | 544,661    | 1,500,338  |
| Trade and other receivables | 43,382       | 43,651     | 28,993     | 39,388     |
| Trade and other payables    | (348,086)    | (290,052)  | (136,506)  | (202,856)  |
| Working capital position    | 1,175,925    | 1,719,960  | 437,148    | 1,336,870  |

## 18. Reserves

|                 |         |        |         |        |
|-----------------|---------|--------|---------|--------|
| Options Reserve | 219,953 | 29,890 | 113,667 | 29,890 |
|-----------------|---------|--------|---------|--------|

### a. Option Reserve

The option reserve records items recognized as expenses on the valuation of Director and Employee share options.

| Reconciliation of movement      | 2009<br>\$ | 2008<br>\$ | 2009<br>\$ | 2008<br>\$ |
|---------------------------------|------------|------------|------------|------------|
| Opening balance                 | 29,890     | 440,997    | 29,890     | 440,997    |
| Options charges during the year | 190,063    | 3,889      | 83,777     | 3,889      |
| Expired options                 | -          | (414,996)  | -          | (414,996)  |
| Closing balance                 | 219,953    | 29,890     | 113,667    | 29,890     |

## 19. Cash Flow Information

### (a) Reconciliation of Cash Flow from Operations with Profit after income tax

|                                 |             |           |             |           |
|---------------------------------|-------------|-----------|-------------|-----------|
| Operating loss after income tax | (3,998,500) | (433,939) | (1,531,271) | (456,251) |
| Non-cash flows in profit:       |             |           |             |           |
| Depreciation                    | 3,040       | 2,376     | 3,040       | 2,376     |
| Gain on disposal of investments | (15,023)    | (828,048) | (2,523)     | (805,736) |
| Revaluation on investments      | 1,606,447   | (14,821)  | 515,832     | -         |
| Share based payments            | 189,917     | 258,889   | 83,777      | 258,889   |
| Exploration costs written off   | 55,611      | -         | -           | -         |
| Administration recharges        | 263,654     | -         | 62,012      | -         |

# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

|  | Consolidated       |                  | Parent           |                  |
|--|--------------------|------------------|------------------|------------------|
|  | 2009               | 2008             | 2009             | 2008             |
|  | \$                 | \$               | \$               | \$               |
| Changes in net assets and liabilities, net of effects of purchase and disposal of subsidiaries |                    |                  |                  |                  |
| (Increase)/decrease in trade and term receivables  | (5,080)            | 137,222          | -                | 142,482          |
| (Increase)/decrease in other assets  | (543)              | (45,944)         | 4,403            | (11,442)         |
| Increase/(decrease) in trade payables and accruals   | 62,374             | 50,469           | (60,234)         | 72,728           |
| Increase/(decrease) in provisions  | 6,243              | 13,884           | 6,243            | -                |
| <b>Net cash flow from operating activities</b>   | <b>(1,831,860)</b> | <b>(859,912)</b> | <b>(918,721)</b> | <b>(796,954)</b> |

## (b) Acquisition of Entities

During the prior year 74% of the controlled entity Advent Energy Ltd was acquired. Details of this transaction are:

|  |   |           |   |           |
|--|---|-----------|---|-----------|
| Purchase consideration                             | - | 3,285,062 | - | 3,285,062 |
| Cash consideration                                 | - | 1,000,000 | - | 1,000,000 |
| Amount due under contract of sale                  | - | 2,285,062 | - | 2,285,062 |
| Cash Outflow                                       | - | 1,000,000 | - | 1,000,000 |
| Assets and liabilities held at acquisition date:   |   |           |   |           |
| Investment in controlled entity                    | - | -         | - | 3,285,062 |
| Cash   | - | 466,022   | - | -         |
| Receivables  | - | 4,263     | - | -         |
| Investments  | - | 1,687,500 | - | -         |
| Capitalised exploration and evaluation expenditure | - | 1,803,970 | - | -         |
| Payables   | - | (169,039) | - | -         |
| Loans from other entities                          | - | (507,654) | - | -         |
|  | - | 3,285,062 | - | -         |
| Minority interest in acquisition                   | - | 827,903   | - | -         |
|  | - | 4,112,965 | - | -         |



# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

|   | Consolidated |          | Parent |         |
|---|--------------|----------|--------|---------|
|   | 2009         | 2008     | 2009   | 2008    |
|   | \$           | \$       | \$     | \$      |
| <b>(c) Disposal of entities</b>   |              |          |        |         |
| During the prior year the controlled entity Asset Energy Pty Ltd was sold. Aggregate details of this transaction are: |              |          |        |         |
| Disposal price  | -            | 660,062  | -      | -       |
| Cash consideration  | -            | -        | -      | -       |
| Assets and liabilities held at disposal date:   | -            | -        | -      | -       |
| Investment in controlled entity   | -            | -        | -      | 660,062 |
| Cash  | -            | 554      | -      | -       |
| Receivables   | -            | 921      | -      | -       |
| Intangibles   | -            | 658,404  | -      | -       |
| Loans from other entities   | -            | (22,189) | -      | -       |
|   | -            | 637,690  | -      | -       |
| Net gain on disposal  | -            | 22,372   | -      | -       |

## d) Non cash investing and financing activities

### i) Sale of Asset Energy Pty Ltd

During the year controlled entity (Asset Energy Pty Ltd) was sold to Advent Energy Ltd. MEC Resources Ltd was issued 13,201,240 ordinary shares each with a value of 5c in Advent Energy Ltd.

|   |         |   |   |
|---|---------|---|---|
| - | 660,062 | - | - |
|---|---------|---|---|

### ii) Sale of Central Petroleum shares to Advent Energy Ltd

During the year MEC Resources sold a major portion of its interests in Central Petroleum Limited to Advent Energy Ltd. MEC Resources was issued 32,500,000 ordinary shares each with a value of 5c in Advent Energy Ltd.

|   |           |   |   |
|---|-----------|---|---|
| - | 1,625,000 | - | - |
|---|-----------|---|---|

## 20. Financial Risk Management

### a) Financial Risk Management

The group's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable, and loans to and from related parties. The main purpose of non-derivative financial instruments is to raise finance for group operations policies.

# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

## i. Financial Risk Exposures and Management

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

Interest rate risk

Interest rate risk is managed with a mixture of fixed and floating rate debt.

Liquidity risk

The group manages liquidity risk by monitoring forecast cash flows.

Credit risk

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

Credit risk for derivative financial instruments arises from the potential failure by counter-parties to the contract to meet their obligations.

The economic entity does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the economic entity.

## (b) Financial Instruments

### i. Interest rate risk

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

#### Consolidated Group

| 2009                                | Effective<br>Average<br>Interest Rate<br>Payable<br>% | Floating<br>Interest<br>Rate<br>\$ | Non-<br>Interest<br>Bearing<br>\$ | Total<br>\$ |
|-------------------------------------|---|------------------------------------|-----------------------------------|-------------|
| <b><i>Financial Assets</i></b>      |   |                                    |                                   |             |
| Cash and cash equivalents           | 3.00%   | 1,480,629                          | -                                 | 1,480,629   |
| Trade and other receivables         | -   | -                                  | 43,382                            | 43,382      |
| Financial Assets -current           | -   | -                                  | 178,063                           | 178,063     |
| Financial Assets- non current       | -   | -                                  | 817,013                           | 817,013     |
|                                     |   | 1,480,629                          | 1,038,458                         | 2,519,087   |
| <b><i>Financial Liabilities</i></b> |   |                                    |                                   |             |
| Trade and sundry Payables           | -   | -                                  | 348,086                           | 348,086     |
| Financial liabilities               | -   | -                                  | 572,658                           | 572,658     |
|                                     |   |                                    | 920,744                           | 920,744     |

# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

| 2008                                | Effective<br>Average<br>Interest Rate<br>Payable<br>% | Floating<br>Interest<br>Rate<br>\$ | Non-<br>Interest<br>Bearing<br>\$ | Total<br>\$ |
|-------------------------------------|---|------------------------------------|-----------------------------------|-------------|
| <b><i>Financial Assets</i></b>      |   |                                    |                                   |             |
| Cash and cash equivalents           | 3.85%   | 1,966,361                          | -                                 | 1,966,361   |
| Trade and other receivables         | -   | -                                  | 43,651                            | 43,651      |
| Financial Assets -current           | -   | -                                  | 40,698                            | 40,698      |
| Financial Assets –non current       | -   | -                                  | 2,385,911                         | 2,385,911   |
|                                     |   | 1,966,361                          | 2,470,260                         | 4,436,621   |
| <b><i>Financial Liabilities</i></b> |   |                                    |                                   |             |
| Trade and sundry Payables           | -   | -                                  | 290,052                           | 290,052     |
| Other loans                         | -   | -                                  | 543,064                           | 543,064     |
|                                     |   |                                    | 833,116                           | 833,116     |

## Parent Entity

| 2009                                | Effective<br>Average<br>Interest Rate<br>Payable<br>% | Floating<br>Interest<br>Rate<br>\$ | Non-<br>Interest<br>Bearing<br>\$ | Total<br>\$ |
|-------------------------------------|---|------------------------------------|-----------------------------------|-------------|
| <b><i>Financial Assets</i></b>      |   |                                    |                                   |             |
| Cash and cash equivalents           | 3.00%   | 544,661                            | -                                 | 544,661     |
| Trade and other receivables         | -   | -                                  | 28,993                            | 28,993      |
| Financial Assets -current           | -   | -                                  | 1,718,111                         | 1,718,111   |
| Financial Assets –non current       | -   | -                                  | 188,889                           | 188,889     |
|                                     |   | 544,661                            | 1,935,993                         | 2,480,654   |
| <b><i>Financial Liabilities</i></b> |   |                                    |                                   |             |
| Trade and sundry Payables           | -   | -                                  | 136,506                           | 136,506     |
| Other loans                         | -   | -                                  | 1,684                             | 1,684       |
|                                     |   |                                    | 138,190                           | 138,190     |

# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

| 2008                                | Effective<br>Average<br>Interest Rate<br>Payable<br>% | Floating<br>Interest<br>Rate<br>\$ | Non-<br>Interest<br>Bearing<br>\$ | Total<br>\$ |
|-------------------------------------|---|------------------------------------|-----------------------------------|-------------|
| <b><i>Financial Assets</i></b>      |   |                                    |                                   |             |
| Cash and cash equivalents           | 3.85%   | 1,500,338                          | -                                 | 1,500,338   |
| Trade and other receivables         | -   | -                                  | 39,388                            | 39,388      |
| Financial Assets -current           | -   | -                                  | 46,335                            | 46,335      |
| Financial Assets –non current       | -   | -                                  | 698,412                           | 698,412     |
|                                     |   | 1,500,338                          | 784,135                           | 2,284,473   |
| <b><i>Financial Liabilities</i></b> |   |                                    |                                   |             |
| Trade and sundry Payables           | -   | -                                  | 202,856                           | 202,856     |
| Other loans                         | -   | -                                  | 41,047                            | 41,047      |
|                                     |   |                                    | 243,903                           | 243,903     |

## ii. Net Fair Values

The net fair values of:

- Term receivables are determined by discounting the cash flows, at the market interest rates of similar securities, to their present value.
- Listed investments have been valued at the quoted market bid price at balance date, adjusted for transaction costs expected to be incurred. For unlisted investments where there is no organised financial market, the net fair value has been based on a reasonable estimation of the underlying net assets or discounted cash flows of the investment.
- Other loans and amounts due are determined by discounting the cash flows, at market interest rates of similar borrowings to their present value.
- Other assets and liabilities approximate their carrying value.

No financial assets and financial liabilities are readily traded on organised markets in standardised form other than listed investments.

Financial assets where the carrying amount exceeds net fair values have not been written down as the economic entity intends to hold these assets to maturity. Aggregate net fair values and carrying amounts of financial assets and financial liabilities at balance date:

# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

|   | 2009             |                  | 2008             |                  |
|---|------------------|------------------|------------------|------------------|
|   | Carrying Amount  | Net Fair Value   | Carrying Amount  | Net Fair Value   |
| <b>Financial Assets</b>                           |                  |                  |                  |                  |
| Available-for-sale financial assets at fair value | 817,013          | 817,013          | 2,385,911        | 2,385,911        |
| Held-to-maturity financial assets                 | -                | -                | -                | -                |
| Loans and receivables                             | 221,445          | 221,445          | 84,349           | 84,349           |
|   | <u>1,038,458</u> | <u>1,038,458</u> | <u>2,470,260</u> | <u>2,470,260</u> |
| <b>Financial Liabilities</b>                      |                  |                  |                  |                  |
| Other loans and amounts due                       | 572,658          | 572,658          | 543,064          | 543,064          |
| Other liabilities                                 | 348,086          | 348,086          | 290,052          | 290,052          |
|   | <u>920,744</u>   | <u>920,744</u>   | <u>833,116</u>   | <u>833,116</u>   |

### iii. Sensitivity Analysis

#### Interest Rate Risk

The group has performed sensitivity analysis relating to its exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks

#### Interest Rate Sensitivity Analysis

The effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

|                                     | Consolidated Group |          | Parent Entity |          |
|-------------------------------------|--------------------|----------|---------------|----------|
|                                     | 2009               | 2008     | 2009          | 2008     |
| <b>Change in profit</b>             |                    |          |               |          |
| — Increase in interest rate by 1%   | 34,280             | 44,064   | 31,565        | 44,064   |
| — Decrease in interest rate by 0.5% | (17,140)           | (22,032) | (15,783)      | (22,032) |
| <b>Change in Equity</b>             |                    |          |               |          |
| — Increase in interest rate by 1%   | 34,280             | 44,064   | 31,565        | 44,064   |
| — Decrease in interest rate by 0.5% | (17,140)           | (22,032) | (15,783)      | (22,032) |

## 21. Segment Information

MEC Resources Ltd operates predominantly in one industry, namely investments in the mining and resources. These activities are predominantly in Australia.

# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

## 22. Events after the Balance Sheet Date

On 23 July 2009 MEC Resources Ltd issued 2,000,000 shares and 500,000 unlisted options to Mr Ding Gui Ming, a member of their advisory board. The options are exercisable at 20 cents and have an expiry date of 30 June 2010.

On the 14th August 2009, the directors announced that it has mandated the Pareto Group from Norway to act as lead brokers to help source the company's capital requirements in relation to the proposed drilling program in the offshore Sydney Basin (PEP 11).

## 23. Related Party Transactions

### (a) Directors' Remuneration

Details of directors' remuneration and retirement benefits are disclosed in the remuneration report in the Directors report.

### (b) Directors' Equity Holdings

|   | Parent     |            |
|---|------------|------------|
|   | 2009       | 2008       |
|   | \$         | \$         |
| <i>Ordinary Shares</i>  |            |            |
| Held as at the date of this report by directors and their director-related entities in: |            |            |
| MEC Resources Ltd   | 25,221,746 | 18,474,797 |
| Advent Energy Ltd   | 7,000,000  | 7,000,000  |
| <i>Other Equity Instruments</i>   |            |            |
| <i>Listed Options</i>   |            |            |
| Held as at the date of this report by directors and their director-related entities in: |            |            |
| MEC Resources Ltd   | 17,395,872 | -          |
| <i>Unlisted Options</i>   |            |            |
| Held as at the date of this report by directors and their director-related entities in: |            |            |
| MEC Resources Ltd   | 6,000,000  | 9,000,000  |
| Advent Energy Ltd   | 2,000,000  | 2,000,000  |

### (c) Related entities

A loan facility exists between Advent Energy and its parent entity, MEC Resources \$1,536,102 (2008: \$nil). The loan is secured by a second charge over all of the assets and rights of Advent Energy including but not limited to, all real and personal property, choses in action, goodwill and called but unpaid nominal and premium capital. The loan is due and payable on the earlier a successful capital raising or the date the MEC issues a notice for repayment.

# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

## 24. Controlled Entities

| Name of Entity                           | Principal Activity                      | Country of Incorporation | Ownership Interest % |       |
|--|---|--------------------------|----------------------|-------|
|  |   |                          | 2009                 | 2008  |
| <b>Parent Entity</b>                     |   |                          |                      |       |
| MEC Resources Limited                    | Investment                              | Australia                |                      |       |
| <b>Subsidiaries of MEC Resources Ltd</b> |   |                          |                      |       |
| Advent Energy Limited                    | Oil and Gas exploration and development | Australia                | 74.00                | 74.00 |
| Asset Energy Proprietary Limited         | Oil and Gas exploration and development | Australia                | 74.00                | 74.00 |

## 25. Share-Based Payments

The following share-based payment arrangements existed at 30 June 2009:

On 6 August 2008, share options were granted to employees of MEC Resources Limited under the MEC Resources Employee Incentive Scheme. The options entitle employees to take up ordinary shares at an exercise price of \$0.15 each. The options hold no voting or dividends rights and are not transferable.

On 22 January 2009, share options were granted to employees of MEC Resources Limited under the MEC Resources Employee Incentive Scheme. The options entitle employees to take up ordinary shares at an exercise price of \$0.20 each. The options hold no voting or dividends rights and are not transferable.

At balance date, no share option has been exercised.

All options granted to key management personnel are ordinary shares in MEC Resources Ltd or its subsidiary Advent Energy Ltd, which confer a right of one ordinary share for every option held.

# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

|  | Consolidated Group |                                    |                   |                                    | Parent Entity     |                                    |                   |                                    |
|--|--------------------|------------------------------------|-------------------|------------------------------------|-------------------|------------------------------------|-------------------|------------------------------------|
|  | 2009               |                                    | 2008              |                                    | 2009              |                                    | 2008              |                                    |
|  | Number of Options  | Weighted Average Exercise Price \$ | Number of Options | Weighted Average Exercise Price \$ | Number of Options | Weighted Average Exercise Price \$ | Number of Options | Weighted Average Exercise Price \$ |
| Outstanding at the beginning of the year | 28,475,000         | -                                  | 21,055,169        | -                                  | 12,150,000        | -                                  | 21,055,169        | -                                  |
| Granted                                  | 1,500,000          | 0.15                               | 2,150,000         | 0.15                               | 1,500,000         | 0.15                               | 2,150,000         | 0.15                               |
| Granted                                  | 500,000            | 0.20                               | 1,000,000         | -                                  | 500,000           | 0.20                               | 1,000,000         | -                                  |
| Granted                                  | 2,000,000          | .06                                | -                 | -                                  | -                 | -                                  | -                 | -                                  |
| Forfeited                                | -                  | -                                  | -                 | -                                  | -                 | -                                  | -                 | -                                  |
| Exercised                                | -                  | -                                  | -                 | -                                  | -                 | -                                  | -                 | -                                  |
| Expired                                  | (1,000,000)        | 0.10                               | (12,055,169)      | 0.12                               | (1,000,000)       | 0.10                               | (12,055,169)      | 0.12                               |
| Outstanding at year-end                  | 31,475,000         | -                                  | 12,150,000        | -                                  | 13,150,000        | -                                  | 12,150,000        | -                                  |
| Exercisable at year-end                  | 24,541,667         | -                                  | 1,716,667         | -                                  | 9,716,667         | -                                  | 1,716,667         | -                                  |

No options exercised during the year ended 30<sup>th</sup> June 2009.

The weighted average fair value of the options granted during the year was \$73,750.

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

|                                     |           |
|-------------------------------------|-----------|
| Weighted average exercise price     | \$0.15    |
| Weighted average life of the option | 60 months |
| Underlying share price              | \$0.071   |
| Expected share price volatility     | 95%       |
| Risk free interest rate             | 7.25%     |

|                                     |           |
|-------------------------------------|-----------|
| Weighted average exercise price     | \$0.20    |
| Weighted average life of the option | 23 months |
| Underlying share price              | \$0.046   |
| Expected share price volatility     | 95%       |
| Risk free interest rate             | 7.25%     |

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender, which may not eventuate.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Included under employee benefits expense in the income statement is \$161,226 (2008: \$252,000), and relates, in full, to equity



# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

## 26. Contingent Liabilities

A claim for outstanding consulting fees has been brought against the parent entity and its subsidiary Advent Energy Ltd. The case is currently in pre trial stages with the first discussions to resolve the matter taking place in June 09. The claim is being vigorously defended by the parent entity as all fees have been paid in accordance with the agreed contracts.

A secured loan exists between Advent and Grandbridge Limited. It is secured by a registered charge over all assets and rights over Advent Energy including but not limited to, all real and personal property, choses in action, goodwill and called but unpaid nominal and premium capital. The loan does not have a fixed repayment date.

A loan facility exists between Advent Energy and its parent entity. The loan is secured by a second charge over all of the assets and rights of Advent Energy including by not limited to, all real and personal property, choses in action, goodwill and called but unpaid nominal and premium capital. The loan is due and payable on the earlier a successful capital raising or the date the MEC issues a notice for repayment.

## 27. Commitments

### Capital Commitments

In order to maintain an interest in the exploration tenements in which the Company is involved, the Company is committed to meet the conditions under which the tenements were granted.

Capital expenditure forecasted for at the reporting date but not recognised as liabilities as follows:

|  | Consolidated |            | Parent     |            |
|--|--------------|------------|------------|------------|
|  | 2009<br>\$   | 2008<br>\$ | 2009<br>\$ | 2008<br>\$ |
| Work Program Commitments - Exploration permits |              |            |            |            |
| Payable:                                       |              |            |            |            |
| Within one year                                | 25,250,000   | -          | -          | -          |
| Greater than one year less than five years     | 50,000       |            |            |            |
| Total  | 25,300,000   |            |            |            |

The Company has also applied with the Department of Mines and Petroleum for a waiver on their work commitments on their tenement permit EP 386.

## 28. Changes in Accounting Policies

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and consolidated group but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

| New or revised requirement  | Effective for annual reporting periods beginning/ending on or after | More information  | Impact on Group   |
|---|---|---|---|
| <p><i>AASB 101 Presentation of Financial Statements (Revised September 2007), AASB 2007-8 Amendments to Australian Accounting Standards &amp; Interpretations and AASB 2007-10 Further Amendments to AASBs arising from AASB 101</i></p> <p>The revised standard affects the presentation of changes in equity and comprehensive income. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other AASB standards.</p>                            | <p>Beginning 1 January 2009</p>                                     | <p>This will be adopted for the year ended 30 June 2010</p> | <p>This is a disclosure standard, so will have no direct impact on amounts in the financial report, other than amendments to disclosures.</p> |
| <p><i>AASB 123 Borrowing Costs (Revised), AASB 2007-6 Amendments to Australian Accounting Standards 1, 101, 107, 111, 116, 138 and Interpretations 1 &amp; 12</i></p> <p>This revision eliminates the option to expense borrowing costs on qualifying assets and requires that they be capitalised. The Amending Standard eliminates reference to the expensing option in various other pronouncements.</p>   | <p>Beginning 1 January 2009</p>                                     | <p>This will be adopted for the year ended 30 June 2010</p> | <p>The adoption of this standard will have no impact on the group.</p>  |
| <p><i>AASB 3 Business Combinations (Revised), AASB 127 Consolidated and Separate Financial Statements (Amended), AASB 2008-3 Amendments to AASBs arising from AASB 3 and AASB 127</i></p> <p>This revision changes the application of acquisition accounting for business combinations and accounting for non-controlling interests. The revised and amended standards incorporate many changes which will have a significant impact on the profit and loss for entities entering into business combinations.</p> | <p>Beginning 1 July 2009</p>  | <p>This will be adopted for the year ended 30 June 2010</p> | <p>The impact of this standard on the group has not yet been determined.</p>  |

# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

| New or revised requirement  | Effective for annual reporting periods beginning/ending on or after | More information  | Impact on Group   |
|---|---|---|---|
| <p><i>AASB 8 Operating Segments, AASB 2007-3 Amendments to Australian Accounting Standards 5, 6, 102, 107, 119, 127, 134, 136, 1023 &amp; 1038 arising from AASB 8</i></p> <p>This standard supersedes AASB 114 Segment Reporting, introducing a US GAAP approach of management reporting as part of the convergence project with FASB.</p>   | <p>Beginning 1 January 2009</p>                                     | <p>This will be adopted for the year ended 30 June 2010</p> | <p>AASB 8 is a disclosure standard, so will have no direct impact on amounts in the financial report, other than amendments to disclosures.</p> |
| <p><i>AASB 2008-1 Amendments to Australian Accounting Standards: Share-Based Payments: Vesting Conditions and Cancellations</i></p> <p>This clarifies that vesting conditions comprise service conditions and performance conditions only and that other features of a share-based payment transaction are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.</p> | <p>Beginning 1 January 2009</p>                                     | <p>This will be adopted for the year ended 30 June 2010</p> | <p>The impact of this standard on the group has not yet been determined.</p>  |
| <p><i>AASB 2008-5: Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i></p> <p>The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting.</p>   | <p>Beginning 1 January 2009</p>                                     | <p>This will be adopted for the year ended 30 June 2010</p> | <p>The impact of this standard on the group has not yet been determined.</p>  |
| <p><i>AASB 2008-6: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i></p> <p>AASB 2008-6 amends AASB 1 and AASB 5 to include requirements relating to a sale plan involving the loss of control of a subsidiary.</p>  | <p>Beginning 1 July 2009</p>  | <p>This will be adopted for the year ended 30 June 2010</p> | <p>The impact of this standard on the group has not yet been determined.</p>  |

# Notes to the Consolidated Financial Statements for the year ended 30 June 2009

MEC Resources Ltd and its controlled subsidiaries

| New or revised requirement   | Effective for annual reporting periods beginning/ending on or after | More information  | Impact on Group  |
|--|---|---|--|
| <p><i>AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i></p> <p>This amends and clarifies the following standards AASB 101, AASB 118, AASB 127 and AASB 136 for the treatment of determining the cost of an investment in a subsidiary, jointly controlled entity or associate.</p> | <p>Beginning 1 January 2009</p>                                     | <p>This will be adopted for the year ended 30 June 2010</p> | <p>The impact of this standard on the group has not yet been determined.</p> |
| <p><i>Interpretation 17 Distributions of Non-cash Assets to Owners</i></p> <p>This Interpretation provides guidance on how an entity should measure distributions of assets other than cash when it pays dividends to its owners, except for common control transactions.</p>  | <p>Beginning 1 January 2009</p>                                     | <p>This will be adopted for the year ended 30 June 2010</p> | <p>The impact of this standard on the group has not yet been determined.</p> |

# Directors Declaration

MEC Resources Ltd and its controlled subsidiaries

---

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 22 to 56, are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the company and economic entity;
2. the Financial Statements and Notes comply with International Accounting Standards as disclosed in Note 1;
3. the Chief Executive Officer and Chief Finance Officer have each declared that:
  - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
  - (c) the financial statements and notes for the financial year give a true and fair view.
4. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Director



.....  
David Breeze  
Executive Director

Dated this 19<sup>th</sup> day of August 2009

## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF MEC RESOURCES LTD

#### Report on the Financial Report

We have audited the accompanying financial report of MEC Resources Ltd, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both MEC Resources Ltd and the consolidated entity. The consolidated entity comprises the entity and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' Responsibility for the Financial Report*

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

#### *Auditor's Responsibility*

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

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

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

Tel: 61 8 9278 2222 | Fax: 61 8 9278 2200 | [www.pkf.com.au](http://www.pkf.com.au)  
West Australian Partnership | ABN 39 542 778 278  
Level 7, BGC Centre | 28 The Esplanade | Perth | Western Australia 6000 | Australia  
PO Box Z5066 | St Georges Terrace | Perth | Western Australia 6831

PKF is a national association of independent chartered accounting and consulting firms, each trading as PKF. PKF Australia Ltd is also a member of PKF International, an association of legally independent chartered accounting and consulting firms.

*Independence*

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

*Auditor's Opinion*

In our opinion:

- (a) the financial report of MEC Resources Ltd is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the entity's and consolidated entity's financial position as at 30 June 2009 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements and notes or financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in page 5 to 10 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's Opinion*

In our opinion the Remuneration Report of MEC Resources Ltd for the year ended 30 June 2009, complies with section 300A of the *Corporations Acts 2001*.



**PKF**  
Chartered Accountants



**Chris Nicoloff**  
Partner

Dated at Perth, Western Australia on this 19<sup>th</sup> day of August 2009

# Additional Securities Exchange Information

MEC Resources Ltd and its controlled subsidiaries

Additional information required by Australian Securities Exchange Limited and not shown elsewhere in this report as follows. The information is made up to 13<sup>th</sup> August 2009.

## 1. Substantial Shareholder

The name of the substantial shareholder listed in the company's register is:

| Shareholder  | Shares     | %    |
|--------------|------------|------|
| David Breeze | 10,144,304 | 9.40 |

## 2. Distribution of Shareholders

| Range of Holding | Shareholders | Number Ordinary Shares | %      |
|------------------|--------------|------------------------|--------|
| 1 – 1,000        | 258          | 160,996                | 0.15   |
| 1,001 – 5,000    | 114          | 344,910                | 0.32   |
| 5,001 – 10,000   | 388          | 3,785,280              | 3.51   |
| 10,001 – 100,000 | 951          | 36,269,010             | 33.61  |
| 100,001 and over | 154          | 67,337,767             | 62.41  |
|                  | 1865         | 107,897,963            | 100.00 |

## 3. (a) Distribution of Listed Optionholders

| Range of Holding | Optionholders | Number Ordinary Shares | %      |
|------------------|---------------|------------------------|--------|
| 1 – 1,000        | 24            | 12,150                 | 0.02   |
| 1,001 – 5,000    | 24            | 53,665                 | 0.10   |
| 5,001 – 10,000   | 23            | 157,920                | 0.30   |
| 10,001 – 100,000 | 330           | 12,483,152             | 23.90  |
| 100,001 and over | 99            | 39,530,807             | 75.67  |
|                  | 500           | 52,237,694             | 100.00 |

## 3. (b) Distribution of Unlisted Optionholders

| Range of Holding  | Optionholders | Number of Options | %      |
|-------------------|---------------|-------------------|--------|
| MEC Resources     |               |                   |        |
| 10,001 to 100,000 | 3             | 150,000           | 1.10   |
| 100,001 and over  | 11            | 13,500,000        | 98.90  |
|                   | 30            | 13,650,000        | 100.00 |



# Additional Securities Exchange Information

MEC Resources Ltd and its controlled subsidiaries

| Range of Holding  | Optionholders | Number of Options | %      |
|-------------------|---------------|-------------------|--------|
| Advent Energy     |               |                   |        |
| 10,001 to 100,000 | 2             | 200,000           | 1.10   |
| 100,001 and over  | 12            | 18,125,000        | 98.90  |
|                   | 14            | 18,325,000        | 100.00 |

## 4. Voting Rights - Shares

All ordinary shares issued by MEC Resources Ltd carry one vote per share without restriction.

## 5. Voting Rights - Options

The holders of employee options do not have the right to vote.

## 6. Restricted Securities

**Shares** - Number of Shares free of escrow 107,897,963

**Total Shares** 107,897,763

### Options

Number of Employee options not subject to Escrow (Listed) 52,237,694

Number of Employee options not subject to Escrow (Not Listed) 24,541,667

**Total Options** 76,779,361

## 7. Tenements and Interests Held

| Permit Details                    | Interest Held | Entity        |
|-----------------------------------|---------------|---------------|
| Petroleum Exploration Permit 386  | 100%          | Advent Energy |
| Petroleum Exploration Permit 11   | 25%           | Advent Energy |
| Petroleum Exploration Permit 325  | 8.3%          | Advent Energy |
| Petroleum Exploration Licence 111 | *             | Advent Energy |
| Retention Lease 1                 | 100%          | Advent Energy |

\*Advent Energy has a conditional non-exclusive farm-in agreement to acreage in the South Australian Cooper Basin with Victoria Petroleum N.L., Impress Energy Ltd and Roma Petroleum Ltd.

# Additional Securities Exchange Information

MEC Resources Ltd and its controlled subsidiaries

## 8. Twenty Largest Shareholders

The names of the twenty largest shareholders of the ordinary shares of the company are:

| Name                       | Number of ordinary fully paid shares | % held of issued ordinary capital |
|----------------------------|--------------------------------------|-----------------------------------|
| D Breeze                   | 10,044,304                           | 14.42                             |
| Grandbridge Ltd            | 9,747,362                            | 13.99                             |
| H Goh                      | 4,996,248                            | 5.75                              |
| K O Yap                    | 4,000,000                            | 3.71                              |
| C T Lim                    | 3,395,000                            | 3.15                              |
| S K Yap                    | 2,382,250                            | 2.21                              |
| D G Ming                   | 2,000,000                            | 1.85                              |
| Robinia Partners PL        | 1,006,961                            | 0.93                              |
| Kardinia Nom PL            | 874,740                              | 0.81                              |
| Antony Brian Websdale      | 800,000                              | 0.74                              |
| Edward YI Fincl Svcs PL    | 630,000                              | 0.58                              |
| Avatar Energy PL           | 625,000                              | 0.58                              |
| Feng Liu and Hua Wen Sheng | 430,000                              | 0.40                              |
| M and J F Lawrence Birch   | 425,500                              | 0.39                              |
| Colin Alexander Batts      | 400,000                              | 0.37                              |
| Heather Lynette Dean       | 400,000                              | 0.37                              |
| Ian Sargent                | 400,000                              | 0.37                              |
| Naracoorte Devlmts PL      | 400,000                              | 0.37                              |
| Chenille PL                | 376,420                              | 0.35                              |
| Patricia and Bian Luan Lee | 364,500                              | 0.34                              |
|                            | <b>43,698,285</b>                    | <b>40.49</b>                      |

# Additional Securities Exchange Information

MEC Resources Ltd and its controlled subsidiaries

## 8. Twenty Largest Listed Option Holders (as at 13 August 2009)

The names of the twenty largest listed Option Holders of the company are:

| Name                       | Number of listed options | % held of issued ordinary capital |
|----------------------------|--------------------------|-----------------------------------|
| Trandcorp Pty Ltd          | 7,533,228                | 14.42                             |
| Grandbridge Ltd            | 7,310,522                | 13.99                             |
| H Goh                      | 4,650,144                | 8.90                              |
| K O Yap                    | 3,000,000                | 5.74                              |
| C T Lim                    | 2,062,500                | 3.95                              |
| C A Batts                  | 420,000                  | 0.80                              |
| Luan Biau Tan              | 397,500                  | 0.76                              |
| David E Perks and Assoc PL | 365,000                  | 0.70                              |
| Lewis Sec Ltd              | 363,626                  | 0.70                              |
| M and J F Lawrence Birch   | 319,125                  | 0.61                              |
| Ian Sargent                | 300,000                  | 0.57                              |
| Sykes Frederick and J      | 275,000                  | 0.53                              |
| Patricia and Bian Luan Lee | 273,375                  | 0.52                              |
| Damian Scanlon             | 242,250                  | 0.46                              |
| Jacqueline Sykes           | 225,000                  | 0.43                              |
| Chin Peter K and ACM       | 225,000                  | 0.43                              |
| Timothy John Ryan          | 225,000                  | 0.43                              |
| David Gordon               | 222,000                  | 0.42                              |
| Comsec Nom PL              | 218,813                  | 0.42                              |
| Marek Glinski              | 200,000                  | 0.37                              |
|                            | <b>28,828,083</b>        | <b>55.16</b>                      |