International Petroleum Limited

(ABN 76 118 108 615)

Annual Report
For the Period Ended
31 DECEMBER 2010

CONTENTS

CORPORATE DIRECTORY

NON-EXECUTIVE CHAIRMAN
Antony Sage

NON-EXECUTIVE DIRECTORS
Timothy Turner
Mark Gwynne
Frank Timis
Mark Ashurst

EXECUTIVE DIRECTOR
William McAvock

COMPANY SECRETARY
Claire Tolcon

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STOCK EXCHANGE LISTING
National Stock Exchange
Code: IOP

Your Directors present their report on International Petroleum Limited ("International Petroleum" or the "Company") for the period ended 31 December 2010.

OFFICERS

Directors
The names of Directors in office during the year and up to the date of this report are as follows:

Mr Antony Sage
Mr Timothy Turner
Mr Mark Gwynne
Mr Frank Timis
Mr Mark Ashurst
Mr William McAvock (appointed 5 January 2011)

Company Secretary
Mr Timothy Turner (resigned 1 December 2010)
Ms Claire Tolcon (appointed 1 December 2010)

PRINCIPAL ACTIVITIES

The Company's principal activity is oil and gas exploration.

REVIEW OF OPERATIONS

Corporate
During the current period, the Company de-listed its securities from trading on ASX and was removed from ASX's official list on 3 September 2010. All of the Company's ordinary shares are now quoted on NSX under the code IOP.

The Board of Directors also resolved to change the Company's year-end to 31 December and to report its financial information in United States dollars ("US$").

In October 2010, the Company established a sale facility for unmarketable parcels of shares (being shares valued at less than A$500 as at the close of trade on 21 October 2010). As at 21 October 2010, the Company had 727 shareholders holding less than a marketable parcel of shares, totalling 512,753 shares. After following the prescribed notice periods and provision of notices to those relevant shareholders, the Company completed the sale process in January 2011 and 463,905 shares were sold on market on behalf of the shareholders of unmarketable parcels of shares.

On 1 December 2010, Ms Claire Tolcon was appointed as Company Secretary and in house legal counsel.
Ms Tolcon has over 12 years experience in the legal profession, primarily in the areas of equity capital markets, mergers and acquisitions, corporate restructuring, corporate governance and mining and resources. She was a partner of a corporate law firm for a number of years before joining the Company. Ms Tolcon holds a Bachelor of Laws and Bachelor of Commerce (Accounting) degree and is a member of FINSIA.

Subsequent to 31 December 2010, Mr William McAvock was appointed as an executive director and Chief Financial Officer of the Company. Mr McAvock is a Chartered Certified Accountant and has worked as Group Financial Controller for exploration companies for over seven years. He spent over three years at Adastra Minerals Inc. (which had dual listings on the TSX and AIM stock exchanges) and, following its takeover in 2006 by First Quantum Minerals Limited, four years at African Minerals Limited (AIM: AMI), the iron ore project development company that is developing the Tonkolili project in Sierra Leone, West Africa.

Kazakhstan Project
The Company, through its wholly owned subsidiary, North Caspian Petroleum Ltd operates and owns a 50% interest in subsoil use rights for the exploration of hydrocarbons in an early stage project in Kazakhstan ("Alakol Licence Area" or "Kazakhstan Project"). The remaining 50% is owned by Remas Corporation LLP, a privately owned Kazakhstan company.

The Alakol Licence Area is located in eastern Kazakhstan and borders the western boundary of the People's Republic of China. The main target reservoirs in the Alakol basin are carbonates or sandstones of Paleozoic age occurring at depths ranging between 1,600 and 3,500 metres. The Alakol basin is considered to be similar to the Junggar and Zaisan basins across the border in China which are both proven oil provinces.

In July 2010, the Company commenced drilling its second well ("**Well A-2**"), within the Alakol Licence Area. Well A-2 is located to the south of the Alakol Lake in an area known as the Junggar Gate where wind speeds can reach velocities in excess of 20 metres per second from October to April. At the beginning of October 2010, wind speeds began to steadily increase and reached a point where operational activities became increasingly dangerous. The Company subsequently suspended the drilling of Well A-2, plugged it to enable the resumption of drilling once wind speeds subside, and relocated the drill rig to Well A-3. The drill rig will be returned to Well A-2 to complete drilling once the weather conditions have improved.

Well A-3 is located 74 kilometres northeast of Well A-2, on a Paleozoic prospect in the eastern portion of the Alakol Licence Area near a number of artesian wells associated with hydrocarbon seeps or oil films proving generation of hydrocarbons within the basin. Seismic interpretation indicates the possible presence of reservoirs below a capping volcanic seal. In January 2011, drilling to a target depth of 2,600 metres commenced at Well A-3.

During the current period, the Company finalised the extension of the Kazakhstan Project contract. The two year extension (to 13 November 2012) was formalised by the Kazakhstan Ministry of Oil and Gas by signing Amendment Agreement No 5 to the contract.

The Company also completed the relinquishment of 25% of the Alakol Licence Area pursuant to the terms of the licence during the current period. The areas relinquished were considered non prospective and are outside the known limits of the Alakol hydrocarbon basin.

Krasnoleninskiy Project

In October 2010, the Company, through its wholly owned subsidiary, IPL Siberia Ltd, acquired an indirect 75% equity interest in Souville Investments Ltd (Cyprus) (''Souville'') from Assuryan Assets Ltd (''Assuryan Assets''). Souville is the 100% legal and beneficial holder of Irtysh-Neft, a Russian company having exploration rights to blocks, located in the Khanty-Mansiysk Region in Western Siberia (Krasnoleninskiy Blocks) – the largest oil-producing region of Russia. Assuryan Assets has retained a 25% interest in Souville and by extension, the Krasnoleninskiy Blocks.

The Krasnoleninskiy Blocks cover a total area of 1,467 sq km. To date, 1,950km of 2D seismic has been completed. Ryder Scott Company–Canada, an independent oil and gas consultant, was engaged and estimated unrisked prospective recoverable resources of the Krasnoleninskiy Blocks at 169 (Low Estimate), 260 (Best Estimate) and 385 (High Estimate) million barrels.[1]

The consideration paid by the Company for the 75% interest in Souville was US$5 million plus an obligation to fund the current work program, which requires the drilling of two wells on the Krasnoleninskiy Blocks by 30 June 2012 and drilling two additional wells by 30 December 2012 (Current Work Program). International Petroleum (through IPL Siberia Ltd) will be the operator of the project and plans to satisfy the Current Work Program by drilling two wells in 2011 and two additional wells in 2012. Funding for further exploration of the Krasnoleninskiy Blocks (following the drilling of the initial IPL Siberia funded four wells) will be financed by shareholders of Souville in the form of cash call loans in proportion to their shareholdings: 75% by IPL Siberia and 25% by Assuryan Assets.

A turn-key drilling contract with Pravdinskaya Expedition LLP has been signed for the drilling of one well on each of two of the four Krasnoleninskiy Blocks (Blocks 7 & 8). Preparation of winter access roads and well site construction commenced in January 2011.

[1] It should be noted that the resources prospects evaluated are all seismic features, which have not been penetrated by any wells. It should be clearly understood that the resources are undiscovered and the project is a medium-high risk exploration play. There is no certainty that any portion of the undiscovered resources will be discovered and that, if discovered, may not be economically viable or technically feasible to produce any of the resources.

Result
The Consolidated Entity incurred a loss after income tax of US$6,669,644 for the 6 months ended 31 December 2010 (period ended 30 June 2010: loss of US$8,869,365).

DIVIDENDS PAID OR RECOMMENDED

The Directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Refer to the Review of Operations which outlines the significant changes in the state of affairs.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 17 March 2011, the Company issued 6,000,000 unlisted options to consultants and employees, exercisable at A$0.25 and expiring on 17 March 2016 and 1,875,000 unlisted options to consultants and employees, exercisable at A$0.30 expiring on 17 March 2016.

On 22 March 2011, the Company announced that it had reached a total depth of 1,066 metres at Well A-3 located in its Alakol licence area in eastern Kazakhstan and had made the decision to plug and abandon the well. After drilling through more than 500 metres of massive Mesozoic-age quartzite and silicified sandstones, not seen in Wells A-1 and A-2, before intersecting Paleozoic-age volcanic sediments, the decision was made to plug and abandon the well. No shows of hydrocarbons were seen during drilling. Though planned for a total depth of 2,600 metres, the unexpected thick interval of metamorphic formations encountered provided clear evidence that the intense heat and pressure associated with mountain building during the Paleogene period in the eastern portion of the Alakol Basin destroyed any existence of reservoir rock properties in the full column of sediments from near surface and below in the A-3 well area. Owing to this event, reservoir quality formations below the Paleozoic volcanics are not anticipated. Consequently, the Company made the prudent decision to stop drilling and abandon this well.

No event has arisen between 31 December 2010 and the date of this report that would be likely to materially affect the operations of the Company or its state of affairs which has not otherwise been disclosed in this financial report.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company will continue to meet its obligations with respect to its Kazakhstan Project and Krasnoleninskiy Project.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Company is aware of its environmental obligations with regards to its exploration activities and ensures that it complies with the relevant environmental regulations when carrying out any exploration work.

INFORMATION ON DIRECTORS

Antony Sage	*Non-Executive Chairman*
Qualifications	B.Com, FCPA, CA, FTIA
Experience	Mr Sage has in excess of 24 years experience in the fields of corporate advisory services, funds management and capital raising. Mr Sage is based in Western Australia and has been involved in the management and financing of listed mining companies for the last 15 years. Mr Sage is the Executive Chairman of ASX listed entities Cape Lambert Resources Limited and Cauldron Energy Limited and is Non-Executive Chairman of ASX listed International Goldfields Limited and Fe Limited and is a Non-Executive director of ASX listed African Iron Limited and Matrix Metals Limited and is the Non-Executive Deputy Chairman of NSX listed African Petroleum Corporation Limited
Interest in Shares and Options	Mr Sage has an interest in 1,555,691 fully paid ordinary shares
Timothy Turner	*Non-Executive Director*
Qualifications	B.Bus, FCPA, FTIA, Registered Company Auditor
Experience	Mr Turner is senior partner with accounting firm, Hewitt Turner & Gelevitis. Mr Turner specialises in domestic business structuring, corporate and trust tax planning and the issuing of audit opinions. Mr Turner also has in excess of 21 years experience in new ventures, capital raisings and general business consultancy. Mr Turner has a Bachelor of Business (Accounting and Business Administration), is a Registered Company Auditor, Fellow of CPA Australia and a Fellow of the Taxation Institute of Australia. Mr Turner is also a Director of ASX listed entities Cape Lambert Resources Limited and Legacy Iron Limited and NSX listed African Petroleum Corporation Limited.
Interest in Shares and Options	Mr Turner has an interest in 161,819 fully paid ordinary shares
Mark Gwynne	*Non-Executive Director*
Experience	Mr Gwynne has been involved in exploration and mining for over 17 years and has held management positions on mine sites and in the service sector of the mining industry, including general manager of an exploration consultancy. Mr Gwynne has extensive skills in exploration and mining logistics and management, as well as acquisition and divestment of mineral assets. Mr Gwynne is also a Director of ASX listed Monitor Energy Limited and Fe Limited.
Interest in Shares and Options	Mr Gwynne does not hold any shares or options in the Company.

INFORMATION ON DIRECTORS (continued)

Frank Timis	*Non-Executive Director*
Experience	Mr Timis is a successful resource entrepreneur. He has interests in numerous resource companies listed in London, Australia and Toronto and in assets worldwide. Mr Timis has raised approximately US$2 billion on the financial markets worldwide and is Executive Chairman of African Minerals Limited, an AIM listed mineral exploration company with significant interests in Sierra Leone. Mr Timis is also the Non-Executive Chairman of NSX listed African Petroleum Corporation Limited.
Interest in Shares and Options	Mr Timis holds 444,018,420 fully paid ordinary shares which are subject to a 12 month escrow restriction ending on 15 June 2011. Mr Timis also holds 88,083,684 unlisted share options which are subject to a 12 month escrow restriction ending on 15 June 2011. The options have an exercise price of A$0.25 and an expiry date of 30 June 2012.
Mark Ashurst	*Non-Executive Director*
Qualifications	BA (Hons) Law; Fellow of the Institute of Chartered Accountants in England and Wales
Experience	Mr Ashurst graduated from Sheffield University with a degree in law and is a qualified Barrister and Chartered Accountant. He is a member of the Institute of Chartered Accountants in England and Wales. Mr Ashurst has been employed as a senior investment banker with a broad range of corporate finance and broking skills gained from over 20 years in the City of London. Institutions Mr Ashurst has worked for include BZW, Hoare Govett and, more recently, Canaccord Adams. He has advised both UK and overseas listed companies and has significant expertise in Initial Public Offerings, fund raising and mergers and acquisitions. Mr Ashurst is also Non-Executive Director of AIM listed African Minerals Limited and is an Executive Director of NSX listed African Petroleum Corporation Limited.
Interest in Shares and Options	Mr Ashurst does not hold any shares or options in the Company
William McAvock	*Executive Director and Chief Financial Officer (appointed on 5 January 2011)*
Qualifications	BA (Hons) Accountancy, Fellow of the Association of Chartered Certified Accountants
Experience	Mr McAvock was previously Group Financial Controller of natural resource exploration businesses for over seven years. He spent over three years at Adastra Minerals Inc. (which had dual listings on the TSX and AIM stock exchanges) and, following its takeover in 2006 by First Quantum Minerals Limited (TSX: FM and LSE: FQM), four years at African Minerals Limited (AIM: AMI), the iron ore project development company that is developing the Tonkolili project in Sierra Leone, West Africa.
Interest in Shares and Options	Mr McAvock has an interest in 90,000 fully paid ordinary shares

REMUNERATION REPORT (audited)

This report details the nature and amount of remuneration for key management personnel of the Company.

Remuneration policy
Details of directors and key management personnel

(i) Directors

Antony Sage	Non-Executive Chairman
Timothy Turner	Non-Executive Director
Mark Gwynne	Non-Executive Director
Frank Timis	Non-Executive Director
Mark Ashurst	Non-Executive Director
William McAvock	Executive Director and Chief Financial Officer (appointed 5 January 2011)

(ii) Other Key Management Personnel

Claire Tolcon	Company Secretary (appointed 1 December 2010)
Anya Belogortseva	Kazakhstan Regional Manager
Dr Valera Beloussov	Group Executive Officer
Kenneth Hopkins	Chief Operating Officer of Eastern Petroleum Corporation Ltd (appointed 1 October 2010)
Alexander Osipov	VP Business Development & Investor Relations and Regional Director (Russia) (appointed 23 August 2010)

There are no other specified executives of the Company.

The Board's policy for determining the nature and amount of remuneration for Board members is as follows:

The remuneration policy, setting the terms and conditions for the Directors, was approved by the Board as a whole. The Board has established a separate remuneration committee during the 6 months ended 31 December 2010.

The Company is an exploration entity, and therefore speculative in terms of performance. Consistent with attracting and retaining talented executives, directors and senior executives are paid market rates associated with individuals in similar positions within the same industry. Remuneration may consist of a salary, bonuses, or any other element but must not be a commission on, or percentage of, operating revenue.

All remuneration paid to Directors is valued at the cost to the Company and expensed.

The Board's policy is to remunerate Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board as a whole determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of cash fees that can be paid to Non-Executive Directors is US$457,271 (A$ 450,000) or such other amount approved by shareholders at the Annual General Meeting. Fees for Non-Executive Directors are not linked to the performance of the Company.

The Company is an exploration entity, and therefore speculative in terms of performance. Consistent with attracting and retaining talented executives, directors and senior executives are paid market rates associated with individuals in similar positions within the same industry. Remuneration may consist of a salary, bonuses, or any other element but must not be a commission on, or percentage of, operating revenue.

The Board exercises its discretion in determining remuneration linked to performance of executives. Given the early stage of the Company's key exploration projects, options awarded to executives of the Company contain vesting conditions which are related to the expansion of the Company's exploration asset portfolio and the discovery of hydrocarbons.

Company Performance and Shareholder Wealth and Directors' and Executives' Remuneration

The Board continues to maintain promotional activity amongst analysts so as to increase investor awareness of the Company in line with a consistent and stable financial position and base value of assets.

Below is a summary of the performance of the legal parent, International Petroleum Limited, for the 3 years to 30 June 2009 and the performance of the Consolidated Entity for the 6 month period to 30 June 2010 and the 6 month period to 31 December 2010:

	2007	**2008**	**2009**	**30 June 2010**	**31 December 2010**
	US$	US$	US$	US$	US$
Profit/(loss) for the period	(3,951,112)	1,375,387	(934,273)	(8,869,365)	(6,669,644)
Basic EPS	(0.0507)	0.0122	(0.0102)	(0.0075)	(0.0070)

Details of remuneration of directors and key management personnel of International Petroleum for the period 1 July 2010 to 31 December 2010

The table below sets out the remuneration of the directors and key management personnel of International Petroleum and its subsidiaries for the period 1 July 2010 to 31 December 2010.

	Short Term Benefits			**Post Employment Benefits**	**Share-based payments**			**Performance Related**
	Salary and fees US$	**Non-cash Benefits** US$	**Cash Bonus** US$	**Pension Contribution** US$	**Options** US$	**Shares** US$	**Total** US$	%
Directors								
A Sage **(i)**	100,060	-	-	-	-	-	100, 060	-
T Turner **(ii)**	24,485	-	-	-	-	-	24,485	-
M Gwynne **(iii)**	20,718	-	-	-	-	-	20,718	-
F Timis (iv)	97,234	-	-	-	-	-	97,234	-
M Ashurst (v)	138,323	-	-	-	-	-	138,323	-
Key management								
A Belogortseva(ix)	77,140	-	-	-	352,408	-	429,548	-
V Beloussov(vi)	180,000	-	-	-	509,652	93,762	783,414	6%
Kenneth Hopkins (vii)	110,400	-	-	-	135,343	-	245,743	18%
Alexander Osipov(viii)	128,710	-	125,000	-	117,771	-	371,481	8%
C Tolcon	9,625	-	-	-	-	-	9,625	-
Total	**886,695**	**-**	**125,000**	**-**	**1,115,174**	**93,762**	**2,220,631**	**5%**

(i) An aggregate amount of US$100,060 was paid, or due and payable to Okewood Pty Ltd, a company controlled by Mr Sage, for the provision of his director services to the Company for the period 1 July 2010 to 31 December 2010.

(ii) An aggregate amount of US$24,485 was paid, or due and payable to CRMS, an entity controlled by Mr Turner, for the provision of Mr Turner's director services to the Company for the period 1 July 2010 to 31 December 2010.

(iii) An aggregate amount of US$20,718 was paid, or was due and payable to Silverwest Pty Ltd, a company controlled by Mr Gwynne for the provision of his director services to the Company for the period 1 July 2010 to 31 December 2010.

(iv) An aggregate amount of US$97,234 was paid, or was due and payable to Frank Timis for the provision of his director services to the Company for the period 1 July 2010 to 31 December 2010.

(v) An aggregate amount of US$138,323 was paid, or was due and payable to MLR Advisory Ltd, a company controlled by Mr Ashurst for the period 1 July 2010 to 31 December 2010. Of this total, US$114,588 was for the provision of his consultancy services to Eastern Petroleum Corporation Ltd and US$23,735 was for the provision of his director services to the Company.

(vi) An aggregate amount of US$180,000 was paid, or was due and payable to Hamunts Ltd for the provision of Dr Beloussov's services as Group Executive Officer.

On 16 November 2010, Hamunts Ltd was issued 500,000 shares and 9,500,000 options with an exercise price of A$0.30 and an expiry date of 16 November 2015. 3,000,000 of these options vested upon issue.

The value of options that are expected to vest and which had not vested at 31 December 2010 will be recognised over a two year period.

The vesting conditions are as follows:

- 3,000,000 options over ordinary shares vested on issue and are in recognition of services performed by Dr Beloussov.
- 1,500,000 options over ordinary shares vest on the completion of an acquisition targeted in northern Kazakhstan.
- 2,500,000 options over ordinary shares vest on the discovery of commercially viable hydrocarbons in one of the Company's Kazakhstan owned assets.
- 2,500,000 options over ordinary shares vest on the discovery of commercially viable hydrocarbons in one of the Company's Russian owned assets.

(vii) An aggregate amount of US$110,400 was paid, or was due and payable to Kenneth Hopkins, for the provision of his services as Chief Operating Officer of Eastern Petroleum Corporation Ltd.

On 1 October 2010, it was agreed that Kenneth Hopkins would be awarded 2,500,000 options with an exercise price of A$0.25 and an expiry date of 17 March 2016. The options were issued on 17 March 2011.

The value of options that are expected to vest and which had not vested at 31 December 2010 will be recognised over a two year period.

The vesting conditions are as follows:

- 500,000 options over ordinary shares vested on award as they are in lieu of a signing bonus.
- 1,000,000 options over ordinary shares vest on a commercial discovery in Alakol licence area in Kazakhstan.
- 1,000,000 options over ordinary shares vest on a discovery or production of any acquisition project.

(viii) An aggregate amount of US$253,710 was paid, or was due and payable to Hamunts Ltd for the provision of Mr Osipov's services as VP Business Development & Investor Relations and Regional Director (Russia).

On 23 August 2010, Alexander Osipov it was agreed that 2,000,000 options with an exercise price of A$0.25 and an expiry date of 17 March 2016 would be awarded to Mr Osipov. The options were issued on 17 March 2011.
The value of options that are expected to vest and which had not vested at 31 December 2010 will be recognised over the vesting periods.

The vesting conditions are as follows:

- 500,000 options over ordinary shares vested on award and are in recognition of the acquisition of Souville Investments Ltd (Cyprus).
- 500,000 options over ordinary shares vest on the International Petroleum Limited share price reaching A$0.50 for 30 consecutive days.
- 1,000,000 options over ordinary shares vest on the International Petroleum Limited share price reaching A$1.00 for 30 consecutive days.

(ix) An aggregate amount of US$77,140 was paid, or was due and payable to Anya Belogortseva for the provision of her services as Kazakhstan Regional Manager.

On 1 July 2010, it was agreed to award Anya Belogortseva with 1,500,000 options with an exercise price of A$0.25 and an expiry date of 17 March 2016. These options vested on award and were in recognition of Anya Belogortseva's services to North Caspian Petroleum Ltd. The options were issued on 17 March 2011.

Details of remuneration of directors and key management personnel of the Company for the period 1 January 2010 to 30 June 2010

The reverse acquisition of International Petroleum by Eastern Petroleum Corporation Ltd ("Eastern") was completed on 15 June 2010. The table below sets out the remuneration of the directors of International Petroleum and the remuneration of the key management personnel of International Petroleum and its subsidiaries for the period 1 January 2010 (the date since Eastern's last audited accounts) to 30 June 2010.

The directors fees for Mr Sage, Mr Turner and Mr Gwynne are for the period 16 June 2010 to 30 June 2010, being the period post the acquisition of International Petroleum by Eastern.

	Short Term Benefits			**Post Employment Benefits**		**Performance Related**
	Salary and fees US$	**Non-cash Benefits** US$	**Cash Bonus** US$	**Pension Contribution** US$	**Total** US$	%
Directors						
A Sage (i)	16,271	-	-	-	16,271	-
T Turner (ii)	2,232	-	-	-	2,232	-
M Gwynne (iii)	1,339	-	-	-	1,339	-
F Timis	-	-	-	-	-	-
M Ashurst (iv)	38,134	-	-	3,813	41,947	-
Key management						
A Belogortseva	102,031	-	-	-	102,031	-
V Beloussov(v)	222,870	-	-	-	222,870	-
Total	**382,877**	**-**	**-**	**3,813**	**386,690**	**-**

No share based payments have been awarded to the directors and key management personnel in the 6 months ended 30 June 2010.

(i) An aggregate amount of US$16,271 was paid, or due and payable to Okewood Pty Ltd, a company controlled by Mr Sage, for the provision of his director services to the Company for the period 16 June 2010 to 30 June 2010.

(ii) An aggregate amount of US$2,232 was paid, or due and payable to CRMS, an entity controlled by Mr Turner, for the provision of Mr Turner's director services to the Company for the period 16 June 2010 to 30 June 2010.

(iii) An aggregate amount of US$1,339 was paid, or was due and payable to Silverwest Pty Ltd, a company controlled by Mr Gwynne for the provision of his director services to the Company for the period 16 June 2010 to 30 June 2010.

(iv) An aggregate amount of US$25,422 was paid, or was due and payable to MLR Advisory Ltd, a company controlled by Mr Ashurst for the provision of his director services to the Company. An aggregate of US$12,712 was paid to Mr Ashurst directly as directors' fees.

(v) An aggregate of US$222,870 was paid to Hamunts Ltd for the provision of Dr Beloussov's services as Group Executive Officer.

Options Issued as Part of Remuneration for the period ended 31 December 2010

15,500,000 options were awarded during the period ended 31December 2010 (30 June 2010: Nil). Of the 15,500,000 unlisted options, 5,500,000 vested on award. The value of options that are expected to vest and which had not vested at 31 December 2010 will be recognised over the appropriate vesting periods. The option exercise prices are denominated in Australian dollars ("A$") and have been translated into United States dollars ("US$") at the prevailing exchange rate on 31 December 2010 for purposes of the disclosure below.

The vesting conditions associated with the options awarded during the current period are as follows:

- 3,000,000 options over ordinary shares vested on award. These options have an exercise price of A$0.30 (US$0.30) each and an expiry date of 16 November 2015.
- 1,500,000 options over ordinary shares with an exercise price of A$0.30 (US$0.30) each vest on the completion of an acquisition targeted in northern Kazakhstan. The options have an expiry date of 16 November 2015.
- 2,500,000 options over ordinary shares with an exercise price of A$0.30 (US$0.30) each vest on the discovery of commercially viable hydrocarbons in one of the Company's Kazakhstan owned assets. The options have an expiry date of 16 November 2015.
- 2,500,000 options over ordinary shares with an exercise price of A$0.30 (US$0.30) each vest on the discovery of commercially viable hydrocarbons in one of the Company's Russian owned assets. The options have an expiry date of 16 November 2015.
- 2,500,000 options over ordinary shares vested on award. These options have an exercise price of A$0.25 each (US$0.25) and an expiry date of 17 March 2016.
- 1,000,000 options over ordinary shares with an exercise price of A$0.25 (US$0.25) each vest on a commercial discovery in the Alakol licence area in Kazakhstan. These options have an expiry date of 17 March 2016.
- 1,000,000 options over ordinary shares with an exercise price of A$0.25 (US$0.25) each and an expiry date of 17 March 2016 vest on a discovery or production of any acquisition project.
- 500,000 options over ordinary shares with an exercise price of A$0.25 (US$0.25) each and an expiry date of 17 March 2016 vest on the International Petroleum Limited share price reaching A$0.50 for 30 consecutive days.
- 1,000,000 options over ordinary shares with an exercise price of A$0.25 (US$0.25) each and an expiry date of 17 March 2016 vest on the International Petroleum Limited share price reaching A$1.00 for 30 consecutive days.

Terms and Conditions for each Grant during the period

31 December 2010	Options awarded during the period	Award date	Fair value per option at award date (A$)[1]	Exercise price (A$)[2]	Expiry date	First exercise date	Last exercise date	Options vested during the period No.	%
Other key management personnel									
Dr V Beloussov	9,500,000	16 Nov 2010	A$0.16[3]	A$0.30[4]	16 Nov 2015	16 Nov 2010	16 Nov 2015	3,000,000	32
Ms A Belogortseva	1,500,000	1 July 2010	A$0.27[5]	A$0.25[6]	17 Mar 2016	1 July 2010	17 Mar 2016	1,500,000	100
Mr K Hopkins	2,500,000	1 Oct 2010	A$0.20[7]	A$0.25[6]	17 Mar 2016	18 Aug 2010	17 Mar 2016	500,000	20
Mr A Osipov	2,000,000	23 Aug 2010	A$0.21[8]	A$0.25[6]	17 Mar 2016	23 Aug 2010	17 Mar 2016	500,000	25
Total	**15,500,000**							**5,500,000**	**35**

1 Given that the options are for ordinary shares in an Australian listed entity, the fair value of the options have been determined in Australian dollars ("A$") and have been translated into United States dollars ("US$") at the prevailing exchange rate on the dates the options were awarded.
2 The option exercise prices are denominated in A$ and have been translated into US$ at the prevailing exchange rate on 31 December 2010.
3 The US$ equivalent fair value on date of award is US$0.13
4 The US$ equivalent exercise price as at 31 December 2010 is US$0.30
5 The US$ equivalent fair value on date of award is US$0.23
6 The US$ equivalent exercise price as at 31 December 2010 is US$0.25
7 The US$ equivalent fair value at grant date is US$0.18
8 The US$ equivalent fair value at grant date is US$0.19

Value of options awarded, exercised and lapsed during the year

	Value of options awarded during the year US$	Value of options exercised during the year US$	Value of options lapsed during the year US$	Remuneration consisting of options for the year %
Dr V Beloussov	1,232,451	-	-	69
Ms A Belogortseva	352,408	-	-	82
Mr K Hopkins	451,554	-	-	55
M A Osipov	371,626	-	-	32

For details on the valuation of the options, including models and assumptions used, please refer to note 21.

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

Service Agreements

Mr Antony Sage – Non-Executive Chairman

Prior to the completion of the acquisition of Eastern Petroleum Corporation Ltd on 15 June 2010, Mr Sage held the position of Executive Chairman of International Petroleum Limited. Mr Sage's role as Executive Chairman was governed by an Executive Chairman consultancy agreement between International Petroleum Limited, Okewood Pty Ltd and Mr Sage. With effect from 15 June 2010, Mr Sage's role became that of Non-Executive Chairman and fees payable under the consultancy agreement were amended with effect from 1 September 2010.

The agreement stipulates the following terms and conditions:
(a) Term: minimum of three years commencing 1 July 2008;
(b) Rate: a consultancy fee of US$444,570 (A$437,500) per annum to be payable to Okewood Pty Ltd and reviewed bi-annually by the Board. In addition, Mr Sage is to be reimbursed for all reasonable expenses incurred in the performance of his duties. On 1 September 2010, the rate was reduced to US$101,611 (A$100,000) per annum;
(c) this agreement may be terminated by the Company in a number of circumstances including:
  (i) failure to comply with lawful directions given by the Company through the Board;
  (ii) failure to produce the services to a satisfactory standard which continues unremedied for ten business days after written notice of failure has been given;
  (iii) a serious or consistent breach of any of the provisions of the Executive Chairman consultancy agreement which is either not capable to being remedied or is capable of being remedied and is not remedied within 14 day; and
  (iv) Mr Sage being unable to perform services for 40 consecutive business days or an aggregate of 60 business days in any 12 months.
(d) Upon termination without meeting the circumstances outlined in (c) above the Company must pay the fee for the remaining term of the agreement.

Mr Timothy Turner – Non-Executive Director

The Company has entered into a consultancy agreement with Corporate Resource and Mining Services ("CRMS") and Mr Timothy Turner to provide the services of a Non-Executive Director to the Company.

The agreement stipulates the following terms and conditions:
(a) Term: minimum of three years commencing 25 November 2008;

(b) Rate: a fee of US$60,970 (A$60,000) per annum is payable to CRMS and reviewed bi-annually by the Board. In addition, Mr Turner is to be reimbursed for all reasonable expenses incurred in the performance of his duties. On 1 September 2010, the rate was reduced to US$48,775 (A$48,000 per annum);

(c) this agreement may be terminated by the Company in a number of circumstances including:

i. failure to comply with lawful directions given by the Company through the Board;

ii. failure to produce the services to a satisfactory standard which continues unremedied for ten business days after written notice of failure has been given;

iii. a serious or persistent breach of any of the provisions of the Non-Executive Director consultancy agreement which is either not capable to being remedied or is capable of being remedied and is not remedied within 14 day; and

iv. Mr Turner being unable to perform services for 40 consecutive business days or an aggregate of 60 business days in any 12 months.

(d) Upon termination without meeting the circumstances outlined in (c) above the Company must pay the fee for the remaining term of the agreement.

Mr Mark Gwynne – Non-Executive Director

The Company has entered into a consultancy agreement with Silverwest Corporation Pty Ltd and Mr Mark Gwynne to provide the services of a Non-Executive Director to the Company.

The agreement stipulates the following terms and conditions:

(a) Term: minimum of three years commencing 24 April 2009;

(b) Rate: a consultancy fee of US$36,580 (A$36,000) per annum is payable to Silverwest Corporation Pty Ltd and reviewed bi-annually by the Board. In addition, Mr Gwynne is to be reimbursed for all reasonable expenses incurred in the performance of his duties. On 1 September 2010, the rate was increased to US$48,775 (A$48,000) per annum;

(c) this agreement may be terminated by the Company in a number of circumstances including:

(i) seriously neglectful of his duties under the Agreement;

(ii) absent in, or demonstrates gross incompetence with regard to, the performance of his duties under this Agreement;

(iii) conviction of any criminal offence which in the reasonable opinion of the Board brings the Consultant or the Company or any of its related bodies corporate into disrepute; and

(iv) Mr Gwynne being unable to perform services for 3 consecutive months or an aggregate of 3 months within any 12 month period.

(d) Upon termination without meeting the circumstances outlined in (c) above the Company must pay the fee for the remaining term of the agreement.

Mark Ashurst - Non-Executive Director

The engagement conditions of Mark Ashurst were approved by the Board on his appointment as a non-executive director with a fee of US$3,936 (A$4,000) per month. Mr Ashurst also provides consultancy services to subsidiary company, Eastern Petroleum Corporation Ltd for a fee of US$6,680 per month.

William McAvock - Executive Director and Chief Financial Officer

The engagement conditions of William McAvock were approved by the Board on commencement of his employment. The terms of the engagement are as follows:

(a) Term: one year rolling contract with a six month notice period effective following the first anniversary of the commencement of employment;

(b) Rate: US$201,083 per year.

(c) A discretionary bonus of up to 100% of Mr McAvock's base salary may be awarded by the Board's Remuneration Committee subject to Mr McAvock meeting annual targets set at the commencement of each year.

(d) Company contribution equivalent to 10% of base salary to his personal pension scheme.

(e) Subject to obtaining shareholder approval, 3 million options with an exercise price of A$0.30 which will vest upon meeting the following conditions:

  (i) 1,000,000 options in the event the Company secures a commercial discovery;

  (ii) 1,000,000 options in the event the Company achieves a listing on a second stock exchange;

  (iii) 1,000,000 options to be issued in equal instalments over a three year period commencing on the date Mr McAvock was apppointed.

Anya Belogortseva - Kazakhstan Regional Manager

The engagement conditions of Anya Belogortseva were approved by the Board on commencement of her employment. The terms of the engagement are as follows:

(a) Rate: US$154,679 per year.

(b) 1,500,000 options with an exercise price of A$0.25 and expiry date of 17 March 2016.

(c) Annual performance bonus awarded at the discretion of the board.

Dr Valera Beloussov - Group Executive Officer

Eastern Petroleum Corporation Ltd has entered into a Consultancy Agreement with Hamunts Ltd for the provision of consultancy services, which include the services of Dr Valera Beloussov. The terms of the Consultancy Agreement are as follows:

(a) Term: rolling monthly basis

(b) Notice period: 14 days

(c) Rate: US$35,000 per month

Kenneth Hopkins - Chief Operating Officer of Eastern Petroleum Corporation Ltd

The engagement conditions of Kenneth Hopkins were approved by the Board on commencement of his employment. The terms of the engagement are as follows:

(a) Term: two years

(b) Notice period: three months

(c) Rate: US$441,600 per year.

(d) 2,500,000 options with an exercise price of A$0.25 and expiry date of 17 March 2016. 500,000 of these options vested on award. The remaining options are subject to the following vesting conditions:

  (i) 1,000,000 options over ordinary shares vest on a commercial discovery in Alakol licence area in Kazakhstan.

  (ii) 1,000,000 options over ordinary shares vest on a discovery or production of any acquisition project.

Alexander Osipov - VP Business Development & Investor Relations and Regional Director (Russia)

The engagement conditions of Alexander Osipov were approved by the Board on commencement of his employment. The terms of the engagement are as follows:

(a) Term: two years

(b) Notice period: 90 days

(c) Rate: US$25,000 per month plus US$5,000 per month housing allowance.

(d) US$25,000 signing bonus

(e) US$100,000 bonus paid in recognition of the services provided in relation to the acquisition of Souville Investments Ltd (Cyprus).

(f) 2,000,000 options with an exercise price of A$0.25 and expiry date of 17 March 2016. 500,000 of these options vested on award. The remaining options are subject to the following vesting conditions:

(i) 500,000 options over ordinary shares vest on the International Petroleum Limited share price reaching A$0.50 for 30 consecutive days
(ii) 1,000,000 options over ordinary shares vest on the International Petroleum Limited share price reaching A$1.00 for 30 consecutive days.

Service agreements have not been entered into for the remaining non-executive directors.

Claire Tolcon - Company Secretary

The engagement conditions of Claire Tolcon were approved by the Board on commencement of her engagement with a fee of US$3,048 (A$3,000) per month plus GST for company secretarial services. Ms Tolcon also provides legal advice on a consultancy basis with a fee of US$1,437 (A$1,460) per day.

The board does not prohibit Directors and key management personnel from entering into arrangements to protect the value of unvested share based payment awards.

End of remuneration report

MEETINGS OF DIRECTORS

The number of Directors' meetings (including committees) held during the period and the number of meetings attended by each director is:

	Directors' Meetings	
Director	**Number Eligible to Attend**	**Meetings Attended**
Antony Sage	2	2
Mark Gwynne	2	-
Timothy Turner	2	2
Frank Timis	2	2
Mark Ashurst	2	2
William McAvock	-	-

COMMITTEE MEMBERSHIP

As at the date of this report, the following committees were in place:

	Audit and Risk Committee	**Remuneration and Nomination Committee**	**Continuous Disclosure Committee**
Chairman of the committee	Timothy Turner	Mark Ashurst	Tony Sage
Member	Mark Gwynne	Mark Gwynne	Timothy Turner
Member	Mark Ashurst	Timothy Turner	Mark Gwynne
Member	Tony Sage	Tony Sage	Mark Ashurst

These committees did not meet during the year.

INDEMNIFYING DIRECTORS AND OFFICERS

In accordance with the Company's constitution, except as may be prohibited by the Corporations Act 2001, every Officer or agent of the Company shall be indemnified out of the property of the Company against any liability incurred by him in his capacity as Officer, auditor or agent of the Company or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings, whether civil or criminal.

During the financial year, the Company has paid insurance premiums in respect of directors' and officers' liability. The insurance premiums relate to:

- Costs and expenses incurred by the relevant officers in defending legal proceedings, whether civil or criminal and whatever their outcome; and
- Other liabilities that may arise from their position, with the exception of conduct involving wilful breach of duty or improper use of information to gain a personal advantage.

In accordance with a confidentiality clause under the insurance policy, the amount of the premium paid to insurers has not been disclosed. This is permitted under S300(9) of the Corporations Act 2001.

OPTIONS

Unissued Shares under Option

At the date of this report, unissued ordinary shares of the company under option are:

Expiry Date	Exercise Price	Number Under Option
30 June 2012	A$0.25[1]	135,193,072
16 November 2015	A$0.30[2]	9,500,000
17 March 2016	A$0.25[1]	6,000,000
17 March 2016	A$0.30[2]	1,875,000

[1] The US$ equivalent exercise price as at 31 December 2010 is US$0.25
[2] The US$ equivalent exercise price as at 31 December 2010 is US$0.30

Shares issued on the exercise of options

During the period, no ordinary shares were issued on the exercise of options (30 June 2010: nil).

PROCEEDINGS ON BEHALF OF THE CONSOLIDATED ENTITY

No person has applied for leave of Court to bring proceedings on behalf of the Company and its subsidiaries (the "Consolidated Entity") or intervene in any proceedings to which the Consolidated Entity is a party for the purpose of taking responsibility on behalf of the Consolidated Entity for all or any part of those proceedings.

The Consolidated Entity was not a party to any such proceedings during the current period.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 19.

NON AUDIT SERVICES

No non-audit services were provided by the Company's auditors, Ernst & Young.

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

Antony Sage
Director **Perth, 31 March 2011**

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Auditor's Independence Declaration to the Directors of International Petroleum Limited

In relation to our audit of the financial report of International Petroleum Limited for the period ended 31 December 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Colin Pavlovich
Partner
Perth
31 March 2011

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of International Petroleum Limited (**Company**) is responsible for establishing the corporate governance framework of the Company having regard to the Corporations Act 2001 (Cth) and applicable Listing Rules.

In accordance with NSX Listing Rules, this corporate governance statement summarises the corporate governance practices adopted by the Company.

The corporate governance practices detailed in the summary were adopted by the Company on 10 June 2010. The current corporate governance plan is posted in a dedicated corporate governance information section of the Company's website at www.internationalpetroleum.com.au

Summary of corporate governance practices

The Company's main corporate governance policies and practices are outlined below.

The Board of Directors

The Company's Board of Directors is responsible for overseeing the activities of the Company. The Board's primary responsibility is to oversee the Company's business activities and management for the benefit of the Company's shareholders.

The Board is responsible for the strategic direction, policies, practices, establishing goals for management and the operation of the Company.

The Board assumes the following responsibilities:

(a) appointment of the Chief Executive Officer and other senior executives and the determination of their terms and conditions including remuneration and termination;
(b) driving the strategic direction of the Company, ensuring appropriate resources are available to meet objectives and monitoring management's performance;
(c) reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
(d) approving and monitoring the progress of major capital expenditure, capital management and significant acquisitions and divestitures;
(e) approving and monitoring the budget and the adequacy and integrity of financial and other reporting;
(f) approving the annual, half yearly and quarterly accounts;
(g) approving significant changes to the organisational structure;
(h) approving the issue of any shares, options, equity instruments or other securities in the Company;
(i) ensuring a high standard of corporate governance practice and regulatory compliance and promoting ethical and responsible decision making;
(j) recommending to shareholders the appointment of the external auditor as and when their appointment or re-appointment is required to be approved by them; and
(k) meeting with the external auditor, at their request, without management being present.

Composition of the Board

Election of Board members is substantially the province of the Shareholders in general meeting. However, subject thereto, the Company is committed to the following principles:

(a) the composition of the Board is to be reviewed regularly to ensure the appropriate mix of skills and expertise is present to facilitate successful strategic direction; and
(b) the principal criterion for the appointment of new Directors is their ability to contribute to the ongoing effectiveness of the Board, to exercise sound business judgement, to commit the necessary time to fulfil the requirements of the role effectively and to contribute to the development of the strategic direction of the Company.

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report. The majority of the Board should be comprised of non-executive directors and where practicable, at least 50% of the Board should be independent. Directors of the Company are considered to be independent when they are a non-executive director (ie not a member of management) (and has been for the preceding three years), hold less than 5% of the voting shares of the Company and who is free of any business or other relationship that could materially interfere with, or could reasonably by perceived to materially interfere with, the independent exercise of their judgement. In accordance with this definition, Mr F. Timis (Non-Executive Director), Mr W. McAvock and Mr A.W.P. Sage (Chairman) are not considered independent.

Non-Executive Directors, Mr T. Turner, Mr M. Gwynne and Mr M. Ashurst were considered to have been independent throughout the year.

The Board believes that, while the Chairman is not independent, the majority of the directors are independent and the current composition of the Board, with its combined skills and capability, best serve the interests of the Company and its shareholders.

At the date of this report, the Company did not have a Chief Executive Officer (CEO). Until such time as a suitable CEO is appointed, Mr M. Gwynne is responsible for the role. The Board considers relevant industry experience and specific expertise important in providing strategic guidance and oversight of the Company, and it believes Mr M. Gwynne is the most appropriate person to fulfil the role.

The term in office held by each director in office at the date of this report is as follows:

A.W.P. Sage	4 years, 11 months	(Chairman)
M. Gwynne	1 years, 8 months	(Non - Executive Director)
F. Timis	9 months	(Non - Executive Director)
M. Ashurst	9 months	(Non - Executive Director)
T. Turner	4 years, 11 months	(Non - Executive Director)
W. McAvock	3 months	(Chief Financial Officer, Executive Director)

There are procedures in place, agreed by the Board, to enable directors, in furtherance of their duties, to seek independent professional advice at the Company's expense.

Remuneration arrangements
Review of the Company's remuneration policy is delegated to the Remuneration Committee.

The total maximum remuneration of non-executive Directors, which may only be varied by Shareholders in general meeting, is an aggregate amount of US$457,271 (A$ 450,000) per annum. The Board may award additional remuneration to non-executive Directors called upon to perform extra services or make special exertions on behalf of the Company.

Performance
Review of the performance of the Board is delegated to the Nomination Committee.

The Board has established formal practices to evaluate the performance of the Board, committees, non-executive directors, the Chief Executive Officer, and senior management. Details of these practices are described in the Corporate Governance Plan available on the Company's website. No formal performance evaluation of the Board, individual directors of senior management took place during the year.

Code of Conduct

The Company has in place a code of conduct which aims to encourage appropriate standards of behaviour for directors, officers, employees and contractors. All are expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. The Directors are subject to additional code of conduct requirements.

Internal Audit and Risk Committee

The Company has appointed an Audit and Risk Committee. The Committee has specific powers delegated under the Company's Audit and Risk Committee Charter. The charter sets out the Audit and Risk Committee's function, composition, mode of operation, authority and responsibilities.

External audit

The Company in general meetings is responsible for the appointment of the external auditors of the Company, and the Board from time to time will review the scope, performance and fees of those external auditors.

Remuneration Committee

The Board has established a Remuneration Committee with specific powers delegated under the Company's Remuneration Committee Charter. The charter sets out the committee's function, composition, mode of operation, authority and responsibilities.

Nomination Committee

The Board has established a Nomination Committee with specific powers delegated under the Company's Nomination Committee Charter. The charter sets out the committee's function, composition, mode of operation, authority and responsibilities.

Continuous Disclosure Policy

The Company has adopted a policy concerning continuous disclosure. The policy outlines the disclosure obligations of the Company as required under the Corporations Act and the applicable Listing Rules. The Company is committed to:

(a) complying with the general and continuous disclosure principles contained in the Corporations Act and applicable Listing Rules;
(b) preventing the selective or inadvertent disclosure of material prince sensitive information;
(c) ensuring shareholders and the market are provided with full and timely information about the Company's activities; and
(d) ensuring that all market participants have equal opportunity to receive externally available information issued by the Company.

Nominated Advisor

In accordance with the rules of NSX, the Company has appointed Steinepreis Paganin Lawyers and Consultants as its nominated advisor (**NOMAD**). Steinepreis Paganin are consulted and advise on announcements issued by the Company that are price sensitive.

Continuous Disclosure Committee

In accordance with its existing corporate governance policies, the Company has established a Continuous Disclosure Committee which prepares (in conjunction with other relevant parties including technical consultants) and recommends all announcements for final approval and sign off by Mr A. Sage (Chairman). In the case of price sensitive announcements the NOMAD reviews and approves the announcement before being released to the exchange.

This committee and the NOMAD (together with other relevant parties including technical consultants) complement and strengthen the continuous disclosure policy currently in place.

The members of the Continuous Disclosure Committee are:
Mr A. Sage (Chairman)
Mr M. Ashurst
Mr T. Turner
Mr M. Gwynne

The skills, experience and expertise of each committee member at the date of the annual report is included in the Directors' Report.

A quarterly declaration is made by the Chairman and Chief Executive Officer certifying that the Board has reviewed the Company's operations during the quarter and declares that, in the opinion of the Board, there are no issues that require additional disclosure by the Company and that the market is fully informed in accordance with the Company's continuous disclosure obligations under the Listing Rules in respect of the prospects and activities of the Company.

Risk Management Program

The Company's primary objective in relation to risk management is to ensure that risks facing the business are appropriately managed. The Board and senior management are committed to managing risks in order to both

minimise uncertainty and to maximise its business opportunities. The function and responsibility for maintaining the Company's risk management systems is delegated to the Company's Audit and Risk Committee.
Further information regarding the risk management program can be found in the Corporate Governance Plan available on the Company's website.

Securities Trading Policy

The Company has developed a policy for the sale and purchase of its securities. This policy imposes constraints on directors and senior executives of the Company dealing in securities of the Company. It also imposes disclosure requirements on Directors.

Under the Company's Securities Trading Policy, a Director, executive or other employee must not trade in any securities of the Company at any time when they are in possession of unpublished, price-sensitive information in relation to those securities.

As a matter of course trading in securities of the Company is limited to the following trading windows, a four (4) week period from the:

- date of the Company's Annual General Meeting;
- release of the quarterly results announcement to the Exchange;
- release of the half yearly results announcement to the Exchange;
- release of the preliminary final results announcement to the Exchange; or
- release of a disclosure document offering securities in the Company.

Before commencing to trade, a Director must notify the Chairman of their intention to do so.

As is required by the NSX Listing Rules, the Company notifies the NSX of any transaction conducted by a Director in the securities of the Company.

Shareholder Communication

The Company has adopted a shareholder communication strategy to set out the Company's policy for communicating with its shareholders.

The purpose of the policy is to ensure the Company deals fairly, transparently and promptly with its current and prospective shareholders, encourages and facilitates active participation by shareholders at shareholder meetings and deals promptly with shareholder enquiries

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 DECEMBER 2010

	Note	6 months ended 31 December 2010 US$	6 months ended 30 June 2010 US$
Continuing Operations			
Revenue	5	**466,211**	366,068
Consulting expenses		**(4,053,336)**	(558,027)
Share based payments		**(1,208,937)**	-
Compliance and regulatory expenses		**(313,502)**	(75,517)
Other		**(480,402)**	(352,314)
Occupancy costs		**(142,179)**	(383,384)
Directors' remuneration		**(266,233)**	(57,878)
Employee benefits		**(398,195)**	(155,647)
Foreign currency gains / (losses)		**(219,395)**	(233,971)
Depreciation expense	5	**(104)**	(2,705)
Profit on sale of assets		**70,631**	-
Finance costs		**(124,203)**	-
Impairment of goodwill	14	**-**	(7,415,990)
Loss from continuing operations before income tax		**(6,669,644)**	(8,869,365)
Income tax expense		**-**	-
Loss for the period attributable to the members		**(6,669,644)**	(8,869,365)
Other comprehensive income			
Fair value (loss) / gains on available-for-sale financial assets		**(435,538)**	237,290
Foreign exchange gain / (loss) on translation of foreign operations		**3,413,414**	-
Tax on items of other comprehensive income		**130,661**	(71,187)
Other comprehensive income for the period, net of tax		**3,108,537**	166,103
Total comprehensive loss for the period		**(3,561,107)**	(8,703,262)
Loss for the period is attributable to:			
Non-controlling interest		**-**	-
Owners of the parent		**(6,669,644)**	(8,869,365)
Total comprehensive loss for the period is attributable to:			
Non-controlling interest		**-**	-
Owners of the parent		**(3,561,107)**	(8,703,262)
EPS attributable to members			
Basic/diluted (loss) per share (cents)	23	**(0.70)**	(1.42)

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Note	31 December 2010 US$	30 June 2010 US$
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	7	**12,821,534**	29,943,317
Trade and Other Receivables	8	**442,841**	464,487
Prepayments	9	**2,584,968**	231,280
Inventories	10	**3,018,531**	3,056,038
TOTAL CURRENT ASSETS		**18,867,874**	33,695,122
NON CURRENT ASSETS			
Restricted Cash		**115,773**	115,765
Trade and Other Receivables	8	**2,311,437**	1,470,178
Plant and Equipment	11	**29,902**	25,635
Financial assets available-for-sale	12	**1,928,112**	2,068,786
Exploration and Evaluation Expenditure	13	**100,768,746**	71,653,340
TOTAL NON CURRENT ASSETS		**105,153,970**	75,333,704
TOTAL ASSETS		**124,021,844**	109,028,826
LIABILITIES			
CURRENT LIABILITIES			
Trade and Other Payables	15	**4,895,362**	1,992,804
Income tax payable		**1,623,765**	1,413,494
TOTAL CURRENT IABILITIES		**6,519,127**	3,406,298
NON CURRENT LIABILITIES			
Borrowings	16	**12,622,003**	-
Deferred tax liability	4	**5,763,045**	5,819,371
Provisions	17	**220,752**	220,737
TOTAL NON CURRENT IABILITIES		**18,605,800**	6,040,108
TOTAL LIABILITIES		**25,124,927**	9,446,406
NET ASSETS		**98,896,917**	99,582,420
EQUITY			
Issued Capital	18	**223,082,207**	222,988,445
Reserves	19	**(97,262,894)**	(101,486,606)
Accumulated losses	20	**(28,589,063)**	(21,919,419)
Non-controlling interest	14	**1,666,667**	-
TOTAL EQUITY		**98,896,917**	99,582,420

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2010

	Notes	Ordinary Share Capital US$	Accumulated Losses US$	Share-based payment reserve US$	Revaluation Reserve US$	Merger Reserve US$	Foreign currency translation Reserve US$	Non-controlling interest US$	Total US$
BALANCE AT 1 JULY 2010		**222,988,445**	**(21,919,419)**	**-**	**166,103**	**(101,516,017)**	**(136,692)**	**-**	**99,582,420**
Loss for the period attributable to members	**20**	**-**	**(6,669,644)**	**-**	**-**	**-**	**-**	**-**	**(6,669,644)**
Other comprehensive income / (losses) for the period									
Net fair value gains / (losses) on available for sale investments (after tax)	**19**	**-**	**-**	**-**	**(304,877)**	**-**	**-**	**-**	**(304,877)**
Foreign currency exchange differences arising on translation from functional currency to presentation currency	**19**	**-**	**-**		**-**	**-**	**3,413,414**		**3,413,414**
			-	**-**	**(304,877)**	**-**	**3,413,414**	**-**	**3,108,537**
Total comprehensive income / (loss) for the period		**-**	**(6,669,644)**		**(304,877)**	**-**	**3,413,414**	**-**	**(3,561,107)**
Transactions with owners in their capacity as owners									
Non-controlling interest recognised during the period	**14**	**-**	**-**	**-**	**-**	**-**	**-**	**1,666,667**	**1,666,667**
Share based payments	**21**	**93,762**	**-**	**1,115,175**	**-**	**-**	**-**	**-**	**1,208,937**
BALANCE AT 31 DECEMBER 2010		**223,082,207**	**(28,589,063)**	**1,115,175**	**(138,774)**	**(101,516,017)**	**3,276,722**	**1,666,667**	**98,896,917**

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2010

	Notes	Ordinary Share Capital US$	Accumulated Losses US$	Revaluation Reserve US$	Merger Reserve US$	Foreign currency translation Reserve US$	Total US$
BALANCE AT 1 JANUARY 2010		132,963,015	(13,049,882)	-	(101,516,017)	-	18,397,116
Loss for the period attributable to members	**20**	-	(8,869,365)	-	-	-	(8,869,365)
Other comprehensive income / (losses) for the period							
Net fair value gains on available for sale investments (after tax)	**19**			166,103	-	-	166,103
Foreign currency exchange differences arising on translation from functional currency to presentation currency	**19**	-	-	-	-	(136,692)	(136,692)
		-	-	166,103	-	(136,692)	29,411
Total comprehensive income / (loss) for the period		-	(8,869,365)	166,103	-	(136,692)	(8,839,954)
Transactions with owners in their capacity as owners							
Cancellation of converting performance shares	**20**	-	(172)	-	-	-	(172)
Shares issued on conversion of convertible loan note		19,735,306	-	-	-	-	19,735,306
Fair value of shares transferred under reverse acquisition accounting		70,290,124	-	-	-	-	70,290,124
BALANCE AT 30 JUNE 2010		222,988,445	(21,919,419)	166,103	(101,516,017)	(136,692)	99,582,420

The accompanying notes form part of these financial statements.

STATEMENT OF CASHFLOWS FOR THE PERIOD ENDED 31 DECEMBER 2010

	Note	31 December 2010 US$	30 June 2010 US$
Cash Flows from Operating Activities			
Payments to suppliers and employees		**(7,583,817)**	(2,825,970)
Interest received		**466,211**	37,184
Interest paid		**(2,200)**	-
Other income received		**-**	328,884
Net cash flows used in operating activities	**7(b)**	**(7,119,806)**	(2,459,902)
Cash Flows From Investing Activities			
Payment for plant and equipment		**(4,372)**	(6,098)
Cash balances acquired on acquisition of controlled entities	**14(c)**	**3,955**	30,126,687
Cash providing security for applications in Kazakhstan		**-**	(115,765)
Payment for exploration and evaluation activities		**(8,331,020)**	(1,463,520)
Proceeds from the sale of investments		**122,427**	-
Acquisition of subsidiary		**(5,000,000)**	-
Net cash from/(used in) investing activities		**(13,209,010)**	28,541,304
Cash Flows from Financing Activities			
Proceeds from borrowings		**-**	3,314,000
Repayment of loan from related party		**(105,000)**	-
Net cash from / (used in) financing activities		**(105,000)**	3,314,000
Net increase / (decrease) in Cash and Cash Equivalents		**(20,433,816)**	29,395,402
Cash and Cash Equivalents at the beginning of period		**29,943,317**	669,409
Net Foreign exchange differences		**3,312,033**	(121,494)
Cash and Cash Equivalents at end of period		**12,821,534**	29,943,317

The accompanying notes form part of these financial statements.

1. CORPORATE INFORMATION

The financial report of International Petroleum Limited for the period ended 31 December 2010 was authorised for issue in accordance with a resolution of the Directors on 31 March 2011.

International Petroleum Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the National Stock Exchange of Australia.

2. BASIS OF PREPARATION OF ANNUAL REPORT

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis, except for available for sale investments, which have been measured at fair value.

The financial report is presented in United States dollars.

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

(a) Going Concern

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The ability of the Consolidated Entity to continue its planned exploration and evaluation activities is dependent on the Consolidated Entity raising additional capital within the next 12 months. At the date of this report, the directors are satisfied there are reasonable grounds to believe that the Consolidated Entity will be able to raise additional capital, if required, in order to enable it to meets its obligations as and when they fall due. In forming this view, the directors have considered the Consolidated Entity's position and its available financing options, including the proceeds receivable on sale of its remaining 10% interest in the Tubatse project.

Should the Consolidated Entity not achieve the matters set out above, there is uncertainty whether it would continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial statement do not include any adjustment relating to the recoverability or classification of recorded asset amounts or to the amounts or classifications of liabilities that might be necessary should the Consolidated Entity not be able to continue as a going concern.

(b) Comparative financial information

The financial information presented in the Company's financial statements for the period ended 30 June 2010 has been restated from Australian dollars to United States dollars. On 15 June 2010, International Petroleum Limited ("International Petroleum" or the "Company") completed the legal acquisition of Eastern Petroleum Corporation Ltd ("Eastern"). Under the terms of AASB 3 "Business Combinations", Eastern was deemed to be the accounting acquirer in the business combination. Consequently, the transaction was accounted for as a reverse acquisition.

Accordingly, the consolidated financial statements for the period ended 30 June 2010 were prepared as a continuation of the business and operations of Eastern. Eastern, as the deemed acquirer, accounted for the acquisition of International Petroleum from 15 June 2010.

The implications of the application of AASB 3 on the consolidated financial statements for the period ended 30 June 2010 was as follows:

Consolidated Statement of Comprehensive Income

The 30 June 2010 Statement of Comprehensive Income for the Consolidated Entity comprises 6 months of Eastern from 1 January 2010 to 30 June 2010 and 15 days of International Petroleum from 15 June 2010 to 30 June 2010.

Consolidated Statement of Financial Position

The 30 June 2010 Consolidated Statement of Financial Position represents the consolidation of International Petroleum and Eastern as at 30 June 2010.

Consolidated Statement of Changes in Equity

The 30 June 2010 Consolidated Statement of Changes in Equity comprises:

- The equity balance of Eastern at the beginning of the period, 1 January 2010,
- The total comprehensive income and transactions with equity holders for the period to 30 June 2010, being 6 months of Eastern and 15 days of International Petroleum,
- The consolidated equity balance of Eastern and International Petroleum as at 30 June 2010.

Consolidated Cash flow Statement

The 30 June 2010 Consolidated Cash Flow Statement comprises:

- The cash balance of Eastern at the beginning of the period, 1 January 2010,
- The transactions for the period ended 30 June 2010, being 6 months of Eastern and 15 days of International Petroleum,
- The consolidated cash balance of Eastern and International Petroleum as at 30 June 2010.

(c) Compliance with IFRS

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). The financial report also complies with International Financial Reporting Standards (IFRS).

3. SUMMARY OF ACCOUNTING POLICIES

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

The following is a summary of the material accounting policies adopted by the Company and its legal subsidiaries (collectively referred to as the 'Consolidated Entity') in the preparation of the consolidated financial statements.

(a) Changes in accounting policy and other disclosures

New Accounting Standards and Interpretations

The accounting policies adopted are consistent with those of the previous period except where noted.

The following standards and interpretations have been applied for the first time by the Consolidated Entity during the current period:

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(a) Changes in accounting policy and other disclosures (continued)

Reference	Title	Application date of standard	Application date for the Consolidated Entity
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	1 January 2010	1 January 2010
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]	1 January 2010	1 January 2010
AASB 2009-10	Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]	1 February 2010	1 July 2010
AASB 2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]	1 July 2010	1 July 2010
Interpretation 19	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	1 July 2010

Accounting Standards and interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Consolidated Entity for the reporting period ended 31 December 2010 are set out below. Unless disclosed otherwise, the application of these Standards and Interpretations, once effective, will not have any impact on the Consolidated Entity.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(a) Changes in accounting policy and other disclosures (continued)

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	These amendments arise from the issuance of AASB 9 Financial Instruments that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 form part of the first phase of the International Accounting Standards Board's project to replace IAS 39 Financial Instruments: Recognition and Measurement. This Standard shall be applied when AASB 9 is applied	1 January 2013	1 January 2013
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below.	1 January 2013	1 January 2013

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(a) Changes in accounting policy and other disclosures (continued)

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	These amendments arise from the issuance of AASB 9 Financial Instruments that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 form part of the first phase of the International Accounting Standards Board's project to replace IAS 39 Financial Instruments: Recognition and Measurement. This Standard shall be applied when AASB 9 is applied	1 January 2013	1 January 2013
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. In particular, it amends AASB 8 Operating Segments to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.	1 January 2011	1 January 2011

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(a) Changes in accounting policy and other disclosures (continued)

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 124 (Revised)	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: (a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other (b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other (c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.	1 January 2011	1 January 2011

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(a) Changes in accounting policy and other disclosures (continued)

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 2010-5	Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB. These amendments have no major impact on the requirements of the amended pronouncements.	1 January 2011	1 January 2011
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]	The amendments increase the disclosure requirements for transactions involving transfers of financial assets. Disclosures require enhancements to the existing disclosures in IFRS 7 where an asset is transferred but is not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale.	1 July 2011	1 January 2012
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]	These amendments arise from the issuance of AASB 9 Financial Instruments that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 form part of the first phase of the International Accounting Standards Board's project to replace IAS 39 Financial Instruments: Recognition and Measurement. This Standard shall be applied when AASB 9 is applied	1 January 2013	1 January 2013

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(a) Changes in accounting policy and other disclosures (continued)

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 1053	Application of Tiers of Australian Accounting Standards	This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements: (a) Tier 1: Australian Accounting Standards (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. The following entities apply Tier 1 requirements in preparing general purpose financial statements: (a) For-profit entities in the private sector that have public accountability (as defined in this Standard) (b) The Australian Government and State, Territory and Local Governments The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements: (a) For-profit private sector entities that do not have public accountability (b) All not-for-profit private sector entities (c) Public sector entities other than the Australian Government and State, Territory and Local Governments	1 July 2013	1 January 2014

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(a) Changes in accounting policy and other disclosures (continued)

Reference	Title	Summary	Application date of standard	Application date for Consolidated Entity
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions Clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.	1 January 2011	1 January 2011
The AASB has not yet issued this amendment finalised by the IASB in November 2010	Amendments to IFRS 9: Fair Value Option for Financial Liabilities	The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows: ► The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ► The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.	1 January 2013	1 January 2013

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(a) Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision makers to make decisions about resources to be allocated to the segments and assess their performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues.

Operating segments have been identified based on the information available to chief operating decision makers – being the executive management team.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately.
However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category called "other".

(b) Foreign currency translation

Functional and presentation currency
The Company has elected United States dollars as its presentation currency. Where the functional currencies of entities within the consolidated group differ from United States dollars, they have been translated into United States dollars.

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

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

Translation of Group Companies' functional currency to presentation currency
The results of International Petroleum Limited and certain of its subsidiaries are translated into United States dollars (presentation currency) as at the date of each transaction. Monetary assets and liabilities are translated at exchange rates prevailing at reporting date.

Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity.

(c) Cash and cash equivalents

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

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(d) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Consolidated Entity will not be able to collect all amounts due to it according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the amount expected to be received. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the Statement of Comprehensive Income within administration expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Statement of Comprehensive Income.

(e) Inventories

Inventories including raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value.
Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials – purchase cost on a first-in, first-out basis. The cost of purchase comprises the purchase price including import duties and other taxes (other than those subsequently recoverable by the Consolidated Entity from the taxing authorities), transport, handling and other costs directly attributable to the acquisition of raw materials.
Finished goods and work-in-progress – cost of direct materials and labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity. Costs are assigned on the basis of weighted average costs.
Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(f) Investments and other financial assets

Investments and financial assets in the scope of AASB 139 "Financial Instruments: Recognitions and Measurement" are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired or originated. Designation is re-evaluated at each reporting date, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transactions costs.

Recognition and derecognition
Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition, these instruments are measured as set out below. Financial instruments are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Consolidated Entity has transferred substantially all the risks and rewards of ownership.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(g) Investments and other financial assets (continued)

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 stated at amortised cost using the effective interest rate method. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. They are measured initially at fair value and subsequently at amortised cost.

Available-for-sale financial assets
Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the categories. They are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

Impairment of financial assets

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

(h) Exploration and evaluation expenditure

Exploration and evaluation expenditure is recorded at historical costs on an area of interest basis. Expenditure on an area of interest is capitalised and carried forward where rights to tenure of the area of interest are current and:

(i) it is expected to be recouped through successful development and exploitation of the area of interest or alternatively by its sale; or

(ii) exploration and evaluation activities are continuing in an area of interest but at balance date have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

Accumulated costs in respect of areas of interest which are abandoned, are written off in full against profit in the period in which the decision to abandon the area is made.

Costs of site restoration are provided from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the exploration 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.

Projects are advanced to development status when it is expected that further expenditure can be recouped through sale or successful development and exploitation of the area of interest.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(i) Plant and equipment

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

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. 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 Consolidated Entity and the cost of the item can be measured reliably. All repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

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.

Depreciation
Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight line method.

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

Class of fixed asset	**Depreciation rate**
Plant and equipment	33%

Gains and proceeds on disposals are determined by comparing proceeds with carrying amounts. These are included in the Statement of Comprehensive Income.

(j) Goodwill

Goodwill acquired in a business combination is initially measured at cost of the business combination being the excess of the consideration transferred over the fair value of the identifiable assets acquired and the liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets acquired, the difference in recognised in the Statement of Comprehensive Income.
After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

(k) Trade and other payables

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

(l) Provisions

Provisions are recognised when the Consolidated Entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(l) Provisions (continued)

Costs of site restoration are provided 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 discounted 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.

(m) Contributed equity

Contributed equity is recognised at the fair value of the consideration received by the Consolidated Entity, less any capital raising costs in relation to the issue.

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

(n) Share-based payments

The fair value of shares issued and options granted are recognised as an expense or the fair value of the asset acquired with a corresponding increase in equity. For shares issued, the fair value is measured at the share price on the date the shares were issued. For options granted, the fair value is measured at grant date taking into account market performance conditions only, and will be spread over the vesting period during which the holder becomes unconditionally entitled to the options. The fair value of the options is measured using the Black-Scholes model.

Upon exercise of options, the balance of the share-based payments reserve relating to those options is transferred to the redeemed option reserve and the proceeds received, net of any directly attributable transaction costs are credited to share capital.

(o) Revenue

Revenues are recognised at the fair value of the consideration received or receivable net of the amount of Goods and Services Tax / or Value Added Tax paid to taxation authorities.
The Consolidated Entity recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Consolidated Entity’s activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the revenue have been resolved. The Consolidated Entity bases its estimates on historical results taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:
Interest
Interest revenue is recognised on a time proportional basis using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts the estimated future cash receipts through the expected useful life of the financial asset to the net carrying amount of the financial asset.
Rental revenue
Rental revenue is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned.
Other revenues
Other revenues are recognised when the Consolidated Entity’s right to receive the payment is established.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(p) Income tax

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(q) Other taxes

Revenue, expenses and assets are recognised net of the amount of Goods and Services Tax ("GST") and Value Added Tax ("VAT") except:

- where the GST/VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST/VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST/VAT included.

The net amount of GST/VAT recoverable from, or payable to, taxation authorities is included as part of receivables or payables in the statement of financial position.

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

(r) Earnings per share

(i) Basic earnings per share ("EPS") is calculated by dividing the net profit or loss attributable to members for the reporting period, after excluding any costs of servicing equity other than dividends, by the weighted average number of ordinary shares of the Company, adjusted for any bonus elements in ordinary shares issued during the year.

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

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(s) Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Consolidated Entity in respect of services provided by employees up to the reporting date.

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

(t) Business Combinations

The acquisition method of accounting is used to account for all business combinations. The consideration transferred is a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to the former owners of the acquiree and the equity issued by the acquirer, and the amount of any non controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Costs directly attributable to the acquisition are expensed.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non controlling shareholders' interest. The excess of the cost of acquisition over the fair value of the Consolidated Entity's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Consolidated Entity's share of the fair value of the identifiable net assets acquired, the difference is recognised directly in the statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.

Any contingent consideration to be transferred by the acquiree will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

(u) Interest in jointly controlled asset

The Consolidated Entity recognises its share of the asset, classified as exploration and evaluation expenditure. In addition the Consolidated Entity recognises its a share of liabilities, expenses and income from the use and output of the jointly controlled asset.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(v) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the statement of comprehensive income over the period of the borrowing using the effective interest rate method. Borrowing costs are expensed and borrowings are classified as current liabilities unless the Consolidated Entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(w) Significant accounting judgements, estimates and assumptions

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

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

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

Impairment

The Consolidated Entity assesses impairment at each reporting date by evaluating conditions specific to the Consolidated Entity that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amounts of the asset are determined.

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

Impairment losses recognised in the Statement of Comprehensive Income on equity instruments classified as available-for-sale are not reversed through the Statement of Comprehensive Income.

Exploration and evaluation expenditure

North Caspian Petroleum Ltd (“NCPL”), a wholly owned subsidiary of the Company, operates and owns a 50% interest in subsoil use rights for the exploration of hydrocarbons in an early stage project in eastern and south eastern Kazakhstan (“Kazakhstan Project”). The remaining 50% interest is owned by Remas Corporation LLP (“Remas’), a privately owned Kazakhstan company.

NCPL and Remas are parties to a Joint Operating Agreement (“JOA”) pursuant to which NCPL is designated as operator of the Kazakhstan Project and is responsible for all expenses relating to the minimum work programme.

Pursuant to the terms of the JOA, NCPL has agreed to solely fund the minimum expenditure on the exploration licence. On fulfilment of the minimum work programme, each of NCPL and Remas are required to fund their share of exploration and development costs in accordance with their respective participating interests.

Amounts incurred by NCPL on behalf of Remas are included in the capitalised exploration and evaluation costs presented on the statement of financial position for the Consolidated Entity.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(w) Significant accounting judgements, estimates and assumptions (continued)

Exploration and evaluation expenditure for each area of interest is carried forward as an asset provided certain conditions are met. Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed the recoverable amount. These calculations and reviews require the use of assumptions and judgement. The related carrying amounts are disclosed in Note 12.

The value of the Consolidated Entity's interest in exploration expenditure is dependent upon:

- the continuance of the Consolidated Entity's rights to tenure of the areas of interest;
- the results of future exploration; and
- the recoupment of costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

Business Combination

On 20 October 2010, International Petroleum, through its wholly owned subsidiary, IPL Siberia Ltd completed the acquisition of an indirect 75% equity interest in Souville Investments Ltd (Cyprus) ('Souville') from Assuryan Assets Ltd (''Assuryan Assets'').

Under AASB 3, the assets and liabilities acquired have been recognised at fair value.

Income taxes

The Consolidated Entity is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Consolidated Entity estimates its tax liabilities based on the Consolidated Entity's understanding of the tax laws in the relevant jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The Consolidated Entity has not recognised any deferred tax assets relating to carried forward tax losses or temporary differences as there is no certainty that sufficient future taxable incomes will be generated to utilise such losses and temporary differences.

4. INCOME TAX

	31 December 2010 US$	30 June 2010 US$
(a) The components of income tax expense comprise:		
Current tax	**-**	-
Deferred tax	**-**	-
	-	-
(b) The prima facie tax on loss from continuing activities before income tax is reconciled to the income tax as follows:	**(6,669,644)**	(8,869,365)
Prima facie tax expense / (benefit) from ordinary activities before income tax at 30%	**2,000,893**	2,660,810
Add/(less)		
Tax effect of		
- Unrealised foreign exchange gains	**(65,818)**	(70,192)
- Deferred tax asset attributable to tax losses	**(1,935,075)**	(2,590,618)
Income tax attributable to the Consolidated Entity	**-**	-
(c) The applicable weighted average effective tax rate is:	**N/A**	N/A
(d) The estimated rate of tax at which sale proceeds of a foreign asset will be taxed is:	**N/A**	N/A

Recognised deferred tax liabilities

No deferred tax assets have been recognised. The deferred tax liability balance comprises temporary differences attributable to:

	31 December 2010 US$	30 June 2010 US$
Available for sale financial assets	**(398,391)**	(454,717)
Capitalised exploration and evaluation expenditure	**(5,364,654)**	(5,364,654)
Deferred tax liability	**(5,763,045)**	(5,819,371)

Movement in temporary differences during the period

	Balance 1 July 2010 US$	Recognised in other comprehensive income US$	Balance 31 December 2010 US$
Consolidated			
Available for sale financial assets	**(454,717)**	56,326	**(398,391)**
Capitalised exploration and evaluation expenditure	**(5,364,654)**	-	**(5,364,654)**
Deferred tax liability	**(5,819,371)**	**56,326**	**(5,763,045)**

	31 December 2010	30 June 2010
	US$	US$

5. PROFIT / (LOSS) BEFORE INCOME TAX EXPENSE

(a) Revenue

Interest income	**466,211**	37,184
Rental income	**-**	328,884
	466,211	366,068

(b) Expenses

The following revenue and expense items are relevant in explaining the financial performance for the year:		
Depreciation	**(104)**	(2,705)

6. REMUNERATION OF AUDITORS

Paid or payable to Ernst & Young

Audit or review of financial reports		
Ernst & Young Australia	**40,122**	-
Ernst & Young related practices	**115,146**	100,937
	155,268	100,937

7. CASH AND CASH EQUIVALENTS

Cash at bank and on hand	**5,528,600**	9,424,131
Deposits at call	**7,292,934**	20,519,186
	12,821,534	29,943,317

(a) Reconciliation of Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand, at bank and investments in money market instruments, net of outstanding bank overdrafts.

(b) Reconciliation of Net loss to Net Cash Flows from Operating Activities

	31 December 2010	30 June 2010
	US$	US$
Loss from ordinary activities	**(6,669,644)**	(8,869,365)
Adjusted for non cash items:		
Depreciation	**104**	2,705
Profit on sale of equity investments	**(70,631)**	-
Impairment of goodwill	**-**	7,415,991
Expired performance shares	**-**	(174)
Share-based payments expense	**1,208,937**	-
Interest accrued	**122,002**	-
Realised foreign exchange gain / (loss)	**219,395**	-
Changes in net assets and liabilities, net of effects from acquisition of business combination:		
Increase/(decrease) in trade and other receivables	**(599,816)**	(169,469)
Increase / (decrease) in inventories	**37,507**	399
Increase / (decrease) in trade and other payables	**(1,367,660)**	(839,989)
Net cash used in operating activities	**(7,119,806)**	(2,459,902)

7. CASH AND CASH EQUIVALENTS

(c) Non-Cash Activities

On 16 November 2010, 500,000 fully paid ordinary shares and 9,500,000 unlisted options with an exercise price of A$0.30 and an expiry date of 16 November 2015 were issued to Hamunts Ltd in respect of services provided by Dr Beloussov's services. The shares have been valued using the share price on the date of issue which amounts to US$93,762. Of the 9,500,000 unlisted options, 3,000,000 vested on issue. These options have been valued at US$462,169 (refer to note 21 for further details). The value of options that are expected to vest and which had not vested at 31 December 2010 will be recognised over a two year period. An amount of US$47,483 has been recognised in the current period for these options (refer to note 21 for further details).

On 1 July 2010, 1,500,000 unlisted options with an exercise price of A$0.25 and an expiry date of 17 March 2016 were awarded to A Belogortseva. These options vested on award. These options have been valued at US$352,408 (refer to note 21 for further details) and an amount of US$352,408 has been recognised in the current period for these options.

On 1 October 2010, 2,500,000 unlisted options with an exercise price of A$0.25 and an expiry date of 17 March 2016 were awarded to K Hopkins. 500,000 of these options vested on award. These options have been valued at US$90,311 (refer to note 21 for further details). The value of options that are expected to vest and which had not vested at 31 December 2010 will be recognised over a two year period. An amount of US$45,032 has been recognised in the current period for these options (refer to note 21 for further details).

On 23 August 2010, 2,000,000 unlisted options with an exercise price of A$0.25 and an expiry date of 17 March 2017 were awarded to A Osipov. 500,000 vested on award. These options have been valued at US$89,609 (refer to note 21 for further details). The value of options that are expected to vest and which had not vested at 31 December 2010 will be recognised over a three to four year period. An amount of US$28,162 has been recognised in the current period for these options (refer to note 21 for further details).

	31 December 2010	30 June 2010
	US$	US$
8. TRADE AND OTHER RECEIVABLES		
Current		
Trade receivables	**8,448**	13,422
GST / VAT recoverable and other debtors	**403,763**	362,498
Deposits paid	**16,177**	16,177
Loans to related parties	**14,453**	72,390
	442,841	464,487
Non current		
VAT recoverable	**2,309,143**	1,470,178
Other receivables	**2,294**	-
	2,311,437	1,470,178
9. PREPAYMENTS		
Prepayments	**2,584,968**	231,280

	31 December 2010 US$	30 June 2010 US$

10. INVENTORIES

Raw materials at cost	**3,018,531**	3,056,038

11. PLANT AND EQUIPMENT

	31 December 2010 US$	30 June 2010 US$
At cost	**68,930**	62,296
Accumulated depreciation	**(39,028)**	(36,661)
	29,902	25,635

(a) Reconciliations

Reconciliations of the carrying amounts of plant and equipment at the beginning and end of the reporting periods are set out below.

	31 December 2010 US$	30 June 2010 US$
Balance at beginning of period	**25,635**	22,242
Additions	**4,371**	5,332
Disposals	**-**	-
Depreciation expense	**(104)**	(2,705)
Foreign currency exchange difference arising on translation from functional currency to presentation currency	**-**	766
Carrying amount at end of reporting period	**29,902**	25,635

12. FINANCIAL ASSETS

	31 December 2010 US$	30 June 2010 US$
Available-for-sale-investments		
Investments in listed securities		
At fair value	**1,928,112**	2,068,786

Available-for-sale financial assets comprise investments in the ordinary share capital of various entities. There are no fixed returns or fixed maturity dates attached to these investments. The fair value of listed available-for-sale investments has been determined directly by reference to published price quotations in an active market.

	31 December 2010 US$	30 June 2010 US$
13. EXPLORATION AND EVALUATION EXPENDITURE		
Costs carried forward in respect of areas of interest in:		
- Exploration and evaluation phases	**100,768,746**	71,653,340
Reconciliation		
Exploration and evaluation phases		
Opening balance	**71,653,340**	37,567,340
Exploration expenditure incurred	**10,048,476**	1,463,520
Exploration expenditure acquired pursuant to a business combination	**19,065,237**	32,622,924
Foreign exchange differences arising on translating functional currency to presentation currency	**1,693**	(444)
	100,768,746	71,653,340

The value of the Consolidated Entity’s interest in exploration expenditure is dependent upon:

- the continuance of the Consolidated Entity’s rights to tenure of the areas of interest;
- the results of future exploration; and
- the recoupment of costs through successful development and commercial exploitation of the areas of interest, or alternatively, by their sale.

14. BUSINESS COMBINATION

a) Summary of acquisitions

On 20 October 2010, the Company, through its wholly owned subsidiary, IPL Siberia Ltd, acquired an indirect 75% equity interest in Souville Investments Ltd (Cyprus) (‘’Souville’’) from Assuryan Assets Ltd (‘’Assuryan Assets’’). Souville is the 100% legal and beneficial holder of Irtysh-Neft, a Russian company having exploration rights to blocks, located in the Khanty-Mansiysk Region in Western Siberia (Krasnoleninskiy Blocks) – the largest oil producing region of Russia. Assuryan Assets has retained a 25% interest in Souville and by extension, the Krasnoleninskiy Blocks.

Consideration paid by the Company for the 75% interest in Souville was US$5 million plus an obligation to fund the current work program which requires the drilling of two wells on the Krasnoleninskiy Blocks by 30 June 2012 and drilling two additional wells by 30 December 2012 (Current Work Program).

In the prior period, International Petroleum Limited completed the acquisition of Eastern Petroleum Corporation Ltd ("Eastern"). The consideration for the Acquisition was the issue of 675,965,358 fully paid International Petroleum shares and 135,193,072 unlisted International Petroleum options with an expiry date of 30 June 2012 and an exercise price of $0.25. The shareholders of Eastern obtained an interest of approximately 71% in International petroleum. Consequently, under the terms of AASB 3 “Business Combinations”, Eastern was deemed to be the accounting acquirer in the business combination resulting in the business combination being accounted for as a reverse acquisition.

b) Summary of goodwill on acquisition arising from business combinations

The provisional goodwill on acquisition arising on business combinations results when comparing the assessment of the acquired identifiable assets, liabilities and contingent liabilities to the cost of the acquisition.

Details of the provisional goodwill on acquisition amounts recognised are as follows:

14. BUSINESS COMBINATION (continued)

Current period

	US$
Purchase consideration:	(5,000,000)
Fair value of net identifiable assets acquired (see below)	5,000,000
Goodwill	-

Prior period

	US$
Purchase consideration: 272,400,005 (being the number of shares of the legal parent, International Petroleum Limited, before the business combination) multiplied by A$0.30 per share	70,290,124
Less: funding provided to Eastern to date of acquisition	(6,332,206)
Total purchase consideration	63,957,918
Fair value of net identifiable assets acquired (see below)	56,541,928
Goodwill	7,415,990

In the prior period, goodwill has been written off in the statement of comprehensive income because the Directors have determined that there is no future benefit associated with it based on a valuation determined using a discounted cash flow model.

c) Summary of assets and liabilities acquired

Details of the provisional fair value of identifiable assets and liabilities as at the date of acquisition are:

	Souville Investments Ltd Fair value US$	**International Petroleum Limited Fair value US$**
Assets		
Cash and cash equivalents	3,955	30,126,687
Exploration expenditure	19,065,237	32,622,924
Other receivables	105,070	124,044
Financial assets	**-**	1,831,496
Liabilities		
Loan payable	(12,500,000)	-
Trade and payables	(7,595)	(996,490)
Income tax payable	-	(1,419,221)
Deferred tax liability		(5,747,512)
Net assets	6,666,667	56,541,928
Attributable to minority interests	(1,666,667)	-
Net assets acquired	**5,000,000**	56,541,928
Direct costs incurred by International Petroleum that have been expensed in the Statement of Comprehensive Income relating to the acquisition	**980,776**	**-**
Cash (outflow) / inflow on acquisition		
Net cash (paid) acquired	**(5,000,000)**	30,126,687

The receivables acquired are expected to be fully recovered within the next 12 months.

14. BUSINESS COMBINATION (continued)

The consolidated statement of comprehensive income includes revenue and net loss for the period ended 31 December 2010 of US$58,132 and US$279,879 respectively, as a result of the acquisition of Souville. Had the acquisition of Souville occurred at the beginning of the reporting period (1 July 2010), the consolidated statement of comprehensive income would have included other income and profit of US$2,264,521 and US$2,259,972 respectively.

	31 December 2010	**30 June 2010**
	US$	**US$**
15. TRADE AND OTHER PAYABLES		
Trade payables	**4,619,840**	802,348
Other payables	**275,522**	1,085,456
Loans from related parties	**-**	105,000
Trade and other payables	**4,895,362**	1,992,804

16. BORROWINGS

Unsecured loan	**12,622,003**	-

Pursuant to the acquisition of Souville Investments Ltd, the Company, acquired a loan of US$12,500,000 owing to Assuryan Assets Ltd. The loan bears interest at the rate of 3.75% per annum. As at 31 December 2010, interest of US$162,003 had accrued. The loan is due for repayment on 27 September 2013.

	31 December 2010	**30 June 2010**
	US$	**US$**
17. PROVISIONS		
Provision for site restoration	**220,752**	220,737
18. ISSUED CAPITAL		
Fully paid ordinary shares	**223,082,207**	222,988,445

(a) Fully paid Ordinary Shares

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held and in proportion to the amount paid up on the shares held.

At shareholders meetings, each ordinary share is entitled to one vote in proportion to the paid up amount of the share when a poll is called, otherwise each shareholder has one vote on a show of hands.

18. ISSUED CAPITAL (continued)

Reconciliation of movement in shares on issue

	Number of fully paid ordinary shares	
	6 months ended 31 December 2010	**6 months ended 30 June 2010**
At beginning of reporting period	948,365,364	152,400,005
Issue of shares pursuant to a capital raising	-	100,000,000
Conversion of converting performance shares	-	20,000,000
Issue of shares and options as purchase consideration under Share Sale Agreement	-	675,965,359
Share based payments	500,000	-
At end of reporting period	948,865,364	948,365,364

Reconciliation of movements in issued capital

	31 December 2010	**30 June 2010**
	US$	**US$**
At beginning of reporting period	222,988,445	132,963,015
Shares issued on conversion of convertible loan note	-	19,735,306
Fair value of shares transferred under reverse acquisition accounting	-	70,290,124
Share based payments	93,762	-
At end of reporting period	223,082,207	222,988,445

(b) Capital Risk Management

The Consolidated Entity’s objective when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and maintain an optimal capital structure to reduce the cost of capital.

Management effectively manages the Company’s capital by assessing the Company’s financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of expenditure and debt levels, distributions to shareholders and share and option issues. There have been no changes in the strategy adopted by management to control the capital of the Company since the prior reporting period.

Management monitors capital requirements through cash flow forecasting. Capital is defined as issued share capital. Management may seek further capital if required through the issue of capital or changes in the capital structure.

The Consolidated Entity has no externally imposed capital requirements

	31 December 2010	**30 June 2010**
	US$	**US$**
19. RESERVES		
Share-based payment reserve		
At beginning of reporting period	-	-
Issue of consideration options	**1,115,175**	-
At reporting date	**1,115,175**	-
Revaluation reserve		
At beginning of reporting period	**166,103**	-
Revaluation during the year	**(435,538)**	237,290
Tax effect of revaluation	**130,661**	(71,187)
At reporting date	**(138,774)**	166,103
Merger reserve		
At beginning of reporting period	**(101,516,017)**	(101,516,017)
At reporting date	**(101,516,017)**	(101,516,017)
Foreign currency translation reserve		
At beginning of reporting period	**(136,692)**	-
Movement due to translation of functional currency to presentation currency	**3,413,414**	(136,692)
At reporting date	**3,276,722**	(136,692)
Total reserves	**(97,262,894)**	(101,486,606)

Nature and purpose of reserves

Share-based payments reserve
The share based payment reserve is used to recognise the fair value of options issued but not exercised.

Revaluation reserve
The revaluation reserve is used to recognise the changes in fair value of available-for-sale investments held.

Merger reserve
The merger reserve represents the difference between the nominal value of shares acquired by Eastern Petroleum Corporation Ltd and those issued to acquire subsidiary undertakings. The merger reserve balance relates entirely to the acquisition of North Caspian Petroleum Ltd by Eastern Petroleum Corporation Ltd in 2007.

Foreign currency translation reserve
The Foreign currency translation reserve is used to recognise foreign currency exchange differences arising on translation of functional currency to presentation currency.

	31 December 2010 US$	30 June 2010 US$
20. ACCUMULATED LOSSES		
Accumulated losses at the beginning of the period	**(21,919,419)**	(13,049,882)
Expired converting performance shares	**-**	(172)
Net loss attributable to the members of International Petroleum	**(6,669,644)**	(8,869,365)
Accumulated losses at the end of the period	**(28,589,063)**	(21,919,419)

21. SHARE BASED PAYMENTS

The following share-based payment arrangements were granted during the period:

Shares

On 16 November 2010, 500,000 fully paid ordinary shares were issued to Hamunts Ltd as consideration for Dr Beloussov's services as Group Executive Officer. These shares have been valued using the closing share price on the date of issue, being US$0.19 (A$0.19). An amount of US$93,762 (A$95,000) has been recognised within the line item "Share based payments" in the Statement of Comprehensive Income.

Options

The following share-based payment options were granted during the period:

Number	Grant Date	Expiry Date	Exercise Price $A	Fair Value at Grant Date $A
9,500,000[1]	16 November 2010	16 November 2015	A$0.30[2]	A$0.16[3]
1,500,000[4]	1 July 2010	16 March 2016	A$0.25[5]	A$0.27[6]
2,500,000[7]	1 October 2010	16 March 2016	A$0.25[5]	A$0.20[8]
2,000,000[9]	23 August 2010	16 March 2016	A$0.25[5]	A$0.21[10]

1 9,500,000 options were granted on 16 November 2010 and 3,000,000 options vested on issue. The value of the remaining options that are expected to vest will be recognised over the vesting period. US$509,652 has been expensed in the current period.
2 The US$ equivalent exercise price as at 31 December 2010 is US$0.30
3 The US$ equivalent fair value at grant date is US$0.13
4 1,500,000 options were awarded on 1 July 2010 and vested on award. US$352,408 has been expensed in the current period. The options were issued on 17 March 2011.
5 The US$ equivalent exercise price as at 31 December 2010 is US$0.25
6 The US$ equivalent fair value at grant date is US$0.23
7 2,500,000 options were awarded on 1 October 2010 and 500,000 options vested on award. The value of the remaining options that are expected to vest will be recognised over the vesting period. US$135,343 has been expensed in the current period. The options were issued on 17 March 2011.
8 The US$ equivalent fair value at grant date is US$0.18
9 2,000,000 options were awarded on 23 August 2010 and 500,000 vested on award. The value of the remaining options that are expected to vest will be recognised over the vesting period. US$117,771 has been expensed in the current period. The options were issued on 17 March 2011.
10 The US$ equivalent fair value at grant date is US$0.19

21. SHARE BASED PAYMENTS (continued)

The following share-based payment options were granted during the prior period:

Number of options	Grant Date	Expiry Date	Exercise Price	Fair Value at Grant Date A$
135,193,072	15 June 2010	30 June 2012	A$0.25[1]	A$0.20[2]

[1] The US$ equivalent exercise price as at 31 December 2010 is US$0.25
[2] The US$ equivalent fair value at grant date is US$0.17

The fair value of options granted during the period which have vested amounts to US$1,115,175.

The options granted during the current year were issued to Hamunts Ltd in recognition of Dr Beloussov's services as Group Executive Officer.

The weighted average fair value of the options granted during the current period is A$0.17 (US$0.16) (30 June 2010: A$0.20 (US$0.17)). Options were priced using the Black-Scholes option pricing model. Expected volatility is based on the historical volatility. No allowance has been made for the effects of early exercise.

In the prior period, 135,193,072 unlisted options, with an exercise price of A$0.25 (US$0.25) and an expiry date of 30 June 2012 were issued to the shareholders of Eastern Petroleum Corporation Ltd as part of the purchase consideration for the acquisition of Eastern Petroleum Corporation Ltd. The options were issued for no consideration as part of the fee payable to the brokers. The fair value of the options, being US$23,644,942, was recognised directly in equity as a capital raising expense.

Holders of options do not have any voting or dividend rights in relation to the options.

The following shows the model inputs for the options granted during the period and outstanding at balance date:

	Options Series				
Inputs into the Model	**Expiring on 30 June 2012**	**Expiring on 16 November 2015**	**Expiring on the 17 March 2016**	**Expiring on the 17 March 2016**	**Expiring on the 17 March 2016**
Grant date	15 June 2010	16 November 2010	1 July 2010	1 October 2010	23 August 2010
Grant date share price	A$0.30[1]	A$0.19[3]	A$0.30[5]	A$0.23[6]	A$0.23[7]
Exercise price	A$0.25[2]	A$0.30[4]	A$0.25[2]	A$0.25[2]	A$0.25[2]
Expected volatility	125%	125%	125%	125%	125%
Option life	2.04 years	5 years	5 years	5 years	5 years
Dividend yield	-	-	-	-	-
Risk-free interest rate	4.47%	5.23%	4.68%	4.95%	4.64%

[1] The equivalent US$ share price on grant date is US$0.26
[2] The US$ equivalent exercise price as at 31 December 2010 is US$0.25
[3] The equivalent US$ share price on grant date is US$0.19
[4] The US$ equivalent exercise price as at 31 December 2010 is US$0.30
[5] The equivalent US$ share price on grant date is US$0.25
[6] The equivalent US$ share price on grant date is US$0.22
[7] The equivalent US$ share price on grant date is US$0.21

21. SHARE BASED PAYMENTS (continued)

The following reconciles the outstanding share options granted, exercised and forfeited during the period:

	31 December 2010		**30 June 2010**	
	Number of Options	**Weighted Average Exercise Price A$**	**Number of Options**	**Weighted Average Exercise Price** A$
Balance at beginning of the period	**135,193,072**	**A$0.25[1]**	-	-
Granted during the period[5]	**15,500,000**	**A$0.28[2]**	135,193,072	A$0.25[1]
Exercised during the period	**-**	**-**	-	-
Forfeited during the period	**-**	**-**	-	-
Expired during the period	**-**	**-**	-	-
Balance at end of the period	**150,693,072**	**A$0.25[3]**	135,193,072	A$0.25[1]
Exercisable at end of the period	**141,001,291**	**A$0.25[4]**	135,193,072	A$0.25[1]

Balance at end of the period
The share options outstanding at the end of the period had a weighted average exercise price of A$0.25[3] (30 June 2010: A$0.25[1]) and the weighted average remaining contractual life was 679 days (30 June 2010: 731 days)

[1] The US$ equivalent weighted average exercise price is US$0.25
[2] The US$ equivalent weighted average exercise price is US$0.28
[3] The US$ equivalent weighted average exercise price is US$0.25
[4] The US$ equivalent weighted average exercise price is US$0.25
[5] 15,500,000 options were awarded during the current period. Of this total, 9,500,000 options were issued during the period and the balance were issued on 17 March 2011.

The share options on issue at the end of the period consists of:

- 135,193,072 options over ordinary shares with an exercise price of A$0.25 (US$0.25) each and an expiry date of30 June 2012.
- 3,000,000 options over ordinary shares with an exercise price of A$0.30 (US$0.30) each and an expiry date 16 November 2015.
- 1,500,000 options over ordinary shares with an exercise price of A$0.30 (US$0.30) each and an expiry date of 16 November 2015 which vest on the completion of an acquisition target in northern Kazakhstan.
- 2,500,000 options over ordinary shares with an exercise price of A$0.30 (US$0.30) each and an expiry date of 16 November 2015 which vest on the discovery of commercially viable hydrocarbons in one of the Company’s Kazakhstan owned assets.
- 2,500,000 options over ordinary shares with an exercise price of A$0.30 (US$0.30) each and an expiry date of 16 November 2015 which vest on the discovery of commercially viable hydrocarbons in one of the Company’s Russian owned assets.

22. FINANCIAL INSTRUMENTS

The Consolidated Entity’s principal financial instruments comprise receivables, payables, available for sale investments and cash.

Risk exposure and responses

The Consolidated Entity manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Consolidated Entity’s financial risk management policy. The objective of the policy is to support the delivery of the Consolidated Entity’s financial targets while protecting future financial security.

The Consolidated Entity does not use any form of derivatives as it is not at a level of exposure that requires the use of derivatives to hedge its exposure. Exposure limits are reviewed by management on a continuous basis.

22. FINANCIAL INSTRUMENTS (continued)

The Consolidated Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Consolidated Entity through regular reviews of the risks.

(a) Interest rate risk

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

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

	31 December 2010	**30 June 2010**
	US$	**US$**
Financial assets		
Cash and cash equivalents	**12,821,534**	29,943,317
Financial liabilities		
Borrowings	**12,622,003**	-

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

An increase of 100 basis points in interest rates would have increased the Consolidated Entity's profit by US$181,290 (30 June 2010: US$30,883). 100 basis points is management's assessment of the possible change in interest rates.

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

At balance date, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

	Post tax profit higher / (lower)		**Other comprehensive income higher / (lower)**	
	31 December 2010	30 June 2010	**31 December 2010**	30 June 2010
	US$	US$	**US$**	US$
+ 1% (200 basis points)	**181,290**	30,883	**-**	-
- 1 % (200 basis points)	**(181,290)**	(30,883)	**-**	-

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

(b) Foreign currency risk

The Company is exposed to currency risk on purchases and borrowings that are denominated in a currency other than the respective functional currencies of the entities within the Consolidated Entity, which is primarily the United States dollar (US$). The Company has not entered into any derivative financial instrument to hedge such transactions.

As a result of subsidiaries whose functional currency is United States dollars, the Consolidated statement of financial position can be affected significantly by movements in the exchange rates.

22. FINANCIAL INSTRUMENTS (continued)

At balance date, the Consolidated Entity had the following exposure to Australian dollar and Great British Pounds foreign currency that is not designated in cash flow hedges:

	31 December 2010 US$	30 June 2010 US$
Financial assets		
Cash and cash equivalents - USD	**1,001,611**	-
Cash and cash equivalents - GBP	**515,325**	156,007

The following sensitivity is based on the foreign currency risk exposures in existence at reporting date:

At balance date, had the United States dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

	Post tax profit higher / (lower)		**Other comprehensive income higher / (lower)**	
	31 December 2010 **US$**	30 June 2010 US$	**31 December 2010** **US$**	30 June 2010 US$
US dollar to AUD + 10%	**91,056**	-	**-**	-
US dollar to AUD - 10%	**(91,056)**	-	**-**	-
US dollar to GBP + 10%	**51,533**	-	**-**	-
US dollar to GBP - 10%	**(51,533)**	-	**-**	-

(c) Commodity price risk

The Company is still in the exploration and evaluation phase. Consequently its financial assets and liabilities are subject to minimal commodity price risk.

(d) Credit risk

Credit risk arises from the financial assets of the Consolidated Entity, which comprise cash and cash equivalents, trade and other receivables and available-for-sale financial assets. The Consolidated Entity's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets (as outlined in each applicable note).

The Consolidated Entity has adopted the policy of only dealing with creditworthy counter-parties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The Consolidated Entity does not have any significant credit risk exposure to any single counter-party.

(i) Cash and cash equivalents

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

(ii) Trade and other receivables

Trade and other receivables as at the balance sheet date mainly comprise GST and short term loans to be refunded to the Consolidated Entity. The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

Management does not expect any counterparty to fail to meet their obligations.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

22. FINANCIAL INSTRUMENTS (continued)

(e) Liquidity risk management

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

The Consolidated Entity manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual cash flows.

The following are the contractual maturities of financial liabilities:

31 December 2010	6 months or less US$	6 – 12 months US$	1 – 5 years US$	Greater than 5 years US$	Total US$
Trade and other payables	**4,895,362**	**-**	**-**	**-**	**4,895,362**
Borrowings	**-**	**-**	**12,622,003**	**-**	**12,622,003**

30 June 2010	6 months or less US$	6 – 12 months US$	1 – 5 years US$	Greater than 5 years US$	Total US$
Trade and other payables	1,992,804	-	-	-	1,992,804

(f) Fair value

The Consolidated Entity is exposed to equity security price risk. This arises from investments held by the Consolidated Entity and classified in the Statement of Financial Position as available-for-sale. The Consolidated Entity is not exposed to commodity price risk on its financial instruments. The Consolidated Entity uses a level 1 method in estimating fair value. Under the level 1 method, the fair value is calculated using quoted prices in active markets.

The table below summarises the impact of increases/decreases of this index on the Consolidated Entity's post tax loss for the year and on equity. The analysis is based on the assumption that the equity index had increased by 10% with all other variables held constant and all the Consolidated Entity's equity instruments moved according to the index. 10% is management's assessment of the possible change in price of equity instruments.

	Impact on post-tax loss US$	Impact on equity post tax US$
Listed available-for-sale assets		
NKWE Platinum Limited	-	126,000
International Goldfields Limited	-	23,181

Equity would further increase/decrease as a result of gains/losses on equity securities classified as available-for-sale.

23. LOSS PER SHARE

	31 December 2010 US cents	30 June 2010 US cents
(a) Basic loss per share		
Continuing operations	**(0.70)**	(1.42)
(b) Diluted loss per share		
Continuing operations	**(0.70)**	(1.42)

	31 December 2010 US$	30 June 2010 US$
(c) Reconciliation of loss used in calculating loss per share		
Basic loss per share		
Loss attributable to the ordinary equity holders used in calculating basic loss per share	**(6,669,644)**	(8,869,365)

	Number of shares	
	31 December 2010	30 June 2010
(d) Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share	**948,490,363**	622,821,163
(e) Weighted average number of ordinary shares outstanding during the period used in the calculation of dilutive earnings per share	**948,490,363**	622,821,163

Options on issue are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share.

24. SEGMENT REPORTING

In accordance with AASB 8 "Operating Segments", an operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision makers to make decisions about resources to be allocated to the segments and assess their performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues.

The Consolidated Entity only has one operating segment being exploration for hydrocarbons. Although the Consolidated Entity retains a 10% interest in the South African Tubatse Project, it does not fund, operate or manage this project, and pursuant to the terms of an Asset Sale Agreement entered into with Nkwe Platinum Limited ("NKWE"), A$50 million is due to be paid to the Consolidated Entity for the sale of the remaining 10% interest to NKWE within 30 days of the earlier of:

- the grant of mining rights in respect of the Tubatse Project; and
- Xstrata South Africa exercising its option with NKWE such that Xstrata South Africa will acquire a 50% interest in the land that is the subject of the Tubatse Project.

If the payment of A$50 million is not made by NKWE when it falls due, NKWE will have no right to acquire the remaining 10% interest in the project.

24. SEGMENT REPORTING (continued)

	Exploration for Hydrocarbons		Other		Total	
	31 December 2010 US$	**30 June 2010 US$**	**31 December 2010 US$**	**30 June 2010 US$**	**31 December 2010 US$**	**30 June 2010 US$**
Revenue						
External sales	**-**	**-**	**-**	328,884	**-**	328,884
Interest received and other income	**-**	**-**	**466,211**	37,184	**466,211**	37,184
Total segment revenue	**-**	**-**	**466,211**	366,068	**466,211**	366,068
Net segment operating loss after tax	**(7,011,652)**	(1,819,442)	**342,008**	(7,049,923)	**(6,669,644)**	(8,869,365)
Separately disclosable items within operating loss:						
Goodwill	**-**	**-**	**-**	7,415,991	**-**	7,415,991

	31 December 2010 US$	**30 June 2010 US$**	**31 December 2010 US$**	**30 June 2010 US$**	**31 December 2010 US$**	**30 June 2010 US$**
Segment assets						
Available-for-sale investments	**-**	-	**1,928,112**	2,068,786	**1,928,112**	2,068,786
Capitalised expenditure	**63,470,954**	39,030,860	**32,642,854**	32,622,480	**96,113,808**	71,653,340
Other assets	**21,324,986**	35,306,700	**-**	-	**21,324,986**	35,306,700
Total assets	**84,795,940**	74,337,560	**34,570,966**	34,691,266	**119,366,906**	109,028,826
Segment liabilities	**17,738,117**	2,213,541	**7,386,810**	7,232,865	**25,124,927**	9,446,406
Cash flow information						
Net cash outflow from operating activities	**(7,586,017)**	(2,497,086)	**466,211**	37,184	**(7,119,806)**	(2,459,902)
Net cash outflow from investing activities	**(13,209,010)**	28,541,304	**-**	**-**	**(13,209,010)**	28,541,304
Net cash inflow from financing activities	**(105,000)**	3,314,000	**-**	**-**	**(105,000)**	3,314,000

24. SEGMENT REPORTING (continued)

The analysis of the location of non-current assets is as follows:

	31 December 2010 US$	30 June 2010 US$
Australia	**1,928,112**	**2,184,551**
Africa	**32,513,053**	**32,513,053**
Kazakhstan	**51,531,453**	**40,636,100**
Russia	**19,181,352**	**-**
	105,153,970	**75,333,704**

25. COMMITMENTS AND CONTINGENCIES

Remuneration commitments

	31 December 2010 US$	30 June 2010 US$
Commitments for the payment of remuneration under long term contracts in existence at the reporting date but not recognised as liabilities, payable:		
Within 1 year	**143,682**	238,902
Later than 1 year and not later than 5 years	**16,259**	218,873
Later than 5 years	**-**	-
	159,941	457,775

Refer further to the remuneration report in the Directors' Report for details of service contracts.

Contingent Assets

On 4 October 2009, International Petroleum entered into an asset sale agreement with Nkwe Platinum Limited ("NKWE") to sell its 15% interest in the South African Tubatse platinum project ("Tubatse Project") for A$60 million.

Under the asset sale agreement:

- A$10 million was due to be paid to the Company within 5 days of it obtaining shareholder approval. These funds have been paid to the Company, which entitles NKWE to a 5% interest in the Tubatse Project.
- A$50 million is due to be paid to the Company within 30 days of the earlier of:
    - the grant of mining rights in respect of the Tubatse Project; and
    - Xstrata South Africa exercising its option with NKWE such that Xstrata South Africa will acquire a 50% interest in the land that is the subject of the Tubatse Project.
- If the payment of A$50 million is not made by NKWE when it falls due, NKWE will have no right to acquire the remaining 10% interest in the project.

The amount owing of A$50 million has not been recorded as a receivable by the Company because it is considered to be an option to acquire the 10% interest in the project.

Contingent Liabilities

There are no contingent liabilities as at balance date.

26. EVENTS SUBSEQUENT TO REPORTING DATE

On 5 January 2011, Mr William McAvock was appointed as an executive director and Chief Financial Officer of the Company.

On 17 March 2011, the Company issued 6,000,000 unlisted options to consultants and employees, exercisable at A$0.25 and expiring on 17 March 2016 and 1,875,000 unlisted options to consultants and employees, exercisable at A$0.30 expiring on 17 March 2016.

On 22 March 2011, the Company announced that that it had reached a total depth of 1,066 metres at Well A-3 located in its Alakol licence area in eastern Kazakhstan and had made the decision to plug and abandon the well.

After drilling through more than 500 metres of massive Mesozoic-age quartzite and silicified sandstones, not seen in Wells A-1 and A-2, before intersecting Paleozoic-age volcanic sediments, the decision was made to plug and abandon the well. No shows of hydrocarbons were seen during drilling. Though planned for a total depth of 2,600 metres, the unexpected thick interval of metamorphic formations encountered provided clear evidence that the intense heat and pressure associated with mountain building during the Paleogene period in the eastern portion of the Alakol Basin destroyed any existence of reservoir rock properties in the full column of sediments from near surface and below in the A-3 well area. Owing to this event, reservoir quality formations below the Paleozoic volcanics are not anticipated. Consequently, the Company made the prudent decision to stop drilling and abandon this well.

No other event has arisen between 31 December 2010 and the date of this report that would be likely to materially affect the operations of the Consolidated Entity or its state of affairs which have not otherwise been disclosed in this financial report.

27. RELATED PARTY INFORMATION

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

(a) Ultimate parent

International Petroleum Limited is the ultimate Australian parent entity and the ultimate parent of the Consolidated Entity from a legal perspective. For accounting purposes, Eastern Petroleum Corporation Ltd is the deemed ultimate parent entity of the Consolidated Entity in line with the reverse acquisition accounting requirements set out in AASB 3 “Business Combinations”.

(b) Corporate Structure

The legal corporate structure of the consolidated entity is set out below:

Name	Country of incorporation	% Equity interest	
		31 December 2010	30 June 2010
Parent entity: International Petroleum Limited	Australia		
Eastern Petroleum Corporation Ltd	United Kingdom	100%	100%
Almroth Holdings Ltd	Cyprus	100%	100%
North Caspian Petroleum Ltd	United Kingdom	100%	100%
North Caspian Petroleum LLP	Kazakhstan	100%	100%
International Petroleum Ltd	Cayman Islands	100%	-
IPL Siberia Ltd	Cayman Islands	100%	-
International Petroleum (Services) Ltd	Russia	100%	-
Souville Investments Ltd	Cyprus	75%	-
OOO Irtysh-Neft	Russia	75%	-

27. RELATED PARTY INFORMATION (continued)

(c) Key management personnel

Details relating to key management personnel, including remuneration paid, are included in the Remuneration Report within the Directors' Report.

Compensation for key management personnel

	31 December 2010 US$	30 June 2010 US$
Short-term employee benefits	**1,011,695**	382,877
Share based payments	**1,208,936**	-
Post-employment benefits	**-**	3,813
Total compensation	**2,220,631**	386,690

Shares held by key management personnel

	Balance 1 July 2010	Share based payments	Purchase of shares on market	Balance 31 December 2010
Directors				
A Sage	1,555,691	-	-	1,555,691
T Turner	161,819	-	-	161,819
M Gwynne	-	-	-	-
M Ashurst	-	-	-	-
F Timis	444,018,420	-	-	444,018,420
Key management personnel				
A Belogortseva	-	-	-	-
V Beloussov	40,470,953	500,000	-	40,970,953
K Hopkins	-	-	-	-
A Osipov	-	-	-	-

	Balance 1 January 2010	Balance held on appointment	Purchase of shares on market	Balance 30 June 2010
Directors				
A Sage	1,555,691	-	-	1,555,691
T Turner	161,819	-	-	161,819
M Gwynne	-	-	-	-
M Ashurst	-	-	-	-
F Timis	-	444,018,420	-	444,018,420
Key management personnel				
A Belogortseva	-	-	-	-
V Beloussov	-	40,470,953	-	40,470,953
K Hopkins	-	-	-	-
A Osipov	-	-	-	-

27. RELATED PARTY INFORMATION (continued)

Options held by key management personnel

	Balance 1 July 2010	Share based payments	Balance 31 December 2010	Number vested as at 31 December 2010
Directors				
A Sage	-	-	-	-
T Turner	-	-	-	-
M Gwynne	-	-	-	-
M Ashurst	-	-	-	-
F Timis	88,803,684	-	88,803,684	88,803,684
Key management personnel				
A Belogortseva	-	1,500,000[1]	1,500,000	1,500,000
V Beloussov	8,094,191	9,500,000	17,594,191	11,094,191
K Hopkins	-	2,500,000[1]	2,500,000	500,000
A Osipov	-	2,000,000[1]	2,000,000	500,000
	96,897,875	15,500,000	112,397,875	102,397,875

[1] options were awarded prior to 31 December 2010 and were issued on 17 March 2011

	Balance 1 January 2010	Balance held on appointment	Balance 30 June 2010	Number vested as at 30 June 2010
Directors				
A Sage	-	-	-	-
T Turner	-	-	-	-
M Gwynne	-	-	-	-
M Ashurst	-	-	-	-
F Timis	-	88,803,684	88,803,684	88,803,684
Key management personnel				
A Belogortseva	-	-	-	-
V Beloussov	-	8,094,191	8,094,191	8,094,191
	-	96,897,875	96,897,875	96,897,875

(d) Transactions with related parties:

(i) An aggregate amount of US$24,498 (30 June 2010: US$29,063) was paid or is payable accrued to Hewitt Turner and Gelevitis, an entity related to Mr Turner, a Director, for the provision of accounting services to the Legal Parent.

(ii) An aggregate amount of US$56,505 (30 June 2010: US$149,053) was paid or is payable to Cape Lambert Resources Limited, an entity of which Mr Sage and Mr Turner are Directors, for expenditure incurred by Cape Lambert Resources Limited on behalf of the Legal parent.

(iii) Nil (30 June 2010: US$71,613) was paid or is payable to PG Partnerships Pty Ltd, an entity related to Mr Sage for the sponsorship of the Perth Glory.

(iv) Prior to the acquisition of Eastern Petroleum Corporation Ltd by International Petroleum, Safeguard (an entity associated with Mr Timis) had provided funding to Eastern in the form of an unsecured, non interest bearing loan of US$105,000. As at 31 December 2010, that loan had been repaid.

(v) A total of US$3,379,186 was paid or is payable to Hamunts Ltd, a company associated with Dr Beloussov and Mr Osipov, for the provision of consulting services.

27. RELATED PARTY INFORMATION (CONTINUED)

	31 December 2010 US$	30 June 2010 US$
Amounts payable at reporting date to related parties		
Hewitt Turner Gelevitis	**-**	-
MLR Advisory Ltd, a company controlled by Mr Ashurst	**6,680**	-
Silverwest Pty Ltd which is a company controlled by Mark Gwynne	**-**	2,570
CRMS which is an entity controlled by Timothy Turner	**4,064**	4,283
Safeguard Management Ltd which is a company controlled by Mr Timis	**-**	105,000
Hamunts Ltd, a company associated with Dr Beloussov and Mr Osipov	**36,926**	64,539
Alexander Osipov	**68,710**	-
Amounts receivable at reporting date from related parties		
European Hydrocarbons Ltd (a company of which Mr Sage is a director)	**-**	72,390

28. PARENT ENTITY FINANCIAL INFORMATION

a) Summary Financial information

The individual financial statements of the parent entity show the following aggregate amounts:

	31 December 2010 US$	30 June 2010 US$
Statement of financial position		
Current assets	**9,543,362**	26,500,460
Total assets	**251,555,901**	249,051,272
Current liabilities	**(1,662,686)**	(2,534,284)
Total liabilities	**(2,061,077)**	(2,989,001)
Shareholders' equity		
Issued capital	**224,192,625**	224,098,863
Reserves	**34,620,924**	28,001,399
Retained earnings	**(9,318,726)**	(6,037,991)
Net loss for the period	**(3,280,735)**	(1,962,647)
Total comprehensive loss	**(3,280,735)**	(1,962,647)

b) Guarantees entered into by the parent entity

Carrying amount included in current liabilities.

The parent entity has not provided any financial guarantees in respect of bank overdrafts and loans of subsidiaries during the current period (30 June 2010: Nil).

29. VARIANCES FROM THE PRELIMINARY FINAL REPORT

The financial information presented in the preliminary final report lodged with NSX on 16 March 2011 was in the process of being reviewed by management and audited by the Consolidated Entity's independent auditor. Adjustments have only been made to the current period information presented in the preliminary final report as set out below:

Consolidated Statement of Comprehensive Income

	Current period US$
Net loss	
Net loss for the period reported in the preliminary final report	**(5,938,746)**
Additional share based payments recognised	**(605,522)**
Other items of expenditure recognised	**(125,376)**
Net loss for the period reported in the financial statements	**(6,669,644)**

Consolidated Statement of Financial Position

Non current assets	
Non current assets reported in the preliminary final report	**100,499,032**
Increase in fair value of exploration assets acquired pursuant to a business combination	**4,754,938**
Capitalised items reallocated to the statement of comprehensive income	**(100,000)**
Non current assets reported in the financial statements	**105,153,970**
Current liabilities	
Current liabilities reported in the preliminary final report	**6,493,751**
Expenditure accrued	**25,376**
Current liabilities reported in the financial statements	**6,519,127**
Equity	
Equity reported in the preliminary final report	**94,267,355**
Increase in non controlling shareholder's interest in fair value of exploration assets acquired pursuant to a business combination	**4,754,938**
Other items of expenditure recognised	**(125,376)**
Equity reported in the financial statements	**98,896,917**

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of International Petroleum Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of International Petroleum Limited for the period ended 31 December 2010 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of its financial position as at 31 December 2010 and of its performance for the period ended on that date; and

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

(iii) complying with International Financial Reporting Standards as disclosed in Note 2 (c).

(b) as set out in note 2 (a) in the financial statements, there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.

2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the period ended 31 December 2010.

Signed in accordance with a resolution of the Directors:

Antony Sage
Director

Perth, 31 March 2011

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Independent auditor's report to the members of International Petroleum Limited

Report on the Financial Report

We have audited the accompanying financial report of International Petroleum Limited, which comprises the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the period's end or from time to time during the financial period.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 and International Standards on Auditing. 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 our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Auditor's Opinion

In our opinion:

1. the financial report of International Petroleum Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position at 31 December 2010 and of its performance for the period ended on that date; and

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

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 17 of the directors' report for the period ended 31 December 2010. 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 International Petroleum Limited for the period ended 31 December 2010, complies with section 300A of the *Corporations Act 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matter described in note 2 to the financial report, there is significant uncertainty whether the consolidated entity will continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Ernst & Young

Ernst & Young

Colin Pavlovich
Partner
Perth
31 March 2011

CP:MB:IPL:018

NSX ADDITIONAL INFORMATION

International Petroleum Limited is a public company incorporated in Australia and listed on the National Stock Exchange of Australia ("NSX").

The Company's registered and principal place of business is 18 Oxford Close Leederville, Western Australia 6007 Australia.

Shareholding

The distribution of members and their holdings of equity securities in the Company as at 16 March 2011 was as follows:

Category (size of holding)	Fully Paid Ordinary Shares
1- 1,000	36
1,001- 10,000	583
10,001- 100,000	574
100,001 – 1,000,000	135
1,000,001 - over	38
Total	**1,366**

Equity Securities

There are 1,366 shareholders, holding 948,865,364 fully paid ordinary shares.

All issued ordinary shares carry one vote per share and are entitled to dividends.

There are 675,965,359 restricted, quoted equity securities held by 16 shareholders with an escrow period of 12 months from date of issue.

The number of ordinary shareholdings held in less than marketable parcels is 151.

Options

Summarised below are the options currently on issue together with their exercise price and expiry date

Number of options	Exercise price	Expiry date
135,193,072	A$0.25	30 June 2012
9,500,000	A$0.30	16 November 2015
6,000,000	A$0.25	17 March 2016
1,875,000	A$0.30	17 March 2016

Voting Rights

In accordance with the Company's constitution, on show of hands every member present in person or by proxy or attorney or duly authorised representative had one vote. On a poll every member present in person or by proxy or attorney or duly authorised representative has one vote for every fully paid ordinary share held.

Options do not carry a right to vote.

Substantial Holders

The names of the substantial shareholders listed in the Company's register as at 16 March 2011 are as follows:

	Fully paid ordinary shareholders	**Number**	**% of held Issued Capital**
1	Safeguard Management Limited <Timis Fund A/C>	444,018,420	46.79

Twenty Largest Shareholders

The names of the twenty largest fully paid ordinary shareholders as at 16 March 2011 are as follows:

	Name	Number of Fully Paid Ordinary Shares Held	% held of Issued Capital
1.	SAFEGUARD MANAGEMENT LIMITED <TIMIS FUND A/C>	444,018,420	46.79
2.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	52,415,106	5.52
3.	HILLBURG INTERNATIONAL LIMITED	45,000,000	4.75
4.	KONTILLO RESOURCES LIMITED	45,000,000	4.75
5.	HIGGINS INVESTMENT LIMITED	40,470,953	4.27
6.	CALDWELL MANAGEMENT AG	28,575,000	3.01
7.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	27,669,371	2. 92
8.	J P MORGAN NOMINEES AUSTRALIA LIMITED	27,540,369	2.90
9.	CAPE LAMBERT RESOURCES LIMITED	20,912,939	2.20
10.	CANACCORD NOMINEES LIMITED	18,000,000	1.90
11.	LYNCHWOOD NOMINEES LIMITED	17,569,800	1.85
12.	CITICORP NOMINEES PTY LIMITED	17,397,741	1.83
13.	MR CHRISTOPHER ERIC BARNES	13,925,000	1.47
14.	PERSHING KEEN NOMINEES LIMITED	11,007,900	1.16
15.	MR RUSSELL NEIL CREAGH	10,632,357	1.12
16.	PEMBURY NOMINEES PTY LTD	9,000,000	0.95
17.	EXCHANGE MINERALS LIMITED	8,998,286	0.95
18.	HKT AU PTY LTD <MORAMBA SERV SUPER PLAN A/C>	6,324,796	0.67
19.	CAPE LAMBERT RESOURCES LIMITED	4,000,000	0.42
20.	CAPE LAMBERT RESOURCES LIMITED	3,823,100	0.40
		852,281,138	**89.83**

Schedule of Exploration Assets held at the date of this report

Key Assets

Tenement No.	Prospect Area	Percentage
XMH/01996	Krasnoleninskiy subsoil block 7	75%
XMH/01997	Krasnoleninskiy subsoil block 8	75%
XMH/01998	Krasnoleninskiy subsoil block 9	75%
XMH/01999	Krasnoleninskiy subsoil block 10	75%
1766	Alakol	50%

Non-Core assets

Tenement No.	Prospect Area	Percentage
M77/0576	Evanston	100%
M77/0824	Evanston	100%
G77/35	Evanston	100%
Hoepakrantz 291KT	Tubatse Project	10%
Nooitverwacht 324KT	Tubatse Project	10%
Eerste Geluk 327KT	Tubatse Project	10%